Deloitte.

On the board agenda 2024

December 2023

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01 Foreword

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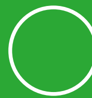

Dear Board Member,

In the current environment, boards continue to be faced with challenges across all aspects of their remit making effective decision making ever more difficult as different stakeholders pull focus in different directions. Many companies are grappling with forecasting demand and pricing, supply chain disruption, other input cost pressures and challenges in attracting and retaining talent. At the same time, boards have to work hard to keep pace with developments in technology in order to remain ahead of both the opportunities and threats posed by innovations such as Generative AI.

"On the Board Agenda 2024" has two objectives – first, to act as a reminder of key matters for the reporting season, and second, to help you set the agenda for the year ahead. There have been a number of recent updates to the Government's reform agenda which have added to current levels of uncertainty and to be resilient and emerge stronger, boards will need to focus on performance and high standards in their businesses, innovative activities to promote growth, differentiation to enhance customer experience and attract talent and transparency to enhance trust.

The issues of today call for directors who are willing to be held accountable and who advocate for change and high standards in the long-term interest of all stakeholders.

It is with all these issues and challenges in mind that we have constructed the content of this publication. We hope you find it a helpful and interesting read. And we look forward to welcoming you at our discussions in the Deloitte Academy in the New Year.

Claire Faulkner
Deloitte Academy Governance Chair
December 2023

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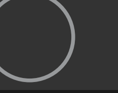

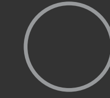

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02 Economic update

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In this time of high interest rates and inflation, boards and CEOs continue to be focused on the economic environment. Accordingly, we introduce this year's On the Board Agenda with a short scene-setter on the economy and some areas of particular interest.

We start with findings of Deloitte's most recent quarterly CFO survey undertaken during September. We recommend you read our updated findings that will be published shortly in January 2024 and will indicate how CFOs are reacting to the changing economic environment.

We close with some thoughts regarding government borrowing and interest rate outlook.

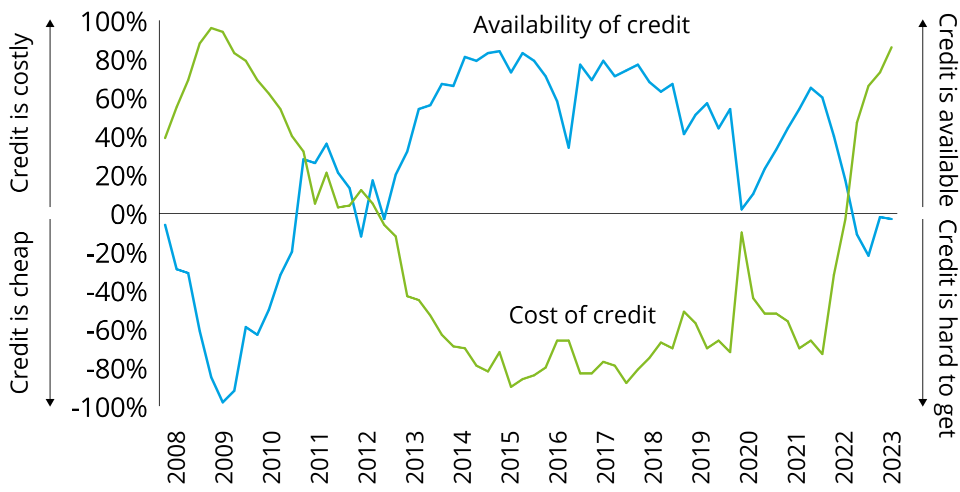
October 2023 CFO Survey

The survey found that high interest rates are having a significant impact on attitudes. Bank borrowing is rated as less attractive as a source of financing than at any time since the CFO Survey started in 2007 – and equity finance is now seen as more attractive than either bank borrowing or corporate bond issuance.

CFO's anticipate a period of continued high interest rates, predicting only a slight fall from 5.25% to 4.75% in a year's time. What marks out current conditions from those seen in the financial crisis, is that credit is more available today. While pricing has deteriorated much as it did in 2008, CFOs' perceptions of availability of credit have seen a far less pronounced decline – and CFO optimism is running at above average levels.

Cost and availability of credit

Net % of CFOs reporting credit is costly and credit is easily available



A net balance of 15% of CFOs see UK balance sheets as being overleveraged, a reversal of the prevailing view of the last 12 years which has seen scope to increase debt levels. The mood has shifted, with 30% of CFOs rating debt reduction as a strong priority. Underpinning this shift in attitudes are lingering concerns about the outlook for inflation. Although CFOs think inflation has peaked, they see inflation running at 3.1% in two years' time, well above the Bank of England's expectation for inflation to fall to 2.0%.

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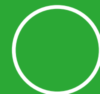
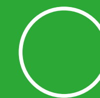

Government borrowing

Borrowing is becoming more expensive for western governments. In October the interest rate, or yield, on US 30-year government bonds reached 4.96%, the highest level in 16 years. German bond yields at close to 3.0% are back to levels last seen during the euro crisis in 2011. UK 10-year bond yields are higher now than they were at the height of the sell-off in the wake of the mini-budget a year ago. At the same time, governments are continuing to borrow on a significant scale.

Up until now the effects of rising government indebtedness on interest payments have been more than offset by declining levels of market interest rates. That is changing, especially given the limited public or political appetite for debt reduction. The latest British Social Attitudes Survey shows that public support for an expanded role for government has reached an all-time high. UK voters show little enthusiasm for a smaller state, with 55% of respondents saying that taxes and public spending need to rise still higher.

There are three obvious implications from all of this:

- Governments – and the public – will have to get used to paying more to service existing debts. In the case of the UK, that means spending around 3% of GDP each year on servicing public debt, three times the level two years ago – now a major item of government expenditure and an unavoidable call on public resources.
- Governments face greater scrutiny of their spending and borrowing plans from bond markets. Pressure from financial markets, in the form of higher rates, is likely to act as an increasing constraint on public spending.
- Levels of bond yields show that financial markets foresee no return to the low interest rates that were the norm until 2021.

Interest rate outlook

"The sharp fall in inflation in October is welcome news and significantly narrows the gap in price rises between the UK and its European peers. The continued easing in underlying price pressures, as evidenced by falling core and services inflation, is another positive development. Nonetheless, there is some way to go before inflation settles back to a pre-pandemic normal.

"Today's figures support the view among investors that the Bank of England's interest rate has already peaked. A further fall in inflation could bring forward market expectations for the timing of the first rate cut next year."

Debapratim De, Senior Economist at Deloitte

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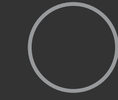
Coupled with the outlook of financial markets on interest rates, explained in the section above, our economists' view is that interest rates seem to be at or near their peak for this cycle in the US and Europe. The focus is now shifting to when central banks will cut interest rates.

If financial markets are right, material rate cuts are some way off. Markets see rates staying around current levels for roughly the next year, with only a gradual easing thereafter. Some forecasters, such as the International Monetary Fund, think that rates will return to previous lows. We see the risks lying in the opposite direction.

Five factors suggest that low interest rates such as those seen between 2009 and 2020 are less likely:

1. Geopolitical tensions and a greater focus on national autonomy have created new frictions and costs in the global trading system.
2. Demand for capital may be turning. A drive for resilience and sustainability, in energy, defence, technology and supply chains, requires vast levels of investment. The International Energy Agency estimates that global energy investment alone needs to rise from a current $2tn a year to $5tn a year by 2030 for at least 20 years to reach net zero CO_2 emissions by 2050.
3. Demographic change raises inflationary risk. In the West an increasing proportion of the baby boomer generation are no longer saving for retirement but are retired.
4. Surging inflation has called into question the reputation of central banks as guardians of stable prices, creating a further risk factor for long-term interest rates.
5. And finally, central banks are switching from buying government bonds, which depresses interest rates, to selling them, which raises rates. The stocks of bonds on central bank balance sheets are enormous, and the process of selling them is likely to take several years.



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03 Geopolitics – business impacts and leadership considerations

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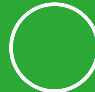

For the past several decades we have enjoyed relative stability in politics and international trade, with the US at the centre of a globalising world that delivered steady economic growth.

During the last few years that stability has been increasingly challenged, with an ongoing trade conflict between the US and its Western allies and China, and, more recently, wars in Ukraine and Gaza. A recent Deloitte survey in the US indicates that 51% of CEOs expect geopolitics to impact their business strategy over the next 12 months.

This article briefly outlines some of the potential business impacts and leadership considerations driven by geopolitical events that boards may wish to consider as they head into 2024.

In a recent Deloitte Global Boardroom webinar, Deloitte's geopolitical strategy leader Sarah Otte emphasised the importance of boards implementing a plan of risk sensing, scenario planning and ongoing analysis as they navigate the geopolitical situation and its impact on business strategy.

The webinar drew out four major geopolitical themes for boards to bear in mind:

- increasing restrictions on data access and control;
- heightened strategic competition focused on semiconductors, AI and quantum computing;
- a changing political world order leading to increased uncertainty and risk; and
- economic headwinds creating macroeconomic uncertainty and driving shifting patterns of trade, growth and investment.

These themes drive the topics set out in this article, summarised in three short sections that can feed into business impact discussions and forthcoming scenario planning:

- Shorter-term impacts
- Longer-term impacts
- People and culture

Shorter-term impacts

- **Energy prices, food prices and inflation** – energy prices have been volatile over the past couple of years and have a tendency to be more volatile when there is upheaval in the Middle East. An escalation of the conflict in Gaza could disrupt the recent relative stabilisation in prices. The supply of grains remains under pressure due to the war in Ukraine and the risk of a spike in food prices is far from eliminated. Although inflation is currently on a downward trajectory across the Western world, the risks still remain of an upside shock. Boards should consider how prepared they are to react to future spikes in prices and how far this has been built into forecasting, or whether forecasts need updating.

- **Supply chain impacts** – companies should consider the impacts of current events not just on immediate suppliers but further in the supply chain. Some companies are talking about rolling out their previous "pandemic playbook" to determine how to support critical suppliers that may be affected.

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- **Inventory cycle** – starting during the pandemic, companies have seen a lengthening of the inventory cycle and a need to tie up more working capital in holding inventory. An impact of geopolitical uncertainty may be that companies will need or choose to hold more inventory and need to plan for storage, transportation and insurance implications.
- **Legal implications** – companies may face difficulties enforcing contracts or holding suppliers to account across borders, particularly where contracts are with jurisdictions that are subject to disruption due to war or other geopolitical factors.

Longer-term impacts

- **Supply chain impacts** – even if companies are not currently seeing significant impacts, it is worth considering which jurisdictions could be affected by ongoing or new political unrest and putting in place scenario planning that contemplates impacts not just on immediate suppliers, but the whole supply chain including raw materials – companies may be able to leverage existing analysis for the purpose of climate-related reporting or modern slavery assessments. Boards might also want to test the suitability and sustainability of "China Plus One" manufacturing strategies, especially in the event of a broader western conflict with China, potentially affecting trade routes and other south-east Asian economies.
- **Access to cross-border capital** – impacts boards may wish to consider also include access to cross-border investment capital and movement of cash across borders, which in a less stable world may not be as frictionless.

People and culture

Whilst it is important to consider the business planning aspect of geopolitical uncertainty, it is also critical to bear in mind the impact on people.

Immediate concerns will of course include crisis management: identifying and addressing the direct impacts for the workforce who are themselves or who have family in affected jurisdictions, assisting with movement of people and coverage of roles, providing counselling, and otherwise supporting physical and mental health for individuals.

It is also important to bear in mind the longer-term impacts on culture: ensuring that the message is clear that political polarisation and prejudice should not be permitted to affect the working environment and confirming that robust guidelines and speak-up processes are in place to identify and address problems as they arise.

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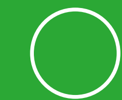

Deloitte Feature: Leading in a boundaryless world

Our 2023 Global Human Capital Trends Report: New fundamentals for a boundaryless world looks at what is it is like to lead in a boundaryless world. The Report surveyed 10,000 HR and business professionals, across 105 countries on human capital trends. The Report outlines three themes around leadership and the workforce: moving away from job-titles to skills-based approach, co-creating the employer-employee relationship and prioritising human outcomes. Where employees are no longer just traditional employees, workplaces are no longer only physical buildings and technology continues to advance at pace – it is safe to say, we have entered into the 'new normal'.

94% of respondents agreed that leadership capabilities and effectiveness is important to their organisation's success, however only 23% believe their organisation leaders have what it takes to lead in a disrupted, boundaryless world. Nearly half of the respondents say their leaders are struggling to identify what to prioritise because they are overwhelmed by the number and frequency of disruptive shifts occurring. Our Report gives leaders of organisations some new fundamentals on how to prioritise, balance and lead in this boundaryless world.

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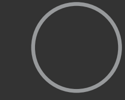

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04 The Board's role in embedding resilience

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As part of the UK Government's 'Restoring trust in corporate governance and audit' reform agenda, changes were proposed to the UK Corporate Governance Code, which included a Resilience Statement to replace the current Long Term Viability Statement. Following months of discussion and debate, in October 2023, the draft regulations were withdrawn (see page 22 for further details), including the requirement to publish a Resilience Statement, in order to reduce the administrative burden.

In this article we consider, despite the withdrawal, how boards have found that exploratory discussions on the Resilience Statement over the last twelve months have been valuable and that, beyond compliance, they have provided an opportunity to reflect on how organisations can build greater resilience, create value and increase stakeholder confidence.

Three steps to review your organisation's resilience

Whilst the Resilience Statement is no longer required, business resilience remains a strategic issue for companies, regulators, and governments. The three steps below provide an effective litmus test for Boards as they seek to help their organisations navigate uncertainty. They help consider how the organisation can build resilience for a broad range of financial and operational risks over a more expansive timeframe. Together, they present an opportunity for companies to reflect on what 'being resilient' really means given the increased focus from government, regulators, media, and broader society on how firms fulfil their purpose responsibly through shock and disruption.

1. Ask four critical questions

We have set out below four questions companies can work through which, while not exhaustive, will enable leaders to review their organisation's resilience:

a) Our organisation: what do we want to make resilient now and in the future?

Making everything resilient is an unrealistic goal for organisations. Companies should instead establish strategic priorities for resilience that can be clearly communicated to investors and broader stakeholders. Strategic priorities could be based on 'essential outcomes', i.e., services, products or functions that the company provides for its customers, end users or other stakeholders, which if unavailable would likely cause significant harm or detriment that cannot be easily remedied, or result in wider failure within the market, system, sector or organisation. Considering strategic priorities in this way will help companies focus on building resilience from an outside-in perspective, recognising the company's activities impact a broad range of stakeholders including the wider public and the markets in which they operate.

b) Our known vulnerabilities: how resilient are we now and will we be in the future?

Companies should understand what makes their strategic priorities more or less resilient, and the risks that threaten to disrupt their continuity. Mapping the business dependencies that deliver strategic priorities could help a company better understand their susceptibility to disruption if risks were to materialise. For example, undertaking this exercise may reveal a company's exposure to supply chain disruption through its sourcing strategies. Emerging risks should also be considered to understand if the business model and strategic priorities are resilient to longer term change and disruption. The company's list of Principal Risks is an obvious starting point for this, but needs to go further to understand how resilient they are to these risks based on their business model architecture and the mitigations they have or do not have in place.

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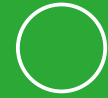

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c) Our appetite for significant and prolonged disruption: How resilient do we want to be now and in the future?

Resilient organisations recognise that no impact during a severe and prolonged disruption is unrealistic. Companies should consider how much impact they are prepared to tolerate through shock, which could be based on a minimum viable product or level of service needed to deliver their strategic priorities at an acceptable level so that the business model remains viable. Determining this will help companies to (a) set a benchmark against which to assess mitigations during stress testing; (b) help focus investment decisions on areas and activities where there is a significant potential to enhance resilience; and (c) where needed and appropriate, provide investors and stakeholders with transparency over how the company will perform and act in a severe and prolonged disruption.

d) Our commitment to resilience: how are we building, maintaining and demonstrating resilience?

Stress testing assesses the effectiveness of mitigations and identifies weaknesses to address. Companies should start to (i) identify scenarios which could disrupt their strategic priorities and the different adverse conditions that could plausibly come together to make these scenarios more severe to the point their business model becomes unviable , (ii) consider the scenario modelling techniques they could use to more accurately simulate severe disruption and better understand how effective mitigations really are; (iii) think through the different 'breaking points' they want to identify through stress testing. While the point of financial non-viability is a clear one, companies should consider where there could be significant detriment on customers, end-users and broader society before this is reached and (iv) reflect on where external assurance may be needed to validate the data, assumptions and techniques underpinning stress testing are fit for purpose.

2. Ensure the right team is identified and mobilised

True resilience is not the preserve of one team but requires contributions from a range of relevant experts in the organisation required to both review and build resilience. This should include the Enterprise Risk Management function (or equivalent) given that team's skillset and historic work to identify and disclose the company's Principal Risks and Uncertainties.

3. Commission a gap assessment and define a plan of action

Mapping 'who' in an organisation currently contributes 'what' and 'how' will help to identify capabilities, gaps in current approaches to address, and whether believed coverage may be imbalanced/coincidental. It will also be beneficial for companies to identify and consolidate a single view of mitigations and vulnerabilities that make them more or less resilient to their Principal Risks.

In conclusion, there is an opportunity for Boards to drive the enhancement of risk and resilience management and proactively drive the agenda. This has both the potential to bring additional value to their organisations and, longer term, to give confidence - through investors to broader society - that the UK's largest and most influential companies are building resilience in an appropriate and responsible manner.

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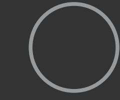

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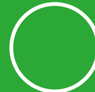
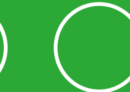

We predict that Generative AI will gain boardroom momentum in the coming year.

Generative AI chip sales will likely reach over US$50 billion in 2024 and nearly all enterprise software companies will integrate Generative AI in at least some of their offerings by the end of 2024, significantly boosting revenues.

The European Union is set to roll out sweeping regulations on AI which are likely to impact and influence markets around the world. 2024 is likely to see a balance between regulatory compliance and innovation in the gen AI industry. Key regulations will encompass consent, bias mitigation, and copyright matters. Well-crafted policies can create a conducive environment for investment.

This article explores aspects of one of Deloitte's TMT Predictions for 2024 "Walking the tightrope: As Generative AI meets EU regulation, pragmatism is likely" regarding Generative AI regulation and the impact on companies and boards. We recommend you read the full prediction if this is an area of interest for your organization.

The importance of well-crafted rules should not be overstated when it comes to unlocking the potential of any market. In the case of Generative AI, the absence of clear regulatory conditions may cause vendors, enterprise customers and end-users to hesitate. However, the European Union (EU) is expected to set the stage for global regulation of Generative AI in 2024, influencing not only its own markets but also serving as a template for other regions.

In 2024 two EU regulations are expected to help shape the growth of the Generative AI market in the region and further afield. These are the General Data Protection Regulation (GDPR), which has been applicable since 2018, and the upcoming EU AI Act (AIA), expected to be agreed in early 2024. As Generative AI opens up debates on how to manage issues of individual consent, rectification, erasure, bias mitigation and copyright usage, the industry's trajectory could be shaped by how organisations and regulators view, enforce, and manage areas of contention.

Despite potential challenges, collaboration in the form of open and transparent conversations between industry and regulators is likely to result in a pragmatic approach that balances regulatory compliance with fostering innovation in Generative AI. This would continue the pattern of discussions held in 2023, which saw interventions by regulators in the EU and other markets. By addressing the concerns raised by EU regulations in 2024, while promoting the benefits of core technologies, the Generative AI market is expected to continue to evolve productively.

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Generative AI and the GDPR

Generative AI is expected to need to comply with the GDPR on processing of personal data. The GDPR defines the rights of "data subjects," that is, individuals whose personal data being processed could be used to identify those people.

Given the vast number of people whose data may be used in Generative AI acitivity, obtaining individual consent, where required, becomes a complex exercise. Furthermore, as each Foundation Model ("FM") supports an effectively infinite number and range of applications, requesting permissions for each additional purpose is even more unrealistic.

However, obtaining individual consent might not be mandatory. "Legitimate interest" may prove to be a sufficient "lawful basis" that permits training of FMs that drive Generative AI. A legitimate interest exists when there is a compelling reason for processing and that processing of data is the only approach to achieve the desired outcome. Regulators will likely seek to ensure that organisations have conducted the appropriate evaluations to ensure that claimed legitimate interests and individuals' rights and freedoms are balanced.

The European Data Protection Board may provide more clarity on the issue of consent, among other contentious areas, in 2024.

The GDPR tenets of rectification, erasure, and the right to be forgotten are applicable to the foundation models that underpin Generative AI

GDPR includes a suite of rights with regards to personal data. If data is incorrect, an individual can ask for it to be corrected. If the data subject no longer wants their personal data to be associated with or processed by that organisation, they can ask for it to be deleted.

FMs that underpin Generative AI are trained on myriad websites that may contain errors. The training process is a single event during which errors can be absorbed into the model. Updating the model to reflect rectifications or other changes could be done most accurately by re-training the model, but this incurs substantial costs and time.

Data minimisation and statistical accuracy

The idea of data minimisation is that collection of personal information should be limited to what is strictly relevant and necessary to achieve a specific task, and as soon as this is complete, the data should be deleted. This approach may seem to be at odds with FMs, with their efficacy related to how much data they can query, with more being better.

However, the principle of data minimisation may still be compatible with Generative AI if data is de-personalised, for example, by using approaches such as pseudonymisation (swapping personal identifiers with placeholder data, which reduces, but does not eliminate, data protection risks) and anonymisation (deleting identifiers, which means data is no longer "personal"). Using these approaches, the volume of training data can be maintained, but full anonymisation may be challenging. Organisations should have an appropriate framework in place to assess, explain to and assure the regulator how they determine what is necessary.

The size of FMs is linked to statistical accuracy, which is an element of proposed EU regulation included in the AIA (see below). In an AI context, accuracy refers to the quality of outputs generated. With a FM, the greater the volume of good training data, the more accurate the results should be.

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05 Generative AI: Deloitte predictions on the effect of regulation

AIA obligations on FMs, per the EU Parliament's agreement

The EU Parliament finalised its position in June 2023, including specific regulation for Generative AI. The final version of the AIA, expected early 2024, may include variations to the Parliamentary position which included the following elements:

- FMs should be registered in an EU database.
- Models should be tested extensively to have appropriate levels of predictability, interpretability, corrigibility, safety, and cybersecurity for the entirety of the model's expected life cycle.
- Design, testing, and analysis should identify and reduce risks during the model's development.
- Datasets used in training models should have sufficient data governance standards. Data sources should be assessed for data quality and bias.
- Energy usage should be minimised and monitorable across the model's life cycle.
- Extensive, accessible technical documentation should be available to downstream providers, to enable their compliance. This documentation should be available for a decade from commercial launch.
- A Quality Management System should ensure and document compliance.

Additionally, providers of FMs used in Generative AI systems should:

- Comply with additional transparency obligations, including the specific labelling of outputs as AI-generated
- Ensure safeguards against the generation of outputs that breach EU law
- Document and publish summaries of training data that is protected by copyright

The bottom line

European regulation matters. It is likely to have extraterritorial as well as EU impact. At first glance several existing principles of EU regulations that apply to digital services may have seemed to present major obstacles to the growth of the Generative AI market. Indeed, some commentators had likely expected Generative AI to be incompatible with EU guidelines.

In 2024, as Generative AI applications evolve and the resulting legal challenges become clearer, the direction of the regulatory response may become more evident. Generative AI is likely to remain an emerging sector this year which can make it hard for regulation to be explicit at this stage. There will likely still be core questions to address, such as the responsibilities for providers of Generative AI versus deployers, when each is a separate entity.

It will be important for boards that aim to deploy Generative AI applications to remain aware of the developing regulatory position and any impact on future plans.

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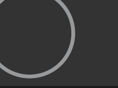

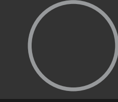

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06 Update on the 'Restoring trust in corporate governance and audit' reform agenda

06 Update on the reform agenda

Through our series of 'On the board agenda' publications, we have been providing updates on the latest position in relation to the corporate governance reform agenda. In this article we explain the current status after a series of announcements from the Government and the FRC in the last few months rowing back on a significant number of the original proposals. There remain some open questions but our aim is to ensure you have access to the latest insights but also a reminder of some calls to action for boards to prepare effectively for what may come.

It is now almost five years since Sir John Kingman completed his independent review of the FRC and the first of three inquiries which resulted in the Government's 'Restoring trust in audit and corporate governance' White Paper. In our **Autumn Regulatory Update**, we noted that there had been a number of steps forward towards implementation of the reform proposals. It is fair to say that in the period since then, it is steps backwards which have been more prevalent.

We set out below the current position within the three key delivery mechanisms for the reform package:

- Primary legislation
- Secondary legislation
- Updates to Codes and Standards within the remit of the FRC

The Government has repeatedly stated that it remains committed to wider audit and corporate governance reform and "will bring forward legislation to deliver these reforms when Parliamentary time allows". In addition, representatives from the Labour Party have confirmed that they would seek to continue with the reform agenda if they were to come to power but have not provided any indication on timing or priority.

From a Deloitte perspective, we are disappointed, but not surprised, that reform has stalled. When we responded to the government's consultation in 2021, we emphasised that policymakers needed to take a step back and set out a clear vision for the future and to take the opportunity to strengthen the resilience of UK business, improve the attractiveness of the UK capital market and fuel growth. This reform requires systemic change, not tinkering around the edges. No one wants to keep revisiting this debate, although it will keep happening unless government and all the stakeholders in this debate come together to create an overarching vision and commit themselves to implementing it. See **'Time for a reset on governance and stewardship'** which sets out the thoughts of the **Capital Markets Industry Taskforce** on a potential coming together of market participants to deliver a stronger UK market.

Primary legislation

Establishment of ARGA and changes to the definition of 'public interest entity'

STATUS: Currently stalled

The audit reform bill was not included in the Autumn's King's Speech delivered on 7 November. In March 2023, the FRC published its three-year plan for 2023-2026, outlining its plans to grow towards ARGA implementation but acknowledging the lack of certainty on timing.

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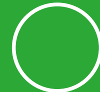

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Amendment to the FRC's remit

In the 2023 Autumn Statement, the Government included confirmation that the Department for Business & Trade has issued a new remit letter to the FRC stating that the FRC should - in fulfilling its existing core purpose to enhance public trust and confidence in corporate governance, financial reporting and audit – also contribute to promoting the competitiveness and growth of the UK economy and embed its growth duty across its work. The updated remit also asks the FRC to look actively at where rules and guidance are no longer proportionate and can be removed or streamlined.

Secondary legislation

New reporting requirements

STATUS: Withdrawn

In July a Statutory Instrument was laid before Parliament setting out requirements for the Audit & Assurance Policy, the Resilience Statement, a statement on activities to prevent and detect material fraud and enhanced disclosures around distributions. These amendments to the Companies Act were expected to apply to UK incorporated entities with 750 or more employees and annual turnover of more than £750m. On 16th October 2023, the Government announced that the Statutory Instrument had been withdrawn amid concerns about imposing additional reporting requirements at this time and wanting to reduce the burden of red tape on businesses through simplifying and streamlining existing reporting. See **our newsflash** for further details.

Updates to Codes and Standards within the remit of the FRC

Changes to the UK Corporate Governance Code

STATUS: Consultation closed on 13th September and FRC Policy Update on 7th November

The FRC consultation on proposed changes to the UK Corporate Governance Code closed on 13th September 2023. The consultation included two areas of the reform package to be implemented through the Code: the new board declaration on the effectiveness of risk management and internal control systems and enhanced transparency on malus and clawback arrangements. Other changes to the Code consulted on at the same time, included changes to diversity reporting and wider responsibilities for the board, audit committee and remuneration committee in relation to sustainability matters, but these did not come from the reform package.

On 7th November, the FRC issued a Policy Update confirming that they only planned to take forward a small number of the original 18 proposals set out in the consultation and to stop development of the remainder in recognition of the wider debate about business reporting requirements and burdens across the economy. The internal controls proposal will be taken forward informed by stakeholder feedback to ensure there is a more targeted and proportionate Code revision. This will include both allowing more time for its implementation and ensuring the UK approach is clearly differentiated from, what the FRC describes as, "the much more intrusive approach" adopted in the US. The FRC has confirmed that no further detail on the likely nature and timing of the internal controls requirement will be provided before the revised Code is issued in January 2024. See **our newsflash** for further details.

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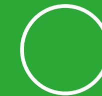

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Audit Committees and the External Audit

STATUS: Final standard issued in May

The FRC published 'Audit Committees and the External Audit: Minimum Standard' in May 2023 for adoption on a voluntary basis. The intention is that when ARGA is established, it will be given powers to enforce the Minimum Standard for the audit committees of FTSE350 companies as recommended by the Competition & Markets Authority. See **our newsflash** for further details.

Consultation on the Ethical Standard for Auditors

STATUS: Consultation closed on 31st October 2023 – awaiting feedback from the FRC

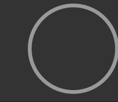
In August the FRC issued a consultation on revisions to the Ethical Standard. The proposed revisions aimed to enhance prohibitions where an audit firm's independence could be threatened by an economic over reliance on fees from specific entities that are connected and reflect relevant findings from audit inspections and enforcement cases. There were also changes to reflect significant developments in the International Ethics Standards Board for Accountants Code to ensure that the UK's Ethical Standard is no less stringent than the international code. The new standard also included proposals to ensure breaches of ethical standards were reported to the FRC on a more timely basis. Finally, the FRC also consulted on the withdrawal of the Other Entities of Public Interest category introduced in 2019. The full consultation paper is available **here**.

FCA proposals to replace premium and standard listing categories with a single listing category CP23/31 – Comment period ending – 22nd March 2024

Earlier this year the FCA set out proposals to reform the current UK Listing Rules in order to encourage a more diverse range of companies to list and grow on UK markets and promote more investment opportunities for investors. The proposals sought to streamline the rules particularly for listings of equity shares by commercial companies and reduce disincentives to listing in the UK and remaining on our markets. At the same time, the aim was to maintain the approach to disclosure requirements for listed companies to ensure market integrity and investor confidence.

This consultation makes clear that the FCA plans to maintain the approach set out in CP23/10 of removing the current 'premium' and 'standard' listing segments and designing a new 'commercial companies' category for equity share listings. This would be supported by retaining the annual reporting requirements in relation to the UK Corporate Governance Code that exists for premium listed companies for this new commercial companies listing category. For existing UK standard listed companies the proposal is that a new transition category is introduced which is closed to new entrants but allows eligible companies to continue to apply the current rules for standard listed companies. In addition, for non-UK incorporated companies with more than one listing where the 'primary' listing is on a non-UK market, it is proposed that there is an international secondary listing category with targeted provisions tailored to 'secondary' listing.

Subject to the outcome of this consultation, the FCA is planning for publication of a Policy Statement and updated Listing Rules at the start of the second half of 2024, with the new regime coming into force two weeks later. See the **full consultation paper** for further details.



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07 Time for a reset on governance and stewardship

07 Time for a reset on governance and stewardship

Time for a reset on governance and stewardship
On 22nd November, to coincide with the Autumn Statement, the Capital Markets Industry Taskforce (CMIT) issued an open letter setting out recommendations to reset the UK governance and stewardship landscape so that it can make a more positive contribution to our economic growth and international competitiveness. The letter is supported by over 40 company chairs, CEOs and senior leaders of UK businesses.

CMIT believes that, as a fundamental principle, UK listed companies should not be subject to requirements companies listed on other high-quality exchanges are not subject to, without those incremental requirements being justified. In that context, they have developed a set of high-level principles for a recalibrated governance and stewardship regime which they believe should form the basis of a new "issuer and investor covenant" to replace the current regime which, particularly in the stewardship space, is set up by default to be antagonistic to demonstrate challenge and cultivates mistrust.

CMIT's resetting principles

Issuers

- The UK Corporate Governance Code should support the promotion of a company's success, as opposed to the prevention of its failure, to create value for all its stakeholders, including shareholders, employees, customers and society at large.
- The board is accountable to the members of the company and should have the freedom to exercise its powers and judgement as it sees fit in line with the authorities delegated to it and in line with the duties of directors.
- The presumption should be that a board will meet the highest standards of governance and transparency, but it should be able to deviate from a conventional application of these standards if it concludes that to do so is in the best long-term interests of the company.
- The board should clearly explain how its chosen strategy discharges its duties to the company and its members. This should include appropriate metrics, as well as the role that its chosen remuneration system plays in supporting and reinforcing that strategy.

Investors

- The governance and fund management functions within an investor should be fully integrated, with primacy given to the accountable portfolio managers.
- Equity-owning investors should engage in meaningful dialogue and should resist engaging in optical measures such as simply voting against a resolution without meaningful discussion or outsourcing decisions in relation to issuers to proxy agencies without reserving their ability to take back voting decisions on sensitive matters.
- There should be consistency in the approach taken for UK listed companies and international peers. If the approach with regard to UK listed companies differs, it should be made clear why.

Further required Code amendments

Significant votes against resolutions – the existing 80% 'low vote threshold' and the Investment Association's Public Register should both be scrapped on the grounds that the threshold is arbitrary and distorting.

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Comply or explain – the principle of the Code should be recast to 'apply or explain' to remove the negative perception that 'explaining' represents non-compliance.

Dilution limits – current dilution limits contained in the Investment Association's Principles of Remuneration around share schemes (10% and 5% limit) should either be raised materially or be removed altogether.

Restricted share awards – the current provision in the Investment Association's Principles of Remuneration that the discount rate for moving from long-term incentive plans to restricted share awards should be at least 50% of the normal grant level should be removed.

What influence can CMIT have?

It would appear that CMIT are being listened to. They were quoted as part of DBT's announcement of the withdrawal of the reporting regulations and they were key proponents of amending the FRC's remit to include considerations of competitiveness and growth. In addition, CMIT's work and the open letter was acknowledged in the Autumn Statement:

"The government welcomes the Capital Markets Industry Taskforce work to reset culture through an "investor covenant" and the commitment from industry to provide additional funding to the Investor Forum."

We will be following this initiative closely and will update you as it progresses. The CMIT letter can be read in full **here**.

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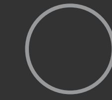

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08 Sustainability reporting: knowing what is ahead

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One of the key challenges faced by boards evaluating how to respond to the regulatory calls for more sustainability and climate information is understanding which regulations apply to them.

In this article we set out some key areas in the fast-evolving sustainability reporting landscape and explore scoping considerations to help boards decide where to focus attention to prepare for 2024 and beyond.

The sustainability reporting landscape – understanding where to focus your attention

This section covers the current position and activity relating to the main reporting frameworks that affect reporters in the UK, including a short summary of some of the key requirements, their scope and effective date.

In addition, importantly if your business has a listing on a regulated market in the EU, the CSRD and accompanying ESRSs come into effect very soon. For those with a listing in the US, the SEC has still to finalise its new rule on climate disclosures, but the State of California has moved ahead with some new requirements (further detail provided below).

Requirement	Scope	Timing
FCA Listing Rules mandate reporting in line with the TCFD recommendations	All premium listed commercial companies (LR 9.8.6R(8)) All standard listed commercial companies (LR 14.3.27R) The largest asset managers and owners, life insurers and FCA-regulated pension providers	Already in effect
Climate-related financial disclosures (CFD) regulations	UK public interest entities (thus capturing premium listed – debt or equity – and regulated banks or insurers) AIM companies – if they have over 500 employees Other UK companies and LLPs with more than £500m turnover and over 500 employees.	Already in effect for periods commencing on or after 6 April 2022 (for December year end reporters, the 2023 report) (Note: there are differences to TCFD / Listing Rules requirements. For more analysis, see Deloitte's **Need to know**)
ISSB standards – IFRS S1 (general requirements) and IFRS S2 (climate)	Subject to UK endorsement and adoption of S1 and S2 as UK Sustainability Disclosure Standards (see below), the FCA will consult on introducing S2 into the Listing Rules to replace the current reference to the TCFD framework. The Government will consult on application of the UK SDSs to unlisted companies in due course.	Still to be consulted on but disclosures expected to be required for accounting periods on or after 1 January 2025 Timing uncertain

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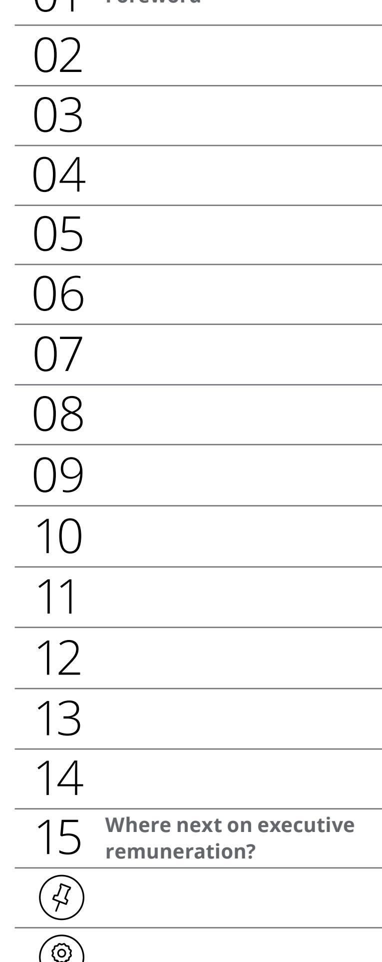
Requirement	Scope	Timing
Transition plan taskforce disclosure framework	The FCA Listing Rules require premium and standard listed companies to take into account a range of TCFD supporting guidance which is updated regularly, including the Guidance for All Sectors and likely to include the TPT Disclosure Framework and Implementation Guidance (see below for more detail).	Still to be consulted on but disclosures expected to be required for accounting periods on or after 1 January 2025
EU regulations: Corporate Sustainability Reporting Directive (CSRD), requiring sustainability reporting in accordance with European Sustainability Reporting Standards (ESRSs) – 12 standards across a range of sustainability topics	EU large PIEs with more than 500 employees or EU PIE parent undertakings of large groups with more than 500 employees plus all large non-EU undertakings, or non-EU parent undertakings of large groups, with more than 500 employees, listed on an EU regulated market	Periods starting on or after: 1 January 2024
The information provided will be subject to mandatory limited assurance A Deloitte **Need to know** provides further details on CSRD requirements including details of exemptions and transitional reliefs	All other EU large listed and non-listed undertakings (including large EU subsidiaries of a non-EU parent) or EU parent undertakings of large groups plus all other large non-EU undertakings or parent undertakings of large groups listed on an EU regulated market (Large size criteria: meet two or more of >250 employees, >€40m revenue, >€20m total assets)	1 January 2025
	EU listed small and medium-sized undertakings and non-EU small and medium-sized undertakings listed on an EU regulated market	1 January 2026
	Companies or groups outside the EU with >€150m revenue in the EU and at least one branch with >€40m revenue OR one large or listed EU subsidiary	1 January 2028
EU Green Taxonomy	All companies within scope of the Non-Financial Reporting Directive (NFRD), and within scope of the CSRD once in effect. Non-EU companies offering financial products in the EU. Non-EU subsidiaries of EU parent companies that may need to provide required information to their parent – reporting on proportion of activities that are environmentally sustainable.	Currently applicable; for those entities that will come in scope for the CSRD as above, the timing for the EU Green Taxonomy will be identical



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Further relevant guidance and information on latest developments

In July 2023, the FRC published the results of a **thematic review** on the quality of climate-related metrics and targets disclosures. This review shows an incremental improvement in the quality of companies' disclosure of net zero commitments and interim emissions targets. However, the report notes that disclosures of concrete actions and milestones to meet targets were sometimes unclear, and comparability of metrics between companies remains challenging. Given the large volume of information presented, many companies are finding it challenging to explain their plans for transitioning to a low-carbon economy clearly and concisely. The review also found that explanations of how climate targets affect financial statements still need improvement. Boilerplate language on climate being 'considered' provides little insight on impacts.

In the US, the SEC consulted on climate-related disclosures in March 2021 and issued a proposed rule **The Enhancement and Standardization of Climate-related Disclosures** for Investors in March 2022. At the time of writing, there has been no further official announcement on the timing for publishing a final rule.

On 7 October 2023, the California Governor signed into law two state senate bills that collectively require certain public and private US companies doing business in California to provide both quantitative and qualitative climate disclosures, with the first biennial reports required by 1 January 2026. The bills, *SB-253—Climate Corporate Data Accountability Act* and *SB-261—Greenhouse Gases: Climate-Related Financial Risk*, establish the first industry-agnostic US regulations that mandate the corporate reporting of greenhouse gas (GHG) emissions and climate risks in the United States. A Deloitte **Need to know** explains the content of the legislation.

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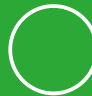

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On 18 September 2023, the **Taskforce for Nature-related Financial Disclosures** (TNFD) published its final recommendations for nature-related risk management and disclosure (Version 1.0). The recommendations aim to help businesses start measuring, managing and disclosing their nature-related impacts, dependencies, risks and opportunities. The recommended disclosures build on the four pillars that have been used by the Task Force on Climate-related Financial Disclosures (TCFD), i.e. governance, strategy, risk and impact management, and metrics and targets with a focus on four conceptual building blocks: nature-related dependencies, impacts, risks and opportunities. A Deloitte **Need to know** explains more.

In terms of how this new framework will be used with sustainability reporting frameworks, the ISSB recently sought feedback on adding a research project on biodiversity, ecosystems and ecosystem services as part of its first consultation on agenda priorities. Based on feedback received on the connection between climate and nature, the ISSB will reconsider future enhancements to complement IFRS S2 Climate-related Disclosures, including relating to natural ecosystems and the human capital aspects of the climate resilience transition. To deliver this, the ISSB has stated that it will consider the work of the TNFD and other existing nature-related standards and disclosures relevant to the information needs of investors.

Latest position on UK adoption of ISSB standards

The UK government, as part of its **2023 Green Finance Strategy**, set out its intention to adopt the ISSB sustainability standards for use in the UK following a formal assessment of the standards. It has established two advisory committees to support this assessment: the first, the UK Sustainability Disclosure Policy and Implementation Committee, will consider public policy while the second, the UK Sustainability Disclosure Technical Advisory Committee, will be supported by the FRC and will consider how the standards will sit alongside existing UK reporting requirements.

In July 2023, the FRC, in its role as secretariat to the UK Sustainability Disclosure Technical Advisory Committee, issued a **call for evidence** to inform the proposed endorsement of the IFRS Sustainability Disclosure Standards in the UK with a deadline of 11 October 2023. The responses will be used to inform the UK Sustainability Disclosure Technical Advisory Committee's technical assessment for endorsing IFRS S1 and S2.

The UK government has **confirmed** that the Secretary of state for Business and Trade will consider endorsement of the ISSB standards in 2024 and the FCA, in **Primary Market Bulletin 45**, indicated that it expects to consult in the first half of 2024. The aim is that any new listing rule requirements would apply for accounting periods beginning on or after 1 January 2025.

A spotlight on planning your transition

With climate change at the top of global priorities, regulators and investors are calling for greater transparency on companies' readiness for climate transition and their performance against the climate-related commitments that are being reported to stakeholders. Transition plans represent an important part of a company's overall response to climate change. They help companies to develop credible actions, set clear shorter-term milestones within a timeframe which can feel very distant and put in place metrics for accountability.

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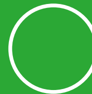

Both the Taskforce on Climate-related Financial Disclosures (TCFD) 2021 Guidance for All Sectors and the ISSB's new sustainability disclosure standard on Climate-related Disclosures (IFRS S2) include a call for disclosure of an organisation's plans to transition to a low-carbon economy. To support these expectations, earlier this year the Transition Plan Taskforce (TPT) published its final disclosure framework and implementation guidance which set out good practice for robust and credible transition plans as part of an entity's annual reporting. Whilst the TPT framework is currently voluntary, the FCA has stated it will consult on the introduction of the guidance for listed companies. The intention is for new requirements in relation to transition plan disclosures to be effective for accounting periods on or after 1 January 2025 with reporting in 2026.

A Deloitte **Need to know** provides further information. In addition, as part of **Corporate Reporting Insights 2023**, we undertook a survey of the first 50 FTSE 100 December 2022 annual reports (issued before the TPT framework was published) and considered how reporting of their transition plans compared to the TCFD recommended disclosures and expected future requirements.

Recent trends in climate litigation

Climate litigation is on the rise globally. According to the **Grantham Institute's annual report**, 2,341 cases have been captured in the Sabin Center's climate change litigation databases. Of these, 190 were filed in the last 12 months (i.e. 1 June 2022 to 31 May 2023). Around two-thirds (1,557) have been filed since 2015, the year of the Paris Agreement. While many of these actions have been brought against governments as a tool to enforce their climate commitments, more recently a number of actions have also been brought against energy companies as well as other corporate actors (including financial services firms).

Here are some further highlights from the Grantham Institute's findings:

- There has been growth in 'climate-washing' cases challenging the accuracy of green claims and commitments. Some cases seeking financial damages are also challenging disinformation, with many relying on consumer protection law.
- Litigation concerning investment decisions is increasing and can help clarify the parameters within which decisions should be made in the context of climate change.
- High-emitting activities are now more likely to be challenged at different points in their lifecycle, from initial financing to final project approval.
- Challenges to the climate policy response of governments and companies have grown significantly in number outside the US.

A reminder of the Deloitte Academy's autumn series of sustainability webinars – available to watch NOW

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30 OCTOBER 2023 – 09.00 – 13.30	09 OCTOBER 2023 – 09.00 – 10.30	03 OCTOBER 2023 – 09.30 – 10.30	18 SEPTEMBER 2023 – 09.30 – 10.30
Deloitte Academy Webinar: Climate Transition Plans	**Deloitte Academy Webinar: Corporate Sustainability Reporting Directive**	**Deloitte Academy Webinar: A Deep Dive into Scope 3**	**Deloitte Academy Webinar: Sustainability Data – Meeting stakeholder requirements...**

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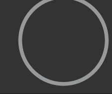
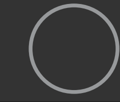

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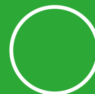

In this article we highlight the activities of the winners of the 2023 Finance for the future awards (run in partnership between ICAEW, Accounting for Sustainability (A4S) and Deloitte). These are organisations which have been identified as embedding sustainability in business decision-taking. We hope their stories can act as inspiration for your journey towards more sustainable outcomes.

The Finance for the future awards celebrate organisations and individuals who support the integration of sustainability into financial decision-making and aim to drive awareness and inspire action for business leaders to create sustainable outcomes for their organisations and to embed sustainability in business decision-making.

The awards cover the following categories:

- Driving change in the finance community
- Communicating integrated thinking
- Embedding an integrated approach
- Moving financial markets
- Leadership

Further details on each of these categories and the judging process are available from **https://www.financeforthefuture.org/** but, given the audience of 'On the board agenda', we wanted to focus on the awards for 'Communicating integrated thinking' and 'Embedding an integrated approach'.

The 'Communicating integrated thinking' award recognises organisations that are practicing authentic integrated thinking and are communicating this effectively to their providers of financial capital and across a range of communications. 2023 finalists in this category were: Itau Unibanco, Metro Pacific Investments Corporation, NatWest Group, and Schneider Electric SE.

NatWest Group was the winner impressing the judges with the depth of knowledge, overall leadership and ambition of the finance team. The adoption of an education and enabling approach from Board to customers and within a broad range of communications was also a highlight. A case study on their activities will be available to view soon on the link above.

'Embedding an integrated approach' recognises organisations where sustainability is embedded in the overall strategy and decision-making processes. For this category entrants were expected to demonstrate how sustainability is embedded into their organisation's overall strategy and decision-making processes and is widely considered to be core to activities. 2023 finalists were: ADM, EV Cargo, NatWest Group, Schneider Electric SE, Suzano S.A., and The Crown Estate.

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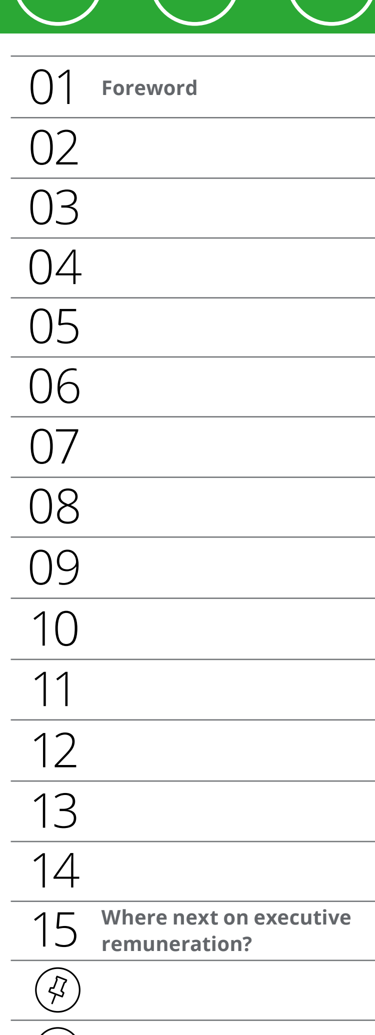
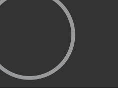
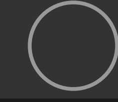


NatWest Group was also the winner in this category recognising that the organisation has made a big step forward by integrating its climate transition plan into the financial planning process, recognising the need for a holistic approach, looking beyond individual sectors to how whole systems interact and address those systemic barriers to change. A case study on their activities will be available to view soon on the link above.

The Crown Estate was also highly commended in this category on the basis that it was clear to the judges that sustainability is integral to both day-to-day decision making and long-term strategic thinking, with the finance team acting as a leader, proactively thinking through the mechanisms and tools it could use to drive change and putting these into action. A case study on their activities will be available to view soon on the link above.

If you are interested in learning more about the awards and considering entering your organisation for the 2024 awards – please go to **https://www.financeforthefuture.org/**





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In this article we provide an update on diversity and inclusion measures relating to boards, in particular the 2023 reports from the Parker Review and the FTSE Women Leaders review and the associated new voluntary reporting. We also review the regulatory focus on reporting on diversity and inclusion and share some results of a recent Deloitte survey on reporting practices.

How is the UK measuring up?

It is now well over ten years since the UK spearheaded voluntary measures, board and executive led, to improve diversity on company boards.

FTSE Women Leaders review

In March, the FTSE Women Leaders Review launched its 2023 report: Achieving Gender Balance. This found that the UK is second globally in terms of percentage of women on boards, behind only France which operates a quota system rather than the voluntary system in the UK. FTSE 350 companies have already met the target of women holding on average 40% of board positions, three years earlier than the target of December 2025.

Key findings from the FTSE Women Leaders Review:

Women hold 40.2% of board roles, up from only 9.5% in 2011. 77% of FTSE 100 companies have four or more women on their boards.	The number of women in executive director roles is lagging the non-executive director roles, with only 13.8% across the FTSE 350.
The FTSE 100 reported 29% women on the executive committee and 35% in direct reports, a combined percentage of 34.3% (2021: combined percentage of 32.5%). The FTSE 250 reported 26% women on the executive committee and 34% in direct reports, a combined percentage of 33% (2021: combined percentage of 30.7%).	In respect of the four senior roles on the board, being Chair, Senior Independent Director, CEO and CFO, there has been progress in particular in the role of the SID where women now hold 37% of positions in the FTSE 100, perhaps setting the stage for more women taking on Chair roles in future.

The Review explains that over the next three years, the work is "to make sure women are not only at the board table, but also appointed in greater numbers to the four biggest roles, Chair, SID, CEO and Finance Director." These are the roles companies are now required to report in their diversity statement under the FCA's new Listing Rule, increasing the level of ongoing scrutiny.

The review notes that although the rate of appointing women to senior roles is rising, in 2022 almost six out of ten available roles still went to men.

Parker review

Also in March, the Parker Review launched its most recent update report: **Improving the Ethnic Diversity of UK Business**. This found that businesses have been making impressive strides forward in meeting the Review's voluntary targets.

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Key findings from the Parker Review update:

Ethnic minorities held 18% of all FTSE 100 director positions and had at least one seat on 96% of FTSE 100 boards. However only 35% of the ethnic minority directors were British citizens.	The proportion of Chair and executive director roles held by ethnic minority directors was lagging the non-executive director roles, at 10%.
Ethnic minority directors held 11% of all FTSE 250 director positions and had at least one seat on 60% of FTSE 250 boards. Excluding investment trusts, this equated to one seat on 73% of FTSE 250 trading company boards.	FTSE 250 boards have an upcoming target for at least one ethnic minority director on the board by 2024.

The Parker Review has now expanded its focus to senior leadership. For the first time this year the Review is asking all FTSE 350 companies to set and achieve appropriate targets for ethnic minorities within their senior leadership. Recognising that it is not appropriate for the review to set a "one size fits all" target, it instead is asking companies to set their own target for the percentage of their senior management group (defined consistently with the FTSE Women Leaders Review as members of the Executive Committee, or equivalent, and their direct reports) who self-identify as being in an ethnic minority. The target should be set by December 2023 for what this percentage will be in December 2027.

Companies are "strongly encouraged" to describe in their annual reports the management development plans that they have in place to encourage and support achieving a diverse and inclusive pipeline.

The report includes some interesting company case studies.

New attention to the largest unlisted companies

This year the FTSE Women Leaders Review looked beyond the FTSE 350 to examine the diversity in leadership at 50 of the largest private companies and partnerships. Key findings included:

- 44 out of 50 companies approached to contribute data did so voluntarily.
- Although the representation of women on the boards of private companies stood on average at 31.8%, there is a greater range than in the FTSE 350. 19 boards reported either one or no women on the board, whilst almost a third had 40% or more women on the board.
- 32% of executive directors on the boards of these private companies were women.
- In terms of women's representation in leadership, this stands at 34.3% which is encouraging and is at a similar level to FTSE 350 companies.

The Parker Review is also looking at the largest unlisted companies and has asked that the same population of the largest 50 private companies and partnerships set targets and report their board and senior management ethnic diversity over time in line with FTSE 350 targets. It provides a list of the companies in scope.

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New FCA Listing Rule

The new FCA Listing Rule requiring a statement on diversity on company boards and executive management came into effect for periods commencing on or after 1 April 2022 for both premium and standard listed entities. The first mandatory reports have already been published. The FCA has stated its intention to review the rules in three years' time.

There are two key requirements, both supported by an explanation of the approach to collecting the data:

1. A statement setting out whether the company has met the following targets on board diversity:

- At least 40% of the individuals on its board of directors are women;
- At least one of the senior positions on the board of directors is held by a woman – the chair, the chief executive, the senior independent director, or the chief financial officer; and
- At least one individual on the board of directors is from a minority ethnic background.

2. Numerical data: a table in a set format for each of the ethnic background and the gender identity or sex of the individuals on the board and in executive management.

In addition to the Listing Rule, there has been a change to DTR 7.2.8AR which now requires the description of the diversity policy applied to the board to also cover the main board committees: remuneration, audit and nomination.

Deloitte's Corporate Governance Disclosure Checklist is designed for use by preparers in companies and covers the detailed requirements and the limited exemptions.

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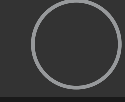

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There is a great deal of regulatory advice to bear in mind when preparing this year's annual report. In this article we pull together the key messages from the FRC's annual review of corporate reporting, issued thematic reviews and FRC Lab Reports and their annual review of corporate governance reporting. We close by providing a number of further resources to assist you and your teams ahead of the year-end.

The suite of FRC publications for the 2023/24 reporting season

- **Annual Review of Corporate Reporting 2022/23** describes the FRC's corporate reporting monitoring activity and findings over the year, case studies and example disclosures. The Report also sets out the FRC's reporting expectations for the year ahead.
- **FRC Thematic Reviews and Lab Reports**: The FRC published three thematic reviews covering IFRS 13: fair value measurement, climate-related metrics and targets and IFRS 17: insurance contracts interim disclosures in the first year of application. In addition, the FRC Lab issued their follow up report on ESG data distribution and consumption and a timely guide on how to approach materiality in practice.
- **Review of Corporate Governance 2022/23** describes the observations, findings and key messages from the FRC from their review of corporate governance reporting.

Annual Review of Corporate Reporting

The FRC released its Annual Review of Corporate Reporting covering the issues arising out of the 2022/23 review cycle. This year, the review looked at 263 companies, of which 59% were FTSE 350 companies.

Overall, the FRC has concluded that the quality of corporate reporting has been maintained, although the FRC's Corporate Reporting Review (CRR) team raised a slightly higher number of substantive questions (112) in their letters to companies compared to the previous year. This year, 25 companies were required to make restatements as a result of issues identified within their primary financial statements.

Inflation and high interest rates

The FRC has placed special emphasis on the reporting of the effects of inflation and high interest rates. With the ongoing geo-political uncertainties and knock-on economic effects, the associated disclosure in the financial statements and narrative reporting is vital for a user's understanding and decision-making.

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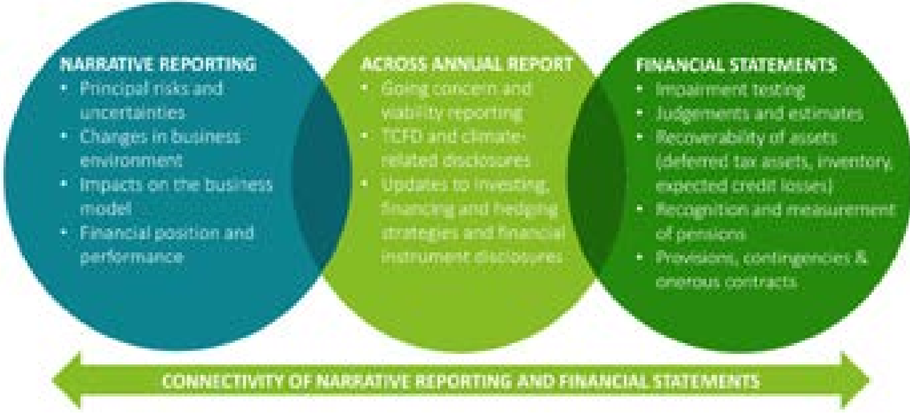
The FRC Report highlighted the areas companies should consider when reporting on these uncertainties from a financial and narrative reporting standpoint as shown below. The expectation is that companies should:

- explain the risks and changes to the business environment and their impact on financial performance, position and prospects; and
- consider the effect of uncertainty and high inflation on the recognition and measurement of assets and liabilities and the related disclosures. This should also include whether the assumptions and 'reasonably possible' ranges for sensitivity disclosures remain appropriate.



Financial Reporting matters

The FRC Report ranked the top 10 financial reporting issues according to those for which the most substantive questions were asked. Disclosures relating to the impairment of assets, judgements and estimates, and cash flow statements were at the top of the financial reporting issues raised for attention.

The top 10 issues have been outlined below, together with the 'status' of these issues compared to last year.

#	Top 10 issues	22/23 Status
1	Impairment of assets	Increase in cases
2	Judgements and estimates	Increase in cases
3	Cash flow statements	Decrease in cases
4	Strategic Report and other Companies Act 2006 matters	Same as last year
5	Financial instruments	Decrease in cases
6	Income Taxes	Decrease in cases
7	Revenue	Decrease in cases
8	Provisions and contingencies	Decrease in cases
9	Presentation of financial statements	Same as last year
10	Fair value measurement	Increase in cases

Increase in cases   Decrease in cases   Same as last year

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The common queries and recommendations for these top 10 issues have been explained in greater depth in Section 5 of the FRC's Report. The FRC encourages companies to read and act upon these recommendations ahead of the year-end reporting season. Deloitte have also published a **Need to know: Areas of Focus for Corporate Reporting** to assist preparers and reviewers of the annual report ahead of the reporting year-end.

Other Corporate Reporting matters

Directors' Remuneration Report

The FRC does not currently have statutory powers over the full annual report however, the FRC has proactively reviewed a sample of ten Directors' Remuneration Reports (DRR). 90% of the companies reviewed received letters highlighting areas of non-compliance or lack of consistency between the DRR and information included elsewhere in the annual report.

The areas highlighted for improvement by the FRC's review include:

Greater clarity of remuneration-linked targets and achieved performance against these targets for annual and long-term incentive plans. The FRC notes that executive remuneration is a sensitive topic and explaining the intricacies of these targets, along with the monitoring and measurement of performance against them is of critical interest to users of the annual report. It was also noted that most companies did not provide detail on their prospective remuneration-linked targets for the next financial year. While this is an area of permitted non-disclosure, the FRC encourages greater transparency in this area.

Consistency with other areas of reporting, specifically relating to disclosure on key management personnel and consistency between performance measures disclosed in the DRR compared to performance measures disclosed as APMs and targets under TCFD. Where these performance measures differ from those included as APMs or sustainability targets, companies should explain these differences and the reasons for them.

Progress on climate reporting

As the importance of climate reporting continues to increase rapidly, the FRC has provided insight into areas of substantive questioning on TCFD and the extent to which climate was reflected in the financial statements. The FRC has also issued two thematic reviews, initially covering the first-year application of TCFD in 2022 and more recently, a deeper dive into climate-related metrics and targets. The FRC's view is that companies are at various stages of maturity when it comes to climate reporting.

The FRC will be working closely with the FCA and will continue to challenge companies where TCFD disclosures are not made in line with what the FRC and FCA expect. In addition, the FRC will work on a regulatory approach to their reviews following the mandatory climate-related financial disclosures which became effective in the UK for periods beginning on or after 6 April 2022.

From the 2022/23 review, the FRC highlighted the extent to which climate was considered in the financial statements. 11 companies were questioned as to whether climate-related risks disclosed as part of their narrative reporting were included in their IAS 36 impairment of assets and sensitivity analysis.

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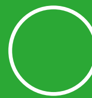
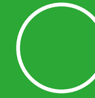

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Thematic reviews and other guidance ahead of the year-end reporting season

During 2023, the FRC has published a number of thematic reviews and lab reports with their key messages summarised below:

Requirement	Scope
Thematic Review: Fair Value Measurement	• Fair value measurements should represent market participant assumptions, not company-specific assumptions. • Information on fair value measurement should be consistent across the annual report and reflect significant risks, including climate-related matters (where material) affecting the company, and, where necessary, include further explanatory management commentary. • As a minimum, companies should provide the disclosure required by the Standard to meet its overall objective and avoid boilerplate and immaterial information. • Information for recurring Level 3 measurements should include: quantitative information about significant unobservable inputs and adjustments, quantitative sensitivity for financial instruments and a reconciliation of movements in fair value. • The level of aggregation of information disclosed should result in decision-useful disclosures. • Where there is no internal specialist, companies should consider using an external specialist when valuing material items.
Thematic Review: Climate-related metrics and targets	• There are nine key areas the FRC expects companies to improve on in the next reporting period: – Clarity of reporting – Statement of consistency – Data challenges – Transitions plans – Climate-related targets – Climate-related metrics – Assurance – Directors' remuneration – Impact of targets on financial statements • The FRC's approach to climate-related reviews is evolving and will become more focused on ensuring its expectations and those of the FCA on climate disclosures are met. • The risk of greenwashing is a key focus that influences many of the FRC's expectations. • Climate-related metrics and targets need to be more clearly explained, distinguished and integrated. • Transparency and disclosure of gaps, uncertainties and estimation is encouraged. • Climate-related targets and the plans to meet them are just as important to reflect in the financial statements as climate-related risks and opportunities.

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Requirement	Scope
Thematic Review: IFRS 17: Insurance Contract	• This review covered a small sample of interim financial statements and focused on the adequacy of disclosures relating to the effect of the transition to IFRS 17 in the first year of adoption. Overall, the FRC was pleased with the quality of disclosures reviewed however noted improvements by companies to: – provide both quantitative and qualitative disclosures that are company-specific and decision-useful, which meet the objectives of IFRS 17 and enables users to understand how insurance contracts are measured and presented in the financial statements; – ensure that accounting policies relating to IFRS 17 are clear and sufficiently detailed with consistent explanations of key judgements, accounting policy choices and methodologies, especially where IFRS 17 is not prescriptive; – provide information about the methodologies and assumptions made to determine the specific amount of risk of material adjustment in relation to sources of estimation uncertainty, and provide meaningful sensitivities and/or ranges of possible outcomes; – provide a sufficiently disaggregated level of both quantitative and qualitative information to allow users to understand the financial effects of material portfolios of insurance (and reinsurance) contracts. • The FRC acknowledges that it may not be possible for insurance companies to implement all of the recommendations in their 2023 annual reports, it nevertheless expects them to continue to develop and improve their financial reporting under IFRS 17 as better practice emerges. A follow up thematic will also be carried out in respect of first annual financial statements under IFRS 17.
Lab Report: ESG data distribution and consumption	• The report is a follow-on from last year's 'Improving ESG data production' publication, which looks into how investors are accessing and collecting companies' ESG data, how this is used in their own investment decisions and the role of third parties in data collection. • The report highlights the importance of how the data is presented in the annual report and the impact of including immaterial data points on a user's decision-making ability.
Lab Report: Materiality in practice	• The objective of this report is to 'embed a materiality mindset' when it comes to reporting by providing guidance to companies on how to approach their materiality assessments more holistically when determining what information to include in their annual report.

Upcoming thematic reviews and Lab reports

Area	Expected	Objective of Report
Lab Report: Business model-focused reporting	End of 2023	This report highlights the importance of understanding and reporting of a company's business model as a means of assessing its sustainability, viability, and resilience. This report will look into how business model reporting has evolved, how business models are described and how it is used as a driver for other disclosures within the annual report.
Thematic Review: Reporting by large private companies	Early 2024	This review will focus on the highest areas of expected poor or non-compliance for private companies. The purpose of this review is to inform the FRC's monitoring activities going forward.

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Key expectations for 2023/2024 annual reports

In summary, the key themes arising from the FRC's review and their expectations for 2023/2024 annual reports are for companies to:

- Ensure disclosures about uncertainty in assumptions and significant accounting judgements are sufficiently detailed to meet both the relevant reporting requirements and for users to understand the positions taken in the financial statements.
- Provide a clear description in the Strategic Report of risks facing the business, and their impact on strategy, business model, going concern and viability.
- Provide transparent disclosure of the nature and extent of material risks arising from financial instruments in the notes to the financial statements.
- Ensure greater connectivity between narrative reporting and financial statements. For example, where principal risks described in the Strategic Report have material impacts on significant assumptions made in the financial statements, the disclosure should include a clear cross-reference and explain its associated impact.
- Provide a clear statement of consistency with TCFD. The FRC has warned that it will provide challenge to companies whose disclosure is not in line with what the FCA 'particularly expects to be provided' under the Listing Rules.
- Perform a sufficiently detailed review of the annual report and accounts, including a step-back analysis to determine whether the report as a whole is clear, concise and understandable.
- Perform a robust pre-issuance review to ensure internal consistency across the annual report, that accounting policies address all significant transactions and that presentational matters such as cash flow classifications have been considered.

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Review of Corporate Governance Reporting

In November 2023, the FRC published its **'Review of Corporate Governance Reporting'** which is based on a review of a sample of 100 companies drawn from the whole premium listed market.

The FRC Report notes a general improvement in governance reporting especially relating to workforce and other stakeholder engagement and remuneration. However the Report also draws attention to improvement needed in areas such as monitoring and review of the risk management and internal control systems, avoiding boilerplate language in the application of the Code and focussing on reporting the outcomes of governance processes and policies. Both preparers and reviewers of annual reports, particularly members of the audit committee, should consider the FRC's findings ahead of their next reporting period.

The Executive Summary makes the following point:

"Corporate governance disclosures are an opportunity to build trust and understanding, and demonstrate why the UK is an attractive investment market, rather than being a compliance exercise."

The review highlights the continuing need for high quality governance which is linked to effective decision-making by boards and management, for greater clarity as to how a company is applying the Code's principles, and for clearer explanations where there are departures from Code provisions so that shareholders and stakeholders have greater confidence in the quality of governance.

Across the Report, the FRC sets out a number of **key messages** to draw attention to areas recommended for further improvement, including:

- reporting on board considerations and decisions, the company's activities and the associated outcomes will **reduce boilerplate disclosure** and provide more concise and meaningful disclosures to users;
- where there are **departures from the Code**, in addition to the timeline of anticipated compliance, reporting on how alternative arrangements provide benefits to shareholders and other stakeholders;
- setting out the practices and policies implemented for **corporate culture**, together with the objectives set and progress made;
- providing greater context to a **company's purpose** statement than just a market slogan i.e. explaining why the company exists, what it does, what markets it operates in, what it is seeking to achieve and how it will achieve it;
- reporting on intermediary outcomes or milestones from **stakeholder engagement,** which allows users to know the company is working on feedback received and explaining why companies consider **stakeholder engagement mechanisms** to be effective;
- discussing how **stakeholder feedback** is being reflected on and considered in board decision making;
- demonstrating how **diversity objectives and initiatives link to company strategy** and how these initiatives have contributed to improving their diversity targets;

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- discussing the specific internal and external safeguards used to protect the **external auditor's** independence;
- describing the process of review, findings and recommendations relating to the **external audit process;**
- discussing how and why **principal risks** have changed from the previous year, together with any explanation of changes to the mitigation strategy; and
- describing how the company's purpose and values are linked to **executive remuneration arrangements**.
- avoiding declaratory statements on how companies impact their surrounding **communities** but providing more meaningful insight into community considerations and how any negative effects are being addressed;

Monitoring and reviewing the effectiveness of the risk management and internal control systems

The FRC notes there has been 'little year on year improvement' in the quality of reporting of the assessment of risk management and internal controls systems and highlight the monitoring and review activities as an area for particular focus. Only 20 companies provided insightful information on how the monitoring and review activities were conducted or what areas were covered, and 32 companies stated the results of the review found their systems effective. With the increased focus on the UK's approach to internal controls, the FRC notes that most companies need to do more work to demonstrate robust systems, governance, and oversight.

Provision 29 of the Code states that 'The board should monitor the company's risk management and internal control systems and, at least annually, **carry out a review of their effectiveness** and report on that review in the annual report. The monitoring and review should cover all **material controls**, including financial, operational and compliance controls.'

The FRC has set out a number of matters for the board to consider when fulfilling this responsibility in Provision 29:

Who should perform the review?

The Code places the responsibility of the review on the board. While the board may engage with and consider the information received from management, internal audit, or other parts of the company, but the overall responsibility cannot be delegated other than to a board committee (i.e. audit, risk or other suitable committee).

What should the annual review of effectiveness cover?

The FRC has repeated the steps set out in Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014) (page 10/11) for consideration in developing and reporting on the review and monitoring process.

What role does internal audit play in the review?

In the Report, the FRC has noted that the internal audit function can help the board by providing information about its findings, however, internal audit's responsibilities relating to the effectiveness of the risk management and internal control systems should be limited to providing independent advice and assurance.

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How do we determine material controls?

The FRC has outlined a few principles when determining material controls:

1. As a baseline, controls put in place to manage or mitigate the company's principal risks; and
2. Controls over matters that could have a material impact on the interests of the company, investors and other stakeholders.

What does good reporting on this provision look like?

The Report sets out the FRC's observations regarding what makes good reporting in this area:

- **A clear statement describing the review undertaken:** Avoid using general, boilerplate language such as "the board (or a relevant committee) reviews the effectiveness of risk management and internal control systems." Instead, provide a definitive and clear statement of who performed the review and the scope of the review undertaken during the year.
- **Process for the review:** Good reporting on the process for the review includes details of how the board or its delegated committee have undertaken the review, who was consulted, what reports, or evidence were received, and what areas were covered by the review.
- **Reporting the outcomes of the review:** Where the board has determined the risk management and internal controls systems to be effective, this should be clearly stated in the annual report together with how the board reached this conclusion. In addition, where material weaknesses or inefficiencies have been identified, the company should explain the nature of the weakness or inefficiency and include the future actions the Board has taken or will take to remediate these.

The Report also makes clear reporting practices to avoid:

- Stating that 'the board has reviewed the effectiveness of the company's risk management and internal controls systems' **but not explaining how.**
- Stating the outcome, e.g., 'the systems have been effective' **but not explaining how the review process is carried out and how the board achieved this conclusion.**
- Stating that 'weaknesses were identified', **but not explaining what these were and what actions have been or will be taken to address them.**
- Stating that 'actions have been taken to remedy any weaknesses or inefficiencies', **but not explaining what these weaknesses were.**

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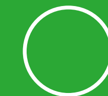

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Cyber and information technology

The Report also includes observations from cyber and information technology reporting. While the Code does not require reporting in these areas, the FRC commends companies which outlined the risks, opportunities, and importance of cyber security to their business. The FRC notes that boards should be comfortable with understanding the cyber risks in their business and how they are managed.

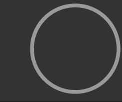
In addition, the FRC looked at the extent to which artificial intelligence (AI) was reported in their sample. Just under half of companies mentioned AI in their reports, however none of these companies disclosed the board's involvement in their approach or oversight of AI. Once again, the FRC has encouraged boards to have a clear view on how AI is being used and developed in a responsible manner and ensure the necessary governance processes are implemented. This may warrant further training and education of boards.

Earlier this year as part of the **Corporate Reporting Insights** series, Deloitte published its findings relating to **Generative AI Intelligence: Risks and Opportunities**. In this survey, we read the most recent annual reports published by the constituent companies of the FTSE 100 index to explore how they approached this topic and reported on risks, opportunities, policies and controls over AI and Generative AI. We also explored whether and how companies in our survey have updated the descriptions of their principal risks to reflect these developments in technology in their more recent half-yearly reports – a prediction of the impact of the new technology as we head into 2024. We found that whilst half of the FTSE 100 mentioned AI in their most recent annual report, only five companies clearly differentiated between traditional AI (machine learning) and Generative AI.

To read the full FRC Review of corporate governance reporting click **here**.

Further resources to help you with year-end reporting:

- **What makes a good annual report and accounts**
- **Deloitte's 2023 Corporate Reporting Insights covers the latest in disclosure trends over a range of hot topics: Climate Transition Plans, Diversity and Inclusion and Audit Tendering.**
- **Deloitte's Closing Out 2023 Publication**



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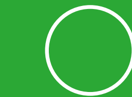
12 Achieving more streamlined and simplified corporate reporting



It is not new news that annual reports are getting longer and more impenetrable and whilst there have been some attempts in the past to address this issue, the UK Government's intention now is to achieve a more effective, streamlined and simplified corporate reporting framework for all stakeholders to support economic growth and long-term value creation. In this article we consider where attention is needed and what actions you can take ahead of any changes in statutory reporting requirements.

When making the announcement withdrawing the secondary legislation to introduce new reporting requirements as part of the 'Restoring trust in corporate governance and audit' reform agenda (see page 21 for further details), the UK Government stated that it would soon be "setting out options to reform the wider [reporting] framework shortly to reduce the burden of red tape on businesses". We understand that this follows the recent call for evidence for its review of non-financial reporting.

In the Deloitte submission to the Government's call for evidence, we had the following key messages:

- Simplify the numerous thresholds and exemptions in UK company law to reduce complexity and remove confusion.
- Streamline the content requirements of the strategic report to remove overlapping requirements.
- Revise commonly used definitions such as "turnover" and "employees" to ensure that they are functioning as intended.
- Remove the requirement to prepare a directors' report and either remove or identify the most appropriate alternative place for the content currently required therein.
- Make use of alternative mechanisms for reporting data which may be best published in a location other than the annual report, such as on the company's website, at Companies House or via a central government portal, to ensure that policy aims continue to be met.

We believe these actions are important because over time government and regulators have increased non-financial reporting requirements in response to stakeholder and investor demand on a variety of 'hot topic' initiatives. Whilst each additional reporting requirement has been designed to increase the transparency and accountability of companies, each new requirement has led to an increase in the volume of information in annual reports. And because each new requirement is effectively layered on to existing requirements, integration and connectivity is often lost. This in turn obscures the decision-useful information the market needs.

In our opinion, any content which amounts to standing information could be removed from the annual report and instead reported either on the company's website or to Companies House. We believe that the best solution would be a central portal where companies can file their information, creating a database from which investors, government bodies and other stakeholders can extract and export the information they need based on the way in which information is tagged. This would help to streamline the annual report, focusing on current year performance against both financial and non-financial objectives, while ensuring that broader policy aims regarding the reporting of certain data are still met.

Actions to consider in advance of any change to statutory requirements

We acknowledge that it is very difficult for companies to move ahead with such streamlining in advance of any change to the relevant statutory requirements but we

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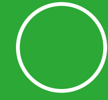

encourage boards to consider how they can achieve more meaningful and concise reporting and believe that there are some actions which can be considered now.

Materiality

Materiality is a powerful tool in an organisation's considerations to provide decision-useful, rather than just more, information for investors. But determining what is or is not material is highly subjective and needs to reflect the particular circumstances of the organisation. The FRC report **'What Makes a Good...... Annual Report and Accounts'**

> Materiality is the bedrock of corporate reporting. It is a fundamental concept embedded in accounting frameworks and the primary tool that helps companies to focus on key matters for them and their stakeholders. Materiality informs the breadth and depth of what needs to be included in the full ARA.
>
> Materiality applies to all transactions, balances and disclosures – both numerical and textual – in the ARA, not just those transactions affecting the accounts.
>
> Information can be material, either on the basis of quantitative factors, qualitative factors or both. Materiality should be determined in the context of the entity's business. Whether a particular piece of information is material will vary between entities.
>
> When making an assessment of materiality for the strategic report, the board should consider:
>
> - the significance of the matter relative to the entity's business model and strategy; and
> - the potential magnitude of future effects of a matter on the entity's development, performance, position or future prospects.

In addition, the FRC Lab issued **'Materiality in practice – applying a materiality mindset'** in October looking at how companies can use materiality for better, not more, reporting aiming to help them report clearly and in a compelling way on those issues that the board and management deem to be of greatest importance to stakeholders:

> Applying a materiality mindset can be powerful for corporate reporting. Drawing on the lessons learned from project participants, the Lab has compiled a toolkit to help companies with materiality assessments:
>
> **Think about investor needs & decision-making** – to communicate clearly and compellingly, boards and management should apply judgement and determine what information is material for reporting
>
> **Take a holistic approach to materiality** - materiality is typically considered through three separate lenses: quantitative financial thresholds, qualitative financial aspects and sustainability-related information. This differs from how investors evaluate information for decision-making - investors are interested in how management and the board think about the strategy and business model holistically and in a connected way
>
> **Embed a materiality mindset** – the report sets out advice and tips on how to embed a materiality mindset into corporate reporting, e.g. create a common understanding of key messages and start from a blank piece of paper every so often

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Just as important as robust judgements on materiality is transparency of those judgements for those relying on the information presented. As an example, Listing Rule 9.8.6R provides criteria for companies to consider when preparing listing rule compliant TCFD disclosures and companies should disclose the basis on which they have assessed the materiality of climate-related disclosures. This helps readers to understand whether materiality considerations have driven omissions of recommended disclosures, or whether disclosures have been omitted for other reasons such as the non-availability of information.

Further evidence of this focus on materiality was reflected in the recent change to IAS 1 'Presentation of financial statements' which replaced all instances of the term 'significant accounting policies' with 'material accounting policy information'. It was believed that these amendments would help entities reduce immaterial accounting policy disclosures in their financial statements so that material accounting policy information was not obscured.

Presentation

As a step towards presenting certain "standing" or policy information outside the annual report, companies could start to clearly identify and/or segregate this information from information which covers activities, outcomes and performance in the reporting year. This could be done either within existing sections of the report or by moving "standing" or policy information to an appendix with appropriate cross-references in the body of the report.

A key message from the FRC's 2023 Review of Corporate Governance Reporting was that reporting on governance arrangements should focus on actual practices rather than policies and procedures to demonstrate that a company is a well-governed and sustainable, and able to deliver investment, growth and competitiveness. In addition, the review also encouraged companies to use cross-references to relevant parts of their website for policy information, keeping the annual report focused on outcomes.

To help visualise how much of the current annual report is "standing" versus in-year performance-related information for internal purposes, companies may find it useful to take last year's annual report and colour code sections of the text dependent on the nature of those disclosures. This should then help to determine the best approach to separating out the different elements of reporting.

All disclosures should be challenged under the materiality considerations noted above (unless required under law/regulation regardless of materiality) but also in terms of duplication and clarity of signposting.

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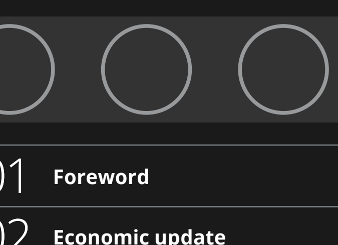

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13 Taxation update

13 Taxation update

2023 has continued to be a year of change in taxation approach in the UK and globally. In this article we flag some key announcements made in the latest Autumn Statement and provide further resources to help companies stay ahead.

The latest international position on Pillar 2 is available in our Autumn Regulatory Update.

On 22 November, the UK Chancellor of the Exchequer, Jeremy Hunt delivered the UK's Autumn Statement for 2023. The focus was on five areas: reducing debt, cutting tax and rewarding hard work, delivering world-class education, building domestic sustainable energy and backing British business. As had been widely speculated, the Chancellor announced several tax cuts. Key tax announcements included permanent full expensing for certain capital expenditure by companies and reductions in national insurance contributions.

This article provides a summary of the main tax announcements affecting businesses:

Full expensing made permanent	In the Spring Budget 2023, the Government introduced "full expensing" for qualifying capital expenditure incurred between 1 April 2023 and 1 April 2026. The Government has now announced that full expensing will be made permanent. Under the full expensing rules, companies can claim 100% first-year capital allowances for qualifying plant and machinery expenditure, and a 50% first-year allowance for qualifying special rate assets. Cars, assets for leasing, and second-hand assets continue to be ineligible for this relief. However, the Government is exploring the case for expanding the scope of full expensing to include assets for leasing and will publish a technical consultation in due course. The Government forecasts that this measure will benefit taxpayers by an average of GBP 10 billion per year. The Government also announced that it will launch a technical consultation on wider changes to simplify the UK's capital allowances legislation in due course.
Pillar Two	The Government intends to introduce the undertaxed profit rule ('UTPR'), which forms part of the OECD/G20 global minimum tax framework on Pillar Two, in an upcoming finance bill, to take effect for accounting periods beginning on or after 31 December 2024. The Government noted in the documents published immediately after the chancellor's speech that "it is important that the UK implements Pillar Two to a similar timeline as other countries" and that the "Government will continue to monitor international developments on implementation." The Government will also make technical amendments to the multinational top-up tax and domestic top-up tax legislation through the Autumn Finance Bill 2023. The multinational top-up tax and domestic top-up tax were introduced in the Finance (No.2) Act 2023. The proposed changes comprise amendments identified from stakeholder consultation and those necessary to ensure that UK legislation remains consistent with administrative guidance to the Pillar Two model rules agreed by the UK and other members of the OECD inclusive framework.

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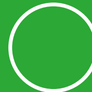

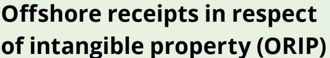

Offshore receipts in respect of intangible property (ORIP)	The Government has announced that it will repeal the ORIP rules in respect of income arising from 31 December 2024. The ORIP rules were implemented in 2019 to discourage multinational groups from placing intangible property in low tax jurisdictions where income is subject to no or a low rate of tax. The repeal of the ORIP rules will coincide with the introduction of the Pillar Two UTPR, which the Government considers to more comprehensively discourage the behaviours that ORIP sought to counteract. While any income which was subject to ORIP will now potentially be subject to the UTPR, the repeal is a welcome simplification of the UK tax regime.
Research and development (R&D) tax relief changes	The current R&D expenditure credit (RDEC) and R&D tax relief for small and medium-sized enterprises (SMEs) schemes will be merged for accounting periods beginning on or after 1 April 2024. The rate offered under the merged scheme will be implemented at the current RDEC rate of 20%. The notional tax rate applied to loss makers in the merged scheme will be the small profit rate of 19%, rather than the 25% main rate currently set in the RDEC. For the same periods, the intensity threshold in the R&D intensives scheme will also be reduced from 40% to 30%, which the Government expects will allow around 5,000 extra SMEs to qualify for an enhanced rate of relief. A one-year grace period will provide certainty for companies which dip under the 30% threshold that they will continue to receive relief for one year.
Key National Insurance Contribution ('NIC') changes	• The main rate of primary class 1 employee NICs will be reduced from 12% to 10% as from 6 January 2024. This gives employers and their payroll providers limited time to administer the changes part-way through the UK income tax year. • The main rate of class 4 self-employed NICs will be reduced from 9% to 8% as from 6 April 2024. • Self-employed individuals will no longer be required to pay class 2 NICs as from 6 April 2024.
Other tax announcements include:	• **Investment zones** – The Government announced plans to extend the investment zones program originally announced at the Spring Budget 2023, from five to 10 years. The measures will therefore extend the benefits available in English freeports through 30 September 2031, and will double the funding and tax reliefs available in each investment zone from GBP 80 million to GBP 160 million over the duration of the program. Investment zones across the UK were first introduced with the goal of supporting high-growth, strategic industries in areas in need of levelling-up to increase productivity and growth. The Government hopes that extending the duration of the program will provide greater certainty to investors. The Government has announced four new investment zones in England and a second in Wales. • **Freeports** – The Government also announced that it was extending the duration of the tax reliefs available in freeports from five to 10 years to maximize the program's impact, and is creating a new GBP 150 million investment opportunity fund, which will be available over five years to ensure that investment zones and freeports can respond nimbly as investment opportunities arise.

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- **Business rates** – The Government has announced further business rate benefits to both small businesses and those in the retail, hospitality, and leisure industries. Specifically, the Government announced that the small business multiplier in England will be frozen for a fourth consecutive year at 49.9 pence. Larger businesses will not benefit from this announcement, as the standard multiplier for larger business will be uprated in line with inflation to 54.6 pence. The current 75% relief available for eligible retail, hospitality, and leisure (RHL) properties will be extended for tax year 2024-25. RHL properties in England will be eligible to receive support up to a cash cap of GBP 110,000 per business.
- **Stamp duty** – As from 1 January 2024, the growth market exemption, a relief from stamp duty and stamp duty reserve tax, will be extended to include smaller, innovative growth markets.
- **Investments for other sectors** – The Government continued a recent trend of announcing targeted measures designed to incentivize investment in specific industries and sectors that are considered to be important to the future success of the UK economy. In the Autumn Statement, this included funding of GBP 4.5 billion to help unlock private investment in strategic manufacturing sectors, over a five-year period starting in 2025-26, including the UK's space sector, life sciences, green industries, and aerospace, with an additional GBP 500 million in funding for "compute for AI" over the next two financial years.
- **Key net zero measures:**
  - The rate of the following taxes will increase in line with the Retail Price Index:
    - Aggregates levy (as from 1 April 2024 and as from 1 April 2025);
    - Air passenger duty (as from 1 April 2024); and
    - Landfill tax (as from 1 April 2024).
  - Plastic packaging tax will be increased in line with the CPI as from 1 April 2024;
  - The main and reduced rates of climate change levy will be frozen as from 1 April 2025; and
  - As from February 2024, the VAT relief available on the installation of energy-saving materials will be expanded by extending the relief to additional technologies, such as water-source heat pumps.
- The Government has also confirmed a new criminal offense for promoters of tax avoidance who continue to promote avoidance schemes after receiving a stop notice, and a new power enabling HM Revenue & Customs (HMRC) to bring disqualification action against directors of companies involved in promoting tax avoidance, with effect from royal assent to Autumn Finance Bill 2023.

Resources to help you stay ahead

For more detailed commentary and analysis, visit Deloitte UK's dedicated Autumn Statement 2023 website and our Tax At Hand website which provides regular global and local tax news and updates.

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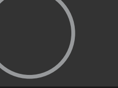

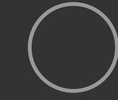

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14 The audit committee's role in monitoring and enhancing audit quality

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In May the FRC released Audit committees and the external audit: Minimum Standard. At that time we included some details around the "comply or explain" reporting expectations set out in the Minimum Standard in our On the board agenda: Autumn Regulatory Update.

The Minimum Standard sets out a number of considerations when evidencing the effectiveness of the external audit process and of the auditor. These considerations include evidence generated by the experience of the audited entity and the audit committee, alongside external evidence and regulatory feedback. Outputs can also be drawn from engagement level Audit Quality Indicators against which the auditor reports.

The Spring Report published earlier this year summarised some of the actions that audit committees, regulators and audit firms can take to collectively drive forward quality assessments. This article draws together these insights and raises some suggestions for audit committees to consider when working with the auditor to enhance the overall quality of the audit process.

The Spring Report is the summary of the outcomes of discussions convened by the Audit Committee Chairs' Independent Forum (ACCIF) in a working group of experienced audit committee chairs, auditors and FRC executives to discuss how they could further advance their common objective to enhance audit quality. A key message is that delivering a high-quality audit relies on the auditor, management and boards and their audit committees working effectively together.

Some of the key findings for audit committees are set out below, together with areas where the audit committee can monitor and add value, with evidence provided either by management or by the external auditor.

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14 The audit committee’s role in monitoring and enhancing audit quality

Audit planning

The Group suggested that there were three particular aspects of the planning process that are vital to building the foundations of a high-quality audit, but that may sometimes be overlooked.

Finding	The audit committee’s role	Areas to monitor
A commonly understood risk assessment and audit plan	• Facilitate dedicated planning discussions between management, the audit committee and the auditors • Detailed review of the audit plan against the risk assessment to ensure all aspects covered appropriately	• Timing of the audit plan and reasons for any delays to delivery of the audit plan • Robustness of risk identification process and the level of detail presented in the audit plan regarding coverage of risks; including whether the risk assessment demonstrates a comprehensive understanding of the risk landscape across the industry as well as specific to the business • Effectiveness and regularity of communication channels between the company, audit committee, and external auditor • Extent and quality of collaboration between management and the auditor in developing the risk assessment.
A dynamic audit plan	• Establish a regular cadence of “catch-up” sessions with the auditor to re-assess the audit plan • Identify trigger events up front which would automatically result in a formal review of the audit plan, e.g. significant control weakness identified	• Frequency, content and value of “catch-up” sessions with the auditor • Effectiveness and timeliness of the communication process to the auditor and response times from the auditor, particularly for trigger events – have expectations been agreed and met
A formal and agreed escalation framework	• Agree an escalation framework with the auditors, to be included in the audit plan, making clear the circumstances and appropriate contacts for escalation of issues arising in relation to the audit plan • Confirm with the auditor the approach to making any changes to the audit plan and ensure that appropriate contingencies have been incorporated into the plan	• Speed and frequency with which the audit committee is notified of changes to the audit plan • Does the audit plan include contingency measures and plans that can be implemented should there be unforeseen challenges – both in respect of management actions and the audit response • Effectiveness of the change and contingency management plan in addressing unexpected developments (should any occur)

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Audit execution

The Group agreed that there are two 'core' objectives which should be present as a minimum in a high-quality audit.

Finding	The audit committee's role	Areas to monitor
Joint execution of a responsive audit plan	• Send a clear message to management that they must commit to the agreed audit timetable and where this is not possible, that they must communicate promptly with both the auditors and the audit committee • Ask for regular check-ins with the auditor on delivery against plan – expect changes to be required and challenge where they are not being notified	• Regularity and quality of auditor and of audit committee meetings with designated management – is there a clear escalation process in case of challenges arising? • Ability and commitment of management to meet an agreed delivery timetable • Quality and timeliness of updates provided by management and the auditor to the audit committee regarding any deviations from the audit plan, including changes in phasing of audit effort • How involved has the audit committee needed to be in resolving any issues or delays in the audit process • The culture of accountability and adherence to audit timelines within the organisation
Adequate challenge	• Set a clear tone with management that supports open and robust challenge • For areas of material importance, ask the auditors to explain how they have challenged management's judgements and assumptions • For each area, discuss with the auditor how they will demonstrate that that challenge has taken place in a proportionate manner • Incorporate the output of these discussions in their audit committee report in the annual report to explain the audit committee's role in ensuring that adequate challenge has taken place	• Level of amendment made to key management papers after review and challenge by the auditor or by the audit committee • Instances where a formal consultation is undertaken by the auditor on a complex area and promptness and quality of outputs • For group audits, the degree of interaction the auditor reports with component auditors • Level of required audit committee involvement in assessing whether audit challenges have been applied in a proportionate and risk-based manner • Nature and severity of reported deficiencies in controls or accounting and the adequacy of their resolution

14 The audit committee's role in monitoring and enhancing audit quality

Completion and reporting

The Group identified two key outputs from the audit process which are key to the ongoing enhancement of audit quality.

Finding	The audit committee's role	Areas to monitor
Assessment of audit quality	• Ensure that a robust assessment of the quality of audit is undertaken involving consideration of delivery against the audit plan, quality of discussion experienced on judgements and assumptions and the handling of any issues/challenges arising • In addition to the above, seek further information on the outcomes of any internal quality assessment of the audit undertaken by the audit firm • Where informed by the FRC that an AQR review is to undertaken, ask for meetings with the AQR team at the planning and pre-close stage of the process	• Level of partner and manager involvement in the audit • Feedback from internal sources regarding auditor engagement and the quality of challenge • Feedback from external sources such as the auditor's own internal evaluations or the FRC's AQR team • Actions taken by auditors to respond to inspection findings or recommendations; thoroughness and impact of remediation efforts on overall audit quality
The feedback loop	• Ask management for regular feedback on the performance of the audit and deliver that plus the audit committee's own feedback to the auditor at appropriate intervals • Do not wait for the end of the process to provide feedback if audit quality could be impacted • Ask the auditor for feedback on management in terms of their role in the audit process and what might need to be improved to enhance audit quality	• How the auditor addresses constructive feedback • Is the auditor providing feedback on the timeliness and quality of management contributions, and does this accord with the audit committee's experience • Monitor how feedback is used constructively by the auditor and management to enhance audit quality

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Auditing standards update

Group audits

The FRC has issued the revised ISA (UK) 600 "Special considerations – Audits of group financial statements (including the work of component auditors)" which is effective for audits of group financial statements for periods beginning on or after 15 December 2023.

The primary objective of the revised standard is to enhance the risk-based approach to undertaking a group audit and reinforce the need for robust communication and interactions between the group engagement partner, group engagement team and component auditors. This is intended to be beneficial to improving the quality of group audits and protecting the public interest.

