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On the board agenda – half year 2020

July 2020

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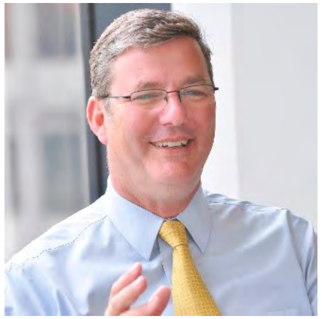

Dear Board Member,

This half year update is a timely summary of the areas for board focus as we enter the second half of 2020 and start to emerge from the unprecedented lockdown of our lives and our economy.

Our first articles focus on interim reporting, for those of you with December year ends. As set out in the FRC Financial Reporting Lab's recent infographic, investors want to see clear and robust disclosure explaining:

- what **resources** are available to support liquidity in the short term;
- what **actions** are being taken to manage expenditure and ensure viability; and
- how the company is protecting its **key assets and value drivers** for the future.

We have also provided a summary of the new Corporate Insolvency and Governance Act 2020 which has now received Royal Assent, and which puts in place a series of measures to amend insolvency and company law to support business with certain challenges from the impact of COVID-19.

This half year update includes a reminder of two further important areas currently receiving attention:

- Monitoring and review of the effectiveness of internal controls
- Responding to and reporting on the impacts of climate change

We recognise that as you remobilise your companies you have many important areas on the agenda, but as you plan your board and audit committee agendas for the remainder of 2020, we hope you find this publication useful. Our "deep dive" on these topics "**On the Board Agenda 2020**" published in December 2019 remains available on our website.

The impact of the COVID-19 pandemic

We have addressed the impact of COVID-19 throughout this publication. However, we also hope that you were able to access our publication 'Latest board insights on COVID-19' as a useful tool which pulls together the announcements and guidance in relation to the impact of COVID-19 on corporate reporting and governance. We would also like to draw your attention to a further guide for board members which aims to help boards steer their companies through the COVID-19 recovery journey using Deloitte's Resilient Leadership framework.

Do of course get in touch with your Deloitte partner or email our governance team to discuss any of these matters further.

Yours faithfully,

William Touche
Vice-Chair
Leader of Deloitte UK Centre of Corporate Governance
July 2020

Areas of focus for your half-yearly report

This section is a reminder of the requirements for listed companies for the 2020 interims reporting season and of some key matters to consider when reporting in the current environment. Investors will be expecting clear and robust disclosure around the impact of the pandemic and the board's future plans for the rest of the year.

A reminder of what DTR 4.2 requires

DTR 4.2 of the FCA's Disclosure Guidance & Transparency Rules requires that a condensed set of financial statements must be prepared in accordance with IAS 34 and must give a **true and fair view** of the assets, liabilities, financial position and profit or loss of the company.

The interim management report presented with the condensed set of financial statements must include **at least**:

- an indication of **important events** that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements;
- a description of the **principal risks and uncertainties** for the remaining six months of the financial year; and
- for issuers of shares, disclosures on any relevant **related party transactions** which took place during the period.

Some matters to consider in light of current circumstances

The interim management report

When considering the **"important events"** which have occurred during the year clearly the impact of COVID-19, and the decisions taken in response to the pandemic, will feature heavily. Whilst the focus of the DTR is the impact these events had on the condensed set of financial statements, many companies are also considering framing their description of some of the difficult decisions they have had to take through the lens of the section 172 factors. Given the focus on socially responsible decisions, this will provide helpful context and build towards the full section 172(1) statement which will be required in the year end annual report. As a reminder, the section 172 factors are as follows:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

A further useful step could be to consider Sir Donald Brydon's recommendation for a **Public Interest Statement** which would set out the directors' view of the company's legal, financial, social and environmental responsibilities from a public interest perspective, together with an explanation of how the company has discharged those public interest obligations and responsibilities, what actions it has taken to mitigate any external impacts it has caused during the period, and how effective these actions have been.

