

## UK corporate governance – Key developments in 2024

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This client update provides an overview of some of the key developments that took place in the UK corporate governance sphere in 2024.

### Governance regulations and guidance

#### New UK Corporate Governance Code 2024

On 22 January 2024, the Financial Reporting Council (FRC) published a [revised UK Corporate Governance Code](#) (2024 Code). Previously, the UK Corporate Governance Code applied to premium-listed companies; however, as a result of the Financial Conduct Authority's (FCA) update to the UK Listing Rules, which included updates to the categories under which securities are listed on the Official List, going forward all companies listed in the commercial companies category and those in the closed-ended investment funds category (regardless of where they are incorporated) will need to follow the UK Corporate Governance Code. By way of a reminder, to comply with the elements of the UK Listing Rules, in-scope companies must apply the Principles of the UK Corporate Governance Code and comply with, or explain against, its Provisions. The 2024 Code applies to accounting periods beginning on or after 1 January 2025, except for Provision 29 (which applies to accounting periods on or after 1 January 2026). To support companies in applying the 2024 Code, the FRC published updated, digitally accessible guidance (consolidating the previously issued FRC guidance), which is available [here](#). For more detail regarding the 2024 Code, please see our [client update](#).

Following publication of the 2024 Code, the FCA is expected to update the FCA Handbook to reflect the latest developments. On 6 December 2024, the FCA published [Quarterly Consultation Paper 46 \(CP 24/26\)](#), which consults on the various amendments. The relevant amendments to the UK Listing Rules and Disclosure Guidance and Transparency Rules to update references to the 2024 Code are discussed in Chapter 6 of the consultation paper. The consultation is open for comments until 13 January 2025.

#### Terms of reference for sustainability or ESG committees

On 31 January 2024, the Chartered Governance Institute UK & Ireland published [model terms of reference for board-level sustainability or ESG committees](#). The terms of reference are designed to ensure that these committees adopt good practice standards in accordance with other committee recommendations under the 2024 Code. The FRC's [Corporate Governance Code Guidance](#) mentioned above includes a direct link to the model terms of reference in the board committee section of the guidance.

#### Development of UK sustainability reporting standards

On 16 May 2024, the Department for Business and Trade (DBT) published [Policy Paper: Framework and Terms of Reference for the Development of UK Sustainability Reporting Standards](#). The UK Sustainability Reporting Standards will be created by way of endorsement, by the Secretary for Business and Trade, of the two IFRS standards (IFRS S1 and

IFRS S2) issued by the International Sustainability Standards Board (ISSB) in June 2023, which incorporate and build from the recommendations of the Task Force on Climate-related Financial Disclosures. Once created, the UK Sustainability Reporting Standards will become available for voluntary use by UK companies and will form the basis of any future requirements in UK legislation and regulation.

With respect to the endorsement process, on 18 December 2024, the UK Sustainability Disclosure Technical Advisory Committee, which was established in order to support the Secretary of State in making the endorsement decisions with respect to the IFRS standards, issued its [final recommendations](#), recommending the endorsement (with minor amendments) of IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2: Climate-related Disclosures for use in the United Kingdom. The next step will be to incorporate the modified standards within UK legislation.

## New EU Corporate Sustainability Due Diligence Directive (CS3D)

On 5 July 2024, the [Corporate Sustainability Due Diligence Directive \(EU\) 2024/1760 \(CS3D\)](#) was published in the Official Journal of the European Union. The directive establishes a corporate due diligence duty on in-scope companies (being large EU limited liability companies with more than 1,000 employees and a net worldwide turnover in excess of EUR 450 million, non-EU companies with a net turnover in excess of EUR 450 million in the EU, and companies with franchising or licensing agreements in the EU with royalties amounting to more than EUR 22.5 million and net worldwide turnover in excess of EUR 80 million).

The core elements of the duty are identifying and addressing potential and actual adverse human rights and environmental impacts in the company's own operations and those of its subsidiaries and business partners. Consequently, UK companies may be impacted directly if they operate in the EU and meet the relevant turnover threshold, but also indirectly as a supplier of goods or services to an in-scope company, required to conduct due diligence on its business partners under the provisions of the directive. The directive entered into force on 25 July 2024 and Member States have until 26 July 2026 to transpose the directive into their national law. Application of the directive will be in phases by revenue from 26 July 2027 for a three-year period (i.e., all in-scope companies will become subject to the directive from 26 July 2029). Failure to comply with the obligations set out in the directive could result (amongst other) in a fine of up to 5% of a company's net worldwide turnover.

