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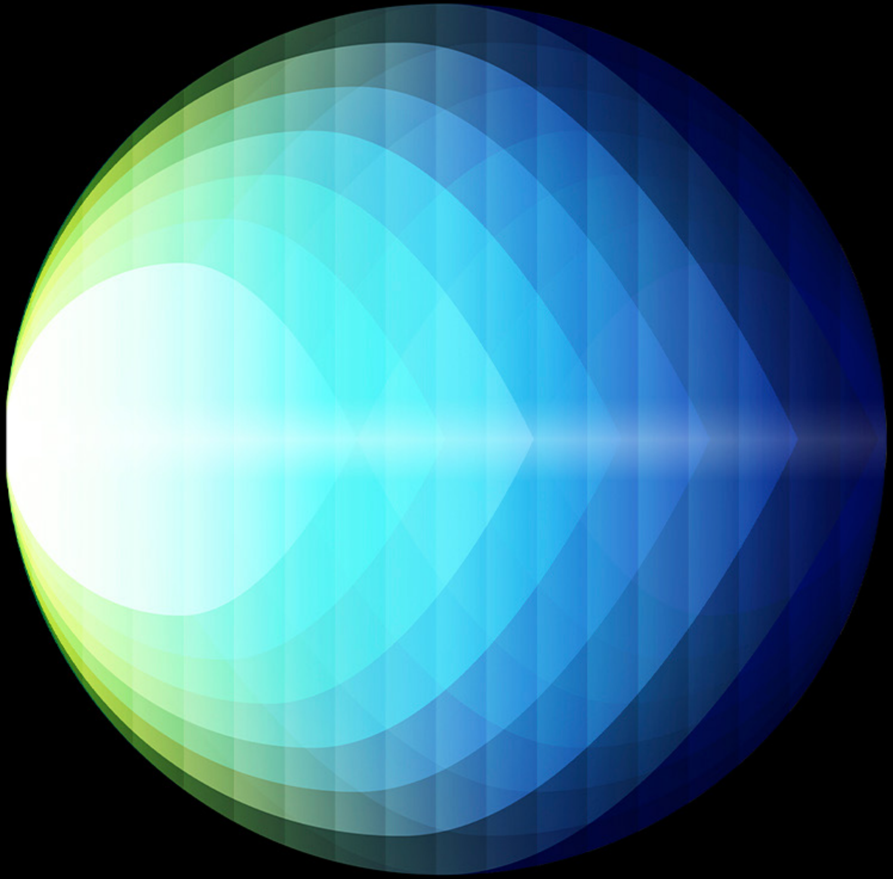

On the board agenda 2026

December 2025

Foreword

Dear Board Member

Looking ahead to 2026, key matters at the top of board agendas remain consistent – geopolitical and economic volatility, security and cyber security and the rapid advancement of technology. In the technology sphere, the risks and opportunities presented by AI and the demands new AI tools place on the workforce are more pressing than ever before. Boards will need to continue to be agile, to adapt and flex their agendas as new information and circumstances emerge.

The global and domestic landscape remains challenging. In the UK, government continues to focus on an overall aim of delivering growth and reducing the burden on corporates. Both of these themes come through in "On the board agenda 2026". We hope you find it a useful and interesting read.

"On the board agenda 2026" has two objectives – first, to act as a reminder of key matters for the upcoming reporting season, and second, to help you remain informed and stay on top of emerging governance and regulatory issues. We offer a range of articles reflecting the views of Deloitte experts across five key themes: Topical interest, including an economic and trade policy update, People and purpose, Risk and controls, Corporate reporting and Remuneration.

We look forward to welcoming you at our discussions in the Deloitte Academy in the New Year.

Claire Faulkner
Deloitte Academy Governance Chair
December 2025

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Topical interest

01 Economic update

01 | Economic update

The economic environment and expectations for the future continues to be an area of intense interest for boards and CEOs.

We start with key findings from Deloitte's most recent quarterly CFO survey based on data gathered during September. Updated findings will be published shortly in January 2025 and will indicate how CFOs have reacted to the Autumn Budget from the Chancellor.

October 2025 CFO Survey

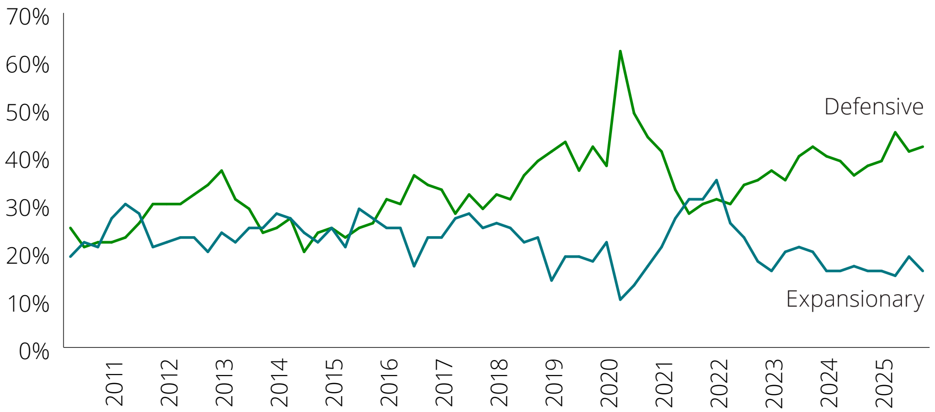
The latest Deloitte CFO Survey, conducted between 17 and 30 September, saw the sharpest rise in UK chief financial officers' expectations for operating costs in more than four years. CFOs continue to say that geopolitical developments, including rising protectionism, represent the greatest external risk to their businesses. Finance leaders are also increasingly concerned about poor productivity and weak competitiveness in the UK, which ranks joint first with geopolitics on their risk list, with its highest risk rating since the survey started.

Elevated geopolitical and trade uncertainty, rises in inflation and taxes and regulatory changes have contributed to growing costs for British businesses over the last 12 months. These have coincided with heightened investor concern over inflation and subsequent rises in the cost of long-term borrowing for corporates. This survey suggests that large UK corporates are adjusting to these stubborn cost pressures by doubling down on cost reduction and scaling back investment plans.

Defensive strategies

CFO corporate priorities over the next 12 months are decidedly defensive, with cost reduction and cash control rated as the top two strategies for their businesses. Focus on reducing cost in particular has sharpened notably since the Q3 survey in 2024. Perhaps coupled with this, CFOs predict an ongoing slowing in wage increases, from a 3.5% rise in average wages over the last 12 months to 2.5% 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.

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



* Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

01 | Economic update

Post-budget update

October's UK budget was an important fiscal event for the Labour Government, looking to reconcile its focus on growth and lowering the cost of living with the need to raise taxes to set public finances on a sustainable footing. Specific taxation changes are detailed in our article on UK taxation.

Ian Stewart, Deloitte UK's Chief Economist and Debapratim De, Deloitte UK's Director of Economic Research, provided some thoughts on the economic implications of the budget in A view from London, published on 25 November. The article highlighted the reaction of the bond market to the announcements of £26bn of tax rises which were accompanied by a surprise increase in the size of fiscal headroom – the margin of error for meeting the government's debt reduction target – from £10bn to £22bn, which pushed down the cost of UK government borrowing in the aftermath of the budget.

Other observations include:

- There is a continuing concern over the overall level of UK government indebtedness. The budget forecasts that the ratio of net debt to GDP will end this decade close to an 80-year high. The UK has had, since February, the highest borrowing costs of any G7 economy.
- Public spending is planned at historically high levels. It is set to run around 44%-45% of GDP through the rest of this parliament.
- By the end of this parliament taxes are forecast to account for 38.3% of GDP, the highest level since comparable records started in the early 1950s.
- The budget's cost of living measures, including freezing rail fares and lowering energy bills, are expected to reduce inflation by about 0.4% next year. Inflation peaked in September at 4.0% and by the middle of next year is likely to be running at around 2.0%.
- We now expect UK interest rates to fall from 4.0% to 3.5% over the next six months.

02 The trade landscape for UK businesses

02 | The trade landscape for UK businesses

Global trade is experiencing a period of prolonged disruption, with UK and international businesses facing a fragmented and unpredictable landscape. The era of globalisation is giving way to heightened policy uncertainty and intensifying geopolitical tensions, with the sharp escalation in tariff measures and rapid policy changes by the United States causing significant disruption across supply chains, pricing models and investment decisions.

Businesses face uncertainty over how future trade policy changes will affect operations and competitiveness. With the pace of change showing little sign of slowing down, uncertainty has become a defining feature of the trade landscape for UK businesses. In this article we provide the latest updates on US tariff policy and its application to the UK and set out questions board members should be asking of their executive teams.

What tariffs have been applied to UK goods*?

The US has applied a 10% baseline tariff on most goods originating from the UK. While the UK-US Economic Prosperity Deal (EPD) provides some relief to tariffs for certain sectors including automotive and aerospace, the wider disruption and uncertainty will continue to impact UK businesses engaged in international trade.

- **Steel and aluminium:** At the time of writing, UK steel and aluminium exports remain subject to a 25% tariff imposed on 'national security' grounds. Under the EPD, tariffs on UK steel and aluminium will be removed for a currently unspecified quota, subject to the fulfilment of as yet unpublished restrictions around ownership of production facilities.
- **Automotive:** In March 2025, a 25% tariff was introduced on all cars and car parts imported to the US, including UK-origin vehicles. The EPD partially mitigates this tariff for the UK automotive sector. Under the deal, the first 100,000 UK-origin vehicles exported to the US will face a 10% tariff, rather than the full sectoral rate. Exports over this quota will face a 25% tariff.
- **Aerospace:** When reciprocal tariffs were announced, the aerospace industry was not included in the list of exemptions. However, under the EPD, certain UK aerospace goods will no longer face a tariff when imported into the US. Unlike other sectors, the tariff removal for aerospace is not subject to a quota.
- **Baseline 'reciprocal' tariff:** Outside of the steel, aluminium and automotive sectors, a wide range of UK goods from industrial machinery to electronics, clothing and plastics are now subject to the 10% baseline tariff.
- **Exempted sectors:** While the baseline 10% tariff applies to most goods, there are a number of exemptions in place. Notably, these include pharmaceuticals, medical devices, semiconductors and critical minerals. Whilst current arrangements exempt these goods from tariffs, the US administration has indicated there may be further measures introduced to tax or control the import/export of these goods.

* This information was correct as at 12 December 2025 – you can access the latest information on tariff and trade policy here.

02 | The trade landscape for UK businesses

What other trade deals have the US agreed?

Following the introduction of sweeping 'reciprocal' tariffs, the US entered into a series of negotiations aimed at stabilising key trade relationships. Trade deals have been reached with several trade partners including the EU, Japan and South Korea, which cover tariffs and other areas of cooperation including investment. In November 2025, the US also reached a time-limited agreement with China, reducing tariffs and preventing a planned expansion of export control regimes.

A number of trade deals remain outstanding and the US looks set to continue negotiations into 2026. This ongoing process highlights both the complexity of the current global trade environment and the scale of impact across supply chains. For businesses, understanding the evolving dynamics will be critical as shifting tariff structures continue to influence sourcing decisions, resilience and competitiveness.

