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On the board agenda 2025

December 2024

Foreword

Dear Board Member

When we consider the matters which are top of the board's agenda, geopolitical uncertainty, culture and the rapid advancement of technology are regularly cited as key challenges and opportunities in addition to more "business as usual" issues of supply chain, cost pressures and challenges in attracting and retaining talent. These circumstances are only likely to continue into 2025 and beyond. Boards will have to allow their agendas to adapt and flow accordingly.

"On the Board Agenda 2025" has two objectives – first, to act as a reminder of key matters for the reporting season, and second, to help you remain informed and stay on top of emerging governance and regulatory issues. The King's Speech in July set out an unprecedented number of bills the new Government plans to take forward over the coming years, with the overall aim of delivering growth in the UK economy. The Budget in October had the same aim but it is all going to take time and so, with that backdrop, boards must continue to focus on performance and high standards at their companies, delivering innovative activities to differentiate themselves and providing transparency to attract talent and enhance trust.

It is with these issues and challenges in mind that we have constructed the content of this publication, pulling together into one place updates and insights on hot topics on the board agenda. We hope you find it a helpful and interesting read. We look forward to welcoming you at our discussions in the Deloitte Academy in the New Year.

Claire Faulkner
Deloitte Academy Governance Chair
December 2024

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As corporates balance the implications of reduced inflation and interest rates against political developments in the UK, Europe and the US, boards and CEOs look to themes shaping the economic outlook for 2025. Accordingly, we introduce this year's On the Board Agenda with a short scene-setter on the economy and some areas of particular interest.

The UK economy had a bumper first half to 2024, driven by rising government spending and a pickup in business investment, but activity slowed in the third quarter. Business and consumer confidence have softened in recent months. Nonetheless, this looks like a recovery that has legs and will run through and beyond next year.

We start with key findings from Deloitte's most recent quarterly CFO survey undertaken during September. The next quarterly update will be published shortly in January 2025 and will indicate how CFOs have reacted to the first Budget from the new Labour Government.

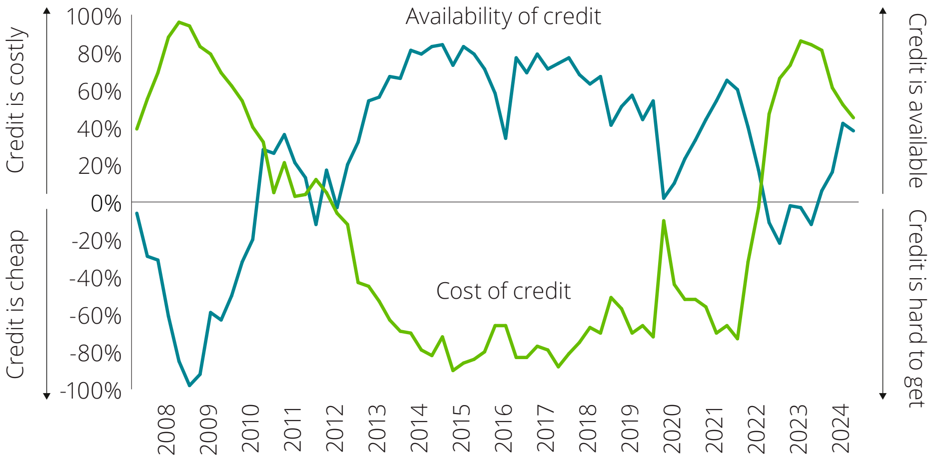
October 2024 CFO Survey

The latest Deloitte CFO Survey, published in October and conducted between 17 and 29 September, shows that sentiment and risk appetite among CFOs are running at above-average levels. As has been the case for the last five quarters, CFOs say that geopolitical developments represent the greatest external risk to their businesses. CFOs rank worries about a hard landing in the US second, alongside their concerns about productivity in the UK.

With markets and economists now expecting good growth in the US in 2025, risks of a US hard landing may have receded.

Cost and availability of credit

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



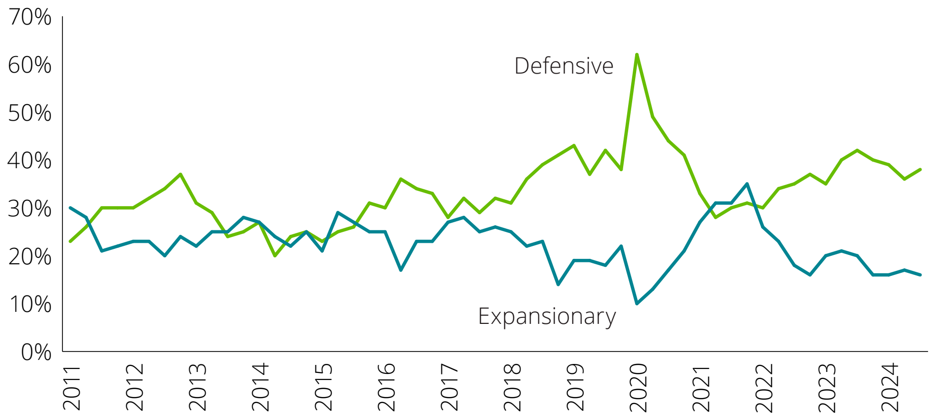
Following the Bank of England's first interest rate cut in over four years in August, CFOs expect rates to fall by 100bp to 4.0% over the next 12 months. This has progressed since our survey with a further base rate cut in November.

01 | Short update on economic environment

Defensive strategies

CFO corporate priorities over the next 12 months are primarily defensive, with reducing costs (55%) and increasing cash flow (42%) rated as the top two strong priorities for businesses. A higher percentage of CFOs rate these as priorities than a year ago. Perhaps coupled with this, CFOs predict an ongoing slowing in wage increases, from 4.6% over the last 12 months to 3.2% over the next 12 months – noting that this survey took place prior to the Autumn Budget. Finance leaders are placing less emphasis on expansionary strategies such as increasing capital spending or expanding through acquisition.

Arithmetic average of the % of CFOs who rate expansionary and defensive strategies as a strong priority for their business in the next 12 months



Post-budget update

October's UK budget was an important reset for the new Labour Government, with the long-term focus on growth reiterated by Rachel Reeves in her first Mansion House speech in November. Specific taxation changes are detailed in our article on taxation.

Ian Stewart, Deloitte UK's Chief Economist, provided some thoughts on the economic impact of the budget in A view from London, published on 12 November. He highlighted the significant events of the previous fortnight – the UK budget, the US election victory for Donald Trump, interest rate cuts in the US and the UK, China's new stimulus programme – which some commentators speculate is influenced by anticipation of new US tariffs. Some observations include:

- The Bank of England cut UK interest rates by 0.25% in November and noted that recent UK budget measures will add 0.75 percentage points to GDP and around 0.5 percentage points to consumer price inflation in a year's time.
- Markets now expect UK rates to fall from 4.75% to 4.0% by the end of next year, 50bps higher than the 3.5% markets expected at the beginning of October.
- The Office for Budget Responsibility, which forecasts the impact of tax changes, estimates that in the long term 76% of the total cost of the £26bn increase in employers' national insurance contributions (NICs) will be passed on to employees in the form of lower real wages.

01 | Short update on economic environment

- On the face of it, 2025 should be a positive year for the US and the UK, with good growth and falling interest rates. Activity is expected to pick up in the UK, although momentum is likely to tilt from the private to public sector. The economy of the euro area is also expected to accelerate from a low base, however with Germany lagging, there remain some downside risks.

The Chancellor's Mansion House speech on 14 November set out a package of measures in financial services characterised as providing support for growth and unlocking investment. She focused on three themes:

- Stability – providing confidence to increase private investment.
- More investment through financial services to spur innovation and growth.
- Reform to unlock innovation and growth.

New remit letters to the Financial Conduct Authority, Prudential Regulation Committee and Financial Policy Committee all set out the importance of growth and proportionality in regulation, which the regulators should have regard to when discharging their responsibilities.

02 Update on the UK regulatory agenda

02 | Update on the UK regulatory agenda

Through our series of 'On the board agenda' publications, we have been providing updates on the latest position in relation to the corporate governance reform agenda. In this article we explain the current status after the new Government came to power in July. We also provide an update on other regulatory developments including a consultation on the UK Stewardship Code from the FRC, an update to the UK Listing Rules and additional reporting requirements on payment practices and performance.

Corporate reform

It is now almost six 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. We set out below the current position within the three key delivery mechanisms for the reform package:

- Primary legislation
- Secondary legislation
- Changes to the UK Corporate Governance Code

Primary legislation

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

STATUS: Included as a draft bill in the King's Speech

The audit reform bill was included in the first King's Speech of the new Government in July 2024. It was included as a draft bill and is expected to be subject to pre-Parliamentary scrutiny in the first part of 2025. The official briefing notes accompanying the speech state that the bill "will replace the Financial Reporting Council with a new regulator – the Audit, Reporting and Governance Authority – with the powers it needs to tackle bad financial reporting and to build that trust. It is intended that the new regulator will provide a platform for the following changes:

- An extended definition of 'Public Interest Entity' (PIE)
- Removal of unnecessary rules on smaller PIEs
- Introduction of powers to investigate and sanction company directors for serious failures in their corporate reporting and audit responsibilities under the Companies Act 2006
- Development of a regime to protect against conflicts of interest and build resilience in the audit market"

02 | Update on the UK regulatory agenda

Secondary legislation

New reporting requirements including the Audit & Assurance Policy and the Resilience Statement

STATUS: Withdrawn

On 16th October 2023, the Government announced that the Statutory Instrument setting out requirements for the Audit & Assurance Policy, the Resilience Statement, a statement on fraud and enhanced disclosures around distributions had been withdrawn amid concerns about imposing additional reporting requirements. See our newsflash for further details.

At this time, we have heard nothing to suggest that the new Government will seek to re-issue these regulations.

Changes to the UK Corporate Governance Code

STATUS: 2024 UK Corporate Governance Code issued in January 2024

The FRC issued the 2024 UK Corporate Governance Code in January 2024. The most significant change to the new Code was in relation to strengthening boardroom focus on internal control matters and this is the focus of our article Getting ready for the new Provision 29.

The updated Code applies to accounting periods commencing on or after 1 January 2025 with the exception of Provision 29 – the declaration on the effectiveness of material internal controls – which will apply to periods commencing on or after 1 January 2026. Until then, existing Provision 29 of the 2018 UK Corporate Governance Code applies.

See our newsflash for further details on the changes introduced by the 2024 Code.

Stewardship Code

FRC consultation on the UK Stewardship Code

The FRC has launched a consultation on updates to the UK Stewardship Code. The focus is on streamlining reporting requirements, reducing burdens for signatories and ensuring a clearer focus on the purpose of stewardship and the outcomes that it delivers. The consultation runs until 19 February 2025 and follows extensive engagement with over 1,500 stakeholders during 2024.

Key proposals in the consultation include:

- A revised and enhanced definition of stewardship that emphasises the need to create long-term sustainable value for clients and beneficiaries as a key outcome of good stewardship
- A streamlined reporting process separating policy and activity disclosures to reduce reporting burdens
- Targeted principles for different types of signatories and service providers, including for the first time, a dedicated Principle for proxy advisors
- New guidance to support effective implementation and help signatories with the transition to the new reporting arrangements

02 | Update on the UK regulatory agenda

Launching the consultation, Richard Moriarty, FRC CEO, said:

"The UK Stewardship Code plays a vital role in promoting long-term value for millions of people who trust their hard-earned savings and pensions to the investment community in order to provide for their future. This consultation marks an important evolution of the Code, ensuring it maintains high standards of stewardship in a manner that continues to support UK growth and is more proportionate. In doing so, we aim to help enhance the attractiveness of the UK as a leading global destination for capital and its management."

The FRC will host a series of engagement events during the consultation period to gather further feedback from stakeholders on these proposals and the updated Code is expected to be published later in 2025 for implementation and first reporting cycle in 2026. Watch out for events being posted on the FRC website.

New UK Listing Rules (UKLR)

On 11 July the Financial Conduct Authority (FCA) published PS 24/6 Primary Markets Effectiveness Review: Feedback to CP23/31 and final UK Listing Rules. This finalised the FCA's update to the Listing Regime, with changes to the regime for initial public offerings (IPOs) and for listed company transactions. It also completed a change to the listing categories, removing the separate "premium listed" and "standard listed" category and instead introducing a single "commercial companies" category. The new UKLR came into effect on 29 July.

In On the board agenda: half year 2024 we provided some insight into the new IPO regime and areas to consider for main board directors.

We have now published updated disclosure checklists reflecting the new UKLR:

- For periods commencing prior to 1 January 2025 (under the 2018 UK Corporate Governance Code)
- For periods commencing on or after 1 January 2025 (under the 2024 UK Corporate Governance Code)
- For periods commencing on or after 1 January 2026 (under the 2024 UK Corporate Governance Code with the new Provision 29 in force)

02 | Update on the UK regulatory agenda

Update to payment practices and performance reporting regulations (PPPR)

The PPPR requires reporting by UK businesses that qualify as large under the Companies Act (and, in the case of parent companies, that head a large group). This reporting was introduced in 2017 and companies subject to it must report within 30 days of the end of each six-month period on a government portal.

As part of the 7-year review, 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.

Updated guidance has been published here. In addition to updating the guidance originally published at the time of the 2017 regulations, this includes answers to a number of questions the Department for Business and Trade's team has received over the years and some helpful new worked examples.

The new statistical information requirements apply for financial years beginning **on or after 1 January 2025**.