In light of the significant uncertainty facing companies and the economy as we emerge from lockdown, companies will need to carry out a robust assessment of the **principal risks and uncertainties** for the remaining six months of the year as these are very unlikely to be the same as they were in the most recent annual report. The FRC has provided the following guidance:

> In setting out its principal risks and uncertainties, a company should consider the specific resources, assets and relationships that are most under threat and the steps being taken to protect them. The protection and retention of staff, and the associated corporate memory, may be crucial to a company's ability to weather the current storm and to rebuild when the opportunity arises. All stakeholders, including investors, are concerned about companies' workforces and seek an understanding of how they are being retained and supported.

Further guidance on reporting in times of uncertainty is provided in the following section.

The condensed set of financial statements

The significant events and transactions resulting from the COVID-19 pandemic that may warrant disclosure in the condensed set of financial statements include:

- Government assistance received
- Write down of inventories to net realisable value
- Recognition of a loss from the impairment of financial assets property, plant and equipment, right of use assets, goodwill, other intangible assets, contract assets, or other assets
- Disposal or impairment of property, plant and equipment
- Changes in the fair value of investment properties
- Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities (regardless of whether they are recognised at fair value or amortised cost)
- Any default or breach of a loan agreement that has not been remedied on, or before, the end of the interim reporting period
- Changes in the classification of financial assets as a result of a change in the purpose or use of those assets
- Employee termination costs
- Recognition of onerous contracts, for example arising from additional costs or inability to fulfil them
- Change in contingent liabilities or assets

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Going concern considerations

In relation to going concern, the directors will need to consider the extent to which the disruption of operations as a result of the COVID-19 pandemic, and any other events or circumstances that affect the entity, give rise to material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern for a period of at least 12 months from the date the interim financial report is authorised for issue. In making this assessment, management will need to take into account all information available up to the date of authorisation of the interim financial report.

The latest guidance from the FRC emphasised the following in relation to going concern:

Issues which might trigger a need to re-examine the going concern assumption and going concern and liquidity risk disclosures include:

- a significant adverse variation in operating cash flows between prior budgets and forecasts and the outturn in the first half of the year;
- a significant reduction in projected revenues for the second half of the year based on plausible scenarios for the COVID-19 pandemic and public health responses, and taking into account government support measures;
- a failure to obtain renewal or extension of committed financing facilities; and
- a failure to sell capital assets for their expected amounts or within previously forecast time-frames.

If going concern has become a significant issue since the previous annual financial statements, directors should undertake procedures similar to those that they would have carried out for annual financial statements to ensure that all relevant issues have been identified and considered.

The accounting implications of the above events and transactions can be complex and the Deloitte guidance is being updated regularly as circumstances require, please access the latest version of Need to know – accounting considerations related to the coronavirus 2019 disease.

A reminder about the requirements in relation to interim reviews by auditors

Under the Disclosure Guidance & Transparency Rules (DTR 4.2.9), if the half-yearly financial report has been audited or reviewed by auditors the audit report or review report must be reproduced in full. If the half-yearly financial report has not been audited or reviewed by auditors, an issuer must make a statement to this effect in its report.

The FRC has provided the following guidance in relation to the decision on whether to engage auditors to perform an interim review engagement based on feedback from investors:

It is a matter for a company to decide whether to engage their auditors to perform an interim review engagement – it is not a legal or regulatory requirement. However, feedback we have received from investors indicates that such a review provides valuable assurance, and this may be particularly so in the current environment.

Reporting in times of uncertainty

This section summarises the practical guidance issued by the FRC's Financial Reporting Lab drawing out areas of reporting that investors have highlighted as being most critical in these times of unparalleled economic uncertainty.

In March 2020 the Financial Reporting Lab issued the following infographic following a number of discussions with individual investors and investor groups.

Reporting during times of uncertainty

Financial Reporting LAB

Five current questions investors seek information on...

