

FRESHFIELDS

Planning ahead for reporting changes under the 2024 Governance Code: FRC Review of Corporate Governance Reporting

29 November 2024

On 26 November, the FRC published its 2024 Review of Corporate Governance Reporting (the *Review*). The below summarises some of the helpful guidance included in the Review which relates to reporting under the revised 2024 Governance Code*.

Outcomes-based reporting: The 2024 Governance Code places increased emphasis on outcomes-based reporting, with new Principle C stating that '[g]overnance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives'. The Review focuses on reporting on outcomes in the context of stakeholder and workforce engagement, noting that this could take the form of describing how the feedback obtained during engagement was considered in board decisions / discussions and any related actions taken by the board. The FRC stresses that there should be clear linkage to show how outcomes relate to stakeholder engagement activities, rather than details of outcomes in the abstract. Paragraph 45 of the new guidance to the 2024 Governance Code encourages companies to report on all stages of the engagement cycle: inputs, outputs and outcomes. The focus on outcomes is not unexpected, particularly given that the FRC has historically lauded companies whose section 172 statements have included case studies / detailed examples of board decisions and has become increasingly frustrated with 'boilerplate' reporting.

Culture: The 2024 Governance Code asks boards to report on how they assess and monitor culture and how the desired culture has been embedded. In the Review, companies are encouraged to provide a detailed explanation of the embedding process (including different methods, action points, timelines and outcomes) as well as additional disclosure on board actions relating to culture (including how boards are promoting the desired culture). The FRC suggest that this reporting should be "through the lens of corporate values and behaviours" rather than focussing solely on health, safety, ethics and compliance. The FRC also highlights that whilst the 2018 Governance Code is open to interpretation, the 2024 Governance Code is clear on the intention that organisational culture, purpose, values and strategy should all be aligned. Culture reporting has been a focus area of the FRC for several years, and the perceived failure by companies to meet the FRC's expectations in this area is arguably what has led to the 2024 Governance Code changes on this point.

Diversity: The Review highlights that the FRC made changes under the 2024 Governance Code to encourage companies to think about diversity more widely. Under these changes, the FRC removed the list of specific diversity characteristics from Principle J and amended Provision 23 to require companies to report on any diversity and inclusion initiatives in addition to their policies on diversity and inclusion. The

FRC notes that some companies are already starting to report on targets and initiatives for diversity characteristics beyond gender and ethnicity.

Minimum Standard: Whilst currently voluntary, the FRC's Minimum Standard forms part of the new 2024 Governance Code. The Review found that nearly half of the companies sampled already referred to the Minimum Standard, and companies are encouraged to include updates relating to the Minimum Standard in their annual report – including in respect of whether the Minimum Standard is already being followed (either fully or partially), whether it is being added to audit committee terms of reference and any related briefings or gap analyses for audit committees.

Risk management and internal control: Under the 2024 Governance Code, Provision 29 is expanded with regards to the board's review of material controls, requiring additional disclosure and a board declaration regarding effectiveness. The Review reminds companies that this should cover all material controls – not just those related to operational and compliance controls. The FRC encourages companies to explain the process of the review following the 'who, what, how and when' approach. The 2024 Review also highlights that the Governance Code is not prescriptive on related assurances (whether in respect of the existing Provision 29 or its expanded form under the 2024 Governance Code) although where assurances are obtained, clear disclosure on the scope of such assurance and how it is communicated to the board should be included. We expect that disclosures regarding preparedness for the introduction of Provision 29 of the 2024 Governance Code will be commonplace this year, but that most companies will say very little at this stage on the process they are undertaking to identify their material controls or on the level of assurance they are likely to seek in respect of their effectiveness.

Over-boarding: In the consultation to the 2024 Governance Code, the FRC explored proposals regarding 'over-boarding'. Whilst those were ultimately dropped due to reporting burden concerns, it is clear that this is still a focus area for the FRC. In the Review, the FRC reiterates that annual reports should include specific, detailed information on the external commitments of directors – including details of any board committee the directors serve on in their external appointments. The FRC also encourages better reporting on how a director's time commitments are assessed by the board (including factors that the board take into consideration) and on any over-boarding policy that may exist. Consideration of external time commitments should also form part of the board's annual performance review.

** The 2024 Governance Code will apply to reporting on financial years beginning on or after 1 January 2025, with the exception of Provision 29 which will apply from 1 January 2026.*