

July 16, 2018

The UK Corporate Governance Code

The Financial Reporting Council today issued a revised corporate governance code and announced that a revised investor stewardship code will be issued before year-end. The code and related materials are available at [www.frc.org.uk](http://www.frc.org.uk).

The revised code contains two provisions that will be of great interest. They will undoubtedly be relied upon in efforts to update the various U.S. corporate governance codes. They will also be used to further the efforts to expand the sustainability and stakeholder concerns of U.S. boards.

First, the introduction to the code makes note that shareholder primacy needs to be moderated and that the concept of the “purpose” of the corporation, as long put forth in the U.K. by Colin Mayer and recently popularized in the U.S. by Larry Fink in his 2018 letter to CEO’s, is the guiding principle for the revised code:

Companies do not exist in isolation. Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. To succeed in the long-term, directors and the companies they lead need to build and maintain successful relationships with a wide range of stakeholders. These relationships will be successful and enduring if they are based on respect, trust and mutual benefit. Accordingly, a company’s culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders.

Second, the code provides that the board is responsible for policies and practices which reinforce a healthy culture and that the board should engage:

with the workforce through one, or a combination, of a director appointed from the workforce, a formal workforce advisory panel and a designated non-executive director, or other arrangements which meet the circumstances of the company and the workforce.

It will be interesting to see how this provision will be implemented and whether it gains any traction in the U.S.

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