The UK Corporate Governance Code

BSA Guidance for Building Societies

October 2024

Building Societies Association

The UK Corporate Governance Code: BSA Guidance for Building Societies

Introduction

A revised UK Corporate Governance Code was issued by the Financial Reporting Council in January 2024 and applies to financial years beginning on or after **1 January 2025**, other than provision 29 which will apply to financial years beginning on or after **1 January 2026**.

The Code is addressed to companies with a premium listing. However, the PRA expects building societies to 'have regard to' the Code in establishing or reviewing their own corporate governance arrangements. (Paragraph 2.17 of PRA Supervisory Statement 19/15 refers).

This guidance is intended to assist building societies in having 'regard to' the Code.

Premium listed companies are encouraged to comply with the Code and to report how they have applied its Principles. Reporting on the application of the Provisions of the Code, which underpin the Principles, is on a "comply or explain" basis.

"Comply or explain" recognises that one approach does not necessarily suit all. It takes into account that an alternative to complying with a Provision may be beneficial or necessary in particular circumstances based on a range of factors, including the size, complexity, geography, and ownership structure of a firm (particularly relevant to building societies given they are mutuals owned by their members rather than shareholders).

This guidance for building societies follows a 'by exception' approach, in that it refers only to those elements of the Code which are not considered to be relevant to building societies; which raise particular issues for building societies considered worthy of discussion: or to highlight significant changes from the previous version of the Code. The guidance is in the form of text boxes, such as this one, inserted within the relevant sections of the Code.

The inclusion of text boxes changes the page layout and page numbering of the Code. To avoid confusion, this guidance does not include page numbering.

The text of the UK Corporate Governance Code is reproduced by kind permission of the Financial Reporting Council.

BSA, October 2024

Table of Contents

Introduction

Section 1 – Board leadership and company purpose

Section 2 – Division of responsibilities

Section 3 – Composition, succession and evaluation

Section 4 – Audit, risk and internal control

Section 5 – Remuneration

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2024

The Financial Reporting Council Limited is a company limited by guarantee.

Registered in England number 2486368. Registered Office:

8th Floor, 125 London Wall, London EC2Y 5AS

Introduction

Changes to the Code

The first version of the UK Corporate Governance Code (the Code) was published in 1992 by the Cadbury Committee. It defined corporate governance as 'the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.' This remains true today, but the environment in which companies, their shareholders and wider stakeholders operate continues to develop rapidly.

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.

This 2024 revision of the Code is a limited revision which in particular addresses the important issue of internal controls. The FRC has devised a principles-based approach which makes clear the board's accountability for effective internal controls – through a declaration – yet reflects the need for flexibility, proportionality and consideration of the particular circumstances of individual companies.

As a result, the Code will provide a stronger basis for companies to evidence the effectiveness of their internal controls, thereby enhancing transparency and investor confidence. In order to give companies sufficient time to implement these new arrangements, reporting on this element of the Code (Provision 29) will not be effective before accounting periods beginning on or after 1 January 2026.

The Code does not set out a rigid set of rules; instead, it offers flexibility through 'comply or explain' reporting against the Provisions. For this reason, the 2024 Code also includes a Principle which sets out the expectation that companies should, when reporting on their governance activity, focus on activities and outcomes to demonstrate the impact of governance practices. This will help companies to streamline and focus reporting on the Code, avoiding unduly long explanations of policy.

The Code's success relies on companies, investors and a wide range of stakeholders engaging to improve the quality of governance and stewardship, and embracing the flexibility offered by the Code. Achieving this depends crucially on the way boards and companies apply the spirit of the Code. It is the responsibility of boards to use the Code wisely, and of investors and their advisors to assess differing company approaches thoughtfully. Equally, investors and their advisors must consider explanations for departures from the Code thoughtfully, taking full account of company circumstances.

Non-prescriptive Guidance is available to support companies and to assist them when considering the application of the Principles and complying with or explaining against the Provisions, to demonstrate throughout their reporting how the governance of the company contributes to its long-term sustainable success.

Reporting on the Code

The FCA's Listing Rules require companies to make a statement of how they have applied the Principles in a manner that would enable shareholders to evaluate how the Principles have been applied.

Although the Listing Rules do not apply to building societies' relations with their members, it is good practice for societies to explain clearly to members how they have applied the Principles.

Reporting should cover the application of the Principles in the context of the particular circumstances of the company, including how the board has set the company's purpose and strategy, met objectives, and achieved outcomes through the decisions it has taken.

