Department for
Business, Energy
& Industrial Strategy

CORPORATE GOVERNANCE REFORM

The Government response to the green paper consultation

August 2017

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The response can be found on the BEIS section of GOV.UK:
https://www.gov.uk/beis

Corporate Governance Reform

Any enquiries regarding this publication should be sent to us at corporategovernance@beis.gov.uk.

Introduction from the Prime Minister

As the United Kingdom prepares to forge a new role on the world stage as a global trading nation, the strength of our businesses are critical to our future success.

Our best companies are hard-working and responsible. They invest in their workforce's skills, and are a source of creativity and innovation, knowing that this is the way to succeed in the long term. A strong and effective system of corporate governance, which incentivises business to take the right long-term decisions, is key to that success.

Our system of corporate governance is rightly envied and emulated around the world, but we must continue to improve if we are to retain our competitive edge. We have also seen worrying evidence that a small minority of our companies are falling short of the high standards we expect. I want to tackle these problems and strengthen people's faith in a well-regulated free market economy.

That's why last Autumn, the Government began a discussion about where reform was needed. In some companies executive pay has become disconnected from the performance of the company itself. In others, some directors seem to have lost sight of their broader legal and ethical responsibilities. There is a worrying lack of transparency around how some large privately-held companies behave. A responsible government must recognise these problems, and show leadership to tackle them.

So we are now setting out a range of legislative and business-led measures which will improve corporate governance and give workers and investors a stronger voice. This will be good for business. Firms which listen to their workers and are responsive to their shareholders see the benefits on their bottom line. So by giving a stronger voice to those outside the boardroom, we incentivise businesses to take the right long-term decisions and help restore the public's trust.

As we leave the EU and chart a new course for our country, the economy we build must be one which truly works for everyone, not just a privileged few. Our measures to improve corporate governance will help ensure that British businesses can thrive in the future, and that all of us – customers, suppliers, workers and shareholders – share in the benefits.

PRIME MINISTER RT HON THERESA MAY MP

Foreword by the Secretary of State for Business, Energy and Industrial Strategy

One of Britain's biggest assets in competing in the global economy is our 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.

One of the reasons why we have maintained this reputation is that we have kept our corporate governance framework up to date with reviews and improvements being made from time to time.

The Government's green paper of last November followed in that tradition, looking at specific aspects of corporate governance – executive pay, corporate governance in large privately-held businesses and the steps that company boards take to engage and listen to employees and other groups with an interest in corporate performance - where the Government saw particular scope to build on the current framework.

The green paper generated a wide debate and a big response from a cross-section of business and society. I am grateful to all those who responded. They have provided the Government with a solid basis on which to act. We have also benefitted from the work of the House of Commons BEIS Committee which published recommendations for corporate governance reform in April.

This document responding to our green paper consultation sets out a package of measures designed to:

- Address concerns that a minority of companies are not responding adequately when they encounter significant shareholder opposition to levels of executive pay. Remuneration committees will also have to do more to engage with the workforce to explain how top pay relates to wider company pay policy. And pay ratio reporting comparing the remuneration of the CEO with average UK employee pay will be introduced for quoted companies to help set executive pay in the wider company context;

- Drive change in how our largest companies engage at board level with employees, customers, suppliers and wider stakeholders to improve boardroom decision-making, deliver more sustainable business performance and build wider confidence in the way businesses are run; and

- Encourage large private companies to adopt stronger corporate governance arrangements, reflecting their economic and social significance, through the development of a set of corporate governance principles; and introduce new measures to require companies, both

public and private, of a significant size to disclose the corporate governance arrangements they have in place.

These measures are in line with the UK's approach of strengthening corporate governance through non-legislative means: through changes to the UK Corporate Governance Code overseen by the Financial Reporting Council and voluntary industry-led action where possible, and legislating where necessary.

Industry has a key role to play in encouraging and driving further improvements. I therefore particularly welcome the contributions that the Investment Association, the Institute of Chartered Secretaries and Administrators (ICSA), and the Association of General Counsel and Company Secretaries working in FTSE100 Companies (GC100) will make. The Investment Association, for example, will be establishing a public register to ensure that there is greater visibility for quoted companies who encounter significant shareholder opposition to levels of executive pay. ICSA, with the Investment Association, is producing practical guidance on ways that company boards can engage with employees and other stakeholders.

At a time when investment and competitiveness are key, it is right that we build on our corporate governance strengths to equip us for the economic opportunities and challenges that lie ahead.

RT HON GREG CLARK MP

Contents

General information

Purpose of this response

The UK has long been regarded as a world leader in corporate governance, combining high standards with low burdens and flexibility. It is an important part of what makes the UK such an attractive place for both businesses and investors. We want to build on these strengths and reinforce the vital relationship of trust between businesses and the communities they serve.

This objective was the motivation behind the Government's green paper, published on 29 November 2016, which stimulated a broad-ranging debate on ways to strengthen the UK's corporate governance framework. During the consultation period, which closed on 17 February 2017, Ministers and officials participated in a large number of conferences, panel events, roundtables and meetings, including in the devolved administrations. These sought views from business representative and professional bodies, trade unions, company secretaries, executive and non-executive directors of UK companies, the investment community, academics, think-tanks, consumer bodies and wider civil society groups. In addition, Which? ran an online discussion which made a number of suggestions on how consumer views could be represented on boards and other issues related to trust in companies.

The Government received 375 formal responses to the green paper, including 48 via the Citizens Space portal. It has also had the benefit of the House of Commons Business, Energy and Industrial Strategy (BEIS) Committee's report on Corporate Governance published on 5 April. The Government has therefore built a strong evidence base to inform its decisions.

This document sets out the Government's response to the green paper consultation and identifies nine proposals for reform which it now intends to take forward. The document also includes a summary of responses to the green paper and a list of the names of organisations that responded, but excluding personal names, addresses or other contact details.

Territorial extent

The UK Government is responsible for the operation and regulation of business entities in England and Wales, and in Scotland. Previously the Northern Ireland administration has agreed that, while the operation and regulation of business entities remains a transferred matter within the legislative competence of the Northern Ireland Assembly, amendments to the Companies Act 2006 and legislation regulating business entities should be made in the same terms for the whole of the United Kingdom.

Executive summary

The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of a company. It involves a framework of legislation, codes and voluntary practices. A key element is protecting the interests of shareholders where they are distant from the directors running a company. It also involves having regard to the interests of employees, customers, suppliers and others with a direct interest in the performance of a company. Good corporate governance provides confidence that a company is being well run and supports better access to external finance and investment.

The UK is recognised as having a world-leading corporate governance framework. It gives us an international competitive advantage and is an important factor in making the UK an attractive place in which to invest. At a time when investment and competitiveness are key, and when the Government is developing an industrial strategy, it is right that we look to build on our corporate governance strengths to equip us for the economic challenges and opportunities that lie ahead.

The aim of the green paper consultation was to consider what changes might be appropriate in the corporate governance regime to help ensure that we improve business performance and have an economy that works for everyone. This Government response now sets out nine headline proposals for reform across the three specific aspects of corporate governance on which we consulted:

- Executive pay;
- Strengthening the employee, customer and supplier voice; and
- Corporate governance in large privately-held businesses.

It also takes into account the need for effective enforcement of the corporate governance framework.

Executive pay

Section 1 of this consultation response sets out the Government's plans for reform in relation to executive pay, which has risen faster than corporate performance. The green paper consultation provided convincing evidence to support the case for further, targeted reform. While many companies have responded positively to the reforms introduced in 2013, a persistent small minority of businesses continue to disregard the views of shareholders on pay each year. There are also few signs that many remuneration committees take seriously enough their existing obligations to take account of wider workforce pay and conditions in setting executive remuneration. The Government also recognises concerns expressed by many respondents about the unnecessary complexity

and uncertainty of executive pay, particularly around the potential outcomes of long-term incentive plans.

The Government therefore intends to:

(i) Invite the Financial Reporting Council (FRC) to revise the UK Corporate Governance Code (the "Code") to:

- Be more specific about the steps that premium listed companies should take when they encounter significant shareholder opposition to executive pay policies and awards (and other matters);
- Give remuneration committees a broader responsibility for overseeing pay and incentives across their company and require them to engage with the wider workforce to explain how executive remuneration aligns with wider company pay policy (using pay ratios to help explain the approach where appropriate); and
- Extend the recommended minimum vesting and post-vesting holding period for executive share awards from 3 to 5 years to encourage companies to focus on longer-term outcomes in setting pay.

(ii) Introduce secondary legislation to require quoted companies to:

- Report annually the ratio of CEO pay to the average pay of their UK workforce, along with a narrative explaining changes to that ratio from year to year and setting the ratio in the context of pay and conditions across the wider workforce; and
- Provide a clearer explanation in remuneration policies of a range of potential outcomes from complex, share-based incentive schemes.

(iii) Invite the Investment Association to implement a proposal it made in its response to the green paper to maintain a public register of listed companies encountering shareholder opposition to pay awards of 20% or more, along with a record of what these companies say they are doing to address shareholder concerns.

The Government will consider further action at a future point unless there is evidence that companies are taking active and effective steps to respond to significant shareholder concerns about executive pay outcomes.

In addition to these proposals, the Government will take forward its manifesto commitment to commission an examination of the use of share buybacks to ensure that they cannot be used artificially to hit performance targets and inflate executive pay. The review will also consider concerns that share buybacks may be crowding out the allocation of surplus capital to productive investment. The Government will announce more details shortly.

Strengthening the employee, customer and wider stakeholder voice

Section 2 sets out three key proposals for reform to strengthen the voice of employees, customers and wider stakeholders in boardroom decision-making. The green paper consultation revealed strong support for action to strengthen the stakeholder voice. This was seen as an important factor in improving boardroom decision-making and delivering better, more sustainable business performance.

Many respondents also thought that big business should do more to reassure the public that companies are being run, not just with an eye to the interests of the board and the shareholders, but with a recognition that they have responsibilities to employees, suppliers, customers and wider society. Matthew Taylor's Report on Employment Practices in the Modern Economy[1] also noted that the tone for fair and decent work is set at the top of an organisation and that company owners have a wider responsibility towards the people who work for them – both directly and through their supply chain – and should take this responsibility seriously.

Section 172 of the Companies Act 2006 already requires the directors of a company to have regard to these wider interests in pursuing the success of the company, but a large number of respondents thought that this aspect of the legal framework could be made to work more effectively through improved reporting, Code changes, raising awareness and more guidance.

The Government therefore intends to:

(iv) Introduce secondary legislation to require all companies of significant size (private as well as public) to explain how their directors comply with the requirements of section 172 to have regard to employee and other interests;

(v) Invite the FRC to consult on the development of a new Code principle establishing the importance of strengthening the voice of employees and other non-shareholder interests at board level as an important component of running a sustainable business. As a part of developing this new principle, the Government will invite the FRC to consider and consult on a specific Code provision requiring premium listed companies to adopt, on a "comply or explain" basis, one of three employee engagement mechanisms: a designated non-executive director; a formal employee advisory council; or a director from the workforce; and

(vi) Encourage industry-led solutions by asking ICSA (the Institute of Chartered Secretaries and Administrators: The Governance Institute) and the Investment Association to complete their joint guidance on practical ways in which companies

[1] https://www.gov.uk/government/groups/employment-practices-in-the-modern-economy

can engage with their employees and other stakeholders. The Government will also invite the GC100 group of the largest listed companies (FTSE100 General Counsels) to complete and publish new advice and guidance on the practical interpretation of the directors' duties in section 172 of the Companies Act 2006.

These proposals are in line with recommendations made by the House of Commons BEIS Committee and will drive change in how big businesses engage with their key stakeholders,. Putting in place higher expectations for all our largest companies, and in particular for our leading, premium listed companies, should also encourage the development and uptake of good practice in the wider business community.

Corporate governance in large privately-held businesses

Section 3 sets out two proposals for reform regarding the corporate governance of large privately-held businesses, in addition to the new requirements in relation to section 172 set out above. The consultation revealed broad support for action to encourage high standards of corporate governance in the UK's largest private companies reflectingthe significant impact that these companies have on employees, suppliers, customers and others, irrespective of their legal status.

The Government therefore intends to:

(vii) Invite the FRC to work with the IoD, the CBI, the Institute for Family Businesses, the British Venture Capital Association and others to develop a voluntary set of corporate governance principles for large private companies under the chairmanship of a business figure with relevant experience; and

(viii) Introduce secondary legislation to require companies of a significant size to disclose their corporate governance arrangements in their Directors' Report and on their website, including whether they follow any formal code. This requirement will apply to all companies of a significant size unless they are subject to an existing corporate governance reporting requirement. The Government will also consider extending a similar requirement to Limited Liability Partnerships (LLPs) of equivalent scale.

Other issues

Section 4 of the green paper provided respondents with an opportunity to raise other aspects of corporate governance not covered in the earlier sections. Consultation revealed questions over whether the FRC has the powers, resources and status to undertake its functions effectively.

