

insight

These *insight* papers are intended to offer clear, focused perspectives developed in collaboration with our clients to clarify complex issues and support confident, strategic communication.

This paper outlines key changes and implications which will help ensure your corporate communications meet both regulatory requirements and strategic objectives.

This change is going to have a significant impact...

Best practice in annual reporting: *the 2024 Corporate Governance Code*

There's a lot going on in the annual reporting world at the moment, particularly in the Sustainability arena, with a perpetual proliferation of acronyms. This is being covered profusely, with various levels of excitement, by many commentators and advisers.

Rather less attention is being focused on the **2024 version of the Code**, which came into effect in January of this year and **will form the basis of reporting in all reports with years ending on or after 31 December 2025**, with the exception being the new Provision 29 around risk and internal control, which runs one year behind.

One element is going to impact across the whole of the narrative reporting milieu and has received passing mentions, if any. Most of the rest is tweaking or, to some extent, semantic, but the implications and the new language will need to be borne in mind when drafting the Corporate Governance narrative. The details are set out below, by section.

Significant impact

This change is going to have a significant impact throughout the whole narrative. It is in Principle C, so is apply and explain (not comply or explain).

The requirement is for directors to explain, and so justify, their decisions and associated outcomes and impacts with regard to the company's strategy and objectives.

Hopefully, Boards will have recognised the need for this and prepared accordingly, with Company Secretaries capturing the relevant detail. Otherwise, some careful thought and retrofitting might be in order before the reporting deadline arrives and things get hectic.

There is interaction here with the section 172(1) statement, but loading all this into that statement will make it massively unwieldy. It would make sense to do the main disclosure at the relevant point within the core narrative and cross-reference it from the s172(1) statement.

Board leadership and company purpose

Provision 2 has an additional requirement for the Board to explain not only how the culture has been assessed and monitored, but how the desired culture has been embedded.

Division of responsibilities

There is no specific change, although the reasons and explanations requirement may have an impact.

Composition, succession and evaluation

Principle J has had the list of attributes ('gender, social and ethnic backgrounds, cognitive and personal strengths') replaced with 'diversity, inclusion and equal opportunity'.

There is a minor addition of 'and any initiatives' after 'policy' on diversity and inclusion (omitting 'equal opportunity') in Provision 23.

Directors will have to explain the reasons behind their choice of sex, gender or both as there is no indication about how the 'gender'/'sex' tension will play out in the Code. Companies Act is 'sex', Code is 'gender'

Board 'evaluation' is now 'review' or 'performance review' in Provision 21, but remains 'evaluation' in the name of the section and the overarching Principle L.

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Requiring the Board to explain decisions and their outcomes...

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Audit, risk and internal control

Principle O makes the Board responsible not only for establishing but also for maintaining the effectiveness of the risk management and internal control framework. 'Framework' has replaced 'system' in this context.

The Audit Committee's responsibilities with regard to external audit have been condensed in Provision 25 and this is carried through into related annual reporting disclosures in Provision 26, which is similarly condensed.

The condensing is achieved by reference to the 2023 Audit Committees and the External Audit: Minimum Standard.

Provision 28 has been reworded, so Principal Risks should be described, with an explanation of their management or mitigation. Separately, emerging risks disclosure should cover how they are identified and managed (mitigated is not mentioned for emerging risks).

Risk management is the overall process, while risk mitigation is about taking actions to reduce the likelihood or impact of those risks. Consider 'management' as a governance process set out in ARIC and 'mitigation' in the Principal Risks and Uncertainties disclosure in the Strategic Report. This would help to remove the, often boilerplate, risk management content that frequently clutters the Strategic Report.

Provision 29 (applied in 12 months' time) has seen a modification and some significant additions. Early adoption is a possibility, otherwise run with the 2018 version.

Remuneration

Provision 37 is modified to include the specific term 'malus and clawback', with the addition of a new provision 38 requiring a description of malus and clawback provisions and their application and associated reasoning.

The rather odd 2018 Provision 40 has been deleted, with its associated reporting requirement in Provision 41. This was about principles for determining Remuneration Policy.

Conclusion

The 2024 Governance Code introduces challenges, mainly around risk and internal control, but also by explicitly requiring the Board to explain decisions and their outcomes in the context of the company's strategy and objectives. Effective narrative reporting is more important than ever. This paper aims to facilitate compliance and also transparent and persuasive communication with all stakeholders. By embedding effective practice into your reporting and drawing on our experience, we help you convert regulatory changes into opportunities for enhanced trust and engagement.

Author

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Neville has been deeply involved in corporate reporting for the past 36 years, working for some 148 organisations from all sectors, amounting to some 500 reports.

His specialist advisory work covers the development of structure and content, including writing and editing, through the lenses of effective practice, compliance and governance.