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On the board agenda
Half year 2024

July 2024

Foreword

Dear Board Member,

The country has decided and we now wait to see how well promises can be delivered on. It is clear that achieving growth is a key area of focus and the new Government is relying on business to play its part.

In this half year "On the Board Agenda," we provide a round-up and reminder on some of the hot topics which boards need to be aware of across the governance landscape. To set some context and for topical interest, we start with an overview of the economic environment within which UK business is operating. We also provide an update on regulatory developments and highlight those where activity has been paused during the election process.

We bring to your attention board-relevant initiatives on people and purpose which may not have come onto your radar, including new guidance for boards from the Institute of Business Ethics on developing an ethical business culture. We believe this provides useful insights on driving ethical behaviours.

Recognising the ongoing uncertainties in many aspects of business life, we have provided viewpoints on risk and control – looking ahead to the new declaration on material controls and also new guidance for boards on the effective governance of cyber risks.

Finally, as you work through the second half of the year and towards the next reporting season, we have included a reporting round-up looking at the latest developments in the sustainability reporting landscape and in corporate reporting.

We hope you find this edition of 'On the board agenda' a helpful and insightful contribution to your summer reading material. We look forward to welcoming you at our discussions in the Deloitte Academy in the Autumn.

Claire Faulkner
Deloitte Academy Governance Chair
July 2024

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Topical interest

01 Economic update

01 Economic update

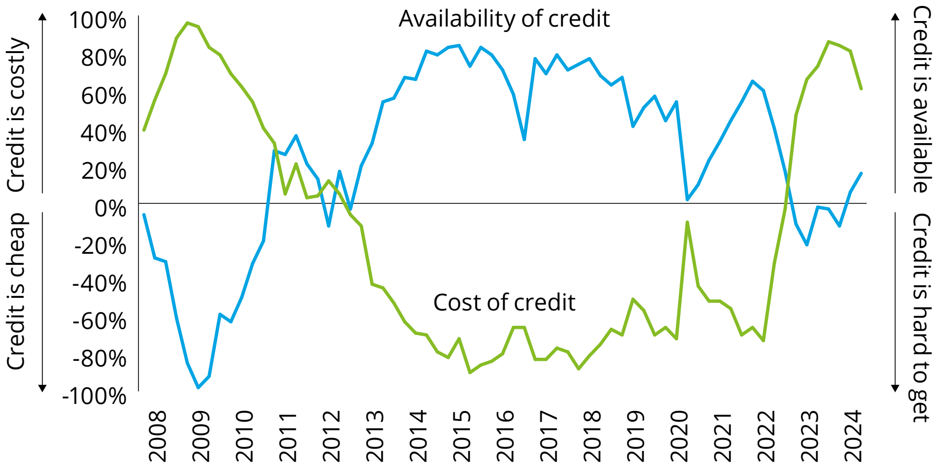
Boards and CEOs continue to be focused on the economic environment and no more so than during the period leading up to and following a general election. Accordingly, we introduce this year's On the Board Agenda with a short scene-setter on the economy and some areas of particular interest.

We start with findings of Deloitte's most recent quarterly CFO survey published in April. We recommend you to also look at the updated findings that will be published shortly in July.

We close with some thoughts from Deloitte economists regarding UK growth prospects.

Cost and availability of credit

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



April 2024 CFO Survey

The survey found that optimism among CFOs has risen for the third consecutive quarter, particularly optimism regarding their own businesses.

However, CFOs are concerned about risks, anticipating an increase in geopolitical risks over the next three years and especially the increased risk of cyber attacks resulting from geopolitical tensions. As such, they are largely retaining a defensive strategy.

Inflationary concerns are easing and CFOs' expectations for inflation have continued to fall, with an expectation of 2.9% in a year's time and 2.3% in two years' time.

With inflation worries in retreat, finance chiefs believe that the UK is on the verge of cutting interest rates, predicting a fall in the Bank of England base rate to 4.25% in a year's time – in line with financial market expectations.

01 Economic update

UK growth prospects improve

The technical recession the UK slipped into in the second half of last year is already over. Activity has picked up in the first quarter and a recovery is underway.

The prompt recovery from this recession has largely been driven by sharply falling inflation. This has eased cost pressures for companies and, thanks to a tight labour market, driven rises in real wages and consumer spending power. As a result, consumer and business confidence are up and point to improvements in capital expenditure and household consumption in the coming months. Rising mortgage approvals also indicate a stirring of housing market activity.

With headline inflation expected to decline further, recovery should pick up steam over the summer. Many economists expect quarterly GDP growth for the UK to accelerate to its long-term trend in the second half of this year.

This would, arguably, mean a soft landing for the UK economy. But some risks remain. A tight labour market and strong wage growth imply underlying price pressures have not fully dissipated. Add to that the risk of an escalation in geopolitical conflict, potentially disrupting supply chains and raising energy prices, and a further spike in inflation cannot be entirely ruled out.

This suggests greater caution in easing policy on the part of the Bank of England. We expect it to wait for some further slowing in wage pressures and core inflation before cutting interest rates. Our view is roughly in line with market expectations now – of one 25 basis point cut in August and another similar cut in early winter.

A short-lived recession followed by a quick-ish recovery is good news. But it also means a less pressing need to ease monetary policy.

02 Bridging the gaps between companies and investors – promoting best practice dialogue

02 Bridging the gaps between companies and investors

In March 2024, the Investor Forum launched 'Shaping tomorrow's dialogues' setting out the findings from a comprehensive assessment of the state of key dialogues between UK companies and investors. The aim is that by addressing the concerns and opportunities which emerged during this project, companies and investors can reduce friction and strengthen relationships enabling them to focus their efforts on the issue of long-term value creation.

The project focused on four key stakeholder dialogues:

Investor Relations – exchanging information	How can we create a seamless information ecosystem that caters to the needs of both investors and corporates, promoting transparency, trust and informed decision making?
Sustainability – understanding impact	How can we better measure, communicate and align the impact of investments with corporates' strategy efforts, benefitting both investors and corporates in pursuing sustainable goals?
Voting & governance – ensuring accountability	How can we refine the framework to ensure timely, accurate and transparent corporate information, fostering investor and corporate confidence?
Audit & assurance – building confidence	How can we establish a robust framework that instils confidence in the reliability and accuracy of corporate information, benefiting both investors and companies alike?

The report identifies several myths that required debunking – unexpected misperceptions revealed during the individual dialogues. Through deliberate and thoughtful discussions between investors and corporates, a series of practical recommendations were formulated, paving the way for more meaningful dialogue and focused engagement in the future. Highlights from each dialogue are set out below. The full report is available through the thumbnail on page 10.

Investor Relations

There is much to be done to establish the right people to speak to and the purpose of each engagement – whether addressing concerns or meeting reporting needs – to ensure efficient interaction. In addition, both corporates and investors are grappling with the immense challenge of keeping up with a myriad of regulatory and reporting requirements. There is a danger that compliance and reporting requirements frame conversations and crowd out dialogue centred on strategic issues.