Questions boards should be asking their executive teams

In this rapidly evolving trade environment, executive teams face mounting pressure to adapt strategy and risk management to an increasingly complex global landscape. The ongoing recalibration of US trade policy and associated uncertainty means businesses must remain agile and proactive in their response. Leaders will need to ensure their organisations have clear visibility over supply chain exposures, understand potential tariff impacts and are positioned to respond quickly as new trade measures are announced.

Boards will want their executive teams to be able to answer the following questions:

- Who has been assigned to track changes to tariff policies and consider how each change could impact different sections of the business (risks, tax, stock, financial statement disclosure, forecasting etc.)?
- Have you considered involving a specialist to determine the impact on your finances, to discuss tax impacts, or to define the specific effects in your industry?
- Have you discussed the wider impact on the business as a whole and whether there is a risk that the business may become unviable or require significant operational changes?
- Are you updating forecasts in line with the changing economic outlook and in response to new policy developments? Is the following analysis available to us:
  - The impact on each different element of these forecasts (e.g. revenue, costs, future growth etc.)
  - The degree of estimation uncertainty
  - Long term growth rates
  - Discount rates
  - Downside scenarios

02 | The trade landscape for UK businesses

- What do you believe the impact of tariffs will be on the business, how are you calculating and passing on tariffs to customers and what is the impact on gross margin?
- Have you mapped the supply chain beyond tier-1 suppliers and conducted analysis to identify potential vulnerabilities?
- Have you considered the impact of wider trade deals and bilateral tariff measures on global supply chains and the subsequent impact on the organisation?
- Have you examined strategies to mitigate the risk of disruption caused by tariffs and considered contingencies that can be put in place?
- Do we have an established process for proving the origin of goods?

Do not wait for certainty

The global trade landscape shows little sign of returning to a period of stability in the near term. Rather, businesses face a new normal characterised by persistent uncertainty, fast-moving policy changes and increased complexity for traders.

In this environment, waiting for policy certainty can become a risk in itself. UK businesses should therefore be focusing now on building a deep understanding of their exposure to tariffs and other emerging trade barriers and developing proactive mitigation strategies, so they can be better positioned to react to future volatility.

Staying informed of developments in trade policy is critical to understanding broader market trends, regulatory risks and opportunities. While the policy landscape remains fluid, a clear grasp of the mechanics of trade, legal frameworks and sector-specific implications will be essential to interpreting and adapting to the new era of global trade.

For support in assessing your priorities and understanding how the recent developments in trade policy could impact your business please contact:

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03 Latest on the corporate reform agenda

03 | Latest on the corporate reform agenda

Through our series of 'On the board agenda' publications, we have been providing updates on the latest position in relation to the corporate governance reform agenda. In this article we explain the current position and we provide an update on other regulatory developments including Department for Business and Trade's (DBT) 'Modernisation of corporate reporting' programme, publication of the UK Stewardship Code and additional reporting requirements on payment practices and performance.

Update on the status of the Audit Reform and Corporate Governance Bill

In July this year, the Government confirmed that, due to the current volume of legislation before Parliament, the draft Audit Reform and Corporate Governance Bill would no longer be put forward for pre-legislative scrutiny in the current Parliamentary session.

Notwithstanding this, in September, DBT confirmed plans to transition the Financial Reporting Council into a revamped, modern regulator called the Corporate Reporting Authority and to invite comment on proposals for:

- holding company directors to account for serious failures of their existing corporate reporting duties, such as ensuring that accounts are true and fair, using a new regime of civil regulatory sanctions to act in the public interest;
- extending public interest entity (PIE) status to the largest unlisted businesses, being companies and Limited Liability Partnerships with both 1000+ employees and a turnover of £1 billion or more, enhancing transparency and ensuring consistent quality of audit; and
- measures to address poor functioning of the audit market, particularly for the largest listed companies.

The exact timetable for these next steps is currently uncertain.

DBT's 'Modernisation of corporate reporting' programme

Further to the Non-Financial Reporting Review pre-consultation over the summer, DBT has now announced that the Government will seek to deliver the following legislative changes as swiftly as possible:

- Exempting most medium-sized private companies from producing a strategic report;
- Exempting wholly-owned subsidiaries from producing a strategic report if they are covered by the reporting of a UK parent; and
- Removing the requirement for a Directors' Report.

03 | Latest on the corporate reform agenda

In addition, the Government has expanded the scope of its reforms, now framed as the "Modernisation of corporate reporting" programme. A broad consultation is planned to be delivered in 2026 covering reforms to reporting on remuneration, corporate governance, the financial statements as well as improving regulatory alignment across reporting frameworks and considering how corporate reporting should function in a digital age.

The exact timetable for these next steps is currently uncertain.

The UK Stewardship Code 2026

In June 2025, the FRC published the UK Stewardship Code 2026 establishing the core Principles of effective stewardship and setting a high standard of transparency for asset owners and asset managers, and for the service providers that support them.

The new Code takes effect from 1 January 2026 and aims to support long-term sustainable value creation while significantly reducing the reporting burden for signatories and enhancing engagement between market participants. The changes provide an updated framework for reporting to demonstrate high quality stewardship and support economic growth and investment.

For further information see our Governance newsflash.

New legislation on payment practice reporting in the annual report

The Companies (Directors' Report) (Payment Reporting) Regulations 2025 have been issued to introduce new requirements for large companies to report on their payment practices and performance with respect to suppliers on an annual basis within the directors' report. These requirements are in addition to the duty to report directly to government on payment practices and performance.

Companies will need to disclose the following in relation to their qualifying contracts:

- a statement describing the payment period specified in the company's standard payment terms in its qualifying contracts between it and its suppliers;
- details of any variation from its standard payment terms;
- the average number of days taken to make payments;
- the percentage and sum total of payments made within 1-30 days, 31-60 days and 61 or more days; and
- the percentage and sum total of payments which were not made within the payment period agreed.

Companies that qualify as small or medium-sized will be exempt from these requirements. There is also an exemption for subsidiary companies that are included in the group directors' report of a parent undertaking. The regulations come into force for financial years beginning on or after 1 January 2026.

The legislation is available here.

Please note: Regulatory requirements in relation to sustainability reporting are covered in this article and there is an article on the new Provision 29 available here.

04 Building organisational resilience through better board and C-suite collaboration

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In this article we look at a recent report from the Deloitte Global Boardroom Programme How board and C-suite collaboration can build organisational resilience. The report explores areas to help boards build collaborative and productive working relationships with the C-suite.

The landscape in which businesses operate has encountered an array of unparalleled developments and significant disruptions. These include major geopolitical changes, rapid advancements in artificial intelligence, cyber security challenges, the effects of international conflicts, evolving trade relationships, extreme weather events and others. Businesses need to ensure that amid this inherent uncertainty, they can thrive and create sustainable long-term value for shareholders. As a result, boards' focus on resilience and growth has become as critical as ever.

This Deloitte research includes a cross-industry survey of 739 leaders, 76% of whom were board directors and 24% of whom were C-suite executives from 59 countries. Some of the key findings of the report are summarised below:

- The survey asked responders to identify their top immediate priorities (2025) and longer-term priorities (2026 and beyond). A notable shift in priorities was identified depending on the time horizon considered. For example, rapid technological advancements and digital disruptions alongside human capital emerged as top long-term agenda items compared to geopolitical and economic volatility and security and cybersecurity. This shift in focus likely stems from boards and the C-suite increasingly prioritising growth, acknowledging that talent and technology have significant potential to drive long-term, resilient business value.

- Further the survey revealed that boards are proactively strengthening resilience, with a particular emphasis on risk management and scenario planning. Most responders (86%) said their boards have increased activity to monitor risk, oversee growth strategies and bolster long-term resilience. Key areas of focus included strategic oversight and scenario planning (71%) and promoting a culture of agility and quick decision making (53%), both of which can have a positive impact on business resilience.

- The survey also explored the leadership elements crucial for an organisation's success. The majority of responders (66%) identified open and transparent communication between the board and C-suite as a primary leadership factor contributing to resilience. Additionally, 38% of responders highlighted the importance of ensuring that the board has the right skill set and experience in place.

Questions for boards to think about

- Does the board collectively possess the necessary skills and experience to effectively meet the organisation's needs? Is there a need for upskilling or other educational opportunities?

- How effectively does the current relationship between the chair and C-suite, especially in terms of their engagement and transparency, facilitate the right balance of support and challenge?

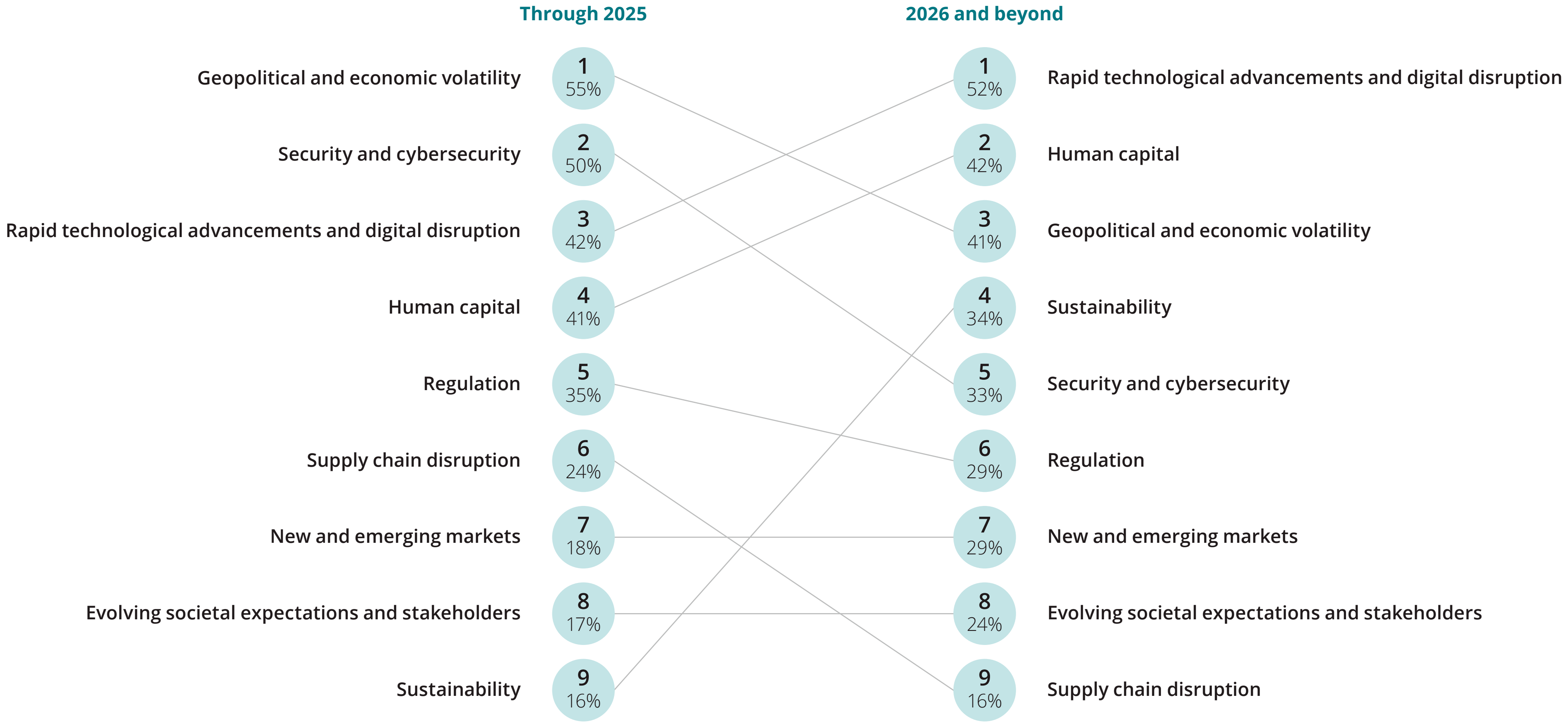
- Does everyone in the C-suite – not just the CEO – feel comfortable bringing up challenges and seeking open feedback?

