

Corporate governance reform - new disclosures required in annual reports

June 2018

The government has published draft [secondary legislation](#) which will implement certain of its proposed corporate governance reforms. Subject to Parliamentary approval, the reforms will apply to financial years beginning on or after 1 January 2019. Companies within scope of the reforms (see the next page) will have to include additional disclosures in their annual reports relating to that and subsequent periods. Below is a summary of the key requirements.

S172 statement: large companies which are required to produce a strategic report will need to include a separately identifiable statement explaining how directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 when performing their duty to promote the success of the company under section 172.

Employee engagement statement: companies with over 250 UK employees will need to include a statement in their directors' report summarising how the directors have engaged with employees and had regard to their interests and the effect of doing so, including on principal decisions taken by the company.

Wider engagement statement: large companies will need to include a statement in 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 doing so, including on principal decisions taken by the company.

CG arrangements statement: very large private companies and public companies which are not already obliged to make a corporate governance statement under the DTRs, will need to report on their corporate governance

arrangements, including which formal code, if any, that they apply and how. A [consultation](#) on a set of corporate governance principles for large private companies has recently been published. Once finalised, companies can voluntarily adopt these principles as part of their corporate governance framework.

Pay ratio report: quoted companies with more than 250 UK employees will have to report on the ratio of CEO pay to median (50th), 25th and 75th percentile remuneration of UK employees (using one of three options for identifying relevant employees) and disclose supporting information and explanations, including any reasons for changes in relation to the previous year. There is some flexibility in the methodology used for calculating pay ratios.

Executive pay share price reporting: quoted companies will have to make additional disclosures in their remuneration report, including disclosures related to the effect of future share price increases on executive pay and how much of a director's total remuneration is attributable to share price growth.

BEIS has published an accompanying [Q&A](#) document, which provides detailed guidance on the new requirements and the types of disclosures that will be expected. It also includes worked examples and further information on the application of the rules to groups of companies. The FRC has also agreed to include guidance on relevant requirements in their updated guidance on the strategic report due to be published later this year.

The table on the next page sets out which companies are within scope of the proposed new requirements.

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	Unquoted				Quoted ¹		
	Medium+	Large <250	Large 250+	XL	Medium+	Large <250	Large 250+
S172(1) statement in strategic report		✓	✓	✓ ²		✓	✓
S172(1) statement on website		✓	✓	✓			
Employee engagement statement	✓		✓	✓ ³	✓		✓
Wider engagement statement		✓	✓	✓ ²		✓	✓
CG arrangements statement				✓			
CG arrangements statement on website				✓			
Pay ratio report					✓		✓
Executive pay share price reporting					✓	✓	✓

Key

Unquoted	A company which is not quoted including other public companies and private companies
Quoted	UK incorporated companies who are quoted on the UK Official List, the New York Stock Exchange, NASDAQ or a recognised stock exchange in the EEA. It does not include companies listed on AIM
Medium+	A company which must produce a strategic report and is not a Large company but which has more than 250 UK employees (in its group where it is a parent company)
Large	A company which satisfies two of the following three criteria: <ul style="list-style-type: none"> • turnover - more than £36 million; • balance sheet total - more than £18 million; • employees - more than 250
XL	A company not required to provide a corporate governance statement under DTR 7.2 and having: <ul style="list-style-type: none"> • more than 2,000 employees; and/or • a turnover of more than £200m and a balance sheet total of more than £2bn
Large 250+	A Large company which has more than 250 UK employees (in its group where it is a parent company)
Large <250	A Large company which has less than 250 UK employees (in its group where it is a parent company)

¹ Quoted companies which are XL will have to comply with the CG arrangements statement obligation (i.e. where they meet the size threshold and are not currently required to produce a corporate governance statement under DTR 7.2)

² XL companies will only have to comply with this requirement if they are also Large

³ XL companies will only have to comply with this requirement if they have more than 250 UK employees (in their group where they are a parent company)