02 Bridging the gaps between companies and investors

Sustainability

In such a complex environment, the dialogue identified that corporates and investors face enormous challenges as they seek to create and coalesce around compelling and integrated sustainability. It was noted that targeted dialogue can help investors and corporates align expectations and identify approaches to ensure a focus on decision-useful information. The conclusion was that corporates and investors will need to determine if they want to tackle these challenges via relationships based on mutual respect and trust or to engage via a disclosure and assurance regime that seeks to hold to account by raising questions over greenwashing and limited ambition.

Voting & governance

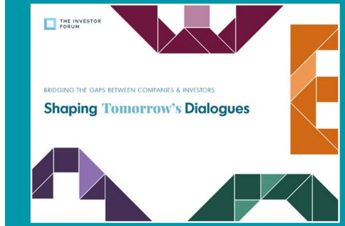
Consistency emerged as a crucial theme in this dialogue. Both investors and companies are keen to establish consistency in the voting process, emphasising the need for more uniformity in interpretation, execution and feedback. It was agreed by all that efforts were needed to focus on the purpose of engagement, moving beyond engagement for its own sake. The conclusion being that emphasis should be on enhancing value and ensuring tangible outcomes.

Audit & assurance

In relation to audit & assurance integrity emerged as the linchpin of the dialogue, underscoring its fundamental role in audit and assurance processes. The discussion centred on how to ensure confidence in the reliability of corporate information through a better understanding of assurance and transparent high-quality dialogues to develop enduring trust for the benefit of investors and corporates.

Given the length and complexity of annual reports, it was felt that success in building a shared and comprehensive understanding of the roles and functions of audit committees could set the stage for heightened investor confidence and better equip investors to assess the value and reliability of audit and assurance processes, establishing a solid foundation for meaningful conversations when needed. All agreed that the focus should be to ensure that dialogues are substantive, meaningful, necessary and relevant, not simply routine.

Who are the Investor Forum?



The Investor Forum is a non-profit community interest company set up by institutional investors in UK equities. The forum leverages its expertise and networks to tackle challenges, convene dialogues, and deliver solution-focused engagement outcomes through a collective engagement framework seeking to bridge gaps that arise between companies and investors to align interests, build trust and focus on creating and maintaining long-term value for all stakeholders.

03 Update on the regulatory agenda

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With a new government in place, there are of course plenty of regulatory questions on the horizon – however thorough, a manifesto can only provide a broad-brush position on regulatory matters. We anticipate more detail about the near-future reforms in the next King's Speech.

However, there are still a number of regulatory developments that are in train or have already been legislated for. This article aims to ensure you have access to the latest insights on corporate reform.

'Restoring trust in audit and corporate governance' reform

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 and we have provided regular updates since. In our On the Board Agenda 2024, we provided a detailed update of the status of primary legislation, secondary legislation, and updates within the remit of the FRC.

In respect of both primary and secondary legislation, there has been no further update.

UK Corporate Governance Code

During January the FRC published the 2024 UK Corporate Governance Code and supporting guidance, which takes forward the internal control elements of the reform package – we explore these Code changes in more detail in their own article.

Capital Market Reform agenda

The FCA and the Treasury continue to target regulation reform aimed at supporting the UK's position in global wholesale markets, economic growth and international competitiveness, with a goal of effective and efficient capital markets.

To this end, there are a number of initiatives underway, which include:

- For the FCA, amending the Listing Regime and introducing a new Listing Rules sourcebook
- For Treasury, a proposal for a new platform to allow private companies to trade securities

Changes to the Listing Regime

The FCA consultation on changes to the Listing Regime closed in March (CP23/31). The FCA anticipates publishing a Policy Statement alongside a new, finalised UK Listing Rules sourcebook during H2 2024, with a two-week implementation period before the new Listing Rules come into effect.

The plans propose replacing the existing premium and standard listing share categories with a single listing category for commercial company issuers of equity shares (termed "commercial companies" in the consultation). Additional categories are proposed to ensure companies currently following the regime for standard listed companies can retain the existing standard listing rules which would, therefore, not require annual reporting against the UK Corporate Governance Code.

For private companies seeking a new listing, certain eligibility requirements are expected to be relaxed with one of the most significant being the opportunity for a company to list even if it has traded for less than the three-year period required under the existing regime.

03 Update on the regulatory agenda

In respect of the other proposals, the most significant aspect is in respect of transactions where the aim is to make listed companies more nimble. It is expected that requirements for shareholder circulars and accompanying votes on Class 1 transactions will be substantially removed and that they will not be used for disposals of any sort, and for significant acquisitions only where it is a reverse takeover or where equity is being raised. The existing requirements will be replaced by an enhanced notifications regime, where companies will be required to make an announcement as soon as possible after terms are agreed.

Board directors of a listed company who are considering making significant transactions should give thought to:

- How the transaction timing might interact with the introduction of the new regime and whether it could be delayed until the new rules apply, so reducing the nature of reporting and disclosures, as well as reducing costs and demands on management's time. Ultimately of course, this decision will not be a key determinant in whether to pursue an opportunity.
- The removal of the existing shareholder, Sponsor and FCA consultation around significant transactions. The duties of directors do not change, and continue to include the requirement to exercise reasonable skill care and diligence, alongside the s172 duties of directors to promote the success of the company whilst taking into account its stakeholders, so directors should consider what they believe they need to be able to demonstrate to justify how they have met these duties appropriately.
- The need to meet the wider Listing Rules from day one post completion when executing a transaction. For example, thinking forward to requirements for annual report disclosures for the first year end post-deal, including going concern for the newly enlarged group and the financial control environment within the acquired business.
- Finally, it is worth noting that given certain services provided by advisors will no longer be reporting accountant services, more thought will be required regarding what types of support will be permissible from your audit firm under the FRC's Ethical Standard for auditors.

Proposals for a new Private Intermittent Securities and Capital Exchange System

The Treasury issued a consultation during March on a proposal for a new platform to allow private companies to trade their securities in a controlled environment and on an intermittent basis. The new Private Intermittent Securities and Capital Exchange System (PISCES) would incorporate elements from public markets, such as those that offer multilateral trading, and elements from private markets that provide greater discretion on what company disclosures should be made public.

The intention is that participating on PISCES would support companies to scale up and grow, providing liquidity, helping shareholders, including employee shareholders, to realise their gains, and providing an opportunity to companies to rationalise their shareholder base. In addition, it is hoped that this proposal will support the pipeline for future initial public offerings in the UK, by improving the interface between private companies and UK public markets, and complementing the government's wide ranging and ongoing reforms to boost the UK as a listing destination.

The consultation closed on 17 April and responses are being analysed. We will update you when more information is provided following the general election. You can access the full consultation paper here for further information on the proposal.