It is important to report meaningfully when discussing the application of the Principles and to avoid boiler-plate reporting. The focus should be on how these have been applied, articulating what action has been taken and the resulting outcomes. High-quality reporting will include signposting and cross-referencing to relevant parts of the annual report. This will help investors with their evaluation of company practices.

The Listing Rules also require companies to set out their reasons for non-compliance with a Code Provision. Companies may depart from the Code for a number of reasons, for example the size, complexity, history and ownership structure of a company. Explanations should set out the background, provide a clear rationale for the action the company is taking and explain the impact that the action has had. Where a departure from a Provision is intended to be limited in time, the explanation should indicate when the company expects to conform to the Provision. Explanations should be a positive opportunity to communicate, not an onerous obligation.

Investors should engage constructively and discuss with the company any departures from recommended practice. In their consideration of explanations, investors and their advisors should pay due regard to a company's individual circumstances. While they have every right to challenge explanations if they are unconvincing, these must not be evaluated in a mechanistic way. Investors and their advisors should also give companies sufficient time to respond to enquiries about corporate governance.

Corporate governance reporting should relate to other parts of the annual report and other complementary information, for example, a sustainability report, so that shareholders can effectively assess the quality of the company's governance arrangements and the board's activities and contributions. Where appropriate, cross referencing such information is beneficial to duplication within the annual report.

Guidance

The Code is also supported by updated UK Corporate Governance Guidance. The Guidance does not set out the 'right way' to apply the Code. It is intended to stimulate thinking on how boards can carry out their role most effectively; there is not a single way to apply the Principles and comply with the provisions. All companies are at different stages in their maturity and this should be taken into account when using the Guidance as a supportive tool. The Guidance is designed to aid boards with their actions and decisions when applying the Code.

Application

The Code is applicable to all companies with a premium listing, whether incorporated in the UK or elsewhere. The 2024 Code applies to accounting periods beginning on or after 1 January 2025, with

the exception of Provision 29. This provision is applicable for accounting periods beginning on or after 1 January 2026.

For parent companies with a premium listing, the board should ensure that there is adequate co-operation within the group to enable it to discharge its governance responsibilities under the Code effectively. This includes the communication of the parent company's purpose, values and strategy.

Externally managed investment companies (which typically have a different board and company structure that may affect the relevance of particular Principles) may wish to use the Association of Investment Companies' Corporate Governance Code to meet their obligations under the Code. In addition, the Association of Financial Mutuals produces an annotated version of the Code for mutual insurers to use.

Section 1 – Board leadership and company purpose

Principles

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should ensure that the necessary resources, policies and practices are in place for the company to meet its objectives and measure performance against them.

B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are all aligned. All directors must act with integrity, lead by example and promote the desired culture.

The principal purpose of a building society is that of "making loans which are secured on residential property and are funded substantially by its members" (Section 5 (1) Building Societies Act 1986).

As a mutual, a building society does not have to pay dividends to external shareholders. This means the surplus a society makes can be retained to strengthen its capital base.

The role of a building society board is typically seen as one of stewardship, running the society not just for the benefit of current members, but also for future generations of members. The notion of stewardship demands a long-term perspective on financial stability, customer propositions and investment.

Under the umbrella of the statutory definition of purpose, each building society board will want to articulate the purpose, values and strategy of the society.

C. Governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives. Where the board reports on departures from the Code's provisions, it should provide a clear explanation.

Previously, Principle C required the board ensure that necessary resources are in place for the company to meet its objectives and measure performance against them. It now has a new focus on board decision and outcomes. The FRC UK Corporate Governance Code 2024 Guidance includes guidance on outcomes-base reporting including the importance of quality of disclosure over boilerplate reporting.

D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Provisions

1. The board should assess the basis on which the company generates and preserves value over the long-term. It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy.

2. The board should assess and monitor culture and how the desired culture has been embedded. Where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose, values and strategy, it should seek assurance that management has taken corrective action. The annual report should explain the board's activities and any action taken. In addition, it should include an explanation of the company's approach to investing in and rewarding its workforce.

Provision 2 has been amended to include that boards should not only assess and monitor culture, but also how the desired culture has been embedded. The FRC UK Corporate Governance Code 2024 Guidance gives some good examples of cultural indicators which boards may find it helpful to monitor as well as guidance on demonstrating how culture has been embedded.

