

Identify how a uk  
company could  
convince  
shareholders and the  
regulator that it h...

Law



Identify how a UK company could convince shareholders and the regulator that it had complied with the five main principles of the UK Corporate Governance Code.

The UK Corporate Governance Code was conceived and written by the Financial Reporting Council. The Code is part of a set of Listing Rules mandated by the Financial Services Authority of UK. The Code governs transparency and accountability standards for companies listed in the London Stock Exchange. In essence, the Code is a set of guidelines (not mandatory rules) aimed at achieving good corporate governance standards in the UK.

The first principle of the Code pertains to the role of non-executive directors in a company. It states that the appointments committee should be headed and managed by non-executive directors. More importantly, their neutrality and lack of vested bias should be illustrated their lack of previous/present personal/professional connections. By satisfactorily adhering to this principle, a UK company can convince shareholders and the regulator about its compliance with the Code.

The second main principle relates to executive remuneration. The growing discontent with the trend of exorbitant top-executive compensation has brought the issue to the notice of Financial Reporting Council. Consequently, the principle of ' performance related pay' is included in the Code, whereby the rules already stated in the Companies Act of 2006 will be enacted more effectively. The principle also suggests the ideal composition of the remuneration committee, where non-executive directors will play a major role, especially in ascertaining director remuneration.

<https://assignbuster.com/identify-how-a-uk-company-could-convince-shareholders-and-the-regulator-that-it-had-complied-with-the-five-main-principles-of-the-uk-corporate-governance-code/>

Another key principle set out in the Code is Accountability and Audit standards. It is suggested that only independent non-executive directors are appointed to the Audit Committee. This makes sense in the context of some major corporate scandals across the Atlantic, where conflict of interest for members of the audit committee can lead to disastrous consequences for shareholders.

The fourth main principle concerns the role played by institutional investors. The salience of this principle arises from the fact that the UK is a major financial hub in the world and ethical investment/trading practices are imperative to uphold the integrity of the system. Hence all companies (especially those in the financial sector) in the UK should comply with the guidelines given in the Code.

Finally, another key principle in the Code is regarding shareholder relations. Under this section, best practices and recommendations for maintaining a strong and honest relationship with shareholders are given. The principle has at its core the need for shareholders to be well informed about the financials, strategies, upcoming plans and projects of the company. Shareholders also have a right to know (and to question) executive remuneration policy of a company, as well as its Audit and Accounting policies. The release of the Annual Report in the public domain (most accessibly in the Internet) is one of the favourable outcomes of this aspect of the UK Corporate Governance Code.

In conclusion, a sincere approach to adhering to the Code will make the UK a safe and secure place for investors worldwide. It will also enable companies to achieve standardization in areas such as public disclosures, appointing

<https://assignbuster.com/identify-how-a-uk-company-could-convince-shareholders-and-the-regulator-that-it-had-complied-with-the-five-main-principles-of-the-uk-corporate-governance-code/>

board of directors, fixing executive compensations, following honest accounting/audit practices, etc.

Reference:

The UK Corporate Governance Code and associated guidance, Financial Reporting Council, retrieved from < [http://www. frc. org. uk/corporate/ukcgcode. cfm](http://www.frc.org.uk/corporate/ukcgcode.cfm) > on 14th January, 2012