- Are all board members dedicating sufficient time and effort to govern effectively?

04 | Building organisational resilience through better board and C-suite collaboration

Short-term versus long-term planning: Respondent priorities shift toward tech advancements and human capital in 2026 and beyond

Emerging trends or potential disruptions receiving the most board/C-suite attention (percentage of respondents)



Notes: 739 respondents were asked to choose their top three concerns.

Source: Deloitte Global Board and C-suite Resilience survey, June 2025.

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People and purpose

05 AI vs workforce – the role of the board

05 | AI vs workforce – the role of the board

During 2025 there has been an ongoing debate about the future impact of AI on the workforce, whether that enables a reduction in headcount, requires a reskilling or a completely different set of job descriptions. One constant is that any change implemented in your organisation will require careful and thoughtful board oversight.

In this article we take a look at two of Deloitte's insights this year regarding the human value proposition in the age of AI and Agentic AI, drawing out some areas the board may wish to consider when thinking about attraction, retention and development of talent.

The human value proposition in the age of AI

Earlier this year, Deloitte Insights' 2025 Human Capital trends recommended that organisations need a value proposition that takes into account the transformative nature of AI on the workforce alongside evolving workforce expectations.

At the heart of this evolution is the expectation that AI will fundamentally reshape roles and demand a re-evaluation of the employer-employee value proposition: the reason an employee comes to an organisation and chooses to stay. Technology's value does not come from replacing the human workforce but from amplifying the human ability to discover and capture opportunities for innovation and growth.

05 | AI vs workforce – the role of the board

The article summarises the "silent impacts" some of the workforce experiences from the introduction of AI - for more detail see the full report.

The common narrative	The worker experience	Potential silent impact
AI improves our productivity and well-being by reducing our workload	77% of employees say AI has increased their workloads and decreased their productivity and 61% say it will increase burnout.	Increased workload and stress
AI makes our work easier	40% to 60% of routine work activities can be automated by AI, while only a small portion of complex tasks can be.	Harder, more complex work
AI empowers us with new tools and agency	14% of European workers are subject to algorithmic management but workers directed by AI may put less care and effort into work and perform less accurately.	Decreased autonomy
AI + teams = super teams	33% of workers say they lack human interaction and collaboration because of AI and 28% say it has led to the loss of personal connection.	Isolation and loneliness
AI helps us learn by putting collective knowledge at our fingertips	28% of early-career workers say they have fewer on-the-job learning opportunities due to AI.	Reduced opportunities for growth
Workers get new machine teammates	54% of workers and leaders are concerned about blurred distinctions between work done by humans and technology, the number one concern cited in a Deloitte survey.	Blurred distinctions between human work and machine work
AI creates volumes of newly available worker data and insights	About 60% of workers say employee turnover has increased as a result of their organisation's attempt to collect and use worker data with AI and other technologies.	Problems with data privacy, responsibility and ethics

05 | AI vs workforce – the role of the board

This introduces a clear case for leadership as AI adoption advances and moves towards a more collaborative and even a more convergent method of working.

Questions for boards to think about:

- How do we optimise the ways our people work with AI for both business outcomes and human sustainability?
- How do we balance the need to automate for greater efficiency with the need to augment and collaborate with AI to realise growth and human potential?
- How does AI's ability to be creative change the employee experience, the worker-organisation relationship, and the workforce value proposition?
- How much should we enable our workforce to redesign work with AI versus managing work redesign from the top down?
- How do we adequately capture employee contribution when productivity metrics are becoming outdated?
- How do we plan to share the benefits of AI with our workforce?

05 | AI vs workforce – the role of the board

Agentic AI: Human and AI agents working in concert

Deloitte's new report Work reworked: What it takes to win in the age of Agentic AI sets out a series of considerations for building Agentic AI into the workforce proposition. It defines Agentic AI as "autonomous systems that orchestrate multi-step processes across workflows through human-agent collaboration (humans on the loop) rather than human micromanaging (in the loop)" – a technology that many of your organisations are already considering or implementing at present. Features of the current technology risk landscape are explored here.

The principles relate to systemic codependency and propose cross-functional co-operation to ensure that each part of the organisation can act together in the interests of progress.

In order to implement this concept, a board can drive constructive, enabling behaviours:

Bold governance intervention
The board should encourage CIOs, CHROs, Chief Risk Officers and business leaders to operate as a connected leadership system, aligning ambitions, pace and accountability across their domains – because the agentic future cannot be achieved through silos. This requires shifting from managing people to managing outcomes, supported by human-agentic teams. Consider what new structures may be required for overseeing human-agent collaboration and managing trust, risk and performance across human-agentic workforces.

Redesign work
Legacy work models can't scale effectively in an agentic world. Rather than inserting AI into existing roles, organisations will find it more effective to deconstruct and reassemble work to unlock new human-agent teaming models. This means reimagining and redesigning the system: configuring roles, workflows and organisational structures for fluid human-agent collaboration. This enhances the organisation's ability to enable performance, agility and impact at speed and at scale.

Build organisational readiness
Organisational readiness is a strategic differentiator that functions at two levels. On an individual basis, workers must feel equipped, empowered and valued in a world where AI is a teammate. For an organisation as a whole, infrastructure, policies, leadership and culture must evolve to absorb and scale agentic AI impact. This requires a dual-speed approach: enabling and accelerating experimentation and learning in targeted areas where readiness exists while simultaneously laying the foundations of trust, governance and alignment for enterprise-scale transformation.

05 | AI vs workforce – the role of the board

The ability to build a scaled project with the dual-speed approach described above requires the organisation to recognise where it stands at present and its desired future state and ambition.

The report sets out the following three areas to consider in pivoting from vision to impact:

Area	Key messages
Identify your baseline requirements for realising value from agentic AI	• Strategic alignment: Link the deployment of agents to clear, measurable business outcomes in areas such as growth, innovation, productivity, efficiency, agility and risk reduction. • Data and workflow readiness: You can't automate chaos. Tasks, processes, workflows and data must be structured and ready for execution by AI agents. • Human-agent autonomy thresholds: Define the rules of engagement. When should agents act alone? When are humans required to validate? When is collaboration required? These types of fundamental questions should be on the agenda in every planning meeting.
Seek high-impact quick wins	• Use tools like work analysers to identify high-impact opportunities for delivering immediate value. • Embed agents into the flow of daily work – not as side experiments, but as core contributors. • Focus on momentum and speed, not perfection – because early wins generate proof, belief and pull.
Avoid endless AI pilots without work redesign	• Spend your time redesigning work to enable human-agent collaboration and codependency rather than in more tech demos. AI layered on top of legacy roles and workflows delivers marginal returns. Instead, intentionally redesign work with the human-agent system in mind, focused on value outcomes – from how roles are structured to how decisions are made and performance is defined. • Scale what works across the whole organisation, not just within teams.

06 Diversity and inclusion: how is the UK measuring up?

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In this article we provide an update on diversity and inclusion measures relating to boards, focusing on the 2025 reports from the Parker Review and the FTSE Women Leaders review. We also provide an update on the progress of the Employment Rights Bill and some of the measures it introduces.

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

FTSE Women Leaders review

In February, the FTSE Women Leaders Review launched its 2025 report: Achieving Gender Balance.

The FTSE Women Leaders Review is the successor of the Hampton-Alexander Review and is aimed at increasing focus on gender diversity at board and senior leadership level by government, companies, and investors. The FTSE Women Leaders Review focuses on the FTSE 350 but over the past two years it has also looked beyond the largest listed companies to examine diversity in leadership at 50 of the largest private companies and partnerships in the UK.

The UK remains second globally in terms of percentage of women on boards, behind only France at 45% which operates a quota system rather than the voluntary system in the UK.

The 2025 report, based on 2024 data, found that women accounted for 43% of board roles and 35% of leadership roles in FTSE 350 companies and includes the following key findings.

- FTSE 350 companies continue to show strong progress with women on boards now at 43%, meaning that almost three quarters of the FTSE 350 are now meeting or exceeding the 40% target for boards.
- FTSE 350 companies have had no all-men boards since 2019. However, there are still four companies, similar to last year, with only one woman on their board.
- In the FTSE 350 there are 16% women executive directors and 50% women non-executive directors while the 50 private companies have 29% women executive directors and 33% women non-executive directors. These differences in board composition reflect the lower representation of women non-executive directors on the boards of the 50 private companies.
- In respect of the four senior board roles, being Chair, Senior Independent Director, CEO and CFO, there has been continued progress in representation in the role of the SID where women now hold 56% (2023: 47%) of positions in the FTSE 350. Women hold one in five Chair roles (17%). Meanwhile, the number of women CEOs has fallen from 21 in 2022 to 20 in 2023 and now to 19 this year.
- Although investment trusts are in scope for the review their business model is different from other FTSE 350 companies. This year, 88 investment trusts had at least one woman in the four senior board roles.
- There has been some progress in the number of women in the executive committee and their direct reports, which now stands at 35% for the FTSE 350 (2023: 34.5%) with 29% on the executive committee itself (2023: 28%).

06 | Diversity and inclusion: how is the UK measuring up?

- In respect of the top 50 private companies and partnerships, board representation for women stayed at 31%, the same as in the 2023 report. The number of women in the executive committee and their direct reports stayed roughly the same at 37% in comparison with 36% in the previous year. However, the number of CEOs has dropped from 12 in 2022 to 10 in 2023 and now to 8 (19%) in 2024. 47 out of the 50 companies that were approached submitted data to the review.

The review suggests that by now it would have anticipated that more women would be in one of the four senior board roles (CEO, CFO, Chair, SID) because many have served on several boards and for a number of years, allowing companies to have broader choices of experienced women when making appointment decisions.

The report sets out the following recommendations:

- **Gender balance:** The voluntary target for FTSE 350 boards and for FTSE 350 leadership teams is increased to a minimum of 40% women's representation by the end of 2025. To maintain gender balance over time, and provide a degree of flexibility, companies should aim to maintain the representation of both men and of women at, or above, a minimum 40% threshold.

- **Senior roles:** FTSE 350 companies should have at least one woman in the Chair or Senior Independent Director role on the Board, and/or one woman in the Chief Executive Officer or Finance Director role in the company by the end of 2025. All companies should increase their efforts to understand and remove bias from the selection process on Board and Leadership appointments.

- **Locking in progress:** Key stakeholders such as the Investment community and corporate governance agencies should continue to set best-practice guidance, or have in place alternative mechanisms as appropriate, to encourage any FTSE 350 board that has not yet achieved the 33% target, to do so.