(ix) To address this the Government will ask the FRC, the Financial Conduct Authority and the Insolvency Service to conclude new or, in some cases, revised letters of understanding with each other before the end of this year to ensure the most effective use of their existing powers to sanction directors and ensure the integrity

of corporate governance reporting. The Government will also consider, in light of this work, whether further action is required.

This package of policy measures, as a whole, is in line with the UK's approach of strengthening corporate governance through non-legislative, code-based provisions and voluntary industry action to keep pace with higher expectations of business, and only legislating where necessary. Big business and institutional investors now have a clear opportunity to show that they can respond to the weaknesses explored in the green paper in relation to executive pay, stakeholder voice at board level and standards in large private companies without primary legislation.

Next steps

Implementing these reform proposals will require a combination of changes to the UK Corporate Governance Code (which is the responsibility of the FRC), voluntary industry action, secondary legislation and action by relevant regulators to improve co-ordination and the use of existing powers.

The FRC intends to consult on amendments to the UK Corporate Governance Code in the late Autumn. The Government intends to lay before Parliament draft secondary legislation, where required, before March 2018. Where necessary, there will be consultation on the detail of the secondary legislation. The work on developing voluntary corporate governance principles for large private companies will commence in the Autumn.

The current intention is to bring the reforms into effect by June 2018 to apply to company reporting years commencing on or after that date.

House of Commons Business, Energy and Industrial Strategy Committee's report on Corporate Governance

The BEIS Committee's report on Corporate Governance published in April[2] made valuable recommendations addressed to the FRC, the Government and others to help embed the behaviours of good corporate governance in the culture and values of UK business. Much of the Committee's thinking and several of its key recommendations align with the Government's own proposals. In particular, the Government agrees with the Committee's recommendations for:

- More narrative reporting on how companies are engaging with stakeholders and how directors are meeting the duty in section 172 (Companies Act 2006) to have regard to employee and other interests;

[2] https://publications.parliament.uk/pa/cm201617/cmselect/cmbeis/702/702.pdf

- Business-led development of a code designed for large privately-held businesses. The Government also believes that these businesses should report on their corporate governance arrangements, including whether or not they adhere to the new code, but that they should have the flexibility to take an alternative approach if they consider it to be more effective to the good governance of their business; and

- The introduction of a pay ratio reporting requirement for quoted companies comparing the pay of the chief executive officer with that of pay in the wider UK workforce.

Most of the recommendations in the Committee's report are concerned with potential amendments and enhancements to the UK Corporate Governance Code and guidance. The Government is supportive of many of these recommendations, but they are ultimately matters for the FRC to consider. Many of them will be addressed in the consultation on amendments to the Code that the FRC intends to undertake in the Autumn.

The Committee's report also included recommendations for improving the ethnic, gender and social diversity of boards. These issues were not ones on which the green paper sought views because action to address them was being taken forward separately. Section 5 of this response document, however, sets out the steps that the Government and others are taking to improve boardroom diversity and responds to the Committee's recommendations in this area.

Other work to encourage corporate responsibility

This reform package will complement wider work that the Government and others are undertaking to enhance public trust in business as a force for good and encourage corporate responsibility. This includes follow-up to the review of "mission-led" businesses[3] (including work to encourage business with purpose and a prospective new business-civil society collaboration), Matthew Taylor's review of employment practices[4], and the work that Sir Philip Hampton[5], Sir John Parker and Baroness McGregor-Smith are leading to increase gender and ethnic diversity in the boardroom and the workforce. The Government would like to pay special tribute to the late Dame Helen Alexander for the key role she played in this important work.

[3] https://www.gov.uk/government/publications/advisory-panel-to-mission-led-business-review-final-report
[4] https://www.gov.uk/government/groups/employment-practices-in-the-modern-economy
[5] https://www.gov.uk/government/publications/ftse-women-leaders-hampton-alexander-review

1. Executive pay

This section summarises consultation responses to the executive pay chapter of the green paper and sets out the Government's plans for strengthening the existing executive pay framework in light of the consultation.

1.1 The Government's green paper highlighted persisting concerns in the investment community and wider society over very high levels of executive remuneration at UK quoted companies. Previous reforms introduced by the Government have gone some way to strengthening and increasing transparency in the UK executive pay framework - in particular the requirement to gain shareholder approval for executive pay policies every three years and the need to disclose the pay of each director in a single figure. However, executive pay has continued to be a key factor in public dissatisfaction with large businesses, and a source of frustration to UK investors. FTSE100 CEO total pay has increased from an average of around £1m in 1998 to over £4m today, fuelling a widespread perception that boardroom remuneration is increasingly disconnected from the pay of ordinary working people. It is also questionable whether long-term company performance has consistently matched this rapid growth in pay.

1.2 The green paper invited views on a range of options to strengthen shareholders' ability to hold companies to account on executive pay, and to improve transparency and drive greater alignment between pay at the top and across the rest of the company. Two thirds of respondents commented on the executive pay chapter - a summary of their views is set out below.

Summary of responses

Question 1: Do shareholders need stronger powers to improve their ability to hold companies to account on executive pay and performance? If so, which of the options mentioned in the green paper would you support? Are there other options that should be considered?

1.3 Under this question, the green paper invited views on five possible options to strengthen shareholder powers on executive pay:

(i) Make all or some elements of the executive pay package (as set out in the annual directors' remuneration report) subject to an annual binding vote;

(ii) Introduce stronger consequences for a company losing its annual advisory vote on the directors' remuneration report;

(iii) Require or encourage quoted company pay policies to set an upper threshold for total annual remuneration, and ensure a binding vote where annual remuneration exceeds that threshold;

(iv) Require or give shareholders the power to hold the existing binding vote on the executive pay policy more frequently than every three years; and

(v) Strengthen the UK Corporate Governance Code to provide greater specificity on how companies should engage with shareholders on pay, including where there is significant opposition to a remuneration report.

1.4 A majority of respondents who addressed this question were in favour of strengthening shareholders' powers to hold companies to account on executive pay[6]. Those in favour included most of the UK institutional investment community and most wider business representative bodies. Change was also backed by respondents from wider civil society, including the great majority of private individual respondents who commented on this question. The main reason cited by respondents favouring further reform was the perceived unwillingness by companies (with some positive exceptions) to respond meaningfully to significant shareholder dissent on executive pay. Other respondents said it would be helpful to give companies clearer guidance on the steps they should take to address dissent, in the interests of consistency and transparency.

1.5 A substantial minority of the respondents who addressed this question argued that the reforms introduced in 2013 already give shareholders sufficient power and oversight over executive pay. This included most quoted companies who responded to the consultation, some think-tanks and some business representative bodies. Several of these respondents highlighted the high levels of shareholder approval for most quoted companies' pay policies and pay reports since the 2013 reforms were introduced, and the fact that average executive pay increases have been broadly in line with inflation over the same period.

1.6 Out of those respondents offering their views on the option of introducing an annual binding vote on executive remuneration at all quoted companies (option (i)), around one third supported this option. However, most supporters of new powers felt that this would be disproportionate, given that only a relatively small number of companies have experienced significant shareholder dissent on pay in recent years.

[6] Further details of numbers of respondents to questions can be found in the table at Annex B.

1.7 Support for options (iii) and (iv) – setting a maximum executive pay threshold, and introducing more frequent votes on the remuneration policy – was limited to less than a quarter of those respondents who commented on these options. Concern was expressed that setting a maximum threshold would lead companies to set pay levels at, or close to, whatever that threshold was, leading to a ratcheting of pay; while having more frequent votes on the pay policy was generally held to be counter-productive to the longer-term stability and certainty delivered by having pay policies cover a three-year period, as currently.

1.8 There was greatest support for option (ii), complemented by option (v), i.e. stronger consequences for companies losing or encountering significant dissent in the annual shareholder advisory vote on the directors' remuneration report, backed by new guidance in the UK Corporate Governance Code. Around two thirds of relevant respondents supported these options, including a large majority of investors and most business bodies. Investors highlighted a number of cases where they said companies had not meaningfully addressed shareholder dissent on a remuneration report. They also argued for stronger incentives on companies to get the remuneration report right the first time through enhanced shareholder engagement.

1.9 Various thresholds were suggested for what should be regarded as 'significant dissent', ranging from 10% to 35%. On the nature of any new action that may be required of companies facing significant dissent, there was a roughly even split between those favouring a new binding vote on a revised pay policy, perhaps subject to 'supermajority' (75%) approval, and those who preferred a one-off binding vote on the following year's remuneration report. Most respondents backing options (ii) and (v) wanted the escalation mechanism to be triggered after shareholder dissent in any one year, although a few respondents proposed that it should only be triggered if companies had faced dissent two years in a row.

Question 2: Does more need to be done to encourage institutional and retail investors to make full use of their existing and any new voting powers on pay? Do you support any of the options mentioned? Are there other ideas that should be considered?

1.10 Under this question, the green paper invited views on three specific options:

- Mandatory disclosure of fund managers' voting records at AGMs and the extent to which they have made use of proxy voting;
- Establish a senior "shareholder" committee to engage with executive remuneration arrangements; and
- Consider ways to facilitate or encourage individual retail shareholders to exercise their rights to vote on pay and other corporate decisions.

1.11 Less than half of respondents commented on this section of the green paper, and only a third commented on the specific options above. Of those who did comment on the overarching question, almost three quarters believed more could be done to encourage or enable institutional or retail investors to make greater use of their voting powers.

1.12 On disclosure of fund managers' voting records, around two thirds of those who commented on this option were supportive of disclosure being mandatory. A common argument in favour was that it would drive better stewardship of companies by institutional investors, providing greater accountability by asset managers to asset owners on the approach they are taking on executive remuneration and other issues. Most support for this option came from wider society groups, private individuals and some representatives of asset owners.

1.13 Investor groups, some companies and some think-tanks were against mandatory disclosure of voting records, arguing that disclosure has improved significantly over the past three years and is already required on a 'comply or explain' basis under the FRC's Stewardship Code. This code also encourages disclosure of how advice from proxy advisers has informed voting. Investor groups also expressed concern that mandatory disclosure could lead to a tick-box approach and greater reliance on proxy vote advisory services.

1.14 On the 'shareholder committee' option, three in ten of those who commented on it saw merit in the idea. It was supported predominantly by retail shareholder groups, by some private individuals and by some wider society groups. Their rationale was that it would drive more informed and pro-active stewardship of companies by major investors, augmented by a retail investor perspective, and that the Swedish model it is based on could be adapted to fit the UK's more fragmented and international shareholder base.

1.15 The option was opposed by institutional investors, companies, most business representative bodies, some think-tanks and some private individuals. A common argument against was that it would be difficult to find a group of investors that could represent the views of the hundreds of investors typically holding shares in any large quoted company. Some smaller institutional investors expressed concern that such committees would entrench large investors, making it harder for smaller investors to have a say on the running of companies. Both companies and investors expressed concern that a shareholder committee with strategic oversight of a company board and advance say on draft pay and nomination proposals would blur the lines between stewardship and executive decision-making, and undermine the UK's unitary board model.

1.16 Of the minority of respondents who considered the question of retail investor rights, three quarters thought more could be done to encourage or facilitate greater engagement and influence by retail investors. A recurring argument in favour was that the increased holding of shares through pooled, electronic accounts has made it more difficult for individual investors or other underlying asset owners to enjoy voting rights, which can often sit elsewhere in the investment chain. There was no consensus on how these investors should be given greater voting rights with some favouring greater efforts by brokers to offer 'pass back' of voting rights to their clients, and others calling for legislative change to mandate such 'pass back'.

1.17 Those opposed to legislative change in this area argued that it would increase the operational costs of holding shares which would be passed on to the underlying, retail investors, impacting negatively on the returns for their investments. They also cautioned that any reform measures should only focus on the small minority of individual investors who they said typically wish to vote at company AGMs.

1.18 Many respondents who commented for or against these options said this was a complex issue that would require separate consultation were any reform measures to be taken forward.

Question 3: Do steps need to be taken to improve the effectiveness of remuneration committees, and their advisers, in particular to encourage them to engage more effectively with shareholder and employee views before developing pay policies? Do you support any of the options set out in the green paper? Are there any other options you want to suggest?

1.19 While acknowledging the challenging role that remuneration committees face in balancing a range of interests and considerations, the green paper highlighted concerns in the investor community and elsewhere that remuneration committees could do more to engage with both shareholders and the wider company workforce in the development and implementation of executive remuneration policies.

1.20 The green paper invited views on two possible options to address this concern:

- Require the remuneration committee to consult shareholders and the wider company workforce in advance of preparing the company's pay policy; and
- Require the chairs of remuneration committees to have served for at least 12 months on a remuneration committee before taking up the role.