03 Update on the regulatory agenda

Other regulatory developments

FRC Ethical Standard 2024

The FRC also published the Revised Ethical Standard for auditors in January. This is effective from 15 December 2024. In summary, the changes involve:

- Simplification and additional clarity in a number of areas:
  - Transition timing for newly categorised Public Interest Entities – the main effect of this is more clarity around transitional reliefs permitted for an entity that becomes the subsidiary of an existing Public Interest Entity.
  - General application of independence considerations by the auditor when an audited entity is the subject matter of a service.
  - Recruitment and remuneration activity.
  - Tax advocacy description – in particular this reinforces that the audit firm providing information to the tax authorities about an issue or explaining the technical basis of a tax filing position is not acting as an advocate.
  - There is no longer a materiality exemption for the audit firm acting as a solicitor formally nominated to represent an entity in a dispute.
  - Audit partner rotation – in particular that significant gaps in service such as maternity leave do not count towards the audit partner's maximum service period.
- Alignment of the Ethical Standard with recent revisions made to the international IESBA Code of Ethics, in particular in respect of approvals from audit committees for non-audit services – see our Governance in brief: New IESBA Code – what audit committees need to know. The largest audit firms globally have all committed to following the IESBA Code which is already in force and therefore will not have a further effect on audited entities.
- Expanded restrictions on audit firms having fee dependencies on particular audited entities to include fees earned from a collection of entities with the same beneficial owner or controlling party – this is unlikely to impact entities audited by the largest audit firms.
- New requirements for auditors in respect of independence breaches, where the breach must now be communicated to those charged with governance for any type of entity (previously listed or Public Interest Entities) and any sufficiently serious breach should be reported to the FRC outside the normal reporting cycle.

Transitional arrangements apply, meaning that engagements that have already been entered into can be completed in line with the original terms (subject to appropriate safeguards) and firms can complete audit and reporting accountant engagements relating to periods before the Revised Ethical Standard 2024 becomes effective in accordance with existing standards, with the necessary changes being made in the subsequent period.

03 Update on the regulatory agenda

Companies House reforms

The Economic Crime and Corporate Transparency Act 2023 received Royal Assent on 26 October 2023, with provisions being brought into force over time to allow time for processes to be adapted. Although some of the provisions are still awaiting clarity over timing for implementation – for instance, the corporate criminal offence of failure to prevent fraud is still awaiting the publication of guidance during the second half of the year – many of the provisions affecting Companies House have started to come into effect. Companies House is publishing a series of blogs explaining these reforms and has launched a website. The intention is that, over time, the changes will help to disrupt economic crime and provide greater transparency across the UK business environment.

Among the changes that have already come into effect:

- greater powers for Companies House to query information and request supporting evidence, and to reject filings if considered necessary;
- stronger checks on company names, including the power to change a company's name if a company does not comply with Companies House directions;
- new rules for registered office addresses – in particular, PO box addresses are no longer permitted;
- a requirement for all companies to supply a registered and appropriate email address;
- a requirement for all companies to confirm they're forming the company for a lawful purpose when they incorporate, and to confirm the company's intended future activities will be lawful on their confirmation statement;
- the ability to annotate the register when information appears confusing or misleading;
- taking steps to clean up the register, using data matching to identify and remove inaccurate information; and
- data sharing with other government departments and law enforcement agencies.

The existing criminal offence of providing misleading, false or deceptive information to Companies House has been expanded, and there is a new aggravated criminal offence for knowingly providing such information. From May, Companies House also has the power to impose civil financial penalties for a series of offences under the Companies Act 2006 instead of pursuing criminal proceedings – it must however issue a warning notice first and cannot exceed the maximum fine that could be imposed by a court for the same offence.

03 Update on the regulatory agenda

Updated payment practices and performance regulations (PPPR)

Since 2017, UK businesses that qualify as large under the Companies Act (and, in the case of parent companies, that head a large group) have had to report on their payment practices and performance within 30 days of the end of each six-month period on a government portal.

As part of the 7-year review of the regulations, the regulations have been updated as The Reporting on Payment Practices and Performance (Amendment) Regulations 2024 and are already in force. They introduce new requirements around statistical information and clarify certain definitions and methodology. The new statistical information requirements apply for financial years beginning on or after 1 January 2025, giving some time for companies to amend their systems if necessary. In other words, for a December year end, they will first apply for the reporting on the six-month period ending 30 June 2025.

In addition to narrative descriptions of payment terms and information about factors such as whether the business uses supply chain finance, the statistical reporting requirements for qualifying contracts are:

- the average number of days taken to make payments in the reporting period, measured from the date of receipt of invoice or other notice to the date the cash is received by the supplier;
- the percentage of payments made within the reporting period which were paid in 30 days or fewer, between 31 and 60 days, and in 61 days or longer;
- the sum total of payments made within the reporting period which were paid in 30 days or fewer, between 31 and 60 days, and in 61 days or longer; * NEW
- the percentage of payments due within the reporting period which were not paid within the agreed payment period;
- the sum total of the payments due within the reporting period which were not made within the payment period; and * NEW
- the percentage of the payments due within the reporting period which were not made within the payment period as a result of a dispute. * NEW

Boards will want to ensure that management is underway with any systems amendments required in order for systems to capture the value of payments, as well as number of payments, and which items are impacted by a dispute. It is also worth bearing in mind that some elements of external reporting can be affected by the internal reporting that key management personnel sees – which may incorporate some new information following these changes, since the PPPR report must be signed off by a director.

People and purpose

04 New guidance for board members: 'Developing an ethical business culture'

04 Developing an ethical business culture

At the end of last year, the Institute of Business Ethics ('IBE') issued guidance for board members on 'Developing an ethical business culture'. This short, two-page guidance sets out twelve areas which boards may consider in their effort to promote a higher ethical business culture, recognising that all companies and their employees are subject to ethical challenges particularly as societal expectations change.

Some of the areas covered by the guidance include desired behaviours and preventative measures which boards may already have in place such as:

- leading by example, acting with integrity and authenticity, and treating all stakeholders with respect and courtesy;
- reinforcing the company's stated purpose and values in decision-making, induction programmes, recruitment processes, performance evaluations and in regular training to ensure this culture is fully embraced by the board, senior management, and employees alike;
- maintaining openness and effective communication in order to identify ethical risks, for example through the use of speak-up channels;
- formal codes of conduct which define how the purpose and values of a company should be put into effect and set the standard of desired behaviours;
- ensuring consequent management practices are in place for acts of misconduct; and
- ensuring remuneration policies and practices do not inadvertently result in unethical behaviour.

To assist with the mitigation and monitoring of ethical risks, the IBE encourages boards to identify lagging and leading indicators of ethical risks. As a reminder, ethical risks are considered to be those that *'have the potential to cause harm or offence to others, hinder the development of an inclusive culture, undermine trust, damage the reputation, or otherwise impair the ability of the company to achieve its objectives'*. Lagging indicators could track actual or potential ethical breaches, while leading indicators may include employee satisfaction scores and feedback, issues raised in exit interviews, absenteeism or data received from internal or external benchmarking activities.

The Deloitte Academy recently held a roundtable for board members to discuss the new guidance and practical challenges faced by boards. The overall sentiment of the discussion was that no company is immune to ethical challenges and that boards do play an active role in how an ethical culture is developed and maintained. Where often boards may find it challenging to triangulate the results received from culture activities (e.g. data from employee satisfaction surveys and 'side-bar discussions' with employees) board members felt that performing regular site-visits and keeping culture as a frequent agenda point in board meetings and in their discussions with senior management can mitigate this challenge.

