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Dear Catherine

## **Proposed revisions to the UK Corporate Governance Code**

### **Introduction**

Thank you for sharing the [proposed revisions to the UK Code](#) with us. We welcome the opportunity to comment on the proposed revisions.

As the economic regulator of the water industry in England and Wales we consider that high standards of board leadership and transparency are essential to maintaining the legitimacy and trust in a sector that provides an essential public service.

While few companies operating in this sector are publicly listed companies we expect all of them to behave as though they are. In practice, the majority of companies are in private ownership, but have obligations to have regard to the UK Corporate Governance Code. You will be aware that we have published our 'Board leadership, transparency and governance – principles' that we expect all companies in this sector to meet. These are based on the UK Corporate Governance Code.

We keep abreast of developments to governance standards. As standards evolve and improve we expect them to be reviewed and adopted by companies operating in the sector we regulate.

### **Consultation response**

In our response to this consultation we have not commented on each and every area covered, but have instead focused on those areas that we consider are of greatest relevance to us and the companies we regulate.

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## **Transparency of remuneration arrangements**

We particularly welcome the proposed revision to the UK Code that ‘remuneration should be designed to promote the long-term success of the company’. The water and sewerage sector is a long term industry and we expect companies operating in this sector to be mindful both of today’s customers and those of tomorrow. We expect the holding companies of regulated water and sewerage providers to support the regulated company in operating in a sustainable way (including making long-term decisions) in line with the long term nature of the sector. This sector faces on going challenges such as population growth and climate change and needs to be well placed to meet them. We expect this to be reflected in executive’s remuneration schemes and are pleased to support the proposed revisions to the UK Code.

We agree, as set out in the consultation, that transparent explanations about why individual directors are the most appropriate persons to serve on the remuneration committee (among other committees) and the skills and experience they bring is essential. As well as clear explanations of the degree of challenge and diversity they bring to the decision-making process.

## **Succession planning**

We look forward to seeing the outcome of the FRC’s work in 2014 on best practice for succession planning and the process by which directors are appointed. Some companies operating in this sector have independent non-executive directors who have served on company boards for terms that extend well beyond the periods that represent best practice in the UK Code. This is an area where we expect to see a change in practice in future with refreshing of boards to avoid any perception of capture, particularly of independent non-executive directors.

## **Risk management**

We welcome the proposals that companies robustly assess their principal risks and report how they are being managed and mitigated; and that boards have an ongoing responsibility to monitor risk management and internal control systems. We regulate a sector that provides an essential public service and we expect all companies’ boards to have systems and processes in place to allow them to monitor and manage risks, so that their customers are protected.

We are particularly pleased to see the proposed code provisions (set out in appendix A) that directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company – including any that would threaten its business model, future performance, solvency or liquidity – by describing those risks and how they have managed or mitigated them. In this long-term sector we consider that the expectation that directors explain the period over

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which they have assessed the company's prospects is valuable. An explicit director's statement that confirms that the company will be able to continue in operation and meet its liabilities, including the period, will provide confidence to its customers.

### **Location of corporate governance disclosures**

In terms of the location of corporate governance disclosures we expect these to be made in a way that is accessible to all stakeholders. We recognise that much of this information is included in the annual report, but expect this to be clearly signposted both in the report itself and on websites.

We will continue to examine each company's annual report each year, but do appreciate that some audiences (particularly customers) will use the website as their first port of call for governance information.

Accessibility of corporate governance information is not limited to the ease with which such information can be located, but also to whether it can be readily understood by its customers. We also expect companies to be aware of the particular concerns of their customers (and those of the bodies that represent them) and to address those issues in the information they publish.

We look forward to seeing the outcome of this consultation and will review how it applies in this sector, particularly for those companies that are in private ownership.

I copy this response to the company secretaries of each of the water and sewerage companies and also to CCWater the customer representative body.

Yours sincerely

Keith Mason  
Senior Director of Finance and Networks