1.21 Just over half the responses to the green paper included comments on this question. Of those who provided comments, around four fifths of respondents believed there was a need to improve the effectiveness of remuneration committees in some way. These included almost all institutional investor respondents, most business representative bodies, all think-tank respondents and a large majority of

responses from members of the public. Those respondents not in favour of either option included around two thirds of respondents from quoted companies.

1.22 Respondents advocating change cited various benefits to linking the role of the remuneration committee to wider workforce pay and incentives, including increased staff motivation, perceptions of fairness and a better sense of collective company purpose. A large majority of investor respondents suggested that an expanded role for remuneration committees should cover both workforce and shareholder engagement, on the basis that it is in the long-term interests of a company, and therefore of its investors, that executive remuneration is demonstrably aligned with, and sensitive to, wider workforce pay and incentives.

1.23 Various suggestions were offered concerning how remuneration committees should undertake such an expanded role, including: the appointment of an employee representative to the committee; a requirement on the committee to meet with an employee advisory panel at least once a year; the extension of the committee's functions to include strategic oversight of human relations and wider workforce pay policy; and the carrying out of an employee survey annually, explicitly designed to inform the committee's decisions on executive pay the following year.

1.24 One think-tank advocated the creation of a 'Fair Pay Report' within the existing remuneration report, in which the committee would set out the company's approach to pay fairness, and provide explanations for the differences between executive pay and that of the wider workforce. Under this proposal, the Fair Pay Report would be developed in part through communication by the committee with the company's employees.

1.25 A number of institutional investors said that remuneration committees should focus on increasing the quality of their engagement with shareholders in advance of the annual AGM. This was seen to be particularly important when companies were proposing new triennial executive pay policies, or where the remuneration committee was seeking to amend performance targets or to justify pay awards that might at first glance seem inconsistent with wider challenges facing the company over the previous year. In such cases, investors stressed the need for remuneration committees, backed if necessary by the company Chairman, to make bespoke and pro-active efforts to explain their approach to shareholders. Some business bodies and business advisers said that the UK Corporate Governance Code should provide greater guidance on how remuneration committees should engage with shareholders on the development of executive pay policies.

1.26 Arguments against expanding the remuneration committee's role centred in part on resource and time constraints, with some respondents highlighting the expanded set of activities committees have already taken on since the 2013 executive

remuneration reforms were introduced. Several quoted companies said that it was not practical to engage bilaterally on executive pay proposals with all shareholders, which could comprise many hundreds of investors, and that a targeted approach focused on the largest institutional investors and on those providing advisory services to investors was therefore appropriate. Those and some other respondents argued that remuneration committees function most effectively through informal and sensitive conversations with key shareholders and, where relevant, within the company, and that introducing a new formal set of requirements could just lead to a tick-box compliance approach. Data confidentiality was cited by some as a specific reason for not allowing employees to attend remuneration committee meetings either as participants or observers.

1.27 Most respondents thought that the chair of the remuneration committee should have at least 12 months' prior experience of sitting on a remuneration committee before taking up the role of chair. However, a majority of business and investor respondents felt this should be introduced on a 'comply or explain' basis through the UK Corporate Governance Code rather than through legislation. They thought that some flexibility was required to take account of the limited circumstances where it might be appropriate to appoint someone with less experience. Examples provided included circumstances where a fresh approach was needed to remuneration policy, or where a company was finding it difficult to find a non-executive director who was a good fit with their business and already had 12 months' experience of a remuneration committee.

Question 4: Should a new pay ratio reporting requirement be introduced? If so, what form of reporting would be most useful? How can misleading interpretations and inappropriate comparisons (for example, between companies in different sectors) be avoided? Would other measures be more effective?

1.28 The green paper invited views on the possible benefits and risks of requiring companies to report the annual ratio of CEO pay to that of the wider workforce.

1.29 Just over half of respondents addressed this question, with a small majority in favour of introducing some form of pay ratio reporting. The greatest support for pay ratios came from institutional investors (asset managers and asset owners), wider society groups, think-tanks and academics, and members of the public. Three quarters of quoted companies were opposed to pay ratios. Business representative bodies, professional bodies and advisers were fairly evenly divided on this question.

1.30 The main reason cited in favour of introducing a pay ratio was that it would provide a new tool and incentive for companies, and in particular their remuneration committees, to explain their overall approach to pay to investors and employees. In the view of many supporters, a pay ratio of whatever size should be justifiable and

explainable within each company's particular strategy and business model. Several respondents also commented that the introduction of a pay ratio reporting requirement could encourage companies to spread reward and incentives more broadly within the company. One think-tank stated that, despite new reporting requirements on executive pay introduced in 2013, there is currently no indicator that provides investors, employees and other stakeholders with a measure of the dispersion of pay within a company, and that a pay ratio reporting requirement would help address that gap.

1.31 Those opposed to pay ratios expressed concern that they would add little value and lead to misleading comparisons between companies in different sectors and with different skill and wage profiles. A supermarket group, for example, would have a significantly wider pay ratio than an investment bank, because of a prevalence of low paid workers in the former, yet the CEO roles might be equally demanding. Opponents also suggested it could provide an incentive to companies to off-shore or out-source employment in order to achieve a better balanced pay ratio.

1.32 Those in favour of pay ratio reporting provided a range of views on how it should be implemented, including which metrics should be used and the overall scope. There were marginally more responses in favour of comparing CEO pay to the median rather than to the mean average of the workforce, and also a number of calls from business bodies and others to limit any new reporting requirement to a company's UK employees, for reasons of simplicity and consistency.

1.33 A number of investor responses called for pay ratio reporting to be extended to compare the pay of the CEO and other board members with the remuneration of senior managers in the tier immediately below the board. Those making this suggestion said that it would help investors identify governance issues since a big gap could be an indicator of an over-powerful CEO or of inadequate attention being paid to succession planning. Several wider civil society respondents suggested that ratio reporting should also compare CEO pay to that of the lowest paid worker or the lowest paid decile in the workforce.

1.34 Several responses – both for and against - raised concerns that without additional narrative and explanation, pay ratios could be misleading. There were some calls for the narrative to include a comparison to other companies in the same sector.

1.35 Some responses raised questions about how the ratio should be calculated. Recommendations included that it should not be a single figure, but split into three distinct categories: fixed pay; expected value of variable pay; and actual value of variable pay received. Guidance on how pay ratios should be calculated was requested by a number of respondents.

Question 5**: **Should the existing, qualified requirements to disclose the performance targets that trigger annual bonus payments be strengthened? How could this be done without compromising commercial confidentiality? Do you support any of the options outlined in the green paper? Do you have any other suggestions?

1.36 The 2013 executive pay reforms require the disclosure of the bonus targets and performance measures which trigger annual bonus targets and other benefits. However, there is an exemption for information which in the directors' opinion is commercially sensitive. The green paper invited views on whether steps needed to be taken to encourage more disclosure of targets, for example by:

- Encouraging the Investment Association, investors and investor advisers to maintain pressure on companies to provide full retrospective disclosure of performance targets and to consider strengthening the FRC's remuneration guidance; or
- Making retrospective disclosure of all bonus targets within a specified timeframe a legal reporting requirement.

1.37 A little over two fifths of total respondents addressed this issue with a slight majority in favour of full, retrospective disclosure of bonus performance targets. Roughly three quarters of institutional investors favoured full disclosure, while three quarters of quoted company respondents were opposed.

1.38 Although institutional investors were generally in favour of full disclosure, most were not convinced of the need for legislative change to require it. They noted that investor-led pressure had been successful in increasing disclosure significantly in recent years, to the extent that all FTSE100 companies now disclose retrospectively any bonus targets not initially disclosed.

1.39 However, some investors thought that existing reporting requirements in legislation could be amended to clarify, and potentially narrow, the scope for companies to withhold disclosure of some bonus targets on grounds of commercial sensitivity. Some investors also thought there should be better alignment between the Key Performance Indicators (KPIs) and other metrics used in executives' bonus targets, and between the KPIs and metrics underpinning the company's overarching strategy.

Question 6: How could long-term incentive plans be better aligned with the long-term interests of quoted companies and shareholders? Should holding periods be increased from a minimum of three to a minimum of five years for share options awarded to executives?

1.40 The green paper highlighted the increasingly large proportion of executive remuneration accounted for by shares granted under long-term incentive plans (LTIPs). LTIPs set performance targets for executives, generally over a three-year period, with shares being granted on a rolling, pro-rata basis depending on how far each target has been met. Under the FRC's UK Corporate Governance Code, premium listed companies should already ensure that shares are held by executives for at least three years. LTIPs are intended to provide a strong link between executive pay and long-term company performance, but concerns have been raised over their growing complexity and the potential risk of LTIP targets not always being consistent with long-term decision-making at quoted companies.

1.41 Just over a third of respondents addressed this question. Of those, a large majority expressed concern that LTIPs are not adequately aligning executive remuneration with long-term company performance. A significant number of these respondents argued that the targets in many LTIPs are too narrowly focused on share price growth and short-term returns to shareholders, rather than on broader objectives of relevance to a company's long-term sustainability. Some respondents said that an execessive focus on 'earnings per share' targets was particularly prevalent in FTSE250 companies. There were calls by some investors and academics for 'economic benefits' to be measured in LTIPs (e.g. measuring companies' return on capital investments), and by wider civil society groups and some think-tanks for ESG (economic, social and governance) targets to feature more prominently in LTIPs.

1.42 A number of companies said they would prefer to be more innovative in their approach to LTIP design, or even to replace or augment LTIPs with 'restricted share awards', in which executives automatically receive share options each year without specific performance conditions but at a lower level than they would have received under LTIPs. However, they expressed concern that shareholders and their advisers would not support an approach to executive share awards that differed significantly from current market practice. This concern was partly borne out by the responses of the investment community to this question. Many said that LTIPs had become too complicated and did not always provide assurances on the link to long-term company performance. However, a significant number of investors, and other respondents, also expressed concern at removing performance targets entirely from share awards, and said restricted share awards could end up rewarding poor performance.

1.43 A substantial minority of respondents who considered this question (in particular respondents from wider civil society, some think-tanks and academia) argued that there should be a rebalancing of executive remuneration towards fixed salary and away from share-based variable pay. A common argument was that this would enable CEOs to take longer-term decisions without wondering how they might impact on LTIP or other variable pay targets over the next three years. Against this, other respondents argued that CEOs and other executives should be required to build up shares of at least twice their basic salary, in order to give them a potentially long-term stake in the company's future. One think-tank said that this could be augmented by annual reporting of the impact of share price movements on a CEO's total share wealth in their company, providing a clear demonstration of the CEO's performance and the impact of her or his performance on their own wealth over the long term.

1.44 On the specific question of holding periods for shares granted to executives, almost two thirds of the respondents who addressed this question agreed that the UK Corporate Governance Code should provide for vesting and post-vesting holding periods of at least five years, compared to the current three years. Several of these respondents also proposed that the Code should set out a minimum period of time that executives should hold their shares after they have left the company.

Government conclusions

Addressing significant shareholder dissent on executive pay

1.45 The Government accepts the concerns raised by a majority of respondents that shareholders need an enhanced ability to hold to account the small minority of companies that experience significant investor dissent on executive pay. A shareholder vote of 20% or more against the Directors' Remuneration Report (DRR) is a rare occurence and can indicate that the remuneration committee has substantially misjudged one or more elements of the DRR; for example, by failing to exercise sufficient discretion when executive pay outcomes do not align with shareholder expectations based on company performance over the past year, or are not clearly in line with the company's executive remuneration policy.

Action 1

To provide greater confidence that companies experiencing dissent will take visible and effective remedial action, the Government will:

(i) Invite the FRC to revise its UK Corporate Governance Code to set out the steps that companies should take when they encounter significant shareholder opposition to executive pay; and

(ii) Invite the Investment Association to implement a proposal it made in its response to the green paper to maintain a public register of listed companies encountering shareholder opposition of 20% or more to executive pay and other resolutions, along with a record of what these companies say they are doing to address concerns.

1.46 The FRC will need to consult on the new measures in the UK Corporate Governance Code, and the views of companies, investors and other stakeholders will be important in shaping the final set of provisions. They might include, for example, provisions for companies to respond publicly to dissent within a certain time period, or to verify that dissent has been sufficiently addressed by putting the company's existing or revised remuneration policy to a shareholder vote at the next AGM. The FRC's consultation will also provide an opportunity for stakeholders to comment on the scope of application of new measures covering shareholder dissent on executive pay; for example, whether they should apply to all premium listed companies or only to FTSE350 premium listed companies.

1.47 The Government will monitor the impact of both measures carefully once they are in place. The Government will consider further action at a future point unless there is clear evidence that companies are taking active and effective steps to respond to significant shareholder concerns about executive pay outcomes.

Broadening the role of remuneration committees

1.48 The UK Corporate Governance Code already asks premium listed companies to "be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual [executive] salary increases". However, as flagged by many green paper respondents and the BEIS Committee, this existing principle of good corporate governance is not in most cases driving meaningful engagement by remuneration committees with the wider workforce, nor ensuring that wider pay and conditions are taken properly and demonstrably into account in the setting of executive remuneration.