Resources		Action		The future
1 How much cash does the company have?	2 What cash and liquidity could the company obtain in the short-term?	3 What can the company do to manage expenditure in the short-term?	4 What other actions can the company take to ensure its viability?	5 How is the company protecting its key assets and value drivers?
Helpful disclosure might include: • The amount and nature of cash and liquid resources. • Where the cash is located within the group (legal entities, countries, currencies etc). • Whether there are any barriers to accessing the cash (capital controls, regulatory issues). • Whether there is an impact from accessing the cash, such as tax or other liabilities.	Helpful disclosure might include: • Information about the company's short-term financing arrangements, facilities and other obligations and likely changes. • Information about the credit lines (committed and uncommitted, drawn and undrawn) the company has access to. • Whether the company has additional support e.g. from related businesses, shareholders, suppliers. • Whether there are any covenants that are being imposed or waived.	Helpful disclosure might include: • Whether the company is changing its dividend policy or cancelling a dividend. • Information on the extent to which supplier financing schemes are being used, and what commitment the provider has given to maintain access to these schemes. • Information about the nature and timing of capital expenditure commitments, and whether there is any flexibility. • Information about any payments that may be deferred e.g. tax payments. • Information about the company's approach to its pension funding.	Helpful disclosure might include: • Information of the nature of any government-backed support, by country and any conditions that attach to this. • Information about any stress testing/reverse stress testing carried out and how the viability of different parts of the group are being affected. • Whether there are any intergroup guarantees and commitments. • Details of how the board is monitoring the situation.	Helpful disclosure might include: • Plausible scenarios on revenue and costs over the short-term and into a longer transition period. • Details of the likely impact of shorter-term decisions on the company's key assets and longer-term drivers of value, e.g. people, brands, licences. • Approach to support for employees. • Information about how the company is managing commitments with customers where services are delayed. • Information about how the company might adapt its business model and strategy in the short/medium term.

More guidance is available on the FRC website - https://www.frc.org.uk/about-the-frc/covid-19

Discussions the Lab has had with investors have evolved from an initial focus on cash and liquidity across the market to a much wider consideration of the specific impacts on company strategy, its business model, employees and other stakeholders. Investors have made clear that they want to understand each company's position, which might require the provision of more frequent information from companies on financial and operating position, and which are the areas of current focus for directors. The Lab Report issued on 15 June 2020 provides further guidance on three key areas of reporting:

1. **Resources** – including the availability of cash;
2. **Actions** – to manage short-term expenditure and ensure viability; and
3. **The future** – how the decisions taken now ensure the sustainability of the company and how they impact customers, suppliers and employees.

1. Resources

Investors want to be able to understand quickly the resources and liquidity available to the company. Cash flow statement disclosures in the annual report provide information about the historical position but investors want to know, particularly in the current situation, what cash and liquidity the company can access at the time of reporting, recognising that in the short and medium term the balance of cash resources and generation might change and evolve.

The Lab report therefore suggests that good disclosures cover three elements: the company's current cash and liquidity position, operational cash generation and expected finance-based cash inflows. Providing information about the amount, context and timing of each will provide useful information to readers.

The current cash position	As well as understanding the level of cash that a company has, investors want to understand the level of debt and other facilities that the company has access to.
Operational cash generation	Understanding the link between the operations of a company and how it generates cash is a critical objective for investors. In these evolving conditions, companies should communicate how the business model may be adapting and how this is affecting cash generation in the short term, especially as this might be different from the historical model.
Expected finance-based cash inflows	As the impact of the pandemic continues, many companies have taken action to secure financing by drawing down credit lines, or issuing capital or loan instruments to shareholders, lenders or perhaps governments. However, while a large capital raising brings about transparent disclosure through a prospectus, requirements may have been varied and some other financing activities require only limited formal market disclosure. Companies should consider what investor disclosures would be useful in interim reports regarding such capital and liquidity actions.

2. Management Actions

In the short term, investors want to understand the scope and nature of management actions and get some sense of the company's ability to adapt. In the longer term, they want to understand the horizon for variations in operating expenses and capital allocation.

Important disclosures might include:

- Whether the company has changed/is changing its dividend policy, or cancelling a dividend.
- Information on the extent to which supplier financing schemes are being used, and what commitments the provider has given to maintain access to these schemes.
- Information about the nature and timing of material capital expenditure commitments, and whether there is any flexibility in these.
- Information about any normal payments that may be deferred, e.g. tax payments.
- Ability to access government support or schemes such as furloughing, and the implications of these.
- Information about the company's approach to funding pension commitments.

These new circumstances have created the need for new processes and new controls, and board and management resources have rightly been redirected towards immediate issues. However, strong controls and oversight remain important, perhaps more so in an unusual and disrupted environment. The Lab report makes clear that investors, regulators and others need information on how management activities have adapted and changed and what the impact of those changes are. Key questions to address in your disclosures include:

Management and oversight – How has the board re-prioritised its agenda and oversight activities, what structures are in place to identify emerging risks, and what has happened to all the topics on which the board usually spends its time?

