

Workstream 2: Governance Workstream – Terms of Reference

Context

Various UK capital markets stakeholders have identified issues impacting the quality of stewardship engagement between investors and publicly traded companies. Issues include the rise of “passive” index-tracking investment funds, the rise of intermediaries such as proxy agencies, ‘comply or else’ regulation, and inconsistent approaches to ESG. There are concerns that this has resulted in a blurring of responsibilities felt to be distracting boards in their task of overseeing companies in an “effective and entrepreneurial” manner, as required by law.

There is a perception that these trends, coupled with the increase in government regulation, are making it harder for public companies to compete for capital and talent in a globally competitive market, contributing to a decline in the number of listed companies in the UK and, crucially, leading to poorer quality of governance which is affecting UK competitiveness.

Objective

This workstream will explore these issues to help find, where necessary, a new balance that provides better quality corporate governance and clear corporate accountabilities in the UK. The ultimate ambition is for an environment where UK companies can compete and grow effectively to the benefit of all their stakeholders.

Resolving these issues will require a joint effort from participants across UK capital markets and policymakers and regulators.

Responsibilities

This workstream will help address the following list of perceived problems / issues impacting UK capital markets:

- The blurring of board accountability with stewardship in the UK
- The emergence of a “comply only” expectation of UK “comply or explain” regimes
- The reduction in meaningful engagement from shareholders with UK publicly traded companies, including a focus on liability management over the growth of the company
- The growing number of intermediaries, proxy agencies and ESG teams, alongside the growing complexity of client requirements on publicly traded companies in the UK and the effect on the UK’s capital markets

This workstream will engage key stakeholders to test these perceptions, explore possible solutions, and make recommendations to relevant regulatory, policymaking and government bodies.

Workstream Chair

Sir Jon Symonds

Participating CMIT members

Mark Austin, Peter Harrison (or their delegates)

Secretariat support

GSK and LSE plc

Engagement and timetable

- The Chair (and / or workstream lead where appropriate) will provide regular updates to CMIT, no less than once per month.
- Workstream members will coordinate their recommendations with the findings and recommendations in other CMIT workstreams (e.g. workstream 1 on the supply of capital in the UK) to ensure a consistent approach across Taskforce initiatives.
- This workstream will run until the termination of the Taskforce.
- Initial recommendations to be shared with policymakers and regulators in Q1 2023.
- Workstream members will engage with relevant existing initiatives in UK capital markets (e.g. State of Stewardship report, industry body reviews) to leverage the existing research and analysis of the UK corporate ecosystem.

Expected stakeholder engagement

- Financial Reporting Council (FRC)
- Financial Conduct Authority (FCA)
- His Majesty's Treasury (HMT)
- Department for Business, Energy & Industrial Strategy (BEIS)
- Industry bodies
- Selection of UK publicly traded companies (C-Suite representatives)
- Selection of UK buy side firms
- Selection of UK sell side firms
- Selection of UK financial intermediaries and other service providers