

# CODE OF CONDUCT FOR DIRECTORS

A public consultation issued by the Institute of Directors

Comments from ACCA to the Institute of Directors

**REF: TECH-CDR-2142**

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## **About ACCA:**

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **252,500** members and **526,000** future members based in **180** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values. Across the UK our community includes 100,000 members and around 70,000 future members, working across a range of sectors including in practice as critical advisors to all businesses and corporates, across all sectors of the economy.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance, and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business, and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. Find out more at [accaglobal.com](https://accaglobal.com)

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## GENERAL COMMENTS

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ACCA welcomes the opportunity to respond to this consultation on the Code of Conduct for Directors, developed for the IoD by a Commission chaired by Lord McNicol of West Kilbride. While we believe this Code of Conduct could be an effective tool to help directors make better decisions, in this response we provide suggestions for making it more practical. One of the Code's key strengths is that it also provides organisational leaders with a behavioural framework that can help them build and maintain the trust of the wider public in their business activities.

Boards are the backbone of the UK's economy, and given the chain of corporate governance failures, a large majority of ACCA members on boards would agree that a Code of Conduct could do a lot to restore and maintain trust. But the question will be how can it be implemented and we appreciate that this will be the focus of the Commission's second stage. This stage will be the crucial one in getting directors to improve risk oversight and out words into action. As we face multiple increasingly interconnected, fast-moving existential risks, principled leaders must make practical and effective decisions affecting the livelihoods of consumers, communities and society. Adoption and adherence of the Code of Conduct for directors will be key to positive change for the UK economy.

The Code is also aligned with ACCA's commitments to fostering 'professionalism'. Our policy and insights work contributes to fostering professionalism notably through the behavioural insights focus in our good governance and risk culture series<sup>1</sup>. This research demonstrates how a growing number of ACCA members in leadership roles around the world are concentrating on the behaviours behind risk and using the information and analyses to foster the culture required to meet their objectives.

There are synergies between the most recent King's Speech<sup>2</sup> and how the Code could be used to promote ethics and integrity as part of doing business in the UK. Restoring trust after all the scandals from the Post Office to the BBC is vital, but we now need to do more to show what good looks like and a Code on how conduct affects decision-making and, therefore, outcomes makes sense. ACCA would encourage the commission to add more on how the Code can be embedded to help prevent further misconduct scandals and corporate failures.

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<sup>1</sup> <https://www.accaglobal.com/uk/en/professional-insights/risk/risk-culture.html>

<sup>2</sup> <https://www.gov.uk/government/speeches/the-kings-speech-2024>

The Code can help encourage directors to better understand their roles, responsibilities and duties to the stakeholders and communities they serve without adding further regulation or legal requirements. We believe it is a great step forward in helping directors understand the purpose of their role and what is expected of them.

ACCA also believes that the Code could benefit from a detailed explanation as to how the Code can be applied by SMEs, SOEs, and family-controlled companies. Furthering industry-level conversations about common goals, shared interests, and challenges, particularly through relationships between investors and board members, will be critical to enhancing governance, professionalism, and internationally accepted best practices.

Successful implementation of the Code in the UK could, in the medium to long term, lead to the adoption of a global Code of conduct for directors serving as a banner for better governance worldwide, improving governance in the supply and value chains, particularly as green and digital transformations accelerate. International adoption and recognition would assist in addressing the interoperability and fragmented regulations that companies, big and small, around the world face today. This could be achieved by utilising the global network of the IoD and other stakeholder groups such as ACCA as well as policymakers.

## 1. Are there any additional issues that should be addressed in the Code?

ACCA believes that the Code is a positive starting point for shifting attention towards behaviour versus adherence to rules. While it mentions several dimensions of character, it doesn't discuss the importance of character in terms of conduct. Additional discussion related to the importance of character would be more progressive and forward-looking in an aspirational governance environment.

While the commission has highlighted that producing something short and digestible has been one of the key challenges, there are some areas where the Code could benefit from additional analytical and practical rigour. We recognise that creating guidance will be the next phase in this process; however, providing relevant examples and scenarios under each principle in the code may be beneficial.

