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Regulatory Standards and Codes Division
The Financial Reporting Council
8th floor
125 London Wall
London, EC2Y 5AS

13 September 2023

Corporate Governance Code consultation

We welcome the opportunity to comment on the Financial Reporting Council's proposals for revisions to the UK Corporate Governance Code (the 'Code') and would support the Council's objectives of maintaining the high reputation of corporate governance in the UK while ensuring that the requirements of the Code are proportionate to the benefits it brings.

We are a FTSE-350 listed banking group, operating entirely within the UK, and regulated by the Prudential Regulation Authority. Under the definitions proposed in the UK Government's draft statutory instrument (The Companies (Strategic Report and Directors Report) (Amendment) Regulations 2023) we would not be classified as a 'company with a high level of employees and turnover' (a 'large PIE').

We have participated in the drafting of the financial service industry response to the consultation, drafted by UK Finance ('UKF') and endorse the comments made in the UKF submission. However, we feel it is appropriate to raise directly the serious concerns we have regarding the proposed timetable for the introduction of the amendments, particularly those relating to controls, and the potential for this to lead to sub-optimal implementation.

Our concerns can be summarised as follows:

- We, in common with other firms, have yet to see the guidance which is being drafted to support the proposed changes. In the absence of this information, we have been unable to conduct a gap analysis to determine the level of change in systems and processes which might be required to comply.
- As with other smaller listed entities, the internal resource available to put these changes in place is finite, and, given that these changes will impact across UK corporates, the potential to source support externally, either through recruitment of appropriately qualified people, or through consultancy arrangements is likely to be constrained by the level of demand.

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- For the proposals on controls attestation it would be preferable to have all significant parts of the framework in place before the commencement of the year before implementation, in order that any issues can be resolved before public reporting is required. On the present timetable this would require these arrangements to be finalised by 30 September 2024 for the Group, with guidance not due to be issued until the end of the current year, which would be extremely challenging. Those firms whose first reporting period commences earlier than ours might struggle further.

As a regulated banking entity we are subject to considerable regulatory oversight in the fields of controls, operational risk and resilience, meaning that our journey towards compliance with the new rules is likely to be shorter than for some other listed entities as we have significant systems and infrastructure in place which can be used as a foundation for applying the new provisions. However, we are still uncomfortable, given the information we have so far, as to whether the package, as a whole, could be delivered effectively on these timescales, and we would recommend that the proposed timeline be delayed by at least a year.

In terms of competitiveness in the wider economy, our experience in the regulatory environment leads us to suspect that non-financial entities, particularly smaller listed companies, might struggle with the timescale for the implementation of the proposals even more than financial entities. In particular it is likely they would need to put in place systems infrastructure and processes in order to manage controls monitoring and reporting in the way envisaged by the proposed Code. This is likely to include the need to acquire and install appropriate software, or upgrade existing systems, potentially being constrained by supplier capacity in this specialist market. It is also generally the case that the second line risk management and third line internal audit functions, which we would expect to form part of our attestation process, are far less mature outside the regulated sectors.

On this basis it seems likely that implementation outside the financial services sector is likely to be even more time pressured than within it.

The respect with which the Code is regarded by investors represents a significant advantage of the UK capital markets, and thus we believe that it is vital that this reputation is not tainted by a widespread poor-quality implementation of the reform package. Firms should be given sufficient time to assess the demands of the proposals and the related guidance and implement any changes in a thought-through and well controlled manner. We fear that the proposed timetable may not allow that and would urge that this is extended to allow the best possible execution of the proposals.

Once more, we would like to thank you for the opportunity to comment on the proposals and to draw your attention to the UKF submission, which addresses our other concerns in detail.

Yours sincerely

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