Restoring Trust in Audit and Corporate Governance
Institute for Family Business Response

Summary

- Family businesses support good corporate governance and understand that good governance is good for business.
- Family businesses have a **close relationship with shareholders**, who are aligned around a long-term vision for the company.
- The Public Interest Entity (PIE) regime was **designed for public companies**, where relationships with distant shareholders, external investors, and other shareholders are very different to those in private companies.
- The Government recognised that public and private companies required different corporate governance and reporting structures when developing the Companies (Miscellaneous Reporting) Regulations 2018.
- Large private companies have recently undergone a significant change around corporate reporting, and more time is needed to review the impact of those changes on reporting and behaviour.
- Extending PIE to all large private companies would act as **a significant disincentive to grow, would add additional cost and complexity to businesses, and reduce UK business competitiveness** against international competitors.
- Increasing the volume of complex reporting produced by companies does not increase transparency, it risks overloading family shareholders and reducing genuine transparency and challenge.
- Thresholds based on **employee numbers and turnover are not appropriate indicators of public interest** and would lead to unintended consequences.
- There is not enough capacity in the audit market for thousands of new PIE companies.
- **The Government should not extend PIE to all large private companies but should instead look at the recent changes to the rules around private companies and consider whether specific changes are needed to parts of that regime.**

About the IFB

The Institute for Family Business (IFB) is the UK's family business organization. Our members include some of the most successful, and most longstanding, businesses in the country. Together they employ over half a million people and have a combined turnover of £100 billion annually, and work across the whole UK in every region, and every sector.

We work with family businesses to help them build better and stronger business for future generations of their families, employees and communities. We work closely with family firms to support them in growing their enterprises for generations to come. A central part of our work is to provide educational resources and knowledge-sharing designed to support business owners and those who work in family business. We aim to champion best practice within the family business community and help others to learn from these examples.

About Family Business

Family business is the backbone of our economy, and the bedrock of our communities. The family business sector in the UK now employs 14.2 million people, generating a quarter of GDP and paying £196bn in tax. From micro start-ups to worldwide brands the innovation, agility and resourcefulness of family-owned firms is second to none. Family businesses are found in all parts of the UK. By their very nature family businesses take a long-term view, building on long-term stewardship of people and resources. Their commitment to passing a healthy business on to the next generation is locked into their corporate DNA.

While the majority of family firms in the UK are small or micro businesses, around half of all mid-sized business and one in five large businesses are family owned. Alongside the large number of growing entrepreneurial first-generation family business, many family firms have been operating for hundreds of years and their longevity and enduring success are testament to their innovative and long-term outlook.

A long-term outlook is at the heart of family business. Shareholders in family businesses view their role as that of a steward, with an obligation to pass the business on to the next generation in a stronger state than they found it. They feel a sense of responsibility not only to future generations of their own family, but also to the legacy of their forebears, their employees, and the community in which they are based.

Most family businesses are privately owned and do not have large numbers of disparate and institutional shareholders. On the contrary, shareholders tend to have a close relationship with the family business and play an important role in shaping the culture and values in the business. Family businesses have an in-built natural tendency to approaching corporate stewardship in ways that ensure that the pursuit of good financial performance supports their long-term objectives and values, rather than harming them.

Families care about having a business which is well governed, to ensure that it is viable and sustainable in the long term. Because they intend to own the business for the long term, rather than expecting to sell their stake within a few years, they also understand that good corporate governance is in their own best interests, as their own family's future would be significantly affected were they to ignore corporate governance and allow a short-term focus.

Resetting the Scope of Regulation

Most family businesses are privately held, including some of the most successful and largest businesses in the UK. There are many reasons that these businesses remain private, and **private business is an important part of a diverse business community.**

The private business community is extremely diverse. Companies owned by private equity investors have very different behaviours, cultures and criteria for success, compared to multi-generational family businesses. Whilst some founder owned businesses view themselves as 'first generation family businesses' and take a long-term outlook, others are more focused on short term results and preparing for sale. This drives very different behaviours. **Private business should not be viewed as a single group** with one set of behaviours. Recent high profile private business failings also do not reflect the reality of how most family businesses operate.