Controls – How have controls changed that were not flexible enough to adapt? Were IT and disaster recovery plans robust enough or do they need to change? Does the board have a robust plan for a potential second wave?

3. The future

Investors are interested in a range of factors that relate to the longer-term future of the company, including how the business model and strategy of the company may change in the medium to longer term to take account of the effects of the pandemic. The pandemic is likely to have accelerated strategic changes being considered beforehand. Many companies will have made changes to their business model, whilst others will be contemplating changes either as a result of the ongoing pandemic, or expected conditions during the recovery. Investors have questions, both about a company's ability to adapt and respond, and in many cases about the resilience of the business model over the longer term.

Companies should consider disclosing how the current crisis has changed, or not, their longer term goals. The company's purpose, what it is trying to achieve over the longer term, is a helpful 'north star' in guiding longer term aims, and how these aims are contextualised and described.

Reporting on going concern, risk and viability

The Lab also issued a report '**COVID-19 – Going concern, risk and viability**' which highlights some of the key considerations for companies and provides examples of current disclosure practices. The guidance on risk and viability pulls together the key messages from earlier Lab reports with updated disclosure examples which focus specifically on the impact of COVID-19. The going concern guidance sets out and emphasises the requirements around going concern and recent statements from the FCA and FRC. The report states that disclosure around going concern helps to provide context in uncertain times and that helpful disclosures:

- Clarify the going concern position and detail the factors that support that decision, such as the cash position, support from others (including government schemes), current level of business operations etc.
- Provide details of management actions (both current and potential future) and their status.
- Provide detail of the elements of uncertainty (specific to the business) and consideration of the impacts on the business where the position is subject to or impacted by uncertainty.
- Connect to wider reporting within the report, such as risk disclosures and, in the case of the annual report, also the viability disclosures.

The report includes a number of examples of going concern disclosures from annual reports issued recently.

New legislation to relieve burden on businesses and support economic recovery

The Corporate Insolvency and Governance Bill has received Royal Assent. In this section we summarise the six insolvency measures and two corporate governance measures which aim to provide support to businesses to help them through this period of instability.

The corporate governance measures will introduce temporary easements and flexibility to businesses where they are coping with reduced resources and restrictions. This will be done through:

- introducing a new moratorium to give companies breathing space from their creditors while they seek a rescue;
- prohibiting termination clauses preventing suppliers from ceasing their supply or asking for additional payments while a company is going through a rescue process;
- introducing a new restructuring plan that will bind creditors;
- enabling the insolvency regime to flex to meet the demands of the emergency;
- temporarily removing the threat of personal liability for wrongful trading from directors who try to keep their companies afloat through the emergency;
- temporarily prohibiting creditors from filing statutory demands and winding up petitions for coronavirus related debts; and
- temporarily easing burdens on businesses by enabling them to hold closed Annual General Meetings (AGMs), conduct business and communicate with members electronically, and by extending filing deadline.

The measures relating to company meetings are retrospective from 26 March so that any company which already had to hold an AGM in a way that adhered to social distancing measures, but that, as a result, did not meet relevant obligations in its constitution, will have done so in accordance with the law. Companies who were forced to postpone AGMs which were due to be held after 26 March will be given until 30 September to hold those AGMs using the new flexibilities.

Internal controls – getting ahead

This section provides a reminder of the current requirements for UK companies following the UK Corporate Governance Code in relation to internal controls and an update on likely future direction for internal control attestations in the UK.

A reminder of the current UK Corporate Governance Code requirements

The UK Code stipulates that the board should establish a framework of prudent and effective controls, which enable risk to be assessed and managed. In addition, 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's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting states that "effective and on-going monitoring and review are essential components of sound systems of risk management and internal control". To support this the Guidance recommends that in the annual report the board should summarise the process it has applied in reviewing the effectiveness of the system of risk management and internal control, and explain what actions have been or are being taken to remedy any significant failings or weaknesses.

There is no current UK requirement for the board to provide a confirmation of or attestation on the effectiveness of the internal control systems.

Changes proposed to existing UK requirements on internal controls

In his Independent Review of the Financial Reporting Council, Sir John Kingman recommended considering a strengthened framework around internal controls in the UK.

In his review of the quality and effectiveness of audit, Sir Donald Brydon also acknowledged that the effectiveness of internal controls is clearly of great relevance to the reliability of a company's financial (and potentially other) reporting, and he went further than Sir John Kingman by putting forward a specific recommendation for directors to report more meaningfully on their internal controls:

"The CEO and CFO provide an annual attestation to the board of directors as to the effectiveness of the company's internal controls over financial reporting and that this attestation be guided by new principles on internal controls reporting to be developed by the Audit Committee Chairs Independent Forum and endorsed by ARGA[1] ."

At present the BEIS consultation is expected in 2020, delayed due to the pandemic. The Audit Committee Chairs Independent Forum (ACCIF) has been working on a draft set of principles, in line with Sir Donald's recommendation, and is expected to issue those for wider consideration in due course.

[1]ARGA is the Audit, Reporting and Governance Authority, the new name proposed by Sir John Kingman for the reshaped FRC

So what does all this mean for boards now?

In our opinion the absence of a specific requirement to attest to the effectiveness of internal controls (over financial reporting or more broadly) does not mean that boards and audit committees should be taking a lighter approach on their monitoring and review of the company's system of internal control. The combination of the Code and the FRC Guidance set a clear expectation of the activities boards should currently be undertaking. Furthermore, following these steps will make any future attestation less challenging. Boards should seek to ensure that management have:

- a clear, well communicated hierarchy of delegated authorities from the board;
- clear entity level controls to ensure the right "tone from the top";
- undertaken a financial and fraud risk assessment;
- clarity over in scope systems and related general IT controls, again with clear ownership and documentation;
- robust business process documentation, with clear process owners, updated for any COVID-19 impacts;
- identified material controls, and be monitoring their operation;
- defined and evidenced a robust process for the annual review of effectiveness; and
- defined what constitutes a significant control failure or weakness that would require detailed consideration and disclosure of remediating actions.

Responding to climate change – the latest position on reporting requirements

At the start of the year the FCA issued a consultation paper which included proposals to require all premium listed companies to report under the TCFD framework for December 2021 calendar year ends and after, in line with the commitments made in the Green Finance Strategy. The deadline for that consultation, along with COP 26, has been delayed due to the COVID-19 pandemic. This section provides a reminder of the proposals and sets out what boards should be thinking about now in relation to climate change particularly given the lessons learned from the response to the pandemic.

Extraordinary returns available as the world addresses the climate issue

A view from Deloitte's Chief Economist, Ian Stewart

The COVID-19 crisis has collapsed global economic activity, and with it, greenhouse gas emissions. The pandemic has brought cleaner air and skies across the world's cities, but it also offers a glimpse of the scale of changes needed to mitigate the worst impacts of climate change. A study by the University of East Anglia and Stanford University has found that daily global CO_2 emissions in early April 2020 were 17% lower than average levels in 2019. The International Energy Agency (IEA) estimates that carbon emissions will fall at a record rate, of almost 8% this year.

However, lower levels of pollution have come at huge economic cost. The global economy is expected to suffer its worst year since the great depression of the 1930s. Yet the United Nations estimates that if the world is to meet the Paris Agreement of limiting global warming to 1.5˚C, a similar reduction, of 7.6%, in emissions will be needed in every year to 2030. The world faces a huge challenge. But in the short term, emissions will rise as the global economic recovers. More profound is the risk that the primacy of growth and jobs could undermine the drive to reduce carbon emissions.

We, however, take the opposite view. Here are five reasons why the COVID-19 crisis is likely to accelerate the climate transition:

1. Some of the behavioural shifts which have lowered emissions, such as increases in home working, video conferencing and less business-related travel, seem likely to stick. Oil majors Shell and BP have made substantial write downs on the value of their assets reflecting a view that the pandemic will dampen oil demand and prices and accelerate the move away from fossil fuels.

2. The pandemic has demonstrated society's vulnerability to shocks and heightened awareness of the need to plan for future risks. A recent global poll by Ipsos MORI shows that 71% of those surveyed believe that climate change is at least as serious as COVID-19. Last month a YouGov poll found that 56% of UK voters think government should either focus equally on the economy and climate or put climate first. Only 34% thought that the economy should come ahead of climate. Nor does the pandemic seem to have weakened investors' concern about environmental and social issues. In April a group of eight major investors said that tackling climate change must continue to be a priority for public companies despite the health and economic crisis. At about

the same time Royal Dutch Shell became the world's largest energy group to announce that it planned to cut its carbon emissions to net zero by 2050. According to a survey carried out by the FT and Savanta, a market research company, nine in ten wealth managers polled believed that the pandemic would result in increased investor interest in ESG investing. The surge in Tesla's share price testifies to the profit potential of electric vehicles. Last week Tesla became the world's largest carmaker by market capitalisation eclipsing Toyota, a company which last year sold around 30 times as many cars.

3. Renewables have made huge progress. Since 2010, the benchmark price for solar power has dropped by 84%, offshore and onshore wind by about half. It is a measure of the change that in mid-June the UK went for over two months without using electricity generated from burning coal. During this period 37% of Britain's electricity came from renewable energy, up from 3% ten years ago.

4. Greater government fiscal activism, made possible in part by very low borrowing costs, provides a golden opportunity to upgrade green infrastructure. In the initial stages of the crisis this was about supporting households and corporates; now the focus has moved to infrastructure investment. The returns appear to be attractive: an Oxford University study, carried out by economists including Nobel prize winner Joseph Stiglitz, found green projects create more jobs, deliver higher short-term returns per dollar spent and lead to increased long-term cost savings than traditional forms of fiscal stimulus. Green projects are at the heart of the European Commission's proposed €1.85tn recovery plan. Several European countries, including Germany, have announced fiscal packages that include support for climate-friendly industries including subsidising electric cars. (Twelve years ago, in the financial crisis, the German government provided extensive support for its overwhelmingly petrol and diesel auto sector. The absence of such general support in recent months is a sign of the times.) The French government added environmental conditions to the €15bn rescue plan for its aerospace industry, including higher levels of investment in electric and hydrogen planes.

5. The requirements on companies to report climate impacts and exposures are growing. Identifying and pricing carbon is one of the most effective ways of reducing carbon emissions. After eight years as the governor of the Bank of England Mark Carney has become the UN's special envoy for climate action and finance. As governor of the Bank of England Mr Carney established the Task Force on Climate-related Financial Disclosures to shed light on the financial risks posed by climate change. Many companies voluntarily report under these standards and Mr Carney has called for them to become mandatory. Moves are underway in the UK and EU already for reporting in calendar 2021 annual reports.

The impact of COVID-19 demonstrates the urgency of preparing for external shocks and is likely to sharpen the urgency of efforts to reduce climate change. As Mark Carney said recently: "We can't self-isolate from climate change." Public investment in green infrastructure is on the rise. Understanding and pricing of climate impacts and risk has grown over time. Renewables are generating returns. There is a view that it is only by shrinking economic activity, as has happened this year, that we can be sure of stopping climate change. Having emerged from a massive downturn the human consequences are becoming clear. In fact, the experience of recent years shows that the economy and the environment need not be in opposition. The energy intensity of UK GDP fell by 38% between 2000 to 2015 even as the economy expanded by nearly one-third. The pace of the climate transition needs to quicken. But green growth is possible. Now, in the wake of COVID-19, could be its moment.

FCA proposals to improve climate-related disclosures by listed companies

In March, the Financial Conduct Authority (FCA) published a consultation paper (CP20/3) proposing that commercial companies with a UK premium listing should state whether they comply with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and to explain any non-compliance.

The consultation paper, which follows the FCA's related **Discussion Paper** and **Feedback Statement** in 2019, proposes to introduce a new continuing obligation in the Listing Rules. LR 9.8.6R(8) (the new climate-related disclosure rule) would require commercial premium-listed companies to include a new statement in the annual report setting out:

- whether they have made disclosures consistent with the four recommendations and eleven recommended disclosures in their annual financial report set out in section C of the TCFD Final Report (also listed below for convenience);
- where these disclosures can be found in the annual report; and
- a "comply or explain" obligation to explain:
- why, if they have not made disclosures consistent with some or all of the TCFD's recommendations and/or recommended disclosures; or
- why they have included some or all of the disclosures in a document other than their annual report.

