



Financial Reporting Council

# **UK Corporate Governance Code**

**January 2024**

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## Section 2 – Division of responsibilities

### Principles

- F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.
- G. The board should include an appropriate combination of executive and non executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.
- H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.
- I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

### Provisions

- 9. The chair should be independent on appointment when assessed against the circumstances set out in Provision 10. The roles of chair and chief executive should not be exercised by the same individual. A chief executive should not become chair of the same company. If, exceptionally, this is proposed by the board, major shareholders should be consulted ahead of appointment. The board should set out its reasons to all shareholders at the time of the appointment and also publish these on the company website.
- 10. The board should identify in the annual report each non-executive director it considers to be independent. Circumstances which are likely to impair, or could appear to impair, a non-executive director's independence include, but are not limited to, whether a director:
  - is or has been an employee of the company or group within the last five years;
  - has, or has had within the last three years, a material business relationship with the company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
  - has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;

- has close family ties with any of the company's advisers, directors or senior employees;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the board for more than nine years from the date of their first appointment.

Where any of these or other relevant circumstances apply, and the board nonetheless considers that the non-executive director is independent, a clear explanation should be provided.

11. At least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent.
12. The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance, and on other occasions as necessary.
13. Non-executive directors have a prime role in appointing and removing executive directors. Non-executive directors should scrutinise and hold to account the performance of management and individual executive directors against agreed performance objectives. The chair should hold meetings with the non-executive directors without the executive directors present.
14. The responsibilities of the chair, chief executive, senior independent director, board and committees should be clear, set out in writing, agreed by the board and made publicly available. The annual report should set out the number of meetings of the board and its committees, and the individual attendance by directors.
15. When making new appointments, the board should take into account other demands on directors' time. Prior to appointment, significant commitments should be disclosed with an indication of the time involved. Additional external appointments should not be undertaken without prior approval of the board, with the reasons for permitting significant appointments explained in the annual report. Full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or other significant appointment.
16. All directors should have access to the advice of the company secretary, who is responsible for advising the board on all governance matters. Both the appointment and removal of the company secretary should be a matter for the whole board.

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## Section 3 – Composition, succession and evaluation

### Principles

- J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan for the board and senior management should be maintained.<sup>4</sup> Both appointments and succession plans should be based on merit and objective criteria<sup>5</sup>. They should promote diversity, inclusion and equal opportunity.
- K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.
- L. Annual evaluation of the board should consider its performance, composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

### Provisions

- 17. The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. The chair of the board should not chair the committee when it is dealing with the appointment of their successor.
- 18. All directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.
- 19. The chair should not remain in post beyond nine years from the date of their first appointment to the board. To facilitate effective succession planning and the development of a diverse board, this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment. A clear explanation should be provided.
- 20. Open advertising and/or an external search consultancy should generally be used for the appointment of the chair and non-executive directors. If an external search consultancy is

<sup>4</sup> The definition of 'senior management' for this purpose should be the executive committee or the first layer of management below board level, including the company secretary.

<sup>5</sup> Which protect against discrimination for those with protected characteristics within the meaning of the Equalities Act 2010.

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## Section 4 – Audit, risk and internal control

### Principles

- M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.<sup>6</sup>
- N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.
- O. The board should establish and maintain an effective risk management and internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

### Provisions

- 24. The board should establish an audit committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two.<sup>7</sup> The chair of the board should not be a member. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates.
- 25. The main roles and responsibilities of the audit committee should include:
  - monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them;
  - providing advice (where requested by the board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy;
  - following the *Audit Committees and the External Audit: Minimum Standard*;
  - reviewing the company's risk management and internal control framework, unless expressly addressed by a separate board risk committee composed of independent non-executive directors, or by the board itself;

<sup>6</sup> The board's responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public records and reports to regulators, as well as to information required to be presented by statutory instruments.

<sup>7</sup> A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.

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## Section 5 – Remuneration

### Principles

- P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.
- Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management<sup>10</sup> remuneration should be established. No director should be involved in deciding their own remuneration outcome.
- R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

### Provisions

- 32. The board should establish a remuneration committee of independent non-executive directors with a minimum membership of three, or in the case of smaller companies, two<sup>11</sup>. In addition, the chair of the board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.
- 33. The remuneration committee should have delegated responsibility for determining the policy for executive director remuneration and setting remuneration for the chair, executive directors and senior management.<sup>12</sup> It should review workforce<sup>13</sup> remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.
- 34. The remuneration of non-executive directors should be determined in accordance with the Articles of Association or, alternatively, by the board. Levels of remuneration for the chair and all non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for all non-executive directors should not include share options or other performance-related elements.

<sup>10</sup> See footnote 4.

<sup>11</sup> See footnote 7.

<sup>12</sup> See footnote 4.

<sup>13</sup> See Good practice guidance for the successful management of board committees for a description of workforce in this context.