As a reminder, 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 (new); and
- 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).

Entity systems for reporting therefore need to capture the value of payments, as well as number of payments, and which items are impacted by a dispute.

03 New corporate criminal offence: failure to prevent fraud

03 | New corporate criminal offence: failure to prevent fraud

During November the Government published guidance on how it will interpret the legislation for the new corporate criminal offence of failure to prevent fraud. It also published the date that the offence will come into force: 1 September 2025, giving around nine months for companies to ensure their procedures are in line with the expectations set out in the guidance and rolled out across their organisations.

Deloitte's blog on this topic, highlighting the new perspective organisations will need on risk, was published shortly after the Government's guidance.

The new corporate criminal offence joins other existing corporate criminal offences, the failure to prevent bribery and the failure to prevent the facilitation of tax evasion. All of these have a potential defence of reasonable / adequate procedures. In this article we give some background to the new offence and the "reasonable procedures" defence, focusing on the leadership role of the board.

The failure to prevent fraud offence was established by the Economic Crime and Corporate Transparency Act 2023 ("ECCTA"). This legislation seeks to hold organisations accountable for fraud committed by their employees, agents, subsidiaries or other "associated persons", when it benefits the organisation or their clients.

The Government has published guidance on how it will interpret the legislation, setting out for the first time the standards it expects from in-scope organisations. The guidance was released on 6 November 2024, further to the ECCTA gaining Royal Assent in October 2023. It gives in-scope entities an approximately nine-month implementation period to review and improve fraud prevention frameworks before the failure to prevent fraud offence comes into effect on 1 September 2025.

Scope of the legislation

The offence itself applies to a specific, but substantial, list of offences under the laws of England and Wales, of Scotland, or of Northern Ireland. These offences include:

- Fraud by false representation, failing to disclose information or abuse of position;
- Participation in a fraudulent business;
- Obtaining services dishonestly;
- Cheating the public revenue;
- False accounting;
- False statements by company directors; and
- Fraudulent trading.

03 | New corporate criminal offence: failure to prevent fraud

Where an organisation fails to prevent such fraud it can be subject to investigation by a prosecuting authority for the new offence. Although the underlying offence must be considered to have been committed under the laws of England and Wales, Scotland, or Northern Ireland, the organisation itself can be based in a different jurisdiction.

The failure to prevent fraud offence applies to all incorporated bodies and partnerships that are considered "large" by exceeding at least two of the following criteria set out in the Companies Act 2006 in the financial year preceding the fraud:

- 250 employees
- £36m turnover
- £18m total assets

The criteria apply to the whole organisation, including subsidiaries, regardless of where the organisation is headquartered or where its subsidiaries are located. Supply chain companies and franchises are not included in this calculation, but in practice they may need to review their fraud defences anyway if they wish to supply larger entities that are in-scope. The guidance notes that smaller entities may also wish to consider the good practice principles it sets out.

The wide scope of the legislation means a broad range of parties can commit an offence, including associated persons acting on the organisation's behalf – for instance, international distributors, overseas branches and contractors providing services to customers or clients – as well as direct employees of in-scope organisations. This means that organisations must consider their own liability for fraud risks arising from other parties' actions and they will need to evaluate associated risks and prevention activities that may not previously have been considered.

Under the new Act, in-scope organisations can face fines for failing to implement "reasonable fraud prevention procedures" designed to stop fraud occurring. These procedures can provide a defence against the failure to prevent fraud offence should a case reach court. Management decisions around the implementation of fraud defences, including any assessment that further measures are unnecessary, should be documented and approved by a named individual.

The guidance notes that the underlying fraud committed by the individual does not need itself to have been prosecuted for the organisation to be prosecuted; however, the prosecution must still prove to a criminal standard that the base offence has been committed.

Intention to benefit

The ECCTA targets fraud committed with the intention to benefit in-scope entities, their clients, or subsidiaries of their clients. It does not need to be demonstrated that the organisation's senior executives or directors ordered or knew about the fraud. The guidance states:

"An organisation does not need to actually receive any benefit for the offence to apply – since the fraud offence can be complete before any gain is received. It is enough that the organisation was intended to be the beneficiary [...] The intention to benefit the organisation does not have to be the sole or dominant motivation for the fraud. The offence can apply where a fraudster's primary motivation was to benefit themselves, but where their actions will also benefit the organisation."

03 | New corporate criminal offence: failure to prevent fraud

Scenarios where entities could be secondary beneficiaries include:

- Intentional misstatements relating to green or sustainability credentials to secure an advantage (e.g. increase sales or secure investment);
- Intentional misrepresentation during a procurement process to win a tender or, if in the context of procuring services for the organisation, to secure an advantage for the organisation in the procurement, such as lower costs.

No failure to prevent fraud offence occurs where the entity is a victim rather than a beneficiary, though it would be possible for an organisation to be both – for instance, if a fraud increases short-term revenue but the company suffers negative publicity and loses longer-term business as a result. In such a scenario, the entity could still be prosecuted.

Guiding principles

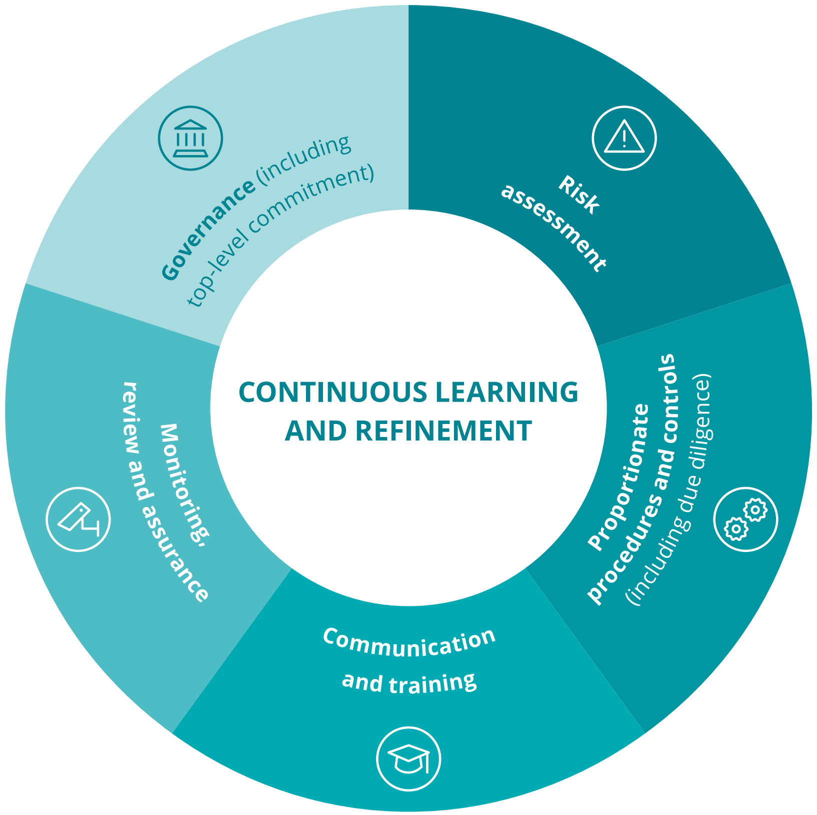
The guidance establishes six principles that in-scope entities should consider when designing and implementing a fraud prevention framework (reasonable fraud prevention procedures):

- Top level commitment
- Risk assessment
- Proportionate risk-based prevention procedures
- Due diligence
- Communication (including training)
- Monitoring and review

If a case reaches court, the onus will be on the organisation to prove that it had reasonable procedures in place to prevent fraud at the time the underlying or "base" fraud was committed.

The principles set out in the Government guidance align with those in the guidance for the other existing 'failure to prevent' offences. They are also closely reflected in Deloitte's fraud risk framework, which depicts five pillars of focus that are key to informing the steps that organisations can take to strengthen and maintain their fraud defences.

Figure 1: Deloitte's fraud prevention framework



03 | New corporate criminal offence: failure to prevent fraud

There is no one-size-fits-all approach to fraud prevention and organisations should consider, assess and reflect their specific circumstances. The guidance is clear that the foundation of a fraud prevention framework is a robust, documented risk assessment to enable an organisation to understand the nature and extent of the failure to prevent fraud risks to which it is exposed. The reasonable procedures also place emphasis on a strong anti-fraud control environment directed by the risks identified, supported by a strong and open culture, proportionate and risk-based training (that is maintained) and appropriate monitoring and oversight activities.

Questions for boards

Key for boards to consider when evaluating management's proposals for reasonable procedures will be the governance / top level commitment. Some questions boards may wish to ask at an early stage include:

- Are we confident that, as a board, we have set and continue to set a sufficiently clear tone from the top in relation to fraud prevention? Have we articulated, clearly endorsed, and shared a strong enough statement? Is there anything more we need to do to communicate this?
- Do we consider that this tone has been carried through effectively by senior and mid-level management?
- Is appropriate governance of fraud risk in place at different levels of the organisation? Are there named individuals responsible for each element of our fraud prevention framework?
- At board level, is fraud governance and investigation a matter to be considered by the full board? Is the leg-work delegated to a committee? Is it on the agenda sufficiently frequently?
- Does the Head of Ethics or equivalent in our organisation have direct access to the board and / or CEO and is it clear that this line of access is available to them even if they report directly to another leader or a committee?
- Do we have plans and resources in place to update our fraud risk assessment to identify any areas of particular concern? Can we leverage existing risk assessment procedures or do they need a comprehensive update? Are they sufficiently regularly revisited?
- Have our procedures to monitor culture indicated that there are any pockets of the organisation where we may need to put additional focus on fraud risk assessment? Are there any third parties that act on our behalf where we might need to request additional focus from management?
- Is the importance of integrity and non-tolerance of irregularities iterated in both induction and regular ongoing training and communication? Are consequences made clear in our policies? Is this approach carried through in our communications with third parties that act on our behalf?

Resources to help you stay ahead

For regular updates about recent developments in this and related areas, visit Deloitte UK's financial advisory blog page.

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04 Two new bodies in the governance ecosystem to be aware of

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In this article we bring to your attention two new bodies hoping to play a part in the governance ecosystem – one to improve standards in public interest audit and the other to facilitate more effective engagement between investors and issuers.

Introducing the Centre for Public Interest Audit (CPIA)

The CPIA brings together auditors from across the profession to shape best practice and inform the future of public interest entity (PIE) audit in the UK. The CPIA's ambition is to act as a standalone voice on behalf of all PIE auditors, providing a profession-wide perspective on current and future practice, alongside clear-cut recommendations of areas for development and improvement.

Recognising the critical role audit plays in underpinning confidence in the UK's largest companies, the CPIA has undertaken inaugural research to understand how PIE audits are perceived by key stakeholder groups.

The first Audit Trust Index is available on the CPIA website.

Introducing the Investor & Issuer Forum

The Investor Forum has launched the Investor & Issuer Forum (I&IF), an inclusive platform for investors and issuers. Its aim is simple: to enhance the effectiveness of the UK equity markets with a clear focus on sustainable value creation.

The I&IF intends to:

- **Strengthen relationships** - building strong, productive relationships between issuers and investors
- **Drive actionable initiatives** - focusing on practical steps that lead to real market improvements
- **Reduce market friction** - bringing together market participants to streamline interactions and reduce barriers
- **Enhance market value** - contributing to the creation of more effective and valuable UK equity markets

Further details are available from the I&IF website including the members of the forum's steering committee led by key business figures.

People and purpose

05 Board oversight of workforce and culture

05 | Board oversight of workforce and culture

Over the past several years, the agenda of the board has expanded and been pulled in multiple directions: emerging innovative technologies like generative artificial intelligence, evolving stakeholder expectations, demands for climate action, the need for progress on diversity, equity, and inclusion, and the changing economic, political, health, and geopolitical landscape are all transforming the role of business in society.

However, people and the workforce as a whole continue to be at the centre of change and the driving force for an organisation's response to all those challenges. In this article we take a look at areas the board might wish to consider when thinking about prioritising attraction, retention and development of talent.

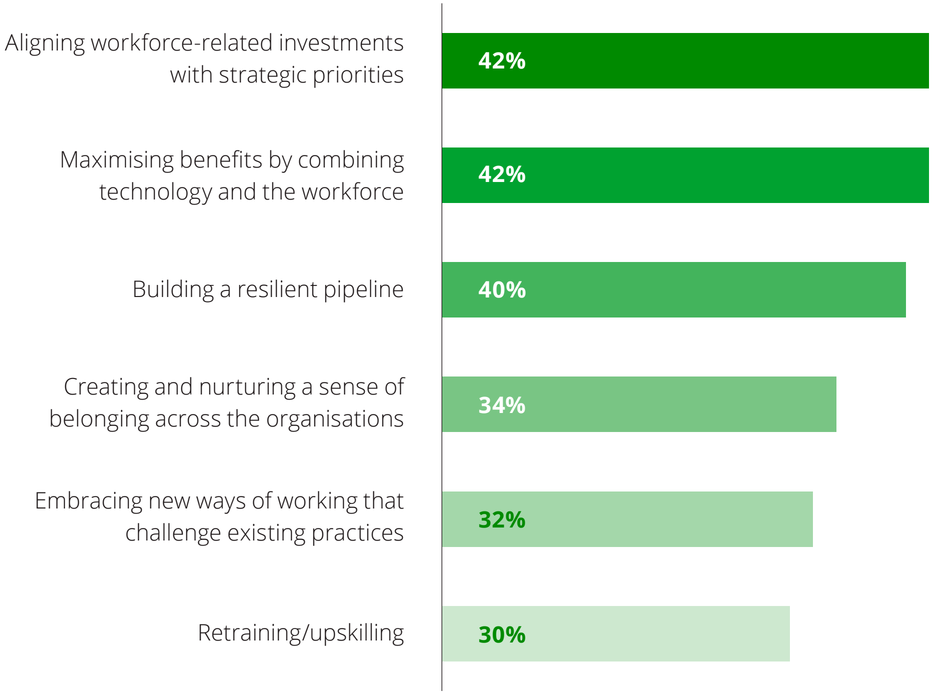
Prioritising workforce issues

Earlier this year, the Deloitte Global Boardroom Program published a thought piece called "Time to rethink talent in the boardroom". The survey looks at how companies - and boards, in particular - are addressing talent and the future of the workforce. It is based on 493 responses from board members and C-suite executives in more than 50 countries from June to July 2023, with 44% of responders being from Americas, 42% from EMEA (Europe, the Middle East, and Africa) and 14% from Asia-Pacific region. Some of the key findings of the report are summarised below:

- 50% of boards (board committees) discuss workforce-related matters at least quarterly, 17% discuss talent twice a year, and 34% discuss these topics only once a year or less often
- Only 36% of responders believe their board's workforce-related discussions are sufficient to fully explore the talent agenda

The chart below chart demonstrates workforce-related topics which reached the boardroom. With no clear winner the results illustrate the breadth of topics competing for the board's time and attention.