Action 2

The Government will invite the FRC to consult on a revision to the UK Corporate Governance Code and its supporting guidance to give remuneration committees greater responsibility for demonstrating how pay and incentives align across the company, and to explain to the workforce each year how decisions on executive pay reflect wider pay policy. This consultation will provide an opportunity to seek best practice examples from those remuneration committees that already proactively engage with the wider workforce, while enabling current work in this area by a number of prominent think-tanks to be taken into account.

1.49 The Government will also ask the FRC to include in its consultation the proposed new provision that the chairs of remuneration committees should have served for at least 12 months on a remuneration committee, unless there is a clear and valid explanation why this may not be approporiate or possible in a particular case.

Pay ratio reporting

1.50 The Government notes concerns raised during the consultation that the disclosure of pay ratios across companies and sectors with different business models and workforce profiles may lead to potentially misleading comparisons. However, the Government agrees with the BEIS Committee, the investment community and many think-tanks, that annual pay ratio reporting would provide a valuable and dynamic reference point to help companies demonstrate to employees and investors alike how executive remuneration relates to wider workforce pay at a given moment and over time. It is right that a remuneration committee should be able and willing to explain why a particular ratio is right for that particular company, and to explain any changes to that ratio from year to year.

Action 3

The Government will introduce secondary legislation, to require quoted companies to report annually in their remuneration report, the ratio of CEO pay to the average pay of their UK workforce, along with a narrative explaining changes to that ratio from year to year and how the ratio relates to pay and conditions across the wider workforce.

1.51 The Government agrees with the BEIS Committee and numerous respondents that a new pay ratio reporting requirement should, for reasons of consistency and simplicity, cover UK employees only. Multinational companies would, however, be free to publish a broader ratio alongside, covering all employees in their group.

1.52 The Government will give further consideration to the methodology for calculating the ratio as well as including the option of reporting ratios by pay quartile. At this stage, the Government proposes that the ratio should be calculated based on the CEO's total annual remuneration (as set out in the existing 'Single Figure' in the Directors' Remuneration Report) relative to the average total remuneration of the company's UK workforce. This will enable the new reporting requirement to be based in most cases on existing pay roll data, while also complementing the existing legislative requirement for companies to report the annual increase in CEO pay compared to the annual increase across the average of the workforce.

1.53 Further details will be set out in a draft statutory instrument which will be published later this year.

Long-term incentive arrangements

1.54 The Government considers that poorly designed or explained LTIPs undermine confidence in the link between executive remuneration and long-term company performance. Investors must have confidence that LTIPs are driving behaviours and decision-making which promote the long-term success of the company, and executives correspondingly must have confidence that the targets in LTIPs are well understood by shareholders and give them a clear mandate to pursue longer-term goals.

1.55 Part of the challenge that the green paper consultation has highlighted is the risk of LTIPs leading to executive share awards that are inconsistent with investors' original expectations. The Government therefore accepts the arguments of a number of investors and other respondents that companies' executive remuneration policies should be required to set out more clearly the potential remuneration outcomes of LTIPs under a range of scenarios, including significant share price growth.

Action 4

The Government will introduce secondary legislation to require quoted companies to provide a clearer explanation in remuneration policies of the range of potential outcomes from complex, share-based incentive schemes.

1.56 This new requirement will build on the existing requirements governing the content of remuneration policies set out in Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008[7]. The Government will also invite the FRC to seek stakeholder views during its forthcoming consultation on whether and how new principles or detailed guidance on share-based remuneration could be included in the revised UK Corporate Governance Code.

1.57 While noting the concerns raised in some responses about LTIPs, the Government is not convinced that their abolition is justified. Properly designed and set out, they can provide a powerful driver of long-term executive decision-making. However, the Government agrees with many investors and other respondents to the green paper who argued that companies should avoid conforming rigidly to a standard LTIP model and should consider adopting other remuneration structures which may be more appropriate to their business model or strategy.

[7] http://www.legislation.gov.uk/uksi/2008/410/schedule/8/made

1.58 The Government notes and commends existing industry-led action in this area, notably through the Investment Association Executive Remuneration Working Group's report last year[8], to encourage a more flexible and tailored approach to linking executive remuneration to long-term company performance. Progress here will, though, require an open-minded and constructive response by investors and their advisers to any new or novel long-term remuneration proposals put forward by companies.

Holding periods for share-based remuneration

1.59 The Government agrees with the BEIS Committee and others that the normal holding period for share-based remuneration (including both a vesting and post-vesting holding period) should be at least five years in normal business circumstances, rather than the three-year minimum set out currently in the UK Corporate Governance Code. Lengthening the holding period in this way would also bring rules for executive remuneration closer to those introduced in 2015 for the banking sector, which lengthened deferral periods for variable pay to seven years.

Action 5

The Government will invite the FRC to consult on a proposal to increase from three to five years the minimum holding period for share-based remuneration.

Other issues

1.60 The green paper consulted on four other options in the executive pay chapter:

- The possibility of establishing a Shareholder Committee to oversee executive pay, directors' nominations and strategy at every quoted company;
- Mandatory disclosure of investor voting records;
- Increasing retail investor voting through industry-led action or legislative change; and
- Adding further regulation to the existing disclosure framework for directors' bonus targets.

The Government will not be taking forward new measures in these areas at this time.

1.61 On the Shareholder Committee option, the Government recognises the concerns of companies, many investors and other respondents that this option would be difficult

[8]https://www.theinvestmentassociation.org/assets/files/press/2016/ERWG%20Final%20Report%20July%202016.pdf

to implement practically and could moreover undermine the UK's unitary board system.

1.62 On disclosure of investor voting records, the Government accepts that significant progress is already being made through industry-led action, with 72% of UK institutional investors now disclosing their voting records in full. The Government will continue to review progress in this area.

1.63 On retail investor voting, the Government recognises that electronic shareholdings reduce costs and delays in retail investment. However, it is also recognised that the growing trend towards holding shares through an intermediary may make it more complicated for those investors to acquire and exercise voting rights over shares. We will keep this issue under review, and do not rule out new measures in due course.

1.64 On disclosure of directors' bonus targets, the Government acknowledges that companies have made substantial progress towards greater and more timely disclosure in recent years in response to pressure from institutional investors. FTSE100 companies are now disclosing most bonus targets in full prospectively, with the remainder generally being disclosed in full within the following two years. The Government is not convinced that further regulatory intervention is needed at this time but will look to institutional investors to continue to set high expectations for companies and will continue to monitor progress made by companies in this area.

2. Strengthening the employee, customer and wider stakeholder voice

This section summarises consultation responses to the chapter on strengthening the employee, customer and wider stakeholder voice and sets out the Government's plans.

2.1 Many companies and their boards recognise the wider societal responsibilities that they have and the benefit they gain through wider engagement around their business activities. However, examples of poor corporate practice where the views and needs of key stakeholders – employees and workers, suppliers, customers and pension beneficiaries – have not been given appropriate consideration have raised concerns about how well UK companies are taking into account the views of key corporate stakeholders.

2.2 Section 172 of the Companies Act 2006 gives company directors a responsibility to create successful businesses for the benefit of shareholders, whilst having regard to a range of other interests. The green paper asked whether the voice of key corporate stakeholders at board level needs to be strengthened to enable directors to discharge their duty under section 172 effectively. It sought views on a set of specific options whilst making it clear that it was not proposing to mandate the direct appointment of employees or other interested parties to company boards.

2.3 Over 240 of respondents gave a clear view on the specific question of whether the stakeholder voice should be strengthened. Of these 210 (around 86%) agreed that the stakeholder voice should be strengthened with only 33 (around 14%) disagreeing.

Summary of responses

Question 7: How can the way in which the interests of employees, customers and wider stakeholders are taken into account at board level in large UK companies be strengthened? Are there any existing examples of good practice that you would like to draw to our attention? Which, if any, of the options (or combination of options) described in the green paper would you support? Please explain your reasons.

2.4 The green paper sought views on the following three options which described mechanisms to strengthen the stakeholder voice at board level:

(i) Designate existing non-executive directors to ensure that the voices of key interested groups, especially that of employees, are being heard at board level;

(ii) Create stakeholder advisory panels; or

(iii) Appoint individual stakeholder representatives to company boards.

2.5 Most respondents agreed that companies should seek to strengthen the voice of stakeholders but there was no consensus on which of the three proposed options would work best. Each of the options had its supporters and opponents. Examples of best practice cited in the responses suggest that all three of the different options to strengthen the stakeholder voice at board level have worked well in particular circumstances and indeed that other approaches may also be valuable. Many responses emphasised that there should be flexibility for individual companies to choose the right mechanism or combination of mechanisms for them, because no single approach would be suitable for all.

2.6 The green paper also asked for views on a fourth option involving the strengthening of company reporting requirements related to stakeholder engagement. This was well-received although views differed on exactly what was needed.

2.7 Further detail on each of these options is given below.

Designation of existing non-executive directors

2.8 There were similar levels of support and opposition for the option of designating a non-executive director to ensure stakeholder voices are heard at board level.

2.9 This option was seen as the most feasible by several respondents, with the level of support and resource given to the non-executive director critical to success. Respondents suggested that a designated non-executive director: should be able to meet management, workforce and unions to discuss matters of concern; should have access to employee engagement survey results and other statistics; should be able to consult key suppliers; and should be able to review customer feedback including complaints.

2.10 It was also suggested that there could be more than one designated non-executive director acting as a point of liaison for different stakeholder groups including workers, suppliers, customers, consumers, community, and environmental groups. Many responses reiterated the view that combining designated non-executive directors with advisory panels would strengthen both.

2.11 The main risks highlighted with regard to this option were that if care was not taken, designating a single non-executive director to this role could undermine a sense of collective board responsibility for stakeholder engagement. Furthermore, if the non-

executive director were expected to promote rather than channel the interests of particular groups, the role could potentially conflict with the duties that directors hold in common and compromise independence. There were also concerns that designated non-executive directors could find themselves isolated on the board, unable to provide an effective challenge.

Stakeholder advisory panels

2.12 About four in ten of the responses to the green paper expressed a view on this option. Of these, a small majority suggested that stakeholder advisory panels could play a useful role, while the rest expressed concern about this option, particularly if it were made mandatory.

2.13 Concerns raised related to: how panel members would be chosen and how representative they would be; whether the panel would have enough 'teeth' and status to challenge the board; how much resource it would require; and whether diverse stakeholder interests could be made to cohere.

2.14 Various suggestions were made about how the members of advisory panels could be selected. One response suggested appointing an independent chair to oversee the process. Some said that the panel should represent stakeholder groups on whom the company's activities had most impact. One response suggested that if there were no employee representative on the board, more than a third of the panel should be made up of employee representatives with the rest representing shareholders and other stakeholders.

2.15 A number of suggestions were made on how to ensure advisory panels had influence. Many responses suggested that the panel should be able to issue an annual public statement (potentially as part of the annual report) and commission independent investigations, in order to maintain its independent voice. Other comments suggested that a panel could provide an effective way to test materiality assumptions with relevant stakeholders and ensure board and management are clear about key risks and amplify perspectives that may be absent or weak at board level. It was also suggested that a panel could have a formal consultative role with the remuneration committee in reviewing executive pay policies and performance.

2.16 A number of responses suggested combining stakeholder advisory panels with a designated non-executive director to ensure that the panel had a clear channel into the boardroom whilst retaining a plurality of perspectives.

Appointment of individual stakeholder representatives to boards

2.17 There were a wide range of views regarding the appointment of individual stakeholder representatives to company boards. About 40% of those that responded supported this option, while 60% were sceptical. Other responses were

ambivalent. Most of the responses to this question discussed employee representatives, but a few mentioned other stakeholder groups, such as customers, suppliers and communities. Many responses identified positive benefits from appointing an employee director, but felt it should be at the discretion of the company. A smaller group of respondents advocated a mandatory approach.

2.18 Amongst those who favoured the concept, the main advantages identified were that it would:

- Bring a valuable new perspective and operational knowledge to the board;
- Encourage boards to take a long-term approach;
- Improve board diversity; and
- Help to challenge 'group-think'.

2.19 The main concern raised related to the impact on the unitary board structure with most responses - whether supporting or opposing the option – saying they were in favour of retaining unitary boards. Specific concerns included:

- The potential for conflicts of interest given that directors have specific legal responsibilities in relation to shareholders;
- The danger of creating two classes of director, particularly if directors no longer share a common purpose;
- The risk of delayed decision-making;
- The possibility of a capture of interests, with some stakeholders being prioritised over others; and
- The practicalities of identifying a suitable individual.