Parker Review

The Parker Review was first commissioned in 2015 and set its first targets in 2016, for FTSE 100 companies to have at least one ethnic minority director on the board by December 2021 and for FTSE 250 companies to meet the same target by December 2024. In March it published its 2025 update report based on 2024 data: Improving the Ethnic Diversity of UK Business.

Key findings include:

- In the FTSE 100, 95 companies reported having at least one ethnic minority director on the board, with ethnic minority directors holding 19% of all board positions (2023: 96 companies, 19%).

- In the FTSE 100, people from ethnic minorities held the following senior roles on the board: 13 CEO positions, 7 CFOs, three other executive roles and 8 Chair positions. For FTSE 250 this spread was as follows: 14 CEO positions, 11 CFOs, two other executive roles and 7 Chair positions.

- In the FTSE 250, 82% of companies met the 2024 target of at least one ethnic minority director on the board, with ethnic minority directors holding 15% of all board positions. (2023: 70% of companies, 13.5%).

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It has been two years since the review extended its scope to senior management, asking the FTSE 350 to set their own targets for 2027 and to the top 50 private companies and partnerships to meet the same targets as FTSE 350 companies by a target date of December 2027. Findings in this area include:

- The proportion of ethnic minorities in senior management positions stood at 11% for the FTSE 100 (2023: 13%) and 9% for the FTSE 250 (2023: 12%). Where companies reported to the review that they had set 2027 targets for the proportion of ethnic minorities in senior management positions, these averaged out at 15% for the FTSE 100 and 13% for the FTSE 250. 57 companies out of the FTSE 100 and 69 companies out of the FTSE 250 shared these targets.

- In respect of the top 50 private companies and partnerships invited to participate in the review, 48% of those had already met the target of having at least one ethnic minority director on the board (the target the private companies have been asked to meet by December 2027), with ethnic minority directors holding 13% of all board positions. 13% of private companies have now set a target for 2027 in respect of ethnic minority executives in senior management.

The report sets out a series of recommendations from the Change the Race Ratio campaign:

- **Talent pipeline:** Cultivate and develop a talent pipeline that is more reflective of the diversity of people living in the UK. Robust data collection and the analysis of an employee population will help to identify gaps and enable companies to track progress effectively.

- **Setting targets:** Setting clear, measurable targets for ethnic minority representation within leadership teams is critical.

- **Develop individuals:** A strong talent pipeline that identifies how best to nurture and develop that talent, will help to ensure that those individuals are prepared for senior roles. Approaches include sponsorship, mentorship and structured training.

- **Enhance recruitment practices:** Identify and eliminate bias in job descriptions, ensure diverse candidate shortlists, establish transparent progression pathways and focus on internal mobility.

- **Create inclusive cultures:** Promote psychological safety, leverage employee resource groups for insights, take deliberate actions to address unconscious biases and systemic barriers.

06 | Diversity and inclusion: how is the UK measuring up?

The Employment Rights Bill

The Employment Rights Bill was introduced in October 2024 introducing 28 reforms and is currently going through the final stages of the legislative process, returning to the House of Commons in December.

In July the government published Implementing the Employment Rights Bill - Our roadmap for delivering change. This sets out the anticipated changes, including those in the area of diversity and inclusion, which are currently expected to include:

- Action statement on gender pay gap, voluntarily from April 2026 with mandatory reporting by larger employers (250+ employees) from April 2027.
- Action statement on menopause, voluntarily from April 2026 with mandatory reporting by larger employers (250+ employees) from April 2027.
- A requirement for organisations to name outsourced service providers in their gender pay gap reports, in order to increase transparency across supply chains. There is no current timetable for this as it is expected to be implemented alongside the disability and ethnicity pay gap reporting requirements under the draft Equality (Race and Disability) Bill. There was a consultation on these proposed pay gap requirements which closed in June 2025; the outcomes have not yet been published.

Risk and controls

07 Audit Committee chair of the future

07 | Audit Committee chair of the future

In today's rapidly evolving business environment, the expectations placed on audit committee chairs have increased in recent years. The pace of change, driven by emerging risks, technological advancements and heightened stakeholder scrutiny, demands that they continually adapt, learn and lead with purpose. To explore these evolving responsibilities in greater depth, we interviewed 50 audit committee chairs who represent large-cap companies listed on major global exchanges. The key themes from these interviews are highlighted below.

Audit committee chairs are entrusted with safeguarding integrity of financial reporting and risk oversight, but their mandate extends far beyond regulatory adherence. They are often called upon to anticipate disruption, foster a culture of transparency and accountability and help to prepare organisations for the challenges and opportunities ahead. Today's audit committee agenda topics reflect this expanded mandate.

Our research used open-ended questions to explore emerging trends, challenges and opportunities that are shaping the role of the audit committee chair – and the committee itself – in a rapidly evolving risk and governance landscape. Audit committee chairs confirmed they face additional growing demands in the following areas which raise important questions to reflect on:

- **Anticipating and navigating emerging risks -** what does it take for today's audit committee chair to navigate the complex, "always on" landscape of enterprise risk, technology, sustainability and stakeholder scrutiny?
- **Evolving from technical expert to strategic leader -** what skills, experiences, and leadership qualities are essential for audit committee chairs and members, to be effective in the future?
- **Cultivating continual learning and curiosity -** how can audit committee chairs foster a culture of continual learning and intellectual curiosity across the committee?
- **Modernising committee processes for agility -** how can chairs modernise audit committee structures and processes to enhance agility and effectiveness in overseeing emerging risks and evolving responsibilities?
- **Populating the committees of tomorrow -** what should members of future audit committees keep in mind as they navigate their journey to board membership?

In January we will be issuing a new publication 'The Audit Committee Chair of the Future: Redefining Leadership for the Next Era of Governance' which sets out reflections and insights on each of these themes and the questions raised. We encourage audit committee chairs and those who work with them to reflect on the recommendations outlined in the report. It is hoped that through embracing continual learning, cultivating broad perspectives and reimagining how oversight could be approached, audit committee chairs can support organisations in meeting today's demands and preparing for the future. Watch out for the report in the new year.

08 The technology risk landscape – considerations for boards

08 | The technology risk landscape – considerations for boards

In today's technology risk landscape, the convergence of cyber risk and artificial intelligence (AI) presents both unprecedented opportunities and significant challenges for organisations. For board directors, understanding and governing these dynamics is no longer optional – it is a critical imperative. This article explores the current environment of cyber risk and AI, what good cyber practice looks like and actionable steps for board members that can help their organisations remain resilient, innovative and competitive.

The business environment is undergoing a seismic shift, driven by technological acceleration, evolving cyber threats and the transformative potential of AI. According to Deloitte's Governance of AI: A Critical Imperative for Today's Boards, AI adoption is accelerating, with organisations increasingly recognising its potential to drive innovation, efficiency and market leadership. The pace of adoption remains a concern, with only 25% of board members expressing satisfaction with their organisation's progress in integrating AI.

Simultaneously, the cyber threat landscape is becoming more sophisticated. The UK's National Cyber Security Centre (NCSC) highlights that AI is not only a tool for innovation but also a potential enabler of new cyber threats. The NCSC's report, The Impact of AI on Cyber Threats: Now and in 2027, underscores the dual role of AI: while it can enhance cyber security defences, it also provides adversaries with advanced tools for launching more targeted and effective attacks.

AI has the potential to revolutionise cyber security by enabling organisations to detect, respond to and recover from cyber incidents more effectively. AI-powered systems can analyse vast amounts of data in real-time to identify anomalies, predict potential threats and automate responses. The same technology can be weaponised by malicious actors to develop sophisticated phishing attacks, exploit vulnerabilities and evade detection. The NCSC says that AI will "almost certainly pose cyber resilience challenges to 2027 and beyond across critical systems and economy and society" and recent Deloitte research shows that in a recent annual report, 49% of the FTSE 100 identified an emerging risk relating to AI. Most of these emerging risks were linked to cyber security.

08 | The technology risk landscape – considerations for boards

What does good cyber look like?

Cyber is a complex topic that requires a combination of technology solutions, robust processes and a strong awareness culture. When exercising oversight responsibilities, boards should be aware of the importance of being able to detect, respond and recover from incidents as well as having preventative controls in place to minimise the likelihood and scale of attacks. So what does this look like when done well?

Senior accountability across the organisation and appropriate governance - it is not just an IT issue	A defined cyber resilience strategy, aligned to the business strategy, that covers the breadth of cyber from protection to response and recovery – all underpinned by a clear risk appetite	Clear metrics and reporting with appropriate targets set and measured for both transformation activity and business as usual
Clear understanding of critical assets and associated impacts such as confidentiality, availability and integrity	A strong focus on the human element and cyber culture; training and awareness and security by design	Third party security and resilience; understand your critical suppliers from both a cyber perspective and business supply chain
Cyber hygiene - relentless focus on the foundations such as patching and privileged management control	Continuous improvement - the technology landscape and threat actors are always evolving with the advent of AI and future quantum computing	Code generation – ensure sufficient rigour over the use of AI in producing code as using AI can present a new attack surface for cyber attacks

08 | The technology risk landscape – considerations for boards

A proactive approach

Some areas in which boards can consider how best to adopt a proactive and comprehensive approach to the oversight of cyber risk and AI in their organisations.

Key area	Observation	Key questions
Elevating AI and cyber risk on the agenda	According to Deloitte's survey, 31% of boards still do not have AI on their agenda, and 66% of board members report that their boards have insufficient knowledge of AI. Effective governance in the digital age requires board members to be technologically fluent and cyber-aware. Consider introducing AI and cyber risk as standing agenda items, ensuring regular and informed discussions.	• How is AI impacting or likely to impact our organisation, directly or indirectly? • What is our organisation's cyber maturity and how are we measuring the effectiveness of our cyber programme? • Is there enough foundational AI and cyber security education provided for our board members and do we have appropriate specialists involved to provide insights on emerging technologies and threats? • Should we consider enhancing our board composition to include more directors with expertise in AI and cyber security?
Governance of AI adoption and integration	AI adoption should align clearly with strategic objectives and ethical standards. Deloitte's Governance of AI report highlights the importance of boards understanding AI's impact, developing a comprehensive AI strategy and defining the organisation's risk appetite.	• Does management have a clear strategy for AI adoption and integration? • How do we evaluate and mitigate risks associated with AI, including bias, fairness and security? • Do we understand our regulatory and contractual obligations and track our compliance with these?

08 | The technology risk landscape – considerations for boards

Key area	Observation	Key questions
Embedding controls around the adoption of Agentic AI	On average, market estimates suggest that the autonomous AI agent market could reach US$8.5 billion by 2026 and US$35 billion by 2030. Deloitte predicts that if enterprises orchestrate agents better and thoughtfully address the associated challenges and risks, this market projection could increase by 15% to 30% - or as high as US$45 billion by 2030.	• Has our organisation considered the possibilities of Agentic AI for how we do things internally, how we interface with customers and other third parties, potential new or enhanced products or services? • Have we assessed whether we need new guardrails, controls and monitoring in place over any agents we establish? • How is management keeping up to date with how cyber controls and technologies to manage the risks around Agentic AI are developing? • Does management have a position on how agentic identities (e.g. credentials and access rights) will be managed and how to ensure they don't become targets for cyber criminals?
Strengthening cyber resilience	Cyber security is no longer just an IT issue; it is a strategic business imperative. A practical approach to cyber resilience encompasses protection, detection, response and recovery.	• Do we have a clear cyber resilience strategy aligned with business objectives and risk appetite? • Do we understand our critical assets and associated risks, including supply chain vulnerabilities? • Do we have a strong cyber culture and how do we measure and support it? • Are we investing appropriately in cyber security—are we comfortable with our understanding of the risk and our current exposure and the plans in place to address this? • How robustly has our organisation prepared for breaches? Do our preparations include incident response plans covering each of technical, PR and organisational strategies?

