

THE FUTURE OF GOVERNANCE

CORPORATE GOVERNANCE GREEN PAPER

Good evening

The Financial Reporting Council, as standard setter for corporate governance, and ICSA: The Governance Institute as the independent professional body for governance, will both have significant roles in helping to ensure that changes arising from the Government green paper are proportionate and, perhaps more importantly, effective. It is good to have Sir Win and a number of his colleagues here tonight.

At ICSA, we take very seriously our Royal Charter duty to lead 'effective governance'. Company secretaries have a key role in leading effective governance in their companies and advising their boards. Our investor members have a similarly key role in investor oversight of that work.

Our response to the green paper will be published on Friday, but there are just a few points that I would like to draw out tonight which we cover in more detail in that response.

Firstly, and most importantly, let us not forget that the UK corporate governance model is widely admired and often replicated around the world. It is important to focus on the good practice of the majority of companies, and to avoid using individual poor examples as a basis for change.

But, at the same time, we must not be complacent. There are certainly some areas where improvement should actively be sought; others where more time should be given to assess the effectiveness of legal and regulatory measures that have already been taken; and still others where we are not convinced that an adequate case has been made for change.

Some action needs to be taken about executive pay. But it is essential to be clear about the ill that we are seeking to cure, because not all of those who criticise 'high pay' are coming from the same viewpoint and the solution to the problem depends very much on what the problem is.

Is it that pay is disassociated from performance; that there is income inequality in our society; or that some people are simply paid too much?

Each of these concerns is a valid one for the government to address, but they are different and so the appropriate solution for each of them will also differ. There are a raft of legal and regulatory powers open to the Government and it is important that they pick the right ones to address the ill that they are seeking to resolve.

Executives of listed companies are not the only high income earners in our society but their pay is far more visible than that of those in equivalent positions in private companies or professional firms, to say nothing of entertainment or sports stars or those with income from inherited wealth.

Executive pay in UK companies has never been more regulated and only a small minority of companies are the target of shareholder anger. In our view the most effective policy

intervention would be one that addressed specific areas of abuse, rather than the market as a whole. And it would be sensible to evaluate the impact of the 2013 regulations before considering changes. A more appropriate time for a review of executive pay regulations would be this autumn, when the results of the 2017 AGM season and, therefore, the results of the 2013 reforms, can better be assessed.

Employees and other stakeholders are enormously important to companies, and the experience of our members is that many boards already take their interests into account.

However, the solution that works for one company may not work for others. We believe that guidance will therefore be more effective than any legislative or regulatory solution and are working with the Investment Association on a joint project to look at existing good practice and develop guidance in this area.

The governance of private companies is a complex issue because they range from those where the owners and directors are the same people to those where the directors are merely managers.

There have been some high-profile failures in private companies but there is little evidence of a problem in the majority of cases. So any new requirements must be proportionate.

There are two proposals on the table: that companies should comply with a corporate governance code and that they should report on their compliance. There are two problems with these. To whom do such companies report, and by whom is compliance with a code enforced?

Current compliance and reporting requirements are focussed on reporting by the users of capital to the providers of capital, and we believe that raising capital from the public should continue to be the main threshold for requiring that governance arrangements be reported.

But companies with significant impact on the society in which they operate have a responsibility as well – reporting to society on their compliance with corporate governance standards.

Finally, a word about the role of the company secretary.

As the qualifying body for governance professionals, including company secretaries, we believe a qualified and independent professional to be at the heart of good governance. We propose three changes to strengthen the effectiveness and independence of that role:

Larger private companies tend to have a company secretary, but there is no longer a statutory requirement for them to have one. There should be.

Secondly, to support the independence of the role, we believe that the remuneration of the company secretary should be the responsibility of the remuneration committee rather than any executive director.

Finally, we believe that the right to provide a statement of circumstances to shareholders, granted under the Companies Act to an auditor who ceases to hold office, should be extended to a company secretary.

Thank you for your attention – that concludes my maiden speech in the House of Lords. Now on to the star attraction of the evening. Ladies and gentlemen Chris Hodge.