2.20 The majority of respondents who supported this option believed that it was compatible with a unitary board structure and common purpose. Their responses emphasised the need to clarify that the purpose of a stakeholder director would be to provide perspective rather than represent the interests of a particular stakeholder group, and that the stakeholder director should have the same duties and responsibilities as other directors, including a duty of confidentiality. Careful thought would need to be given to eligibility criteria and selection.

2.21 A number of responses emphasised the need for appropriate training, induction and support, suggesting the chair should be responsible for this. Some responses suggested that a minimum of two directors, but preferably around a third should be drawn from employees, in part to avoid the 'lone voice' phenomenon. A number of responses also raised the importance of a union infrastructure for facilitating employee directors.

Strengthening stakeholder engagement reporting requirements

2.22 About four in ten responses commented on the fourth option – the strengthening of reporting requirements related to stakeholder engagement. Of these, a large majority (around four fifths) favoured stronger reporting requirements. Those in favour argued that stronger reporting would enhance the operation of section 172 of the Companies Act 2006 and enable companies to showcase the considerable good practice that already occurs. Those who were not in favour of stronger reporting requirements cited concerns about burdens on business and the risk of companies not providing meaningful disclosures. A number of respondents suggested that much could be achieved through the sharing of good practice or more detailed guidance from the FRC on what the Strategic Report should contain.

2.23 While some respondents felt that the focus should be on reporting the mechanisms that company boards use to engage stakeholders, others felt that more reporting was needed on stakeholder impacts or relationships themselves. Others suggested that company boards should first-and-foremost report which stakeholders the company board considers to be material to the business and how this decision was made. Another suggestion was that the skills and background of company directors in relation to stakeholders and stakeholder matters should be disclosed. Many examples of existing good practice and useful guidance on reporting stakeholder-related company information were cited.

2.24 A number of respondents linked new reporting requirements to some of the different mechanisms proposed as options (i) to (iii), for example that any non-executive director designated to represent stakeholder views could be given a requirement to report on their role. However, other respondents did not agree on placing any new reporting requirement on just one company director and stressed the need to uphold the collective responsibility of company boards. The existing length of some annual reports was mentioned a number of times alongside the suggestion that disclosures around stakeholder issues may be better suited to company websites.

Other issues – section 172 Companies Act 2006

2.25 In addition to responding to the proposed options in the green paper on how to strengthen stakeholder voice at board level, several respondents made suggestions about the relationship between companies and stakeholders more generally.

2.26 Around a quarter of responses mentioned the wording of section 172. Just under half of those respondents favoured amending section 172. They included a number of wider civil society organisations and trade unions who want directors to be able to pay greater heed to the interests of wider stakeholders such as employees and communities and the goal of long-term value creation.

2.27 There were, however, a similar number of responses which defended the current formulation of section 172. Of these many felt that the current formulation could be made to work more effectively through raising awareness, increased guidance and improved reporting. Some thought that companies should make a "statement of purpose" in their articles of association to clarify their ultimate goals and aspirations.

Question 8: Which type of company do you think should be the focus for any steps to strengthen the stakeholder voice? Should there be an employee number or other size threshold?

2.28 Around three in ten respondents provided comments on this question. Views on which companies should be the focus for any steps to strengthen the stakeholder voice were very varied. A number of respondents felt that the initial focus should be narrow and then broadened to cover a wider range of companies over time. Although some respondents felt that the focus should be just on FTSE companies, a significant number felt that private companies, at least of a large size, should also be included.

2.29 Many respondents felt that the right approach was to target companies based on employee numbers, but the threshold suggested in this area varied from 250 employees to more than 5,000. Additionally, respondents questioned whether any threshold should be based on the number of UK employees or global employees. Some concerns were raised that thresholds can have unintended consequences. For example, a threshold based on employee numbers could lead to a company artificially maintaining low employee numbers by outsourcing its workforce. Another question raised was whether corporate subsidiaries should be treated separately or as part of their group.

2.30 A good number of respondents felt that the right approach was to use existing legal thresholds, for example those used for accounting purposes or for other business reporting. A number said that the scope should depend on the approach taken to implementation. For example, any new requirement to report in a Strategic Report should be for all those companies who need to provide a Strategic Report whereas any new UK Corporate Governance Code requirements should apply only to those to whom the Code applies.

Question 9: How should reform be taken forward? Should a legislative, code-based or voluntary approach be used to drive change? Please explain your reasons, including any evidence on likely costs and benefits.

2.31 A minority of respondents, including the trade unions, favoured a legislative approach to increasing employee representation and influence at boardroom level arguing that, without some level of legal compulsion, change would be slow or non-existent. Others felt that the cultural change needed could not be achieved through

legislation. A number of respondents thought that legislation should only be used in relation to new reporting requirements.

2.32 Considerable support was received for the existing "comply or explain" approach of the UK Corporate Governance Code. Some respondents felt that change could be achieved through a purely voluntary or code based approach particularly if more detailed guidance was also provided. Finally, a number of respondents felt that legislative options could usefully be held in reserve in case sufficient progress was not made through other routes.

2.33 Only a handful of responses provided comments on the likely costs and benefits of reform in this area. The costs cited were generally around burdens on business and this was accompanied by a request that any new requirements be effective and proportionate. The benefits cited were generally in relation to the long-term business benefits of appropriate stakeholder management, not least through risk mitigation.

Government conclusions

Strengthening reporting requirements relating to boardroom engagement with employees and other stakeholders

2.34 Company directors have certain statutory duties to their company in relation to stakeholders. Directors of all UK companies, irrespective of their size have an ultimate duty to promote the success of their company for the benefit of its members which, in most cases, means its shareholders, unless the company has set out a different purpose in its company articles. However, in doing so, they must have regard to a number of specified stakeholder and wider issues including the interests of the company's employees and the need to foster business relationships with customers and suppliers.

Table 1: Text of Section 172 of the Companies Act 2006[9]

Duty to promote the success of the company

(1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to —

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

(2) Where or to the extent that the purposes of the company consist of or include purposes other than the benefit of its members, subsection (1) has effect as if the reference to promoting the success of the company for the benefit of its members were to achieving those purposes.

(3) The duty imposed by this section has effect subject to any enactment or rule of law requiring directors, in certain circumstances, to consider or act in the interests of creditors of the company.

2.35 There was strong support from respondents to the green paper for strengthening reporting requirements on how company directors are having regard to stakeholders as required by section 172. This was also a recommendation made by the BEIS Committee report of April 2017. The Government agrees. A formal reporting requirement will impel directors to think more carefully about how they are taking account of these wider matters. More transparency will also help to reassure investors, creditors and others that companies are being run with a view to their long-term sustainability. In addition, better reporting should improve the visibility of good boardroom practice, allowing it to be replicated and adopted more widely.

[9] http://www.legislation.gov.uk/ukpga/2006/46/section/172

2.36 The operation of the new reporting requirement will be subject to further consideration. The Government envisages that it would include a requirement to explain how the company has identified and sought the views of key stakeholders, why the mechanisms adopted were appropriate and how this information has influenced decision-making in the boardroom. The Government has noted that many green paper respondents felt that such disclosures should be included on company websites as well as in the company's annual Strategic Report on the grounds that the information would have as much relevance to wider interest groups as it would for shareholders, and will consider the idea further.

2.37 Further consideration will also be given to which companies should be subject to the new reporting requirement. All company directors are subject to the duty in section 172 so there are arguments, in principle, for a wide range of businesses to be within scope. However, a proportionate approach is needed as this will be a new regulatory burden. A threshold based on employee numbers seems reasonable, especially as one of the key corporate stakeholders is employees.

2.38 An existing threshold for company reporting on action to consult and inform employees about company performance and other issues is where the weekly average number of UK-based employees exceeds 250[10]. However, the aggregate burdens on business at setting the threshold this low could be high (although small at the individual company level). The Government's initial view is therefore that a threshold of 1,000 employees should be used, but this will be subject to further consideration.

Action 6

The Government will introduce secondary legislation to require all companies of a significant size (private as well as public) to explain how their directors comply with the requirements of section 172 (Companies Act 2006) to have regard to employee interests and to fostering relationships with suppliers, customers and others.

Improving board-level engagement with employees and other stakeholders through changes to the UK Corporate Governance Code and more guidance.

2.39 Consultation responses indicated strong support for strengthening the stakeholder voice in the boardroom in order to deliver long-term sustainability and greater board effectiveness. The BEIS Committee report of April 2017 on corporate governance also recommended that more companies be encouraged to establish stakeholder advisory panels and appoint workers to company boards. The new reporting requirement described above is expected to encourage directors to give more

[10] Part 4 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, SI 2008/410

thought to how they engage with employees and other stakeholders. However, on its own, it does not provide any leadership or guidance on how directors should ensure, for example, that they are engaging effectively with employees.

2.40 The importance of having an effective worker voice, that of a key corporate stakeholders, was also emphasised in the Taylor Review of Modern Working Practices. The benefits cited included enabling managers and company owners to receive timely feedback about business practices from those delivering them, enabling the workforce to raise concerns; and giving the workforce an ability to hear and influence strategic issues which may have an impact on them.

2.41 It is clear that many companies already have mechanisms in place to ensure that employee and other stakeholder voices are heard and taken into account in boardroom decision-making. The Government, however, wants to ensure that good practice is adopted more widely and more consistently.

2.42 Leadership in this area is needed from the UK's largest, premium listed companies. The Government, therefore, intends to invite the FRC to consult on the development of a new Code principle establishing the importance of strengthening the voice of employees and other stakeholder interests at board level as an important element of running a sustainable business. The Government expects guidance to be prepared by the FRC in collaboration with business on the best practice mechanisms that company boards could adopt to comply with the new principle. Indeed, ICSA (the Governance Institute) and the Investment Association are already developing practical guidance on boardroom engagement.

2.43 In relation to employees, however, the Government believes that a stronger sense of direction is required to ensure that there is real change and that all our leading companies have effective mechanisms to engage with employees at boardroom level. There is a wide consensus that employee engagement is associated with greater firm performance, higher customer loyalty, better retention levels and higher productivity[11]. The Government will therefore be inviting the FRC to consider and consult on a specific Code provision requiring premium listed companies to adopt, on a "comply or explain" basis, one of three employee engagement mechanisms: a designated non-executive director; a formal employee advisory council; or a director from the workforce.

[11] A recent Gallop poll covering businesses across 73 countries found that firms in the top quartile of based on their employee engagement scores outperformed the bottom quartile having 21% more profitability and 20% more productivity. http://www.gallup.com/services/191489/q12-meta-analysis-report-2016.aspx?ays=n

2.44 The UK Corporate Governance Code applies to premium listed companies which count some of the UK's biggest and most influential businesses in their number. However, the impact of good governance in premium listed companies can have a strong influence more widely, for example on corporate behaviour in their supply chains. Indeed, noting the benefits of high standards in premium listed companies, the influence of the Code itself can clearly extend to other types of business. Many smaller listed companies, for example, follow the Quoted Company Alliance's Corporate Governance Code for Small and Mid-Size Quoted Companies which adopts key elements of the FRC's Code. Furthermore, the new Code principle establishing the importance of strengthening the voice of employees and other non-shareholder interests at board level could be adopted as part of the set of corporate governance principles that will be developed for large private companies – discussed in the next section of this response document.

Action 7

The Government will invite the FRC to consult on the development of a new Code principle establishing the importance of strengthening the voice of employees and other non-shareholder interests at board level as an important component of running a sustainable business.

As a part of developing this new principle, the Government will invite the FRC to consider and consult on a specific Code provision requiring premium listed companies to adopt, on a "comply or explain" basis, one of three employee engagement mechanisms: a designated non-executive director; a formal employee advisory council; or a director from the workforce.

Action 8

The Government will also ask ICSA (the Governance Institute) and the Investment Association to complete their joint guidance on practical ways in which companies can engage with their employees and other stakeholders at board level.

2.45 Finally, the Government wishes to respond constructively to the debate on the wording of section 172 that arose from the green paper. The Government has no plans to amend the law, but considers it would be useful to have more guidance for companies of all sizes on how the UK's "enlightened shareholder value" model enshrined in section 172 should work in practice.

2.46 As an initial step, the Government has asked the GC100 group of the largest listed companies to prepare and publish new advice and guidance on the practical boardroom interpretation of the directors' duty in section 172 of the Companies Act 2006. The Government hopes that this will stimulate wider debate and understanding of the flexibilities inherent in the existing wording of section 172. It

would welcome other practical, industry-led contributions. The Government also notes the recommendations in relation to employee voice made by Matthew Taylor in his Review of Modern Working Practices. The Government will consider these and respond to the whole report later this year.

Action 9

The Government invites the GC100 group of the largest listed companies to complete the work it is undertaking to prepare and publish new advice and guidance on the practical interpretation of the directors' duty in section 172 of the Companies Act 2006.

Summary

2.47 The Government believes that this combination of Code changes and better guidance on boardroom engagement with employees and other stakeholders, underpinned with a new statutory reporting requirement can deliver real change in corporate practice. The Government will, however, monitor the extent to which these measures are effective and will consider further action in the future if progress is insufficient.

