



## Mindmap 01: Comply or Explain

Comply or explain is very much about a balance of regulation.

It provides a mechanism whereby the board of directors can disclose how it complies with an area of regulation or expectation, and if it is not compliant, the reasons for this, which may also include other alternative ways of operating

The key principle here is of the board being accountable to its stakeholders, and for listed companies, its shareholders.

The principle of comply or explain has been core to UK governance since the Cadbury report in 1992, and has become part of the way that listed companies are regulated. Comply or explain is an integral part of the Financial Reporting Council's UK Governance Code which applies to companies with a premium listing.

The outcomes of the Wates review are due at the end of 2018 and it will be very interesting to see what happens then as Wates sets out six principles for large private companies and uses an apply or explain approach. Watch this space.

Beyond the UK, comply or explain is used in governance frameworks in over 70 countries, although some countries use apply or explain rather than comply or explain.

So now to the really interesting stuff, the pros and cons of comply or explain.

Starting with the positives.

When it works, Comply or Explain allows companies to be flexible while still operating within a regulatory framework for governance, recognising that one size does not fit all. It should allow innovation and provide a route for companies to explain all of this without focusing on solely ticking a regulatory box.

In my mind map I initially came up with more cons than pros to Comply or Explain. I think that reflects that there are probably challenges from the perspective of boards as well as the shareholders of the company. For example, while the framework allows a business to be innovative, do institutional investors have appetite for explanations rather than compliance?

The last point that came to mind for me regarding pros and cons was the potential for comply or explain to reduce the level or need for regulation. I'll leave that to you to decide if that is good or bad thing.

I will probably publish a mind map focusing on the specifics within the UK Governance Code. As it was updated relatively recently a couple of months ago, I am reminding myself here of some of the changes introduced in to the Code in summer 2018



Last but not least, what does this mean for the Board and indeed for internal auditors?

Well as well as the business complying (or explaining), I think this is about balance and making informed decisions and disclosures.

It really should not be a surprise at year end what is put in the annual report and the directors' statements.

So that's my very first video mindmap. If you have ideas for future mindmaps please get in touch