

# Uk corporate governance law

Law



Harris Kamran Corporate Law Analysis 9 April UK Corporate Governance Law

The UK Corporate Governance Law is instituted to enhance the understanding and level of cooperation between the business board members and the shareholders, so that each may deliver their duties to the best interest of the company, and can openly and honestly share ideas and opinions (FRC 2010). The recent revisions made in the Law were required to ensure a greater application of the law, both in the letter and in the spirit, and a greater ease of flow of information between the shareholders and the board (FRC 2010: 2). It is the responsibility of the shareholders to elect the directors of the board, and it is the job of the directors to draft a working plan and company policy for the business, and see through the execution of that plan (FRC 2010: 1). At the end of each financial year, the directors are required to write an annual report in which they are to explain to the shareholders exactly how the governance law was incorporated into their business plan (FRC 2010: 1). The ultimate concept is transparency and fair dealing. It is better that the chairman write this section of the report so that a first-hand knowledge about the law could be supplied to the shareholders (FRC 2010: 3). The report should include detailed account of the manner in which the law was incorporated into the business, and if some of the provisions were not, then it should mention which provisions were those, whether they were continuous or discontinuous, and the reason for non-compliance of the provisions, according to the comply or explain rule (FRC 2010: 30). To make the pertinent information more detailed, the report should include a descriptive analysis of the framework of the board, and the procedure for its working. To start with, it should include the names of the chairman and the deputy chairman, the executive director and the senior

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independent director, and the chairmen and members of the various committees of the board (FRC 2010: 31). It should also record the attendance of the individual directors in all the meetings, and the total number of meetings that the board has had in that year (FRC 2010: 31). In case the independent director is non-executive, it should explain the reason for it (FRC 2010: 31). The report should also highlight the responsibilities of the board and those of the management of the company, and should make a clear demarcation between the two (FRC 2010: 31). The election or nomination of the various directors and chairmen by the committee should be explained in a separate section (FRC 2010: 31). The process for evaluation of this nomination and the candidates should be given in the report (FRC 2010: 31). Personal statements of the directors about their job of writing the accounts and the auditors about their reporting of those accounts should be included (FRC 2010: 31). The directors should then explain the business strategy that they adopted to reach the company objectives in that fiscal year (FRC 2010: 31). They should also include the company's fall-back plan, its risk management and internal control systems (FRC 2010: 32). A separate section should deal with the working of the auditors, explaining their procedure and the reasons for it (FRC 2010: 32). In case an internal auditing service is absent and an external auditor is recruited, the reason should be explained and details should be given (FRC 2010: 32). Also, if there is a disparity between the board and the auditors about the decision regarding an external auditor, it should be mentioned, along with the reasons for such a difference of stance (FRC 2010: 32). There should be mention of remunerations, and the method by which the role of shareholders in the company is explained to the directors for a greater understanding

(FRC 2010: 32). The board should explain to the shareholders, either in the report or separately by setting up a company website, the different roles and responsibilities of the remuneration, nomination, and auditing committees, and their references; the grounds for the nomination and selection of the various directors; the evaluation process, and the grounds for selection of the external evaluator, and his connection with the company; and when a remuneration consultant is recruited, the reasons for such service, and the connection between the company and the consultant (FRC 2010: 32). When the shareholders have to elect or re-elect non-executive directors, the board should provide them with detailed biographical information about each candidate, the reasons for nomination by the board, and the evaluation of service of the candidate to the company, so that the shareholders can make an informed decision (FRC 2010: 33). This flow of information between the board and the shareholders should be maintained so that there is transparency in the business, to the best interest of the company.

Bibliography FRC. June 2010. The UK Corporate Governance Code. [Online]. FRC. Available: <http://www.frc.org.uk/corporate/ukcgcode.cfm>. [9 April 2012].