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Guide to Corporate Governance

OCORIAN

Corporate Governance: Why is it so important?

As changes are made to business regulations across the world, it is paramount for companies to ensure that corporate governance principles are maintained to uphold reputations

Dan McGrath – Content Editor, Corporate Finance News

With regulation having an ever-increasing imposition in the business sphere, particularly after the introduction of the Financial Conduct Authority's (FCA) Consumer Duty, the corporate governance scope has continued to widen.

Corporate governance is defined as the system by which companies are directed and controlled, with board members being responsible for the governance of their respective companies.

The principles of corporate governance refer to the mechanisms, processes, practices and relations that a company works to, and the accountability, fairness, responsibility and risk management that it employs.

If implemented and communicated correctly, this can benefit employees and shareholders, as well as the reputation of the firm.

However, bad corporate governance and practice can cause damage to a company's profitability and ultimately, operations.

Introduction to Ocorian

Ocorian is a global corporate services provider that assists clients in managing the complex landscape of multi-jurisdictional compliance and governance, helping them to focus on driving business forward.

Working in the sector for over 50 years and employing 1,800 staff worldwide across more than 20 offices, its team of advisers takes the time to understand a company's purpose, keeping it informed and most importantly, prepared, for any regulatory changes.

Alongside business-as-usual administration, Ocorian covers a range of scenarios including international expansion, re-domicilation, mergers, acquisitions, joint ventures, IPOs, restructurings, asset segregation and divestment.

Its services include entity establishment, corporate compliance, accounting, regulatory reporting, board meeting support and share plan administration across a range of sectors.

Ocorian also offers a suite of corporate, fund and private client services across its network of offices, covering all of the world's financial hubs.

Beyond borders: ensuring compliance in international corporate structures

Exploring some of the key considerations required to manage non-compliance in corporate group structures

Chris Mayfield - head of business development for corporate services in EMEA, Ocorian

In today's global business environment, once a company gets above a relatively small turnover threshold – it is likely to have some international elements to its group structure. This could range from a simple, single investment or holding structure through to a fully formed collection of international operating companies. Whilst these international structures can bring significant benefits to a business, they also bring with them an inherent risk from a compliance perspective that needs to be properly managed.

What effects can international non-compliance have on businesses?

Financial

Failing to file, filing incorrectly or filing late often incurs fines from the local regulator. These fines often increase incrementally with time and end up having a direct impact on the profitability of the entity in the region.

Resource

Non-compliance normally leads to additional paperwork and processes that need to be undertaken. These may require specialist knowledge from local advisors to complete and could even require in-person attendance at a regulator's office.

Reputation

In jurisdiction, a non-compliant entity may be 'red-flagged' when it comes to obtaining finance or entering into local contracts. Suppliers, partners and clients who perform due diligence before entering into a business relationship may choose not to work with the non-complaint entity. Non-compliance entities can also have a detrimental impact on inward investment.

How can you manage the risk?

Ensuring compliance across various jurisdictions is crucial for businesses, and it requires a well-thought-out strategy. First and foremost, the business needs to fully understand the current compliance requirements and the annual reporting timetable for each jurisdiction in which the entity exists. Having this information ready well in advance can save any last-minute stress and potential penalties.

Adopting a best practice approach to governance and compliance is more than just a box-ticking exercise. It involves implementing robust policies and procedures that not only meet regulatory requirements but also enhance an organisation's overall governance framework.

Working with a local compliance partner in each jurisdiction can be immensely beneficial. These partners have a deeper understanding of local regulations and can offer tailored advice on how to stay compliant. They can also help horizon scan for upcoming regulatory changes, allowing businesses to adapt well in advance. Some new international regulations come with 'lookback' clauses, which means they can affect businesses even before they come into effect.

Managing regional personnel risk is another key aspect of compliance. If a business relies on sole directors or bank signatories in certain jurisdictions, it's essential to have contingency plans in place for