The Code has limited discussion about how it can help enhance board composition, which was a focus of all the recent revisions to corporate governance codes and standards, including the OECD's 2023 revisions to the G20 Principles of Corporate Governance<sup>3</sup>.

Referring to how the Code can help attract the relevant expertise to a company board would give it more meaning. Many of the challenges in the UK and worldwide often relate to the presence of group thinking and not enough critical thinking or roundtable deliberation that reflects the business matters and stakeholder needs of the company in question.

Given the economic and societal headwinds facing organisations today, it is imperative that directors also be more self-reflective about their own ethical and risk dispositions and what they bring to the table. This would include reflection on how their appetite for risk/psychology of risk affect decision-making and whether this is transparent. Directors need to ask themselves and other directors in their organisation questions such as:

- How can we talk about governance and a supportive culture if we don't understand our own perception of risks and that of our fellow board members?
- What is the culture around our risk reporting? Our decision-making?
- How does our risk disposition and transparency affect potential greenwashing or purpose-washing?
- What is the risk the director faces too when it comes to fulfilling duties and making decisions?

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<sup>3</sup> [https://www.oecd.org/en/publications/2023/09/g20-oecd-principles-of-corporate-governance-2023\\_60836fcb.html](https://www.oecd.org/en/publications/2023/09/g20-oecd-principles-of-corporate-governance-2023_60836fcb.html)

ACCA would welcome the inclusion of guidance on the commitment to continuous and collaborative learning. It is critical for directors to stay informed about emerging trends and innovations and how these affect the strategy and business model if they navigate the company correctly.

The Code could also include more discussion on how directors address societal impacts and changing stakeholder needs. ACCA's research reveals a debilitating misalignment between society's expectations of business and how companies operate and are led. Our risk surveys show a huge disconnect and confirmation bias about what boards think or say, and what is happening in practice.

## **2. How can awareness of the Code be encouraged amongst directors and the wider public?**

The effectiveness of the Code requires collaboration and knowledge sharing among all types of professionals, professional bodies, policy and standard makers, regulators, and academics. Promoting the Code more widely across sectors and other IoD offices across the world will help tremendously. In addition, attracting further industry-level discussions into development and communication will also be crucial.

As highlighted in response to question one, a more industry-specific approach when developing the guidance would be very beneficial, and is something ACCA would be pleased to support. The principles will be interpreted differently based on the industry or sector concerned. Therefore, applying the principles is more meaningful and effective if examples and scenarios are specific to industries and sectors. Working with industry bodies to discuss these more specific matters further and how to tailor approaches to the Code will help attract more interest and understanding around the benefits of adopting it.

Universities also have an important role to play, and feedback from our network globally indicates that many are already incorporating 'character frameworks' and how character can be measured and strengthened into some of their curriculums.

ACCA believes the Code has the potential to drive change globally. We know that our members around the world view the UK Corporate Governance Code as best in class, and consequently many countries model theirs based on the UK's. It is therefore important to include other IoD's and governance bodies around the world in branding and communicating

both the purpose and potential benefits, in addition to incorporating into their own professional frameworks and certificates. We therefore support the Code being incorporated into the IoD's professional framework and, crucially, into others if it is to make a profound difference.

Finally, the IoD could also add more on how the adoption of the Code here and abroad can help improve overall governance, in line with the revisions in the UK Corporate Governance and the OECD G20 Principles of Corporate Governance, e.g. strengthening risk oversight, continuous monitoring of internal controls and the other refinements around enhanced transparency on succession planning, potential conflicts of interest and ensuring sufficient time for committing to board responsibilities. The branding must centre around how it helps drive positive change for companies and society at large. As detailed in our risk culture series<sup>4</sup>, risk management is all about judgement calls and decision making, taking on the right risks, and this starts with the conduct and culture of the board. More detail in the Code related to how to cascade that across the company would be helpful.