3. Corporate governance in large privately-held businesses

This section summarises responses to chapter 3 of the green paper and sets out how the Government intends to strengthen the corporate governance framework for the UK's largest private companies.

3.1 The green paper explored whether, and to what extent, the UK's largest privately-held businesses should meet higher minimum corporate governance and reporting standards. The UK's strongest corporate governance and reporting standards are currently focused on public companies where owners or shareholders are often distant from the executives running the company. However, the green paper set out reasons why similar standards might need to apply to privately-held businesses, including the point that good governance can go beyond the relationship between the owners and the managers of a company, and that there are other stakeholders, including employees, suppliers and customers with a strong and legitimate interest in the way a company is run.

3.2 The green paper set out a number of options for strengthening standards of corporate governance in private companies including the extension of the UK Corporate Governance Code or the development of a broader set of best practice principles.

3.3 In addition to gathering views on whether it was now appropriate to develop a stronger corporate governance framework for the UK's largest privately-held businesses, the green paper invited views on which businesses should be within scope and on how any strengthening should be implemented and monitored.

Summary of responses

Question 10: What is your view of the case for strengthening the corporate governance framework for the UK's largest privately-held businesses? What do you see as the benefits for doing so? What are the risks to be considered? Are there any existing examples of good practice in privately-held businesses that you would like to draw to our attention?

3.4 Over four fifths of respondents responding to this section of the green paper, favoured strengthening corporate governance standards for the UK's largest privately-held businesses. Many argued that the social and economic impact of large private companies can be as great as that of listed companies and can pose similar risks for pensioners, employees, supply chains, local communities and others. Some argued that the privilege of limited liability status had to be earned, and that it carried with it an expectation that companies would be run responsibly.

3.5 The consultation brought to light examples of best practice demonstrating how a number of large privately-owned companies understand the benefits of well-executed governance and manage their business through well defined board responsibilities, high levels of transparency and ethical business conduct that shows consideration for employees and wider stakeholders' interests. Several leading private companies already use the UK Corporate Governance Code as a benchmark which they can adapt to suit their own circumstances, for example adopting the provisions relating to the use of non-executive directors and the appointment of audit, nomination and remuneration committees. Other private companies already make their annual report and accounts easily accessible on their website.

3.6 Most of the business bodies that responded to the consultation, agreed that worthwhile corporate governance principles for privately-held businesses could be developed in the areas of board leadership, effectiveness, and accountability.

3.7 Many respondents argued that, regardless of a company's particular legal status, adhering to the highest standards of corporate governance can deliver business benefits by reassuring the public and investors, and increasing international reputation. In addition, some believed it might help to counter the trend of companies de-listing from public markets. This trend was attributed, in part at least, to a wish to avoid the higher levels of transparency associated with listed company status.

3.8 Most institutional investors who responded to this section highlighted how good governance can ensure a company's long-term success, building and sustaining the confidence of banks, investors and suppliers, enabling such businesses to have better access to external finance at a lower cost and on a longer-term basis than would otherwise be the case.

3.9 Several respondents argued that any new measures proposed in this sphere should be tailored, proportionate and avoid duplication. Some responses made the point that examples of mismanagement were not just a peculiarity of privately-owned businesses but also occurred in listed companies, which were already subject to stricter UK Corporate Governance Codes. Some respondents cautioned that a rigid

codification of corporate governance and an inflexible approach to implementation would affect the competitiveness of companies.

Question 11: If you think that the corporate governance framework should be strengthened for the largest privately-held businesses, which businesses should be in scope? Where should any size threshold be set?

3.10 A little over a quarter of respondents to the consultation answered this question. Although there was no unanimous view as to the appropriate threshold, over two thirds of those responding thought that only the largest businesses should be subject to a stronger corporate governance framework.

3.11 Around a third of those responding to this question expressed a preference for a threshold based on the number of employees. However, views differed on where any size threshold should be set. Professional advisers, particularly law firms, tended to recommend use of thresholds already defined in the Companies Act, but a larger number suggested that only businesses with at least 1,000 employees should be within scope. The BEIS Committee, for example, in its separate report on corporate governance, suggested that a stronger corporate governance framework should apply initially to the largest employers with over 2,000 employees.

3.12 A further third of those responding made the point that an employee number criteria, on its own, would not bring all companies with a significant public interest aspect or economic significance within scope. They suggested an additional balance sheet and turnover threshold. There were a number of responses in favour of a specific combination of employee size (>1,000) and turnover (>£36m).

3.13 A minority of those responding considered that it would be important to bring into scope entities that deliver public services, raise significant amounts of debt or have a high number of pension scheme beneficiaries, irrespective of their size.

3.14 Some respondents suggested that subsidiaries should not be covered, if the information required of them was already captured at group level, or if they were subsidiaries of foreign companies already subject to strong domestic corporate governance requirements. The responses indicated broad support for introducing stronger requirements: that the largest businesses, irrespective of their legal status, have the greatest potential to impact wider communities through their employees, suppliers, customers and others.

Question 12: If you think that strengthening is needed, how should this be achieved? Should legislation be used or would a voluntary approach be preferable? How could compliance be monitored?

3.15 There was strong support for the development of a corporate governance framework for private companies. However, views differed on who should lead this work and whether the existing UK Corporate Governance Code for premium listed companies was the right starting point. In general, while acknowledging that some of the features of the Code could apply to privately-owned businesses, most respondents expressed a preference for the development of a bespoke set of principles. The wide range of ownership structures amongst privately-held businesses pointed to principles being more realistic than more detailed provisions, since principles could be applied to a broader range of businesses. A number of organisations and companies offered their support in developing a framework for private companies.

3.16 About 67% of respondents to a survey[12] carried out by the Institute of Directors supported the idea of a code for private companies, although with the caveat that its application should be phased, and the extent to which it applied should depend on the size of the company.

3.17 Several respondents, including business representative bodies, urged the avoidance of duplication and overlap. There were existing codes and sets of principles that some private companies already applied such as the British Private Equity and Venture Capital Association's guidelines for its members. If companies wanted to continue to use an existing code, this should be regarded as acceptable.

3.18 Some respondents linked better corporate governance and responsible behaviour amongst private companies with compliance with section 172 of the Companies Act 2006. One respondent suggested that a better awareness and understanding of the provisions of section 172 through the provision of guidance might result in better corporate behaviour than an additional layer of governance compliance.

3.19 Most companies and business representative bodies warned against the development and rigid application of a prescriptive set of corporate governance rules. However, while only one in three respondents offered a view on the type of approach that would be preferable, over two thirds of these respondents did not believe that the approach should be completely voluntary. Instead they suggested using legislation, mitigated by appropriate levels of proportionality and flexibility.

[12] https://www.iod.com/news-campaigns/news/articles/Business-leaders-call-for-new-governance-code-for-private-companies

Question 13: Should non-financial reporting requirements in the future be applied on the basis of a size threshold rather than based on the legal form of a business?

3.20 Only just over a quarter of respondents offered their views on this question. However, these respondents were almost unanimous in agreeing that non-financial reporting should be applied on the basis of size and impact, regardless of businesses' legal forms, though they did not provide a clear picture of the types of disclosures sought. Many respondents recognised how business models have become more complex and the range of stakeholders has increased. They observed that the impact of failure for many private organisations is often greater for external stakeholders than for the owners.

3.21 A number of responses highlighted the need to keep proportionality and flexibility in mind, and to avoid introducing burdensome and costly requirements.

3.22 One business representative body referred to the variety of slightly differing reporting thresholds and mechanisms for the range of existing non-financial reporting requirements. It suggested a review of these thresholds to establish the scope for rationalising and consolidating them.

Government conclusions

Development of corporate governance principles for private companies

3.23 The Government believes that the case has been made for strengthening the corporate governance framework for the UK's largest private companies. The conduct and governance of large companies, whatever their legal status, has a sizeable impact on the interests of employees, suppliers, customers and others. If confidence in big business is to be enhanced, more large private companies should be taking steps to reassure and demonstrate to the public that they are well run, that they take a responsible approach to corporate governance and that they are running their businesses with regard to the interests of wider stakeholders, as well as the owners and shareholders.

3.24 The Government intends to take steps to encourage the development of a set of corporate governance principles suitable for the widely varying circumstances and ownership structures of large private companies. This approach is in line with the recommendations made by the BEIS Committee in its April report on corporate governance.

3.25 Application of these principles will be voluntary. This will allow companies to continue to use other industry-developed codes and guidance, such as that developed by the BVCA for private equity-owned businesses, if they are considered

more appropriate. It will also allow companies to adopt, or continue to use their own preferred approaches.

3.26 In order to ensure the principles are credible these need to be developed by people with practical expertise and experience drawn from the relevant business communities and professional bodies and led by a business figure with experience of working in large private companies.

3.27 The Government expects that the FRC's work to develop a new principle for the UK Corporate Governance Code establishing the importance of strengthening the voice of employees and other non-shareholder interests at board level, as outlined in the previous section, to be reflected in the principles for private companies. Large companies, irrespective of whether they are private or public need to show that they are having regard to their wider stakeholders.

Action 10

The Government will invite the FRC to work with the Institute of Directors, the CBI, the Institute for Family Business , the British Venture Capital Association and others to develop a voluntary set of corporate governance principles for large private companies under the chairmanship of a business figure with relevant experience.

Transparency about corporate governance in large private companies

3.28 Many respondents observed that only companies listed on the London Stock Exchange, are currently subject to corporate governance reporting requirements. The Government considers that this form of reporting should be broadened to all UK companies of a significant size.

3.29 A reporting requirement will provide much needed transparency, providing customers, suppliers and wider society with the ability to understand the corporate governance arrangements in a greater number of our leading companies. This greater transparency will make it clear which companies have adopted good practice and leave those who have not, open to wider questioning.

3.30 Having analysed green paper responses, considered the BEIS Committee's recommendations in their April 2017 report on corporate governance, and undertaken additional impact analysis, we propose applying this reporting requirement only to the very largest companies. Further consideration will be given to size of company that will be covered by the new reporting requirement, but the Government's initial view is that it should apply to companies with over 2,000 employees. The requirement will apply to privately-owned and public companies alike. However, there will be an exemption for premium listed companies who are already required to report against the UK Corporate Governance Code or

companies required by the Disclosure and Transparency Rules to issue a Corporate Governance Statement. It is expected that a maximum of 1,400 (public and private) UK companies would be within the scope of the new requirement if it is set at 2,000 employees.

3.31 It is envisaged that the disclosure will include details of any UK Corporate Governance Code or other formal set of corporate governance principles that the company has adopted. Where a company departs from any of the provisions in the adopted code or principles, it should explain which parts these are and the reasons for the departure. If a company has decided not to adopt a formal code or set of principles, it will be required to explain the reasons.

3.32 The disclosure will be included in the company's Directors' Report. We will also require this information to be made available on the company's website so that it is easily accessible to external stakeholders who are not shareholders.

3.33 This approach will ensure that companies are free to identify and adopt the corporate governance framework that best suits their business needs. The high threshold combined with a "comply or explain" approach, will ensure appropriate levels of proportionality and flexibility.

Action 11

The Government will introduce secondary legislation to require all companies of a significant size to disclose their corporate governance arrangements in their Directors' Report and on their website, including whether they follow any formal code.

The Government's initial view is that these requirements should apply to companies with more than 2,000 employees unless they are subject to an existing corporate governance reporting requirement. The Government will also consider extending a similar requirement to Limited Liability Partnerships (LLPs) of equivalent scale.

4. Other issues

This section summarises responses to section 4 of the green paper which invited suggestions on other ways in which the UK's corporate governance framework could be strengthened. It sets out the Government's proposals for strengthening the FRC's ability to monitor and enforce corporate governance reporting.

4.1 The green paper focused on three specific aspects of corporate governance where the Government believes there could be particular scope to build on and enhance the current framework. However, corporate governance is a broad topic and section 4 of the green paper was included to provide an opportunity for respondents to make observations on the framework as a whole and to suggest other themes, ideas and proposals that might be explored.

Summary of responses

Question 14: Is the current corporate governance framework in the UK providing the right combination of high standards and low burdens? Apart from the issues addressed specifically in this green paper can you suggest any other improvements to the framework?

4.2 A total of 137 respondents had views on the current framework. Of these, about two thirds thought that it generally provided the right combination of high standards and low burdens, although a number of suggestions for improvement were made along with other comments.

FRC's powers

4.3 A number of respondents, particularly accountancy firms commented on the adequacy of the FRC's powers to oversee and enforce the corporate governance framework. One leading accountancy firm, for example, suggested that corporate governance statements made by companies should be brought within the scope of the FRC's existing corporate reporting review powers. The FRC itself argued that it should have additional powers to ensure the integrity of corporate governance reporting as well as additional responsibilities to sanction directors.