Talent-related priorities compete for board attention



05 | Board oversight of workforce and culture

Organisations talk about equity in Artificial Intelligence ('AI'), but are they following through?

Another survey from this series explores the role of Diversity, equity, and inclusion (DEI) leaders in ensuring that equity remains a business priority amid the enterprise-wide focus on AI issues, including risk mitigation, governance and compliance. Deloitte's DEI Institute conducted a targeted, cross-industry survey of 71 chief DEI officers or equivalent leaders in March 2024.

While 78% of the leaders surveyed agreed or strongly agreed that their organisation continues to uphold its commitment to DEI alongside investments in AI, the survey also revealed that some organisations are falling short when it comes to embracing the practices that allow DEI to inform AI strategy.

Only 35% of the leaders agreed or strongly agreed that their boards or other C-suite members actively involve their teams in conversations related to AI's impact on the workforce.

Questions for boards to think about:

- How often are workforce-related matters brought to the board's attention?
- Does this frequency allow sufficient time and depth of analysis of board agenda items?
- Is there a short-term, medium-term and emergency succession plan in place?
- What topics has your board considered during the last year, and what topics might be included on the agenda next year?
- Has the board involved chief DEI officers or the equivalent in your organisation in the initial conversations and establishing of processes around AI implementation?

This report is a part of Deloitte's Frontier Series, a set of research initiatives from the Deloitte Global Boardroom Program that explores board critical topics. Please visit this page to explore other key topics, including today's most pressing leadership challenges, from investing in both human and environmental sustainability to doubling down on the technology that will power tomorrow.

05 | Board oversight of workforce and culture

Duty on employers to prevent sexual harassment of workers

The new Worker Protection Act came into force on 26 October 2024. The Worker Protection Act has introduced new preventative duties for employers regarding sexual harassment in the workplace. The new preventative duty aims to improve workplace cultures by requiring employers to proactively protect their workers from sexual harassment. The preventative duty is an anticipatory duty, which requires employers to take reasonable steps to prevent sexual harassment by their own workers. It also requires employers to take reasonable steps to prevent sexual harassment of workers by third parties, such as clients and customers.

If an employer does not comply with the preventative duty, the Equity and Human Rights Commission has the power to take enforcement action against the employer.

The Institute of Business Ethics (IBE) conducted a survey "Ethics at Work : 2024 international survey of employees" in which it surveyed over 12,000 working adults in 16 countries. The survey found that one in three employees cited fear of jeopardising their job (34%) or concerns that corrective action would not be taken by their organisation (34%) as a deterrent to speaking up after witnessing misconduct. Further, the report found that of employees that were aware of misconduct, two-thirds raised concerns (64%), nearly half of those (46%) reported facing personal disadvantage or retaliation as a result of speaking out and 28% of those expressed dissatisfaction with the outcome. These findings highlight the importance of setting the right tone from the top and a strong company culture.

Combined with the Worker Protection Act, boards that have not already taken a lead in this area may wish to include workforce issues around harassment, sexual harassment, whistleblowing and retaliation when setting their agenda for next year. Establishing a clear tone from the top and involvement in oversight of the risk assessment and response process will be part of this process.

For more information on the new Worker Protection Act, please refer to the following materials:

- Sexual harassment and harassment at work: technical guidance
- Employer 8-step guide: Preventing sexual harassment at work

Statement on gender pay gap compliance

The Equity and Human Rights Commission has just reported a milestone for the gender pay gap reporting, which has now been in force since 2017. In the 2023/24 financial year, there was 100 per cent compliance with gender pay gap reporting. The handful of organisations that missed the 4 April deadline last year have all either subsequently reported their data or declared themselves out of scope.

As a reminder, following the King's Speech earlier this year, draft legislation is expected on equal pay reporting relating to ethnic minority and disabled workers.

06 A focus on board performance reviews

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It has been a while since we looked at what makes a formal and rigorous board performance review so valuable for a company and its directors. In this article, we provide a fresh look on the key factors that board directors should focus on when approaching an annual board performance review to allow this process to contribute to effective governance.

Board performance reviews play an important role in the continuous improvement of organisations' governance and board-level decision making. If performed effectively, they foster accountability, directors' professional curiosity, critical challenge and enhance decision making and help companies align their strategic objectives.

The Charted Governance Institute UK & Ireland has issued a Code of Practice for board reviews (the Code) with a set of Principles and guidance supported by additional guidance notes:

- Principles of Good Practice for listed companies using external board reviewers; and
- Reporting on board performance reviews: Guidance for listed companies.

While the Code is offered to companies on a voluntary basis, signatories would be expected to demonstrate that they adhere to the standards set out in the Principles on an 'apply and explain' basis. Applying these Principles should increase the transparency and effectiveness of board performance reviews across the market.

Below are some key factors which the Principles recommend are considered when setting up a review:

Factors	Matters to consider
Appointment of board reviewer (in the case of external review)	The company and reviewer should agree terms of engagement before the review commences. These must specify the objectives and scope of the review, and the process to be followed.
Independence and objectivity	The value to the company and to its investors of an externally facilitated board performance review is that it can bring an independent perspective to the process. This value is undermined if the reviewer is perceived as being conflicted or too close to the client. For that reason, it is considered good practice for a reviewer not to extend their relationship with any individual client beyond six years (a period which would typically include two consecutive full board performance reviews and associated follow up work). Also, where appropriate, for example if an actual or potential conflict of interest is identified, the decision should be ratified by the full board.

06 | A focus on board performance reviews

Factors	Matters to consider
Assessing the behavioural dynamics of the board	Reviews should consider the degree to which the board and its directors display rigorous thought processes leading to breadth, depth and independence of thinking, in addition to attributes such as skill, experience, knowledge, diversity and capability. Reviewing specific decisions can help to assess the effectiveness of the board's decision-making processes.
Ability to raise concerns	It is considered good practice to identify a contact with whom the reviewer can discuss in confidence any concerns they have about the way the process is being managed. This would normally be one of the independent board members.
Link to board succession	The review should evaluate the board's existing approach for building diversity and inclusion into succession planning, the extent to which the outcomes of the review need to be addressed through succession planning and how transparently the process is reported in the annual report.
Presenting the outcomes of the review	The company should provide the reviewer with an opportunity to present their findings directly to the full board and discuss outcomes and future actions with them.

Reporting on board performance reviews

The FRC has commented regularly on a lack of transparency on board performance review disclosures. In particular, there continues to be less insight into the outcomes of reviews of board committees, the Chair and individual directors. Whilst it is recognised that, in some cases, the findings of the performance review and the recommended actions can be sensitive and confidential, companies should aim to describe aspects of the board's performance where they have concluded there is a need for improvement. Enhanced reporting could include areas of board strengths, recommendations to improve effectiveness and areas of focus for the following year, alongside an update on actions and outcomes from the previous board review.

In our Diversity & Inclusion survey of Corporate Reporting Insights 2024, we looked at how well board performance review disclosures reflected diversity and inclusion initiatives. Our findings suggest that there are fewer outcomes and fewer actions being set over time with respect to diversity and inclusion at board level. However, this year we noted an increasing cohort recognising the skills and experience of individual board members on diversity and inclusion matters, highlighting recent relevant external roles or expertise in board biographies.

06 | A focus on board performance reviews

Questions for boards to think about

1. To what extent does your board seek to evaluate and improve its own performance? Why might it be resisting challenges to existing ways of doing things?

2. Does the provider of the three-yearly external board performance review process have any other connections with the company? If so, has the board thoroughly considered their independence?

3. Does the board consider the provider to be thorough and do they develop thought-provoking recommendations that have enhanced the operation of the board, committees and / or individual directors?

4. Does the board perform its own assessment of the provider of the external board performance review?

Risk and controls

07 Audit Committee 2.0 – time for a rebrand?

07 | Audit Committee 2.0 – time for a rebrand?

The agenda for a typical audit committee has grown significantly in the past five to ten years. It is regularly a committee meeting where the full board is in attendance in due to the importance of the topics being discussed. Some are renaming themselves Audit & Risk Committees to reflect the broadening remit but even that name probably still fails to adequately represent the range of oversight responsibilities now falling on most audit committees. So, is it time for a rebrand or, at a minimum, a very careful review of the terms of reference?

The role of the audit committee

The traditional audit committee's focus was, for many years, the financial statements, the controls over financial reporting and the statutory audit of the financial statements. In addition, where internal audit functions existed, they also tended to focus their reviews on financial reporting matters. Today these areas now represent just one part of an ever-expanding remit with audit committees now responsible also for the integrity of broader reporting in the front half of the annual report, review and monitoring of the effectiveness of the whole risk management and internal control framework (not just in relation to financial reporting controls) and oversight of the effectiveness of all assurance activities (including the full breadth of internal audit activity and any independent assurance obtained on, for example, sustainability reporting).

Risk | Controls | Assurance | Reporting

Audit & Risk Committees

Earlier this year we reviewed the FTSE 100 and found that 20 have Audit & Risk Committees which represents one quarter of the 80 non-FS companies (who have separate risk committees) making up the FTSE 100. We are also aware that many audit committees who have not chosen to rename themselves are still undertaking more risk oversight activity than might be the case if following the letter of the UK Corporate Governance Code and the supporting guidance. Based on our research into the terms of reference of both audit committees and audit & risk committees, some of these "additional" activities include oversight responsibilities in relation to risk appetite, risk culture, appointment of Chief Risk Officer, effectiveness of the risk function, deep dives on new/emerging risks and risks associated with strategic transactions.

07 | Audit Committee 2.0 – time for a rebrand?

Whilst the update to Provision 29 in the 2024 UK Corporate Governance Code focuses on the board's monitoring and review activity and requires a board declaration on the effectiveness of material controls, in reality, we expect that the audit committee will undertake the heavy lifting here. And, as we know, Provision 29 covers all material controls across operational, financial, reporting and compliance controls. So audit committees will want to ensure that the monitoring and review activity they are undertaking on behalf of the board is broad enough in scope to cover this full range of controls and how they work within the overall risk management framework from risk assessment, through risk appetite to mitigation and control.

Sustainability reporting

An area where overlap and/or confusion can arise within the audit committee remit is where there is a separate sustainability committee. In this situation, the board needs to set terms of reference for both the audit and sustainability committees such that responsibility for oversight of the integrity of sustainability reporting is clearly placed with one or the other. There are no specific requirements in terms of where responsibility should lie but, in our view, a sensible segregation of duties would have responsibility for the integrity of sustainability reporting (including the controls over sustainability information and any assurance obtained) with the audit committee leaving the sustainability committee free to focus on the organisation's strategic response to sustainability matters.

This allocation of responsibilities to audit committees in relation to sustainability reporting is aligned with those set by the Corporate Sustainability Reporting Directive which states a clear preference for the oversight of sustainability reporting and the related assurance to be the responsibility of the audit committee.

Companies obtaining assurance over their sustainability reporting is becoming more and more prevalent, even without any statutory or regulatory requirement in the UK and so this is another area where audit committees are needing to build up more expertise and find time in their agenda so that they are able to judge the quality and effectiveness of the assurance they are receiving. The findings from the FRC's recent market study of sustainability assurance highlighted that while there appears to be a wide variety and choice of sustainability assurance providers in the UK, there are concerns over the consistency in quality of the assurance.

07 | Audit Committee 2.0 – time for a rebrand?