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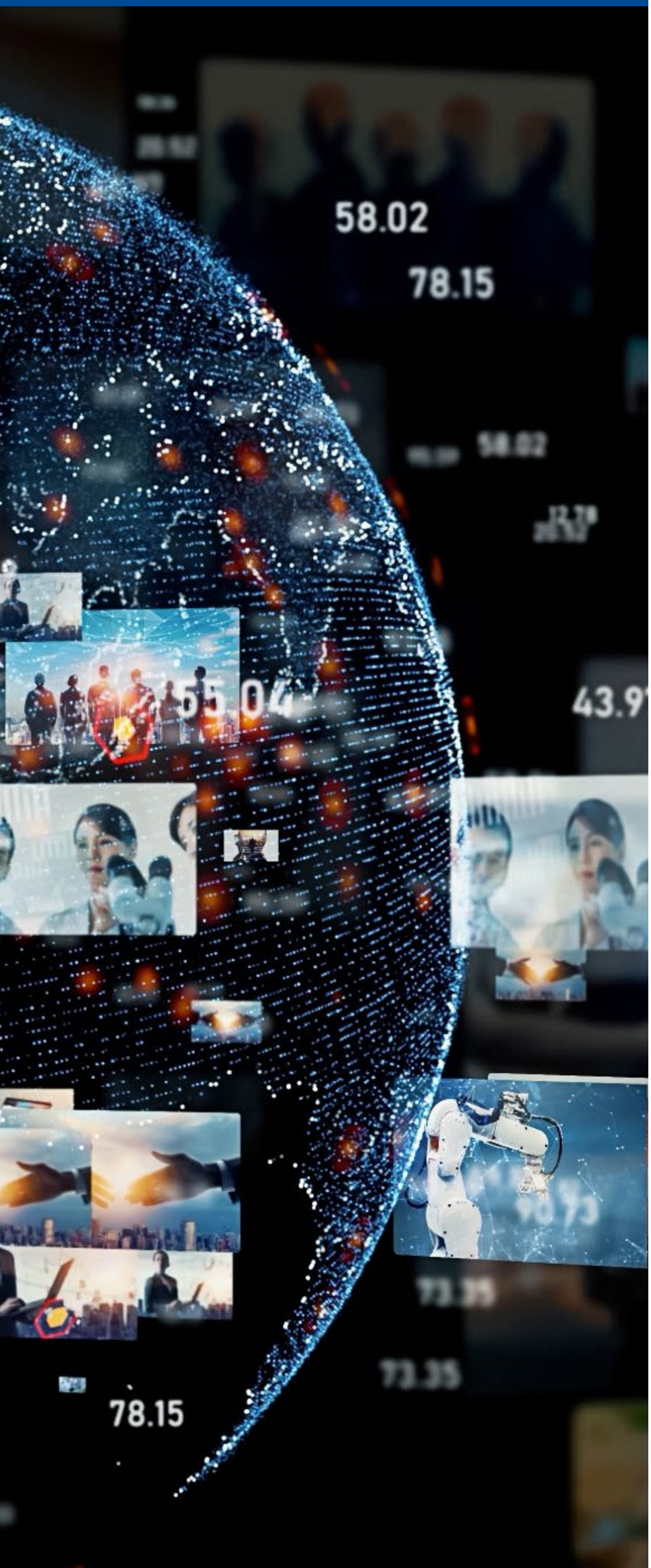

scenarios where these individuals may suddenly depart the business due to sickness or disputes. Businesses need to ensure that they can still access their bank accounts and fulfil their local compliance reporting duties.

Good communication and regular meetings with the regional legal and compliance partners is vital. Even if local regulations remain unchanged, the mindset and motivation of the regulator can shift. Different compliance items may become prioritized, and penalties can be adapted accordingly. Staying in constant communication helps to stay ahead of these changes.

In addition to these steps, maintaining thorough documentation of all compliance activities and decisions is crucial. Continuous education and training on compliance requirements and best practices can further strengthen an organisation's compliance culture. Consider leveraging technology solutions, such as compliance management software, to streamline processes and ensure that nothing slips through the cracks.

By following these steps and fostering a proactive compliance culture, businesses can navigate the complex regulatory landscape with confidence and protect itself from potential risks.

How can Ocorian help?

Ocorian has a team of highly experienced regulatory and compliance practitioners located in offices across 20 locations throughout Europe, Africa, the Middle East, Asia and the Americas.

We service the varied needs of companies and financial institutions, helping businesses enter new markets and navigate an increasingly complex international regulatory environment.

Our global corporate services team has extensive local networks and detailed local knowledge to ensure international structures are supported to the highest possible standard.

For more information, contact Ocorian's corporate administration and compliance team at www.ocorian.com/corporate.

Case study:

Addressing challenges in governance, valuation transparency, board independence and regulatory compliance before an IPO

Ocorian is a leading provider of corporate and fiduciary services, dedicated to helping companies navigate complex regulatory environments and achieve their business objectives.

This case study explores Ocorian's pivotal role in the successful initial public offering (IPO) of a music rights investment and management company. Ocorian's corporate administration specialists provided comprehensive support throughout the IPO process and beyond, ensuring the client's successful transition from a private entity to a publicly listed company and later, its delisting following an acquisition.

The client's challenge

The client required support with their IPO and turned to Ocorian to address challenges in governance, valuation transparency, board independence and regulatory compliance before publicly trading.

Following the IPO, the client also needed support to de-list from the exchange due to its acquisition.

How did Ocorian help?

During the process, Ocorian's corporate governance and compliance team guided the client at various stages of their company's lifecycle across a number of jurisdictions.