Simplification of the UK Corporate Governance Code

4.4 A cross-section of respondents including companies, institutional investors, academics and wider society bodies thought that there was scope to make the FRC's UK Corporate Governance Code simpler and focused more on overarching principles. A typical comment was that the Code looked dated with a focus on board structures and processes that were now well embedded. The focus should be on compliance with a limited number of essential principles. Several institutional investors favoured a comprehensive review of the corporate governance framework to aid clarity and strengthen its application. One respondent referred to the need to "clear the clutter from boardrooms" by focusing on essential principles.

Company culture and ethics

4.5 A number of respondents including wider society bodies, law firms and companies themselves stressed the importance of having a good company culture and a code of business conduct and ethics. Suggestions were made that the UK Corporate Governance Code could be amended to be explicit in expecting boards to set a company culture and to disclose whether it has a code of ethics.

Skills and competence of directors

4.6 A number of respondents pointed out the importance to good corporate governance of competent executive and non-executive directors. A greater statutory articulation of the duty of care and skill owed by directors might help. A number of institutional investors called for more disclosure about the skills and experience of directors to inform shareholder votes on appointments and re-appointments. The importance of board effectiveness reviews required under the UK Corporate Governance Code was stressed, along with calls for more to be done to ensure that non-executive directors are properly trained and have a proper awareness of their duties. A number of respondents called for directors to have a relevant qualification such as membership of a recognised business-oriented professional body or accreditation as a chartered director.

Enforcement of directors' duties

4.7 Several respondents, particularly from the accountancy profession and some academics, referred to a lack of effective mechanisms for sanctioning directors when their conduct or competence fell short or where they failed to comply with their duties. Some suggested that the list of people who can bring derivative actions - currently restricted to shareholders - should be broadened. Others suggested that an authority such as the FRC should be appointed with powers to intervene to sanction directors. This should go broader than the FRC's existing powers to sanction directors who were members of professional accountancy and actuarial bodies.

4.8 Others, particularly some law firms took a different view, arguing that it would be disproportionate to introduce a regulator for all directors, and that the FRC's current role as disciplinary body for specific professions was a different activity. Instead, better use should be made of existing powers to protect stakeholders set out in employment, pensions and financial services legislation.

4.9 There were questions over whether the Company Directors Disqualification Act 1986 was working effectively and whether BEIS should make more use of existing powers in the Companies Act 1985 to appoint inspectors.

4.10 One respondent suggested strengthening the ability of resigning directors to speak more openly about the reasons for their resignation. Any director of a large company who resigns should make a statement that there are no matters surrounding the resignation which ought to be brought to the attention of shareholders and if there are, what these matters are. On a related theme, one professional body suggested that the Companies Act should be amended to give company secretaries the same safeguards as are currently in place for auditors.

Long-termism

4.11 Several respondents wanted to see stronger shareholder voting rights for long-term investors. Others thought that the FRC could make further changes to its UK Corporate Governance Code to encourage long-termism. One respondent wanted a stipulation that, before any share buyback, boards should confirm that employees were being paid at least the living wage, that the company pension fund was adequately funded and that the resources could not be better used for investment in people or R&D. Another suggested that the consent of long-term shareholders should be required before a takeover could be recommended by directors.

Protection of minority shareholders from a controlling shareholder

4.12 Institutional investors praised the Financial Conduct Authority (FCA) for introducing a dual voting structure for the appointment of independent directors to help protect the interests of minority shareholders against a controlling shareholder. Under the new rules, any such appointments have to be approved both by the shareholders as a whole and also by the independent shareholders. If the results conflict, then a second vote of all shareholders has to take place on a simple majority basis. A number of investors, however, thought that stronger safeguards were needed such as excluding the controlling shareholder from any second vote, or excluding this shareholder from the vote on the appointment of the chairman. Alternatively, the Listing Rules could be amended to require premium listed companies to have a majority free float.

Other issues raised

4.13 Respondents made a number of other comments and suggestions. Amongst the more significant were comments made by a number of respondents, particularly wider society bodies suggesting that more could be done to extend principles of stakeholder representation to pension and other fund management companies. They could, for example, be required to state what account they have taken of the interests of beneficiaries in setting the terms of their investment mandates, and pension managers could do more to engage with savers to understand and then reflect the views of the underlying beneficiaries.

4.14 On reporting, some accountancy firms in particular suggested that the Strategic Report should include information and metrics about productivity within the company and what steps were being taken to improve it.

4.15 Some respondents noted the lack of choice available to companies when they were looking for executive search advisers or board effectiveness evaluators. It was claimed that six firms accounted for 74% of board appointments to leading FTSE companies and just four firms undertook about 75% of board evaluations.

Government conclusions

4.16 The Government notes that a clear majority of respondents to this part of the green paper thought that the UK's corporate governance framework generally provides the right balance of high standards and low burdens. It has, however, taken careful note of the comments and suggestions made. Action is already in train to address some of the suggestions. The FRC, for example, has been undertaking a review of the UK Corporate Governance Code to establish whether there is scope to simplify it and place a renewed focus on key, overarching principles. It expects to announce its findings shortly.

4.17 Other suggestions, for example about embedding the importance of company culture and ethics, and providing more information for shareholders about the skills and experience of directors could be addressed in Code provisions. The FRC intends to consult on amendments to the Code this Autumn, so there will be opportunities to consider these ideas further in that context.

4.18 The idea that companies should be required to provide more information and metrics about productivity as part of the Strategic Report has been addressed in the Investment Association's Long-Term Reporting Guidance published in May which includes calls on companies to report on the main drivers of productivity within the business and the process by which productivity is assessed. The Government endorses this industry initiative and has asked the FRC to consider whether to

amend its guidance on the Strategic Report to provide further encouragement for companies to report on the steps they are taking to measure and improve productivity as an aspect of promoting the success of the company in the long term.

4.19 Most relevant in the context of the green paper were the comments and, in some cases, concerns about whether the FRC has the powers, resources and status to undertake its functions effectively. These are important issues since the FRC plays such a central role in the UK's corporate governance framework. Particularly important are concerns that, whilst the FRC has the ability to enforce the accuracy and integrity of financial statements, its ability to test and challenge the quality and integrity of companies' corporate governance reporting is limited. The FRC itself has asked for increased powers, both to monitor and enforce corporate governance reporting and to sanction directors who are not members of professional accountancy bodies.

Action 12

In the short term, the FRC, the Financial Conduct Authority and the Insolvency Service have been asked to conclude new or, in some cases, revised letters of understanding with each other before the end of this year to ensure the most effective use of existing powers to sanction misbehaving directors and ensure the integrity of corporate governance reporting.

The Government recognises the importance of ensuring that the FRC can carry out these aspects of its supervisory role effectively, in cooperation with other regulatory bodies as necessary, and will give further consideration to whether the FRC has the appropriate powers, resources and status to operate effectively.

5. Boardroom diversity

This section addresses the issue of boardroom diversity. It sets out the steps that the Government and industry are taking to improve gender and ethnic diversity and responds to recommendations made by the BEIS Committee.

Summary of responses

5.1 The green paper did not directly seek views on boardroom diversity but the issue was one that was raised in the course of the consultation. Many respondents highlighted the strong business case for greater diversity in the boardroom, and drew links between this agenda and corporate governance reform more broadly.

5.2 The BEIS Committee also made a number of recommendations to improve boardroom diversity in its Corporate Governance report. It recommended, for example, more ambitious gender targets for FTSE350 companies to meet from 2020 with respect to new appointments to senior and executive management positions. It also made recommendations for better reporting of diversity issues in annual reports and for changes to the UK Corporate Governance Code to embed the promotion of the ethnic diversity of boards.

Action to promote and encourage boardroom diversity

Gender diversity

5.3 The UK has seen a significant increase in the number of women on the boards of our top companies, driven by a voluntary, business-led approach. In 2010 the Government appointed Lord Davies to lead an independent review into the lack of representation of women on FTSE350 boards. He published his first report (Women on boards) in 2011, setting a target of 25% of board positions to be filled by women. At that time, only 12.5% of FTSE100 board positions were occupied by female directors. He published his final report in October 2015, showing that the FTSE100 had exceeded that target; the proportion of female directors had doubled in just four years. In his final report he recommended increasing the target to 33% by 2020, to apply to all FTSE350 companies.

5.4 Since the final Davies report, progress has continued to be made. There are now only six all-male boards across the FTSE350, down from 152 in 2011. This shows that the voluntary, business-led approach is working and is the right approach.

5.5 As recommended in Lord Davies' final report, in 2016 the Government commissioned a new review, this time focused on increasing the numbers of senior women not just in the boardroom, but throughout the executive levels of FTSE350 companies. Sir Philip Hampton and Dame Helen Alexander have been leading this review, and published their first report (FTSE women leaders) in November 2016. They set a new voluntary 33% target for senior executive positions in FTSE100 companies, and set a 33% target for women on boards in the FTSE350 as recommended by Lord Davies

5.6 As well as supporting and endorsing the work of these reviews, the Government is undertaking a broad range of activity to help achieve greater gender diversity at senior levels. For example, the Department for Business, Energy and Industrial Strategy, in conjunction with UK Government Investments, is actively supporting the Future Boards Scheme, which is a business-led initiative to help talented, senior women get board-level development opportunities and gain the experience they need to apply successfully for board positions.

5.7 The Government also continues to work with the Women's Business Council, which has done excellent work with business to maximise women's economic contribution. This has included supporting women to set up businesses and encouraging senior men to drive cultural change in the workplace.

5.8 In addition, reporting requirements have been introduced through the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These require all quoted companies to include, as part of their strategic report, a breakdown showing: the number of persons of each sex who were directors of the company; the number of persons of each sex who were senior managers of the company; and the number of persons of each sex who were employees of the company. Greater transparency will help shareholders and other stakeholders hold companies to account for the progress they are making.

Ethnic diversity

5.9 The Government is also taking steps to support ethnic diversity. It is supporting the business-led review chaired by Sir John Parker, which published draft recommendations in November 2016 proposing that each FTSE100 board should have at least one director of colour by 2021 and by 2024 for the FTSE250. We look forward to his final report later this year.

5.10 In addition, the Government commissioned Baroness Ruby McGregor-Smith to examine the obstacles faced by businesses in developing BME talent from

recruitment through to the executive level. She published her findings with recommendations in February. The Government has published a response[13], and has been working with Business in the Community in supporting companies to make their workplaces more inclusive to people of all ethnic backgrounds.

Business Diversity and Inclusion Group

5.11 Reports on different aspects of diversity in business have now been published by Lord Davies, Sir Philip Hampton and Dame Helen Alexander, by Sir John Parker and by Baroness Ruby McGregor Smith. Recognising a need to bring the various recommendations together into a coherent message and join up further action, Margot James MP, Parliamentary Under-Secretary of State for Small Business, Consumers and Corporate Responsibility, has recently established a Business Diversity and Inclusion Group. This is intended to bring together business leaders and organisations to provide strategic leadership on diversity and inclusion issues, monitor progress in tackling barriers and deliver a clear and coherent message to the business community on what needs to be done.

5.12 The board will be chaired by Margot James with an initial membership that includes Anne Milton (the Minister for Women with overall responsibility for policy on gender equality), the Chairs of the diversity Reviews - Baroness McGregor-Smith, Sir Philip Hampton, Sir John Parker - as well as Jayne Anne Ghadia, the Government's champion for women in finance. It will also include senior representation from organisations such as the CBI, Institute of Directors, Business in the Community, FRC and the Equality and Human Rights Commission, all of whom are active in promoting inclusive workplaces or have a role in delivering greater transparency on progress. The first meeting of the Group will be scheduled shortly.

The Government response to the BEIS Committee's diversity recommendations

5.13 The Government shares the BEIS Committee's wish to seeing greater gender, ethnic and social diversity on company boards. There are strong economic as well as social reasons why this is important. Improving the diversity of boardrooms so that their composition better reflects the demographics of employees, customers and the communities within which companies operate can help improve decision-making. It also ensures that boards have access to a wide range of social perspectives, talent and experience.

5.14 Section 2 of this response sets out the importance of company boards engaging effectively with their employees and other key corporate stakeholders. Appointing a

[13] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/594365/race-in-workplace-mcgregor-smith-review-response.pdf

director from the workforce may well contribute to this diversity but there are other approaches too. The Government agrees with the Committee, for example, that companies should be doing more to ensure that they are recruiting directors from the widest possible pool of potentially qualified candidates. The Government believes that greater diversity within the boardroom can help companies connect with their workforces, supply chains, customers and shareholders.

Company reporting on diversity issues

5.15 The Government has noted the Committee's recommendations for further company reporting on diversity issues, including more reporting on the steps that companies are taking to enhance the diversity of their executive pipeline. As mentioned in paragraph 5.8, there is already an obligation for quoted companies to report on the gender breakdown of boards and senior managers and in the company as a whole. The Government will continue to work closely with the FRC and others to ensure that diversity disclosures are effective in helping drive further progress.