3. In addition to formal general meetings, the chair should seek regular engagement with major shareholders in order to understand their views on governance and performance against the strategy. Committee chairs should seek engagement with shareholders on significant matters related to their areas of responsibility. The chair should ensure that the board has a clear understanding of the views of shareholders.

There is no equivalent to 'major shareholders' in the membership of building societies, where one-member, one vote applies. However, the need for member engagement is at least as relevant to societies as engagement with major shareholders is to listed companies. Societies may wish to consider how dialogue with both shareholding and borrowing members can best be facilitated. Options pursued by some societies include the setting up of members' panels, road shows for members, surveys of members' opinions, member communications managers, focus groups, members' magazines or newsletters, online forums with members and engagement in local activities. Many examples of good practice may be found in the BSA publication Engaging Conversations: member engagement at building societies [a]. Other helpful examples of engagement mechanisms are set out in The Stakeholder Voice in Board Decision Making [b].

[a] https://www.bsa.org.uk/information/publications/research-and-reports/engaging-conversations

[b] https://www.cgi.org.uk/knowledge/resources/stakeholdervoice

4. When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting[1]. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed.[2]

5. The board should understand the views of the company's other key stakeholders and describe in the annual report how these and the matters set out in section 172 of the Companies Act

[1] The update should be published on the company's website, the Regulatory Information Service used by the company, or both.
[2] Details of significant votes against and related company updates are available on the Public Register maintained by The Investment Association – www.theinvestmentassociation.org/publicregister.html

2006 have been considered in board discussions and decision-making. The board should keep engagement mechanisms under review so that they remain effective.

For engagement with the workforce,[3] one or a combination of the following methods should be used:

- a director appointed from the workforce;
- a formal workforce advisory panel; or
- a designated non-executive director.

If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

Although S.172 of the Companies Act doesn't apply to building societies, Principle D and Provision 5 apply similar provisions, such as the need for firms to engage with stakeholders, take account of their interests and describe how they have done so.

The FRC UK Corporate Governance Code 2024 Guidance provides some useful pointers on stakeholder engagement and this, in turn, refers to the publication, The Stakeholder Voice in Board Decision Making [d] which suggests that boards consider conducting stakeholder mapping.

For building societies the members are clearly the key stakeholders, but the Code also provides for the interests other stakeholders such as employees and suppliers. In regard to the former, a BSA survey in 2017, Ownership Matters [e], provides some useful insights.

[d] https://www.cgi.org.uk/knowledge/resources/stakeholdervoice

[e] https://www.bsa.org.uk/information/publications/research-and-reports/ownership-matters

6. There should be a means for the workforce to raise concerns in confidence and – if they wish – anonymously. The board should routinely review these arrangements and the reports arising from their operation. It should ensure that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action.

Building societies will also need to have regard to the PRA/FCA requirements concerning whistleblowing procedures, including the need to appoint and resource a whistleblowers' champion. PRA Policy Statement PS 24/15 and Supervisory Statement SS39/15 refer.

7. The board should take action to identify and manage conflicts of interest, including those resulting from significant shareholdings, and ensure that the influence of third parties does not compromise or override independent judgement.

8. Where directors have concerns about the operation of the board or the management of the company that cannot be resolved, their concerns should be recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chair, for circulation to the board, if they have any such concerns.

[3] See Code guidance for a description of 'workforce' in this context.

Section 2 – Division of responsibilities

Principles

F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

G. The board should include an appropriate combination of executive and non executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Provisions

9. The chair should be independent on appointment when assessed against the circumstances set out in Provision 10. The roles of chair and chief executive should not be exercised by the same individual. A chief executive should not become chair of the same company. If, exceptionally, this is proposed by the board, major shareholders should be consulted ahead of appointment. The board should set out its reasons to all shareholders at the time of the appointment and also publish these on the company website.

10. The board should identify in the annual report each non-executive director it considers to be independent. Circumstances which are likely to impair, or could appear to impair, a non-executive director's independence include, but are not limited to, whether a director:

- is or has been an employee of the company or group within the last five years;
- has, or has had within the last three years, a material business relationship with the company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;
- has close family ties with any of the company's advisers, directors or senior employees;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the board for more than nine years from the date of their first appointment.

Where any of these or other relevant circumstances apply, and the board nonetheless considers that the non-executive director is independent, a clear explanation should be provided.