Consultation on guidance for all issuers regarding existing requirements

The FCA is also seeking feedback on draft guidance it proposes to issue, via a Technical Note, on existing obligations set out in EU legislation and in its Handbook, that may already require issuers to disclose information on climate-related (and other environmental, social and governance) matters. The guidance will be relevant for a wider scope of entities, including all companies with listed securities, not just those with a premium listing. The proposed Technical Note is included in draft as Appendix 2 to the Consultation Paper.

A reminder of the relevant TCFD recommendations

Governance

Disclose the organisation's governance around climate-related risks and opportunities

- Describe the board's oversight of climate-related risks and opportunities
- Describe management's role in assessing and managing climate-related risks and opportunities

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material

- Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term
- Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

- Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2˚C or lower scenario

Risk Management

Disclose how the organisation identifies, assesses and manages climate-related risks

- Describe the organisation's processes for identifying and assessing climate-related risks
- Describe the organisation's processes for managing climate-related risks
- Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

- Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
- Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks
- Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Timing

The new rule is proposed to take effect for accounting periods beginning on or after 1 January 2021. This will mean that the first reports issued in compliance with the new rule would be published in 2022 which meets the Government's commitment under the Green Finance Strategy issued in July 2019. Responses to the Consultation Paper were initially requested by 5 June 2020 but this was extended to 1 October 2020 due to COVID-19.

The press release and Consultation Paper are available on the FCA website.

FRC expectations for company reporting in light of the Green Finance Strategy

"The Boards of UK companies have a responsibility to consider their impact on the environment and the likely consequences of any business decisions in the long-term.

They should therefore address, and where relevant report on, the effects of climate change (both direct and indirect).

Reporting should set out how the company has taken into account the resilience of the company's business model and its risks, uncertainties and viability in both the immediate and longer-term in light of climate change.

Companies should also reflect the current or future impacts of climate change on their financial position, for example in the valuation of their assets, assumptions used in impairment testing, depreciation rates, decommissioning, restoration and other similar liabilities and financial risk disclosures."

Some questions to consider in relation to the impact of climate

Decision making and governance	**Does the company's decision making framework ensure that in taking decisions the board considers the impact on the environment** • Do board decisions take into account the impact on the environment? • Do we have appropriate board committee governance over the company's environmental impact, assessing impacts on the environment, risks to the company and commercial opportunities? • Is data sufficiently robust to be able to report with confidence?
Review of risk management systems	**Are the company's risk management systems effective at identifying and assessing material climate-related risks?** • Is the company's risk assessment focusing on the resilience of the business model, i.e. looking at the impact of climate change on the business as well as the impact of the business on climate change? • Are the systems for identifying, assessing, managing and monitoring risks using the best available information to make informed decisions? • Is the physical impact of climate change being considered vis a vis location strategy and business operations? • Has the transition risk been thought through to the extent that the company has a decarbonisation plan • Has any reference been made to the COSO ESG framework to assist in developing a robust framework for risk identification and assessment?

Significant financial reporting judgements	**Are the company's assets and liabilities presented fairly in light of the potential impact of climate change on those assets and liabilities?** • What scenario testing has been undertaken? Are the scenarios appropriate and in line with published scenario data from organisations such as TCFD and the Bank of England? • How does the scenario testing impact key judgements and estimates around valuations and impairments? • Do forecasts include continued growth of demand into perpetuity when this is clearly not sustainable under current consumer trends and/or potential government action? • Is management thinking widely enough about impairment risks, in terms of supply chain, or demand factors? How could these future changes impact cash flow generating capacity? Where could extra costs arise? • Is the audit committee satisfied that the financial statements are complying with para 122 of IAS 1 to disclose the judgements management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements?
Integrity of corporate reporting	**Have all material climate-related risks, opportunities and strategic decisions been disclosed and adequately reflected in asset and liability valuations?** • Has there been consideration of and commitment to an appropriate reporting framework, e.g. the TCFD? • Do the disclosures make clear the sources of emerging risk and other long-term climate-related factors affecting the company's viability? • Are the disclosures decision-useful, comparable and consistent such that they drive capital allocation?