Taking action

To help audit committees stay on top of this ever-expanding agenda, we recommend that they benchmark their existing terms of reference to consider whether there is appetite to include or reflect (if already undertaking) the following aspects:

Risk & control	• Oversight of the processes around risk appetite, risk culture, appointment of CRO, plus considering the effectiveness of the risk function, deep dives on new/emerging risks and risks associated with strategic transactions • Monitoring and review across all aspects of the risk management and internal control framework, not just the financial reporting aspects and including specific reference to oversight of non-financial/sustainability reporting controls • Specific responsibilities in relation to the support work for the declaration on the effectiveness of material controls (including communication with the rest of the board on the approach)
Audit & assurance	• Oversight of the procurement and effective delivery of any external assurance obtained • Oversight of an assurance mapping process across the organisation to make clear the different sources of internal assurance across reporting and controls (perhaps to include the development of an Audit & Assurance Policy) • Consideration of the specific elements of the FRC's Minimum Standard for audit committees in relation to oversight of the external audit – ensuring these are appropriately incorporated in readiness for the effective date of the 2024 Code
Corporate reporting	• Specific responsibilities in relation to the integrity of sustainability reporting in addition to the financial statements, considering in the same way the robustness of judgement, estimates and methodologies used in the production of sustainability information

08 Geopolitics – managing risk and promoting resilience

08 | Geopolitics – managing risk and promoting resilience

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

During the last few years that stability has been increasingly challenged, with an ongoing trade conflict between the US and its Western allies and China, and, more recently, wars in Ukraine and Gaza. Deloitte's most recent CFO Survey indicated that CFOs rated geopolitics as the largest single external source of risk for their businesses for the fifth consecutive quarter, with 69% of CFOs citing rising geopolitical risks worldwide, including forthcoming elections.

This article outlines some of the considerations for risk and resilience of the increase in geopolitical risk, moving from identifying initial practical steps to a more in-depth, integrated approach.

Navigating uncertainty: practical steps to address geopolitical risk

During 2024, Deloitte published a blog exploring the implications for businesses and risk functions of geopolitical risk and some vital, practical steps that they can take to strengthen resilience. This continues to be relevant across industries as we look forward to 2025.

Critically, before putting any specific measures in place, organisations must have a common understanding about what it is that they are looking to address. Although the drive for resilience at the specific organisation may target as most important an operational, financial, reputational, people, or environmental view of resilience, it will need to consider all of these elements in order to stay resilient and to thrive in times of uncertainty.

Getting the balance right will be different for organisations in different sectors and with different values, however it is essential for boards and risk leaders to be in alignment at the start of the exercise.

Area for focus	Questions to inform your approach
Conduct geopolitical scenario planning This is a proactive approach to identifying, assessing and mitigating geopolitical risk. The process of exploring potential future scenarios helps to build resilience and may even identify opportunities.	Does your organisation have a defined scenario planning process which is able to identify, assess (or quantify), and subsequently mitigate any geopolitical risks? Do you use this process (or other risk management processes) to: • develop tangible actions and mitigations that will reduce the impact and/or likelihood of the consequences of specific geopolitical situations? • identify the trigger points where your organisation should take action?

08 | Geopolitics – managing risk and promoting resilience

Area for focus	Questions to inform your approach
Develop crisis management preparedness and/or crisis response capability Having a pre-defined crisis response process, with trained team members, is a key differentiator for organisations that respond to high impact (and often reputationally challenging) events. The ability to react quickly, using an established and embedded process can help bring a degree of order to a chaotic situation and get the organisation's response on the front foot and ultimately protect its reputation.	Does your organisation, particularly at senior management level, have a crisis response capability to respond to a geopolitical event that has direct and immediate impact on your organisation – whether financial, operational or reputational? Have you tested this capability using simulated scenarios where the organisation/team is invited to practise/rehearse the organisation's response (from the strategic to the operational level)?

Area for focus	Questions to inform your approach
Conducting stakeholder analysis and developing communication strategies Stakeholders' expectations of the organisations they interact with are constantly evolving. Organisations must be able to communicate transparently in response to geopolitical events, while avoiding exposure to reputational risk through inconsistent or misinformed communication.	Do you understand what your stakeholders expect of you, particularly in times of geopolitical disruption and change? Which stakeholders would you prioritise during a disruption caused by geopolitical events? How will you communicate with those key stakeholders? What will you say? Is the process for approving communication to stakeholders well known, understood and embedded into how you would respond? Are you confident that your whole organisation can communicate with 'one voice'? How will you align group vs regional vs in-country communications to avoid reputational exposure?

08 | Geopolitics – managing risk and promoting resilience

Integrating geopolitical risk into broader risk management processes
Geopolitical risk is increasingly a focus of regulators and for financial services firms. It features regularly in supervisors' statements, although there is no detailed supervisory guidance on "what good looks like". Our EMEA Centre for Regulatory Strategy team published Geopolitical risk management in financial services in June, focusing on how to avoid common shortcomings in geopolitical risk management in financial services and offering a framework for more comprehensively integrating geopolitical risk into existing risk management and resilience frameworks.

Although focused on financial services – and we recommend reading the full blog for directors who serve in that sector – many of the points arising are equally helpful for consideration by non-financial services organisations.

Common shortcomings in geopolitical risk management

- Geopolitical risk has often been narrowly conceived in terms of political intelligence, relationships and reputational issues. While the first and second lines of defence have become increasingly involved as the risk has grown in prominence, there is still often a need for more permanent processes.

- Political issues have often been considered by organisations at the individual country level as political risk or sovereign risk, or as drivers of other narrow risk types such as terrorism or cyber risk, with geopolitical risks which manifest outside the bounds of national politics or these specific risk categories falling through the cracks.

- Some organisations have started to incorporate geopolitical risk into at least some aspects of financial and non-financial risk management, including through techniques such as scenario analysis and stress testing. Yet practices vary. Outside of leading financial services firms, geopolitical risk management is commonly treated as an "ad-hoc" exercise undertaken in the context of specific material investment decisions rather than an ongoing risk discipline, and in some cases appears more as a form of "box ticking" without any lasting impact.

- Many organisations struggle to set an appetite for geopolitical risk as it does not appear to be a risk that can be eliminated at source. However in omitting this step, organisations may be failing to identify how to mitigate the risk. There are ways to set practical boundaries around risk by using mechanisms such as investment committees – so it is important that geopolitical risk appetite is explicitly articulated in the first instance, to drive positive behaviours such as integrating geopolitical risk into the risk management framework.

08 | Geopolitics – managing risk and promoting resilience

Integrating geopolitical risk

The blog highlights the importance of moving from the ad hoc to a more sophisticated and routine integration of geopolitical risk into day-to-day risk management and strategic decision-making. It sets out key capabilities to move a financial services firm in this direction, including more permanent management structures and processes and a pre-defined crisis response process.

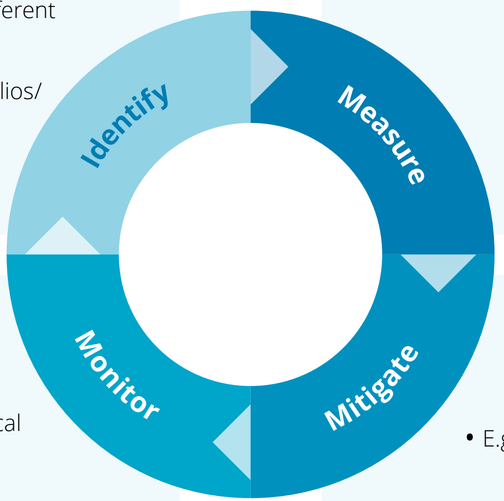
The accompanying diagram illustrates how political risk can be integrated into the general risk management framework.

Risk identification

- Define relevant risk drivers, exposure of counterparties/the firm, vulnerability (i.e. ability to withstand, mitigate or avoid the risk).
- Use scenario analysis to identify emerging risk drivers across different time horizons
- Map material concentrations of risk (e.g. exposed sectors/portfolios/business lines/geos). Could include use of a scorecard/heatmap.
- Engage with exposed counterparties to understand their strategy for managing the risk across their value chain

Risk measurement

- Use stress testing to assess the impact of geopolitical risks on key financial risk and income metrics under different scenarios
- Complement whole-balance-sheet analysis with more granular country/portfolio/sector/counterparty analysis
- Assess impact of scenarios on non-financial risks (such as people, reputation, cyber risks)



Risk monitoring

- Determine qualitative and quantitative indicators to be integrated into risk appetite
- Develop or procure systems for ongoing monitoring of geopolitical risk (e.g. news monitoring, political expertise)
- Set thresholds and limits that are cascaded down to portfolio and sector level
- Discuss developments in geopolitical risk at Board level
- Embed consideration of geopolitical risks in counterparty monitoring processes

Risk mitigation

- Implement measures to reduce or avoid geopolitical risks that are not in line with risk appetite
- E.g. Adjustments to pricing/premiums, tenor limitations for exposed clients, additional collateral, insurance, hedging, exposure limits, counterparty engagement, diversification of portfolio, changes to geographical footprint
- Develop and test crisis response playbook
- Mitigate geopolitical risks affecting firm's own operations – geographical dispersion of critical functions, cybersecurity

08 | Geopolitics – managing risk and promoting resilience

Conclusion

It is the role of the board to oversee the risk management process and in the current geopolitical environment, it is critical that the board should challenge explicitly the organisation's approach to geopolitical risk, including horizon scanning and preparedness for change.

Boards should bear in mind when encouraging management to establish more formalised processes around geopolitical risk that the ultimate goal should be to empower the board and the leadership team to make decisions that mitigate risk and take advantage of opportunities.

It is also worth bearing in mind that organisations can leverage recent experience in mobilising resources to manage other emerging or growing risks (such as cyber or climate-related risks). Much like for those risks, developing or enhancing certain key capabilities will help make organisations more resilient.

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09 Getting ready for the new Provision 29

09 | Getting ready for the new Provision 29

In this article we playback insights from numerous discussions over the past six months on preparations for the new declaration on the effectiveness of material controls. Guidance from the FRC has been deliberately limited with a clear message for boards to "think for yourselves". We agree that it is important that organisations are not seeking to adopt a template or box-ticking approach to the new Provision but also acknowledge that there is comfort to be gained from understanding the steps others are taking even if the outcomes are very individual to a particular business.

A reminder of the key changes to Provision 29

2018 Code - 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.

2024 Code - The board should monitor the company's risk management and internal control **framework** and, at least annually, carry out a review of its effectiveness. The monitoring and review should cover all material controls, including financial, operational, **reporting** and compliance controls. The board should provide in the annual report:

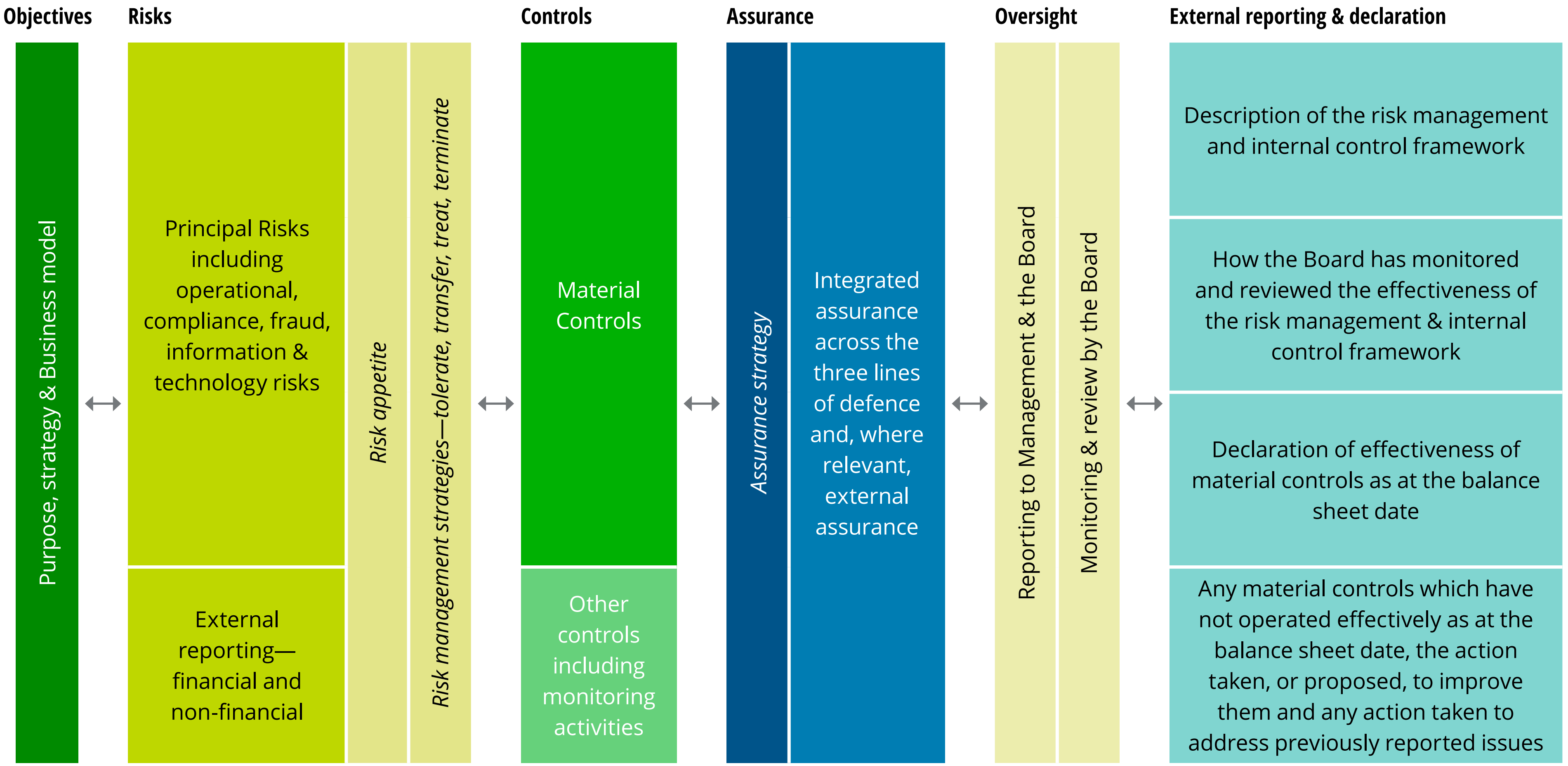
- **a description of how the board has monitored and reviewed the effectiveness of the framework;**
- **a declaration of effectiveness of the material controls as at the balance sheet date; and**
- **a description of any material controls which have not operated effectively as at the balance sheet date,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

The bold text highlights the changes that have been made between the two versions. The disclosure requirements are now much more specific seeking to provide transparency of **how** the board has discharged its responsibilities to monitor and review the effectiveness of the risk management and internal control framework and also, as a result of that monitoring and review activity, what was the conclusion on the effective operation of material controls as at the balance sheet date?

