

Requirements of the UK Combined Code on Corporate Governance

Checklist Description

This checklist explains the meaning of the Combined Code and its requirements.

Definition

All companies incorporated in the United Kingdom that are listed on the main market of the London Stock Exchange must comply with the Listing Rules, which require them to account for the application of the Combined Code. The Combined Code was first issued in 1998 and has been updated regularly, the most recent update being in June 2008.

The Code establishes main and specific principles of corporate governance, dealing with four broad areas: directors and the board; remuneration of directors; accountability and audit; and the relationship with shareholders. Each area of the code establishes principles and guidelines for the companies that come under its rule.

According to the Code, a company's board of directors is responsible for its success. The board's role is to put in place effective controls that will identify and manage the risks for the business. The decisions made must be objective and in the best interests of the company's business. The Code distinguishes between executive directors, who are involved in the day-to-day running of the company, and nonexecutive directors. Nonexecutive directors should decide the level of remuneration of executive directors.

The Code requires a clear division of responsibilities between the chairman, who is in charge of the board, and the chief executive of a company, whose main preoccupation should be running the business. These two roles cannot be fulfilled by the same person. The Code also deals with the procedure for the appointment of the board, the requirement to improve their skills, their reelection, and their evaluation. The directors should have a level of remuneration that is sufficient to attract, retain, and motivate them.

The Code also establishes the financial reporting principle, under which the board must present a balanced and understandable assessment of the company's financial position and its prospects. The board must also maintain a sound internal control that will protect the company's assets and shareholders' investments. The board must appoint an auditing committee and maintain an appropriate relationship with the company's auditors. The board must also maintain dialog with shareholders of the company.

Advantages

- The Code gives shareholders confidence that a company is well run and that there is transparency in the way the board makes its decisions.
- It establishes what is known as the "comply or explain" attitude. Companies that come under its rule must comply with, or explain why they have not complied with, its principles and requirements.

Disadvantages

- The need to comply with numerous corporate governance requirements is expensive and can deflect directors from their main priority, which is running the business in the best interests of the shareholders.
- Some maintain that too much supervision could bring a lack of independence to the way a company runs its business.

Action Checklist

- Be well informed when it comes to the Combined Code and its contents.
- Be prepared to put in place a thorough system that guarantees that each one of the principles of the Code is understood and complied with. If not, be prepared to explain why compliance is not necessary.

Dos and Don'ts

Do

- Obtain advice from your legal advisers and accountants to find out and understand the best system to put in place and the consequences of any breach of the Code.

Don't

- Don't ignore compliance with the rules of corporate governance. The consequences could not only be financial penalties for the company but also criminal charges for the directors.
- Don't overlook the importance of setting up proper procedures to deal with the consequences of a breach.

More Info

Report:

- Financial Reporting Council. "The UK corporate governance code." June 2010. Online at: www.frc.org.uk/corporate/ukcgcode.cfm

Websites:

- Financial Reporting Council (FRC; UK): www.frc.org.uk
- Financial Services Authority (FSA; UK): www.fsa.gov.uk
- Institute of Chartered Accountants in England and Wales: www.icaew.com
- Institute of Chartered Accountants in Scotland: www.icas.org.uk

See Also

Best Practice

- [The "Comply or Explain" Approach to Improving Standards of Corporate Governance](#)

Checklists

- [Corporate Governance and Its Interpretations](#)
- [Corporate Governance Practices in Private Equity-Owned Firms](#)
- [Internal Control Frameworks: COSO, CoCo, and the UK Corporate Governance Code](#)
- [Sarbanes–Oxley: Its Development and Aims](#)

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