## Legislation to strengthen UK's audit, reporting and governance systems

On 17 July 2024, King Charles III delivered his [speech](#) at the State Opening of Parliament, setting out the new Labour government's legislative agenda for the next parliamentary session (see also [King's Speech 2024: Background Briefing Notes](#)). Amongst the proposed reforms was the publication of the draft Audit Reform and Corporate Governance Bill to strengthen the UK's audit and corporate governance systems. Once brought into effect, the legislation is expected to replace the FRC with a new statutory regulator, the Audit, Reporting and Governance Authority (ARGA) and provide it with strengthened powers enabling it to oversee the audit market, scrutinise companies' accounts and enforce directors' financial reporting duties. The FRC welcomed the government's commitment in the King's Speech to bring forward draft legislation to reform and modernise the FRC's statutory authorities, powers and regulatory perimeter and noted that subject to parliamentary approval, by the end of the [FRC's 3-year strategy for 2025-2028](#), the legislative reform and transition to ARGA should hopefully be a reality.

## FRC public consultation on the Stewardship Code

On 11 November 2024, the FRC launched a [public consultation on updates to the UK Stewardship Code](#). The code seeks to promote improved transparency, disclosure and accountability in the stewardship ecosystem. The proposals in the public consultation stem from FRC's engagement with more than 1,500 stakeholders during last year and are underpinned by four years of analysing and reviewing reporting against the 2020 Stewardship Code. The consultation is open for responses until 19 February 2025.

## Reform of non-financial reporting requirements for financial years from 6 April 2025

On 10 December 2024, the [Companies \(Accounts and Reports\) \(Amendment and Transitional Provisions\) Regulations 2024](#) were laid before Parliament together with an [Explanatory Memorandum](#). The regulations, which will come into force

on 6 April 2025, seek to reduce reporting burdens on companies by:

- increasing (by approximately 50%) the turnover and balance sheet criteria that help determine whether a company is a micro-entity, small, or medium-sized or large for the purposes of reporting and audit requirements under the Companies Act 2006, which will see many companies benefit from lighter-touch financial and non-financial reporting requirements; and
- removing several reporting requirements from the directors' report (which forms part of a company's annual report), which overlap with other reporting requirements or provide little material value to investors and other users of company reporting (e.g. this includes information concerning companies' use of financial instruments, significant events occurring after the end of a company's financial year, likely future developments affecting a company's direction, investment in research and development and a company's engagement with employees, customers and suppliers).

## Reviews of governance reporting

### FTSE Women Leaders Review 2023

On 26 February 2024, the FTSE Women Leaders Review (an independent, business-led framework supported by the UK government) published its [third report](#) on the representation of women on the boards and leadership teams of the FTSE 350 and 50 of the UK's largest private companies. The report found that the representation of women on FTSE 350 boards (in aggregate) was at an all-time high of 42.1% in 2023 (up from 40.2% in 2022) and 34.5% on FTSE 350 leadership teams (up from 33.5% in 2022).

### Parker Review 2023

On 11 March 2024, the Parker Review (which sets voluntary targets with respect to ethnic minority representation on boards and senior management positions of UK-listed and large UK private companies) published its sixth update report titled [Improving Ethnic Diversity of UK Business](#). The report noted good progress, especially in respect of ethnic minority representation on the FTSE 250, where 70% of the FTSE 250 companies met the 2024 target of having at least one ethnic minority director on their board one year ahead of the target deadline (up from 60% in 2022).

### FRC review of corporate governance reporting

On 26 November 2024, the FRC published its fifth annual [Review of Corporate Governance Reporting](#). The report provides an overview of corporate governance reporting based on the annual reports of a sample of 130 randomly selected FTSE 350 and Small Cap companies that follow the Corporate Governance Code. The review highlights examples of good reporting and identifies areas for improvement to assist companies in navigating the transition to the 2024 Code. The review is the FRC's penultimate assessment of corporate governance reporting against the 2018 UK Corporate Governance Code, which will continue to apply to annual reports published in 2025.

## Institutional and voting guidelines

### Pensions and Lifetime Savings Association 2024 stewardship and voting guidelines

On 15 February 2024, the Pensions and Lifetime Savings Association published its [2024 Stewardship and Voting Guidelines](#), providing practical guidance on the exercise of voting rights on key issues during the 2024 AGM season.

### Investment Association updated principles of remuneration

On 8 October 2024, the Investment Association (IA) published its updated [Principles of Remuneration](#) (Principles), which outline IA member views on the commonly accepted approach to executive pay for companies listed on the main market of the London Stock Exchange. This year's version of the Principles was released almost a year later than usual as the IA carried out consultations with its members against a backdrop of increased calls for investors to support companies

listed on the London Stock Exchange in competing with global companies, and particularly with US-listed companies, in terms of the design and quantum of executive remuneration. The IA has responded to those calls by introducing more flexibility into its Principles and recommending more effective shareholder engagement and disclosure by companies.

