Following the global banking crisis, Lord Adair Turner, Chairman of the FSA, was asked by the Chancellor of the Exchequer to carry out a review and make recommendations for reforming UK and international approaches to the way banks are regulated. The Turner Review was published in the spring of 2009. Issues highlighted include remuneration policies designed to avoid incentives for undue risk-taking; whether changes in governance structure are needed to increase the independence of risk management functions; and consideration of the skill and time commitment required for non-executive directors of large complex banks to effectively perform their role.

In 2010 the UK government decided that it would be appropriate for the FSA to undergo some internal restructuring. The FSA has therefore been streamlining its operations in the wake of the financial crisis so that it can perform more effective regulation of banks and the financial markets. The changes include combining the retail and wholesale supervision units into a single division and creating standalone risk and international units.

Financial Reporting Council (FRC)

The FRC used to have six operating bodies: the Accounting Standards Board (ASB), the APB, the Board for Actuarial Standards (BAS), the Professional Oversight Board, the Financial Reporting Review Panel (FRRP), and the Accountancy and Actuarial Discipline Board (AADB).

The importance placed on corporate governance was evidenced by the fact that, in March 2004, the FRC set up a new committee to lead its work on corporate governance.

Overall, the FRC is responsible for promoting high standards of corporate governance. It aims to do so by:

- maintaining an effective UK Corporate Governance Code and promoting its widespread application;
- ensuring that related guidance, such as that on internal control, is current and relevant;
- influencing EU and global corporate governance developments;
- helping to promote boardroom professionalism and diversity;
- encouraging constructive interaction between company boards and institutional shareholders.

The FRC has carried out several consultative reviews of the Combined Code which led to the amended Combined Code in 2006 and 2008; whilst the review in 2009 culminated in the issue of the UK Corporate Governance Code in 2010. Subsequent reviews took place in 2011, 2012, and 2014. The frequency of the reviews is both an indicator of the FRC's responsibility for corporate governance of UK companies, which involves leading public debate in the area, and its response to the global financial crisis, which has, in turn, affected confidence in aspects of corporate governance.

In 2012, the structure of the FRC was reformed. The FRC Board is now supported by three committees: the Codes and Standards Committee, the Conduct Committee, and the Executive Committee. The Codes and Standards Committee will advise the FRC Board on matters relating to codes, standard-setting, and policy questions, through its Accounting, Actuarial, and Audit & Assurance Councils. The Conduct Committee will advise the FRC Board in matters relating to conduct activities to promote high-quality corporate reporting, including

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monitoring, oversight, investigative, and disciplinary functions, through its Monitoring Committee and Case Management Committee. The Executive Committee will support the Board by advising on strategic issues and providing day-to-day oversight of the work of the FRC.

'External' influences

The report of the EU High-Level Group of Company Law Experts had implications for company law across Europe, including the UK, and, together with other pronouncements such as the *High-Level Group on Financial Supervision in the EU* (2009), the Green Paper on Corporate Governance in Europe (2011), and the EU Action Plan on European Company Law and Corporate Governance will be discussed in more detail later in the context of an international development. The impact of legislation in the USA, including the Sarbanes-Oxley Act (2002), has also made its influence felt in the UK, and is also discussed in detail later.

Influential corporate governance codes

Corporate governance codes and guidelines for various countries around the world will be looked at in more detail in some of the later chapters, whilst in this chapter codes and guidelines that have had a fundamental influence on the development of corporate governance more generally will be examined. It is always slightly contentious to try to state which corporate governance codes have had the most influence on the development of corporate governance codes in other countries, but the following codes and principles have undoubtedly had a key impact on the development of corporate governance globally.

Cadbury Report (1992)

The Cadbury Report recommended a Code of Best Practice with which the boards of all listed companies registered in the UK should comply, and utilized a 'comply or explain' mechanism. Whilst the Code of Best Practice is aimed at the directors of listed companies registered in the UK, the Committee also exhorted other companies to try to meet its requirements. The main recommendations of the Code are shown in Box 2.1.