05 Diversity and inclusion – progress on gender and ethnic diversity

05 Diversity and inclusion

In this article we provide an update on diversity and inclusion measures relating to boards, in particular the 2024 reports from the Parker Review and the FTSE Women Leaders review and associated new voluntary reporting. We also share some results of a recent Deloitte survey on reporting practices under the new Listing Rules board diversity requirements.

This is also an area that is likely to see upcoming change: the Labour Party manifesto commited to introducing disability and ethnicity pay gap reporting for large employers, building on gender pay gap reporting.

Gender diversity

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

FTSE Women Leaders review

In February, the FTSE Women Leaders Review launched its 2024 report, which led with the news women held over one third of all leadership roles in FTSE 350 companies – incorporating both board and senior leadership positions. The report indicates that the UK is second globally in terms of percentage of women on boards, behind only France at 44.7%. France operates a regulatory driven quota system compared to the voluntary system in the UK.

Key findings for **FTSE 350 companies** from the FTSE Women Leaders Review:

FTSE 350 companies met the target of women holding on average 40% of board positions last year, three years earlier than the target of December 2025. Women now hold 42.1% of board roles, with some companies targeting gender parity. There are no all-male boards remaining in the FTSE 350	In respect of the four senior board roles, being Chair, Senior Independent Director, CEO and CFO, there has been continued progress in representation in the role of the SID where women now hold 47% of positions in the FTSE 350. Women hold one in six Chair roles
However, the number of women in executive director roles is lagging this, with only 15% across the FTSE 350. Churn in CEO positions has led to no change in the number of women in this role over the past year, at 21	There has been progress in the number of women in the executive committee and their direct reports, which now stands at 34.5% for the FTSE 350, and at 28.2% on the executive committee itself (2022: 33.5% and 27%)

In respect of the **top 50 private companies and partnerships**, board representation for women stayed at 31%, the same as in 2023. However there has been an increase in the number of women in the executive committee and their director reports, to 36%, up from 34% in the previous year. 46 out of the 50 companies that were approached submitted data to the review.

05 Diversity and inclusion

Women in the boardroom

This year, Deloitte published the eighth edition of Women in the Boardroom. The report found that globally, women hold less than a quarter of the world's board seats (23.3% in 2023) and if this rate of global change were to hold steady, it is unlikely that gender parity on boards will be reached before 2038 – and possibly later.

The report finds that there is appreciable impact from governments adopting either mandatory quotas for women in the boardroom or supporting targets and disclosure measures. Encouragement from investor groups via their voting policies is also influential. In looking at the voting policies of over 100 large investors, we found that two-thirds of UK and US institutional investors had a voting policy that set a target for gender diversity.

The conclusion is some simple advice for boards in considering whether they and management are doing enough to drive change: don't default to past experience profiles when selecting board members; get creative in helping women to build governance experience and regularly consider the success of promotion pipelines and processes.

Ethnic diversity

Parker review

In March, the Parker Review launched its most recent update report: Improving the Ethnic Diversity of UK Business.

Key findings from the Parker Review update:

In the FTSE 100 this year, 96 companies met the 2021 target of at least one ethnic minority director on the board, with ethnic minority directors holding 19% of all board positions (2022: 96 companies, 18%)	In respect of senior roles on the board, ethnic minority directors held 12 CEO positions and 7 Chair positions
In the FTSE 250 this year, 70% of companies met the 2024 target of at least one ethnic minority director on the board, with ethnic minority directors holding 13.5% of all board positions (2022: 60% of companies, 11%)	This was the first year in which the review looked at the proportion of ethnic minorities in senior management positions, which stood at 13% for the FTSE 100 and 12% for the FTSE 250

05 Diversity and inclusion

The Parker Review has extended its scope to senior management, asking the FTSE 350 to set targets for 2027, and to the top 50 private companies and partnerships, with information published for the first time in this year's report:

- Where companies reported to the Review that they had set 2027 targets for the proportion of ethnic minorities in senior management positions, these averaged out at 17% for the FTSE 100 and 15.5% for the FTSE 250. 44 companies out of the FTSE 100 and 50 companies out of the FTSE 250 shared these targets.
- In respect of the top 50 private companies and partnerships invited to participate in the Review, 61% of those that shared their data had already met the target of having at least one ethnic minority director on the board (the target the private companies have been asked to meet by December 2027). 36 out of the 50 companies that were approached submitted data to the Review.

Potential Listing Rules amendment – Other ethnic group

The FCA recently published Primary Market Bulletin 49. The Bulletin announces the FCA's intention to re-align the categories for ethnicity reporting to those set out by the Office for National Statistics (ONS). This would largely affect the "other ethnic group" category description. It indicates that any potential change will be made in the summer alongside wider Listing Rule changes.

The Bulletin says, "…we encourage companies in scope of our diversity and inclusion requirements to give flexibility to allow individuals to use the Other Ethnic Group category to identify themselves within a broad range of groups, including religious groups."

05 Diversity and inclusion

Are companies achieving the diversity targets in the Listing Rule?

In 2022, the FCA introduced a new Listing Rule for premium and standard listed companies to provide disclosures on board and executive management diversity. The disclosures were mandatory for December reporters for the first time in 2023. Our **Corporate Governance Disclosure Checklist** is designed for use by preparers in companies and covers the detailed requirements and the limited exemptions.

Our first Deloitte **Corporate Reporting Insights** survey of 2024 examined how the first 30 FTSE 350 December 2023 reporters met these new requirements,

Key findings included:

- 67% of companies had met or exceeded the target of 40% of the board being women; 90% had at least one minority ethnic director on the board.
- 70% of companies had a woman in one of the four senior board positions – unchanged from 2022.
- Only 73% of companies met the Listing Rule requirement to explain how the diversity data had been gathered.
- 77% of boards discuss the importance for their business of achieving a diverse board – but 87% explained why workforce diversity and inclusion was important to the business.

Future Corporate Reporting Insights surveys in 2024 are planned to include climate transition plan disclosures, how companies are reporting on their risks and policies over AI, and how boards are exercising their oversight role over the effectiveness of the risk management and internal control framework and the sources of assurance they are relying on.

Risk and controls

06 Getting ready for the 2024 UK Corporate Governance Code

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In January the FRC issued the updated UK Corporate Governance Code ("the Code") following the Government's request that the FRC use a Code-based approach to strengthen boardroom focus on internal control matters. For periods commencing on or after 1 January 2026, boards will now have to present a declaration on the effectiveness of their material controls. In this article we provide a reminder of what has changed, highlight a new publication we have issued to support you with the new declaration and set out some key matters for boards to consider to ready themselves for the updated Code requirements.

Changes in relation to the board's oversight of the effectiveness of risk management and internal control

With the ultimate aim of strengthening board accountability for the effectiveness of risk and internal control frameworks, there has been a change to the relevant Code Principle: "The board should establish a framework of prudent and effective controls, which enable risk to be assessed and managed" is replaced by "The board should establish and maintain an effective risk management and internal control framework".

