

Section A

Answer **all** the questions in this section.

1. The UK Corporate Governance Code 2018 states that FTSE 350 companies should carry out an externally facilitated board evaluation annually.

Is this **true** or **false**?

(Tick **one** box only)

True

False

(1 mark)

2. Explain the purpose of the Equator Principles.

(3 marks)

3. Give any **two** examples of the ways in which a new Company Secretary can check whether the Board is focused on the company conducting its business ethically.

i _____

ii _____

(2 marks)

7. Outline **four** key features of an effective induction programme for a new director.

(4 marks)

8. Describe the directors' duty of skill and care under section 174 of the Companies Act 2006.

(5 marks)

TOTAL FOR SECTION A = 25 MARKS

Section B

Answer **three** questions only.

[This has been produced for sample purposes, adequate spacing for answers will be included in the examinations.]

- 9. Beta Group plc (Beta) has its shares listed on the London Stock Exchange and has a wide shareholder base including institutional shareholders, large private shareholders and small private shareholders.

Beta’s registrars have recently alerted Beta’s Company Secretary to the fact that an activist shareholder, Druid Partners LLP (Druid), has recently been building a stake in the company and is now the registered holder of around 6% of the shares. Druid has not had any dialogue with the Board of Beta but has recently been making public statements which are critical of the Board and its strategy, in particular criticising the track record of Beta’s CEO. The media has also been running stories suggesting that other shareholders are unhappy with the company’s strategy following a drop in the share price.

Beta is currently preparing its annual report and AGM notice which will be despatched ready for the next AGM, which is due to take place in around four months’ time. One of the items on the agenda at the AGM will be the approval of a new directors’ remuneration policy, in the form to be set out in the annual report. The remuneration committee is in the process of finalising the policy and in particular is considering amendments to the nature and level of the targets to be met by the executive directors in relation to their Long-Term Incentive Plan (LTIP). This follows criticism by shareholders of the targets under the current remuneration policy which led to an 18% vote against the remuneration implementation report at last year’s AGM. The remuneration committee is also considering how to exercise the discretion available to the company under the existing remuneration policy as regards the directors LTIP awards for the current year.

- (a) Discuss how the Board of Beta should go about understanding the views of Beta’s shareholders. Include in your answer how it should engage with them in relation to the finalisation of its remuneration policy and in relation to any other issues of concern to shareholders. (13 marks)
- (b) Prepare a briefing paper for the Board of Beta explaining the term ‘shareholder activism’. Your answer should consider the context of the shareholding built up by Druid, its shareholder rights and the tactics Druid might employ in the lead up to or at the AGM. (12 marks)

[Total for Question 9 = 25 marks]

11. You are the Company Secretary of Prime Plastics plc (Prime), a large global company with plastics manufacturing operations in a range of countries. It has over 500 employees in the UK. Prime is a private, family owned company which is a large company for the purposes of the Companies Act 2006.

Three years ago, Prime suffered a chemical leak at one of its factories in Europe leading to fines and a significant environmental clean-up operation. As a consequence, a sustainability committee of the board was formed to focus on corporate social responsibility (CSR) issues and in particular on environmental issues. Prime has updated its environmental policies and has also increased its reporting in its annual report in relation to environmental issues.

The company has recently been the subject of adverse publicity in relation to an employment dispute at one of its UK operations, with suggestions that employee morale is very low following the imposition of new employment contracts. In addition, the company's suppliers have been complaining in private to the Finance Director about the time it is taking Prime to pay their invoices.

The CEO of Prime would prefer not to have to go public in the company's next annual report about the employee and supplier disputes and would prefer to continue to concentrate on the company's improvement in environmental standards and policies in the CSR section of the annual report. He wants advice on whether this approach is acceptable and he is concerned about how the recent regulatory focus on stakeholders fits with the board's duty to its shareholders.

- (a) Prepare a briefing note for the CEO of Prime discussing the statutory reporting requirements the company must comply with (and the guidance available to assist it) in relation to how the Board has engaged with its stakeholders.

Your answer should also include how it has considered the application of the stakeholder factors listed in section 172 of the Companies Act 2006.

(15 marks)

- (b) Discuss what is meant by "enlightened shareholder value" and how section 172 of the Companies Act 2006 encapsulates that concept in a way which reduces the concern raised by the CEO.

(10 marks)

[Total for Question 11 = 25 marks]

12. Exmoor Technologies plc (Exmoor) is a UK listed company in the telecoms sector. It is heavily reliant on its database of customer information.

The sector that Exmoor works in is highly competitive and is frequently affected by the emergence of new technologies.

About 12 months ago, the regulators in one of the European jurisdictions in which Exmoor operates announced that it had begun an investigation into the activities of Exmoor’s sales representatives. This was following allegations that they were offering bribes to retailers to promote Exmoor’s products.

There has also recently been a social media campaign run by a campaign group in relation to the environmental impact of the methods used to create telecoms products. Exmoor was listed in one of the group’s campaign documents as one of the companies that had failed to mitigate that impact.

Exmoor’s current loan facilities expire in the next calendar year and so Exmoor is about to start the process of renegotiating its loan facilities with its main lenders.

- (a) Discuss the reputational risks that Exmoor faces, or may face in future, and why it is important for the Exmoor Board to assess and manage them. (9 marks)
- (b) Describe the viability statement that the UK Corporate Governance Code requires Exmoor to include in its annual report and the challenges that the Exmoor Board has in making that statement. (8 marks)
- (c) Explain the role that a Company Secretary can play in assisting a Board with risk and risk management issues. (8 marks)

[Total for Question 12 = 25 marks]

TOTAL FOR SECTION B = 75 MARKS
TOTAL FOR PAPER = 100 MARKS

END

The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental.