



Reporting on the Wates Principles

KPMG Board Leadership Centre



Sir James Wates, Chairman of the Coalition group which introduced the Wates Principles for large private companies has issued an [article](#) through the FRC's website which provides some insight into reporting against the Principles. The article cites a number of companies that have embraced the spirit of the Principles and provided meaningful insights into their governance practices. During 2021, the FRC will be overseeing research with the intention of providing a more complete evidence base and promoting good practice reporting.

Sir James reports that he has been pleased to see that the [Wates Principles](#) have been well received and he welcomes the [critical attention](#) that has been paid recently to corporate governance reporting, which has helpfully emphasised the need for reporting to move beyond a tick-box approach and to use the annual Directors Report to showcase the positive steps companies have taken to improve their own governance.

He notes that while most of this attention has been focused on the UK Corporate Governance Code, there are useful lessons that can be applied to corporate governance reporting by large private companies, in particular those who have committed to applying the Wates Principles.

Grasping the spirit

Many companies have clearly sought to grasp the spirit of the Principles and have provided good explanations of how their governance arrangements work. Sir James highlights [Allianz Holdings \(UK\)](#), [Heathrow](#), [Jaguar Land Rover](#), and Tata Steel, as companies providing some rigorous analyses of how the Wates Principles are applied.

He specifically refers to Heathrow's useful one-page overview which shows how elements of their corporate governance specifically correspond to the Wates Principles and notes that it provides a helpful snapshot, with cross-referencing to other information provided in their 20+ page Corporate Governance section.

Other companies also use cross-referencing to other parts of their Annual Report for further detail, thus helping to keep their Wates Principles reporting concise and pitched at the right level of detail.

Self-improvement

Reflecting on how the Wates Principles should be seen as a guide for self-improvement, Sir James praises Tata Steel for explicitly describing how applying the Wates Principles led it to reconsidering its Remuneration Committee terms of reference, reflecting that it is applying the principles for self-improvement. [Thame and London](#) (Travelodge) also said they would be reviewing their governance arrangements using the Wates Principles as a guide.

Wholly-owned subsidiaries

Sir James singled out two wholly-owned subsidiaries – [Northern Bank](#) and [Mercer UK](#) – for not just referring to their holding company governance standards, but instead applying the Wates Principles and commenting specifically on how they apply to the subsidiary.

He also notes some good examples of companies that provide illustrative examples of issues that their boards are grappling with. Specifically, [Chanel](#), [Edrington Group](#), and Jaguar Land Rover – with the latter being noteworthy for its effective use of graphs and charts which add helpful detail to the narrative.

Balancing tensions

As with those reporting against the UK Corporate Governance Code, companies reporting against the Wates Principles face a significant challenge in deciding the right quantity of material to report. There is a tension between the need to provide enough evidence to assure readers that governance is taken seriously, while at the same time reporting in a proportionate manner (keeping the report short and easy to read) in line with the spirit of the Wates Principles.

Some disappointments

Sir James notes that the reporting against the Wates Principles is not so different from reporting against the new UK Corporate Governance Code and refers to “some unfortunate examples of a clearly minimalist approach – e.g., a one sentence response to Risk and Opportunity – which evokes a sense of box-ticking and does not inspire confidence.”

He goes on to say that “there is often a sense from reports that the companies do not fully embed *Purpose* in their organisation. Generally, companies do state what their purpose is, but their reporting lacks a sense of authenticity, sounding more like marketing material than an account of company governance. The reports also often fail to provide specific examples of how the purpose has actually guided Board-level discussions and decisions.”

Going forward

Sir James is optimistic that as companies become more comfortable with the process of applying the Wates Principles – not just at year end, but throughout all board meetings – there will be an improvement in the quality of reporting.

Going forward, the FRC and Coalition Group will be working together on a research project that will provide a much deeper and more detailed evidence base.

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Contact us

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



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