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# Long-awaited final Wates Corporate Governance Principles for Large Private Companies

Earlier this week, the FRC published the final [Wates Corporate Governance Principles for Large Private Companies](#) (the "**Principles**"), which provide a framework for large private companies to comply with their new corporate governance reporting requirements under [The Companies \(Miscellaneous Reporting\) Regulations 2018](#) (the "**Regulations**"). The new requirements apply in relation to financial years beginning on or after 1 January 2019, and BEIS stated in its recently updated FAQs on the Regulations that it expects the Principles to be widely adopted. For background information on the Regulations please see our [client note](#) and [table](#) summarising the scope of the Regulations.

The Principles have been published by the FRC on behalf of a coalition group chaired by James Wates CBE. The Principles are in substantially the same format as the draft published in June; however, the supporting guidance has been changed and expanded in response to feedback, as described below. As the Regulations, which require large companies to include in their strategic report a "statement of corporate governance arrangements", apply for financial periods starting on or after 1 January 2019, the first reporting will be seen in 2020.

## **WHICH COMPANIES ARE CAUGHT?**

The Principles are intended to provide large private companies with a framework for complying with the new requirement for a corporate governance statement, as well as promoting long-term success. "Large" refers to the threshold set out in the Regulations, namely companies with (i) more than 2,000 employees; and/or (ii) a turnover of more than £200 million and a balance sheet of more than £2 billion. More generally, the Principles can be seen as a tool for large companies to consider their approach to corporate governance, and a structure for helping private companies of all sizes adopt good practices in corporate governance and achieve long-term success.

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## HOW DO THE PRINCIPLES APPLY?

The Principles aim to provide a high-level approach to good corporate governance, while allowing sufficient flexibility for companies to explain the application and relevance of their corporate governance arrangements. A company which adopts the Principles should follow them on an "apply and explain" basis. The Regulations require companies in scope to state:

- which corporate governance code the company has applied;
- how the company applied the code; and
- if the company departed from the code, the respects in which it did so and its reasons for doing so.

The FRC suggests that boards should apply each Principle by considering it in the context of the company's specific circumstances, and explain how they have addressed the Principles in their governance practices. Companies should provide a supporting statement that gives an understanding of how their corporate governance policies and processes operate to achieve the desired outcome for each Principle. Where appropriate, the statement can cross-refer to information reported under other legislation, for example, information on employee, customer and supplier issues in the company's strategic report.

Companies which adopt the Principles will have to demonstrate, through a written explanation in the directors' report and on their website, how the application of the Principles has resulted in improved corporate governance outcomes during the reporting period. The FRC has decided against a reporting template, as it feels this would lead to a "tick box" approach.

## WHAT ARE THE PRINCIPLES?

There are six broad Principles, as follows, with supporting non-exhaustive guidance in relation to each Principle:

- **Principle One - Purpose and Leadership:** An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.
- **Principle Two - Board Composition:** Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.
- **Principle Three - Director Responsibilities:** A board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.
- **Principle Four - Opportunity and Risk:** A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.
- **Principle Five - Remuneration:** A board should promote executive remuneration structures aligned to the sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company.
- **Principle Six - Stakeholder Relationships and Engagement:** Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

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The additions that have been made since the draft Principles were published include the following:

- The Introduction now clarifies the relationship between the Principles and the Regulations and contains extracts from the Regulations and from section 172 of the Companies Act 2006.
- The FRC confirms that nothing in the Principles overrides, or is intended as an interpretation of, directors' duties as set out in the Companies Act 2006.
- In the guidance supporting Principle 2 (Board Composition), the FRC now states that companies should consider separating the roles of the chair and chief executive.
- The guidance supporting Principle 4 (Opportunity and Risk) now includes a section on developing risk management systems to support informed decisions relating to environmental, social and governance matters (such as climate change, workforce relationships, supply chains and ethical considerations).
- The revised guidance supporting Principle 5 (Stakeholder Relationships and Engagement") includes a section on "workforce engagement" and references to the [FRC's Guidance on Strategic Report](#).

## FOR FURTHER INFORMATION, PLEASE CONTACT

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