Family companies, rather than having lots of disconnected shareholders, have shareholders with a close relationship to the business who play an important role in shaping the overall culture of the business.

For many families the decision to keep the business private is based on a desire to ensure that it is able to maintain a long-term multigenerational outlook, with a smaller group of shareholders who are committed to long term, sustainable and responsible growth. Keeping a business private allows for longer term planning, rather than a short-term focus on quarterly reporting. Taking a business public can risk the introduction of shareholders who are more interested in short term results than genuine, long term, sustainable growth. For family businesses, where there is a strong personal connection, there are also considerations about introducing shareholders who do not share the same core values.

Families care about having a business which is well governed, to ensure that it is viable and sustainable in the long term. Because they intend to own the business for the long term, rather than expecting to sell their stake within a few years, they also understand that good corporate governance is in their own best interests. Good governance within successful family businesses has two components – family and corporate governance. Corporate governance covers the direction of the business operations, while family governance covers the frameworks and rules that define family members' roles and responsibilities, and how they interact with the business.

Successful family businesses view their family governance as something which must continue to be reviewed and updated as the business, and family, grows. Introducing the next generation to the principles around good family and corporate governance often starts at an early age, learning values from grandparents and parents. Family governance and procedures will vary depending on the specific characteristics of each individual family business, but there are common structures. These have developed naturally as families look at how to ensure their business continues to take a long-term approach to investment and plays a wider role in society.

Some families establish written policies, or constitutions, to define their roles and responsibilities as family members and shareholders and to establish rules around family members working in the business, succession and share ownership. Larger families, particularly those with a greater number of shareholders, may establish a family council or assembly to help a family find consensus, act as guardians of the family' values, to maintain a strong shared long-term vision and to communicate effectively with the Board.

We see many examples of family businesses who view discussions of shared sense of purpose as a central component of their family governance, to ensure the family agree about why they are in business together. This has a direct and unique impact on their attitude to share ownership, reinforcing their sense of stewardship and attachment to the business.

Culture within business is a key component in how a business, and its employees, behave responsibility. In family business this culture often originates from the family's values, and should then be reflected in the work of the Board. Where failings have arisen in other businesses, this has often originated in the culture and values of the business and its investors.

Question 1 – Should large private companies be included within the definition of a Public Interest Entity (PIE)? Please give your reasons.

Whilst we support measures to improve corporate governance in business, **we do not support the inclusion of large private companies within the definition of Public Interest Entity (PIE)** as proposed in this consultation. The proposals are not a proportionate response to the aim of improving governance and reporting in companies, and risk disincentivising future growth and competitiveness.

The PIE regime was designed for listed companies and the way in which they operate. Private family companies operate in a very different way, have different structures, corporate governance and relationships with stakeholders, and so **a regime that is suitable for public companies will not be suitable for them or their stakeholders.**

Given that the majority of companies are already behaving in a responsible manner, we do not believe that the risks involved with introducing a code with a significant compliance component, the associated burden on business, and the consequent focus away from investment and growth, is proportionate or desirable.

The Government should not extend PIE to private companies, but should instead look at the recent changes to the rules around private companies and consider whether specific changes are needed to parts of that regime.

Whilst we understand there is an important conversation to have about corporate governance and reporting in private companies, we do not support a blanket extension of PIE status to large private companies. The PIE regime was designed and built for listed companies. Listed companies not only operate with different structures to private family firms, but they also have very different relationships and communication with their shareholders, employees, suppliers and other stakeholders. Private family companies, for example, have a much longer-term outlook than listed firms, and take on less debt. Large private family businesses are also already subject to laws which protect shareholders and other stakeholders, and where directors' behaviour led to company failures they do already have a means of redress.

The differences in outlook, engagement of shareholder base, corporate and family governance structures and strong values, outlined above this answer are some of the reasons we do not believe it is suitable to extend the PIE system designed for listed companies to private family firms.

In preparing this response we spoke to shareholders, directors, and managers of many large family firms. They all raised serious concerns about the impact of these proposals on their businesses. Their concerns included the significant financial and administrative burden, and the way the proposals would take the Board and management's focus away from investment and growth with no clear benefit to the business or its stakeholders.