Societies should consider how many of their non-executive directors could be classed as 'independent', according to the relevant circumstances set out in Provision 10. The Code emphasises the need for a clear explanation of the reasons why the board considers a director to be independent, notwithstanding one or more of the relevant circumstances applying.

11. At least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent.

The PRA expects "a clear majority" of directors on each society's board to be non-executive. PRA states that the appropriate ratio of non-executives to executives will vary with the scale, nature and complexity of the society's business (SS 19/15 refers).

12. The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance, and on other occasions as necessary.

Most societies have appointed a senior independent director, whereas others have felt that the concept of a senior non-executive director who is not the chair is of limited relevance to building societies.

The role of the senior independent director is considered more fully in the FRC UK Corporate Governance Code 2024 Guidance. Societies that do not appoint a senior independent director will want to consider whether it is necessary to offer members an alternative mechanism for the handling of their concerns, which acknowledges that members may not always wish to contact the chair or an executive director. Such societies will also want to consider an alternative method for the annual appraisal of the performance of the chair and how the sounding board role, envisaged for the senior independent director will otherwise be performed.

13. Non-executive directors have a prime role in appointing and removing executive directors. Non-executive directors should scrutinise and hold to account the performance of management and individual executive directors against agreed performance objectives. The chair should hold meetings with the non-executive directors without the executive directors present.

14. The responsibilities of the chair, chief executive, senior independent director, board and committees should be clear, set out in writing, agreed by the board and made publicly available. The annual report should set out the number of meetings of the board and its committees, and the individual attendance by directors.

15. When making new appointments, the board should take into account other demands on directors' time. Prior to appointment, significant commitments should be disclosed with an indication of the time involved. Additional external appointments should not be undertaken without prior approval of the board, with the reasons for permitting significant appointments explained in the annual report. Full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or other significant appointment.

16. All directors should have access to the advice of the company secretary, who is responsible for advising the board on all governance matters. Both the appointment and removal of the company secretary should be a matter for the whole board.

Section 3 – Composition, succession and evaluation

Principles

J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan for the board and senior management should be maintained.[4] Both appointments and succession plans should be based on merit and objective criteria[5]. They should promote diversity, inclusion and equal opportunity.

Principle J has been amended in the January 2024 revision of the Code to promote diversity, inclusion and equal opportunity, without referencing specific groups. The list of diversity characteristics has been removed to indicate that diversity policies can be wide ranging.

K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

L. Annual evaluation of the board should consider its performance, composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Provisions

17. The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. The chair of the board should not chair the committee when it is dealing with the appointment of their successor.

18. All directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.

Although many societies do subject all directors to annual re-election, it should be noted that this is not a requirement under the Building Societies Act 1986. As reflected in Rule 26 of the Model Rules for Building Societies, not less than one-third of Directors or (if their number is greater) all those of the other Directors who have not been elected or re-elected at either of the last two Annual General Meetings shall retire from office at the Annual General Meeting in each year.

19. The chair should not remain in post beyond nine years from the date of their first appointment to the board. To facilitate effective succession planning and the development of a diverse board, this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment. A clear explanation should be provided.

[4] The definition of 'senior management' for this purpose should be the executive committee or the first layer of management below board level, including the company secretary.

[5] Which protect against discrimination for those with protected characteristics within the meaning of the Equalities Act 2010.

In building societies it is much more frequently the case than in listed companies that a chair first serves as a non-executive director. The FRC UK Corporate Governance Code 2024 Guidance covers such circumstances: it suggests that where a chair has been a board member for a significant period prior to being appointed, that can justify a limited extension of their term, beyond nine years, where this supports the succession plan and diversity policy.

The PRA discourages societies from appointing chief executives or other executive directors to the board as non-executive directors after retirement (see SS 19/15). In particular, chief executives or other executive directors should not be appointed as chair following retirement.

20. Open advertising and/or an external search consultancy should generally be used for the appointment of the chair and non-executive directors. If an external search consultancy is engaged it should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors.

In most cases, the chair of a building society will be appointed from among the existing non-executive directors, a practice supported by the PRA.

An alternative method of recruitment of non-executive directors for building societies - particularly smaller ones - would be to advertise such vacancies within the society's own membership.

Societies should ensure they have a recruitment policy in place and follow it.

21. There should be a formal and rigorous annual review of the performance of the board, its committees, the chair and individual directors. The chair should commission a regular externally facilitated board performance review. In FTSE 350 companies this should happen at least every three years. The external reviewer should be identified in the annual report and a statement made about any other connection it has with the company or individual directors.

