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Financial Reporting Council
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Dear Sirs

CONSULTATION ON THE PROPOSED REVISIONS TO THE UK CORPORATE GOVERNANCE CODE

I am writing in response to the consultation document of May 2023.

Whilst broadly supporting the proposals, particularly the desire for transparency, clarity of reporting and the integrity of narrative reporting, I would comment as follows:

Question 12 - ESG

There is no question that Environmental issues must be addressed by every business as a matter of urgency but the initials “ESG” seem to have acquired a life of their own. Suggesting that Environmental, Social and Governance should be lumped together. They should not.

Whilst Governance should, in my view, fall within the remit of the Nominations Committee, I do not believe that Environmental should fall under the remit of the Audit Committee. If Environmental issues are to be given the attention and action that they deserve, then they should be overseen by a separate committee. The audit committee has enough on its plate over the year end and, most importantly, usually lacks the requisite expertise to cover Environmental issues.

In addition, Environmental issues should be reported on outside the annual report. In reality, time pressures at the year end are too great for sufficient resources to be applied to this important area. I believe that Environmental issues should be covered in a separate report at a more sensible time of year.

Question 3 - Other comments on changes proposed to Section 1

Provision 2 requires the board to report on culture.

Whilst an admirable objective and a fundamental ingredient in a company’s success, and one that I discussed on several occasions with Wim Bischoff, this will simply result in boiler plate language.

Having served on several boards with similar businesses, I have seen almost identical statements on culture but with vastly differing behaviours.

No company is going to claim the ambition to have anything other than a good or even great culture – and few will admit to a problem.

Poor management rarely recognise that their culture is a problem and auditing such an intangible feature would be extremely difficult – let alone telling the world.

To change a company's culture is generational.

Questions 13 and 15 – internal controls

To expand the requirement to cover operational and other controls – rather than restrict to just financial controls – is also an admirable objective but disproportionate and even dangerous. The scope is just too wide.

If such proposals are to be introduced with regard to reporting on operational controls then their introduction should be phased over several years rather than implemented in one go.

Government proposals on reporting distributable reserves

“Distributable reserves” are an antiquated measure which can easily be created or manipulated by management.

The requirement to disclose a company's distributable profits is flawed. The requirement should be that dividends should only be paid if the company's solvency, prospects and resilience will not be damaged as a result of the cash outflow. This would focus the board's minds far more than the availability of distributable reserves.

Yours faithfully

Steve Barber