There were also serious concerns about the impact this would have on UK companies competitiveness versus overseas competitors who did not have to incur these additional costs, and the way this would drive activity out of the UK.

There were also **strong views on the way these proposals would disincentivise growth in larger private family companies.** Board and management time would also be taken up with risk management and compliance to satisfy the needs of the regulator, rather than focusing on strategy, growth and consideration of genuine stakeholder interests. Many businesses also told us that the PIE regime was so onerous and concerning that they would restrict their growth in order to prevent crossing the threshold.

"Our business, which is nearing the £500m revenue threshold, would face a dilemma crossing that threshold as it would potentially cost us £2-300k in lost profit dealing with what is essentially a time consuming and minimum value exercise from our perspective. We have had to hire a compliance manager to deal with the stream of new requirements from Modern Slavery, Tax Strategy, Section 172, Payment Practices Requirements etc. On Payment Practices our experience is that no one looks at it, it has no consequences if you have a poor record and doesn't add value to the business or those outside it […] The thresholds also have a disproportionate impact on high turnover but relatively low margin, highly staffed businesses like retail and hospitality that face enough red tape without making our lives harder." – Non-family Director in an online retailer.

"Extending the PIE concept to larger private companies will not empower their shareholders but will add layers of cost and bureaucracy for no obvious benefit. It will disincentivise medium size companies like mine from growing and put UK Groups at a disadvantage to subsidiaries of overseas Groups. If these proposals were enacted I would actively look to limit the growth of my business so as to remain below the thresholds – I want to enjoy my work and make a difference, not get bogged down in bureaucracy. If I were to continue to grow my business I would look to structure it so as not to face the additional cost, for example, by subcontracting more of the elements of my cost base so as to reduce the number of employees." – Family Chairman of large construction company.

"I have worked my way up in our family business since its turnover was less than £100m. It is now £1.2bn. The growth has been largely organic, with only limited M&A, and funded almost entirely through our own equity and trading cash flows. We now have a large, purpose-led business with strong governance, supportive and engaged shareholders and an exceptional roster of NEDs. I am proud of what we have all achieved, and our business has retained its ambition for growth.

"However, had a regime existed where we would have been classified as a PIE at either 2,000 employees (equivalent to roughly £200m turnover in our industry) or 500 employees and £500m turnover then I am certain that we would not have achieved, nor wanted to achieve, this growth. Becoming a PIE would be a choice that owners and managers would have to make: to continue to grow and accept the very real costs, complexity and risk of government interference through ever-expanding Regulations, or manage the business for cash, increase dividends, reduce investment and engage in portfolio management to avoid tripping into the PIE regime. I am certain we would have chosen the latter and used the cash proceeds to invest elsewhere in the world.

"I am very concerned that the proposals being consulted on represent a threat to the growth and health of ambitious family businesses. The UK economy needs a diverse ownership base, and this attempt to treat all large businesses as one misunderstands the dynamics of family businesses and their relationship with their shareholders and other stakeholders. Management's and shareholders' interests are usually aligned – they are often the same people! The result is a regime that imposes a disproportionate burden on business for very limited benefit. Much of what is contained in the proposals is best practice and is to be encouraged, but this heavy-handed imposition of regulation will be counter-productive." – Family Chairman in large food company.

We also have concerns about the impact of the proposals on genuine transparency and challenge**. Increasing the amount of information in annual reports does not necessarily increase transparency.** There is a real risk that increasing the volume and complexity of these reports acts as a disincentive for family shareholders or other stakeholders to review the reports and actually distance them from the business. In listed companies the complex reports are broken down by external professional analysts before providing summary information to investors or individual distant shareholders. Close family shareholders don't have, or require, that kind of system.

Increasing complexity of reporting encourages box ticking and boiler plate responses, makes it harder for interested parties to get a sense of the health and strategy of the company, and discourages genuine discussion. Extensive reporting requirements are already in place for private companies. The increased cost and complexity of bringing in private companies to the PIE regime is not justified against the outcome for shareholders and other stakeholders.