Foreword
Areas of focus for your half-yearly report
Reporting in times of uncertainty
New legislation to relieve burden on businesses and support economic recovery
Internal controls – getting ahead
Responding to climate change – the latest position on reporting requirements
The Deloitte Centre for Corporate Governance
The Deloitte Academy

Integrity of corporate reporting (continued)	• Is the company reporting the "best truth" based on the information which is available now whilst acknowledging that in this area metrics and information is constantly evolving? • Are the metrics and indicators being reported aligned to the way stakeholders are measuring the company's performance, based on feedback received? Are you putting that lens on your business? • Is the internal management information in this area fit for purpose? • In relation to the significant financial reporting judgements, are the disclosures clear on the assumptions which underlie those judgements so that investors are fully in the picture and able to assess the reasonableness of the conclusions presented? • Are your climate related disclosures subject to the same disclosure governance as financial reporting? **Guidance from the IASB** is available to assist with considering the impact of climate-related risks on financial reporting and the appropriate disclosure of assumptions and other relevant information in the notes to the financial statements.
Nature and quality of assurance	**Is the level of assurance over climate-related data and analysis appropriate?** • Is the board getting the appropriate data to properly and effectively assess the company's impact on the environment and the impact of climate risks on the company's operations? • How much due diligence is done on the production of that data? • Is the audit committee comfortable with the level of resources allocated to obtaining and handling the data, the internal controls around it and assurance over this information? • Has the external auditor appropriately factored material climate risks into their audit plan? • Has the audit committee assessed the resources available within the audit firm to support audit teams in evaluating the impact of climate change on the company?

Streamlined Energy and Carbon Reporting

The new Streamlined Energy and Carbon Reporting regulations (SECR) came into law in 2018 and apply for periods beginning on or after 1 April 2019. As such, they will apply to companies with years ending in June 2020. The regulations extend the current disclosures in annual reports for quoted companies and bring large unquoted companies and large limited liability partnerships [1](LLPs) into scope for elements of energy and carbon reporting for the first time. This reflects Government's thinking that mandatory reporting has an important role to play in influencing behaviour, and that managing energy consumption and carbon emissions plays a key part in addressing climate change.

Alongside the existing greenhouse gas emission disclosures, quoted companies must now disclose in their directors' report their total energy consumption (in kWh), identifying what proportion of the figures reported relates to emissions and energy consumed in the UK and offshore area[2]. All entities in scope must also describe any principal measures taken during the year for the purpose of increasing the company's energy efficiency.

Our publication **A Closer Look - Streamlined energy and carbon reporting** examines how these new regulations fit into the broader corporate reporting landscape and climate agenda, which entities are impacted, and how, and provides tips for preparing for the required disclosures.

[1] 'Large' companies as defined in the Companies Act 2006 are those that meet two or more of the following criteria: Turnover of more than £36m, Balance sheet total of more than £18m and more than 250 employees.

[2] The "offshore area" is broadly defined in the SECR as the sea adjacent to the UK, including the territorial sea, plus the sea in any designated area under section 1(7) of the Continental Shelf Act 1964 and section 41(3) of the Marine and Coastal Access Act 2009.

The Deloitte Centre for Corporate Governance

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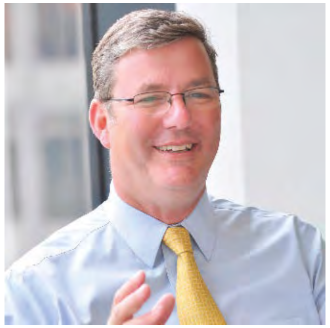

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The Deloitte Academy

The Deloitte Academy provides support and guidance to boards, committees and individual directors, principally of the FTSE 350, through a series of briefings and bespoke training. The Deloitte Academy is available to board directors of listed companies, and includes access to the Deloitte Academy business centre between Covent Garden and the City.

Members receive copies of our regular publications on Corporate Governance and a newsletter. There is also a dedicated members' website www.deloitteacademy.co.uk which members can use to register for briefings and access additional relevant resources.

For further details about the Deloitte Academy, including membership, please email enquiries@deloitteacademy.co.uk.

Important notice

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