09 | Getting ready for the new Provision 29

What we are hearing about the implementation journey

We set out this framework in our publication Governance in focus: Risk, controls & assurance to provide an overview of the stages recommended to be considered in meeting the new Provision.



09 | Getting ready for the new Provision 29

Our recent discussions with boards, audit committees and management teams have reinforced the validity of this approach. This is what we have been hearing:

- To achieve a proportionate approach to determining the population of material controls, the key is to start with the principal risks as set out in the annual report
- The new Provision is acting as a catalyst for many organisations to reconsider their principal risks and how they are articulated
- How well risk appetite is defined and utilised within the risk management framework is also being looked at as that is a relevant concept for judging the effectiveness of a control
- When considering controls over financial reporting, some (particularly SEC registrants under the Sarbanes-Oxley regime) are using a framework approach, i.e. the entire framework for delivering the Sarbanes-Oxley attestation represents a material control
- Determining the material controls over financial and non-financial reporting can get dominated by considerations of IFRS materiality – IFRS materiality should be considered as part of a quantitative evaluation but also important to consider the qualitative aspects of reporting disclosures and to consider through a lens of price sensitivity for an investor
- At this stage there does not appear to be a huge rush to obtain external assurance – many organisations are mapping their internal sources of assurance across the three lines of defence and providing more visibility of this to the board and/or audit committee
- All board members should be kept in the loop on the decisions around the population of material controls and the assurance to be obtained, remembering that this is a full board declaration
- When organisations are talking about doing a dry run in 2025, this is not suggesting with effect from 1 January – for many the process of identifying the population of material controls and mapping those to assurance will continue during the first half of 2025 with the dry runs following later in the year
- Regular check-ins with the auditors during this process should help to avoid any last minute surprises or misalignment of views particularly around the effectiveness of controls over financial reporting

09 | Getting ready for the new Provision 29

Other relevant Code changes

The 2024 Code has allowed an extra year for companies to implement the new Provision 29 (applicable for periods commencing on or after 1 January 2026) but there are other changes in the risk and control part of the Code which come into effect for periods commencing on or after 1 January 2025.

Principle O – this principle of the Code has been amended to make clear that the board is responsible for both establishing **and maintaining** an effective risk management and internal control framework. Consideration should be given to whether any additional activities or disclosures need to be developed to ensure and/or demonstrate that this extended responsibility has been met.

Provision 28 – this provision of the Code has been clarified to make clear that the board should explain what procedures are in place to both identify **and manage** emerging risks.

Thinking about reporting on risk & controls in your next annual report

As part of our series of Corporate Reporting Insights, 'Controls & assurance – a focus on transparency & accountability' looks at how 50 FTSE 350 December 2023 reporters explained their approach to controls and assurance. Considering whether the disclosures provide adequate transparency of how the board is discharging its responsibilities.

The key takeaways were as follows:

- **88%** of companies included reference to risk appetite in the strategic report but there was significant variation in the depth and quality of the information provided on how risk appetite is used within the risk management and internal control framework.
- When describing their control framework, only **44%** of companies explained clearly how the three lines of defence model (operational management, internal monitoring, internal audit) operated within their organisation with **24%** explaining some aspects and **32%** making no reference at all.
- Description of the board's oversight of the risk management and internal control framework did not always make it clear which controls had been covered by the board's monitoring and review activities, with oversight of non-financial reporting controls being particularly unclear.

Control type	Clearly identified as part of the monitoring and review activities
Operational	68%
Compliance	66%
Financial	78%
Financial reporting	64%
Non-financial reporting	30%

- **84%** of companies explained in the narrative report the nature and level of assurance obtained over different elements of the reporting.
- **64%** of companies acknowledged the new UK Corporate Governance Code with some discussing the actions they are taking to prepare for the new declaration.
- Only **14%** of companies referred to developing an Audit & Assurance Policy.

The full survey and recommended actions to take is available here.

10 Cyber and AI update: Deloitte predictions for 2025

10 | Cyber and AI update: Deloitte predictions for 2025

We predict that technology is on the verge of a significant leap forward, largely powered by the adoption of generative AI (gen AI). However, 2025 will not be the year that sees that leap forward, but instead the year where we predict that governments, regulators and companies work to "close the gaps" to make the most of the technology.

Areas of focus will include monetisation of gen AI, addressing gender disparities in usage, managing energy consumption, tackling concerns around trust and deepfake content and looking forward to the use of gen AI agents which will allow largely self-directed gen AI that can manage itself and act in real time (agentic AI).

This article explores aspects of two of Deloitte's TMT Predictions for 2025: "Women and generative AI: The adoption gap is closing fast, but a trust gap persists" and "Deepfake disruption: A cybersecurity-scale challenge and its far-reaching consequences." We also draw out elements of Deloitte's "Hot topics for technology and digital risk 2025: An internal audit viewpoint."

We recommend you read the full TMT Predictions regarding AI if this is an area of interest for your organisation.

Women and generative AI

Recent Deloitte research has highlighted a gender gap in gen AI adoption across various geographies. For the past two years, the Deloitte Connected Consumer Survey has investigated the adoption of gen AI by US consumers as part of its research into digital life, most recently in Q2 2024. The survey found that women in the US lag men in taking up this emerging technology – in 2024, 33% of women reported using or experimenting with gen AI, compared with 44% of men. This is comparable to the findings in the UK where the Digital Consumer Trends survey in 2024 reported that 28% of women were using gen AI compared to 43% of men.

Whilst trends suggest that women's use of gen AI is increasing and will reach parity, this won't automatically ensure that women will incorporate gen AI into their everyday workflows. The contrasts between genders may stem partly from a striking difference our surveys have found in perspective on trust. At both the experimentation and project and task use levels, women's feelings of trust toward the technology are significantly lower than men's, and their feelings of uncertainty remain higher. Only 18% of women surveyed who are experimenting with or using generative AI indicated having "high" or "very high" trust that the providers of the gen AI capabilities they use will keep their data secure—whereas, for male adopters, that number has reached 31%.

10 | Cyber and AI update: Deloitte predictions for 2025

This is carried through to lower enthusiasm for updating technology in order to take advantage of new built-in gen AI capability. With women controlling or influencing an estimated 85% of consumer spending, their lower enthusiasm for upgrading to devices with AI could pose an issue for tech providers.

Despite the greater adoption of AI by women in the tech industry, there's a relative lack of women working in AI roles. Women only make up about 30% of the AI-related workforce, which is comparable to their representation in STEM fields overall. This underrepresentation of women in AI could have serious implications for the development and deployment of AI systems across various domains and sectors.

In particular, it carries the risk of perpetuating gender bias against women in AI applications. Studies show that as many as 44% of AI systems across industries exhibit gender bias, which can negatively affect outputs from AI systems in ways that continue to marginalise and underrepresent women. Deloitte research has shown that bias in AI models can erode employee and customer trust.

Bottom line

Both companies and employers should work towards increasing women's engagement with gen AI as failing to get women involved with frequent gen AI use could increase several risks:

- AI products and services may not achieve their expected potential
- Companies may not achieve the productivity gains they might expect to see after investment in gen AI
- Importantly, bias and existing inequities may be perpetuated or exacerbated through the underrepresentation of women interacting with AI.

Across industries, companies that want to achieve full use of gen AI by men and women workers should take care to encourage the use of gen AI capabilities, including industry-specific ways to use gen AI. Maximising the use of AI may require establishing suitable training programs.

Our prediction suggests that earning trust may depend at least partially on improving the transparency of tech companies' data privacy and security policies, as well as making it easier for consumers to control their personal data – with a role for governments in forming appropriate regulation as well as companies.

10 | Cyber and AI update: Deloitte predictions for 2025

Deepfake disruption and cybersecurity

As AI-generated content grows in volume and sophistication, online images, videos, and audio can be used by bad actors to spread disinformation and perpetrate fraud. In Deloitte's 2024 Connected Consumer Study, half of respondents said that they are more sceptical regarding the accuracy and reliability of online information than they were a year ago. 84% of respondents familiar with gen AI agreed that content developed with gen AI should always be clearly labelled.

Labelling is one of the ways through which media outlets and social media platforms can flag synthetic content for users, but as deepfake technologies incorporate more advanced models that can generate synthetic content and manipulate existing media, more complex measures may be needed to detect fakes and help restore trust.

We predict that the deepfake detection market could follow a similar path to that of cybersecurity. Media companies and tech providers will likely work to stay ahead of increasingly sophisticated fakes by investing in content authentication solutions and consortium efforts. Credible content is expected to come at an increased cost. The efforts currently fall under two broad categories: detecting fakes and establishing provenance.

Detecting fakes: methods such as deep learning and computer vision can analyse media for signs of fraud or manipulating. They can also detect inconsistencies in video and audio content. Some gen AI tools include functionality that detects whether a piece of content was made with their help, but these may not detect deepfakes created by other models. Current deepfake detector tools claim accuracy rates above 90%. Just as security-conscious companies have adopted layered approaches to data and network protection, we expect news outlets and social media companies will likely need multiple tools—along with content provenance measures—to help determine the credibility of digital content.

Establishing provenance and trust: another route involves cryptographic metadata (or digital watermarks) added to a media file when it's created. This data is attached to the media, detailing its provenance and maintaining a record of all modifications. Various tech and media organisations, including Deloitte, have joined the Coalition for Content Provenance and Authenticity (C2PA), pledging to use the C2PA metadata standard so that AI-generated images can be verified more easily. Certifying the authenticity of human-operated accounts can help improve trust, however platforms may have to evaluate whether passing these certification costs on to creators, advertisers, or users is sustainable.

10 | Cyber and AI update: Deloitte predictions for 2025

Bottom line

Staying ahead of bad actors is important as gen AI grows more powerful and versatile. More sophisticated technologies like blood-volume detection and facial analysis can help distinguish real from manipulated content. As with cybersecurity tools, however, these measures should be as unobtrusive as possible for end users and consumers, ensuring content integrity without compromising user experience. Techniques like digital watermarking can help verify authenticity without affecting quality or requiring real-time computing cycles to analyse.

Companies across industries should be aware that gen AI can make social engineering attacks more effective and can compromise some authentication measures. It may be necessary to implement additional verification layers, especially for video and audio-based processes. End users should be encouraged to cross-check information with reliable sources and utilise multi-factor authentication to help mitigate risks associated with deepfakes. User education (along the lines of cybersecurity awareness training) may also be an important measure for companies to consider.

Observations from an internal audit perspective

Deloitte's "Hot topics for technology and digital risk 2025: An internal audit viewpoint" flags five key areas for internal audit to bear in mind. Boards and audit committees may wish to consider and discuss with executive management or with internal audit leads whether each of these areas have been sufficiently addressed.

AI regulation readiness

- How has the business assessed and taken action as a result of incoming and anticipated legislation?
- Has a gap analysis or horizon scanning review been undertaken in order to demonstrate how the execution of business strategy on AI (including gen AI) has taken into account principles of safety and risk management, as well as regulation?

10 | Cyber and AI update: Deloitte predictions for 2025

Strategy and governance

- Has a review been undertaken of the current state of the risk and control framework for AI?
- Has an AI inventory been produced and the current state of the business processes' adequacy been evaluated in light of AI?
- Has an enterprise licenced platform been / is planned to be implemented, and if so, what are the associated safeguards and rules of the road for employees and the definition on data classification to be processed? Is this all in line with the code of conduct and shared values?

AI system review by internal audit

- Has internal audit considered a review of any significant or high-risk AI system in the live environment? This could include a reperformance of the risk assessment performed by management, sample testing of the effectiveness of AI controls, or focus on whether expected benefits and value are being realised in practice.
- Has AI been reviewed through a regulatory lens?

Risk management

- Has there been consideration of how embedded AI risk is within the wider risk management landscape, for example, integration in the organisations' risk taxonomy, risk appetite and risk metrics, how AI risk is monitored and reported along with clarity of roles and responsibilities?
- Has a tailored AI risk assessment process been developed and reviewed?

Training and competence

- Are there sufficient skills and capabilities within the organisation to manage AI risks?
- Has training on using / applying AI tools in a safe manner been rolled out to all staff, and how embedded is staff understanding?
- Does the board feel they have received sufficient training in this area or have sufficient expertise to hold executive management to account?

11 New Internal Audit Code of Practice issued

11 | New Internal Audit Code of Practice issued

The Institute of Internal Auditors has updated its guidance with a new Internal Audit Code of Practice (the "Code"), effective January 2025. This new Code consolidates the previous Internal Audit Financial Services Code of Practice (2013) and the Internal Audit Code of Practice for the private and third sectors (2020) into a single, comprehensive document applicable to the internal audit functions of listed, private and third sector entities.

The Code builds on the global Internal Audit Standards and aligns well with the FRC's changes to the UK Corporate Governance Code. This convergence of standards promotes a common understanding of internal audit practices across industries, facilitating greater consistency, comparability, and collaboration. This unified approach also enhances the transferability of knowledge and skills for internal auditors working in different sectors.

The updated Code will mark a significant advancement for many internal audit professionals, especially those operating in non-regulated environments. Organisations that embrace these principles can bolster their governance practices, ensuring internal audit functions effectively safeguard assets, reputation, and contribute to long-term sustainability.

Boards will want to pay particular attention to the focus areas regarding the independence and reporting lines for internal audit and ensure direct access to audit committee oversight.

Key changes and enhancements

- For each of the nine sections there is now a statement of the intended outcome from the principles.
- The updated Code introduces a new requirement for annual report disclosures. Organisations will now need to report on the role, activities, impact, and effectiveness of their internal audit function. While many organisations already include some of these elements in their annual reports, the key addition is the requirement to report specifically on the impact of the internal audit function.
- It aims to clarify the interaction with the other lines of defence (e.g. compliance and risk management functions). Internal audit functions should coordinate with other assurance providers on key risks and assurance timing, ensuring comprehensive risk coverage.
- Internal audit functions should conduct risk-based reviews of organisational culture, extending beyond risk and control culture to encompass broader cultural risks.
- The Code states that internal audit functions should address emerging risks. These risks include environmental sustainability, climate change, social issues, financial and economic crime, and technology risks such as AI and cybersecurity.
- The Code now recommends that internal audit teams should comprise individuals with diverse backgrounds, skills, and experiences. Internal audit executives should ensure these teams have access to the necessary tools and technology to enhance internal audit effectiveness. These tools and technologies include data analytics and AI.

11 | New Internal Audit Code of Practice issued

Practical implications for your organisation

- **Enhanced reporting and transparency**
  The new Code's focus on outcome statements and comprehensive annual reporting signals a significant shift towards greater transparency and accountability for internal audit functions. By providing more detailed communication on their activities and impact, internal audit can build stronger trust with stakeholders and more effectively demonstrate its value to the organisation.

- **Broader scope of activities**
  With the expanded scope recommended under the new Code, internal audit teams will need to develop expertise in new areas. This will likely require additional training and possibly the recruitment of specialists in these fields. Building this expertise will be crucial for internal audit to assess and advise effectively on these increasingly important aspects of organisational sustainability.

- **Proactive risk management**
  The forward-looking approach advocated by the new Code encourages internal audit to be proactive in identifying and mitigating risks. This shift will help organisations manage risks more effectively and avoid potential issues before they escalate.

- **Resource allocation**
  The Code's emphasis on equipping internal audit teams with the right tools and technology underscores the need for organisations to make appropriate investments in this area. There will be an opportunity to consider this across the wider business and provision of assurance. This investment will drive return by enhancing the team's ability to provide valuable insights and assurance.

Applicability

While the Code is not mandatory, there is an expectation that all internal audit functions should engage with the Code's principles. In particular, the Institute of Internal Auditors is encouraging the providers of internal audit reviews (external quality assessment providers) to benchmark practices against the Code. Audit committees and heads of internal audit will need to be aware of this when commissioning external quality assessments of the internal audit function.

For further information please refer to the Code of practice.

Resources to help you stay ahead:

- Internal audit planning priorities 2025 | Deloitte UK
- Global hot topics for internal audit 2025 | Deloitte UK
- Hot topics for technology and digital risk 2025

Corporate reporting

12 Corporate reporting reminders - your annual report

12 | Corporate reporting reminders - your annual report

In this article we highlight the key themes from the FRC's Annual Review of Corporate Reporting 2023/24. We also provide some insights into other corporate reporting matters, being climate-related matters, directors' remuneration report and corporate governance reporting.

Annual Review of Corporate Reporting

The FRC released its Annual Review of Corporate Reporting covering the issues arising out of the 2023/24 review cycle. This year, the FRC looked at 243 companies, of which 40% were FTSE 350 companies. Overall, the FRC has concluded that the quality of corporate reporting has been maintained, although it has been observed that there is a widening gap in reporting quality between companies within the FTSE 350 and other companies. The FRC noted improvements in several reporting areas, with provisions and contingencies falling out of the 'top ten' issues for the first time in over five years.

Financial Reporting matters

The top 10 issues raised in the FRC report have been outlined in the table, together with the 'status' of these issues compared to last year.

#	Top 10 issues	23/24 Status
1	Impairment of assets	=
2	Cash flow statements	↑
3	Financial instruments	↑
4	Revenue	↑
5	Presentation of financial statements	↑
6	Strategic Report and other Companies Act 2006 matters	↓
7	Judgements and estimates	↓
8	Income Taxes	↓
9	Fair value measurement	↑
10	TCFD and climate-related narrative reporting	↑ (new)

The common queries and recommendations for these top 10 issues have been explained in greater depth in Section 5 of the FRC's Report. The FRC encourages companies to read and act upon these recommendations ahead of the year-end reporting season. For more detail on these matters, Deloitte has published Closing Out 2024, our one-stop guide covering the issues relevant to the preparation of the annual report.

12 | Corporate reporting reminders - your annual report

Key expectations for 2024/2025 annual reports

In summary, the FRC expects to see the following for 2024/2025 reporting:

- Ensure consistency of facts and assumptions across the whole annual report, especially between narrative reporting and financial statements.
- Perform a sufficiently detailed review of the annual report and accounts, including a step-back analysis and consider whether the annual report, taken as a whole, tells a consistent and coherent story.
- Focus on providing material disclosures that are clear, concise, and company-specific.
- Ensure a robust review process is in place to identify common technical issues. The FRC notes that many issues, such as corrections or restatements, could be prevented by conducting pre-issuance review of the annual report and accounts against the top ten issues.
- Provide clear and sufficient disclosures of uncertainties and risks for users to understand the positions taken in the financial statements and the potential effect of changes in estimations.
- Give adequate consideration to narrative reporting. The strategic report should include a fair, balanced and comprehensive review of entities' development, position, performance and future prospects. Care should also be taken in complying with any applicable climate-related reporting requirements; in particular, these disclosures should be concise and material information should not be obscured.

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

During 2024, the FRC has published a number of thematic reviews with their key messages summarised below:

Area	Key messages
Reporting by the UK's largest private companies	In January 2024, the FRC published a review on reporting by the largest UK private companies, seeking to further develop the quality of corporate reporting by these economically significant entities. Overall, they found that the quality of reporting was mixed, particularly in terms of how clearly companies explained material matters that were complex or judgemental. Key findings that companies and their auditors should take into account for future annual reports are: • Better strategic report disclosures focus on the matters that are key for an understanding of the company. Those are explained in a clear, concise and understandable way that is consistent with the disclosures in the financial statements. • Better examples of judgement and estimates disclosures include detail of the specific judgement involved and clearly explained the rationale for the conclusion. The significance of estimation uncertainty is much more apparent when sensitivities are quantified. • Accounting policies for complex transactions and balances are often untailored, providing boilerplate wording. Entity-specific policies are particularly critical for revenue, where the better examples explained the nature of each significant revenue stream, the timing of recognition and how the value of revenue was determined.

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Area	Key messages
Offsetting in the financial statements	This thematic review report was published in September 2024 and highlights examples of good practice reporting and disclosures on offsetting in areas where the FRC found more frequent application issues, as well as aspects of reporting that could be improved. Key findings include: • Cash flows should be presented gross, unless otherwise required or permitted. • Bank overdrafts and positive bank balances that form part of a cash pooling arrangement are offset in the statement of financial position only when there is an intention to exercise a legally enforceable right to set off period-end bank balances. • High quality disclosures are important where financial instruments have been offset or are subject to a master netting arrangement or similar agreement. • A reimbursement asset is required to be separately presented from the associated provision. Any reimbursement rights that satisfy the contingent asset requirements of IAS 37 should also be appropriately disclosed.
IFRS 17 'Insurance Contracts' Disclosures in the First Year of Application	The FRC has also published a review of company disclosures against IFRS 17 Insurance Contracts following the first full year of reporting. Overall, the quality of IFRS 17 disclosures in the FRC's sample was good. While some further areas for improvement were identified, many of these related to areas commonly raised with companies, such as judgements and estimates, and alternative performance measures (APMs).

Upcoming thematic reviews

Area	Expected	Objective of Report
Climate-related Financial Disclosures (CFD)	Winter 2024/25	This thematic review will look at the CFD reporting by a selection of companies within the scope of these new Companies Act 2006 requirements applicable for periods beginning on or after 6 April 2022.

12 | Corporate reporting reminders - your annual report

Climate and the financial statements

In July, the IASB published a consultation document, proposing eight examples to illustrate how an entity applying IFRS Accounting Standards can report the effects of climate-related and other uncertainties in their financial statements. The consultation period closed on 28 November. The illustrative examples included are:

- An entity has published its plans to reduce greenhouse gas emissions over the next 10 years. The entity includes an explanation in the financial statements that those plans have no immediate effect on financial statements because that explanation is material information. (IAS 1 / IFRS 18)
- An entity operates in a sector with limited exposure to climate-related transition risks and concludes that no additional disclosure in the financial statements is required. (IAS 1 / IFRS 18)
- In disclosing information about an impairment assessment and the sensitivity of its assumptions the entity identifies the pricing of carbon offsets as a key assumption. (IAS 36)
- An entity in a capital-intensive industry is exposed to climate-related transition risk and considers different possible scenarios in assessing a CGU with no goodwill. IAS 36 *Impairment of Assets* does not require an entity to disclose information about key assumptions in such cases. The example illustrates disclosures about estimation uncertainty applying IAS 1 / IAS 8.
- An entity with deferred tax assets explains the possible effect of a tentative Government proposal that could limit the profitability of the entity and therefore the recoverability of the deferred tax assets. (IAS 1 / IFRS 18)
- An entity discloses an explanation of its credit management practices related to climate-related risk. (IFRS 7)
- An entity discloses a description of the nature of its plant decommissioning and site restoration obligations, and the uncertainties about the timing of those outflows. (IAS 37)
- An entity has, for example, vehicles that generate high levels of greenhouse gas emissions but has invested in vehicles with low emission levels. The entity disaggregates the vehicles into high and low emission types. (IFRS 18)

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Review of Corporate Governance Reporting

In November 2024, the FRC published its 'Review of Corporate Governance Reporting' which is based on a review of a sample of 100 companies drawn from the whole listed market.

The Executive Summary makes the following point:

"Overall, while reporting quality remains strong, there is still a need for more concise, outcomes-focused disclosure and enhanced reporting on risk management and internal controls."

The review sets out a number of **key messages** to draw attention to areas recommended for further improvement, including:

Comply or explain

- Explanations should be clear and provide sufficient detail to aid understanding of why a provision is not being followed
- Disclosure should allow key stakeholders to determine whether the alternative governance approach implemented serves the company's interests, while also demonstrating good governance

Outcomes reporting

- Disclosures should focus on the board's actions during the year and the resulting outcomes rather than extensive disclosure of policies and practices

Over-boarding

- Companies are encouraged to provide more transparency about the time commitments of board directors and any policies adopted to avoid over-boarding, e.g. requirement for prior approval of additional appointments

12 | Corporate reporting reminders - your annual report

Reporting on the Audit Committee Minimum Standard

- Audit committees are encouraged to include updates on adherence to 'Audit Committees and the External Audit: Minimum Standard'
- Where there has been an AQR inspection during the year, audit committees are encouraged to consider disclosing the scope of the inspection as well as the results and resulting actions by the audit committee to support overall improvements to audit quality

Risk management & internal control

- Reporting on principal risks should not be static and should show change during the year, and over years
- Good disclosures should provide a summary of **how** the board has monitored and reviewed the effectiveness of the risk management and internal control framework together and any plans to take forward actions for improvement

The Viability Statement

- Include sufficient qualitative and quantitative information to enable readers to fully understand the statement
- Include rationale for assessment period & longer-term information

Remuneration

- Disclosure should make clear the rationale behind key decisions on remuneration

13 Sustainability reporting: recent developments

13 | Sustainability reporting: recent developments

To move from pledges to impact and accelerate action at scale, governments and the private sector need to enhance collaboration to deliver on the Paris Agreement goals, closing the ~600 Gt emissions reduction ambition gap by 2050 to limit global warming to 1.5°C. The climate crisis is just one of many challenges facing us – from biodiversity and poverty to food systems and global health. What unites these issues is the need for urgent collaborative action to ensure a just and equitable transition and avert systemic shocks.

Given the pace at which sustainability reporting is developing, board directors need to ensure they are up to date with the latest sustainability requirements to make sure their company is compliant with the applicable requirements and frameworks. This article explains the latest developments in sustainability reporting, as well as providing some insights on the current reporting practice from our surveys.

Current status of adoption of ISSB standards in the UK

In May 2024, the UK Government outlined its aim to make UK-endorsed ISSB standards (IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2: Climate-related Disclosures) available in Q1 2025. These will be known as UK Sustainability Reporting Standards. Subject to a positive endorsement decision, the Financial Conduct Authority (FCA) has set out its intention to then consult on plans to introduce requirements for UK-listed companies to disclose sustainability-related information using UK Sustainability Reporting Standards. The endorsement decision will consider a number of factors, including costs for reporting companies and benefits for investors that may wish to use this information.

IFRS S2 Climate-related Disclosures – one of the ISSB standards – includes requirements for companies to report on their plans to transition to a low carbon economy. The ISSB has also recently announced that it is assuming responsibility for the UK's Transition Plan Taskforce (TPT)'s disclosure framework and related guidance. The TPT materials provide more granular recommendations on transition plan disclosures.

