Guernsey Boards should take note of recent updates to UK corporate governance codes

Insights - 09/10/2018

Boards of directors of Guernsey companies whose shares are quoted or listed on any of the London Stock Exchange's (**LSE**) London markets are urged to consider how the recent changes to UK corporate governance rules may potentially affect them.

Of particular interest to Guernsey boards will be:

- the new UK Corporate Governance Code (**Code**) issued by the Financial Reporting Council on 16 July 2018;
- the new QCA Corporate Governance Code (**QCA Code**) issued by the Quoted Companies Alliance (**QCA**) on 25 April 2018; and
- new AIM Rule 26.

The Code is applicable to all companies with a premium listing, whether incorporated in the UK or elsewhere, such as Guernsey. However, externally managed Guernsey investment companies, which may find particular certain Code principles not relevant (for example, provisions relating to the role of the chief executive; executive directors' remuneration; and the need for an internal audit function), can continue to use the Association of Investment Companies' Corporate Governance Code (Guernsey edition) (**AIC Code**) to meet their obligations under the Code. Guernsey investment companies which report against the AIC Code are not required to report separately against the Finance Sector Code of Corporate Governance (**Guernsey Code**) issued by the Guernsey Financial Services Commission. The AIC are currently working on aligning the AIC Code with the new Code.

Changes to the Code include:

- a shorter Code, with separate guidance notes and a renewed focus on the application of the Code principles;

- a new requirement for boards to establish the company's purpose, values and strategy and satisfy itself that these and its culture are aligned;
- a requirement for boards to undertake succession planning;
- a requirement that the chair's term should be limited to nine years from the date of joining the board as a director;
- a new provision to enable greater board engagement with the workforce to understand their views;
- a requirement for boards to describe how they have considered the interests of stakeholders when performing their duty as directors;
- an emphasis on the importance of external board evaluation for all companies;
- an emphasis that remuneration committees should take into account workforce remuneration and related policies when setting director remuneration;
- the requirement that at least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent is now extended to all companies, not just those companies in the FTSE 350.

It remains to be seen what impact the changes to the Code will have generally on boards' approaches to corporate governance and in what capacity this will be felt by Guernsey investment companies which report against the AIC Code. Boards to which the Code applies will need to be prepared for reporting with respect to accounting periods from 1 January 2019.

Separately, a revised version of the QCA Code, which is tailored for small and mid-size quoted companies in the UK, was issued on 25 April 2018. The new QCA Code includes 10 corporate governance principles that companies should follow, together with step-by-step guidance on how to apply these principles effectively. Boards are required to explain how they comply with these principles in their annual report or on the company website.

For Guernsey companies quoted on AIM, new AIM Rules came into effect on 30 March 2018. All new applicants to AIM from 30 March 2018 are now required under AIM Rule 26 to apply a recognised corporate governance code (such as the Code or the QCA Code) and explain on the company's website how they do so. If no code has been adopted this should be stated together with the company's current corporate governance arrangements. The new corporate governance requirements in AIM Rule 26 for existing AIM companies will take effect from 28 September 2018 in order to provide AIM companies and nominated advisers with adequate time to prepare for the change. In addition, under new AIM Rule 26, AIM companies will also need to review their corporate governance disclosures annually and the company’s website should include the date on which its adherence to the code was last reviewed and, in conjunction with this review, update its AIM Rule 26 disclosures as necessary.

Guernsey boards are therefore urged to review their existing corporate governance arrangements, determine which code is applicable to their companies and if they are ready for the changes – particularly on the key areas of chair appointments, succession planning (including board diversity and skills sets) and remuneration decisions. If you are unclear as to what action you should be taking and require further guidance, please contact the Ogier team who will be delighted to assist.

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