This amended Principle is reinforced by an extension of the existing Code provision (Provision 29) in relation to the board's responsibility to monitor the company's risk management and internal control framework and, at least annually, carry out a review of its effectiveness. Building on this review and monitoring activity, it is proposed that the board provides the following disclosure in the annual report:

- a description of how the board has monitored and reviewed the effectiveness of the framework;
- a declaration of effectiveness of the material controls as at the balance sheet date; and
- a description of any material controls which have not operated effectively as at the balance sheet date, the action taken, or proposed, to improve them and any action taken to address previously reported issues.

The FRC has been very clear that it is for a board to determine what should comprise its material internal controls noting that the needs for each business may vary and that it is for the board to determine what level of maturity is right for its business and their own levels of required assurance in relation to the effectiveness of these controls.

We have issued '**Risk, controls and assurance: a framework for the new material controls declaration**' to support your preparations for the new reporting requirements coming into force for periods commencing on or after 1 January 2026. The publication includes:

- answers to a series of frequently asked questions (FAQs) to address many commonly held areas of misunderstanding and/or confusion;
- a suggested framework from which to start your preparation for the new disclosures;
- a reminder about assurance and the different forms it can take;
- a summary of the key differences between the UK and the US approaches; and
- a suggested structure for the new disclosures.

06 Getting ready for the 2024 UK Corporate Governance Code

Key matters for boards to consider when preparing for the new declaration on material controls:

- What are the principal risks to the business model, future performance, solvency and reputation?
- What level of risk is acceptable?
- What are the material controls to maintain our principal risks within the agreed risk appetite?
- How do we know that those material controls are operating effectively?
- What assurance does the board require to support them making the declaration?
- What do we want the Provision 29 disclosures to look like?

Other Code changes which boards should focus on

- **Activities and outcomes** – governance reporting should focus on board decisions and their outcomes in the context of a company's strategy and objectives.
- **Culture** – Provision 2 has been amended to include that boards should not only assess and monitor culture, but also how the desired culture has been embedded.
- **'Audit committees and the external audit: Minimum Standard'** – to avoid duplication, the updated Code removes those elements covering the work of the audit committee in relation to external audit and instead refers companies to the Standard.
- **Diversity** – Principle J has been amended to promote diversity, inclusion and equal opportunity, without referencing specific groups. The list of diversity characteristics has been removed to indicate that diversity policies can be wide ranging.
- **Malus and clawback remuneration arrangements** – strengthened reporting on the circumstances for, and use of, malus and clawback.
- **The remuneration policy** – existing Provision 40, setting out characteristics of effective remuneration policy and practices, has been removed.

Unlike the amended Provision 29 discussed above, these changes are effective for periods commencing on or after 1 January 2025.

New FRC Guidance to support implementation of the updated Code

In a new, more interactive, approach to the guidance, the 2024 Code includes hyperlinks to all the relevant elements of the 2024 Code Guidance. The new guidance aims to bring together the most relevant content from previous publications into a single, condensed, digitally accessible and user-friendly resource.

The FRC is keen to reiterate that the guidance is not part of the Code but a separate collection of information designed to help the application of the Code to different companies' needs. The FRC confirms that it will be updated from time to time to reflect, where appropriate, other reporting or regulatory requirements that may develop in the UK from other regulators.

07 UK Cyber Governance Code of Practice and Cyber Security Code of Practice

07 Cyber Governance Code of Practice

In January, the Government issued a call for views on their Cyber Governance Code of Practice, which has subsequently closed. This code is designed to bring together critical governance areas and to promote cyber resilience when applied proportionately alongside suitable technical controls.

Subsequently in May, the Government published a new AI Security Code of Practice for consultation – this is designed to be a voluntary code of practice which is intended to form the basis of a future global standard.

This article highlights some of the key features of the proposed codes.

Both the proposed Cyber Governance Code of Practice and the proposed AI Security Code of Practice form part of a series of cyber security codes of practice either issued or in development by the Department for Science, Innovation and Technology (DSIT) under the National Cyber Strategy designed to increase software resilience and help secure AI systems. There are additional codes designed for organisations selling digital products and software.

These codes outline the expected "baseline response" to the associated risks. They are designed to help businesses and boards ensure they are meeting appropriate standards, and also to set a bar for what can be expected of businesses and boards by Government. If they are not observed, Government explains that it may issue further tailored guidance, or contemplate regulation.

With attention both on Generative AI and, increasingly, the expectation that companies and governments need to gear up to address the risks of developing quantum technology with its ability to breach encryption, it is key for organisations to be up to date on cyber defences.

Cyber Governance Code of Practice

The proposed Cyber Governance Code of Practice was published with a call for views in January and these views plus a research project on how cyber security risks are governed will inform the final code.

Viscount Camrose, Minister for AI and Intellectual Property, said "Organisations have a responsibility to take action to manage their own cyber risk but stronger frameworks of accountability and good governance are needed at board level to make this a priority… the government sees business resilience and cyber security as intrinsically linked."

07 Cyber Governance Code of Practice

The following table summarises the key expectations set out by the code.

A: Risk management	Identify, prioritise and agree	Regular risk assessments	Set risk appetite	Establish ownership of risks beyond CISO	Assure that resilient against third party risks
B: Cyber strategy	Monitor and review strategy in line with risk appetite	Monitor and review delivery of strategy	Ensure appropriate investment, used effectively		
C: People	Sponsor communications on importance of cyber resilience	Ensure cyber security policies are clear and support a positive culture	Security through training to ensure cyber literacy and safety of data	Metrics to assess effectiveness of training, education and awareness	
D: Incident planning and response	A plan to respond to and recover from a cyber incident	Regular, at least annual, testing of plan and training	Support executives in critical decision making and comms	Post-incident review process for lessons learned	
E: Assurance and oversight	Clear governance structure and ownership	Regular monitoring process including mitigations	Regular two-way dialogue with senior executives	Formal reporting on at least a quarterly basis	Internal assurance and strategy integration

The code is accompanied by the NCSC Cyber Toolkit for Boards, which provides more guidance on how to apply the governance expectations.

07 Cyber Governance Code of Practice

AI Security Code of Practice

The proposed AI Security Code of Practice was published in May. The call for evidence closes on 9 August.

The code covers 12 principles with supporting guidance for different types of user. Almost all businesses will need to consider some of these as data controllers and end-users, even if they do not operate or develop AI systems. Below we outline two of the principles that are relevant for all organisations, together with some of the supporting guidance.

Principle 1: Raise staff awareness of threats and risks

- Establish and maintain a continuous security awareness program to educate staff about the evolving threat landscape specific to AI systems.
- AI-specific security awareness training could be incorporated into existing infosec training for staff.
- These updates should be communicated through multiple channels, such as security bulletins, newsletters, or internal knowledge-sharing platforms, to ensure broad dissemination and understanding among the staff.