The FCA plans, through its consultation on implementing UK-endorsed ISSB standards, to consult on strengthening its expectations for transition plan disclosures with reference to the TPT Disclosure Framework.

In relation to adoption of the ISSB standards by unlisted companies, in its Green Finance Strategy, the UK government signalled its intention to launch a consultation on mandatory application of these standards for the UK's largest and most economically significant public and private companies.

Corporate Sustainability Reporting Directive ('CSRD') update and board responsibilities:

The CSRD affects a broad range of undertakings. The date from which an undertaking falls within the scope of the CSRD and the requirements under which it must report varies depending on certain characteristics of the undertaking. For more information on scoping requirements, please visit Deloitte's UK Accounting Plus website, a comprehensive online library of accounting and financial disclosures literature. The phased implementation of the CSRD spans from 2024 to 2029, with varying deadlines based on factors such as company size and listing status.

13 | Sustainability reporting: recent developments

As a final check before reporting, board directors should review key organisational decisions in terms of data collection, internal controls, and procedures supporting the mandatory assurance requirement. The CSRD Directive 2006/43/EC amends Article 39 and includes a description of the role and the mandatory tasks of the audit committee, which has amended and expanded national laws on audit committee's overall responsibilities by hard law. Member States may allow the functions assigned to the audit committee relating to sustainability reporting and the assurance of sustainability reporting to be performed by the board of directors as a whole or by a dedicated other board committee.

In August, the European Commission issued guidance to support preparers and assurance providers on the application of the CSRD and related regulations. This guidance is provided in a series of frequently asked questions (FAQs). The FAQs clarify that a non-EU parent entity (e.g. a UK parent of a group) which voluntarily chooses to publish a consolidated sustainability report to allow its EU subsidiaries take advantage of the available exemptions may publish that report as a separate document rather than include it in its annual report. The FAQs set out that the consolidated sustainability report of the non-EU parent entity does not need to be published when the subsidiary publishes its own management report. And instead, the subsidiary taking this exemption may include a general weblink where the consolidated sustainability report will be published.

FAQ 70 refers to the concept of 'fair presentation' which has possible implications for the preparation of and governance over sustainability statements.

Our recent Need to know publication addresses considerations relating to 'fair presentation' under the CSRD and its implications for the preparation of sustainability statements in light of recent developments including the publication of question 70 in the European Commission's draft FAQs on the implementation of the EU corporate sustainability reporting rules.

Assurance of Sustainability Reporting Market Study

The FRC has published initial feedback on its study exploring how the market for sustainability assurance is functioning and developing in the UK. The findings show that while currently most UK companies reported having sufficient choice of provider of assurance, some raised concerns that the market may begin to consolidate around the largest UK audit firms. Some respondents expressed fears that this may limit choice and effective competition in the market in the future. Beyond this, many stakeholders highlighted possible issues around consistency in the quality of sustainability assurance services. They also recognised a need for the UK to establish a clear regulatory framework that promotes trust and transparency in assurance of sustainability related reporting. There was broad agreement amongst respondents for the need for transparency and clarity over likely future regulatory requirements to enable adequate planning, investment and future compliance.

The market study is ongoing and the FRC has outlined a number of areas where it is keen for further feedback from stakeholders. This includes, for example, feedback on how future developments such as mandatory application of International Sustainability Standards Board (ISSB) sustainability disclosure standards might impact the UK sustainability assurance market. The FRC plans to conclude on the market study and produce its final report, including any proposed actions, by early 2025.

13 | Sustainability reporting: recent developments

The Taskforce on Inequality and Social-related Financial Disclosures (TISFD)

In September 2024, TISFD was launched to develop a global framework for companies and financial institutions to assess, address and report on impacts, dependencies, risks, and opportunities related to social issues, including as they relate to governance, strategy and management processes.

In October 2024, TISFD published a report summarising the feedback received on the proposed scope of the framework, its mandate and proposed governance model. To gather feedback, the TISFD Accelerator Team and Founding Partners held 25 public events and distributed two public surveys. The first survey gathered input on TISFD's proposed scope and mandate and received 242 responses; and the second survey gathered input on TISFD's proposed governance model and received 115 responses. TISFD also held three public deep dive sessions to gather additional input on key questions related to the proposed governance model.

A reminder of the Taskforce on Nature-related Financial Disclosures framework (TNFD)

The TNFD framework aims to standardise and improve reporting on the impacts of business activities on nature, helping organisations assess and manage nature-related risks and opportunities effectively. In October, a discussion paper was published by TNFD setting out draft guidance on nature transition planning. For corporates and financial institutions, the paper details how to develop and disclose a transition plan in line with the TNFD recommended disclosures. It includes a definition of a nature transition plan, an overview of related initiatives and guidance on what a nature transition plan should include and how it should be disclosed. The guidance aims to stimulate further work and collaboration to support nature transition plans including on transition pathways and transition finance categories.

Deloitte Corporate Reporting Insights 2024

With climate change at the top of global priorities, investors and regulators are calling for greater transparency of companies' progress and performance against their climate-related commitments and their readiness for climate transition. In our annual "Corporate Reporting Insights" series for 2024 we have covered disclosures on transition plans (full report available here).

We looked at the first 50 annual reports issued by FTSE 100 reporters in 2024 and considered how the reporting compared to the Task Force on Climate-related Financial Disclosures (TCFD) recommended disclosures and expected future requirements under UK-endorsed ISSB standards and the TPT disclosure framework.

13 | Sustainability reporting: recent developments

We highlight the following two areas which we believe need closer attention in the upcoming reporting season as they have proven to be challenging areas for companies to report on:

Considerations for the board	Findings from the survey
Validity of targets: Evaluate existing commitments and transition plans to ensure interim targets are set at appropriate intervals across the full target horizon and clear actions are developed and agreed on how to achieve climate-related targets	• 54% of companies disclosed that their targets had been verified by a third party (2022: 44%) • 22% of companies disclosed their intention to have their targets verified by a third party or had submitted the targets for review and were awaiting the outcome • 30% disclosed that targets had been revised during the year (2022: 22%)
Use of carbon offsets Get ready for evolving transition plan disclosure requirements, in particular on the planned use of carbon offsets to achieve greenhouse gas emissions targets (referred to as 'carbon credits' in the IFRS S2 Climate-related Disclosures standard)	• 12% of companies stated that they did not use carbon offsets or intend to use carbon offsets to meet their climate-related targets (2022: 6%) • 52% of companies referred to using carbon offsets (2022: 64%). Just under a half of these companies provided some information on the extent to which targets are dependent on the offsets. • For 36% of companies, there was a lack of clarity around the use of carbon offsets, meaning additional information will need to be provided by companies to meet the disclosure requirements under IFRS S2.

14 Update on the UK taxation landscape

14 | Update on the UK taxation landscape

With a new Labour Government and Chancellor holding the reins, 2024's Autumn Budget has been significant for the UK, setting out taxation and spending plans along with a corporate taxation roadmap for the full Parliament. The UK has also announced the implementation of certain Pillar 2 provisions.

In this article, we flag some of the key Budget announcements alongside a look at certain tax-related commitments made by President-elect Trump's campaign.

On 30 October, the UK Chancellor of the Exchequer, Rachel Reeves delivered the UK's Autumn Budget for 2024, the first for the Labour Government which came into power following the summer's general election with a landslide majority. The Budget brought to life the new Government's key manifesto pledges. It was accompanied by an update from the Office for Budget Responsibility on the latest state of the country's finances.

Alongside the Budget, the Government published a Corporate Tax Roadmap setting out its general approach to corporate tax matters for the course of this parliament. The Roadmap confirms commitments to maintaining key features of the UK corporate tax system, including capping the main rate of corporation tax at 25% for the duration of the parliament, and maintaining reliefs on capital expenditure, research and development and intangible assets. It also highlights several areas where the government will be exploring change and includes details on consultations expected in the coming months, including a future consultation on a new process to give investors in major projects increased advance tax certainty.

A summary of the main tax announcements affecting businesses:

Corporate tax roadmap	Headline announcements include: • Capping the headline rate of corporation tax at 25% for the duration of the parliament (which could run until summer 2029), the lowest rate in the G7. The small profits rate and marginal relief will be retained at their current rates and thresholds. • Maintaining the UK's capital allowances system, including permanent full expensing, which allows companies to claim 100% first-year capital allowances for qualifying plant and machinery expenditure, and a 50% first-year allowance for qualifying special rate assets, as well as the GBP 1 million annual investment allowance, and the structures and buildings allowance. • Preserving the UK's competitive regime for intangible fixed assets.

14 | Update on the UK taxation landscape

	• Maintaining the generosity of the UK's research and development (R&D) expenditure credit scheme, enhancing support for R&D intensive small and medium-sized enterprises, and maintaining the patent box regime. • Maintaining an audio-visual expenditure credit (from 1 April 2025, film and high-end TV productions will be able to claim an enhanced 39% rate of audio-visual expenditure credit on their UK visual effects costs) and a video game expenditure credit.
Pillar Two	Multinationals with annual revenues exceeding GBP 750 million will be required to pay a minimum effective tax rate of 15% on a country-by-country basis, under the OECD/G20 initiative agreed by over 135 jurisdictions. The first two parts of the "Pillar Two" package, the income inclusion rule (IIR) and the domestic minimum tax, were introduced in the UK through the multinational top-up tax and domestic top-up tax respectively, with effect for accounting periods commencing on or after 31 December 2023. The Government has confirmed its intention to legislate for the third leg of these rules, the undertaxed profits rule (UTPR), in the Finance Bill 2024-25. The UTPR applies as a secondary, backstop rule in cases where the effective tax rate in a jurisdiction is below 15% and the IIR has not been fully applied. The UTPR will take effect for accounting periods beginning on or after 31 December 2024, subject to the application of transitional safe harbour rules.
Interest on late tax payments	The Government has announced an increase in the rate of interest charged by HMRC on late tax payments. HMRC interest rates are set by statute and are linked to the Bank of England base rate. The late payment interest rate was previously set at base rate plus 2.5%. The budget announcement confirms that this will be increased by 1.5%, to the Bank of England base rate plus 4%. The increase is intended to encourage prompt payment of tax liabilities, with a view to ensuring fairness for taxpayers who pay their tax on time.

14 | Update on the UK taxation landscape

Carried interest taxation	With effect from 6 April 2025, the capital gains tax rate for carried interest will increase to 32% (a 4% increase, from 28%, for additional rate taxpayers). From 6 April 2026, the Chancellor intends to tax carried interest under a new regime. The stated intention is to ensure "that the tax treatment of carried interest properly reflects its economic characteristics, putting the UK's tax regime on a fairer and more stable footing for the long term, while recognising the unique characteristics of the reward and protecting the UK's position as a world-leading asset management hub". The main features of the new regime are expected to: • tax carried interest as deemed trading income, subject to Income Tax and Class 4 National Insurance Contributions from 6 April 2026 onwards; • provide for a 27.5% discount to the amount of carried interest that is subject to the Income Tax charge where it is 'qualifying'. For an additional rate taxpayer, this would create an effective tax rate (including NIC) of 34.075% for highest rate tax payers. • no other tax charge will apply such that carried interest arising should not be subject to any other income or capital gains tax. The new regime from April 2026 will be subject to a consultation that will be critical in respect of the qualifying conditions that will be required to be met in order to access the new effective tax rate. The conditions will be particularly important in respect of existing funds and those with an internationally mobile talent base.
Key National Insurance Contribution ('NIC') changes	• The standard rate of employer NIC will be increasing from 13.8% to 15% as from 6 April 2025. • This increase will also apply to class 1A (paid on benefits in kind and certain termination payments) and class 1B (payable on pay as you earn settlement agreements) NIC. • From the same date, the earnings level at which employers start paying the charge (secondary threshold) will be lowered from £9,100 to £5,000. • Existing NIC reliefs for businesses operating in freeports and investment zones have been retained.

14 | Update on the UK taxation landscape

Other tax announcements include:

- **Carbon border adjustment mechanism (CBAM)** – The Government has published its response to the March 2024 consultation on the introduction of a UK CBAM.

  The response confirms that the UK CBAM will be introduced on 1 January 2027, placing a carbon price on goods that are at risk of carbon leakage imported to the UK from the aluminium, cement, fertiliser, hydrogen, iron, and steel sectors. Products from the glass and ceramics sectors will not be in scope of the UK CBAM from 2027 as previously proposed. A registration threshold will be set at £50,000.

- **Energy profits levy (EPL)** - The EPL is a surcharge which applies to companies making "extraordinary" profits within the oil and gas sector. As from 1 November 2024, the EPL will rise by 3% to 38%, the investment allowance will be abolished, and the rate of the decarbonisation allowance will be set at 66%, so that its cash value is maintained. The levy will be extended another year to end on 31 March 2030. The Government will legislate for these measures in the finance bill.

- **Business rates** – For 2025-26, eligible retail, hospitality, and leisure (RHL) properties in England will receive 40% relief on their business rates liability. RHL properties will also be eligible to receive support up to a cash cap of £110,000 per business. The Government intends to introduce permanently lower multipliers for RHL properties from 2026-27.

- **Capital allowances on zero emissions cars** - The 100% first-year capital allowance for qualifying plant and machinery expenditure will be available on electric vehicle charging points and zero emission cars for a further 12 months, to 31 March 2026.
- **Repeal of offshore receipts in respect of intangible property (ORIP) rules** - The Government confirmed that the ORIP rules will be abolished in respect of income arising from 31 December 2024, as proposed by the previous government. Repeal of ORIP will be legislated in the finance bill.