Key changes to ISA (UK) 600

- The revised standard will require group auditors to reconsider their audit plan and in particular ways in which they can enhance the risk-based approach.
- As a result, the concept of significant components has been removed from the standard and the group auditor will have greater flexibility in determining components, determining the components at which audit work will be performed and the extent of that audit work, and determining who will perform the audit work.
- This will result in scoping changes for the group audit which may include changes to the extent of work performed at components, changes to whether the group team involves a component auditor to perform the work at certain components and changes as to which components are within scope for audit procedures.

The revised standard also expands on the direction, supervision and review requirements of the revised ISA(UK) 220 "Quality management for an audit of financial statements" that is already effective for this reporting season. In a group audit, this includes the direction, supervision and review of component auditors.

Key takeaways

Boards are encouraged to engage early with their group auditors to understand the operational impacts on the audit cycle and on the business, and how any changes will meet the expectations of the revised standard.

Laws and regulations

In November the FRC issued a consultation on proposed revisions to ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements and Section B - The Auditor's Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector. The FRC requests comments by 12 January 2024.

Key changes proposed to ISA (UK) 250 Section A

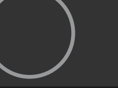
- Removal of distinction for the purpose of audit evidence between the two different categories of laws and regulations in the current standard, being those that may require specific disclosures to be made in the financial statements ("direct laws and regulations") and those that do not have a direct effect but for which non-compliance may have a material effect on the financial statements ("other laws and regulations")
- Implementing a more risk-based approach – the FRC considered the current standard to be "an overly procedural standard". This introduces two new overarching requirements for the auditor:
  - To design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of laws and regulations with which non-compliance may have a material effect on the financial statements.
  - To identify, assess and respond to the risks of material misstatement due to fraud or error relating to non-compliance with laws and regulations.
- Requirement for the auditor to conclude explicitly whether non-compliance or suspected non-compliance with laws and regulations has resulted in a material misstatement of the financial statements.

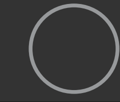
Key takeaways

Significant concerns have been raised on the implications of these changes. Boards should be aware that these changes would likely have a significant impact on the scope and cost of many audits given the expectation that the auditor would need to make an assessment across a much broader spectrum of laws and regulation.

In addition, auditors will look to the company and the directors to establish, maintain and document adequate systems and processes and robust internal controls over compliance with laws and regulations and their potential effect on the financial statements. There is currently no framework of internal control standards that sufficiently covers compliance.

In some cases there may be a need for the auditor to engage legal counsel to support risk assessment, in particular where they must have regard to the identification of laws and regulations in specialist industries, or to consider the laws and regulations in other jurisdictions, in the case of multi-national groups.





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15 The 'big tent' debate on UK executive remuneration – where next?

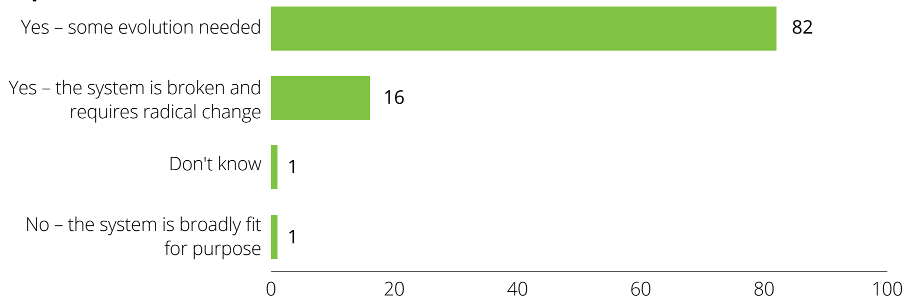
15 The 'big tent' debate on UK executive remuneration – where next?

In the last year we have seen a re-energised debate around the attractiveness of the UK as a place to list post-Brexit. A number of recent regulatory reforms, including the Edinburgh Reforms and Mansion House announcements have indicated a growing momentum in driving forward the development of the UK's capital markets.

As part of this wider debate, there has been increased focus on the executive pay landscape and the ability of UK listed companies to compete for talent on a global basis. In May 2023, Julia Hoggett, CEO of the London Stock Exchange, called for a 'big tent' conversation on the UK's approach to executive compensation with key stakeholders including listed company Chairs, the Financial Reporting Council (FRC), the Investment Association and proxy agencies.

According to a recent Deloitte poll, over 50% of UK companies have experienced a specific attraction or retention challenge in relation to a 'first choice' executive candidate where pay was a contributing factor. While only 16% believe the remuneration landscape for listed companies requires radical change, over 80% considered that some evolution is needed.

Recent polling survey – Does the remuneration landscape for UK listed companies require reform?



Polling result – Deloitte Annual Remuneration Strategy Conference 2023, c.400 attendees

UK executive pay versus global listed markets

While UK CEO pay levels fall significantly behind the US, they are broadly competitive against other global markets, therefore an overfocus on the UK / US 'pay gap' oversimplifies the challenge and will not be relevant to all UK listed businesses.

UK CEO pay versus global listed markets

UK CEO pay levels fall significantly behind US market practice, but are broadly competitive against other listed global markets.

* Based on data analysis for c. 500 global listed companies. Source: Annual Report & Accounts; European data (excluding UK) – Diligent.

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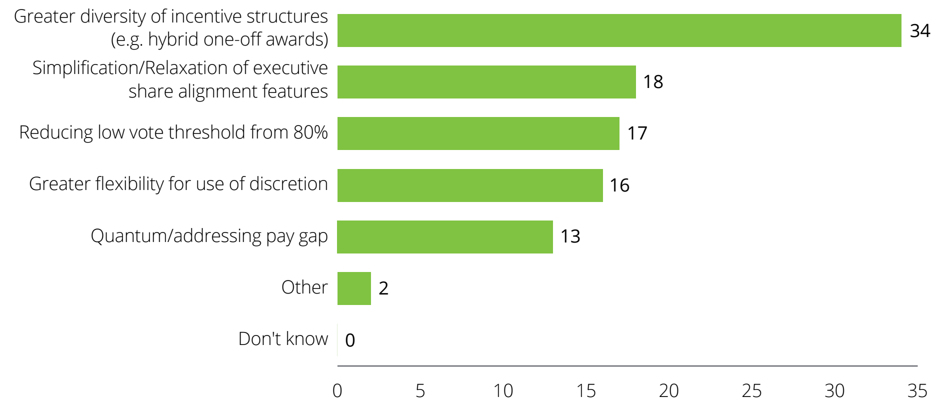
In many cases, structural constraints around pay, including how and when it is delivered, are more of a barrier than quantum in hiring executive talent. In recent years we have seen growing frustration around the gradual emergence of a wide range of complex requirements, and often divergent investor views, around UK executive remuneration.

The UK Corporate Governance Code includes some key principles of remuneration governance - including the promotion of executive share ownership - but in recent years an increasingly prescriptive or 'tick box' approach in assessing how these remuneration principles should be met has emerged. This includes an increase in the number of single-issue focus areas included in proxy and investor voting policies - for example, specific requirements around post-employment shareholding policies; executive and workforce pension alignment and 'windfall gains'. As a result, pay constraints for UK listed companies - in particular around executive pay structures - are substantially more onerous than those seen in other markets.

In the recent 2023 AGM season, we saw some examples of proxy and investor support for more significant increases to incentive opportunities where there is a particular exposure and growth trajectory in the US, demonstrating a potential move towards greater openness to case-by-case consideration of proposals.

'Big tent debate' – potential interventions for change?
In a recent publication, we identified potential interventions for change for all stakeholders in the current ecosystem, to provide greater flexibility for remuneration committees to develop remuneration policies and incentive structures that suit a diverse range of companies with different global footprints, talent markets and business lifecycles, as summarised below.



Polling result - Deloitte Annual Remuneration Strategy Conference 2023, c.400 attendees

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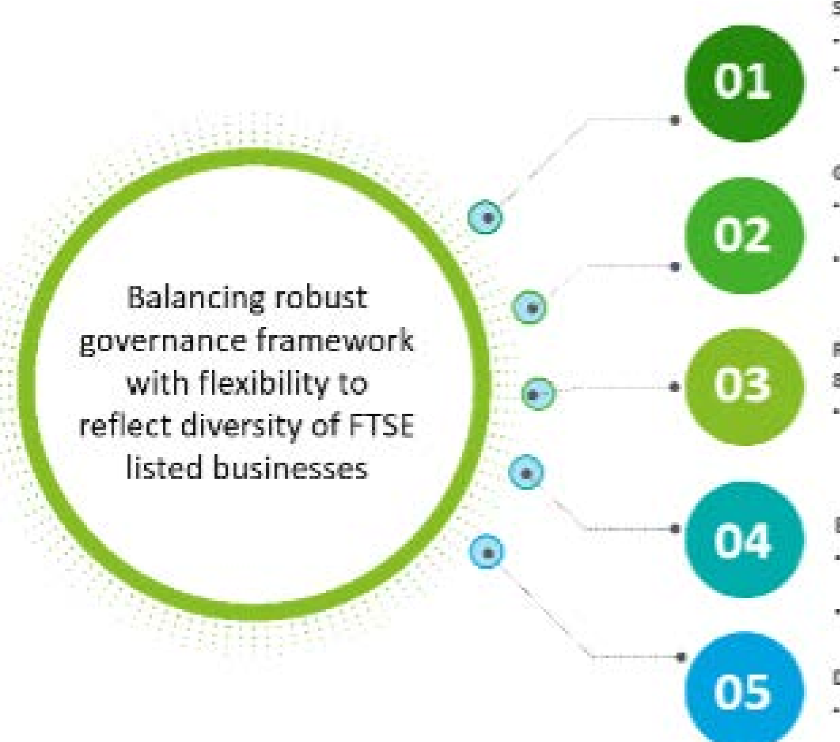

Simplification of share ownership requirements

- *Greater use of 'comply or explain' in application of Code requirements*
- *For example, where a significant executive shareholding guideline has been exceeded, the use of an additional two-year holding period for vested long-term incentive awards could be removed and/or bonus deferral reduced/removed.*

Greater recognition of exposure to US and/or high growth markets

- *Move away from a 'rules based' mindset, with case-by-case consideration of alternative incentive approaches.*
- *For example, hybrid structures (combination of performances shares and restricted shares); one-off awards; more significant incentive increases – where supported by rationale of growth and/or specific talent markets.*

Reduce the ‘low vote’ threshold on remuneration resolutions from 80% to 70%

- *c.40% of FTSE 100 companies have been subject to a 'low vote' on the remuneration report and/or policy in the last five years. A lower threshold could provide more meaningful focus where greater investor consensus on areas of concern.*

Evolving the ‘checks and balances’ on remuneration

- *Move away from 'single focus' investor voting issues – e.g. pension alignment, windfall gains, executive salary increases below workforce rate*
- *Extend timing for response to draft proxy reports*

Discretion – a two way street?

- *Greater sense of proportionality around discretion – flexibility to exercise of reasonable positive discretion where considered appropriate, taking into account wider company performance and stakeholder experience.*

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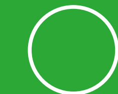

Recent developments and final thoughts

In recent months we have seen continued momentum in the wider market reform landscape. On 7 November 2023, the FRC issued a statement confirming that it would take forward less than one half of the original proposals set out in the recent Code consultation, with an updated Code to be issued in January 2024.

On 16 November 2023, the Capital Markets Industry Taskforce (CMIT) – a government-approved body set up to maximise the impact of capital market reforms - published an open letter to the Chancellor of the Exchequer signed by 75 Company chairs, CEOs and senior leaders of UK businesses, arguing for a "future design of our corporate governance and stewardship regime [that] takes into account not just good governance and stewardship, but also the attractiveness of the UK equity markets". It committed to outline further suggestions in relation to the UK's governance and stewardship regimes in a separate letter in the near future.

Pay is a small but emotive part of the debate around the attractiveness of the UK as a place to list, and the nature of any remuneration related reforms remains uncertain. Rightly, there is sensitivity to the wider economic context including the cost of living challenges across society. However, signalling that the UK is a more agile environment – balancing greater flexibility and trust in boards while maintaining strong corporate governance around executive pay – could be a factor in making it a vibrant place to list and grow.

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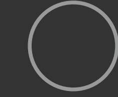

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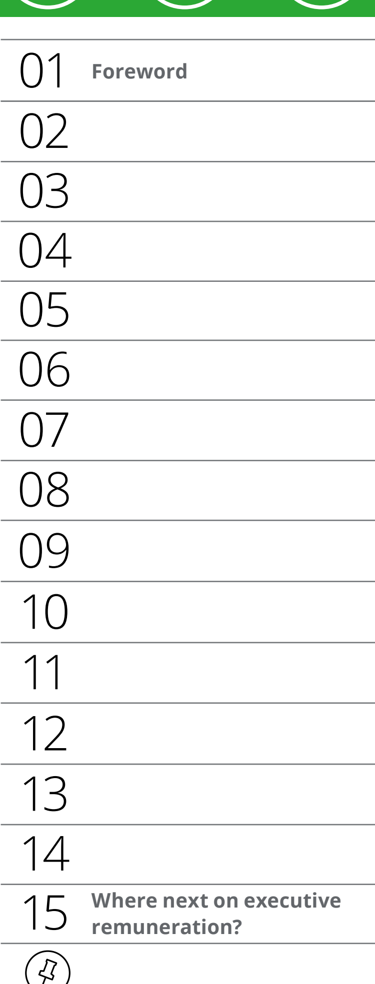

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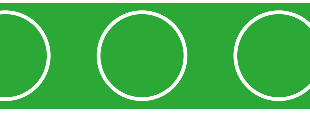

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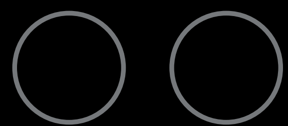

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