Principle 5: Identify, track and protect your assets

- Know where your assets reside and assess and accept any associated risks as they evolve. These assets could include AI models, data (including user feedback), prompts, software, documentation, logs and assessments (including information about potentially unsafe capabilities and failure modes).
- Have processes and tools to track, authenticate, manage version control and secure assets.
- Have the ability to restore systems to a known good state in the event of compromise.
- Take steps to protect sensitive data, such as training or test data, against unauthorised access.

EU AI Act

The EU AI Act was formally approved in May and will come into force 20 days after it has been published in the Official Journal during July. The Act takes effect in stages, starting from 6 months after it comes into force and applying in its entirety after 24 months.

The Act is designed to be proportionate to the level of risk posed by the organisation / AI use-case. The higher the risk of harm to society, the more substantial the regulatory regime that applies. The Act also includes extra-territoriality – for instance, where a provider or system is based outside the EU but the system or its outputs are intended to be used within the EU.

It is critical for organisations that could be affected by the Act – which include EU AI providers and developers, and also those located in other jurisdictions such as the UK if their AI systems are marketed or intended to be used in the EU – to assess their potential exposure promptly and to ensure they have appropriate governance and control frameworks in place.

08 Proposed revisions to the Internal Audit Code of Practice

08 Proposed revisions to the Internal Audit Code of Practice

In February 2024, the Institute of Internal Auditors issued a consultation on a revised Internal Audit Code of Practice that, once implemented, would represent a combined code covering financial services, private and third sector organisations. The revisions are designed to ensure that the UK Code of Practice aligns with the new Global Internal Audit Standards and reflects other changes including the revised UK Corporate Governance Code, along with evolving industry practices.

This article highlights some of the key changes proposed to achieve that aim.

The draft revised Code includes 36 principles across nine sections:

A. Role and mandate of internal audit

B. Scope and priorities of internal audit

C. Reporting results

D. Interaction with risk management, compliance, finance and control functions

E. Independence and authority of internal audit

F. Resources

G. Quality Assurance and Improvement Programme (QAIP)

H. Relationship with regulators and external audit

I. Wider considerations

Key elements of the consultation

- Brings together the two existing IIA codes which exist – the one for FS (issued in 2013) and the one for non-FS (issued in 2019)
- For each of the nine sections there is now a statement of the intended outcome from the principles
- Introduces a more forward-looking aspect to the internal audit function’s responsibilities to get them to consider the sustainability of the organisation and provide both insights and foresight
- Introduces a new requirement for reporting in the annual report in relation to the role, activities and conclusion on the impact and effectiveness of the internal audit function
- Expands the current list of items to be considered in the scope of internal audit’s work to include topics such as purpose, culture, ESG, climate, technology and data risks, fraud and economic crime

08 Proposed revisions to the Internal Audit Code of Practice

- Aims to clarify the interaction with the other lines of defence (e.g. compliance and risk management functions)
- Proposes that internal audit should coordinate with assurance providers to develop an assurance map on the organisations key risks and align on the timing of assurance which should be presented to the audit committee
- Clarifies that in addition to clear reporting line to the ACC, there should be an "administrative line" to the CEO
- Introduces a new requirement for the head of internal audit to consider the diversity of the internal audit team in accordance with the broader diversity and inclusion policies of the organisation
- Introduces a new principle in relation to the internal audit function having access to the appropriate tools and technology (incl. data analytics) to improve the effectiveness and efficiency of the function

The consultation closed on 8th May. The revised Code of practice is expected to be issued in the Autumn. For further information, you can access the consultation paper **here**.

Sustainability

09 Sustainability reporting: recent developments

09 Sustainability reporting: recent developments

Many boards are now getting to grips with which regulations from which jurisdictions apply to them. However, the sustainability landscape continues to evolve quickly and we hear time and again how challenging it can be to stay up to date with recent developments.

In this article we set out a selection of the many key developments in the first half of 2024, with links to additional resources where a deeper dive is warranted:

- Adoption of ISSB Standards in the UK
- Publication of final Transition Plan Framework documents
- Publication of ESRS guidance
- Interoperability guidance
- SEC climate disclosure rule
- Sustainability assurance – FRC market study

We also explore what boards can be doing now to prepare for double materiality assessments.

In our On the Board Agenda 2024, published in December last year, we published an article on understanding which regulations apply to which entities and if that continues to be an area of focus, we refer you to that article.

Adoption of ISSB standards in the UK

During May the Government published an update on its plans to introduce International Sustainability Standards Board (ISSB) standards in the UK. It aims to make UK-endorsed ISSB standards – known as UK Sustainability Reporting Standards (UK SRSs) available in Q1 2025.

The FCA has set out in Primary Market Bulletin 49 that it will then consult on plans to introduce requirements for UK-listed companies to disclose sustainability-related information using the UK SRSs. It will also consult on introducing mandatory disclosure of transition plans by listed companies – see below.

The Government will consult separately on plans to introduce disclosure requirements against UK SRSs for those companies outside the scope of the FCA's rules. Any changes arising from this consultation would not be expected to be effective any earlier than accounting periods beginning on or after 1 January 2026.

Separate to the update, in May the Department for Business and Trade (DBT) published a Framework and Terms of Reference for the Development of UK Sustainability Reporting Standards which summarises the overall framework that has been established for assessing IFRS Sustainability Disclosure Standards and the terms of reference for the development of UK Sustainability Reporting Standards. This also emphasises that, when making implementation decisions, the UK government and the FCA will provide the market with sufficient notice before any future changes come into force.

09 Sustainability reporting: recent developments

Sustainability assurance – FRC market study

In March 2024, the FRC launched its first **market study** into the assurance of sustainability reporting focusing on how well the UK sustainability assurance market is functioning, whether this market is delivering desirable outcomes including high quality assurance with minimal burdens and costs on business, and how the market may develop in the future.

In addition to gathering views and information through meetings and roundtables and gathering data about the market, the FRC also sought written responses across a range of areas:

- Choice and competition
- Market capacity, opportunities and barriers to entry / expansion
- Regulatory framework and future developments

Responses were requested by 13th June 2024 and the FRC plans to publish interim findings in September.

Publication of final Transition Plan Framework documents

In April, the Transition Plan Taskforce (TPT) published the final documents supporting the Transition Plan Framework published in the second half of 2023. These are detailed, "deep-dive" sectoral guidance to support seven sectors considered by the TPT to require this due to their greenhouse gas emissions, need for transition finance and lack of high-quality existing guidance – banks; asset owners; asset managers; electric utilities and power generators; oil and gas; food and beverage; and metals and mining.

The TPT also published a **sector summary guidance** which provides a practical guide to the key information and guidance, including decarbonisation levers and metrics and targets for 30 additional sectors. In June, the IFRS Foundation announced that it will be assuming responsibility for the disclosure materials produced by the TPT with a view, in the first instance, to producing educational materials.

A Deloitte ***Need to know*** provides further information on the framework. As part of **Corporate Reporting Insights 2024**, we have also undertaken a survey of the first 50 FTSE 100 December 2023 annual reports (issued since the TPT framework was published last October) and considered how reporting of their transition plans compared to the TCFD recommended disclosures and expected future requirements.