The recommendations—covering the operation of the main board, the establishment, composition, and operation of key board committees; the importance of, and contribution that can be made by, non-executive directors; and the reporting and control mechanisms of a business—had a fundamental impact on the development of corporate governance not just in the UK, but on the content of codes across the world, amongst countries as diverse as India and Russia.

Today the recommendations of the Cadbury Report and subsequent UK reports on corporate governance are embodied in the UK Corporate Governance Code. Various sections of the Code are referred to in appropriate chapters and the full text of the UK Corporate Governance Code (2014) is available for download from the FRC website at:

https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf

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Box 2.1 The Code of Best Practice

1. The Board of Directors

1.1 The board should meet regularly, retain full and effective control over the company, and monitor the executive management.

1.2 There should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognized senior member.

1.3 The board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the board's decisions.

1.4 The board should have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the company is firmly in its hands.

1.5 There should be an agreed procedure for directors in the furtherance of their duties to take independent professional advice if necessary, at the company's expense.

1.6 All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of the company secretary should be a matter for the board as a whole.

2. Non-executive Directors

2.1 Non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.

2.2 The majority should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement, apart from their fees and shareholding. Their fees should reflect the time which they commit to the company.

2.3 Non-executive directors should be appointed for specified terms and reappointment should not be automatic.

2.4 Non-executive directors should be selected through a formal process and both this process and their appointment should be a matter for the board as a whole.

3. Executive Directors

3.1 Directors' service contracts should not exceed three years without shareholders' approval.

3.2 There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest paid UK director, including pension contributions and stock options. Separate figures should be given for salary and performance-related elements and the basis on which performance is measured should be explained.

3.3 Executive directors' pay should be subject to the recommendations of a remuneration committee made up wholly or mainly of non-executive directors.

4. Reporting and Controls

4.1 It is the board's duty to present a balanced and understandable assessment of the company's position.

4.2 The board should ensure that an objective and professional relationship is maintained with the auditors.

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4.3 The board should establish an audit committee of at least three non-executive directors with written terms of reference which deal clearly with its authority and duties.

4.4 The directors should explain their responsibility for preparing the accounts next to a statement by the auditors about their reporting responsibilities.

4.5 The directors should report on the effectiveness of the company's system of internal control.

4.6 The directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.

Source: Cadbury Code (1992).

OECD *Principles of Corporate Governance* (1999) as revised (2004)

The OECD published its *Principles of Corporate Governance* in 1999, following a request from the OECD Council to develop corporate governance standards and guidelines. Prior to producing the Principles, the OECD consulted the national governments of member states, the private sector, and various international organizations, including the World Bank.

The OECD recognizes that 'one size does not fit all', that is, that there is no single model of corporate governance that is applicable to all countries. However, the Principles represent certain common characteristics that are fundamental to good corporate governance. The OECD Principles were reviewed and revised in 2004. The revised Principles are shown in Box 2.2.

The OECD Principles focus on publicly traded companies but, as in the Cadbury Report, there is an encouragement for other business forms, such as privately held or state-owned enterprises, to utilize the Principles to improve corporate governance.

The OECD Principles are non-binding but, nonetheless, their value as key elements of good corporate governance has been recognized and they have been incorporated into codes in many different countries. For example, the Committee on Corporate Governance in Greece produced its *Principles on Corporate Governance in Greece* in 1999, which reflected the OECD Principles, whilst the China Securities Regulatory Commission published its *Code of Corporate Governance for Listed Companies in China* in 2001, which also drew substantially on the OECD Principles.

In 2006 the OECD published its *Methodology for Assessing Implementation of the OECD Principles of Corporate Governance*. This was followed in 2008 by the publication *Using the OECD Principles of Corporate Governance: A Boardroom Perspective* which gives guidance on how the principles have been put into practice in different companies using real life examples.