While the Code does not specify how frequently non-FTSE 350 companies should have an externally facilitated evaluation, it does encourage the chair of such companies to consider having these regularly.

The BSA estimates that, broadly, the building society equivalent of a FTSE 350 company is any society that is among the largest 5 societies, ranked by total assets. This is relevant to all references to the FTSE 350 in the Code.

22. The chair should act on the results of the board performance review by recognising the strengths and addressing any weaknesses of the board. Each director should engage with the process and take appropriate action when development needs have been identified.

23. The annual report should describe the work of the nomination committee, including:

- the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline;
- how the board performance review has been conducted, the nature and extent of an external reviewer's contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence future board composition;
- the policy and any initiatives on diversity and inclusion, their objectives and link to company strategy, how they have been implemented and progress on achieving the objectives; and

- the gender balance of those in the senior management and their direct reports.

Provision 23 has been amended to reflect the fact that companies may have additional initiatives in place alongside their diversity and inclusion policy. For the sake of clarity, references to 'board evaluation' have been changed to 'board performance review'.

Section 4 – Audit, risk and internal control

Principles

M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.[6]

N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

O. The board should establish and maintain an effective risk management and internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Principle O has been amended to make the board responsible not only for establishing, but also for maintaining the effectiveness of, the risk management and internal control framework.

Provisions

24. The board should establish an audit committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two.[7] The chair of the board should not be a member. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates.

25. The main roles and responsibilities of the audit committee should include:

- monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them;
- providing advice (where requested by the board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy;
- following the Audit Committees and the External Audit: Minimum Standard;
- reviewing the company's risk management and internal control framework, unless expressly addressed by a separate board risk committee composed of independent non-executive directors, or by the board itself;
- monitoring and reviewing the effectiveness of the company's internal audit function, or where there is not one, considering annually whether there is a need for one and making a recommendation to the board; and
- reporting to the board on how it has discharged its responsibilities.

[6] The board's responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public records and reports to regulators, as well as to information required to be presented by statutory instruments.
[7] A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.

26. The annual report should describe the work of the audit committee, including:

- the matters set out in the Audit Committees and the External Audit: Minimum Standard; and
- where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of external audit.

Provisions 25 and 26 have been updated to reflect the Minimum Standard: Audit Committees and External Audit, and duplicative language has been removed.

27. The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

28. The board should carry out a robust assessment of the company's emerging and principal risks.[8] The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, and an explanation of how these are being managed or mitigated. The board should explain what procedures are in place to identify and manage emerging risks.

29. The board should monitor the company's risk management and internal control framework and, at least annually, carry out a review of its effectiveness. The monitoring and review should cover all material controls, including financial, operational, reporting and compliance controls. The board should provide in the annual report:

- A description of how the board has monitored and reviewed the effectiveness of the framework;
- a declaration of effectiveness of the material controls as at the balance sheet date; and
- a description of any material controls which have not operated effectively as at the balance sheet date, the action taken, or proposed, to improve them and any action taken to address previously reported issues[9].

[8] Principal risks should include, but are not necessarily limited to, those that could result in events or circumstances that might threaten the company's business model, future performance, solvency or liquidity and reputation. In deciding which risks are principal risks companies should consider the potential impact and probability of the related events or circumstances, and the timescale over which they may occur.

[9] This Provision will apply for financial years beginning on or after 1 January 2026. Until then, Provision 29 of the 2018 UK Corporate Governance Code applies.

Provision 29 of the 2018 Code already required that boards monitor, review and report on all material controls including financial, operational and compliance controls. The 2024 Code asks that the board make a declaration of effectiveness over these controls and extends these controls to include those over reporting, such as narrative and ESG reporting controls.

Building societies, being dual regulated financial services firms following a three lines of defence model, are unlikely to need to implement new systems or processes to satisfy the requirements of Provision 29. Compliance with existing PRA and FCA requirements (such as SYSC4, SYSC6, SYSC7 and SYSC9 and other relevant requirements) should be sufficient to demonstrate compliance with Provision 29.

With regard to boards seeking assurance over controls, the FRC states in its technical Q&A "An effective risk management and internal controls framework will include monitoring and review components, and as such, it is possible for information collected internally to be relied upon for the purposes of reporting and making any declaration. It is for individual boards to decide whether external assurance is required over controls, and to what degree."