"As a family-owned business providing NHS services, we have real concerns that the proposed changes will have a significant impact in shifting the core focus of the Board away from running the business and providing patient care towards short term reporting and compliance." – Family CEO of a pharmacy chain.

Bringing private family companies into the PIE regime would see these companies aligned to a regulatory regime which is focused on short term reporting. This is at odds with the long-term outlook and approach of family businesses that makes that such an important and resilient part of our economy. It would also see family companies brought into a regime designed for listed companies, and subject to all the same future changes as those companies without future legislative scrutiny. This isn't appropriate or proportionate. The consultation, for example, talks frequently about 'investors'. Family firms typically do not have external investors, instead investing in the business from retained profit. These are important differences which we are concerned would not be taken into account in future changes to the PIE regime.

In 2018 the Wates Corporate Governance Principles for Large Private Companies were published, to help businesses improve their governance and report on their arrangements in line with the Companies (Miscellaneous reporting) Regulations 2018. We strongly supported the decision by the Government to move ahead with a principles-based approach following the 2017 BEIS consultation on Corporate Governance Reform.

In our response to that consultation we said "*The Government should focus any reforms or interventions on actions which will improve culture and embed genuine engagement and good governance in all businesses. This includes spreading the principles of good governance in private business, and in sharing and promoting examples of best practice*" and "*given that the majority of companies already behave in a responsible manner we believe that introducing a PLC-type code for private businesses is not a proportionate approach, and carries with it the possibility of a number of unfavourable unintended consequences".* The Government accepted in its next steps that it was appropriate to build a bespoke system for private companies, given the many differences between them and listed firms. This should be the approach in this area too.

The Wates Principles have been welcomed by the family business community. Shareholders, director and managers have all spoken to us about how well the Principles reflect the reality of family business, and how helpful they have found the Principles in supporting them to have conversations about how to develop their corporate governance and address any weaknesses.

"We have embraced the spirit of Wates even though we do not fall within the threshold. We are very proud of our sound corporate governance which reflects the values of our family shareholders which translate from what our shareholders term 'Doing Things beautifully'. It gives us a framework to not only showcase the way we deal with stakeholders but also provides us with elements that we can start to measure over time. So we see this as a value add to our business. A practical example of how this translates into reality is that we have

been accorded Low Risk Taxpayer status by HMRC which is very unusual for a company in our industry but is a reflection of strong controls – this adds real value and the Wates framework gives us an extra layer to show how we do things the right way. […] I completely agree there are merits to identifying PIEs and ensuring that there are stakeholder safeguards but for private businesses this is what I believe Wates, which is pragmatic and value adding, is designed to do. For the review to have completely ignored it is disheartening. They have not thought through the companies that would be caught in it in the nuanced way that Wates did." – Non-family director in online retailer.

The regime for reporting against those Principles is still very new, and no information on the uptake or quality of reporting has been published. These new regulations, and the supporting Principles, need time to embed and monitoring to review impact is still needed. **The Government and Regulator should focus on assessing the impact of this recent change before introducing a disproportionate additional level of compliance and reporting for private company.**

By reviewing reporting against the Companies (Miscellaneous Reporting) Regulations 2018 the Government will be able to identify additional areas where information may be needed for private company shareholders and stakeholders, and address those specific areas. That approach would be more proportionate and implementable than bringing thousands of additional private firms into the PIE regime.

In summary, we recommend that the Government separate out changes to the regime for existing PIEs. Then, the Government should review what is meant by public interest to identify which companies should be included in an extended definition. After doing this it should consider whether the existing reporting regime for private companies can be updated to satisfy the public interest element, or whether an alternative system for private company PIEs should be developed.

Question 2- What large private companies would you include in the PIE definition: Option1, Option 2 or another? Please give your reasons.

We do not agree with the underlying assumption that size, based on employees and turnover, is the indicator of public interest. In listed companies, for example, part of the public interest element comes from the fact that the shares in those firms are publicly traded.

We spoke to many businesses in preparation for our response. They were concerned that using a metric based on employee numbers disproportionally impacts those companies in certain industries (i.e. construction, hospitality, retail). This risks the unintended consequence of encouraging companies to outsource to keep below the threshold. As outlined in the answer to question one we also heard from many businesses that they would look to limit growth in their company in order to stay below the threshold.