### **3. Should directors make a public declaration or disclosure of their adoption of the Code?**

Yes, it would appear odd not to encourage this, particularly as integrity and transparency are two of the six principles in the Code, in addition to leading by example. Being an exemplar can help drive change in the right direction and get investors' attention to track progress. It also could enhance investor stewardship by encouraging shareholders to talk to boards more about what behaviours are needed to get the company where it wants to be.

One additional area where this would help is in DEI and board composition. Disclosure on adopting the Code could help everyone involved understand the expertise and representation a certain board needs to represent key stakeholders and impacts on the communities, consumers, and others it serves.

### **4. Is there a role for government, regulators or professional bodies in encouraging adoption of the Code?**

ACCA believes it could be helpful to work with the FRC in addition to working with professional such as the ACCA to help discuss how directors and companies adopt the Code. As detailed

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<sup>4</sup> <https://www.accaglobal.com/uk/en/professional-insights/risk/risk-culture.html>

in response to question one, collaboration with regulators, industry and professional bodies, academics, and policymakers will be crucial if the Code is to make a difference.

**5. If you are currently serving as a director, would you be willing to commit yourself to the principles and undertakings of this Code?**

There are a number of areas where ACCA would like to make recommendations for sharpening the undertakings of the six principles.

**Leading by example:** Include an undertaking about mentoring and supporting character development/professionalism of others, not just on one own's competency. ACCA advocates how boards need to work together as team. Teamwork is key to navigating in today's world. Add examples and actions of leading by example when it comes to crisis management and reputational damage consequences, for example, what to consider if there are climate protestors in front of your company's HQ and breaking windows as your employees leave to go home at end of day, or business continuity execution plans during cyber outages such as CrowdStrike and what that does to customer services and potential data breaches. How do leaders react in line with company values?

More examples and actions of leading by example in stakeholder engagements and prioritising stakeholder needs and expectations would be useful too, so for example, keeping staff safe from customer abuse and what do they do if they suspect a wrong doing against the law but also against company values. With all the cost-cutting happening at most companies, it may be useful to include more about how directors handle the consequences of these, how restructurings, layoffs, etc affect their KPIs, and social and environmental goals, for example. How can the Code help directors to walk the talk?

**Integrity:** ACCA suggest the addition of an undertaking about ensuring decisions are free from favouritism or undue influence could reinforce impartiality.

Add examples or scenarios of how to consistently demonstrate integrity and by doing so how directors drive a culture of ethical behaviour that permeates throughout the organisation. How integrity can help prevent greenwashing or cover-ups, for example. In addition, while conflict of interest is mentioned here, there should be more context, for example, regarding founders, third-party relationships, and contracts with friends on boards (e.g. PPI/vaccination contracts).

**Transparency:** Add an undertaking to regularly review and update communication strategies that ensure consistent transparency. This is another area where greenwashing, cover-ups and other misleading conduct come in. We had some comments about 'care-washing' in Q2 2024 risk survey response<sup>5</sup>, so this is becoming a concern globally when companies say they are looking after their employees and actually are not doing in practice what they say they do in their statements.

There could be more in this about transparency building trust. One member of ACCA's Global Forum for Governance, Risk and Performance said it would be good to clarify how the limits of transparency should be defined and suggested adding examples such as 'protecting trade secrets' or 'confidential personnel matters'.

Another talked about enhanced transparency of risks. For example, the upward escalation of risks that could significantly impact business objectives or reputation. Risks that require additional resources to control, stronger guidance and communication from the board, such as the many recent UK cases mentioned before.

ACCA's Global Forum for Governance, Risk and Performance has been advocating that there needs to be more transparency in general around the world about how much risk an organisation is willing to accept and who is making the decisions around this<sup>6</sup>.

**Accountability:** We recommend including an undertaking about regular self-evaluation and participation in board performance reviews to ensure ongoing progress and improvement. It would be positive to also to include more about how to cascade accountability and the 'everyone owns risk' mindset. Our risk culture calls to action provide additional insight which may be helpful.<sup>7</sup>

**Fairness:** This principle could benefit from additional clarification, with examples and scenarios whether it is in hiring and promotion processes or dealings with customers, suppliers and other third-parties when it comes to paying (responsibly and on time) and/or allocating credit.