08 | The technology risk landscape – considerations for boards

Revised Internal Audit Standards incorporate new cyber requirements

The revised Institute of Internal Auditors (IIA) Global Internal Audit Standards (Standards) and UK Internal Audit Code of Practice continue to evolve with new mandatory topical requirements being consulted on and launched across the course of 2025. Although many functions conducted readiness assessments for the new Standards during 2024, audit methodologies and quality assurance practices must continue to evolve as teams look to increase their impact on their broader organisations.

Topical requirements are a new mandatory component of the Internal Professional Practices Framework which, depending on a function's risk assessment results, must be applied when providing assurance services. Topical requirements on cyber security, third parties, organisational behaviour and operational resilience have been finalised / released for consultation during 2025. Each topical requirement becomes effective 12 months after it has been issued. The cyber requirements will become effective from February 2026 with the third-party risk management requirements becoming effective in September 2026. Internal audit teams will need to integrate these into methodologies and develop awareness to ensure conformance. In areas such as organisational behaviour, this is likely to require an uplift in capability for many internal audit departments.

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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 year on preparations for the new declaration on the effectiveness of material controls. The FRC continues to call 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?

These changes are applicable for periods commencing on or after 1 January 2026.

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Where are others on 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 29.

Objectives

Purpose, strategy & business model

↔

Risks

Principal Risks including operational, compliance, fraud, information & technology risks

External reporting—financial and non-financial

Risk appetite

Risk management strategies—tolerate, transfer, treat, terminate

↔

Controls

Material Controls

Other controls including monitoring activities

↔

Assurance

Assurance strategy

Integrated assurance across the three lines of defence and, where relevant, external assurance

↔

Oversight

Reporting to management & the board

Monitoring & review by the board

↔

External reporting & declaration

Description of the risk management and internal control framework

How the board has monitored and reviewed the effectiveness of the risk management & internal control framework

Declaration of effectiveness of material controls as at the balance sheet date

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

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. These are the activities we are seeing in organisations where thinking is well-progressed:

- challenging the existing list of principal risks and refining accordingly;
- considering the risk appetite for each principal risk and identifying or developing any risk indicators that are needed to identify where a risk is moving out of appetite;
- ensuring the material controls population is focused at the appropriate level, mapped to the principal risks and continuing to challenge and refine the number of material controls;
- understanding the levels and nature of assurance that exists across the three lines of defence in relation to the identified material controls;
- considering the use of self-certification and whether this will be sufficient or needs to be supplemented to meet the comfort levels required by the board;
- confirming what evidence and testing the board will want to see to support the declaration;
- planning a dry-run of the process for the declaration and engaging with all stakeholders (including the auditors); and
- preparing early drafts of the declaration to agree an appropriate and acceptable form of wording, including in relation to the threshold for reporting material controls deemed not to be operating effectively.

A less well-progressed area, which a number of boards are now turning their attention to, is how to evaluate findings in relation to the effectiveness of material controls and to determine what would constitute a material control NOT operating effectively.

Undertaking an effective dry run

Following on from the different components of the framework set out above, here we have set out what we believe are the five building blocks you should have in place before undertaking a dry run.

Definition of material controls	Measure of effectiveness	Assurance plan	Reporting to the board	Template for the disclosure

We strongly recommend that a dry run is scheduled into your Provision 29 programme activities. An effective dry run process should facilitate stakeholder engagement and help you confirm or identify issues with:

- The material control definition/population
- What will count as a material control not operating effectively (taking into consideration the performance of a network of supporting controls)
- Sufficiency of evidence/assurance for the board and audit committee to be comfortable making the declaration
- Sufficiency of documentation/assurance for the external auditors to be comfortable with the content of the proposed declaration under their responsibilities

09 | Getting ready for the new Provision 29

- How well the proposed disclosure explains the approach and the conclusion

To be fully reflective of the final process, the dry run should include presentation to the board and/or audit committee of the wording of the dry run declaration. Without this step, it will be hard for those making the declaration to make the connection between the outcomes of testing and the disclosure.

A structure for your disclosure

We are regularly asked for a template disclosure or any early examples. In keeping with the FRC's consistent mantra that boards need to "think for yourselves" and to reduce the risk of boilerplate disclosure, we have resisted providing an illustrative template for the declaration but we have instead recommended a structure for the disclosure for companies to tailor in line with their particular circumstances and approach. This is included on page 13 of our publication Governance in focus: Risk, controls & assurance.

In terms of early examples, we are not aware of any company planning to provide the declaration early but it is something we will be watching out for during the forthcoming reporting season.

Some recent messages from the FRC

In September, we were pleased to be joined by Maureen Beresford, Head of Governance & Stewardship at the FRC, at our Deloitte Academy Audit Committee Update. Here are some highlights of the messages Maureen shared in that session:

On expectations around the reporting.....

- the FRC has no expectation that companies will report in line with the new Provision 29 ahead of the December 2026 annual reports, especially the declaration

- thinking that this will be approximately a page to a page and a half of disclosure

On situations where a material control has not operated effectively....

- where for example a material control had failed in February and it has been fixed by May, there is no requirement to report on that failure and how you fixed it but it might be that you want to do that for transparency particularly if it is something that has been the in public domain

- the FRC is not expecting companies to release details of any cyber failings beyond what they would normally do in the course of a failing

On convergence of approach across the FTSE....

- the FRC is not expecting to see companies adopt the same approach, have the same number of controls or the same reporting approach

- instead it is hoping for very different approaches from companies – it is very much a "company owned" approach that is sought

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On FRC oversight of the new disclosures.....

- the FRC will not be opining on whether your material controls are the right ones and whether you have the right number – the FRC does not have the powers to get into those conversations - it is very much a company decision based on internal discussion
- the FRC will not be providing wording for the declaration

On the quantum of material controls....

- finding that most companies are somewhere between 30 and 60 material controls (with a peak of 35 to 40) and still being revised down as we speak
- companies in the financial sector tend to be at the top end and slightly over that number of 60

On where the heavy lifting is happening....

- generally this seems to be coming up through the audit committee, but working with other committees as appropriate and also using the first, second and third lines of defence
- it is hoped that an approach which draws on different functions within the company spreads the understanding and knowledge

Questions audit committees should be asking in relation to preparations:

- How does the population of material controls reconcile to the principal risks?
- Are we happy that the principal risks still reflect our risk profile in a highly volatile environment?
- Is there a clear link between our assessment of the effective operation of the material controls and our risk appetite for each principal risk?
- What material controls have been included in relation to reporting (both financial and non-financial)?
- Have we prepared an assurance map for each of the material controls?
- To what extent are we relying on self-certification for assurance over the material controls?
- What will the role of each of the three lines of defence (including internal audit) be in providing assurance?
- Are we planning to do a dry run of the entire process from identification of material controls through to a draft declaration? If so, what is the timetable?
- Can you share a draft of the proposed disclosure for discussion by the audit committee?
- Has our proposed approach been discussed with the external auditors? Did they have any concerns?

09 | Getting ready for the new Provision 29

Some considerations for Investment Trusts

We have received a number of questions about how Investment Trust boards should be approaching Provision 29 (or Provision 34 if following the AIC Code) given the third party management relationship.

Third party investment managers will already have risk management and internal control frameworks and will be reporting on these to Investment Trust boards. In theory no new or additional activity should be required but the Investment Trust board or audit committee might want to question the manager about their assurance processes (particularly where there is no internal audit function).

Responsibility for the declaration cannot be outsourced to the investment manager, it is a board declaration and, as such, there may need to be open and frank discussions with the service provider to ensure that they have the relevant controls or that they are open to improving their processes to give the comfort necessary based on the specific circumstances and risk profile of the Investment Trust.

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

As part of our series of Corporate Reporting Insights, 'Controls & assurance – laying the foundations for the new declaration on the effectiveness of internal controls' looks at how 50 FTSE 350 December 2024 reporters explained their approach to controls and assurance. The report considers whether the disclosures provide adequate transparency of how the board is discharging its responsibilities as it gets closer to providing the new declaration.

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

10 AI assurance

10 | AI assurance

Third-party AI assurance has a vital role to play in building trust in AI systems; this has been recognised by the UK government as a critical enabler for the UK to realise the full potential of AI. Done well, AI assurance can remove some of the inhibiting factors to effective AI deployment, addressing challenges around governance, risk and compliance. In this article we introduce Deloitte's Trustworthy AI framework and help you position the questions you have around AI assurance to your management teams.

What is AI assurance?

In November 2024, the government set out a vision for the future of AI assurance in Assuring a Responsible Future for AI. This set out a vision for wide-scale adoption of AI, focusing on the enabling factor of AI assurance towards "safe and responsible AI".

The UK government actively supports the development of a robust AI assurance ecosystem. Its Trusted Third-Party AI Assurance Roadmap published in September outlines a multi-stakeholder approach to professionalising the industry. This roadmap aims to address challenges such as the quality of AI assurance, skills shortages and access to information, by proposing initiatives like a UK consortium to establish an AI assurance profession, developing a skills and competencies framework and launching an AI Assurance Innovation Fund.

In his Ministerial foreword to Assuring a Responsible Future for AI, Peter Kyle, Secretary of State for Science, Innovation and Technology, said: "AI assurance provides the tools and techniques required to measure, evaluate, and communicate the trustworthiness of AI systems, and is essential for creating clear expectations for AI companies – unlocking widespread adoption in both the private and public sectors. A flourishing AI assurance ecosystem is critical to give consumers, industry, and regulators the confidence that AI systems work and are used as intended."

Fundamentally, AI assurance helps to demonstrate the safety and trustworthiness of AI systems and their compliance with existing and expected future standards and regulations. It is a key driver of safe and responsible AI innovation.

10 | AI assurance

Deloitte's Trustworthy AI Framework

AI assurance is not merely a technical exercise; it is a strategic imperative that underpins responsible innovation and sustained value creation.

Deloitte's approach to AI assurance is built upon its Trustworthy AI framework, which provides a comprehensive lens through which to assess and manage AI risks and opportunities. This framework is structured around three key pillars, designed to give boards confidence to scale safely:

Organisational readiness	This pillar focuses on assessing the enterprise-level governance framework, risk management processes and control mechanisms. It involves establishing clear AI governance policies, identifying and mitigating AI-related risks across operational, ethical and technical domains and implementing robust controls to ensure AI systems operate within defined parameters while meeting business objectives and regulatory requirements. For directors, this means ensuring that the organisation has the right structures, policies and accountabilities in place to manage AI effectively.
Legal and regulations	This pillar assesses compliance with relevant regulations. This includes AI-specific regulations (such as the EU AI Act), data protection laws, sector-specific regulatory requirements (e.g., PRA/FCA for UK financial services), intellectual property requirements and liability frameworks, all while addressing ethical considerations and regulatory obligations. This helps boards to ensure their organisation is not only compliant with current laws but also prepared for emerging regulatory landscapes.
Technical foundations	**Model:** This involves testing data quality/bias, model performance, accuracy, bias detection and robustness to ensure reliable outputs and optimised decision-making capabilities. **Platform & Infrastructure:** This examines the security posture of AI systems, evaluating data protection measures, system vulnerabilities, architectural resilience against cyber threats and third-party provider considerations. The underlying technology must be secure, robust and resilient.

10 | AI assurance

Key questions to ask your management team

Enterprise controls: Is our organisation set up to manage our AI transformation with the right governance arrangements, including roles and responsibilities, policies and risk-based systems for managing AI risks? Do we have the right touchpoints throughout the AI lifecycle and robust response plans for incidents? What needs to be added or amended?

Compliance: Do we understand the range of regulations and laws that apply to each of our AI use cases and are we confident that we are compliant? Have we considered expected future changes to regulatory requirements? Are we linked into industry bodies that will enable us to keep track of emerging trends?

AI Supply Chain: Do we understand our position in the AI supply chain and the needs we have from our suppliers, or the duty of care to our customers, to ensure our use of AI is trustworthy and safe?

Risk-based oversight: Do we understand the full range of AI tooling in our enterprise and which AI use cases pose a greater risk or have a lower level of control?

AI Use Case Performance: Has the right AI use case testing been undertaken prior to launch and is an appropriate programme of in-life monitoring in place to ensure benefits stay optimised, risks are identified and deviations from intended outcomes are detected?

Infrastructure: Is our platform and infrastructure (and that we procure from any third parties) appropriately secure, robust and resilient to support our AI ambitions?

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Corporate reporting

11 Corporate reporting reminders

11 | Corporate reporting reminders

In this article we highlight the key themes from the FRC's Annual Review of Corporate Reporting 2024/25. We also provide some insights into other corporate reporting matters, being the directors' remuneration report and corporate governance reporting.

Annual Review of Corporate Reporting

The FRC published its Annual Review of Corporate Reporting covering the issues arising from the 2024/25 review cycle. This year, the FRC looked at 222 companies, of which 38% 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 quality gap in reporting between companies within the FTSE 350 and other companies. The FRC noted that the number of restatements prompted by their reviews has fallen this year compared to the previous three years. The most frequently raised issues remain consistent with recent years, including impairment of assets, cash flow statements and financial instruments.

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	24/25 Status
1	Impairment of assets	=
2	Cash flow statements	=
3	Financial instruments	=
4	Presentation of financial statements	↑
5	Revenue	↓
6	Strategic report and other Companies Act 2006	=
7	Judgements and estimates	=
8	Income taxes	↓
9	Consolidated financial statements	↑
10	TCFD, CFD and climate-related narrative reporting	↓

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 2025 , our one-stop guide covering the issues relevant to the preparation of the annual report.

11 | Corporate reporting reminders

Key expectations for 2024/2025 annual reports

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

- Ensure the company has a sufficiently robust review process in place to identify common technical compliance issues.
- Ensure clear and consistent disclosures about judgements, uncertainty and risk are provided that are sufficient for users to understand the positions taken in the financial statements.
- Ensure the strategic report includes a fair, balanced and comprehensive review of the company's development, position, performance and future prospects.
- Take a step back and consider whether the annual report and accounts as a whole:
  – tells a consistent and coherent story throughout the narrative reporting and financial statements
  – is clear, concise and understandable
  – includes all material and relevant information, including information not specifically required by standards, where it is necessary for users' understanding
  – includes only material and relevant information – good quality reporting does not necessarily require a greater volume of disclosure.

11 | Corporate reporting reminders

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

During 2025, the FRC has published a number of thematic reviews with their key messages summarised below:

Area	Key messages
Investment trusts, venture capital trusts and similar closed-ended entities	• Provide sufficient and meaningful quantification of the significant unobservable inputs/assumptions used in determining the fair value of relevant Level 3 fair value measurements (L3 measurements), for example, by disaggregating the amounts or including weighted averages when a wide range of inputs is disclosed. This disclosure should extend to adjustments applied to third-party valuation information, such as NAV statements. • Disclose sensitivity analyses for L3 measurements that are sufficient to satisfy the relevant requirements under IFRS, and FRS 102 where applicable. • Clearly explain which valuation technique(s) have been used in determining L3 measurements at the reporting date. • Provide reconciliations of APMs to their closest GAAP measures, or calculations/explanations when APMs cannot be reconciled directly to the financial statements. • Define and label APMs clearly and avoid comments that could indicate APMs have more authority than GAAP measures. Any refinements to APMs or changes in their use should be clearly explained. • Clearly explain the basis for determining whether the IFRS 10 investment entity definition is met, supported by relevant company-specific information, when this involves significant judgement.

11 | Corporate reporting reminders

Area	Key messages
Share-based payments	• Clearly explain the valuation technique(s) used, and the assumptions made, in determining the fair value of instruments granted. • Disclose judgements made and accounting policies applied where there is a choice of how a share-based payment is settled. Careful consideration should be given to the implications of any cash-settlement on the classification of the awards as a whole. • Focus on providing material disclosures that are clear and concise, and internally consistent. Where appropriate, seek to cross reference or aggregate information to avoid duplication. • Assess whether there are excess tax deductions in respect of share-based payments and consider whether any such excess has been excluded from profit or loss and recognised directly in equity. • Consider the effect of group arrangements on individual companies and distributable reserves.
Climate-related Financial Disclosures by AIM and Large Private Companies	• Provide, in the annual report and accounts, all the disclosures required by the Act. Cross-referring to information presented outside the annual report and accounts does not comply with the requirements of the Act. • Present an entity-specific analysis of the resilience of the business model and strategy, taking into consideration different climate-related scenarios. This can be prepared on either a qualitative or quantitative basis. • Describe the targets used to manage climate-related risks, and to realise climate-related opportunities, and the KPIs used to measure progress against these targets. • Explain, where material and relevant, the financial statement effect of strategies introduced to manage climate-related risks and opportunities. • Ensure disclosures are clear, concise and entity-specific.

11 | Corporate reporting reminders

Annual Review of Corporate Governance Reporting
In November 2025, the FRC published its 'Annual Review of Corporate Governance Reporting' which is based on an analysis of the governance reporting from a sample of one hundred randomly selected companies across the FTSE 100, FTSE 250, and Small Cap segments.

As last year, the FRC notes that there have been many positive developments in governance reporting, in particular in areas such as company purpose, culture and values, shareholder and stakeholder engagement and diversity and inclusion. The review highlights the benefits of moving towards more outcomes-based reporting, focusing less on the inclusion of lengthy policies and more on describing the actions taken during a given year, and the impact those actions have had.

To help companies to streamline their governance reporting, the FRC suggests considering the following points:

- Focusing on board actions and outcomes cutting down reporting on matters without involvement from the board
- Avoiding narrative that might not be material for readers of the annual report
- Eliminating generic statements that offer little or no insight
- Avoiding duplication in areas such as stakeholder engagement or risk management
- Minimising repetition of language from the Code or other regulation or guidance without offering context or practical insight.

Throughout the report, the FRC also draws out key messages that might help companies to strengthen their reporting in the areas covered by the Code:

- Clear and specific explanations of non-compliance with the Code better inform and support stakeholder understanding.
- Explaining how the directors promote the desired culture can demonstrate how they model the behaviours that reflect the company's values.
- Reporting on shareholder activities carried out and outcomes achieved provides greater clarity for readers on the work undertaken by the board during the year and how their perspectives inform decision making.
- Annual reports could be made more informative and valuable to investors if companies disclosed the specific factors they consider when evaluating directors' time commitments moving away from a numerical approach to overboarding.
- Provide company specific and time relevant information on the role of the Senior Independent Director (SID) (not just repeating the wording in Provision 12) and explain the activities of the SID during the year.
- Where the Code includes specific responsibilities for the board committees and calls on the committee to explain their work, the expectation is that the disclosure should confirm whether each of the assigned responsibilities have been met.
- Reporting on interactions with the FRC's Corporate Reporting Review and Audit Quality Review teams provides valuable transparency to investors. The appropriate length and detail of the disclosure depends on the nature of any interactions.

12 Sustainability reporting: recent developments

12 | Sustainability reporting: recent developments

In last years 'On the board agenda 2025' we set out the expected activities and timetable for developments across the sustainability reporting landscape. It is fair to say that those expected activities have taken longer than anticipated and, as a result, the timetable has slipped. This summary reflects new and recent developments as of this report's publication date. However, the narrative and sustainability reporting regulatory landscape is updating regularly as different pieces of regulation fall into place, for the latest position please refer to Closing Out.

Before updating on developments for the future sustainability reporting landscape, we just want to make clear that the requirements for UK companies for the current 2025/26 reporting season are unchanged.

Area of the future landscape	Current status	Further resources
Adoption of International Sustainability Standards Board (ISSB) Standards in the UK	• The UK government intends to adopt the ISSB standards for use in the UK in the form of UK Sustainability Reporting Standards (UK SRSs) • A consultation on draft UK SRS has now closed and a final endorsement decision is expected • Once endorsed, UK SRS S1 and UK SRS S2 will then be available for use by UK companies on a voluntary basis • Mandatory requirements to adopt UK SRSs will come first for listed companies following a consultation by the Financial Conduct Authority on including compliance with the new UK SRSs in the UK Listing Rules – the current timetable for this is uncertain • The UK government will consider separately how to integrate UK SRSs into the UK legislative framework for unlisted companies, and the scope of companies for which it intends to apply the standards	UK developments section of Closing Out page 20

12 | Sustainability reporting: recent developments

Area of the future landscape	Current status	Further resources
Further development of the ISSB standards	• The ISSB standards are in the process of being amended and / or enhanced in relation to disclosures on greenhouse gas emissions and incorporating updates to the Sustainability Accounting Standards Board (SASB) industry standards • It is not clear at this time whether and how the UK government will reflect future changes to the base ISSB standards in UK SRSs	Amendments to greenhouse gas emissions disclosures Enhancements to the SASB industry standards
Proposed amendments to the Corporate Sustainability Reporting Directive (CSRD)	• In February 2025, the EC published the "omnibus package" that aims to reduce significantly the sustainability reporting burden imposed by the CSRD • The CSRD directly affects UK companies if they have securities (shares or debt) listed on an EU regulated market but also applies directly to EU subsidiaries of UK companies that are in scope • The omnibus package proposals will simplify and reduce the scope of organisations that are required to apply the CSRD but need to be transposed into the domestic law of each jurisdiction • The European Parliament, European Commission (EC) and Council of the European Union (Council) have reached a provisional agreement on the revised scope of the CSRD according to which sustainability reporting will only be required for EU companies with more than 1,000 employees and net annual turnover generated in the EU of €450 million	'Need to know' on the omnibus package Provisional agreement on revised scope of CSRD

12 | Sustainability reporting: recent developments

How ready are UK companies for climate-related reporting under UK SRS?

In one of our annual "Corporate Reporting Insights" series we looked at annual reports of the first 30 annual reports issued by FTSE 100 reporters in 2025 and considered how ready those companies are for climate-related reporting under the draft UK SRS.