Both Option 1 and 2 are not appropriate and bring too many businesses into scope. Bringing all private companies in Option 1 or 2 is not proportionate to the risk of unexpected business failure posed by private firms, especially considering the significant financial and administrative burden associated.

The Government should review what is meant by public interest, considering not only employee numbers, but a full range of factors which could include industry or strategic national and supply chain importance, to establish a more appropriate definition. Once it is clear which companies, and business types, fall into this category it can then look at the corporate governance and report required.

Question 9 – How would an increase in the number of PIEs impact on the number of auditors operating in the PIE audit market?

As part of the preparation for our response we spoke to experts in the audit and accountancy fields. Auditors and professionals in the industry report that there is not sufficient resource in the audit market to service an increase in firms under Option 1 or 2. Not only would the audit firms require increased resource, but the PIE companies would need to hire for internal audit, and regulator would also need to hire significant numbers of additional auditors. There are not enough trained and experienced auditors to fill these roles, and it would take years to bring new people in, train them, and develop sufficient experience to deal with these complex arrangements.

Bringing so many extra companies into scope also means more small audit firms would have to register with the FRC – and for firms who have only one PIE client it is unlikely they will want to keep that client. The proposals therefore risk reducing competition in the audit market in the short to medium term.

Question 10 – Do you agree that the Government should provide time for companies to prepare for the introduction of a new definition of PIE?
Question 11 – Do you agree that the Government should seek to offer a phased introduction for a new definition of PIE?

The timing of these proposals, at a time when businesses need to focus on recovering and rebuilding following the pandemic, risks damaging investment and growth. Businesses we spoke to in the course of preparing this response raised serious concerns about the cost involved in complying with the new regulation and the way in which this extension would act as a disincentive to businesses near the threshold to continue to grow and invest.

The proposals for private companies would see them not only being introduced into the PIE regime, but brought into a more stringent and complex regime than exists for current PIEs. This will take a significant amount of time, resource and Board focus.

We believe the figures in the impact assessment significantly underestimate the cost to business of these proposals. For private companies the costs will be significantly higher than for listed companies that have already introduced some of these changes, in part because they are required as part of the listing process. The cost for private companies to get to the internal control process proposed, for example, would be far above that assumed in the impact assessment, which is based on the US where SOX has been up and running for years. This financial and time investment company also takes resources away from potential investment in growth.

The Government should not extend PIE to large private companies. It should instead evaluate the impact of the recent legislative changes to private company reporting. It should then identify areas where it believes more structure or disclosure is needed to reassure stakeholders about the performance of companies, and work with private companies to develop a suitable approach which is designed for private companies not listed firms.

Director’s Accountability for Internal Controls, Dividends and Capital Maintenance

Stronger Internal Company Controls

Question 12 – Is there a case for strengthening the internal control framework for UK companies? What would you see as the principal benefits and disbenefits of stronger regulation of internal controls?

Question 13 – If the control framework were to be strengthened, would you support the Government’s initial preferred option (Table 2)? Are there other options that you think Government should consider? Should external audit and assurance of the internal controls be mandatory?

Question 14 – if the framework were to be strengthened, which types of companies should be within scope of the new requirements?

We have significant concerns about the proposed timeframe and scope for proposed changes to internal control frameworks for private companies. While listed firms tend to have similar structures, private companies often have complex structure, including overseas operations or joint ventures. It is not clear that this has been considered, or the impact of this, in the proposals as presented.

For companies to comply with the proposals would be a significant time and financial commitment. Recruiting a team for internal control, training them, building and testing the control processes would likely take years for private businesses to enact this.

As part of the preparation for our response we spoke to experts in the audit and accountancy fields. There are significant concerns about the availability of professionals for internal control roles in up to 2000 extra private companies, especially at a time when audit firms and the regulator will have to hire lots of extra auditors.