In 2009 the OECD launched an action plan to address weaknesses in corporate governance related to the financial crisis with the aim of developing a set of recommendations for improving board practices, risk management, governance of the remuneration process, and the exercise of shareholder rights. In 2010 *Corporate Governance and the Financial Crisis: Conclusions and Emerging Good Practices to Enhance Implementation of the Principles* was published. The OECD's Corporate Governance Committee noted that the ability of the board to effectively oversee executive remuneration—including both the amount and also the way in which remuneration is aligned with the company's longer term interests—appears to be a

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key challenge in practice and remains one of the central elements of the corporate governance debate in a number of countries. The OECD underlines the importance of boards being able to treat remuneration and risk alignment as an iterative process, recognizing the links between the two, and disclosing in a remuneration report the specific mechanisms that link compensation to the longer term interests of the company. The capacity of a firm's governance structure to produce such a balanced incentive system is critical and therefore ways to enhance governance structures have received more emphasis recently including the role of independent non-executive directors and the 'say on pay', whereby shareholders may have either a binding or non-binding vote on executive pay.

Subsequently, in 2011 the OECD published *Board Practices, Incentives and Governing Risks* in which it looked at how effectively boards manage to align executive and board remuneration with the longer term interests of their companies as this was one of the key failures highlighted by the financial crisis. The OECD highlights that 'aligning incentives seems to be far more problematic in companies and jurisdictions with a dispersed shareholding structure since, where dominant or controlling shareholders exist, they seem to act as a moderating force on remuneration outcomes'.

Box 2.2 OECD *Principles of Corporate Governance* (2004)

Principle	Narrative
I. Ensuring the basis for an effective corporate governance framework	The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law, and clearly articulate the division of responsibilities among different supervisory, regulatory, and enforcement authorities.
II. The rights of shareholders and key ownership functions	The corporate governance framework should protect and facilitate the exercise of shareholders' rights.
III. The equitable treatment of shareholders	The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
IV. The role of stakeholders in corporate governance	The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
V. Disclosure and transparency	The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.
VI. The responsibilities of the board	The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Source: Principles of Corporate Governance (OECD, 2004).

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The OECD circulated the *Principles of Corporate Governance—Draft for Public Comment November 2014* with consultation responses received by early 2015. The final document should be available later in 2015.

World Bank

The World Bank's corporate governance activities focus on the rights of shareholders, the equitable treatment of shareholders, the treatment of stakeholders, disclosure and transparency, and the duties of board members. Clearly, the OECD Principles are very much in evidence in this approach.

The World Bank utilizes the OECD Principles to prepare country corporate governance assessments that detail and assess the corporate governance institutional frameworks and practices in individual countries. These assessments may then be used to support policy dialogue, strategic work, and operations, and to aid in determining the level of technical assistance needed in given countries in relation to their corporate governance development.

In addition, the International Monetary Fund (IMF) produces reports on the observance of standards and codes that summarize the extent to which countries observe internationally recognized standards and codes. Sections on corporate governance, accounting, and auditing are included in these reports.

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Global Corporate Governance Forum (GCGF)

The GCGF is at the heart of corporate governance co-operation between the OECD and the World Bank. It is, as its name suggests, an international initiative aimed at bringing together leading groups in governance, including banks, organizations, country groupings, the private sector, and professional standard-setting bodies. The GCGF's mandate is 'to promote the private sector as an engine of growth, reduce the vulnerability of developing and emerging markets to financial crisis, and provide incentives for corporations to invest and perform efficiently in a transparent, sustainable, and socially responsible manner'.

The GCGF's work programme includes information dissemination events at national and regional levels, whereby interested parties are brought together to discuss the issues, identify priorities for reform, and to develop action plans and initiatives to achieve them. Toolkits published by the GCGF relate to various topics, including director training and board leadership, whilst it also has a series of focus publications looking at topical issues in corporate governance relevant to developing countries.

International Corporate Governance Network (ICGN)

The ICGN was founded in 1995. Its membership encompasses major institutional investors, investor representative groups, companies, financial intermediaries, academics, and others with an interest in the development of global corporate governance practices. Its objective is to facilitate international dialogue on corporate governance issues.