As a reminder, the draft climate standard, UK SRS 2 Climate-related Disclosures, incorporates the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and Recommended Disclosures. UK listed companies already make disclosures consistent with TCFD as required by the UK Listing Rules. However, there are some differences between the TCFD recommendations and the disclosure requirements in the draft UK SRS S2 which we considered and highlighted as part of this survey.

Some of the key findings included:

- **63%** of companies referred to UK SRS or ISSB and 7% of companies specifically stated that ISSB standards had been taken into consideration when preparing current year disclosures
- **All companies** disclosed that some form of scenario analysis had been performed with the number of scenarios used ranging from two to nine
- **47%** of companies included disclosures that were identifiable as plans to transition to a low-carbon economy, an additional **43%** provided some, but more limited information that indicated how targets would be met but lacking sufficient granularity and specificity to represent a plan
- **77%** of companies included some information on the potential impact of climate-related issues on their financial performance and position with nearly three-quarters of those companies providing qualitative information only
- **All companies** had at least one climate-related target which always included a Scope 1 and 2 GHG emissions reduction target; **80%** of companies also included some Scope 3 GHG emission reduction targets
- **97%** of companies disclosed metrics for one or more of the 15 categories of Scope 3 emissions. **77%** of companies commented on the challenges of obtaining Scope 3 data
- **90%** of companies obtained external assurance over selected sustainability reporting metrics

We also drew out key actions for boards to take in this survey, please see our report for more details.

13 International taxation

13 | International taxation

The global tax landscape has continued to evolve throughout 2025 and shows no sign of slowing down in 2026. The complexity of navigating the international tax landscape is widely recognised and there is renewed focus on simplicity and certainty, both at the OECD and by tax authorities, including in the UK. This article sets out an overview of what is coming down the track in international tax in 2026.

Introduction

Pillar Two remains at the forefront of the international tax policy agenda, with first filings due in many countries in June 2026. Work continues on simplifications as part of the OECD Inclusive Framework, including a permanent safe harbour and how the rules will interact with the US tax system. Updates have been made to the commentary to the OECD Model Tax Treaty to ensure that it keeps pace with modern ways of working, particularly in respect of cross-border remote working at home.

From a UK perspective, the government is contemplating a new transfer pricing documentation requirement, as well as simplifications to the UK's transfer pricing, permanent establishments and diverted profits tax legislation. For more details on the UK taxation landscape refer to our article on UK taxation.

Pillar Two – global minimum tax

The Pillar Two rules apply to large multinational groups with annual consolidated group revenue of at least EUR 750 million and result in "top-up" tax amounts to bring the overall tax on profits in each country where a group operates up to a 15% minimum effective tax rate. The key components are:

- qualified domestic minimum top-up taxes (QDMTTs) which allow jurisdictions to charge any top-up taxes due in respect of local profits;
- the income inclusion rule (IIR) under which parent company jurisdictions apply the top-up tax rules on a top-down basis; and
- the undertaxed profits rule (UTPR) which will apply as a secondary (backstop) rule where the other rules have not been fully applied.

Safe harbours are available, including a three-year transitional safe harbour based on a company's country-by-country report and/or financial statements. The OECD Inclusive Framework is working on a much sought-after new permanent safe harbour and will continue to work on further simplifications to the Pillar Two rules during 2026.

The UK began to apply its IIR and QDMTT in 2024. First filings for many countries, including the UK, are due by 30 June 2026, although some local variations exist for QDMTT filings – access Deloitte's Global Pillar Two Legislative Tracker for more information.

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In June 2025, the G7 countries released a statement describing the framework for a “shared understanding” in relation to the interaction of Pillar Two and the US tax system. The “shared understanding” contemplated a proposal for a “side-by-side” system, under which US parented groups would be excluded from the Pillar Two IIR and UTPR on both US and non-US profits in recognition of the existing US tax rules to which they are subject. US parented groups will remain subject to QDMTTs in local countries. The side-by-side proposal is now being considered by the 145+ OECD Inclusive Framework countries with a view to enabling widespread implementation.

Pillar One - reallocation of taxing rights to market countries

Momentum on Pillar One tapered off during 2025, with Amount A (including associated changes to digital services tax regimes) seeming unlikely to be implemented any time soon, particularly as it will need US congressional approval. Meanwhile, Amount B, a simplified transfer pricing approach for pricing baseline marketing and distribution activities remains under debate but can be applied by low- and middle-income countries from 1 January 2025 and is in the process of being put into regulations in a handful of other countries, including significantly the US, for application domestically.

Cross-border working

In light of the increasing globalisation of the workforce and changes to ways of working enabled by modern technology, the OECD has published helpful commentary clarifying when remote workers may create a permanent establishment for their employer overseas. The updated commentary will be incorporated into a revised version of the OECD Model Tax Treaty that will be published ‘in the next few months’. Other questions on remote working issues, including corporate residence, attribution of profits to permanent establishments and transfer pricing, as well as employment tax obligations and personal residence questions, are expected to be dealt with in future OECD Inclusive Framework projects. The scope of this work is anticipated to be agreed in the first few months of 2026.

Transfer pricing

In 2025, the UK government consulted on the potential introduction of a new annual transfer pricing reporting requirement, the International Controlled Transactions Schedule (ICTS), for the reporting of cross-border related party transactional data to HMRC. The government also consulted on potential changes to the exemption from transfer pricing for small and medium-sized entities (SMEs), including the removal of the exemption for medium-sized enterprises. An update is expected on whether the government will take these proposals forward.

Separately, in 2025, the UK government published draft legislation for proposed simplifications and technical changes to transfer pricing, permanent establishments, and diverted profits tax (DPT) legislation. The changes include a general exemption from UK-UK transfer pricing where the related parties are both UK resident companies subject to corporation tax at the same rate, as well as the removal of DPT as a standalone tax and replacement with new rules within corporation tax.

13 | International taxation

Simplification and tax certainty

The OECD is expected to continue its renewed focus on simplification in 2026, with exploratory work to be undertaken on making cross-border tax rules simpler, potentially including further aspects of transfer pricing.

The OECD will also continue its work on tax certainty, including access to cross-border dispute prevention and resolution mechanisms, such as the mutual agreement procedure (MAP) and bi-lateral advance pricing agreements (APAs). The UK government affirmed its own commitment to tax certainty in its October 2024 *Corporate Tax Roadmap*, including through a new process that would give investors in major projects increased advance certainty. The UK government consulted on the proposed new process in 2025 and intends for it to be implemented in 2026.

Resources to help you stay ahead

For more detailed commentary and analysis, visit our tax@hand website which provides regular global and local tax news and updates.

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14 UK taxation

14 | UK taxation

The Government and Chancellor in the UK have been facing well-publicised economic challenges and publicly contemplating tax policy and tax rises. In this context, 2025's Autumn Budget – now a once yearly fiscal event – has been significant for the UK, setting out taxation and spending plans that will affect the remainder of this Government's term in office.

In this article, we flag some of the key Budget announcements affecting businesses.

The UK Chancellor of the Exchequer ("the Chancellor"), Rachel Reeves, delivered her second budget on 26 November 2026. Despite the OBR's anticipated reduction in productivity growth, the Chancellor delivered a bigger than expected improvement in the outlook for the public finances. The Chancellor aims for her announcements to boost economic growth, support public services, and address the cost of living.

A summary of the main tax announcements affecting businesses:

Corporate tax roadmap	Headline announcements include: • Retaining the main corporation tax rate at 25%. • Retaining the GBP 1 million annual investment allowance. • 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. • From 1 April 2026 for corporation tax and 6 April 2026 for income tax, main rate writing-down allowances will reduce from 18% to 14% for assets that do not benefit from full expensing. To preserve incentives to invest, the government will introduce a new 40% first-year allowance (FYA) for main rate expenditure—including most expenditure on assets for leasing and expenditure by unincorporated businesses. Cars, second-hand assets, and assets for leasing overseas will not be eligible.

14 | UK taxation

Support for entrepreneurship and growth	The Government is widening eligibility for the Enterprise Management Incentives (EMI), Venture Capital Trust (VCT), and Enterprise Investment Scheme (EIS) regimes to allow companies to benefit from the schemes as they grow beyond the start-up phase. The main features of this change are: • To better balance the amount of upfront tax relief offered by VCTs compared to EIS, the government is reducing the upfront VCT income tax relief from 30% to 20%. • As from 27 November 2025, new UK listing relief will provide an exemption from stamp duty reserve tax for companies listing on UK markets for three years from the point the company lists on a UK regulated market. The Government has also published a call for evidence seeking views on the effectiveness of the existing tax system for business founders and growing businesses and how the UK can better support companies to start, scale, and stay in the UK. The call for evidence will close on 28 February 2026
Cap on salary sacrifice for pensions	• Relief for national insurance contributions (NICs) on pension contributions made through salary sacrifice arrangements will be removed for contributions above GBP 2,000 per year as from April 2029. • Employees who contribute up to GBP 2,000 into their pension each year via salary sacrifice can continue to benefit in full, but employee and employer NICs will be charged in the usual way on the amount above GBP 2,000.

14 | UK taxation

Other tax announcements include:

- **Business rates** – The Government is introducing permanently lower rates for over 750,000 retail, hospitality and leisure properties, worth nearly GBP 900 million per year. This will be funded by an increase in rates on properties with a rateable value of more than GBP 500,000. A package of support worth over GBP 4.3 billion will be provided over the next three years for businesses seeing increased bills following revaluations. The Government is also taking the next steps to reform business rates by publishing a call for evidence exploring how to tackle barriers to investment.
- **Increase to income and property taxes** – Personal income tax and national insurance thresholds will be frozen for a further three years to April 2031.. Most rates of income tax on property, dividend and investment income will increase by 2%, as from 6 April 2026 for dividends and 6 April 2027 for other income. Finally, a high value council tax surcharge will be introduced for owners of residential property in England worth GBP 2 million or more, starting in 2028/29.
- **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 2027.

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

Over the past two AGM seasons the nature of the conversations regarding FTSE executive pay has shifted and this has resulted in some notable market developments, overall leading to a significant step forward towards a more open environment where companies have greater flexibility to design pay arrangements which better suit their commercial circumstances and business strategies. In this article we examine the background and the progress over the 2025 AGM season, with some reflections on areas where change may still be desirable.

Background

Over the past two AGM seasons the nature of the conversations regarding FTSE executive pay has shifted and this has resulted in some notable market developments. In 2023, various stakeholders including the Capital Markets Industry Taskforce (CMIT) highlighted the lack of a level playing field in relation to governance of executive remuneration. This was seen by many to be limiting the ability of UK businesses to recruit and retain talent, which in turn was impacting the overall competitiveness of the UK market.

Over the past decade there has been little variation in market practice in FTSE executive pay with c.90% of the market operating very similar pay structures. Making changes to pay was often difficult and many remuneration committees were reluctant to risk lower votes on remuneration resolutions because of the knock-on shareholder and reputational impact.

Across the various calls for reform on remuneration, there were two consistent themes: (i) a need for there to be more flexibility for companies to design pay arrangements that better suit their specific business and talent strategies; and (ii) a need for there to be more trust between companies and shareholders on pay.