Upon being tasked with this challenge, Ocorian assisted with the preparation of all necessary documentation for the IPO process, ensuring compliance with the listing requirements. The allocated Ocorian company secretary liaised with the relevant advisors and auditors to prepare the IPO prospectus, ensuring full and accurate disclosures of financial performance, risks, and governance practices.

Ocorian also advised on the company's board composition during the non-executive director appointment process to ensure the right balance of independence, expertise, and diversity was achieved by providing guidance on board diversity requirements. This part of the process also ensured that the appointment was compliant with the UK Corporate Governance Code and other applicable frameworks. Furthermore, Ocorian organised annual

> *"Ocorian has supported the client to redefine and implement voluntary governance practices through seamless board support and the integration of technology"*

board performance evaluations to assess and improve the board's effectiveness in decision-making and oversight.

Following the client's transition as a publicly listed company, Ocorian supported the board by establishing a robust compliance framework to monitor and meet obligations under the UK Corporate Governance Code and listing rules. This included facilitating the timely preparation and filing of financial reports, annual reports, and other regulatory disclosures. Additionally, the Ocorian company secretary conducted regular training for the board to ensure the directors discharged their fiduciary responsibilities accordingly.

As the client transitioned from a fund structure to a corporate structure following its acquisition, it encountered further regulatory and corporate governance challenges during the delisting process. The delisting procedure involved adjustments to the company's governance framework, stakeholder engagement and compliance processes, as the company moved from the public market to private.

During this transition, Ocorian engaged with legal advisors and regulators to ensure the client complied with delisting regulations, by arranging shareholder approvals, notifications and regulatory filings.

The client no longer faced the same corporate governance requirements after delisting from the exchange, as it is not required to adhere to the UK Corporate Governance Code. As a result, it had to adjust its financial reporting standards and disclosure practices to meet new private corporate requirements.

Throughout this process, Ocorian has supported the client to redefine and implement voluntary governance practices through seamless board support and the integration of technology via electronic board portals to provide a secure platform for board meeting materials. Ocorian played a crucial role in guiding the client in establishing and executing voluntary governance practices through effective board support and technology integration, helping to mitigate significant operational, financial, and reputational risks throughout their journey from IPO to delisting.

Head of business development for corporate services in EMEA, Chris Mayfield

How important is corporate governance in the finance world?

Chris Mayfield: Corporate governance plays a major part in the financial performance of a company. Having a governance framework in place sets out a structured set of behaviours, that will be adhered to (at the very least at board level) to assess, plan and adapt to risk, to regulation and to other internal and external pressures.

It ensures companies are able to embrace changing market conditions within their strategy to gain an advantage on their competitors, rather than being reactive which inevitably leads to inefficiencies within the business.

How have you seen businesses adapt to the requirements of corporate governance in recent years?

CM: We have certainly seen corporate governance rise in importance with boards in recent years. There is a realisation now that adherence to a good corporate governance framework is a tool for growth – perhaps not directly, but in terms of enabling better communication and decision making, improving culture and employee morale, (which drives productivity), being better prepared for risk and being more appetising as an investment proposition.

This realisation has led to boards becoming more responsive to corporate governance developments, more inclined to adopt a best practice approach (rather than tick a box) and more likely to engage with an external service provider to ensure they are doing it right.

What has been the most important change in the corporate governance sphere recently?

CM: Technology advancements are certainly changing the game. Electronic board portals allow for the secure and efficient dissemination of board packs. Speech recognition tools allow for the potential streamlining of the very time-consuming minuting tasks, video calling technology has allowed for remote board / committee meetings and as we move forward, I am sure AI and Blockchain will have a significant as well.

What further changes do you see on the horizon?

CM: From a regulatory perspective – we would expect to see more of an alignment around governance requirements across the globe. We would also expect to see a trend of companies taking governance more seriously at an earlier stage in their cycle.

From a technological perspective – we expect AI to become a tool to facilitate horizon scanning, decision-making, policy drafting and risk management.

Where does Ocorian see itself in the corporate governance industry in five years' time?

CM: As a leader of course. Ocorian is heavily focused on employing and developing the best people and technology to deliver a truly unrivalled client experience. But that alone is not enough. We want to lead by example, demonstrating excellent governance and compliance within our organisation – and we want to utilise our knowledge and experience is this area differentiate ourselves from the competition. We want Ocorian to be synonymous with good governance and for companies who value good governance, to come to us.