We believe the figures in the impact assessment significantly underestimate the cost to business of these proposals. For private companies the costs will be significantly higher than for listed companies that have already introduced some of these changes, in part because they are required as part of the listing process. The cost for private companies to get to the internal control process proposed, for example, would be far above that assumed in the impact assessment, which is based on the US where SOX has been up and running for years. This financial and time investment company also takes resources away from potential investment in growth.

Dividends and Capital Maintenance

Question 15 – Should the regulator have stronger responsibilities for defining what should be treated as realised profits and losses for the purposes of section 853 of the Companies Act 2006? Would you support either of the two options identified? Are there other options which should be considered? What should ARGA consider when determining what should be treated as realised profits and losses?

Question 16 – Would the proposed new distributions profit reporting requirements provide useful information for investors and other users of accounts? Would the cost of preparing these disclosures be proportionate to the benefits? Should these requirements be limited to listed and AIM companies or extended to all PIEs?

Question 17 – Would an explicit directors’ statement about the legality of dividends and their effect on the future solvency of a company be effective in both ensuring that directors comply with their duties and in building external confidence in compliance with the dividend rules? Should these requirements be limited to listed and AIM companies or extended to all PIEs?

Question 18 – Do you agree that the combination of recently introduced Companies Act section 172(1) reporting requirement along with encouragement from the investment community and ARGA will be enough to ensure that companies are sufficiently transparent about their distribution and capital allocation policies? Should a new reporting requirement be considered?

Private family companies have a very different relationship with shareholders than large, listed companies, and how they decide when and to how to pay dividends is different too. We have seen during the pandemic family shareholders deciding with the business that they will forego dividends in order to keep cash within the business during difficult times. Family companies also tend to invest from retained profit rather than taking on debt, and will make decisions about payment of future dividends with that in mind.

Dividends also play a role in encouraging long term ownership of businesses. If family shareholders are not able to receive any dividend income it can disincentivise long term ownership, encouraging family shareholders to sell the business and invest that cash in other places that provide a regular income. This means businesses lose the long term ownership that gives them stability and strong culture.

Family companies also have to consider ownership succession within the family, and management of the shareholder base. Planning for a transfer of ownership between generations is an essential part of ensuring a family firm will continue to thrive for many years to come. Succession can take many forms, as families and businesses develop a process which is most suitable to their unique circumstances.

In many instances this will see owners gradually phase their withdrawal from the business as the next generation become more involved in the firm, as they perhaps step back from day to day management, or when they retire from the business entirely. In these circumstances shareholders may be 'exiting' from some of their share, but still intend to remain a shareholder in the business. There are familial reasons and those of heritage to remain a shareholder, as well as financial reasons.

It is imperative that families, shareholders and businesses are allowed to manage the delicate issue of phasing succession in the business in a way that best reflects the long term needs of the business, and that they are not penalised unfairly in comparison to other ownership models for doing this.

The consultation does not reflect the kinds of relationships family shareholders have with the business they own, or their close involvement with the business or the structures that are put in place around dividends, internal share markets, and family shareholders leaving the business.

New Corporate Reporting

Resilience Statement

Question 19 – Do you agree that the above matters should be included by all companies in the Resilience Statement? If so, should they be addressed in the short or medium term sections of the Statement, or both? Should any other matters be addressed by all companies in the short and medium term sections of the Resilience Statement?

Question 20 – Should the Resilience Statement be a vehicle for TCFD reporting in whole or part?

Question 21 – Do you agree with the proposed company coverage for the Resilience Statement, and the proposal to delay the introduction of the Statement in respect of non-premium listed PIEs for two years? Should recently-listed companies be out of scope?

We are concerned about requirements for businesses to make five year forecasts. Given the variables in any five year period, it is unlikely that companies would be able to provide these with any level of accuracy. This could encourage boilerplate responses, which add little to no value.

We do not believe Resilience Statements should be used as a vehicle for TCFD reporting. TCFD reporting is likely to develop and change in coming years, and this regime should remain separate.

Audit and Assurance Policy

Question 22 – Do you agree with the proposed minimum content for the Audit and Assurance Policy? Should any other matters be addressed in the Policy by all companies in scope?

Question 23 – Should the Audit and Assurance Policy be published annually and subject to an annual advisory shareholder vote, or should it be published and voted on at least once every three years?