09 Sustainability reporting: recent developments

Publication of ESRS guidance

Over the course of the last few months, the European Financial Reporting Advisory Group (EFRAG) has published a series of technical explanations to support companies seeking to apply ESRSs (the standards mandated by the European CSRD). It has also recently published three implementation guidance documents on ESRSs: EFRAG IG 1 'Materiality Assessment', EFRAG IG 2 'Value Chain' and EFRAG IG 3 'ESRS Datapoints'.

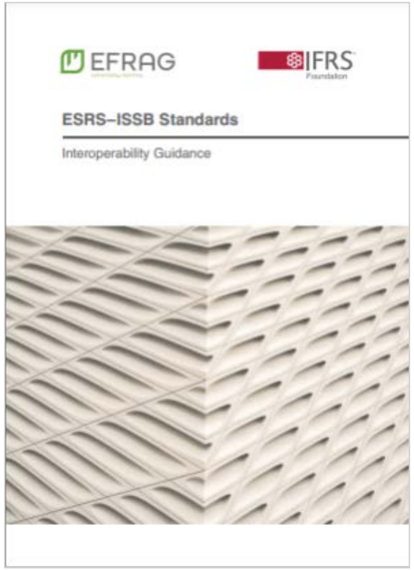
EFRAG explains that these are non-authoritative and intended to provide essential guidance to ensure organisations effectively implement and comply with ESRS standards, promoting transparency and consistency in sustainability reporting.

Interoperability guidance – ISSB standards and ESRSs

The ISSB and EFRAG published **Interoperability Guidance** as educational material in May to illustrate the high level of alignment between the ISSB standards and the European Sustainability Reporting Standards (ESRS).

According to the **press release** the document is designed to provide practical help to companies: "... to reduce complexity, fragmentation and duplication for companies applying both the ISSB Standards and ESRS... creating efficiencies where possible to advance transparency, comparability and accountability. Companies utilising this guidance will be better able to collect, govern and control decision-useful data once."

However the publication emphasises that it must be read in conjunction with the relevant requirements and is a starting point for those entities that must, or that choose to, apply both sets of standards. It is not a formal statement of equivalence.



The guidance contains the following sections:

- **Section 1** discusses the general reporting requirements in the ISSB standards and ESRS and explains the extent to which the standards are compatible with each other in terms of materiality, presentation and disclosures on non-climate-related sustainability topics.
- **Section 2** provides a paragraph-by-paragraph analysis of the climate-related disclosure requirements of the ISSB standards and the ESRS in a tabular format.
- **Section 3** lists reporting elements and areas for which ESRS preparers may need to provide additional disclosures in order to comply with the climate-related disclosure requirements in the ISSB standards.
- **Section 4** lists reporting elements and areas for which IFRS preparers may need to provide additional disclosures in order to comply with the climate-related disclosure requirements in ESRS.

09 Sustainability reporting: recent developments

Double materiality assessments

One of the most complex challenges of implementing CSRD is the double materiality requirement – that is, information necessary to understand the company's impacts on sustainability matters (impact materiality) and how sustainability matters affect the company's development, performance and position (financial materiality).

Double materiality under ESRS is an important distinction from other frameworks such as TCFD or the ISSB standards which use a financial materiality lens consistent with the financial statement approach.

The EFRAG Materiality Assessment Implementation Guidance is useful background reading as it provides an illustrative materiality assessment process, and it develops the concept of impact and financial materiality with a number of examples. It also contains a series of helpful FAQs which are clearly listed in the contents to allow for ease of reference.

Non-executive directors may wish to consider the following points with regard to double materiality:

- Understanding sufficiently the requirements and key decision points to challenge appropriately – remembering that the design of the double materiality assessment process is at the discretion of the entity.
- In terms of the process design and implementation:
  - Challenging the organisation's approach to the exercise as a whole – for instance, is this viewed as a compliance exercise or instead as a strategic exercise;
  - Understanding synergies with other areas of the business, for instance, will the double materiality assessment be done in a silo or integrated into existing enterprise risk management (ERM) processes;
  - Consideration of the value chain mapping and approach taken to disaggregation for the purpose of the materiality assessment;
  - Understanding the approach to key areas such as stakeholder engagement; and
  - How key decisions and judgements will be made and the strength of the accompanying governance process, which could be compared to processes for accounting judgements and policy choices.
- Lastly as the double materiality assessment process will be subject to assurance directors may wish to challenge management regarding the quality of the design, implementation and documentation of the process and the challenge and controls applied before it reaches the board.

09 Sustainability reporting: recent developments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Need to know

SEC adopts rule that requires climate-related disclosures

SEC adopts climate-related disclosure rule

The US Securities and Exchange Commission (SEC) adopted a final rule The Enhancement and Standardization of Climate-Related Disclosures for Investors in March. This requires SEC registrants to provide climate-related disclosures in their annual reports and registration statements. The final rule will become effective 60 days after publication in the Federal Register, and compliance will be phased in from 2025 to 2033.

Disclosures required in the financial statements include:

- financial statement impacts and material impacts on entities' financial estimates and assumptions due to severe weather events and other natural conditions; and
- a roll-forward of carbon offsets and renewable energy credits or certificates (RECs), if carbon offsets and RECs are a material component of meeting the entity's climate-related targets and goals

Disclosures required outside of the financial statements include:

- for large accelerated filers and accelerated filers, material Scope 1 and Scope 2 greenhouse gas (GHG) emissions, with assurance requirements that will be phased-in;
- governance and oversight of material climate-related risks;
- the material impact of climate risks on the company's strategy, business model and outlook;
- risk management processes for material climate-related risks; and
- material climate targets and goals.

Corporate reporting

10 Update on the UK taxation landscape

10 Update on the UK taxation landscape

In this article we consider some of the key developments in the UK tax landscape. In terms of existing tax rules, new Government guidance on Pillar Two has been issued and, looking to the future, we provide a reminder of the announcements made in the Spring Budget and also the commitments on tax that were included in the Labour manifesto.

Pillar Two

The tax landscape in the UK in 2024 has seen continued focus on Pillar Two as large multinational businesses enter into the rules for the first time, and as further guidance is released both from the OECD and from HM Revenue & Customs ('HMRC'). On 20 May 2024, HMRC published a statutory notice and supporting guidance page on their website, setting out how businesses within the scope of the UK's Pillar Two top-up taxes can register for these taxes with HMRC. The guidance also sets out the information that will need to be provided to HMRC upon registration. Registration is required for groups within the scope of Pillar Two in the UK within six months of the end of the group's first accounting period starting on or after 31 December 2023. For example, for in-scope December year-end businesses, registration with HMRC will be required by 30 June 2025.