It is important to note that although other changes to the 2024 Code apply from 1 January 2025, the changes to Provision 29 will apply for financial years beginning on or after **1 January 2026**. Until then, Provision 29 of the 2018 Code continues to apply.

30. In annual and interim financial statements, the board should state whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

31. Taking account of the company's current position and principal risks, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

Section 5 – Remuneration

Principles

P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.

Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management[10] remuneration should be established. No director should be involved in deciding their own remuneration outcome.

R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

Provisions

32. The board should establish a remuneration committee of independent non-executive directors with a minimum membership of three, or in the case of smaller companies, two[11]. In addition, the chair of the board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.

33. The remuneration committee should have delegated responsibility for determining the policy for executive director remuneration and setting remuneration for the chair, executive directors and senior management.[12] It should review workforce[13] remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.

34. The remuneration of non-executive directors should be determined in accordance with the Articles of Association or, alternatively, by the board. Levels of remuneration for the chair and all non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for all non-executive directors should not include share options or other performance-related elements.

> Although building societies do not have Articles of Association, the Building Societies Act 1986 requires provisions similar to these to be included in societies' rules.

35. Where a remuneration consultant is appointed, this should be the responsibility of the remuneration committee. The consultant should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors. Independent judgement should be exercised when evaluating the advice of external third parties and when receiving views from executive and senior management.[14]

[10] See footnote 7.
[11] See footnote 7.
[12] See footnote 4.
[13] See Code Guidance for a description of workforce in this context.
[14] See footnote 4.

36. Remuneration schemes should promote long-term shareholdings by executive directors that support alignment with long-term shareholder interests. In normal circumstances, share awards granted for this purpose should be released for sale on a phased basis and be subject to a total vesting and holding period of five years or more. The remuneration committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.

The requirements in Provision 36 have no direct read-across for building societies, although society boards will wish to consider how best their remuneration policies can be aligned to longer-term performance.

Societies will wish to bear in mind the PRA/FCA Remuneration Code and related guidance on proportionality, which state that it may be appropriate for a firm in proportionality level three to disapply the rules on deferral and performance adjustment.

37. Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. Directors' contracts and/or other agreements or documents which cover director remuneration should include malus and clawback provisions that would enable the company to recover and/or withhold sums or share awards, and specify the circumstances in which it would be appropriate to do so.

Provision 37 has been amended to include that Directors' contracts and/or other agreements or documents which cover director remuneration should include malus and clawback.

Societies will wish to bear in mind the PRA/FCA Remuneration Code and related guidance on proportionality. It should be noted that level 3 Dual-regulated firms (as defined in FCA FG23/5 General Guidance on Proportionality) are not subject to the rules relating to malus and clawback (including SYSC 19D.3.62R – SYSC 19D3.64R).

38. The annual report on remuneration should include a description of its malus and clawback provisions, including:

- the circumstances in which malus and clawback provisions could be used;
- a description of the period for malus and clawback and why the selected period is best suited to the organisation; and
- whether the provisions were used in the last reporting period. If so, a clear explanation of the reason should be provided in the annual report.

This is a new requirement for the January 2024 version of the Code.

39. Only basic salary should be pensionable. The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce. The pension consequences and associated costs of basic salary increases and any other changes in pensionable remuneration, or contribution rates, particularly for directors close to retirement, should be carefully considered when compared with workforce arrangements.

40. Notice or contract periods should be one year or less. If it is necessary to offer longer periods to new directors recruited from outside the company, such periods should reduce to one year or less after the initial period. The remuneration committee should ensure compensation commitments in directors' terms of appointment do not reward poor performance. They should be robust in reducing compensation to reflect departing directors' obligations to mitigate loss.

41. There should be a description of the work of the remuneration committee in the annual report, including:

- an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics;
- reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps;
- whether the remuneration policy operated as intended in terms of company performance and quantum, and, if not, what changes are necessary;
- what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes;
- what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy; and
- to what extent discretion has been applied to remuneration outcomes and the reasons why.

These requirements are largely aligned with the PRA/FCA Remuneration Code, with which building societies are familiar. However, it should be noted the reference to pay ratios relates to the Companies (Miscellaneous Reporting) Regulations 2018. These require quoted companies to report information in their directors' remuneration report (DRR) about the ratio between certain levels of workforce pay and the CEO's pay. Any building society seeking to voluntarily comply with the DRR requirements will need to consider the impact of these Regulations.