



January 2019

UK Corporate Governance Code

The new UK Governance Code which was published by the Financial Reporting Council (“FRC”) in July 2018 (the “Code”) applies to accounting periods beginning on or after 1 January 2019.

The UK Corporate Governance Code sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

In addition to applying to Irish companies with a premium listing on the London Stock Exchange, the Listing Rules of the Main Securities Market (“MSM”) of Euronext Dublin require that companies with a listing on the MSM state in their annual reports how the principles of the Code have been applied and whether the company has complied with all relevant provisions of the Code in addition to the provisions of the Irish Corporate Governance Annex. Where a company has not complied with all relevant provisions it is required to set out the nature, extent and reasons for non-compliance.

The new Code is shorter than its 2016 predecessor and seeks to encourage companies to focus more effectively on key areas including the culture of the company; board quality, diversity and independence; sustainability and purpose; positive shareholder and stakeholder engagement and executive pay.

The FRC views the new Code as offering flexibility through the application of principles and through ‘comply or explain’ provisions and supporting guidance and views it as the responsibility of boards to use this flexibility wisely and of investors and their advisors to assess differing company approaches thoughtfully. The FRC advises that by reporting on the application of the principles in a manner that can be evaluated, companies should demonstrate how the governance of the

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company contributes to its long-term sustainable success and achieves wider objectives. ISS proxy voting guidelines for the UK and Ireland in 2019 make note of the updated guidelines and reiterate that ISS follows the guidance provided by the FRC in the Code when assessing the quality of a company's explanation in the context of reviewing the 'comply or explain' approach adopted by companies.

As the new Code applies to financial years beginning on or after 1 January 2019, reporting on compliance with the new Code will only commence in annual reports issued during 2020 however certain provisions are to be applied in 2019. This includes a new provision which applies in instances where over 20% of votes cast are **against** the board recommendation on a relevant resolution, and provides that in such a situation the company should explain what actions it intends to take to consult shareholders in order to understand the reasons behind the results. It also provides for follow up actions by the company including an update, within six months of the meeting, on the views received from shareholders and actions taken and a summary in the next annual report on what impact the feedback has had on the decisions the board has taken and any actions or resolutions subsequently proposed.

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