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Press release

World-leading package of corporate governance reforms announced to increase boardroom accountability and enhance trust in business

From: Department for Business, Energy & Industrial Strategy (<https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy>) and The Rt Hon Greg Clark MP (<https://www.gov.uk/government/people/greg-clark>)

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Business Secretary Greg Clark has set out the government's corporate governance reforms to enhance the public's trust in business.



- New laws will force all listed companies to reveal the pay ratio between bosses and workers
- All listed companies with significant shareholder opposition to executive pay packages will have their names published on a new public register
- New measures will seek to ensure employee voice is heard in the boardroom

For the first time listed companies will have to publish pay ratios between chief executives and their average UK worker under government reforms to boardroom accountability outlined today (29 August 2017).

Business Secretary Greg Clark today set out how the government's package of corporate governance reforms will enhance the transparency of big business to shareholders, employees and the public.

These will include the world's first public register of listed companies where a fifth of investors have objected to executive annual pay packages. This new scheme will be set up in the autumn and overseen by the Investment Association, a trade body that represents UK investment managers.

In the coming months the government will introduce new laws to require:

- around 900 listed companies to annually publish and justify the pay ratio between CEOs and their average UK worker
- all companies of a significant size to publicly explain how their directors take employees' and shareholders' interests into account
- all large companies to make their responsible business arrangements public

Last year the Prime Minister made clear that the behaviour of a small number of companies had damaged the public's trust in big business. She set out proposals to improve transparency and accountability and give employees a voice in the boardroom. The reforms announced today follow a thorough consultation process.

Business Secretary Greg Clark said:

One of Britain's biggest assets in competing in the global economy is our deserved reputation for being a dependable and confident place in which to do business. Our legal system, our framework of company law and our standards of corporate governance have long been admired around the world.

We have maintained such a reputation by keeping our corporate governance framework under review. Today's reforms will build on our strong reputation and ensure our largest companies are more transparent and accountable to their employees and shareholders.

The Business Secretary will seek to ensure employees' interests are better represented at board level of listed companies. He will ask the Financial Reporting Council (FRC), which sets high standards of governance through the UK Corporate Governance Code, to introduce a new requirement in the code to achieve this.

Under the code's 'comply or explain' basis, firms would have to either:

- assign a non-executive director to represent employees
- create an employee advisory council
- or nominate a director from the workforce

The FRC will also be asked to work with the business community and the government to develop a voluntary set of corporate governance principles for large private companies.

Stephen Haddrill, CEO of the FRC, said:

The UK's deserved reputation for good corporate governance, earned over the last 25 years, has underpinned British business success. How we develop the framework will be key to boosting competitiveness, transparency and integrity in business particularly after Brexit. Successful and sustainable business are not just good for the economy, they support wider society by providing jobs and helping to create prosperity.

The FRC is undertaking a fundamental review of the Corporate Governance Code. The government's feedback will help inform the development our consultation later this year.

Large private companies are integral to the UK economy as significant employers and supporters of communities and families. It is right that we develop a set of corporate governance principles to enhance confidence that they act in the public interest.

The government intends to bring legislative reforms into effect by June 2018.

Responding to the government's responsible business reforms, Stephen Martin, Director General of the Institute of Directors, said:

We welcome the pragmatic approach the government is taking to improve how company boards work. We're particularly pleased that there will be a code for large private businesses, as the principles of good governance should extend beyond the companies listed on the stock market.

The Secretary of State is taking a sensible approach on giving workers a bigger say, by allowing companies to choose the best way to implement the new rules. All directors are responsible for the whole company, so any with the specific remit to speak for employees must be adequately trained and aware of their responsibility to promote the long-term success of the business.

Pay ratios will sharpen the awareness of boards on the issue of remuneration, but they can be a crude measure. Companies will have to prepare themselves to explain how pay as a whole in their business operates, and why executives are worth their packages.

Terry Scuoler, Chief Executive of EEF, the manufacturers' organisation, said:

UK Manufacturers have a strong track record of good corporate governance and high standards of employment practice with many examples of excellent employee engagement in firms up and down the land.

These proposals will build on these existing high standards, spreading best practice, improving transparency and ensuring greater consistency amongst the UK's largest businesses.

The reforms, which will accelerate improvements in Corporate governance, are consistent with the UK's industrial strategy and will aid international competitiveness and attractiveness as a hub of global trade and investment.

Paul Drechsler CBE, Confederation of British Industry President, said:

Good corporate governance is an essential ingredient of business performance and the bedrock of trust between business and society.

We know that how companies act and behave determines the way people think about business.

Companies take this seriously and we look forward to working closely with the government to ensure the UK maintains its reputation as a global leader in this field and as a primary location for international investment.

The CBI is very clear that the unacceptable behaviour of a few firms does not reflect the high standards and responsible behaviour of the vast majority of companies.

Commenting on the new public register, Chris Cummings, Chief Executive of the Investment Association, said:

The creation of the public register on shareholder voting is an important step in increasing accountability and transparency of those listed companies that see significant shareholder rebellions during the AGM season.

Our members, who manage the pensions of 75% of UK households and own over one third of the FTSE, believe that not all company boards that receive big shareholder dissent are currently doing enough to address investor concerns. This public register will help sharpen the focus on the those who must do more, enabling our members to hold the country's biggest businesses to account and leading to better-run companies.

We look forward to working with government to deliver the public register and aim to launch it later this Autumn.

Stefan Stern, director of the High Pay Centre think-tank, said:

We want investors and boards to have a more constructive and more thoughtful conversation on executive pay, and this sort of public disclosure should help.

This is a step in the right direction, providing greater transparency and focusing the public's attention on those companies who ignore the concerns of their shareholders.

Notes for editors

1. Corporate Governance Reform: government response (<https://www.gov.uk/government/consultations/corporate-governance-reform>).
2. The FRC intends to consult on amendments to the UK Corporate Governance Code in late autumn with a view to publishing a revised code by mid-2018. This would mean the code would apply to the majority of companies in 2019
3. The government today announced its intention to fulfil its manifesto commitment to examine the use of share buyback schemes, where companies repurchase their own shares, to ensure the method is not being used to artificially influence executive pay performance targets
4. In the coming weeks, Business Minister Margot James is expected to chair the first ever meeting of the Business Diversity and Inclusion Group, set up to make sure government and industry work more closely to remove barriers in the workplace. The group will bring together the leaders of four industry-led diversity reviews:
 - Sir Philip Hampton, chairman of a review into increasing female representation at the top of business
 - Baroness McGregor-Smith, who led a review into BME participation and progression in the workplace
 - Sir John Parker, who is leading a review into diversity on boards
 - Jayne-Anne Gadhia, Government champion for women in finance

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