Targets for female appointments to senior and executive management positions

5.16 The Committee recommended that the Government should set a target that from May 2020 at least half of all new appointments to senior and executive management positions in the FTSE350 and all listed companies should be women. The Government agrees that more progress needs to be made, but does not agree that a higher target should be set at this stage. The Davies Review set a target that, by 2020, 33% of FTSE board members as well as 33% of executive committees and their direct reports should be women. This will require approximately 40% of new senior appointments going to women, including in sectors which have a long-standing male bias in their workforce. This is a stretching but achievable target which the Government and the Hampton-Alexander Review will monitor closely over the next three years. The Government's view is that the immediate focus should be on delivering what is already a demanding target, rather than setting a new one.

Publication of workforce data by ethnicity

5.17 The Committee recommended that the Government should legislate to ensure that all FTSE100 companies should publish their workforce data broken down by ethnicity and by pay band. The Government has already responded to a similar recommendation made by Ruby McGregor Smith. It prefers a non-legislative approach based around setting out the value to business of employing a diverse workforce and encouraging institutional investors to demand more workforce data. As set out above, a voluntary approach has delivered significant progress on women on boards, and the Government intends to take a similar approach in increasing ethnic representation. The Government will monitor progress and is ready to act if this voluntary approach does not deliver sufficient progress.

Recommendations for the UK Corporate Governance Code

5.18 Several of the Committee's recommendations are concerned with potential amendments and enhancements to the UK Corporate Governance Code and associated guidance. These are matters for the FRC to consider. Many of them will be addressed in the consultation on amendments to the Code that the FRC intends to undertake in the Autumn.

Annex A – List of respondents

3M
Aberdeen Asset Management
Advisory, Conciliation and Arbitration Service (Acas)
Aggreko
All Party Parliamentary Corporate Governance Group
All Party Parliamentary Corporate Responsibility Group
Allen & Overy
Allianz Global Investors
Alternative Investment Management Association (AIMA)
ARC Pensions Law
Arsenal Supporters' Trust
Asesoria
Association of Accounting Technicians (AAT)
Association of British Insurers (ABI)
Association of Chartered Certified Accountants (ACCA)
Association of Convenience Stores (ACS)
Association of Financial Mutuals (AFM)
Association of Investment Companies (AIC)
Association of Member Nominated Trustees (AMNT)
Aviva
B Lab UK
BDO
BHP Billiton
Black Sun
Blackrock
Board Intelligence
BP
British Retail Consortium (BRC)
British Banking Association (BBA)
British Chambers of Commerce (BCC)
British Columbia Investment Management Corporation
British Standards Institution (BSI)
British Venture Capital Association (BVCA)
Building Societies Members Association (BSMA)
Business Services Association (BSA)
Capita Asset Services
Carillion
Cass Business School and Sheffield Institute of Corporate and Commercial Law
Castlefield Investment Partners
Centre for Governance, Leadership and Global Responsibility, Leeds Business School

Centrica
CFA Society of the UK
Chartered Institute of Management Accountants (CIMA)
Chartered Management Institute
Church Commissioners for England and Church Investors Group
CIPD & High Pay Centre
Citizens Advice
Coalition for Inclusive Capitalism
Communication Workers Union (CWU)
Community Support
Confederation of British Industry (CBI)
Co-Operative Group
Co-operatives UK
CORE Coalition
Council of Institutional Investors (CII)
Crescendo
Crowe Clark Whitehill
DC Thomson
Dechra Pharmaceuticals
Deloitte
Direct Line Group
Directory of Social Change
Durham Company Law Project Steering Group
Easyjet
Ecumenical Council for Corporate Responsibility
EdenTree Investment Management
Edis-Bates Associates
EEF: The Manufacturer's Organisation
Employee Ownership Association
Employment Lawyers Association (ELA)
Engage for Success
Ernst & Young
Federation of Small Business (FSB)
Fidelio Partners
Fidelity International
Financial Reporting Council (FRC)
First Group
FIT Remuneration Consultants
Freshfields Bruckhaus Deringer
Friends Provident Foundation
Galliford Try Services
GC100 and Investor Group
GES International AB

Go-Ahead Group
Governance Institute of Australia
Grant Thornton
Grosvenor Group
Group A firms and Association of Practising Accountants (APA) firms
Hampton-Alexander Review
Hansa Capital Partners
Hargreaves Lansdown
Henley Business School
Herbert Smith Freehills
Hermes Investment Management
House of Commons Work and Pensions Committee
Howdens Joinery Group
HSBC
IG Group
IHG Intercontinental Hotel Group
Insight Investment
Institute for Employment Studies
Institute for Family Business (IFB)
Institute of Business Ethics
Institute of Chartered Secretaries and Administrators (ICSA): The Governance Institute
Institute of Chartered Secretaries and Administrators (ICSA) Registrars Group
Institute of Directors (IoD)
Institute of Environmental Management and Assessment (IEMA)
Institute of Risk Management
Institution of Occupational Safety and Health (IOSH)
International Corporate Governance Network (ICGN)
International Integrated Reporting Council
International Underwriting Association (IUA)
Investec Asset Management
Involvement and Participation Association (IPA)
J Sainsbury
Jardine Lloyd Thompson Group
Jetram Partnership
Jupiter Asset Management
Just Eat
Kier Group
Kingfisher
Korn Ferry
KPMG
Land Securities
Legal & General
Legislative & Parliamentary Committee of the Association of Pensions Lawyers

Local Authority Pension Fund Forum
Local Pensions Partnership
London Stock Exchange Group
LSE Department of Management
Mace
Manchester United Supporters Trust
Manifest Information Services
Marks and Spencer
Marshalls
Maturity Institute
Mazars
Meggitt
Mercer
MM&K
Moore Stephens
MSCI ESG Research
National Employment Savings Trust (NEST)
National Grid
Nationwide Building Society
Nestor Advisors
New Bridge Street
NGA Human Resources
Northern Ireland Local Government Officers' Superannuation Committee
Odgers Berndtson
Oxfam
Partism Foundation
Pay Compare
Pension Investment Association of Canada (PIAC)
Pensions & Lifetime Savings Association (PLSA)
People Innovation
PIRC
PricewaterhouseCoopers (PwC)
Principles for Responsible Investment (PRI)
Prism Cosec
Proshare
Prospect
PRS for Music
Prudential
Purposeful Company
Radix
Recruitment & Employment Confederation (REC)
Relational Research
Relationship Capital Strategies

Renishaw
Royal Bank of Scotland (RBS)
Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA)
RPMI Railpen
Sage Group
Sarasin & Partners
Schroders Investmnt Management
Senior
Serco
Severn Trent
Share Plan Lawyers Group
ShareAction
ShareSoc
Shift Project
Shire
Siemens
SIFA Strategy
SJD Associates
Social Enterprise UK
Society for the Environment
Society of Motor Manufacturers & Traders (SMMT)
Sports Direct
Squire Patton Boggs
St James Place
St Paul's Institute
Standard Chartered
Standard Life and Standard Life Investments
State Street Global Advisors
Tate & Lyle
The B Team
The City of London Law Society
The City UK
The Doughty Centre, Cranfield School of Management
The Equality Trust
The Hundred Group
The Institute of Chartered Accountants in England and Wales (ICAEW)
The Institute of Chartered Accountants of Scotland (ICAS)
The Institute of Customer Service
The Investment Association
The Investor Forum
The Law Society of England and Wales
The Liberal Democrats
The Quoted Companies Alliance

The Royal Society for the Prevention of Accidents (RoSPA)
The Society for the Environment
The Society of Pension Professionals
The State Board of Administration of Florida
The Transparency Task Force
Thomas Cook Group UK
TLT
Tomorrow's Company
Trades Union Congress (TUC)
Traidcraft
Transport Salaried Staffs' Association (TSSA)
TSB
U.S. Chamber of Commerce - Center for Capital Markets Competitiveness
UK Crowdfunding Association (UKCFA)
UK Shareholders Association (UKSA)
UK Sustainable Investment and Finance Association (UKSIF)
UNICEF UK
UNITE
United Utilities Group
USS Investment Mangement
Virgin Money
W&R Barnett
W8 Remuneration Services
Wealth Management Association (WMA)
Which?
Wildlife and Countryside Link
William Grant & Sons Holdings
Willis Tower Watson
Wise Group
Wittington Investments
YBS Share Plans

The remaining responses were from individuals (including individual academics).

Annex B – Numerical analysis of responses to green paper questions by respondent type

		Business representative bodies	Individuals[1]	Investors (institutional and retail investor groups)	Listed companies	Privately-held businesses	Professional advisers – accountancy, law, others	Professional associations - ICAEW, ICSA etc.	Think-tanks and academic responses[2]	Trade unions and wider society bodies	Other	**Total**	*Response rate*[3]
Overall consultation responses		46	113	27	44	14	41	11	32	32	15	**375**	*n/a*
Breakdown of responses to key questions[4]													
Chapter 1 – Executive pay													
Do shareholders need stronger powers to improve their ability to hold companies to account on executive pay and performance?	Yes	16	53	15	4	3	9	2	9	9	4	**124**	*61% (227/375)*
	No	11	11	10	32	3	20	3	7	5	1	**103**	
Does more need to be done to encourage institutional and retail investors to make full use of their existing and any new voting powers	Yes	15	37	14	15	4	14	3	10	9	5	**126**	*46% (172/375)*
	No	10	5	7	10	0	8	0	4	2	0	**46**	

on pay?													
Do steps need to be taken to improve the effectiveness of remuneration committees, and their advisers?	Yes	16	48	19	8	3	22	8	17	12	7	**160**	*55%*
	No	8	4	3	19	2	9	0	0	0	0	**45**	*(205/375)*
Should a new pay ratio reporting requirement be introduced?	Yes	11	29	11	6	1	11	5	11	12	5	**102**	*51%*
	No	17	7	10	26	4	14	3	5	2	0	**88**	*(190/375)*
Should the existing, qualified requirements to disclose the performance targets that trigger annual bonus payments be strengthened?	Yes	11	12	16	7	2	11	4	5	8	4	**80**	*41%*
	No	12	8	6	22	2	14	2	4	3	0	**73**	*(153/375)*
Could long-term incentive plans be better aligned with the long-term interests of quoted companies and shareholders?	Yes	14	28	15	16	3	11	4	13	12	6	**122**	*40%*
	No	2	5	4	9	1	4	0	1	0	1	**27**	*(149/375)*
Chapter 2 – Stakeholder voices													
Should the stakeholder voice be strengthened at board level?[5]	Yes	25	60	18	22	7	23	8	23	20	4	**210**	*65%*
	No	6	8	3	9	1	4	0	0	1	1	**33**	*(243/375)*
Should this be taken forward via:													
a) A legislative approach?	Yes	9	21	0	3	1	8	3	13	14	6	**78**	*53%*
	No	21	17	16	21	7	15	5	9	6	2	**119**	*(197/375)*

b) A code-based approach?	Yes	15	9	12	17	4	18	6	14	7	5	**107**	38% (143/375)
	No	9	3	4	4	1	6	2	1	6	0	**36**	
c) Voluntary measures?	Yes	25	13	7	13	7	9	4	8	4	2	**92**	*39% (147/375)*
	No	4	5	8	3	0	8	3	8	12	4	**55**	
Chapter 3 – Large private companies													
Is there a case for strengthening the corporate governance framework for the UK's largest, privately-held businesses?	Yes	22	47	13	14	6	18	7	16	15	6	**164**	*51% (192/375)*
	No	6	6	4	1	4	6	0	1	0	0	**28**	
Should non-financial reporting requirements in the future be applied on the basis of a size threshold rather than based on the legal form of a business?	Yes	9	22	9	6	4	10	3	13	12	1	**89**	*27% (100/375)*
	No	3	0	2	0	3	2	1	0	0	0	**11**	
Chapter 4 – Other issues													
Is the current corporate governance framework in the UK providing the right combination of high standards and low burdens?	Yes	12	34	5	15	1	9	3	3	3	2	**87**	*37% (137/375)*
	No	6	17	3	1	0	4	1	7	9	2	**50**	

[1] For the purpose of this table, the "individuals" category includes responses from a number of individuals with business backgrounds. For example, responses that were received from business addresses, or from individuals who are directors in small companies, have been treated as individual responses unless the submission gave a clear indication that the views contained were company views rather than views held by the individual.

[2] Includes responses submitted by academic institutions and individual academics and experts on corporate governance and law.

[3] Due to the wide scope of the green paper many respondents focused on answering questions that were most relevant to them. The "response rate" shows how many respondents offered views on this specific question.

[4] Excludes "did not comment". For an indication of the number and share of respondents that commented on this question, please see the provided "response rate".

[5] The green paper did not ask this question in these terms, but focused on how the stakeholder voice could be strengthened, testing different policy options. Judgement has been applied in the analysis of responses to provide this breakdown.

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