Guidance for Investor Relations Practitioners on the UK Corporate Governance Code

June 2010

INTRODUCTION

During the course of 2009, the Financial Reporting Council (FRC) carried out a review of the impact and implementation of the Combined Code, the results of which were published in December 2009. As a result of the review, the FRC consulted on a number of changes to the Code which resulted in the publication of the new UK Corporate Governance Code ("the Code") in June 2010.

Among other things, the new Code sets out to improve the 'engagement' between companies and their shareholders, thus putting investor relations teams squarely in the hot seat. At the same time, the Code emphasises throughout that simple 'compliance' with the Code is inadequate; embracing the spirit of the Code through best practice shareholder communication is more important.

In addition the Institutional Shareholders Committee has published a Stewardship Code for institutional investors which it is intended will become part of the Code. This therefore begs the question as to what constitutes good practice in investor relations and shareholder engagement, as it relates to governance.

The IR Society has therefore published its "Guidance for Investor Relations Practitioners on the UK Governance Code" ("the Guidance"). This has been drafted by the IR Society Policy Committee, with input and assistance from senior in house IR colleagues, governance professionals, other professional bodies, and the Financial Reporting Council. Their work and help is very much appreciated.

It is intended that the Guidance will be kept under review and updated as appropriate.

"Guidance for Investor Relations Practitioners on the UK Governance Code"

Introduction & Scope

This Guidance has been drawn up by the Investor Relations Society and covers the activities of those involved in Investor Relations activities at Premium Sector listed companies ("The IR team"). This includes but is not restricted to, heads of IR and their teams, Company Secretaries, corporate responsibility teams and others involved in governance work in the UK in their relationships with institutional investors[1]. It is aimed at providing practical guidance to companies, in how to meet the spirit – as well as the letter - of the UK Corporate Governance Code.

It also offers guidance as to how to ensure that the requirements of investors detailed in the Stewardship Code published for consultation in January 2010 by the Financial Reporting Council (FRC) can be met.

It is not intended to be an exhaustive list of the activities of the IR team, but to offer good practice guidance in how the IR team can support the listed company Board in its compliance with the UK Corporate Governance Code and the Stewardship Code. This Guidance will be reviewed after one year from date of first publication, and then in parallel with reviews of the UK Corporate Governance Code.

Two principal conclusions were drawn by the FRC from its review of the 2008 Combined Code on Corporate Governance (Combined Code). Firstly, that much more attention needed to be paid to following the spirit of the Combined Code as well as its letter. Secondly, that the impact of shareholders in monitoring the Combined Code could and should be enhanced by better interaction between the Boards of listed companies and their shareholders.

[1] The term "institutional investor" includes institutional shareholders such as pension funds, insurance companies, and investment trusts and other collective investment vehicles, alternative asset managers and any agents appointed to act on their behalf.

Definition of Investor Relations

Investor Relations is the two-way communication of information and insight between a company and the investment community. This process enables a full appreciation of the company's business activities, strategy and prospects and allows the market to make an informed judgement about the fair value and appropriate ownership of a company.

The Investor Relations Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community.

The core beliefs which underpin the achievement of the IR Society's mission include:

- Investor relations should be at the heart of corporate strategy development;
- Proactive, universal, prompt and clear investor communications;
- Proportionate regulation that promotes equity and fairness;
- The value of engagement between companies and investors.

The IR Society believes that these principles can best be achieved through strong two-way communication between the Board and its IR team. A direct reporting line from the head of IR to the Board is the most effective way to achieve this.

Consequently this Guidance aims to help companies enhance the quality of their dialogue with those institutions who own their shares, and to help enhance a long term understanding of the companies' prospects and governance. The advantages stemming from good communications between Boards and the company's owners far outweigh the potential costs and risks of such a dialogue.

This Guidance sets out good practice for companies; it does not constitute an obligation to micro-manage the affairs of listed companies. Companies' decisions on how and when to engage with individual shareholders should be considered in light of a range of factors, including the size of holding, the company's own situation and affairs and the wider business environment.

Principle 1: Companies should communicate effectively with their investors.

UK CORPORATE GOVERNANCE CODE

A.1: The role of the Board

Main Principle

Every company should be headed by an effective Board which is collectively responsible for the long-term success of the company.

C.1 Corporate Reporting. The Board should present a balanced and understandable assessment of the company's position and prospects.

C.1.2. The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company. [It would be desirable if the explanation were located in the same part of the annual report as the Business Review required by Section 417 of the Companies Act 2006.]

Guidance.

A key task of the IR team is the communication of the long term strategy of the company, in such a way that investors understand the context in which individual events can be seen.

IR teams should create proactive investor outreach programmes including site visits, road shows, as well as regular, financial-calendar linked conference calls. Where practical, events should be communicated to the market as a whole.

Companies should produce investor materials in line with current best practice (held as Appendix 1) with an open and inclusive approach to communication on governance issues.

Principle 2. Companies should ensure that boards are provided with appropriate information in regard to the company's investors.