For more information on how Ocorian can help you with your corporate governance requirements, contact Chris Mayfield at chris.mayfield@ocorian.com

Conclusion:

Employing the necessary skills and making the right decisions in the corporate governance field can be the gateway to business growth

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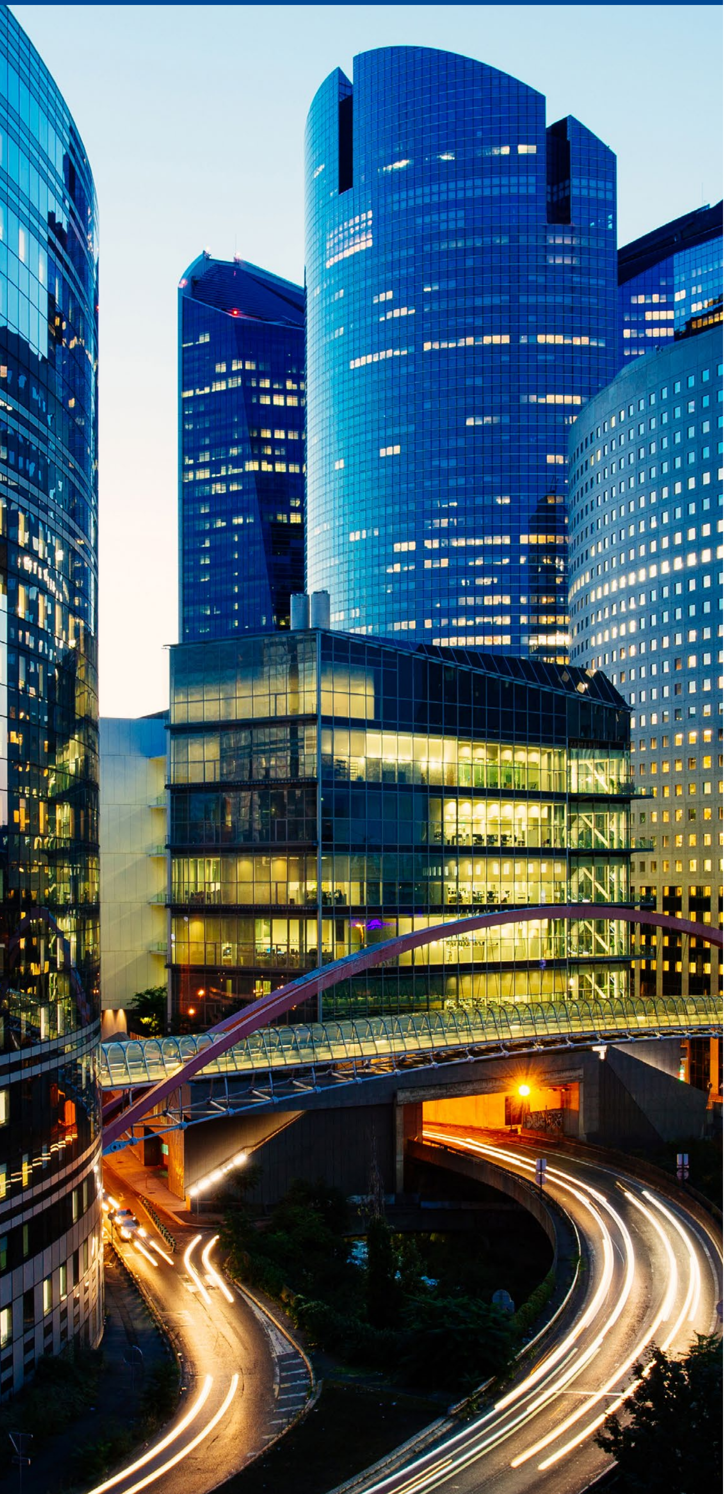

The world of business is ever-evolving and there are often situations where new regulatory matters can be overlooked, whether through a lack of understanding or not having the means to fulfil them. With the prospect of additional financial costs, the potential for extra work and a damaged reputation both nationally and internationally, the thought of not keeping up with these changes in regulation does not bear thinking about for many business owners.

It is therefore vital that businesses surround themselves with governance experts who are well-versed in providing the required know-how and ability to tackle these pieces of regulation.

As shown in the case study, guidance through the corporate governance journey by firms such as Ocorian can guarantee that changes made to a business are not only in line with regulation but ensure that it is set up for the future.

Whether through actions such as the building of a compliance framework or organising annual board evaluations, having a third party to support and develop decisions can allow companies to grow and make the right steps to build business confidence.

With technology set to have an increasing role within the governance sector, its utilisation and implementation can also allow for companies to focus on key areas that require attention, with tools such as AI streamlining manual and time-consuming tasks within the governance journey.

Furthermore, the past year has shown us that changes in Government can result in large scale alterations to business, evidently in the election victories of Starmer and Trump.

As demonstrated in Chris Mayfield's international compliance piece, there is always the risk that clauses in some regulations can affect businesses before they come into effect. However, employing a compliance partner ensures that any issues can be resolved with an expert on hand, should problems unexpectedly arise.

As a business evolves, the use of a company such as Ocorian can be vital to keep the day-to-day governance of the firm consistent, while ensuring that corporate governance guidelines and requirements are met.