Spring Budget 2024

Jeremy Hunt delivered the UK's 2024 Spring Budget on 6 March 2024, outlining the government's tax and spending plans. The main measures announced by the Chancellor were aimed at employees and working families. However, the Chancellor also sought to encourage business investment through specific investment incentives. Business tax developments included the government's intention to consult on including leasing assets within the regime allowing for the "full expensing" of capital expenditure, additional reliefs for the UK's creative industries, and the extension of the freeport tax relief scheme for a further five years. On 23 May 2024 the Finance (No. 2) Act 2024 was substantively enacted, and received royal assent on 24 May 2024 becoming fully enacted on that date. The Act included legislation for the various measures announced at the Spring Budget 2024, including the changes to creative industry tax reliefs.

General election 2024: tax announcements

Further changes to the UK tax environment are expected to follow as a result of the recent general election. The rest of this article provides a summary of the main tax announcements from the Labour party election manifesto which will affect businesses.

- Labour will not increase National Insurance, the basic, higher, or additional rates of Income Tax, or VAT;
- Abolish 'non-dom' status, replacing it with a modern scheme for people genuinely in the country for a short period;
- Modernise HMRC and change the law to tackle tax avoidance;
- A renewed focus on tax avoidance by large businesses and the wealthy to close the tax gap;
- Cap corporation tax at the current level of 25% for the entire parliament

10 Update on the UK taxation landscape

- Retain a permanent full expensing system for capital investment and the annual investment allowance for small business, provide greater clarity on what qualifies for allowances to improve business investment decisions;
- Replace the business rates system;
- Apply VAT and business rates to private schools;
- Time-limited windfall tax on the oil and gas giants making record profits; and
- Changes to the taxation of carried interests.

We expect the new Government to announce an Autumn Statement shortly and we await further details on the above announcements.

Resources to help you stay ahead

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

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11 Corporate reporting – areas of focus

11 Corporate reporting – areas of focus

This section is a reminder of some of the key matters to consider when preparing your half year report this year, and when looking forward to year-end reporting obligations.

Investors will be expecting clear disclosures around the effect of the global political environment on businesses and supply chains. They will also expect companies to have put thought to whether their principal risks remain the same or whether they have new emerging risks arising from geopolitical pressures, or the opportunities and risks of AI.

For further detail around corporate reporting and an exploration of the substantial changes to the UK disclosure framework bringing FRS 102 further into line with IFRSs, please refer to our Closing Out publication.

Areas of focus for your half-year report

A reminder of FRC expectations

The FRC published its most recent Thematic Review on interim reporting in May 2021. The report set out seven key expectations for interim reports which remain relevant today and are worth bearing in mind while reviewing upcoming interim reports:

- Ensure that management commentaries detail important events that have occurred during the first six months of the financial year, and their impact on the financial statements.
- Provide a comprehensive update of the principal risks and uncertainties for the remaining six months of the financial year.
- Make sure Alternative Performance Measures are explained, reconciled to IFRS measures and not given undue prominence.
- Give going concern disclosures that explain the basis of any significant judgements, including whether there are any associated material uncertainties, and the matters considered when confirming the preparation of the financial statements on a going concern basis.
- Detail changes to key judgements and estimates with reasons that enable users to understand management's views about the future, and their impact on the interim financial statements.
- Explain in sufficient detail events and transactions that have a material impact on the financial position and performance of the company, such as impairments.
- Focus on providing material disclosures that are clear and concise.

11 Corporate reporting – areas of focus

Disclosure and filing requirements for annual financial reports

The FCA's Primary Market Bulletin 49 includes a reminder for companies of their disclosure and filing requirements for annual financial reports including structured annual financial reporting obligations. The FCA has noted the following instances needing improvement:

- Published reports which have not been filed on the FCA's National Storage Mechanism (NSM). The FCA reminds companies that linking to a pdf on another website (such as London Stock Exchange) does not meet the filing requirement.
- Announcements of reports that do not contain a statement to indicate that the full report is available on the NSM.
- Announcements that do not contain a statement indicating the website on which the report is available.

The FCA has further identified low compliance rates with the requirements for structured digital reporting of financial statements, and suggests that companies refer to the **Financial Reporting Lab's December 2023 report**. Findings include:

- Financial reports that have not been correctly tagged; and
- Financial reports that have been filed on the NSM but not in the appropriate XHTML format.

The FCA indicates that it will continue to monitor compliance and take supervisory action in respect of non-compliance where appropriate.

New reporting standards

IFRS 18: Presentation and Disclosure in Financial Statements

In April the IASB published IFRS 18 Presentation and Disclosure in Financial Statements. This aims to respond to investor demands for better and more comparable information about companies' financial performance.

All companies that prepare financial statements that comply with IFRS Accounting Standards will be required to apply IFRS 18 retrospectively from 1 January 2027 and are permitted to early adopt, subject to endorsement in the relevant jurisdiction. IFRS 18 has not yet been endorsed for use in the UK and the UK Endorsement Board has not provided a timetable for this.

The three key new requirements of IFRS 18 focus on the statement of profit or loss and disclosures around financial performance.

1. Presentation and structure of newly defined subtotals in the statement of profit or loss – operating profit and profit before financing and income taxes – and consistent classification of income and expenses in new categories – operating, investing, and financing, income tax and discontinued operations – to provide useful information and improve comparability.
2. Disclosure of information about 'management-defined performance measures' (MPMs) to promote transparency as well as form part of the disclosure note therefore subjected to audit.
3. Enhanced requirements for grouping (aggregation and disaggregation) of information to assist the company in providing useful information.

11 Corporate reporting – areas of focus

Key matters to consider in advance of implementation:

- Determining whether to early adopt and / or whether to start planning IFRS 18 implementation in the current year.
- IFRS 18 may require judgement in deciding the appropriate level of aggregation and disaggregation across the financial statements, due to whether information should be included in the primary financial statements or disaggregated in the notes based on new requirements.
- Presently, some companies have self-defined subtotals in the income statement, which are directly linked to remuneration arrangements or bonus schemes. With the new defined subtotals in IFRS 18, companies will have to review their criteria and depending on the specific arrangements in place, it may be necessary to amend existing terms and conditions.
- Companies may need to review charts of accounts, update accounting systems, revise consolidation and financial statement close processes or design revised control procedures to ensure compliance. Cost to upskill employees on the requirements in IFRS 18 and changes to processes, systems and controls will be required.
- Involving investors early will be important so when IFRS 18 is applicable, all key stakeholders already understand the impact of the new standard and avoid potential misinterpretations.
- Communicating with auditors in advance to understand the impact the new standard will have on the audit.

For more detail see our **Need to know**.

IFRS 19: Subsidiaries Without Public Accountability: Disclosures

IFRS 19 was published in May and permits an eligible subsidiary to provide reduced disclosures when applying IFRS Accounting Standards in its financial statements.

Given UK qualifying subsidiaries can already apply FRS 101 Reduced Disclosure Framework, it is unclear at the time of writing whether and, if so, the extent to which IFRS 19 will be endorsed for use by UK companies.

For more detail see our **Need to know**.

Contacts

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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 briefings on relevant board topics.

Members receive copies of our regular publications on Corporate Governance and a newsletter highlighting upcoming briefings and recently published insights. Also a dedicated members' website www.deloitteacademy.co.uk is made available so members can register for briefings and access additional relevant resources.

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