During the 2024 AGM season, there were examples of large global FTSE listed businesses increasing incentive opportunities to better reflect the international talent market in which they operate. We also saw two companies adopting a 'hybrid' LTIP structure, where performance shares awards are granted alongside shares with time-based vesting only. This hybrid model represents mainstream practice in the US, but was historically uncommon in the UK due to investor pushback. After seeing many of these proposals approved in 2024, there was optimism that this represented 'green shoots' for change towards a more flexible and open environment.

In October 2024 the Investment Association (IA) published their revised Principles on Executive Remuneration. The IA has a significant role in influencing best practice in the UK market and the new principles were seen as an important signal that shareholders were adopting a more open stance.

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The 2025 AGM season

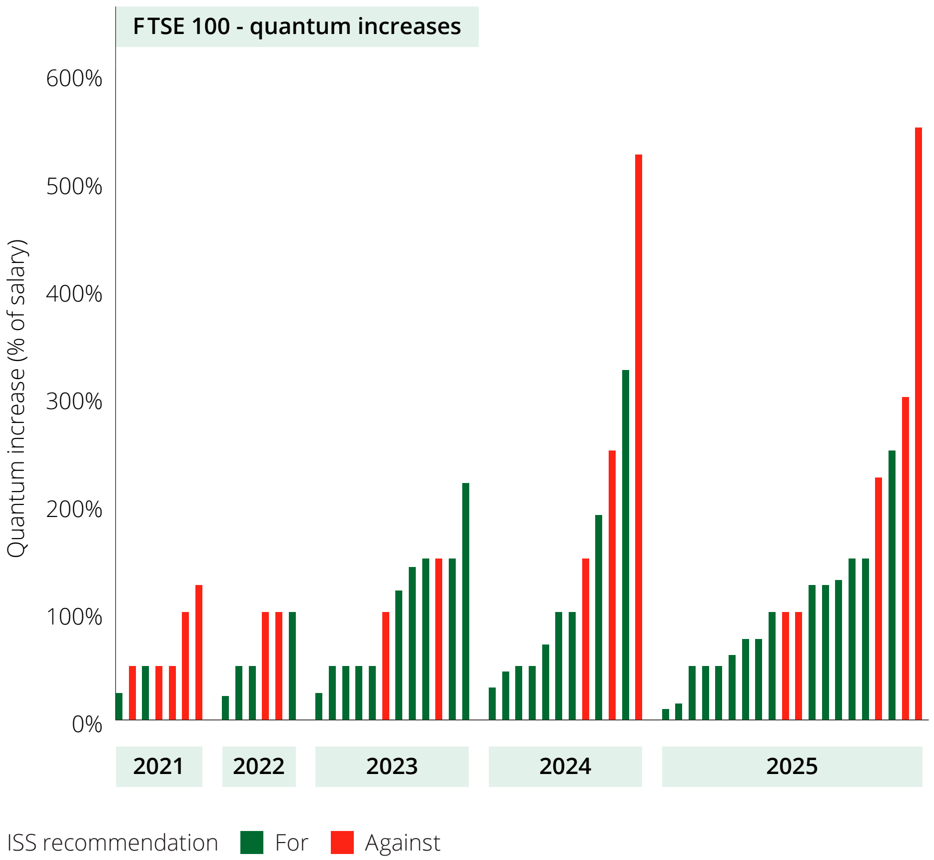
The pace of change further accelerated during the 2025 AGM season. Around 40% of FTSE 100 companies submitted a new policy to shareholders, of which c.30% were companies who had opted to 'go early' (i.e. before they were required under the regulations) indicating a pent-up demand to do something different. Of the new policies put forward during the season, nearly half made significant change to either structure and / or quantum.

There were broadly four developments in FTSE 100 practice over the past year.

Firstly, a number of companies with large global footprints, opted to increase quantum, particularly long-term incentive opportunities. Companies argued that they needed to pay more to compete for international talent, particularly out of the US which remains a premium, but highly relevant, pay market. Shareholders demonstrated support for many of these quantum increases. This is in contrast to the position from only two-to-three years ago, when similar proposals would have received material push-back. There does however remain a line - proxies and shareholders remained unsupportive in relation to certain proposals where quantum increases were considered 'too much'.

Secondly, there has been further examples of hybrid LTIPs, with five more plans being introduced in the FTSE 100. Again, companies have been arguing that paying in this hybrid format is required when competing for talent in the US market.

FTSE 100 incentive increases - bolder proposals and stronger ISS support



15 | UK executive remuneration – an evolving ecosystem

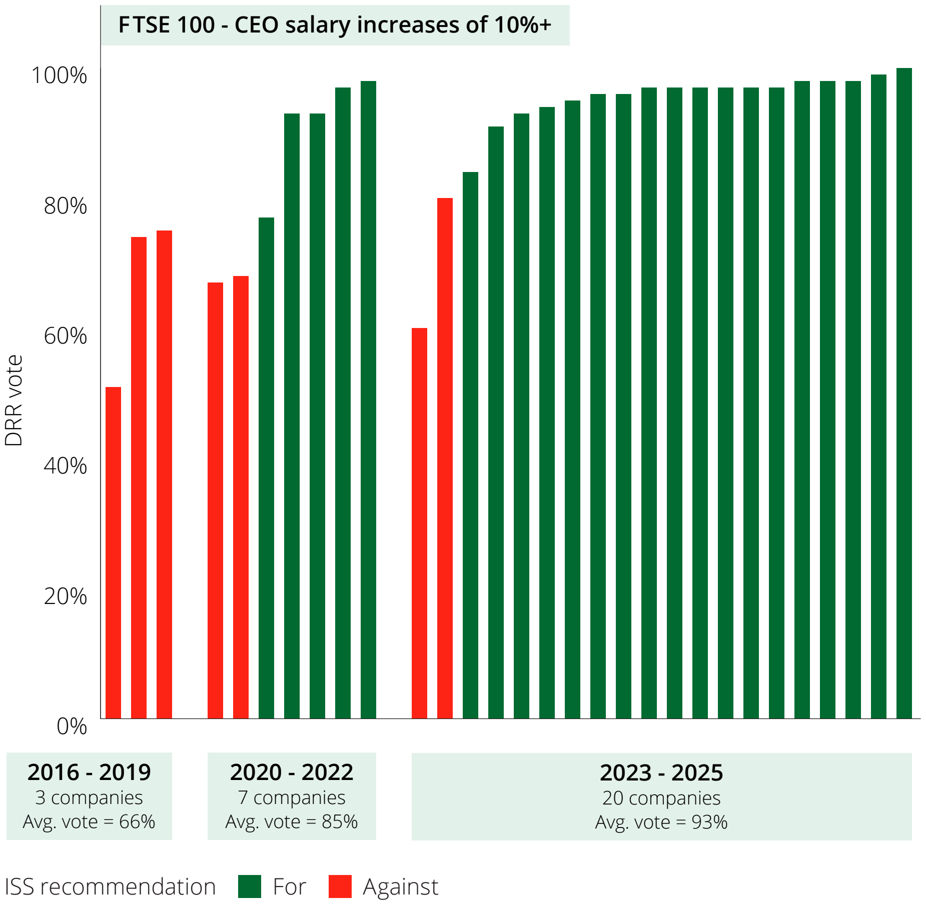
Thirdly, there has been greater flexibility on certain elements of best practice, with some companies opting to scale back or remove the deferral of bonuses into shares once shareholding guidelines had been met, and executives are already significantly aligned with shareholders.

Finally, there appeared to be a more flexible stance on salary increases from investors. Historically making material salary increases was challenging and investor pushback on such proposals was common. Over the last few AGM seasons we have seen more example of FTSE 100 CEO's receiving salary increases in excess of 10%, with the majority of these increases being supported by proxies and shareholders.

Alongside these changes we have also seen greater acceptance from Boards that it is not always possible to receive a near unanimous shareholder support for pay proposals. Committees are increasingly aware that there are divergent views on pay and are therefore willing to accept lower levels of support where they believe that proposals best support the business.

Overall, this direction of travel represents a significant step forward towards a more open environment where companies have greater flexibility to design pay arrangements which better suit their commercial circumstances and business strategies.

FTSE 100 - examples of larger CEO salary increases



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Areas for further change

Notwithstanding the significant changes we have observed over the last two years, frustrations remain between committees and shareholders and there are areas where further change could be helpful.

The first area relates to the use of discretion. Companies often use downward discretion to adjust pay outcomes where the formulaic outcome is not considered to reflect performance in the round, but positive discretion is more rarely used and shareholder responses to this are mixed. In an increasingly volatile and uncertain world target setting for incentives is often highly challenging. In this context, there is arguably a need for companies to have greater flexibility to review outcomes at the end of the period and change these either upwards or downwards where they are not considered to appropriately reflect underlying strategic progress and performance.

The second area of frustration relates to pay structures. While it is positive that we are seeing more hybrid LTIPs in the market, shareholder willingness to consider these alternative pay models continues to be limited to very specific circumstances, most notably when companies are competing for talent in the US. In reality a broader range of companies would benefit from the flexibility to be more innovative around pay structures to reflect their specific business and talent needs.

Examples of alternative pay structures

Long-term stewardship ←→ High performance

Career shares	Restricted shares	Hybrid	Bespoke performance period	Re-balance short and long-term	Performance shares	Enhanced performance shares	One-off transformation plans
Supports long-term stewardship	Supports retention and builds shareholdings	Supports retention and incentivises outperformance	Aligns with strategic timeframes	Greater emphasis on bonus supports agility	Incentivise outperformance	"More for more"	Align reward with strategic transformation

15 | UK executive remuneration – an evolving ecosystem

Reflections

Ultimately some of the challenges we have seen in the UK market come down to an ongoing lack of trust between companies and shareholders over executive pay decisions. Changing this position requires a shift from both companies and shareholders.

From a company perspective, balanced consistent decision making is critical, with transparent and full explanations to shareholders. We have seen progress on disclosure this year, which many shareholders have welcomed. Companies need to continue to be fulsome in setting out the reasons why proposals are right for them in their specific circumstances. Committees also need to adopt an open approach to investor consultation and evolve proposals where appropriate. Finally, boards need to clearly hold executives to account where performance is not delivered and demonstrate this to shareholders in the decisions taken on pay.

In response, companies ask shareholders to consider proposals on a case by case rather than applying blanket principles or rules. This requires shareholders to give time to consultation and engage with the explanations from companies. Companies also place value on being provided with direct feedback on proposals so that they can make informed judgements on whether changes to proposals are required. Finally, there could be circumstances where shareholders could judge proposals on the 'way out' rather than the 'way in', for example, providing support upfront but pushing back at the time of vesting if the outcomes do not feel fair.

Past trends	In transition	The future?
90% of the market use the same structure (bonus with deferral+LTIP)	Green shoots of change - quantum, structure and governance	More innovation and company-specific approach to pay
Increasing quantum difficult	More willingness to receive <80% support	Majority retain bonus and PSP
Companies unwilling to risk low votes	IA guidelines more flexible	More increases - global business - responsible benchmarking required
	Proxies under pressure	Changing role of proxies

15 | UK executive remuneration – an evolving ecosystem

We are in a period of transition in the UK executive pay market and progress so far has been encouraging. Many shareholders have already demonstrated a greater willingness to take a more pragmatic approach and proxy agencies are also shifting in response to this evolving landscape. We hope to see further progress towards a more flexible and open environment on executive pay, which should help companies to recruit and retain the right talent and in turn support UK competitiveness on the global stage.

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