Question 24 – Do you agree with the proposed scope of coverage and method for implementing the Audit and Assurance Policy?

Clarity is needed from Government on what "advisory shareholder vote" means in practice for companies. Companies should have flexibility to produce an Audit and Assurance Policy which suits their own business needs, and it is essential that reporting on that avoids a regime which encourages boilerplate responses.

Reporting on Payment Practices

Question 25 – In order to improve reporting on supplier payments, should larger companies be required to summarise their record on supplier payments over the previous 12 months as part of their annual Strategic Report (applying at a group level in the case of parent companies)? If so, what should the reporting summary include at a minimum? Do you have alternative suggestions on how to improve supplier payments reporting?

Question 26 – To which companies should improvements in supplier payments reporting apply: companies which are PIEs and already report under the Payment Practices Reporting Duty, or PIEs with more than 500 employees?

Prompt payment is important for business, particularly small businesses, and the pandemic has highlighted this for many. There are already requirements for payment practices reporting for businesses above a certain size. If the Government believes the existing reporting is not meeting its objectives, or could be improved in certain areas, it should consult on changes in that area separately and make changes to the regime in place, rather than adding different requirements in another place.

Public Interest Statement

Question 27 – Do you agree with the Government's proposal not to introduce a new statutory requirement at this time for directors to publish an annual public interest statement?

Yes, we agree with the decision not to interest a new statutory requirement to publish a public interest statement. An additional statement would not add meaningfully to the information already available through large private company corporate governance reporting.

Enforcement Against Company Directors

Question 29 – Are there any other arrangements the Government should consider to ensure that overlapping powers are managed effectively?
Question 30 - Are there any additional duties that you think should be in scope of the regulators enforcement powers?
Question 31 – Are there any existing or proposed directors' duties relating to corporate reporting and audit that you think should be specifically included or excused from further elaboration for the purposes of the directors' enforcement regime?
Question 32 – Should directors of public interest entities be required to meet certain behavioural standards when carrying out their statutory duties relating to corporate reporting and audits? Should those standards be set by the regulator? What standards should directors have to meet in this context?
Question 33 – Should the Government's proposed enforcement powers be made available to the regulator in respect of breaches of directors' duties?

On changes to Directors' duties and enforcement by the regulator, we have concern about the impact this could have on the pool of available directors for larger private businesses, and **the risk it will deter those who do not come from an accountancy background from taking up non-executive director roles.** If the additional requirements associated with PIEs in addition to proposals on directors close off those roles to people without a formal audit or accountancy background, this will lead to a lack of diversity of thought and experience in the boardroom. Directors in family businesses have told us this would act as a significant disincentive for them taking on those roles in the future.

More information is also needed on the appeals process in relation to decisions or enforcement by the regulator. It is not clear at present what, if any, appeals regime will be in place.

Conclusions

Good governance is good for business, and family businesses support genuine corporate governance improvement. The relationships private family companies have with their shareholders and stakeholders are very different to those of listed companies, and therefore a different approach for corporate governance and reporting is required for the two groups. The PIE regime was built for listed companies, and should not be extended to private companies. The Government should instead look at the arrangements in place for private companies and consider if these need to be reviewed or updated. We believe the Wates Principles need more time to bed in, as reporting against these has only just begun.

Size – either based on turnover or employee numbers – is not a suitable indicator of public interest, and a more nuanced and balanced approach is needed. Using the thresholds proposed in the consultation could act as a significant disincentive to growth and future investment by private UK companies.

The cost and time involved in bringing private companies into PIE would take focus away from businesses rebuilding and growing after the pandemic. It could also reduce transparency for shareholders and stakeholders in private family companies through the production of lengthy and unnecessary reporting. Good governance is rooted in a strong company culture, while complex and short-term reporting can lead to a culture of box ticking and boilerplate responses.

We recommend that the Government separate out changes to the regime for existing PIEs, then review what is meant by public interest to identify which companies should be included in an extended definition. After doing this it should consider whether the existing reporting regime for private companies can be updated to satisfy the public interest element, or whether an alternative system for private company PIEs should be developed.

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