UK CORPORATE GOVERNANCE CODE

B.5: Information and support

Main Principle

The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Supporting Principles

The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary.

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E.1: Dialogue with Shareholders

E.1.1. The chairman should ensure that the views of shareholders are communicated to the Board as a whole. The chairman should discuss governance and strategy with major shareholders. Non-executive directors should be offered the opportunity to attend existing meetings with major shareholders and should expect to attend meetings if requested by major shareholders. The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

E.1.2. The Board should state in the annual report the steps they have taken to ensure that the members of the Board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about the company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion.

Guidance.

IR teams will produce a report to the Board on a regular basis which includes:

- significant changes in the share register, including shareholders who have recently sold or significantly reduced their shareholding, (where possible) significant strategic short sellers, and any noted activist shareholders;
- details of contacts with shareholders and summaries of material matters discussed;
- summary of broker or analysts feedback relating to shareholder views;
- details of findings of any perception studies conducted by the IR team (this should be separate – not part of a monthly report);
- summary of share price movements compared to the market and sector peer group;
- any corporate governance issues raised by shareholders;
- material concerns raised by company analysts or the media;
- a regular analysis of internal and external earnings expectations.

Principle 3: Companies should create, maintain and implement a formal, written policy which underpins their processes of disclosure of inside information and investor communication. This policy should be subject to periodic review by the company.

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C.3.2. The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

- to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;
- to review the company's internal financial controls and, unless expressly addressed by a separate Board risk committee composed of independent directors, or by the Board itself, to review the company's internal control and risk management systems;

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Guidance

The Communications Policy should include:

- Tests that will be applied within the company to identify inside information in accordance with the DTR's and associated FSA communications.

- Identification of management responsible for dealing with investors.

- Processes and timings for communicating the company's financial outlook, and company policy on offering guidance.

The Disclosure Policy should be continuously reviewed, updated and communicated to those employees responsible for interface with external audiences.

Principle 4: Investor Relations teams should support members of the Board in their dialogue with institutional investors.

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E.1: Dialogue with Shareholders. Main Principle

There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Supporting Principles. Whilst recognising that most shareholder contact is with the chief executive and finance director, the chairman should ensure that all directors understand their major shareholders' issues and concerns.

STEWARDSHIP CODE

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

Guidance

The IR team should support the Board in its meetings and contacts with shareholders. To do so, the IR team should:

- Ensure that they can identify and obtain contact details for the investors in the majority of their shares[2].This should include shareholders who have recently sold or significantly reduced their shareholding, (where possible[3]) significant strategic short sellers, and any activist shareholders;
- Make themselves available as a 'first port of call' resource for institutional investors seeking information;
- Create a structured plan for regular IR contact with a representative group of shareholders, including through an investor survey;

[2] UK law provides for both reactive disclosures under Disclosure Rule and Transparency Rule 5 (DTR 5) and proactive through Sections 793 of the Companies Act. Effective monitoring of disclosures under both of these provisions will enable companies to identify shareholders.

[3] Currently only disclosed for financial sector companies

- Give careful consideration to, and evaluation of any material investor concerns, and ensure that the Board is aware of them;
- Create a strategy for Board consideration on when and how proactive outreach to specific investors is appropriate, and on collective engagement with shareholders;
- Facilitate meetings with management if investors are expressing specific and material concerns;
- Facilitate attendance by the Chairman and other non-executive directors at roadshows / analyst meetings with management to understand shareholders' major issues;
- Ensure adequate contact with proxy advisors to gain insight into any investor concerns;
- Provide to the Board a regular analysis of internal and external earnings expectations, such that all members are aware of potential challenges.

Where investors choose to engage collectively, such as at times of significant corporate or wider economic stress, the IR team should:

- Keep channels of communication with all investors open so that concern can be addressed at an early stage;
- Keep the market updated of any material changes in the economic or corporate environment and how they impact on the company.

Boards should ensure that processes exist for the dissemination of information to their IR team on internal strategic decision making and processes and others in order than they can maximise their value to institutional investors.

The IR team should support the Chairman and Non Executive Directors in their meetings with investors, as well as supporting management in their day to day contacts. This may include:

- attending company roadshows;
- dialling in to analyst briefings, or attending a selection of analyst meetings;
- attending post-results meetings;
- Remuneration committee chairmen attending meetings with the major shareholders to seek views on the remuneration scheme.

Principle 5. IR teams should provide support for the Board in specific situations.

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A.3.1. The chairman should on appointment meet the independence criteria set out in B.1.1. A chief executive should not go on to be chairman of the same company. If exceptionally a Board decides that a chief executive should become chairman, the Board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report.

B.7.1 All directors of FTSE 350 companies should be subject to annual election by shareholders. All other directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years. Non-executive directors who have served longer than nine years should be subject to annual re-election. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.

B.7.2 The board should set out to shareholders in the papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected. The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role.

