New reporting requirements

2018 Corporate governance reforms
KPMG Board Leadership Centre

In response to the 2016 Green Paper Corporate governance reform, Statutory Instrument The Companies (Miscellaneous Reporting) Regulations 2018 has been laid before Parliament with a view to requiring disclosure of executive pay ratios; a statement on how companies have engaged with employees and other stakeholders under section 172(1) of the Companies Act 2006; and a requirement for private companies to explain their governance arrangements.

Subject to Parliamentary approval, the new regulation will - where certain qualifying conditions are met - require companies to include new content in their annual reports for periods beginning on or after 1 January 2019.

To help companies and interested stakeholders understand how they will be affected by the new corporate governance reporting requirements, the Department for Business, Energy and Industrial Strategy have published The Companies (Miscellaneous Reporting) Regulations 2018 Q&A.

Executive pay – pay ratio reporting

Quoted companies with more than 250 UK employees will be required to publish, as part of their directors’ remuneration report, the ratio of their CEO’s total remuneration to the median (50th), 25th and 75th percentile full-time equivalent (FTE) remuneration of their UK employees.

Alongside this, companies will have to publish supporting information, including the reasons for changes to the ratios from year to year and, in the case of the median ratio, whether, and if so how, the company believes this ratio is consistent with the company’s wider policies on employee pay, reward and progression.

Furthermore, all quoted companies will be required to illustrate, in the directors’ remuneration policy within their directors’ remuneration report, the effect of future share price increases on executive pay outcomes.

Companies will also be required to include a summary in their directors’ remuneration report of any discretion that has been exercised on executive remuneration outcomes reported that year in respect of share price appreciation or depreciation during the relevant performance periods.

Reporting on matters in section 172(1) of the Companies Act 2006

Large companies will be required to include a statement as part of their strategic report describing how the directors have had regard to the matters in section 172(1)(a) to (f) of the Companies Act 2006.

Section 172(1) of the Companies Act 2006

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term,
(b) the interests of the company’s employees,
(c) the need to foster the company’s business relationships with suppliers, customers and others,
(d) the impact of the company’s operations on the community and the environment,
(e) the desirability of the company maintaining a reputation for high standards of business conduct, and
(f) the need to act fairly as between members of the company.
In addition, large companies will also be required to include a statement as part of their directors’ report summarising how the directors have had regard to the need to foster the company’s business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

For the purposes of this part of the regulations, large companies are those companies already required to produce a strategic report except those qualifying as medium-sized in relation to a financial year. In other words, companies meeting two out of three of the following:

— Turnover of more than £36 million;
— Balance sheet total of more than £18 million;
— More than 250 employees

Lastly, companies with more than 250 UK employees will be required to include a statement as part of their directors’ report summarising how the directors have engaged with employees, how they have had regard to employee interests and the effect of that regard, including on the principal decisions taken by the company in the financial year.

**Reporting on corporate governance in large private and unlisted public companies**

Very large private and public unlisted companies will be required to include a statement as part of their directors’ report stating which, if any, corporate governance code the company applies, and how the company applies that corporate governance code.

If the directors decide not to apply an existing code or framework they must explain their reasons for not doing so and explain what corporate governance arrangements they have in place for that financial year. This statement must be published on a website maintained by or on behalf of the company.

For the purposes of this requirement the word ‘code’ should be interpreted broadly to include a framework, set of principles or code. With this in mind, the final approved *Wates Corporate Governance Principles for Large Private Companies* (see separate Board Leadership Centre publication) will assist companies in fulfilling this new requirement by promoting best practice corporate governance within large private UK companies.

The new disclosure requirement will apply to UK companies required to publish a directors’ report, with 2,000 or more employees globally. If companies do not meet this employee threshold, but do have a turnover of more than £200 million and a balance sheet of over £2 billion, they will also be within scope of the new requirement.

Subsidiaries of listed companies which meet the above thresholds will be within the scope of the new requirements.

**Contact us**

**Timothy Copnell**
Board Leadership Centre
T: +44 (0)20 7694 8082
E: tim.copnell@kpmg.co.uk
www.kpmg.com/uk/blc

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