- **Capital gains tax** - The lower and higher main rates of capital gains tax will increase to 18% and 24% respectively for disposals made on or after 30 October 2024. The rate for business asset disposal relief and investors' relief will increase to 14% as from 6 April 2025 and will increase again to match the lower main rate at 18% from 6 April 2026. The new rates will be legislated in the finance bill.

- The Government has also confirmed that it will legislate so that, from 6 April 2025, the remittance basis of taxation for non-UK domiciled individuals will be abolished and replaced with a simpler and internationally competitive residence-based regime. The planned 50% reduction in foreign income subject to tax in the first year of the new regime will be scrapped. The Government will also introduce a new residence-based system for inheritance tax and end the use of offshore trusts to shelter assets.

14 | Update on the UK taxation landscape

Tax policy implications of a Donald Trump Presidency

The day following the US election, Deloitte US published Scaling the cliff: Tax policy implications of a Donald Trump presidency. The publication walks through current and future tax plans in the US, both for businesses and individuals, and how these might be affected based on comments made during the Trump campaign.

Some key themes emerging for multinational businesses include:

Corporate tax rates: During the campaign, Donald Trump has proposed cutting corporation tax to highly competitive rates, but “only for those who make their product in the USA”. He proposes to cut the current-law rate to 15% for domestic manufacturers and impose “substantial” tariffs on US-based businesses that “outsource, offshore, or replace American workers”.

Trade tariffs: Trump generally has called for tariffs ranging from 10% to 20%, with higher rates on imports from China. On automobiles, this is intended to prevent Chinese automobile manufacturers and auto parts manufacturers from locating plants in Canada and Mexico and then exporting their products into the United States. In one particular example of how a tariff might be structured, he stated that automobiles brought into the US from plants situated in Mexico would be subject to a levy of 100%.

Resources to help you stay ahead

For more detailed commentary and analysis, visit Deloitte UK’s dedicated Autumn Budget 2024 page and our Tax At Hand website which provides regular global and local tax news and updates.

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Remuneration update

15 UK executive remuneration – an evolving ecosystem

15 | UK executive remuneration – an evolving ecosystem

It's been a year of change for executive remuneration and we see boards and remuneration committees welcoming the shift in the tone of the conversation, and the dialogue between companies and investors.

The eco-system is shifting, with recognition that good governance can support better business practices, but it isn't about a tick-box or rules-based system.

There is ongoing debate as to whether the UK's approach to pay governance is limiting the ability of FTSE companies to remain competitive in a global talent market.

From a high level, in the 2024 AGM season we saw three things:

1. A changing board mindset focused on the commercial imperative.
2. For those companies that have made significant changes, there's more detailed rationale and transparent peer disclosure.
3. From an investor and a proxy perspective, a greater willingness to consider proposals on a case-by-case basis.

We saw several FTSE 100 companies go forward with bolder proposals, either looking to significantly increase their maximum incentive opportunity or introduce new incentive structures. While there is scope for optimism, shareholder views remain mixed, despite recent dialogue. However, this AGM season saw a willingness from some large companies to accept a lower vote where building unanimous support was not possible. Pay proposals that several years ago would have received a vote of c.60% saw support of c.90% - a notable shift.

15 | UK executive remuneration – an evolving ecosystem

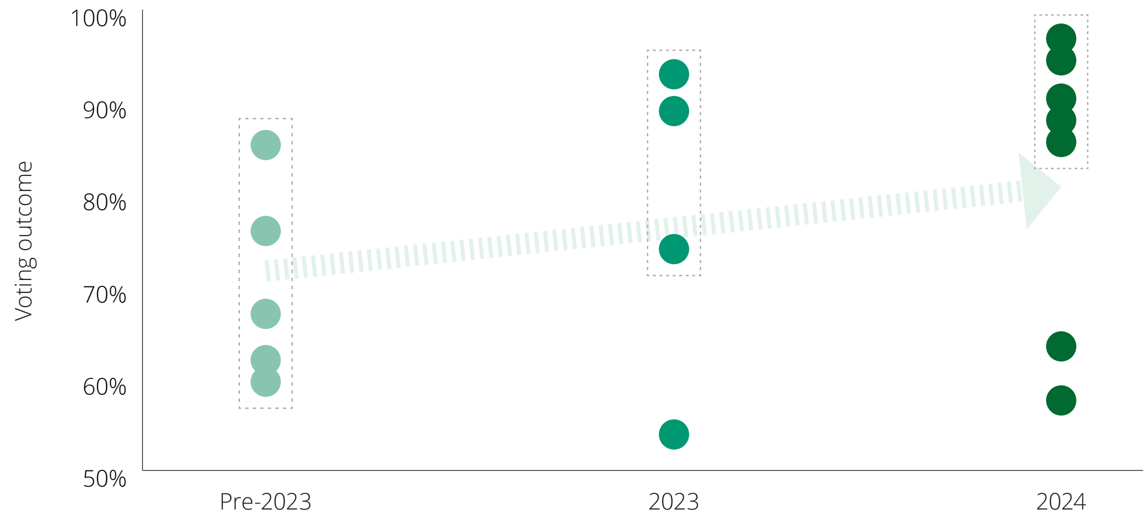
Softening perceptions and more nuance in the UK executive pay landscape…

Shifting investor mindset	Tone of media conversation	Less prescriptive proxy guidance
'Fair hearings' in consultation More openness to increases in pay opportunities and new incentive structures	Some recent examples of more open views on pay in relation to UK competitiveness	IA – "*fundamental*" review of guidance - less prescriptive in tone

…but both investors and proxies remain wary where change is 'too much' or 'too different'

AGM voting - notable shift, but dissent remains in some cases

Increases of 100% of salary and alternative incentive structures



Upwards trend – several proposals in 2023 / 2024 achieved 80%+ AGM vote

However, examples of lower votes where proposals considered excessive and/or a material departure from UK practice

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Revised Investment Association principles - a change in tone

The Investment Association updated its Principles of Remuneration (the Principles) and published updated guidance on 8 October.

In November ISS and Glass Lewis also published their guidelines for the 2025 AGM season.

The updated publication demonstrated a change in tone to focus on flexibility for companies to adapt pay structures to best suit business and strategy. Additionally, importance was placed on the Investment Association's members reviewing proposals on a case-by-case basis with shareholders acknowledging the unique circumstances of each company.

The Investment Association emphasised the purpose of the Principles as "guidelines, not rules, seeking to foster good practice, alignment with investor expectations and support a competitive market environment." The Principles "do not seek to prescribe any particular remuneration structure or quantum and are intended to assist remuneration committees in making informed and responsible decisions."

Highlights of the updated Principles

Key changes in the Principles include:

Hybrid plans – The Investment Association principles include a new section on 'hybrid' plans, being a combination of Restricted Shares and Performance Shares. Whilst the guidance notes that some companies may elect to adopt a hybrid structure, a compelling rationale remains critical. "Shareholders recognise that hybrid schemes are sometimes used by companies that have a significant US footprint and/or compete for global talent. Shareholders expect committees to explain why the hybrid model is preferred over a single structure."

Notwithstanding the above, it is clear both from the wording in the Principles as well as conversations with the Investment Association that many shareholders remain cautious about this pay model.

Dilution – Removal of 5% dilution limit under executive (discretionary) schemes in any rolling ten-year period. Regarding the 10% limit for all share-based schemes, there is "recognition that committees may seek shareholder approval for higher dilution limits in exceptional cases where high growth companies have recently listed."

It is noted that ISS has stated that it continues to view the 5% limit as good practice. We are also aware of selected investors who are not supportive of removing the 5% limit.

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Reduction of bonus deferral where shareholding guidelines met – new guidance more flexible and favourable to the principle of linking bonus deferral to shareholding guidelines. "If an executive director has met the shareholding guideline, shareholders may support a reduction in the level of deferral for the relevant director, provided that the committee still has sufficient ability to exercise malus and clawback provisions."

Use of discretion – Previously focused on reducing payouts for 'negative events'. Now recognised that "positive discretion can be used to reward exceptional achievements or contributions that are not captured by the predefined performance measures or targets, while negative discretion can be used to adjust remuneration outcomes downwards if they do not reflect the underlying performance of the company or the individual, or if there are significant adverse events." Despite this more balanced view, most shareholders will still expect a strong rationale to support use of positive discretion.

Quantum – Softening of the language – phrases such as "expect Remuneration Committees to show restraint in relation to overall quantum" replaced by more neutral observations – "the level of remuneration should be appropriate for the company's circumstances" and "investors analyse levels of remuneration on a case-by-case basis, acknowledging that there is no one-size-fits-all approach."

Disclosure of benchmark peers – Whilst there is still caution in the guidance about the use of benchmarking, the Principles also encourage clear disclosure where market data is used. "If the remuneration of peers and peer groups are used to justify positioning, shareholders expect that the identity and constituents of these should be disclosed, and an explanation provided as to why their selection are appropriate."

In conversation with Andrew Ninian

At Deloitte's Annual Remuneration Strategy in October we interviewed Andrew Ninian, the Investment Association's Director of Stewardship, Risk and Tax, about the new Principles and learnt first hand about their development and Investment Association members' perspectives.

Q. What has been the process of getting to the principles?

A: The process of reinvention has been going on for over a year. We started with a series of round tables where nearly 100 companies shared their concerns about our previous Principles of Remuneration. In February, we highlighted the three main areas that companies had talked about in a letter. One was around quantum competing for global talent. The second was around structures and hybrids, and the third was the general governance requirements around pay. We took these views and over the summer, a draft version of the principles went out to three types of committees to make sure we captured our members' views. These were the Remuneration and Share Schemes Committee, the Stewardship Committee and the Investment Committee. After feedback, the principles were then signed off by members of our Investment Committee.

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Q. How would you characterise this version of the principles?

A: Firstly, there's a clear link to implementation of the company strategy and that remuneration is there to help deliver on the policy. Secondly, there needs to be individual and company performance within the overall health of the business. Thirdly, there needs to be pay for performance. These are the guiding principles, not the rules.

Q. What about hybrid?

A: I don't think the market has decided on hybrid yet. I pushed quite hard to make sure we did say something on hybrid because I thought it was important. We think the market is developing and we didn't want to restrict it. I think my argument for the next year is just case by case. How will they think about it? And what do you need to do in response?

Q. Dilution rules – why have these been softened?

A: The first thing to remember is dilution is important for shareholders because if shareholders are getting diluted, then savers are getting diluted. What we've done is remove the 5% in 10-year discretionary limit. We've been clearer that for high growth companies, there may need to be a higher dilution limit, particularly at the start of their journey, and that requires both disclosure and explanation. The 10% in 10 years works for the majority of companies. We've moved on. We've provided more flexibility but ultimately having a dilution limit is still important.

Q. What's your view on the UK competitiveness debate?

A: We want companies to come and list and operate in the UK. We want high quality companies operating here, so we are in favour of getting the right balance and getting the right structures in the UK to make sure that that happens. In terms of the debate about remuneration, there are a number of issues around the listing environment. Some have been tackled with the listing rules, others with the Corporate Governance Code, but there is no single silver bullet.

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Q. What do the principles say about benchmarking?

A: If you are using global benchmarking, we need to have a debate around who you are benchmarking. Are they the right peers and what's the right outcome? We need to have an honest conversation around whether this is a global competitiveness problem.

Q. Are you worried, in terms of horizon scanning, that this will lead to pay ratcheting?

A: It's early days. Shareholders have multiple votes and would rather not be spending all their time on remuneration. Pension funds and asset managers' clients have strong views on pay. We've seen the fair reward framework come out in the last couple of weeks. Asset managers are working in a regulatory system with expectations on them and where they're judged for how they vote. And they're working based on their clients' expectations. We need to be looking at this across the ecosystem and with everyone's views brought in. If we can show there's a clear link between pay and performance, we could help justify it to our clients.

Q. What's your advice following the publication of the principles?

A: Remuneration Committees, remuneration advisors and HR professionals are going to work hard to put it into their company specific circumstances, link it to their strategy and demonstrate why it's right for their business. And investors are going to have to work hard analysing those proposals and coming up with sensible feedback. In the principles it does require both sides to lean in to get the right system.

Other developments

The Capital Markets Initiative Taskforce (CMIT) is continuing to press forward on pushing for change to the overall pay governance framework to make the UK-listed environment more competitive.

The Confederation of British Industry (CBI) has also announced a listed companies forum to try and think about the attractiveness and relevance of the UK market.

The FRC has published a draft Stewardship Code, which will now include specific principles for proxy advisors. The Code includes reference to "engagement with stakeholders' to support the delivery and accuracy of proxy advisors' services", and a Code requirement to "explain how you have ensured the quality and accuracy of research or recommendations and responded where stakeholders have requested to engage."

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Concluding remarks

We are seeing the 'green shoots' of change and a shift in the environment as all stakeholders engage in the debate on UK executive remuneration in the context of ensuring that the UK-listed environment is competitive. It recognised that there is no 'silver bullet' answer to the debate, but we see incremental shifts in principles and mindsets as positive developments.

At the heart of the debate is the importance of boards driving the strategic direction of their companies and making decisions on remuneration in this context. We expect more remuneration committees to be prepared to accept lower voting outcomes in the right circumstances. This approach opens the door to more innovation and alignment of executive pay to strategy. It is therefore set to be an interesting time for boards and remuneration committees, with an opportunity to consider pay arrangements afresh.

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