## **Glass Lewis 2025 benchmark policy guidelines**

On 15 November 2024, Glass Lewis published its 2025 Proxy Voting Policy Guidelines (which include its [guidelines for shareholder proposals and ESG-related issues](#)) for the US, UK and Europe. The [UK version](#) of the proxy voting guidelines includes policy changes with respect to director tenure, board level ethnic and gender diversity, board oversight of artificial intelligence, pension contributions, hybrid executive remuneration incentive plans and dilution limits reflecting the updated IA Principles, multi-share class structures, special purpose acquisition companies, director conflicts of interest, publication of voting results and virtual shareholder meetings. The guidelines apply to shareholder meetings held after 1 January 2025.

## **Institutional Shareholder Services updated proxy voting guidelines for 2025**

On 17 December 2024, Institutional Shareholder Services (ISS) published its [Benchmark Policy Updates for 2025 \(EMEA\)](#). ISS annually conducts a robust, inclusive, and transparent global policy review process to consider global updates to its benchmark guidelines for the upcoming year and beyond. The annual policy update process begins with an internal review of emerging issues, relevant regulatory changes and notable trends seen across the globe, regionally and/or at market level.

For a summary of the latest ISS policy updates, please follow [this](#) link. The updated policies will be effective for shareholder meetings taking place on or after 1 February 2025.

## **Private companies and directors**

### **FRC review of reporting by UK's largest private companies**

On 31 January 2024, the FRC published a [thematic review which considered the quality of reporting by the UK's largest private companies](#). The FRC reviewed annual reports and accounts of 20 UK companies in various sectors and provided commentary on the reviewed reporting as well as general guidance as to the FRC's key expectations when it comes to corporate reporting by large private companies in the UK.

### **FRC review of reporting against Wates Principles**

On 12 August 2024, the FRC published [Research Report: Reporting Against the Wates Principles](#). The report is the FRC's second assessment of the quality of reporting by private companies who have chosen to follow the Wates Principles. [The Wates Principles](#) were published on 10 December 2018 to provide a framework to help large private companies raise their standards of corporate governance by offering a structure for reporting to demonstrate good practice and fulfil their statutory governance obligations under [the Companies \(Miscellaneous Reporting\) Regulations 2018](#).

### **Institute of Directors publishes voluntary code of conduct for directors**

On 23 October 2024, the Institute of Directors published its voluntary [Code of Conduct for Directors](#). The code is meant to serve as a practical tool to help directors make better decisions. It represents a voluntary commitment that is structured around six key principles of director conduct (leading by example, integrity, transparency, accountability, fairness, and responsible business) and is applicable to directors of organisations of all sizes in the private, public, and not-for-profit sectors.

### **FCA consultation on the regulatory framework for PISCES**

On 17 December 2024, the FCA published [Consultation Paper 24/29: Private Intermittent Securities and Capital Exchange System \(PISCES\) – sandbox arrangement](#) (CP 24/29). The consultation paper sets out the FCA's proposed framework for implementing and overseeing the new proposed type of regulated trading platform which will facilitate trading of existing shares in private companies in intermittent windows of limited duration. The platform is not expected to facilitate capital raising by companies through the issuance of new shares. In addition, it is expected that only institutional investors, employees of participating companies and investors who meet the definition of high-net-worth individuals and self-certified or certified sophisticated investors under the Financial Promotion Order 2005 will be able to buy shares on PISCES. Firms who want to operate a PISCES platform will need to apply to the FCA to enter the sandbox.

The consultation on the sandbox arrangement is open for comments until 17 February 2025. The FCA will publish made rules after finalised PISCES Regulations are laid before Parliament, which is expected by May 2025. The PISCES sandbox is then expected to operate for five years, and further legislation would be required to make PISCES a permanent feature of the UK private markets.

## **[PERG publishes updated Walker Guidelines and 2024 annual report](#)**

On 18 December 2024, the Private Equity Reporting Group (PERG) published revised [Walker Guidelines for Disclosure and Transparency in Private Equity](#). The guidelines set out the final guidance on the enhanced disclosure obligations placed upon portfolio companies and private equity firms. PERG conducted a full review in 2024, which identified several areas of the guidelines requiring updates to reflect significant changes in disclosure requirements since 2014. The increasing importance of disclosures around environmental matters, gender and diversity, employees, and principal risks and uncertainties to key stakeholders have been considered in the updated guidelines.

For a comprehensive overview of the UK corporate governance regime, please see the [UK chapter](#) we contributed to *Lexology's In-Depth: Corporate Governance, Edition 14*.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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