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<sup>5</sup> [https://www.accaglobal.com/gb/en/professional-insights/global-economics/GECS\\_q2\\_2024.html](https://www.accaglobal.com/gb/en/professional-insights/global-economics/GECS_q2_2024.html)

<sup>6</sup> <https://www.accaglobal.com/uk/en/professional-insights/risk/risk-culture.html>

<sup>7</sup> [https://www.accaglobal.com/content/dam/ACCA\\_Global/professional-insights/riskculture/PI-RISK-CULTURE-CALLS-TO-ACTION%20v3.pdf](https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/riskculture/PI-RISK-CULTURE-CALLS-TO-ACTION%20v3.pdf)



It would also be beneficial to clarify what is meant by "evidence based" decisions. That needs more detailed explanation, as sometimes no evidence is available. Evidence relates to what has happened in the past and not always a good predictor of future states.

**Responsible Business:** We recommend expanding more specifics about environmental and social responsibilities, such as decarbonisation and recycling / waste management practices, as well as adding an undertaking about encouraging investment and innovation in sustainable behaviours / practices. We also suggest prioritising new technologies that reduce carbon footprint and have positive social impacts, so better access to information and data analysis, for example, can help with anything from providing better medical care to better managing food and supplies.

There also could be more on rejecting corrupt business conduct and ensuring good governance on whistleblowing because this is about the directors duty to society as a whole. What they decide has implications for wider society and the communities in which they operate, so there is a lot to take into account.

In terms of wording, 'local' communities may imply that the business only impacts those communities geographically near to it. It may be better to adjust the wording to 'Consider the consequences of my decisions for society, communities impacted by our organisation and the environment.'

While we agree with focusing on the longer terms interests, it would be helpful to capture something wider about conflicts between financial gain and ethical objectives. So, maybe reword something like this: 'Avoid prioritising the short-term financial interests of shareholders above the longer-term interests of the organisation as a whole, or above the ethical commitments and values of the organisation.' OR 'Avoid prioritising financial gain (personal and organisational) over the objectives outlined under Principle 2 on Integrity.'

## Annex

Comments from UK members on ACCA's Global Forum for Governance, Risk and Performance:

- 'The document refers to itself as a framework but frameworks include the governance mechanisms and processes embedded in an organisation. Perhaps they should consider a recommendation that these duties should be reviewed, formally adopted and embedded as part of Board's or Trust's Duties in their Terms of Reference, which may or may not be publicly disclosed.'
- 'Could a tie up with the UK Corporate Governance Code be considered? Perhaps a link to the IOD Code of Conduct for Directors in the UK Corporate Governance Code or in its guidance footnotes? This would encourage awareness of Directors and attract a degree of scrutiny from the Regulators and auditors.'
- 'Have the IoD considered what the insurance community says, e.g. recommending D&O insurance and outlining its benefits?'
- 'Many of our [ACCA] members in practice, especially SMEs, will have Director type roles within their clients too.'
- 'Conflict of Interest: While this is touched upon in Integrity, it might warrant its own principle to emphasise the importance and provide detailed guidelines.'
- 'Diversity and Inclusion: Although mentioned under both Fairness and Responsible Business, consider a dedicated section to underscore its importance and provide specific actions.'
- 'These are all already requirements for Directors (and senior mgt) in FS in the UK and many other countries.'
- 'Many are already legal requirements (Fairness is a requirement of the Equality Act and Integrity is already a requirement).'
- 'Leading by example is a good one – perhaps there should be a proposal for 360 feedback to help Directors assess themselves against this?'
- 'Accountability is a good one but it lacks real consequence as written – I think a link to remuneration would strengthen this – i.e. remuneration is deferred to allow for the evidence of successful actions and consequences – strategy implementation.'
- 'I like the inclusion of responsible business but again lacks real commitment – what about obtaining feedback from stakeholder groups?'