

CLIENT ALERT

FRC Publishes the Revised UK Corporate Governance Code

JANUARY 24, 2024

OVERVIEW

On 22 January 2023, the Financial Reporting Council (**FRC**) published a revised version of the UK Corporate Governance Code (**the 2024 Code**) with the aim of supporting growth and encouraging investment in the UK market (see [FRC announcement](#)). The UK Corporate Governance Code applies to all UK premium listed companies, regardless of place of incorporation, and such companies must state in their Annual Report how they have complied with its principles.

The FRC has taken a targeted approach to the revisions, with particular focus being paid to company practice related to risk management and internal controls. The FRC has stated that updates have been kept to the minimum necessary to ensure that a balance is struck between enhancing trust and confidence in UK public companies for investors while ensuring that unnecessary burden is not placed on businesses.

Of particular note, there is a welcome emphasis on the “comply or explain” regime which is currently applicable to UK premium listed companies. This regime provides boards of UK premium listed companies with flexibility and enables them to deviate from designated standards of corporate governance as and when it can be justified.

The 2024 Code will be rolled-out in stages, with all sections save for the amendments to Provision 29 to apply from the financial year beginning 1 January 2025 and the amended Provision 29 to apply from the financial year beginning 1 January 2026. The current version of the UK Corporate Governance Code (**the 2018 Code**) will apply in the interim.

BACKGROUND

The updates contained in the 2024 Code follow an intensive review of the 2018 Code which began with the FRC’s publication of a [consultation paper](#) on proposed revisions to the 2018 Code on 23 May 2023. This consultation was part of a set of [FRC reforms](#) aimed at restoring trust in audit and corporate governance.

KEY UPDATES

Board leadership and company purpose

- A new **Principle C** is included, which takes a purpose-based approach to governance reporting. This Principle states that companies should focus on board decisions and their outcomes when assessing and reporting on its governance practices. It also reiterates that where the board reports on any departures from the provisions of the 2024 Code, it should provide a clear explanation for such departures.
- **Provision 2** has been amended to state that boards should assess and monitor the company's culture, as well as how its desired culture has been embedded in the company.

Composition, succession and evaluation

- **Principle J** has been amended to state that appointments to the board and succession planning for the board and senior management should promote diversity, inclusion and equal opportunity. The list of diversity characteristics has been removed to reflect the fact that diversity policies can be wide ranging.
- **Provision 23** has been amended to take into account the fact that companies may have additional initiatives in place alongside their diversity and inclusion policy.

Audit, risk and internal control

- **Principle O** has been amended to widen a board's responsibility for risk management and internal control. The board must not only establish an effective risk management and internal control framework, but must also maintain the effectiveness of such framework on an ongoing basis.
- **Provision 25** and **Provision 26** have been amended to reflect the FRC's Audit Committees and the External Audit: Minimum Standard. Certain provisions relating to audit committees have also been removed, to avoid unnecessary duplication of the Audit Committees and the External Audit: Minimum Standard within the 2024 Code.
- **Provision 29** has been amended to clarify the board's accountability for ensuring that its risk management and internal control framework is effective. It states that the board should review this framework at least annually, with its review to cover all material controls including financial, operational, reporting and compliance controls. A description of how the board has reviewed its risk management and internal control framework, together with a declaration of the effectiveness of its material controls, should be included in the Annual Report.

Remuneration

- **Provision 37** has been amended to state that all agreements and documents which cover director remuneration should include malus and clawback provisions.
- A new **Provision 38** has been included, which asks companies to include a description of its malus and clawback provisions in its Annual Report. This description should include the circumstances in which such provisions could be used, the period for malus and clawback and why such period is suitable, and whether any malus and clawback provisions were used in the last reporting period together with an explanation as to the reasons for their use, if applicable.

Key Dates

29 January 2024 – the FRC is expected to publish digitally accessible guidance on the 2024 Code. This guidance will not form part of the 2024 Code but will be designed to assist a Board's understanding of the 2024 Code and how it can ensure compliance.

30 January 2024 – The FRC will host a deep-dive webinar on the changes to internal controls provisions in the 2024 Code. This webinar can be accessed [here](#).

1 January 2025 – The 2024 Code (save for the updated Provision 29) will apply to financial years beginning on or after 1 January 2025. Provision 29 of the 2018 Code continues to apply.

1 January 2026 – Provision 29 will apply to financial years beginning on or after 1 January 2026. At this point, the 2024 Code will apply in its entirety.

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