D.2.4. Shareholders should be invited specifically to approve all new long term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules.

Guidance.

The IR Team will provide support for the Board, in specific situations where investor feedback is required, by:

- Reporting to the Board previous discussions with shareholders on the issues;
- Acting as a sounding Board in meetings with shareholders, providing a "listening post" to investors and providing feedback to the Board;
- Monitoring external, public debate on the issues in the media, blogs, social media.

Principle 6. IR teams should support the Board by the provision of skills and knowledge in dealing with shareholders.

UK CORPORATE GOVERNANCE CODE

B.5: Information and support

Main Principle

The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Supporting Principles

The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary.

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B.4: Development

Main Principle

All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

Supporting Principles

The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the Board and on Board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities.

To function effectively, all directors need appropriate knowledge of the company and access to its operations and staff.

The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should be offered the opportunity to meet major shareholders.

Guidance

The IR team in conjunction with other departments of the company will provide any required updates to the skills of Directors on issues including:

- Compliance with the Financial Services Authority Listing Rules and Disclosure and Transparency Rules (DTRs);
- Implications of patterns of trading in the company's shares and positions taken by specific shareholders;
- Provision of meetings with major shareholders.

The IR team will make available details of professional development opportunities available on investor relations-related issues, particularly for new directors.

Principle 7. IR teams should provide assistance and support, where practicable, for all shareholders

STEWARDSHIP CODE

Principle 3: Institutional investors should monitor their investee companies

Guidance

Investee companies should be monitored to determine when it is necessary to enter into an active dialogue with their Boards. This monitoring should be regular, and the process clearly communicable and checked periodically for its effectiveness.

Guidance on support to institutional investors.

Companies can best manage effective dialogue with shareholders when they provide shareholders with access to appropriate governance officers and relevant Board directors. The IR team will provide support to institutional investors in their monitoring of companies. This includes:

- One on one meetings with the IR team, or as necessary facilitating meetings with members of the Board or other governance professionals;
- Making available public information through its website, press releases, webcasts, conference calls, in line with best practice (see Appendix 1);
- Providing context for events and public announcements;
- Facilitating investor understanding of the company's long-term objectives and gaining familiarity of the connection between the governance and commercial activities of the company;
- Providing insight into market and sector developments.

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E.2: Constructive Use of the AGM

Main Principle

The board should use the AGM to communicate with investors and to encourage their participation. [D.2]

Guidance on support for private shareholders.

Where appropriate companies should consider incorporating into their investor relations programmes specific events or meetings which are targeted at private and smaller investors. These could include:

- Presentations or meetings around the AGM
- Regional meetings with shareholders
- Meetings with regional and private client stockbrokers
- Webcasting of results presentations and other announcements
- Corporate videos or interviews with board members on the website
- Provision of question and answer facilities on the company's website

Appendix 1.

Best practice disclosure standards include:

- Corporate websites in line with the Investor Relations Society Best Practice standards.
- The IR Society "*Essentials*" Guides, especially on:
  - Investor Relations
  - Narrative Reporting
  - Periodic Reporting
- Annual reports in line with obligations from the Governance Code, (see Appendix 1), and specifically in line with the Accounting Standards Board's "*A REVIEW OF NARRATIVE REPORTING BY UK LISTED COMPANIES IN 2008/2009*" and the principles underpinning the FRC Complexity Project DP "*Louder than Words*".
- Three sets of compliance obligations - listing rule 9, DTR 7 and The Governance code appendix C aim to clarify the means of disclosure in corporate governance reports. As at 15 June 2010, the FRC and the FSA are working to provide further clarity to these areas.

All available on request from the IR Society

Appendix 2. (NB this list is not comprehensive).

The annual report should contain at least:

A.1.1The annual report should include a statement of how the Board operates, including a high level statement of which types of decisions are to be taken by the Board and which are to be delegated to management.

A.1.2. The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the Board committees. It should also set out the number of meetings of the Board and those committees and individual attendance by directors.

B.1.1. The Board should identify in the annual report each non-executive director it considers to be independent.

B.2.4. A separate section of the annual report should describe the work of the nomination committee.

B.3.1. A chairman's other significant commitments should be disclosed to the Board before appointment and included in the annual report. Changes to such commitments should be reported to the Board as they arise, and their impact explained in the next annual report.

B.6.1. The Board should state in the annual report how performance evaluation of the Board, its committees and its individual directors has been conducted.

C.1.1. The directors should explain in the annual report their responsibility for preparing the annual report and accounts and there should be a statement by the auditors about their reporting responsibilities.

C.1.2. The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company.

C.3.3. The terms of reference of the audit committee, including its role and the authority delegated to it by the Board, should be made available. A separate section of the annual report should describe the work of the committee in discharging those responsibilities.

C.3.5. The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the Board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.

C.3.6. The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the Board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the Board has taken a different position.

C.3.7. The annual report should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.

E.1.2. The Board should state in the annual report the steps they have taken to ensure that the members of the Board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about the company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion.