

An aerial photograph of a rowing team in a sleek, narrow boat on a body of deep blue water. The rowers are wearing bright pink shirts and are captured in a synchronized rowing motion, with their oars dipping into the water. The boat is oriented vertically, with the bow pointing towards the top of the frame. A large yellow trapezoidal shape is overlaid on the left side of the image, containing the report's title and subtitle.

Annual reporting in 2018/19

**Engaging stakeholders,
restoring trust**

September 2019 | Sixth edition



Building a better
working world

Contents

Introduction	2
Q&A with Paul Druckman – Chairman, Advisory Group, Future of Corporate Reporting Project, FRC	6
Acid Test	8
Key themes	11
1. Articulating purpose and culture	12
2. Stakeholder engagement and S172 reporting	22
3. Board evaluations and talent planning	34
a. Board evaluations	34
b. Succession planning and diversity	38
c. Over-boarding	44
4. Emerging risks	48
5. Broadened responsibilities of the remuneration committee	54
a. Responsibilities of the remuneration committee	54
b. CEO pay ratio	58
Appendices	60
Appendix 1: Looking ahead: Upcoming reporting developments	60
Appendix 2: About EY's Corporate Governance Team and our resources	64





Ken Williamson
Head of Corporate
Governance, EY UK



Mala Shah-Coulon
Associate Partner, Corporate
Governance, EY UK

Introduction

A company’s annual report and accounts (ARA) is an important and high-profile channel through which boards can communicate how they are delivering value for stakeholders over time. We know from research and our conversations with investors that ARAs are still highly valued — but ongoing evolution is required.

This is partly to meet the expectations of regulators and other stakeholders in a period of sustained and far-reaching corporate governance reform. In the last two years, the UK’s corporate governance framework has undergone a comprehensive review via a Parliamentary Select Committee inquiry, a Government consultation and a fundamental review of the UK Corporate Governance Code by the Financial Reporting Council (FRC). These have resulted in: new secondary legislation requiring larger companies – including private companies – to report, among other things, on their corporate governance arrangements and how their boards have had regard to the likely consequence of any decision in the long term and the interests of stakeholders when making principal decisions; a revised UK Corporate Governance Code (the 2018 Code) for premium listed entities; and other measures, such as the development of governance principles for large private companies.

The new requirements have a significant impact on boards and their committees, who need to demonstrate a clear focus on creating and preserving value over the long term. They need to demonstrate a stronger regard for the interests of all relevant stakeholders in their long-term decision making. Boards need to establish a clear corporate purpose and ensure alignment of this to the company’s strategy, culture and values.

They need to establish clear mechanisms for considering the views of their workforce, and engage with employees to explain how executive remuneration aligns with the wider company pay policy. Careful consideration of board composition is also required, taking account tenure and diversity in its broadest sense to promote robust and independent challenge.

This much we know. But more change is certainly coming, given other regulatory reviews and initiatives still under way that will ultimately reform the wider ecosystem in which companies operate. These include the FRC’s Future of Corporate Reporting Project chaired by Paul Druckman, who shares his ambitions for this initiative on page 6 of this report. Also still progressing are the Brydon review on the future of audit, the Government’s consideration of the Competition and Markets Authority’s review of the audit market, and the Kingman review of the FRC.

All these reviews were instigated in response to the breakdown in society’s trust in business and the ecosystem that supports an active capital market – encompassing management, boards, auditors, investors and regulators. This isn’t a UK-only phenomenon.

Internationally we also see a growing desire for business to do more to restore and build the trust of its stakeholders and wider society. The UK’s corporate reporting framework needs to respond by providing a more complete picture of long-term value creation.

Although the outcomes from all the ongoing reviews are unknown, corporate reporting will remain a vital cog in the wider corporate governance ecosystem. It is one of the key means by which stakeholders hold directors to account. It is also an important influence on the value of an audit: an audit will only have real value if the information in the ARA, on which assurance is provided, is relevant and useful. We need to be clear on what we want directors to report, and where, before focusing

on the question of how audit can and should be reformed to provide the highest quality assurance on the information that matters most to stakeholders.

The current reviews and reform initiatives provide a real opportunity for the UK to lead the way in strengthening corporate governance, corporate reporting and the audit ecosystem. The UK’s governance and reporting frameworks already have a strong reputation around the world. The changes companies will make in their 2019 ARAs under the 2018 Code and secondary legislation in the form of the Companies (Miscellaneous Reporting) Regulations 2018 (MRR), both of which are the subject of this report, should push that reputation a notch higher.

We will see the first reporting against these new requirements in earnest in December 2019 ARAs. However, based on this review of FTSE 350 ARAs for 2018/19 — the sixth in the series — it’s encouraging to see that some companies have made a head start in certain areas. Our report identifies some of these early reporting practices and provides our views on what good reporting and corporate governance practice looks like. We also suggest how companies can develop their reporting in preparation for their next year end to realise the aims and ambitions of the recent regulatory changes.



We encourage companies to embrace the spirit of the 2018 Code and secondary legislation and their aspirations for enhanced corporate governance. Failure to do so risks the imposition of further regulation as future governments look for new ways to restore public trust in business and the capital markets. A far better course is to strive now to achieve the highest standards of corporate governance and reporting – using the ARA as the high quality communications channel it can be.

We hope that those involved in preparing their ARAs will find our publication useful in achieving this objective. We also hope it will provide insights for investors whose engagement with directors is vital to rebuilding trust. As shown by EY's recent research *'Turning the tide to greater corporate accountability'*¹, which assessed how UK-based asset managers and asset owners are currently reporting on and engaging with their investee companies, environmental, governance and social issues rank as top areas

of focus by investors, but there remains room to improve how these (and other focus areas) are reported in investors' stewardship reporting. Greater transparency – both from investors and their investee companies – enables greater accountability. We therefore encourage investors to make use of the new information reported by companies under the 2018 Code and MRR in their engagement activities, and provide directional feedback to help drive improvements. Over time, better reporting by companies should help investors target and improve their engagement and in turn their stewardship reporting.

In line with previous years, we have strived to keep our publication pragmatic, providing practical insights and guidance not only on disclosure requirements, but also on underlying governance processes. The table on page 5 outlines what to look out for in our report depending on your role.

¹ *Turning the tide to greater corporate accountability*, New research into investor stewardship reporting and engagement, EY, September 2019.

How our publication can support you in your role

Directors

Learn about your key new responsibilities, including monitoring and assessing culture, engaging with stakeholders and overseeing emerging risks.

Get a sense of how early reporting practice has developed so far. This may help you influence and oversee the approach being developed/proposed at the companies which you serve.

ARA preparers

Gain practical insights into the new disclosure requirements including current direction of travel so you won't be starting from a blank sheet of paper.

Understand what some investors, the Financial Reporting Lab (FRL) and the FRC are most interested in seeing from the new disclosures.

Investors

Gain insights into how the new focus areas under the 2018 Code and MRR might influence your stewardship activities and trigger different conversations and engagement with boards.

Peer insights – quotes from investors which indicate what they are hoping the new disclosures will help achieve and how companies should be approaching them, should help you develop your thinking as you plan your engagement with companies and their boards.

What to look out for in our report

Directors

- ▶ Overview of findings in each section – should provide you a succinct summary of the early reporting practices we have observed against the 2018 Code and MRR.
- ▶ Our two-page 'acid test' (page 8-9) – will help you challenge management on the story and narrative that the company's disclosures convey.
- ▶ Hallmarks of leading practice – in each section will help you identify what you may like management to address as they draft the disclosures for the next year end.
- ▶ Upcoming reporting developments in Appendix 1 will provide an overview of the developments that management will or are likely to have to prepare for in 2020/21.

ARA preparers

- ▶ Examples of early adoption.
- ▶ Hallmarks of leading practice – should help you develop and progress your disclosures from the early practice we have observed.
- ▶ Investor and FRL quotes.
- ▶ Our two-page 'acid test' (page 8-9) – should help you challenge whether your ARA conveys the key messages cohesively.
- ▶ Upcoming reporting developments in Appendix 1 will help you plan ahead and keep a watching brief on impending developments.

Investors

- ▶ Investor quotes.
- ▶ Our summary of new requirements at the beginning of each section which bring together the relevant aspects of the 2018 Code and MRR.



Q&A with Paul Druckman

Chairman, Advisory Group, Future of Corporate Reporting Project, FRC

Q

You are the Chair of the Future of Corporate Reporting Project Advisory Group. What are the project’s aspirations and, from a personal perspective, what do you want this project to deliver?

There are short-term fixes in the corporate reporting landscape that this project aims to bring forward as recommendations for legislative changes next year. However, from a personal perspective I hope to do more than fix the current system: I would like to paint a vision of where reporting is heading. Reporting can influence behaviour and I would like us to illustrate how this fits into the transformation of the capital market. The drivers for change from the 2018 Code and the (to be published) revisions to the UK Stewardship Code require reporting to at least keep pace. These clearly extend what is currently reported by companies and take us forward, but my aspiration is to look even beyond this.

Allied to this, the ARA of the future must be more than a document: it needs to be a connected architecture of communication – we are working on just that.

Q

Do you think that there will remain a place for the ARA in the future? What needs to change if it still has a place?

Yes, I believe there will be a role for the ARA, although not in its current form. It is complex, too large and still does not cover the ground. Complexity comes from the lack of understanding that the ARA should be the compelling voice of the board – the ARA is not merely a compliance document. Although there is a lot of debate on the purpose of companies and rightly so, we need to shine a light on the board – in my view a board’s purpose is to create value and then to communicate how they fulfil this purpose and responsibility. Our corporate reporting system is currently elitist – and by that I mean you have to be a technical expert to understand it. That is not effective communication.

Q

What is the role of the government, regulators, the audit and accounting profession and investors in driving change in what is reported by companies?

Everyone has a role to drive change in what is reported and there is an appetite for change. From government setting the tone within its industrial strategy; to regulators creating a frame, creating standards (and codes) and providing guidance; the accounting profession providing thought leadership and advising companies; and to investors setting a direction for companies and leading by example.

Q

How can companies better communicate the long-term value they create for stakeholders?

I have been an advocate of value being created by different resources (or stores of value). When I was at the International Integrated Reporting Council, we described the six capitals in order to demonstrate the breadth of thinking away from merely financial capital. Supporting this, the Embankment Project for Inclusive Capitalism (EPIC), which EY pioneered with the Coalition for Inclusive Capitalism and as further discussed on page 7, has really brought to light the need for a broader range of performance indicators to better understand how value – and I mean financial and non-financial value – is created for a range of stakeholders. In time, such work as that of EPIC, the World Benchmarking Alliance and others will help to create some of these broader benchmarks and metrics to compare companies’ performance on value creation. However, in my view, it is not just about long-term value creation – the debate could be rephrased as ‘value creation over time’ i.e., the short, medium and long term. I say this because companies need to generate cashflow and returns now and next month to survive sustainably into the future. They need to have assets now to enable future value creation and need to be clear what aspects of past performance are relevant to value creation in the future.

I think all of this then needs to be communicated cohesively by the board and the ARA is a key channel to do this.

Embankment Project for Inclusive Capitalism (EPIC): The move towards long-term value reporting

As noted in the Q&A with Paul Druckman on page 6, the ongoing debate on the role of companies in creating non-financial value for broader society, combined with questions on whether reporting in its current form is fit for purpose, means that a company’s equity narrative can be difficult to articulate. Companies are therefore increasingly turning to non-financial performance measures to illustrate the value that they create for their wider stakeholders. It is likely that as companies implement the 2018 Code the use of such metrics will only grow as noted in various sections of this report for example, as companies seek to demonstrate how they measure and monitor culture or how they measure the outcomes for various stakeholder groups from the company’s activities and the board’s decisions.

“

Care needs to be taken when publishing non-financial performance measures, to ensure that they are not seen to be ‘cherry-picked’, and that they are relevant within the context of the strategy and purpose of the business. This was the focus for EPIC, which EY pioneered with the Coalition for Inclusive Capitalism. The project tested EY’s methodology for arriving at the most relevant metrics to measure long-term value creation, and also proposed metrics or narrative disclosures in vital areas such as human capital deployment culture, innovation, consumer trust and health and corporate governance. We continue to test the outcomes from EPIC and hope to work with other like-minded initiatives in the future, to continue this journey.

Hywel Ball, Managing Partner Assurance UK & Ireland and UK Head of Audit

At the end of the first phase in November 2018, a report including an open-source methodology was published. The metrics and the underlying methodology are designed to be flexible enough to allow companies to adapt them to their specific circumstances and long-term value narrative.

More information on the project itself, EY’s long-term value framework, and the metrics proposed by participants can be found here: www.inc-cap.com

Acid Test

We have developed an ‘acid test’ as a practical tool for preparers and boards looking to ensure their ARA covers key qualitative aspects of leading practice. These are the key questions we believe a reader should be able to answer having read the narrative report. We update this set of questions in response to new developments and pronouncements.

Throughout this publication we provide further insight to a number of these topic areas.

Purpose, strategy and culture

- ▶ What is the company's purpose? Does it explain why the company exists and how it contributes to wider society?
- ▶ Does the company's purpose clearly inform its strategy?
- ▶ What are the company's strategic objectives? Are they clear and measurable?
- ▶ What is the company's competitive advantage and how is it sustained over time?
- ▶ Which aspects of the company's culture are critical to the operation of the business model and/or the delivery of its strategy and how does the board measure and monitor the extent to which the culture is embedded?
- ▶ How does the board make decisions regarding how capital is allocated across short and long-term priorities? For example, capital investments, R&D activities, shareholder distributions, tax, pensions, employee reward.

Business model

- ▶ How does the company make money?
- ▶ What are the company's key inputs, processes and outputs (for shareholders and stakeholders)?
- ▶ How are the company's key tangible and intangible assets (including its physical assets, IP, people, culture, technology, etc.) engaged in the process of value creation?
- ▶ How does the business model help deliver the strategy and how is it different from others in the sector?

Key performance indicators (KPIs)

- ▶ What are the key metrics the board uses to measure progress against its strategic objectives? Are these leading indicators which truly measure performance against strategy over the long term rather than just output measures?
- ▶ How has the company performed against these metrics over time and how has this influenced the remuneration of key executives?
- ▶ Are alternative performance measures (APMs) clearly signposted and reconciled to GAAP measures? Is their use balanced with GAAP measures?

Risk appetite and principal risks

- ▶ What levels of risk is the board willing to take in pursuit of its strategy and how is this monitored by the board?
- ▶ What are the key risks to the successful delivery of the strategy and operation of the business model and how have these evolved since the last report?
- ▶ What are the risks that pose the greatest threat to the viability of the company i.e., solvency and liquidity risks?
- ▶ How, specifically, might these risks manifest in the company as opposed to generically in the sector?

Risk management and internal control disclosures:

- ▶ How are the principal and emerging risks mitigated and controlled by the company's systems of internal controls and risk management and how does the board monitor these controls?
- ▶ What did the board's review of the effectiveness of these systems and controls encompass and what were the findings?
- ▶ Has the board identified significant failings or weaknesses and is it clear what actions have been or will be taken to address these failings or weaknesses?

Governance

- ▶ What did the board and its committees actually do in the year to govern the company – what specific governance issues arose and how were they addressed?
- ▶ What, if any, changes were made to governance arrangements during the year and why?
- ▶ What areas for improvement were identified from the board and committee evaluations and what progress was made against actions from the previous evaluations?
- ▶ How is board and committee composition and succession planning being managed, giving due regard to the evolving strategy of the company, skills, experience, diversity and tenure?
- ▶ Are the key stakeholders of the company clearly identified?
- ▶ How did the board seek to understand the views of and seek input from both shareholders and stakeholders during the year? Does the board articulate the feedback received from such interactions and any actions taken? How has the board had regard to these groups in their principal decision making?

Viability statement

- ▶ Over what timeframe has the board considered the viability of the company and why? How has the period been rationalised especially where the company is making investment decisions over longer periods?
- ▶ What process did the board use to assess viability?
- ▶ Does the board understand which, if any, severe but plausible risks (or combination of risks) would threaten the viability of the company and has appropriate disclosure been provided?
- ▶ What specific scenario and sensitivity testing has been performed on the model(s) supporting the viability statement and what was the outcome of this testing?
- ▶ What assurance did the board obtain over relevant elements (e.g., stress testing)?
- ▶ What assumptions did the board use in reaching its conclusion?
- ▶ What is the board's view on the wider prospects of the company beyond the period of the viability statement?





Key themes

1.	Articulating purpose and culture	12
2.	Stakeholder engagement and S172 reporting	22
3.	Board evaluations and talent planning	34
	a. Board evaluations	34
	b. Succession planning and diversity	38
	c. Over-boarding	44
4.	Emerging risks	48
5.	Broadened responsibilities of the remuneration committee	54
	a. Responsibilities of the remuneration committee	54
	b. CEO pay ratio	58

1

Articulating purpose and culture

Overview of findings

The number of companies disclosing their purpose and values has been increasing in recent years. Most companies also now refer to corporate culture in their ARA. However, the narrative can come across as generic or lacking connectivity with the rest of the report.

When describing their culture, companies use terms such as 'client-centric', 'open', 'inclusive', 'innovative' and 'based on respect', but do not directly link these characteristics to values or behaviours. The discussion is often split between safety/risk culture and other cultural aspects, suggesting that these are separate from each other, rather than part of a broader organisational culture.

Where ARAs discuss cultural change programmes or the need to embed culture throughout the organisation, only a few explain the divergence between the desired and actual culture. Similarly, few provide meaningful insight into the activities being undertaken to foster the desired behaviours. Disclosure on how culture is measured and monitored is in its infancy, so it is unclear how progress is being assessed by boards.

The challenge companies face in light of the 2018 Code, is to make their disclosure less generic, more meaningful and joined up, and bring out the board's role in promoting the desired culture across the organisation.

New requirements

2018 Code

- ▶ The board should establish the company's purpose (Principle B) taking into account that a successful company generates value for shareholders and contributes to wider society (Principle A).
- ▶ The board should establish the company's values (Principle B).
- ▶ All directors need to promote the desired culture (Principle B).
- ▶ The board needs to satisfy itself that culture is aligned to purpose and values (Principle B), as is executive remuneration (Principle P).
- ▶ The board should assess and monitor the culture (Provision 2) and where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose, values and strategy, it should ensure that management is taking corrective action.

“

Culture is difficult to report on. It is useful to see a combination of narrative, metrics and also some case study examples of culture in action. This helps to show the actual impact of the company's culture.

Rebecca Vine, Senior Corporate Governance Analyst, Aviva Investors

Hallmarks of leading practice and disclosure

- ▶ Disclosure of organisational purpose and values, even though not strictly required under the 2018 Code.
- ▶ Translating values into desired behaviours and supplementing with case studies to illustrate how values are lived in practice.
- ▶ Where purpose is established for the first time, explaining how the board arrived at it and why it uniquely represents the organisation.
- ▶ Clarity on how the desired culture supports the delivery of strategy and operation of the business model, including how culture not only mitigates against risks, but also is an 'asset' that drives competitive advantage.
- ▶ Giving the discussion of culture a prominent position in the ARA e.g., in the chair's statement to emphasise commitment from the top.
- ▶ Where a company is working towards cultural change, describing the current culture alongside actions being taken to move towards the desired state.
- ▶ Clear disclosure of the board's activities to assess and monitor culture, including how the board considered various sources of information available, such as the feedback from workforce engagement, whistleblowing, culture survey results, metrics and other indicators.
- ▶ Disclosure of actions to realign policy, practices or behaviour with the company's purpose, values and strategy – using an open tone of voice and being honest about mistakes of the past.

Making meaningful purpose disclosures

A company's purpose is not the same as its vision or mission statement. The purpose explains why the company exists and for whom, rather than articulating what the company will look like or where it is heading. When articulating purpose, companies need to reflect that profit is a product of the corporate purpose. It is not the corporate purpose.²

To make an impact, the articulation of purpose should be concise, memorable and meaningful to both employees and external stakeholders. Expanding on the statement by providing additional detail can also be valuable. Positioning this explanation within the chair's letter, as done by **Lloyds Banking Group plc** (Figure 1), gives it prominence, a personal touch and emphasises its importance.

Examples: explaining purpose

Pearson plc, 2018 ARA (page 10)

The CEO's statement in the accounts of Pearson plc (page 10) effectively moves from the purpose of empowering people to progress in their lives through learning to the three strategic priorities seen as key to achieving the purpose. Case studies and a concise 'market trends' summary support and provide justification for the priorities.

Intu plc, 2018 ARA (page 30)

The business model disclosure of Intu plc (page 30) provides a breakdown of the purpose into its two constituents:

i) creating compelling, joyful experiences that make customers smile; and ii) helping brands/retailers flourish. It references additional disclosures that describe how the company is delivering on its purpose.

Unilever plc, 2018 ARA (page 7)

Unilever plc refers to its purpose of making sustainable living commonplace throughout its ARA, including at both division and brand level. The narrative is enhanced by consistent links to the Unilever Sustainable Living Plan (page 7), which sets out clear progress against KPIs.

Figure 1. Lloyds Banking Group plc, 2018 ARA (page 2)

Chairman's statement

Our purpose

At the heart of our success is our continued focus on Helping Britain Prosper. The Group plays a vital role in supporting the prosperity of people, businesses and communities across the UK, and in doing so builds deep, long-term customer relationships. It is also important to the Board that our strategy is fully consistent with our commitments as a responsible business and during the year we have committed to becoming a leader in supporting the UK to transition successfully to a more sustainable low carbon economy. We recognise that the success of the Group is inextricably linked to the health of the UK and in this uncertain economic environment we are working hard to support the whole economy; and to help businesses take advantages of the continuing opportunities we have to build a prosperous future for the nation.

At the heart of our success is our purpose to Help Britain Prosper and we are playing a vital role in supporting people, businesses and communities across the UK.

Lord Blackwell
Chairman

Purpose within the broader strategic narrative

Purpose should be grounded in the company's context and provide insight into its key stakeholders. A company's strategy should outline a plan for achieving its vision, in line with the company's purpose. It should be translated into strategic objectives that are clear and measurable.

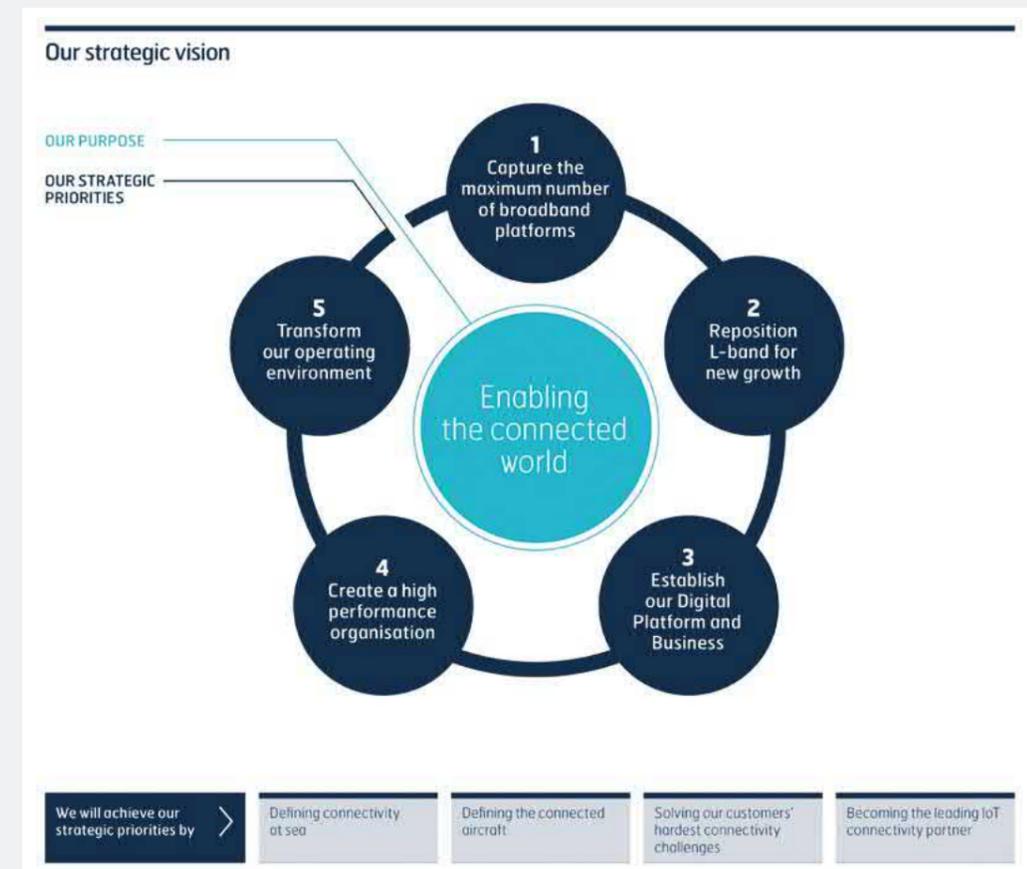
Presenting the flow from purpose to strategic objectives graphically can be visually appealing, but care must be taken to ensure that the graphics retain substance (over form), e.g., that the linkages are sufficiently evident. The graphic in the **Inmarsat plc's** ARA (Figure 2) passes this test. Disconnect between the articulation of purpose and strategy can arise, for example when the purpose references broader societal value, but the discussion on strategy focuses solely on shareholder return.

“

Values of society are changing; it is possible that a societal purpose will create a positive alpha (valuation uplift).

Andrew Neville, Fund Manager, Allianz

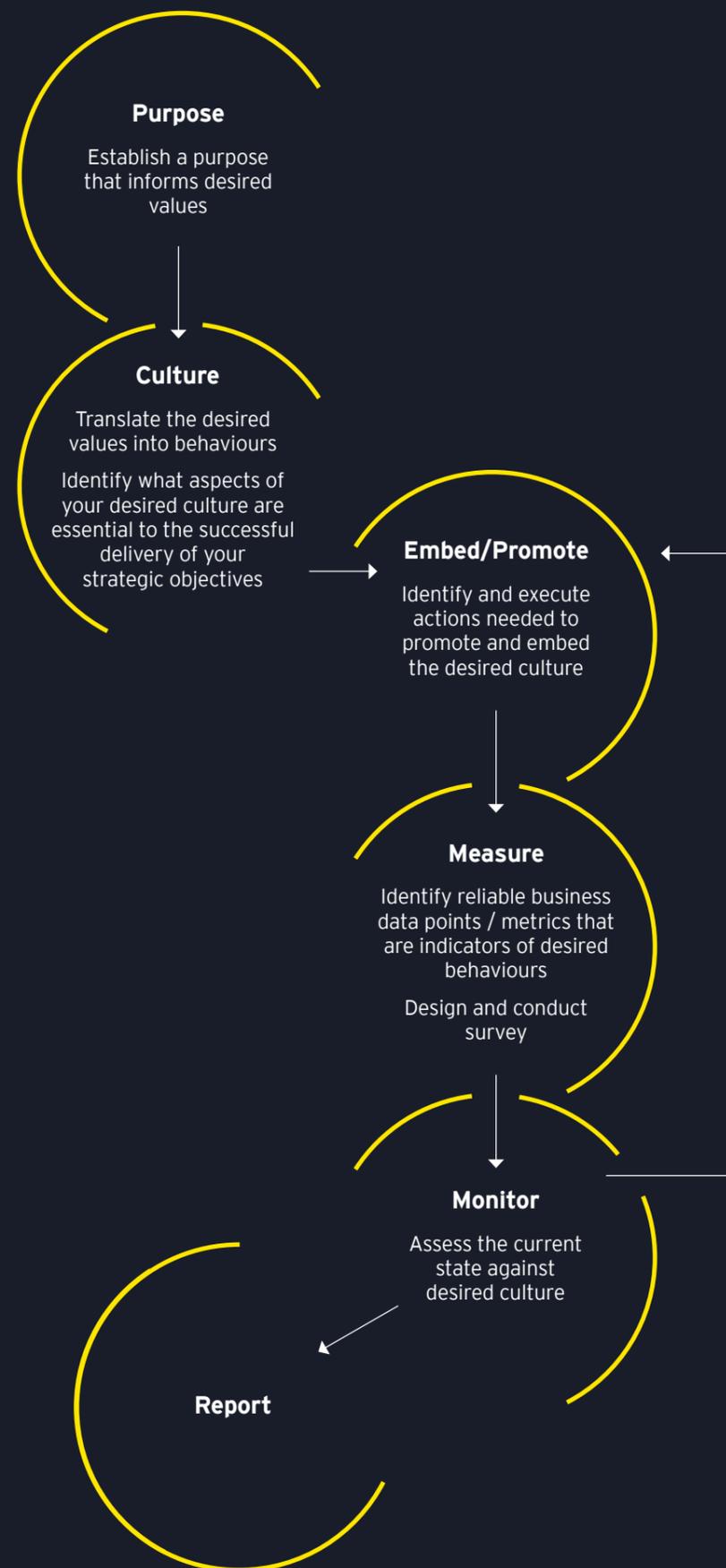
Figure 2. Inmarsat plc, 2018 ARA (page 14)



² *Reforming Business for 21st Century*, The British Academy, November 2018.

From establishing purpose to reporting on culture – an overview

- ▶ The purpose explains why the company exists and for whom; it informs the desired values and identification of key stakeholders.
- ▶ The desired values are translated into behaviours, which support the achievement of strategic objectives.
- ▶ The behaviours are embedded and promoted throughout the organisation; this includes incorporating measurable culture KPIs in executive remuneration structures.
- ▶ Key culture metrics are established, driven by reliable business data. Indicators of the behaviours are tested e.g., using a survey or other measurement mechanisms and monitored in a manner that provides actionable outputs.
- ▶ Root cause analysis is conducted when cultural issues are identified. Actions are undertaken to realign the current and desired state.
- ▶ The ARA provides a meaningful description of the desired culture, how actual culture was assessed and disclosure of the board's monitoring activities.



How the desired culture supports delivery of strategy

The 2018 Code requires the alignment of culture with purpose and strategy. Articulating this link is not simple, but a useful approach is to start by translating values into behaviours that contribute to the achievement of strategic objectives. This helps explain how culture is an 'asset' that drives competitive advantage.

Meggitt plc (Figure 3) illustrates how values are lived in practice by including a compelling case study which demonstrates how high-performance culture concepts are applied at one of its sites. **Rentokil Initial plc** (2018 ARA, page 54) illustrates value creation by providing examples of 'culture in action'. The Chairman of **Rolls-Royce Holdings plc** (2018 ARA, pages 5-8) refers to culture in his letter, with the CEO providing an overview of how cultural change is part of the strategic overhaul.

By ensuring that any risk appetite disclosures are consistent with the description of risk culture, companies can articulate how culture mitigates against risks.

Embedding and promoting the desired culture

Embedding culture must extend beyond mandating code of conduct training. Companies need to undertake a broad range of activities, from 'tone from the top' communications and engagement through to recruitment and onboarding. Ways to embed culture must also be considered in operational processes, appraisal and reward structures, compliance and risk management, branding and marketing.

Wood Group (John) plc's 2018 ARA (Figure 4) provides a discussion of the company's ongoing journey to embed its culture, giving examples of initiatives undertaken to champion desired behaviours. **Taylor Wimpey plc's** 2018 ARA (page 111) recognises the importance of its client-centric culture, which it promotes by including a customer service metric as an input into the executive bonus computation.

Figure 3. Meggitt plc, 2018 ARA (page 66)

Case study

High Performance Culture Switzerland

Continuing to develop a high performance culture is important to our site in Fribourg, Switzerland. Collaboration and inclusivity have always been a key to the success of this business, in a site where 26 nationalities work together to support the growing aerospace industry and the fast-paced energy business.

In 2018, 92 employees (around 20% of our workforce) went through "unfreezing" sessions and around 20 volunteered to be culture champions. The culture community at the site meet every four to six weeks to reinforce the concepts, discuss their personal commitments and the challenges they face at individual or team levels. In June, the Executive Committee visited our site and met with the culture community, exchanging ideas on the application of high performance culture in day to day activities.

Here are some examples of how we have applied high performance culture concepts at our site:

- Feedback: all the employees at the site and visitors carry a feedback card on their access badge that has behaviours to be actively promoted and those to be discouraged.
- Appreciation: employees can nominate their colleagues for a "Living our Values" award which is handed out quarterly at Town Hall meetings. We also recognise and thank individuals and teams for their engagement and great work as part of Leader Standard Work (LSW), which is part of the Meggitt Production System.
- The site has also invested in developing coaching skills. Starting in 2017, all leaders have been through a multi-day coaching programme which has had a great impact on developing people, creating respect, mutual trust and a sense of belonging.

Find out more online at www.meggitt.com

“

Our methodology considers only publicly available information. We will be looking to see what culture metrics companies are disclosing and how these could factor into our methodology.

Zanele Mtshali, ESG Analyst, MSCI

Measuring and monitoring culture

Monitoring enables boards to identify to what extent actual culture and behaviours differ from desired culture and behaviours, and therefore what corrective actions are required. A board that believes in the importance of culture will already be considering some data points that are proxy indicators of the existing culture.³ The most accurate and holistic picture can be created by looking at a variety of information sources, including results of specific culture surveys and metrics driven by business data that extend beyond compliance reporting.

Figure 4. Wood Group (John) plc, 2018 ARA (pages 32 and 33)

Developing Wood's culture

From the outset we wanted our employees to be involved in establishing the Wood culture. Thanks to the contribution of over 6,000 employees around the world, in Q1 2018 we rolled out our Vision, Values and Behaviours (as set out on pages 4-5). These are the foundations of our cultural framework, providing a common set of principles for our organisation. After the roll-out we commenced the process to embed the culture throughout the organisation with employee engagement being key to this.

6,000 employees involved in establishing Wood's culture

We set up 18 employee focus groups across 81 locations in 27 countries, made up of a broad range of our people to review the employee survey results in more depth to ensure that we focus on the right things moving forward.

The top recommendations were to:

Invest more in:

- Leadership development
- Simplifying processes and removing internal competition
- Education about our business and capabilities
- Technology and equipment

And to create:

- Visible career paths
- Increased employee involvement and recognition
- Transparency on terms and conditions, including flexible working

We are now acting on the feedback and recommendations and have undertaken a broad range of initiatives to address them.

Responding to employee feedback

We are continuing to deliver and improve our Frontline Leaders programme to support our leaders' development. We recognise that our leaders play a critical role in engaging our teams and we will place a focus on leadership coaching next year to support our leaders to have effective conversations with their teams about careers, development and performance.



³ Our EY paper *Governing Culture: practical considerations for the board and its committees* includes key questions to stimulate constructive debate and discussion in the area of culture.

For example, **Rentokil Initial plc** (Figure 5) combines survey results with metrics. Banks such as **Lloyds Banking Group plc** and **Standard Chartered plc** make use of culture dashboards. Although their ARAs do not specify the data points included within these, they do combine the use of surveys and metrics. The Board Reputation Committee of **Barclays plc** (2018 ARA, page 75) makes clear reference to debating the use of culture dashboards, receiving updates on employee survey results and internal audit activities relating to culture.

Best practice involves using third party data (e.g., Glassdoor or Trustpilot) either directly as a metric or to set benchmarks. The board should also draw on the outcomes of its workforce engagement to enhance its cultural insights.

The results from the board's activities to monitor culture must translate into corrective actions that can lead to improved results. It is therefore important that the board receives information that is transparent, balanced and sufficiently granular (rather than averaged out) to allow it to identify trends and issues both negative – to ensure corrective action is taken, and positive – to identify best practices for broader rollout.

We recommend undertaking a root cause analysis to understand the underlying reasons for any issues and trends, and that this analysis be reported to the board

“

Although employee engagement can be revealing in terms of the relationship between an organisation and its people, it remains in the final analysis a behavioural data point. Research for EPIC (page 7) established employee turnover data provided a quantum which could be utilised by analysts in their deliberations over future value.

Dr Anthony Hesketh, Associate Professor, Lancaster University

with clear plans of action. The board will then need to monitor the progress being made in addressing issues. Given the extent of new requirements introduced by the 2018 Code and evolving practice around culture, our expectation is that management and boards will need time to fully establish and fine-tune their activities in this area.

Figure 5. Rentokil Initial plc, 2018 ARA (page 53)

Our measures

How we make sure our culture is working

World-class service company

- Customer service
- Net Promoter Score
- Customer retention
- External reviews (e.g. Trustpilot)

Measuring our culture

We measure our workplace culture through external and internal KPIs, but we have also created a measurement tool – mapping our colleague engagement survey questions to each of the five pillars in order to create a score out of 100 that can be tracked over time. In the 2017 survey (the last one conducted), Diverse and Customer Focus were the strongest cultural elements. This will be measured again in 2019.

World-class Employer of Choice

- Your Voice Counts (YVC) survey, Culture Index
- Employer of Choice (retention, diversity)
- Compliance training, Speak Up
- External reviews, (e.g. Glassdoor)

Regions dimensions YVC 2017 scores	Customer focused	Commercial	Diverse	Down to earth	Innovative
Asia	90	87	88	85	88
Europe	70	67	76	67	68
North America	80	74	82	73	72
Pacific	75	73	82	69	74
UK & RoW	78	73	80	70	78

Culture surveys

There is no substitute for asking a large proportion of employees about the culture they experience.⁴ Culture surveys are different to people engagement surveys. If the two are combined, it is essential that culture-specific questions are included. The EPIC (page 7) report provides some pragmatic recommendations on how these could be structured.

Culture metrics

Numerous data points are available to organisations that may provide insight into culture.⁵ Boards will need to determine what the most appropriate culture metrics are and whether they are already being accurately tracked.

Boards may already be scrutinising some of these metrics for different purposes (e.g., health and safety performance) and applying a culture lens to them may also be appropriate.

Some companies consider the level of employee engagement as a culture metric. This approach requires caution, as engagement scores may not be indicative of the alignment of actual behaviours with the desired culture.

Qualitative indicators

Some information may be more qualitative e.g., observations obtained from leaver interviews, the outcomes of workforce engagement, and regular evaluations of how the CEO and other senior executives are modelling desired behaviours and communicating the desired culture to the organisation. Analysing trends over time may provide useful insights into cultural developments.

Examples: disclosing metrics that can reflect culture

Companies are already disclosing metrics that may be indicators of culture. The links between the metrics and culture are sometimes direct and in other cases implicit.

Taylor Wimpey plc, 2018 ARA (page 24)

Customer satisfaction 8-week score 'would you recommend' measured by the National New Homes Survey eight weeks after legal completion

British American Tobacco plc, 2018 ARA (page 26)

Employee turnover rates, with a focus on senior women

Schroders plc, 2018 ARA (page 19)

Retention of key talent

Man Group plc, 2018 ARA (page 34)

Number of internal transfers

BAE Systems plc, 2018 ARA (page 29)

Dismissals for reasons relating to unethical behaviour

Inmarsat plc, 2018 ARA (page 49)

% of workforce reached by the 'high performance culture programme'

CRH plc, 2018 ARA (page 14)

% of zero-accident locations

We recommend that companies clearly identify what they consider their culture metrics to be and explain why these metrics have been chosen.

Reporting on culture

Boards have a real opportunity to showcase how culture contributes to competitive advantage. We encourage using an open tone of voice when reporting on culture. Being honest about mistakes of the past makes the narrative provided by **Marks and Spencer plc** (2019 ARA, pages 15-17) on its journey of cultural change, convincing and credible.



⁴ In 2018 EY undertook a global culture assessment, covering more than 260,000 people.

⁵ The FRC's 2018 *Guidance on Board Effectiveness* provide examples of sources of culture insights.

2

Stakeholder engagement and S172 reporting

Overview of findings

There are increased disclosures relating to companies' consideration of the stakeholder agenda due to the regulatory, societal and political pressure in this area.

We found that most companies explain who their key stakeholders are. However, disclosures need to develop on how the board engaged with these key stakeholders, the issues covered and, most importantly, the impact of engagement (if any) on the board's discussions and decisions.



New requirements

2018 Code

- ▶ Explain how key stakeholder interests and the matters set out in s172 of Companies Act 2006 have been considered in board discussions and decision making (Principle D and Provision 5).
- ▶ In respect of workforce⁶ engagement, if the board has not chosen one or a combination of the following methods proposed in the 2018 Code i.e., a director appointed from the workforce, a formal workforce advisory panel, and/or a designated non-executive

director (NED), it should explain what alternative arrangements are in place and why it considers that they are effective (Provision 5).

- ▶ Describe the work of the remuneration committee, including what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes; and what engagement has taken place with the workforce to explain how executive remuneration aligns with wider company pay policy (Provision 41).

The 2018 Code overlaps with the requirements introduced by the MRR.

MRR

Requirement	Scope
<p>a. S172(1) statement</p> <p>A statement in the strategic report to set out how directors have had regard to the matters set out in s172(1) (a)-(f).</p>	<p>UK incorporated companies already required to produce a strategic report⁷, except for those qualifying as medium-sized within a financial year.</p> <p>The size criteria are that a company meets any two of the large company threshold below:</p> <ul style="list-style-type: none"> ▶ Turnover £36m or more ▶ Balance sheet £18m or more ▶ 250 employees or more <p>It should be noted that companies, which qualify as medium-sized under sections 465-467 Companies Act 2006, will be required to produce a strategic report and therefore s172(1) statement if they are part of an ineligible group, as will companies that are ineligible companies⁸ in their own right, irrespective of their size.</p>
<p>b. Stakeholder interests</p> <p>The directors' report must summarise how directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard on principal decisions taken by the company.</p>	<p>Any two of the large company threshold below:</p> <ul style="list-style-type: none"> ▶ Turnover £36m or more ▶ Balance sheet £18m or more ▶ 250 employees or more
<p>c. Employee engagement</p> <p>The directors' report must:</p> <ul style="list-style-type: none"> ▶ Detail how directors have engaged with employees, and the effect of their regard for employee interests on principal decisions taken by the company. ▶ Include information about actions taken during the year to keep employees informed, regularly consulted, involved in performance through share schemes or other means and aware of financial and economic factors affecting the company. 	<p>250 UK employees or more.</p>

*Note that the MRR requirements in respect of the directors' report can be provided in the strategic report as clarified by BEIS.⁹

⁶ Although the term is not defined in the 2018 Code, the FRC's *Guidance on Board Effectiveness* provides some useful insights, including that the term is not limited to the UK workforce or employees with employment contracts.

⁷ s.414A CA 2006 requires all companies that are not small to prepare a strategic report.

⁸ s.384 CA 2006 / s.467 CA 2006 - Companies will be part of an ineligible group if any of its members is: a public company; a body corporate whose shares are admitted to trading on a regulated market, a person who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity; a small company that is an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm, a UCITS management company; or carries on insurance market activity.

⁹ BEIS FAQ on MRR, November 2018.

Hallmarks of leading practice and disclosure

Stakeholder engagement

- ▶ **Who and why?** Defining the company's key stakeholders and the importance of engaging with each group by making connections to the company's business model, strategy and principal risks.
- ▶ **How?** Explaining the engagement mechanisms and the board's involvement.
- ▶ **What?** Setting out key topics of engagement, feedback and points of view obtained from stakeholders.
- ▶ **Actions and Outcomes** Articulating the impact of engagement, if any, on the board's discussions, decisions and actions.

S172(1) statement

- ▶ Setting out the company's principal decisions (such as capital allocation) and for relevant principal decisions, explaining how directors considered (among other matters) stakeholder interests and views in arriving at the decision.

Examples: disclosures explaining why it is important to engage stakeholders, with linkages to the business model and/or strategy

The Unite Group plc, 2018 ARA (pages 8-23)

sets out why it is important to engage each stakeholder group, those stakeholders' interests, and the relevance of each group to the business model and strategy. For example, it explains the importance of long term partnerships with universities under 'nomination agreements': growing the proportion of beds under such nomination agreements underpins the security of earnings, as further indicated under the strategic pillar 'Quality university partnerships'.

Rentokil Initial plc, 2018 ARA (Figure 6)

sets out the company's priorities for each stakeholder group, their link to strategy and how each priority is measured. For example, in relation to customers, the key priorities are keeping promises, delivering outstanding service and retaining customers. The links to strategy include increased purchasing and cross selling, and positive customer recommendations. The company also discloses the metrics used to measure progress, such as customer retention.

Figure 6. Rentokil Initial plc, 2018 ARA (page 28)

Customers Keeping our promises to customers	– We are passionate about delivering excellent service to every customer and keeping our promises to them.	State of Service Defined as total number of service visits performed as a percentage of total number of visits due.
Delivering outstanding customer service	– Our business model depends on servicing the needs of our customers in line with internal high standards and to levels agreed in contracts. – Measuring customer satisfaction allows us to identify unhappy customers, reduce customer attrition and increase revenue, profit and cash.	Customer Voice Counts (CVC) Measured by implementation of an average Net Promoter Score across all branches, including in-year acquisitions. CVC score represents the net balance of those customers promoting our service compared with those neutral or not promoting.
Retaining our customers	– Customer retention is crucial to our long-term success. – Benefits include: increased purchasing and cross-selling; lower price sensitivity and terminations; positive customer recommendations and a strengthened unique selling point.	Customer retention Defined as total portfolio value of customers retained as a percentage of opening portfolio.

Who are the key stakeholders and why is it important to engage?

Stakeholders are those groups which are likely to be affected by the actions of a company, or whose actions can affect the operation or business model of the company.¹⁰ Most companies in our sample identify their key stakeholders, typically in the business model or a distinct stakeholder engagement section. They include customers, the workforce or employees, regulators, the government, suppliers, the community and the environment.

After defining who the key stakeholders are, the next step, in our view, should be to explain why it is important to engage each group by reference to the business model, strategy and principal risks. We found this to be lacking in most ARAs, especially where stakeholder engagement reporting is contained in a standalone section (e.g., corporate social responsibility) with little connection to other sections.

“

It is important to remember that reporting is not a panacea for all issues. Boards should consider how they can use stakeholder engagement to inform their strategy and risk management.

Freddie Woolfe, Head of Responsible Investment and Stewardship, Merian Global Investors

“

Without positive relationships with its key stakeholders a business is unlikely to be sustainably successful and generate long-term returns for its shareholders. I hope that companies will grasp the opportunity of the new reporting requirements to demonstrate how they consider the interests of all those who play a part in their success and the impact of key decisions on them. This should in turn help companies improve these important relationships and secure longer-term, more supportive capital from investors.

Richard Buxton,
Head of UK Equities, Merian Global Investors

Where boards rely on management to undertake the engagement, they should be satisfied that this gives them access to unfiltered and unbiased views from stakeholders. Boards must be able to articulate how the spirit of the requirements is met, even though they have not been involved directly in the engagement. **SSE plc's** 2018 ARA (pages 116 and 117) provides detail on how the board either engages directly with stakeholders or indirectly obtains insight into key matters relating to stakeholders (such as receiving updates on consultations and receiving briefings from third-party policy experts).

There may also be a need to revise engagement processes to ensure the board has the necessary exposure to stakeholders. Some companies have established new board committees, e.g., **CRH plc's** Safety & Social Responsibility Committee (see its 2018 ARA, pages 5 and 59). Others have expanded the remit of existing committees to include oversight of stakeholder engagement amongst other areas, as is the case with **Pearson plc's** Reputation & Responsibility Committee (2018 ARA, pages 90 and 91) and **Meggitt plc's** Corporate Responsibility Committee (2018 ARA, pages 61 and 62).

How are key stakeholders engaged?

While strictly speaking neither the 2018 Code nor the MRR specify that board members must be involved directly in engaging with the company's stakeholders, other than the workforce, we believe it would be in their spirit to do so especially on material issues or with material stakeholders.

¹⁰ *The Stakeholder Voice in Board Decision Making*, ICASA.

Examples: workforce engagement approaches

Combining a designated NED with some form of employee forum or group:

ITV plc has an Ambassador network of employees and a designated NED acting as a conduit between the network and the Board (2018 ARA, pages 7, 77 and 109). **The Weir Group plc** has appointed a designated NED and is going to set up new Employee Voice Forums to share feedback with the Board and Group Executive (2018 ARA, pages 18 and 19).

More than one designated NED: **Rolls-Royce Holdings plc** appointed a NED in 2017 as its 'employee champion' and, in recognition of the success of this role, recently appointed a second NED as the board's employee champion for its North American employees (2018 ARA, pages 5, 65, 67 and 101). **Paddy Power Betfair plc** has appointed two NEDs for workforce engagement (2018 ARA, page 72). Some boards such as **Unilever plc** share the responsibility amongst all NEDs (2018 ARA, page 51).

Use of board committees: Workforce engagement, amongst other matters, is under the remit of **Aggreko plc's** Ethics & Corporate Responsibility board committee (2018 ARA, page 60), **BAE Systems plc's** Corporate Responsibility board committee which comprises only NEDs (2018 ARA, page 73, 87 and 88), and **Derwent London plc's** newly established Responsible Business board committee which is to be chaired by the designated NED for workforce engagement (2018 ARA, pages 11 and 84).

Workforce engagement

The 2018 Code requires companies to adopt one or a combination of three mechanisms (i.e., designated NED, workforce advisory panel or employee director) or explain the alternative arrangements in place. Our review and discussions with companies have identified that some are adopting a hybrid of the 2018 Code's mechanisms (e.g., designated NED combined with some form of employee forum or group).

“

Boards need to look at workforce engagement strategically and on an ongoing basis, rather than only when they are preparing their annual report. Investors are evaluating how companies are engaging with their workforce, what is it like to work in the company and what the organisation is doing about the workforce's views.

Hannah Armitage, Project Manager, Financial Reporting Lab, FRC

Some are opting for alternative arrangements, including appointing more than one designated NED and using board committees with workforce engagement responsibilities.

As companies implement their workforce engagement mechanisms, we look forward to seeing more information on how these will operate in practice, e.g., their role, size, nomination or election process and interaction with the board's decision-making process. Transparency over their evolution will also be important.

Examples: companies providing more detail on their workforce engagement mechanisms

Derwent London plc, 2018 ARA (page 84)

discloses that two employees will join the Responsible Business Committee (a board committee). The criterion for nomination is that employees must have worked at Derwent for at least two years as at 1 January 2019.

Taylor Wimpey plc, 2018 ARA (page 79)

discloses the Board's attendance at its National Employee Forum – the chair and the chair of the remuneration committee attended one meeting – and the topics of discussion (e.g., benefits).

Rolls-Royce Holdings plc, 2018 ARA (page 101)

discloses how its designated NED engaged with the workforce during the year, including the topics addressed. For example, it reports that bullying and harassment had been picked up as an emerging theme. This issue was then considered by the Safety & Ethics Committee and resulted in the launch of a global anti-bullying campaign.

Examples: disclosure of material stakeholder issues

Inmarsat plc, 2018 ARA (page 42)

presents a materiality matrix that shows the sustainability issues that stakeholders are most concerned about. These were identified via stakeholder interviews and then prioritised for the Information, Communications and Technology industry by conducting an analysis of key sustainability topics reported in the Dow Jones Sustainability Indices World Index.

Royal Bank of Scotland plc, 2018 ARA (pages 11 and 12)

includes a materiality matrix that shows external influences, both in terms of their relevance to stakeholders and their potential commercial impact on the bank. These were identified using stakeholder interviews and a cross-bank workshop. The linkage between each key influence and the bank's strategic priorities is also indicated.

Fresnillo plc, 2018 ARA (pages 22 and 23)

has a table explaining the material issues for each key stakeholder group. For example, the issues that matter to contractors and suppliers include working conditions, labour rights and health and safety.

What were the topics of engagement?

In our view, boards should clearly establish the strategic issues on which they wish to obtain stakeholder input and feedback. Companies should then disclose the material stakeholder issues and topics covered. Some companies already do this using matrices, tables and case studies, with a few including wider linkages to strategy and principal risks.

We would also recommend disclosing the output: the feedback and views obtained from stakeholders and the outcomes i.e., the link to the board's decisions and discussions (if any).

What was the impact of engagement on board decisions and actions?

Engagement alone is of limited use unless its output is considered by the board in a timely fashion and can influence strategy and long-term value creation. For this reason, regulators and investors are most interested in the 'so what?' aspect of engagement: what impact does it have on the board's actions and decisions? We acknowledge that such transparency will be challenging to achieve at least in the early years. However, lack of disclosure would technically represent a failure to comply fully with the new reporting requirements. It could also raise doubts about whether boards are taking engagement seriously and potentially lead to more interventionist regulation.

“

We often find that boards get highly edited views on stakeholder engagement and culture from management. We would like to understand how boards engage directly with stakeholders and, if not, how they ensure they are receiving their unfiltered views.

There is an opportunity for companies to tell their own story as an increasing number of investors turn to third party sources such as Glassdoor for more information.

Freddie Woolfe, Head of Responsible Investment and Stewardship, Merian Global Investors

Examples: disclosure of topics of engagement

National Grid plc, 2018 ARA (pages 47 and 53)

provides case studies on its employee engagement sessions, including high level detail on the topics discussed and feedback given by employees. For example, it explains that the recruitment schemes discussion emphasised the significance of culture and the need for the company to review where and how it advertises in order to get the best talent and broadest diversity.

Examples: disclosing the impact of engagement on board decisions

Derwent London plc, 2018 ARA (pages 86 and 94)

describes an updated process to require a stakeholder impact analysis for all material decisions to assist its directors in performing their s172 duties. A case study on a major board decision includes stakeholder impact analysis and the board's response.

National Grid plc, 2018 ARA (Figure 8)

explains that in 2019 a robust framework will be established to ensure that stakeholder considerations are suitably captured. It identifies the stakeholder groups considered for each key board focus area and explains how each group has influenced the board's decision making.

Figure 7. Derwent London plc, 2018 ARA (page 94)

Factoring our stakeholders into our decisions

By thoroughly understanding our key stakeholder groups, we can factor their needs and concerns into Boardroom discussions (further information on our stakeholders is on pages 18 to 19).

The Board's procedures have been updated to require a stakeholder impact analysis to be completed for all material decisions requiring its approval that could impact on one or more of our stakeholder groups.

The stakeholder impact analysis assists the Directors in performing their duties under s172 of the Companies Act 2006 and provides the Board with assurance that the potential impacts on our stakeholders are being carefully considered by management when developing plans for Board approval.

The stakeholder impact analysis identifies:

- potential benefits and areas of concern for each stakeholder group;
- the procedures and plans being implemented to mitigate against any areas of concern; and
- who is responsible for ensuring the mitigation plans are being effectively implemented.

We have detailed in the case study below an overview of the key benefits and concerns which arose from the stakeholder impact analysis for The Featherstone Building.

THE FEATHERSTONE BUILDING ECI

In June 2018, the Board approved the redevelopment of Monmouth House 58-64 City Road and 19-23 Featherstone Street into a new development – The Featherstone Building – which will see the existing buildings demolished and the new development constructed on the existing site. The Featherstone Building will provide 110,000 sq ft of commercial office space, 2,000 sq ft of retail space on the ground floor and 13,000 sq ft of small/micro workspace on the ground and lower floors.

In addition to making a satisfactory return to our shareholders, our stakeholder impact analysis identified the following additional key benefits to our stakeholders:

- The Featherstone Building will assist with the regeneration of the Old Street Yard area through its design, additional retail and office space and employment opportunities.
- To assist small local businesses and start-ups, the small/micro workspace will be let at 75% of market rent and will be fully fitted out for immediate occupancy.
- Construction trainees will be employed through Skanska (the project's principal contractor) to provide employment and development opportunities.
- Where possible, we will use local procurement opportunities.
- As part of our planning obligations, we are required to provide funding (s106 contributions and Community Infrastructure Levy) for local infrastructure, including affordable housing, carbon offsetting, employment, Crossrail and TfL cycle hire.

Our stakeholder impact analysis identified the following key concerns:

- increased traffic in the area during development;
- increased noise during the project; and
- general disruption to the surrounding area including local businesses.

To mitigate the impact on the local neighbourhood, we have produced neighbourhood liaison plans which set out the project phases, timetable and details of site representatives to contact if any issues arise during the project. In addition, monthly newsletters will be sent throughout the project to local residents. Although cycles routes and pedestrian routes will be redirected during construction, we will ensure they are safely maintained for the duration of the works. Extensive consultation has been undertaken with Islington Council to develop our construction management and logistic plans.



Figure 8. National Grid plc, 2018 ARA (pages 51 and 54)

Examples of Board focus during the year include:

Key areas of activity	Matters considered	Outcome	Views of key stakeholder groups considered
Strategy	<p>In addition to the time allocated during Board meetings to discuss business performance and key strategic objectives for the year, the Board participated in two strategy sessions. In the year, the Board focused on:</p> <ul style="list-style-type: none"> developing a Business Plan that meets the Group's requirements underpinned by a robust financial strategy; growth strategies for NGV, including interconnectors and electrification of vehicles; UK and US gas growth potential, in line with economy-wide decarbonisation goals and the UK's and Northeast US's attention on energy to provide heating; the sale of our remaining 39% share in Quadgas; building capabilities and experience in distributed energy resources in the US for our regulated and unregulated businesses; a deep dive of our digital strategy, including cyber security; innovation – see separate section below; and UK and US commercial property portfolio. 	<ul style="list-style-type: none"> Board approval of the Company's Business Plan and strategy; input on the direction of travel for our digital strategy; In April 2019, the Board endorsed the strategic priority areas for management focus for 2019/20; Approval of the investment in the Viking Link interconnector; Received updates on cyber security and the latest cyber scorecard. Noted that a number of cyber initiatives were underway; Continued focus on mapping cyber security activities into the risk appetite framework, and the Board agreed it was acting in accordance with its risk appetite in this area; and The Board reviewed the performance of the commercial property portfolio and discussed the success of the St William joint venture. 	<p>All: Investors Suppliers Customers Regulators Communities and governments Our people</p>

Stakeholder group	Form of engagement	How this stakeholder group influenced the Committee/Board agenda and decision-making
<p>Our customers</p> <p>The users of our products and services. In the UK, our key customers are electricity and gas distributors and generators. In the US, we have more than seven million retail bill payers.</p> <p>By delivering the energy they need and dealing with them in a transparent and responsive manner, our customers trust us to deliver services of value to them.</p>	<p>UK customer programme – the UK Customer Experience Board is chaired by the Executive Director, UK, and attended by the entity and functional directors. Each member attends regular customer meetings to listen to what matters most to our customers and build strategic relationships. Customers are invited to attend the Customer Experience Board and group immersion events are held where Executive Directors hear from customers about their concerns in the industry. An annual survey to senior customer contacts provides useful feedback on the level of satisfaction and customer advocacy.</p> <p>Proxy co-creation stakeholder user group – created to represent a wide range of stakeholders including large and small customers and consumers. The group has challenged the Company's approach to engagement and are currently analysing the Company's Business Plan.</p> <p>US customer team – collects and communicates 'voice of customer' throughout the business. Each jurisdiction facilitates a range of listening surveys for brand perception and customer satisfaction during transactions. A new online panel has been created of over 6,000 residential customers to contribute ideas and feedback continuously.</p>	<p>In the year, the Executive Committee and Board received updates on both the UK and US customer strategies. Biannual reports are also submitted to the Board from UK, US and NGV.</p> <p>UK – feedback received influences decision-making at customer and entity team level. It was used to help shape the Company's five customer principles (care, agility, trust, transparency and value), and the UK customer ambition.</p> <p>US – the Executive Committee and Board received updates on, and approved the recent US rate case filings.</p>

S172(1) statements

Section 172 imposes a duty on all company directors to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole. It also requires directors to have regard to a non-exhaustive list of factors (see Figure 9) to ensure that, in promoting the success of the company, broader implications of decisions are considered.

Although s172 is not new, the disclosure requirement is causing (or should cause) some directors to re-evaluate how they demonstrably discharge this duty. For premium listed entities, it is aligned with Principle D and Provision 5 of the 2018 Code. Beyond the questions of who, why, how, what and so what discussed above, the s172(1) statement includes other considerations, such as the long-term consequences of a board's decisions and their impact on the company's reputation.

In our view, for a s172(1) statement to be meaningful, it must be specific. The statement should include the principal decisions made in the year and explain how the board considered the long-term consequences of these decisions, the interest of employees, suppliers and customers, and the impact on the environment and community.

Generic, boilerplate disclosures will not add any value to reporting.

We have developed practical guidance and illustrative examples to help companies meet the s172(1) reporting requirement¹¹ (Figures 10 and 11).

Figure 9. S172(1) Companies Act 2006 'Duty to promote the success of the company'

- (1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to–
- the likely consequences of any decision in the long term,
 - the interests of the company's employees,
 - the need to foster the company's business relationships with suppliers, customers and others,
 - the impact of the company's operations on the community and the environment,
 - the desirability of the company maintaining a reputation for high standards of business conduct, and
 - the need to act fairly as between members of the company.

¹¹ Deconstructing the Section 172(1) Statement, EY, September 2019.

Figure 10. Extract from Deconstructing the Section 172(1) Statement¹¹

The following disclosures describes how the directors have had regard to the matters set out in Section 172(1)(a) to (f):

WHO?	WHY?	HOW?	WHAT?	ACTIONS AND OUTCOMES
Stakeholder Group	Why it is important to engage	How management and/or directors engaged	What were the key topics of engagement and what feedback and input did the board/management obtain?	What was the impact of the engagement including any actions taken?
Investors The major interests in our shares are set out on page X within our Governance Report. Key metrics: <ul style="list-style-type: none"> ▶ Earnings per share ▶ Total dividends paid ▶ TSR 	Continued access to capital is of vital importance to the long-term success of our business. Through our engagement activities, we strive to obtain investor buy-in into our strategic objectives and how we go about executing on them. We create value for our shareholders by generating strong and sustainable results that translate into dividends. We are seeking to promote an investor base that is interested in a long term holding in the company.	We discuss our programme for investor engagement on pages X – Y. The key mechanisms of engagement included: <ul style="list-style-type: none"> ▶ AGM ▶ Investor days ▶ One-on-one investor meetings with the Chairman, Chair of the Audit Committee, Chair of the Remuneration Committee and Chair of the Nomination Committee. 	Other than our routine engagement with investors on topics of strategy, governance and, performance, below are specific matters on which we engaged on and that influenced outcomes and actions this year.	
			Planned changes to LTIP: differing views between investors on the extent that non-financial metrics should be included.	Included culture related metric within LTIP measures. See the remuneration report for more details.
			Chair succession planning: investors expressed an interest in hearing the board's plans for finding a successor to the current chair who has been in post for 7.5 years, to ensure that the new 9-year tenure limit under the 2018 Code was being appropriately considered.	Nomination Committee and Senior Independent Director (SID) to meet key investors to discuss the succession and recruitment plans with a view to potentially accelerating the search process.
			Plans for the utilisation of the high accumulated cash position: refer to principal decision 1 for further details.	Agreed to make a special dividend distribution – refer to principal decision 1 for further details.
Pension Trustees [not fully completed, included for the purpose of principal decision cross referencing only]	[not completed]	[not completed]	Plans for the utilisation of the high accumulated cash position: refer to principal decision 1 for further details.	We are in the process of agreeing a plan to increase the scheme funding over the next two years - refer to principal decision 1 for further details.

Figure 11. Extract from Deconstructing the Section 172(1) Statement¹¹

Principal decisions

We define principal decisions as both those that are material to the group/company, but also those that are significant to any of our key stakeholder groups. For detail as to how we established and defined our key stakeholder groups see page X.

In making the following principal decisions the board considered the outcomes from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the company:

Principal decision 1: Special dividend

- ▶ The Board has decided to pay a total dividend of £XXX in respect of the year.
- ▶ Details of the dividend policy are included on page XXX, where we explain our long-term approach to dividends in the context of profitability.
- ▶ During our engagement with investors, we were questioned on and debated the high level of cash maintained by the company. After due consideration, the directors decided to exercise their discretion

and return some of the cash to the shareholders by declaring a special dividend of XXX.

- ▶ The directors took into account whether it would impact the on-going strategic investment in the new green energy plant, which is considered critical to the long-term success of the company and achievement of our strategic objectives and concluded it would not, in light of the strong cash position net of the special dividend payment. The directors also considered the net liability position of the Group's pension scheme and are in the process of agreeing a plan with the Pension Trustees to increase the scheme funding over the next two years (see note X to the financial statements).
- ▶ Details of our capital allocation policy are included on page X; where we explain our priorities and the framework we use to decide between them.
- ▶ The models supporting the going concern assessment and viability statement factored in the higher than normal cash distribution in the current year. However, future payments have been modelled in line with the basic dividend policy.



3

Board evaluations and talent planning

a. Board evaluations

Overview of findings

When conducted appropriately, board evaluations should provide an objective view of the board's effectiveness and progressively help the board to improve how it operates. Our review found good disclosures on the board evaluation process. However, under the 2018 Code, companies will need to start reporting evaluation outcomes and the actions taken or committed to be taken to address these.

New requirements

2018 Code

- ▶ Include a statement on whether the external evaluator had any connection not only with the company, but also with individual directors (Provision 21).
- ▶ Explain how the board evaluation was conducted, including the nature and extent of the external evaluator's contact with the board and individual directors (Provision 23).
- ▶ Report the outcomes and actions taken as a result of the board evaluation (Provision 23).
- ▶ Provide information on how the board evaluation has or will influence board composition (Provision 23).

Hallmarks of leading practice and disclosure

- ▶ An objective process to select and appoint an independent external evaluator.
- ▶ Open and honest interaction between the external evaluator and the board.
- ▶ A rigorous approach to internal board evaluations undertaken in intervening years between external evaluations.
- ▶ Concerted focus by the board on progressing actions to address recommended areas of improvement.
- ▶ Addressing identified skills gaps through targeted board recruitment and succession planning.
- ▶ Disclosures that are balanced and transparent, reflecting the positives but also the key challenges: we recommend draft disclosures are reviewed by the external evaluator to ensure they fairly reflect evaluation outcomes.

ICSA Consultation: review of the effectiveness of independent board evaluation in the UK listed sector

ICSA sought views on the need for a code of practice for providers of board evaluation services. ICSA also considered voluntary principles for listed companies to apply when engaging evaluators, and guidance on disclosure of the conduct and outcomes of their board evaluation.

“

We felt that developing a code of practice for board evaluators was too narrow a focus and decided to take our consultation a step further as we believe that some of the issues in this market need action from companies as well. For example, how a company selects and appoints an evaluator and how it discloses the outcomes from an evaluation have just as much importance in ensuring the quality and independence of a board evaluation. We hope that the overall package that we have proposed will give all stakeholders more confidence in the findings reported.

Peter Swabey,
Policy and Research Director, ICSA

The process and independence of the external evaluation

The 2018 Code requirements, coupled with the ICASA review of the effectiveness of independent board evaluations (once finalised), should help create more rigour in the board evaluation process and improve trust in external evaluations.

Based on our review, many companies are already reporting clear detail around the process of the external board evaluation. We consider it leading practice to set out the different steps of the evaluation, the timing of those steps, how the board and individual directors interacted with the evaluator at different stages, and the findings of the external evaluator.

In light of the 2018 Code, we expect further disclosure around the external evaluator's connection not only to the company, but also to individual directors.

Examples: board evaluation disclosures

Man Group plc, 2018 ARA (Figure 12)

sets out the different phases of the board evaluation, including the multiple interactions the external evaluator had with the board at different stages in the process.

Mondi plc, 2018 ARA (page 101)

discloses more detail than most companies around the internal board evaluation. This demonstrates a rigorous approach is taken to evaluations in intervening years between external evaluations.

Focusing reporting on actions and outcomes

The 2018 Code highlights the need for the nomination committee's report to centre on actions and outcomes. This should steer companies away from boilerplate, process-driven narrative. Stakeholders are interested in what was done in the year to improve board performance and effectiveness, as well as what actions will be implemented in the future.

Examples: action focused reporting

Rentokil Initial plc, 2018 ARA (page 67)

discloses a progress tracker for actions in the past and upcoming year for the board.

for planned actions. This increases accountability and confidence that the board is taking the outcomes of evaluations seriously.

Lloyds Banking Group plc, 2018 ARA (page 63)

reports on director recruitment resulting from a skills gap identified in the prior-year board evaluation.

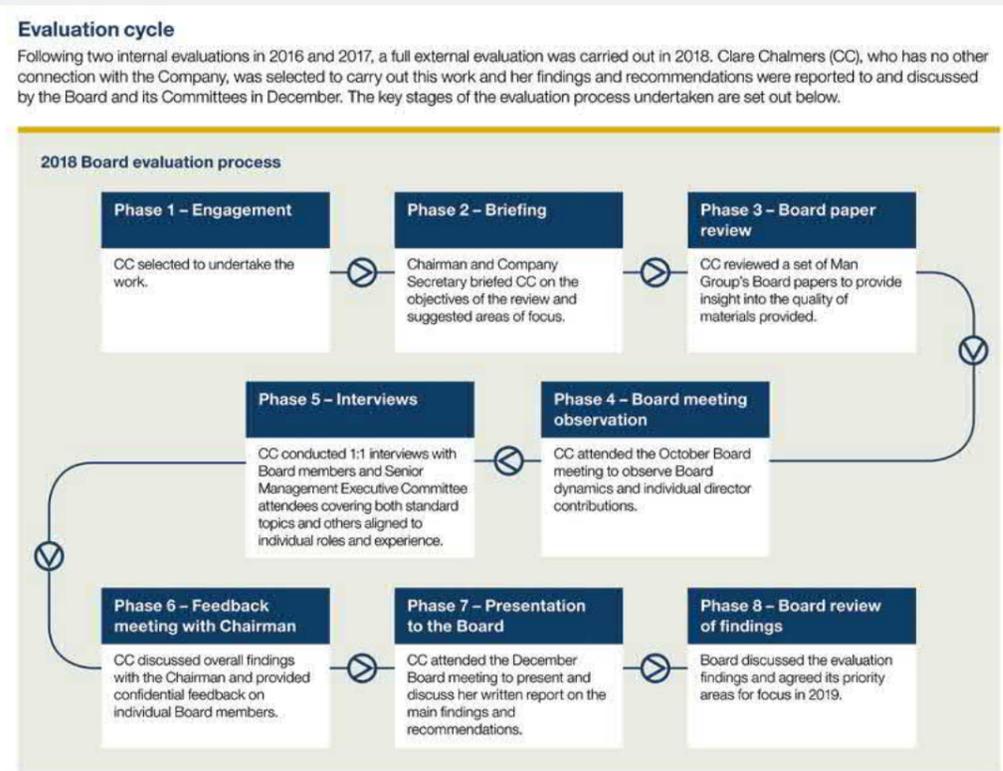
Man Group plc, 2018 ARA (page 65)

provides more detail than usual on not just the board evaluation, but also committee evaluations. For example, as a result of the prior year nomination committee's evaluation, a director has been recruited specifically to fill an identified skills gap.

National Grid plc, 2018 ARA (page 56)

goes further than most, assigning specific responsibility to individuals

Figure 12. Man Group plc, 2018 ARA (page 56)



3b. Succession planning and diversity

Overview of findings

Given the strategic importance of talent planning and the broadened role of nomination committees under the 2018 Code, we expect nomination committee reports in future years to contain more detail on what they did — particularly around senior management succession. Chair tenure has been high on board agendas due to the bright line test in the 2018 Code. We recommend that companies acknowledge the issue where they have long-serving chairs and provide some colour on what actions are being taken.

New requirements

2018 Code

- ▶ The board should have oversight of succession planning of a diverse pipeline for both the board and senior management positions (Principle J, Provision 17).
- ▶ Consideration should be given to the length of service of the board as a whole to ensure membership is regularly refreshed (Principle K).
- ▶ Board appointments should be made objectively, while promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths (Principle J).
- ▶ The annual report should describe the work of the nomination committee, including its diversity and inclusion policy, how it has been implemented and the progress in achieving set diversity and inclusion objectives (Provision 23).
- ▶ The chair should not remain in post beyond nine years from the date of their first appointment to the board (Provision 19).

Hallmarks of leading practice and disclosure

- ▶ A long-term view by the nomination committee of succession plans for board and senior management.
- ▶ Clarity on how independence and objectivity are safeguarded in instances where chairs or NEDs have long tenures.
- ▶ Transparent disclosure on the tenure of all board members, from their first appointment, as well as any plans for board refreshment.
- ▶ A progress report on diversity initiatives showing the outcomes and benefits, using case studies to help bring the topic to life.

Expanded responsibilities of the nomination committee

The nomination committee's role and responsibilities under the 2018 Code are broader than before. A key change is that nomination committees have oversight of succession planning for senior management — not just the board — and of the development of a diverse talent pipeline. Our review found that a number of nomination committees have refreshed their terms of reference accordingly and hope that reporting in future years will provide colour on the activities and outcomes in this area.

We found that where nomination committees are currently reporting oversight of senior management, this is usually for top or critical senior leadership positions. In these instances, companies are demonstrating awareness of the potential benefits in nurturing and retaining key talent.

“

It would be interesting to see what boards are doing to build executives' CVs, including how they are increasing the executives' exposure to the business to develop future leaders.

Ashley Hamilton Claxton, Head of Responsible Investment, Royal London



Promoting a diverse pipeline of talent

Echoing the findings from various reviews, including the Hampton-Alexander and Parker reviews, the 2018 Code has a heightened focus on diversity in its widest sense. It explicitly refers to the need for appointments and succession plans to promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Based on our review it is evident that boards are acutely aware of the issue. Disclosures have most impact when they highlight specific actions taken and initiatives in place to improve diversity and their results e.g., progress made in the year. **Kingfisher plc's** 2018 ARA (page 70) provides a good example. We encourage companies to build on their reporting by clearly stating their objectives, referencing statistics based on broad diversity characteristics, reporting on progress made through past initiatives and describing further actions that need to be taken to achieve their diversity objectives.

Examples: talent development and succession planning

Taylor Wimpey plc, 2018 ARA (pages 87 and 88)

The nomination committee report discusses internal talent development programmes, such as talent management boards that help senior management and executives to broaden their skills.

Rolls-Royce Holdings plc, 2018 ARA (page 73)

demonstrates the company's commitment to developing and progressing the careers of internal talent. For example, a board apprentice programme provides individuals with leadership development experience by joining board committees and receiving mentorship by existing board members.

PageGroup plc, 2018 ARA (pages 51 and 52)

discloses that the nomination committee has been focused on ensuring succession plans are in place for key roles and emergency successors are identified for all critical roles in the organisation.

Assessing chair and NED tenure

The 2018 Code states that the chair should not remain in post beyond nine years, from the date of their first appointment to the board (with limited extension under some circumstances). Our review found that chair succession is high on the board agenda, with many companies discussing accelerating their succession plans. This may reflect the fact that almost 40% of the top 350 UK companies have a chair who has served on the board for eight years or more.¹²

“

Reporting is so often a box ticking exercise. Rather we would want companies to focus their reporting on what has been of strategic importance in the year e.g., spending more time reporting on chair succession planning, given how key the role is to the company.

Nathan Leclercq, Head of Corporate Governance, Aviva Investors

Figure 13. Prudential plc, 2018 ARA (page 111)

Report from Philip Remnant, Senior Independent Director



Philip Remnant
Senior Independent Director

Succession planning for the role of Chairman of the Board, on which I lead, is considered by the Committee on a regular basis. We review the necessary skills and experience required for the effective leadership of the Board of an international financial services group.

This year, we also had to consider two major changes: the revised UK Code which, under the comply or explain principle, sets out that the tenure of the chairman of a listed company should be no more than nine years from first appointment to the board, and our demerger.

Mr Manduca's appointment to the Board was in October 2010, meaning the Code would prescribe his retirement in October 2019.

At a time of substantial change for the Group, the Board considers that it would be disruptive for Mr Manduca to stand down during the demerger process. The Board believes that shareholders will benefit from a committed and engaged

Chairman to lead the Group through the transaction and to remain in role for some period of time thereafter to ensure continuing strong governance in the Prudential Group post-demerger. It is currently intended that Mr Manduca would stand down as Chairman in May 2021, subject to annual re-election up to that date.

We are therefore proposing that Mr Manduca stand for election as Chairman at our forthcoming 2019 Annual General Meeting.

Before taking this decision, we consulted with a number of our investors to obtain their views and take them into account in our decision-making. Shareholders responded positively to the specific engagement on this topic and were supportive of Mr Manduca's extended tenure.

The process for identifying candidates to succeed Mr Manduca will commence in 2020, I will lead this process, assisted by the Committee.

¹² Board tenure in the UK, Minerva Analytics, February 2019.

3c. Over-boarding

Overview of findings

In recent years, investors have voiced concerns around the ‘over-boarding’ of some NEDs i.e., whether those who hold multiple appointments have the time and capacity to commit to their directorships. Such concerns have resulted in investors voting against the re-election of certain directors — as confirmed by the Investment Association’s Public Register of voting results.

Our review and discussions with investors confirm that companies should enhance disclosures about the time directors have available to commit to their roles, particularly when a director takes on a new external position.

New requirements

2018 Code

- ▶ The board should take account of other demands on directors’ time when making new director appointments, and prior to appointment candidates should disclose their significant commitments with an indication of the time involved (Provision 15).
- ▶ Directors should seek prior approval from the board before taking on additional external appointments (Provision 15).
- ▶ The ARA should explain the reasons for permitting significant appointments and in general it is expected that full time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or equivalent (Provision 15).

Hallmarks of leading practice and disclosure

- ▶ Collective board understanding of the necessary commitment, capacity and skill required to fulfil director roles effectively – both in business as usual and ‘crisis’ circumstances.
- ▶ Transparency on directors’ current external commitments, with an indication of any proposed changes that may affect their role on and availability to the board.
- ▶ Balanced assessment of a proposed new director’s skills and availability, recognising the potential benefits or drawbacks the individual’s other external commitments could bring.

The 2018 Code if applied in spirit should go some way to address these concerns by requiring companies to consider director time commitments more rigorously, with related disclosure. However, defining the right minimum time commitment is challenging. There is wide variation in the roles directors hold, their responsibilities and the types of organisations they work for or the boards they serve, e.g., FTSE or AIM company, trust or charity.



The obligations and expectations on directors have increased over the years and this has not been sufficiently reflected in their time commitments and the number of boards they are able to serve on. We have updated our policy with stricter limitations with a view to initiating a discussion and debate with full knowledge there will be exceptions due to size and complexity of the business.

Rebecca Vine, Senior Corporate Governance Analyst, Aviva Investors

The age of the figurehead director is over; we need board members to have sufficient time to dedicate to the company and add real value. This is of particular importance for the audit committee, whose role in challenging management and securing investor confidence in the accounts cannot be over-emphasised. I am therefore very interested to see disclosures helping me understand the expectations of the role and the time directors have available to commit.

Richard Buxton, Head of UK Equities, Merian Global Investors

Examples: addressing concerns around over-boarding

Meggitt plc, 2018 ARA (page 82)

demonstrates a transparent approach by responding clearly to investor concerns about the chair's over-boarding due to his positions on three other listed company boards.

BAE Systems plc, 2018 ARA (page 82)

includes disclosures on the external commitments of non-executive directors and conclusions reached on their ability to discharge their responsibilities effectively.

Capita plc, 2018 ARA (page 82)

shows openness in the statement by the remuneration committee chair about his decision to step down as chair, but remain in post as a non-executive director, based on his changing external time commitments.

Our review found examples of companies disclosing minimum time expectations covering a broad range: from a minimum of 12 to 15 days for each NED, rising to up to 60 days, especially in the financial services sector e.g., **Barclays plc** (Figure 15).

Many companies state that in most instances directors will be expected to go above and beyond these minimum time commitments, especially during periods of business disruption.

In terms of changing commitments, the 2018 Code indicates that directors should seek board approval before taking on additional appointments. Similarly the EPIC report (see page 7) calls on companies to be transparent about changes in directors' external responsibilities to help engender stakeholder trust.

Figure 15. Barclays plc, 2018 ARA (page 85)

Time commitment	
Role	Expected time commitment
Chairman	Equivalent to up to 80% of a full time position
Senior Independent Director	As required to fulfil the role
Non-executive Director	30 days per year (membership of one Board Committee included, increasing to 40 days a year if a member of two Board Committees)
Committee Chairs	At least 60 days per year (including non-executive Director time commitment)



4

Emerging risks

Overview of findings

The 2018 Code focuses on emerging risks, in addition to the previously required principal risks. This change is primarily driven by two factors: (1) many risk disclosures appear to be 'stale' (i.e., there is little or no change in principal risks year on year); and (2) there is inadequate consideration of risks which some boards see as distant e.g., climate change.

The 2018 Code aims to encourage boards to consider such risks in more detail given their identification is critical to long term success and to apply appropriate challenge to their management and mitigation. Most banks already provide disclosures on emerging risks as recommended by the Enhanced Disclosure Task Force (EDTF)¹³, which has been encouraged by many regulators, including the Bank of England. However, banks aside, we found limited disclosure on emerging risks by companies ahead of the 2018 Code's new reporting requirements.

¹³ *Enhancing the Risk Disclosures of Banks*, Enhanced Disclosure Task Force, October 2012.

New requirements

2018 Code

- ▶ The board should complete a robust assessment of the company's emerging and principal risks (Provision 28).
- ▶ Companies should describe what procedures are in place to identify emerging risks, and explain how these are being managed or mitigated (Provision 28).

Hallmarks of leading practice and disclosure

- ▶ Defining what an emerging risk is in the context of the organisation.
- ▶ Detailing the key emerging risks and explaining how the board monitors their development using specific examples.

What is an emerging risk?

Boards should first define what an emerging risk is and ensure this is understood throughout the organisation. There is no common definition of emerging risk, nor is the term defined in the 2018 Code.

Given this lack of definition we would encourage companies to clarify in their own terms what it means for them.

Although companies are not required to disclose the emerging risks themselves, some have shared this information. Emerging risks identified in our review include climate change (page 52), Brexit, cyber-security, disruptive technology and geopolitical issues.

Definition of emerging risks

EY view

Emerging risks are generally considered to be those that are likely to either materialise or impact over a longer timeframe. This timeframe can vary, although we recommend it should at least exceed a two year period. Emerging risks also generally do not have much by way of a 'track record' or previous known experience against which they can be considered. Therefore it is likely that different 'scales' such as vulnerability, velocity and preparedness may need to be used to help assess, track and monitor emerging risks, as it is unlikely their likelihood and impact will be known.

Cambridge Centre for Risk Studies

'Emerging risk can be defined as a new risk, a changing risk or a novel combination of risks for which the broad impacts, likelihoods and costs are not yet well understood.'¹⁴

Enhanced Disclosure Task Force

An emerging risk may be defined as 'one which has large uncertain outcomes which may become certain in the longer term (perhaps beyond one year) and which could have a material effect on the business strategy if it were to occur'.¹³

¹⁴ *A new definition for emerging risks*, Strategic Risk, May 2019.

How to identify and manage emerging risks

Most organisations still focus on short-term issues or known problems. Few companies have a formal process for differentiating emerging risks from principal risks and even fewer disclose this in the annual report or explain their process in practice.¹⁵

Those that provide more detail on their emerging risks process refer to the use of internal stress tests, external analysis (see **GlaxoSmithKline plc**, Figure 16), discussions by the Board (see **Wood Group (John) plc**, Figure 17), technology, risk scanning services, and a group risk appetite dashboard.

Figure 17. Wood Group (John) plc, 2018 ARA (page 39)

Emerging risks are identified throughout the year via the BU and functional risk processes and escalated to the ELT as part of their monthly meetings, discussed during the Group Risk Committee and further escalated to the Board as required. Each of the non-executive directors provides their perception of emerging risks, and a cross-check against the emerging risks identified by Wood's peer group is also undertaken, both of which inform the mid-year Board discussion on risk.

Figure 16. GlaxoSmithKline plc, 2018 ARA (page 81)

Audit & Risk Committee report continued

Emerging risks: For a number of years the Committee has been considering emerging risks at each scheduled meeting. This year, these discussions were enhanced by the results of the Audit & Assurance (A&A) team's Political, Economic, Social, Technological, Legal and Environmental (PESTLE) external analysis of emerging risks. The Committee is also examining the leveraging of new technology and risk scanning services to better support identification of emerging risks.

In identifying emerging risks, we recommend that boards consider horizon scanning, the use of external insights, deploying effective monitoring mechanisms, and assessing the role of culture.¹⁵

The 2018 Code does not require disclosure of what the emerging risks are, but rather the process of identifying as well as managing or mitigating them. Our view is that this may lead to boilerplate, process-oriented disclosures that are not risk specific. Investors have also indicated that they will be looking for companies to provide more detail on what their emerging risks are, including any climate-related risks.

For these new disclosures to be helpful, they need to give users a sense of how the board monitors emerging risks and assesses the speed with which they may develop. Company reporting will be most meaningful if it includes specific examples to illustrate the board's approach. Included here are examples of companies which provide more detail on emerging risks.

We recommend that companies explain how the board monitors emerging risks and assesses the speed with which the risks will develop, using specific examples, even though not required by the 2018 Code. One area in which we are beginning to see more disclosures in this respect is climate change.

Examples: emerging risk disclosures

Vodafone Group plc, 2019 ARA (pages 46, 47 and 50)

Vodafone Group plc discloses emerging risks in two ways. First, the emerging threats in respect of each principal risk, e.g., extreme weather events caused by climate change causing technology failure in relation to technology resilience principal risk, and evolving threats in areas including the use of machine learning for cyber threat principle risk. Second, a watchlist of the emerging risks which may potentially impact them in the longer term and the relevant mitigating activities (e.g., climate change in relation

to which they undertook an independent gap analysis of their reporting against the TCFD recommendations to achieve full alignment).

Severn Trent plc, 2019 ARA (Figure 18)

Severn Trent plc explains that they monitor emerging risks and with time they may become fully fledged enterprise risk management (ERM) risks or be incorporated into existing ERM risks (as potential causes) as they learn more. A list of current emerging risks is disclosed including their time horizon (i.e., short, medium or long).

Figure 18. Severn Trent plc, 2019 ARA (page 55)

Title	Detail	Area / Factor	Time Horizon		
			Short	Medium	Long
Macroeconomics	Increased macroeconomic uncertainty post Brexit.	Economic	■		
Compliance	The challenge of compliance in a more complex, disaggregated regulatory framework for AMP7 and beyond.	Legal & Regulatory	■	■	
Automation, robotics and AI	Opportunity for increased efficiency through use of automation, robotics and artificial intelligence.	Technological	■	■	
Water industry structure	Increasing social and political pressure on the structure of the water industry.	Political & Social			■

¹⁵ Emerging risks: The UK Corporate Governance Code Revisions 2018, EY, 2018.



Spotlight on climate change

We expect the scrutiny on climate change and companies' associated reporting to only increase. Under the government's Green Finance Strategy, the Task Force on Climate-related Financial Disclosures (TCFD) recommendations may become mandatory for listed companies and large asset owners from 2022 onwards. Concurrently, the FRC has stated it will monitor companies' climate change reporting and consider the adequacy of auditors' work on principal risk disclosures, including climate risk.

“

I want to know what the key emerging risks are and what is the company doing about them. Disclosures on the process alone to identify and manage would not be as useful. It would also be helpful to know over what timeframe are risks looked at by the board. At what point will an emerging risk turn into a principal risk? What are the mechanisms in place to monitor that?

I would expect detail on what boards are doing about climate change particularly from oil and gas companies and those which have a physical impact from climate change. And how does this focus fit into strategy?

Ashley Hamilton Claxton,
Head of Responsible Investment, Royal London

The TCFD was created by the Financial Stability Board (FSB) and establishes recommendations for consistent 'disclosures that will help financial market participants understand their climate risks'. In our view, companies should consider the recommendations (set out in the Figure 19), which are structured around the core elements of how companies operate.

The TCFD's 2019 Status Report¹⁶ reviews how the TCFD recommendations have been implemented by companies and contains examples of good disclosures from companies such as **Unilever plc** and **International Consolidated Airlines Group plc**.

Figure 19. TCFD recommendations and supporting recommended disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

¹⁶ 2019 Status Report, Task Force on Climate-related Financial Disclosures: Status Report, June 2019.

5

Broadened responsibilities of the remuneration committee

a. Responsibilities of the remuneration committee

Overview of findings

With increasing scrutiny from the media and stakeholder pressure around remuneration at both executive levels and across the wider organisation, executive reward remains a highly emotive subject. The scrutiny has recently widened to pay for senior manager/key management personnel and the gulf between the pay at the top and bottom.

Remuneration committees will need to continue to balance stakeholder views with ensuring that their pay practices align with business strategy and enable them to attract, retain and motivate key employees. Due to complex requirements stemming from several sources, we emphasise the need for cohesive reporting and consistent messaging within the directors' remuneration report as well as with other relevant sections of the ARA.

New requirements

2018 Code

- ▶ The remuneration committee should review wider workforce remuneration and related policies, taking these into account when setting executive reward. This includes the pension arrangements available to the wider workforce (Provision 33, Provision 38).
- ▶ The annual report should evidence what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy (Provision 41).
- ▶ The remuneration committee should consider how executive reward aligns to culture. Incentive schemes should drive behaviours consistent with the company's purpose, values and strategy (Provision 40).

Hallmarks of leading practice and disclosure

- ▶ Clarity from the remuneration committee on how the policy and approach for executive and senior management remuneration fits within the overall remuneration approach across the organisation, including their engagement with workforce to explain this.
- ▶ Clarity on reward available at different organisation levels including pensions.
- ▶ A clear and balanced set of metrics that determine performance-related pay which align with the company's culture, purpose, values and strategy.

Complex legislative requirements

The rules and regulations governing the reporting of executive remuneration and the role of the remuneration committee are complex and are covered in numerous regulatory sources including:

- ▶ The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008/2013
- ▶ The 2018 Code
- ▶ MRR
- ▶ With effect from 10 June 2019, The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 (SI 2019/970) which implement parts of the Shareholder Rights Directive II (SRD II) into UK law.

Our review focused on the changes arising from the 2018 Code but it is interesting to note that many of these are covered in some way in existing requirements. For example:

- ▶ On discretion – While the MRR introduce a new requirement for the statement from the chair of the remuneration committee to summarise any discretion exercised and the annual report on remuneration to specify in relation to performance-related pay, whether the discretion applied has been exercised due to share price changes, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 8) has required for some time disclosure on discretion in respect of performance-related pay, including particulars of how it was exercised and how the resulting level of award was determined.
- ▶ On consideration of pay across the organisation - While the 2018 Code introduces the new requirements for the remuneration committee (discussed above), Schedule 8 has required for some time that remuneration committees state:
 - ▶ How pay and employment conditions of employees were considered when setting the remuneration policy for directors; and
 - ▶ Whether and if so how, the company consulted with employees when drawing up the directors' remuneration policy.

Therefore, the additions to the 2018 Code in respect of remuneration amplify the importance of the existing requirements as well as the need to consider them holistically especially where they overlap.

We also recommend that the government considers conducting a review of the impact and effectiveness of Schedule 8, just as there have been reviews on recently introduced legislation such as the Modern Slavery Act 2015 and payment practice reporting. This should help streamline and consolidate the requirements and help alleviate some of the regulatory complexity in this area.

Explaining executive pay approach and its alignment with wider pay policy

As explained above there are some pre-existing requirements in Schedule 8 for remuneration committees to explain how pay and employment conditions were considered. Unsurprisingly therefore, we noted that most companies reference consideration of the pay and conditions of the wider workforce but few provide much detail on how this was done. **British American Tobacco plc's** 2018 ARA (page 88) details the mechanisms in place for the remuneration committee to engage with the workforce.

However, given the elevated focus both in the 2018 Code and MRR of engaging with stakeholders including the workforce, we expect disclosure of this to develop in particular to explain how the remuneration committee engaged with the workforce to explain how executive remuneration aligns with wider company pay policy.

Aligning executive reward with the workforce

Based on a review of a sample of FTSE 350 ARAs, EY found that approximately a third of FTSE 350 companies have reduced executive director pension

contributions. The Investment Association has stated that companies should disclose the pension contribution opportunities for the wider workforce and they expect companies to exercise judgement in determining a contribution level that is appropriate for this group.¹⁷

Although companies across the FTSE 350 are lowering pension contributions for both new and existing directors, only a small number have disclosed the pension contribution levels available to the wider workforce (typically between 5-15%). Given the views expressed by investors, we expect additional disclosure around this point in the next year.

Aligning reward to culture

The 2018 Code states the remuneration committee should consider how executive reward aligns to company culture and its purpose, values and strategy. As explained in the culture section of this report (pages 12 to 21), including appropriate non-financial metrics in remuneration schemes is important to help make this link and help embed the right behaviours and values.

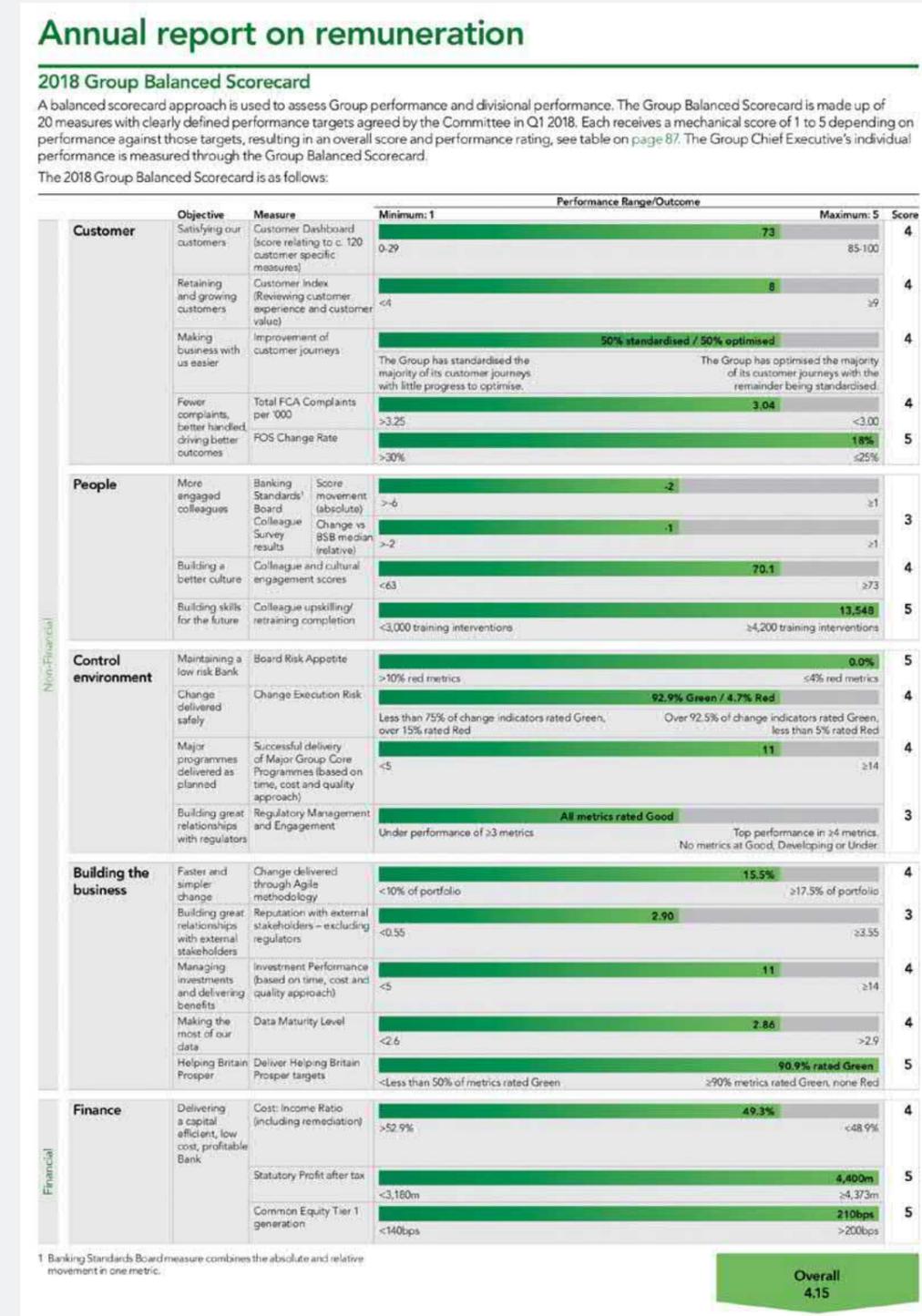
From our review we have seen that companies are referring to a broader set of metrics, beyond financial measures. **Lloyds Banking Group plc** (Figure 20) have a balanced scorecard referencing metrics including around culture.

“

We want to see communicated in annual reports what other than money motivates your CEO – what makes him or her tick? It is often not until we speak to the individuals in person that we see what their drivers are and how they care for the culture of their organisation.

Ashley Hamilton Claxton, Head of Responsible Investment, Royal London

Figure 20. Lloyds Banking Group plc, 2018 ARA (page 86)



¹⁷ Executive pay: Insights into the 2019 AGM reporting season – FTSE, EY People Advisory Services, June 2019.

5b. CEO pay ratio

Overview of findings

We noted in our report last year that companies had voluntarily started disclosing a CEO pay ratio in anticipation of regulations being finalised. More companies continued to do so in their 2018/19 ARAs ahead of the MRR requirement becoming mandatory. We expect to see greater focus on the narrative explaining the ratios and ensuring messaging is consistent with the wider “pay story”.

New requirements

MRR

Companies within scope must report in tabular form within their annual directors' remuneration report the ratio of their Chief Executive Officer's latest Single Total Figure of Remuneration (STFR) to:

- ▶ The median (i.e. 50th percentile) full time equivalent (FTE) remuneration of the company's UK employees;
- ▶ The 25th percentile FTE remuneration of the company's UK employees; and
- ▶ The 75th percentile FTE remuneration of the company's UK employees.

Companies must provide some accompanying narrative information including:

- ▶ The methodology chosen for calculating the ratio;
- ▶ The reason(s) for any changes to the ratios compared to the previous year; and
- ▶ In the case of the median ratio, whether and if so why, the company believes this ratio is consistent with the company's wider policies on employee pay, reward and progression.

Hallmarks of leading practice and disclosure

- ▶ A remuneration committee who understands pay and workforce practices throughout the organisation.
- ▶ Insightful narrative that explains the movements in the ratio.
- ▶ Clarity on the methodology adopted and how this is applied to the specific company.

Communicating your “pay story”

Approximately 35% of the FTSE 350 have published their CEO pay ratio. Most companies that state their methodology used Option A, the government's and investors' preferred methodology i.e., based on data of total pay and benefits of every UK employee. However, fully conforming with Option A has presented some data challenges to companies.¹⁷

Whilst disclosure of the methodology is important, investors have stated that they will pay most attention to the narrative that contextualises the ratio. To date we have primarily seen practical disclosures explaining the methodology adopted together with a small number of disclosures on what this means within the broader approach to reward. These disclosures include:

- ▶ How salary progression is structured for those at the lowest pay bands;
- ▶ Statements regarding the real living wage; and
- ▶ Referencing fair pay principles that form the backbone of a remuneration framework that is intended to be fair and free from discrimination.

Best practice in narrative will evolve and this will need to include explaining the inevitable variability in the ratio on a year on year basis. **Unilever plc's** 2018 ARA (pages 63 and 64) provides insightful explanation combining narrative and charts.

The CEO pay ratio is just one of the data points that should be used by remuneration committees to explain why executive pay is appropriate. Reward quantum remains a contentious issue, and as such, remuneration committees are encouraged to ensure they provide a consistent and transparent view across the whole of the remuneration report, touching on all data points and utilising them to support the overall messaging on reward. This will require a “pay story” to be developed rather than approaching this from a pure compliance perspective and simply listing out different statistics and charts.

Appendices

Appendix 1 Looking ahead: Upcoming reporting developments

Increased transparency via disclosure and reporting looks to remain a key tenet of many of the public policy initiatives that businesses will have to contend with over the coming years. Below we provide an overview of the narrative reporting developments – many which may impact ARAs – that companies will need to start preparing for either as they are already effective or recommended or that they should have on their radar as the related policy initiatives develop further. It is interesting to note that the effectiveness and impact of disclosure requirements that were introduced a few years ago e.g., transparency in supply chains etc. have

recently been reviewed and this may also create new or enhanced disclosures in some areas.

Notes:

- ▶ Only a summary/an outline of the developments (as at August 2019) has been provided and companies must refer to the regulatory sources for completeness both of reporting requirements and of the broader regulatory and governance implications.
- ▶ For impending developments, details on scope, timing and source have only been provided where known.

A: Reporting developments which are effective

Reporting development, scope, regulatory source and timing	Detail
<p>Streamlined energy and carbon reporting (SECR)</p> <p>Scope: Quoted companies (as defined in the Companies Act), large unquoted companies and LLPs</p> <p>Source: UK Government – Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018</p> <p>Timing: Financial year commencing on or after 1 April 2019</p>	<p>The new SECR requirements supersede the mandatory Greenhouse Gas Reporting which has been in force since 2013. Under the new SECR requirements:</p> <ul style="list-style-type: none"> ▶ Quoted companies must report on their global energy use in addition to greenhouse gas emissions in their Directors' Report. ▶ Large unquoted companies and limited liability partnerships must disclose their annual energy use and greenhouse gas (GHG) emissions and related information. <p>The Government's previously issued environmental reporting guidelines were updated in March 2019 to reflect SECR.</p> <p>While it is not mandatory to tag SECR data, the Government is keen to enable companies to digitally report their SECR data. Therefore, a SECR taxonomy is currently being consulted on to enable this.</p>

Guidelines on reporting climate-related information

Scope: Voluntary for companies that fall under the scope of the EU Non-Financial Reporting Directive (NFRD) which was implemented in the UK via amendments to the Disclosure Guidance and Transparency Rules (DTR) and Companies Act 2006.

Source: EU

Timing: Immediate

The European Commission published in June 2019 non-binding Guidelines on reporting climate-related information. The Guidelines supplement the existing NFRD guidelines, published in 2017 and integrate the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Companies should consider providing the recommended disclosures outlined in the guidelines and summarised below if they decide that climate is a material issue as part of their reporting on environmental matters under the NFRD.

Business model

- ▶ The impact of climate-related risks and opportunities on the company's business model, strategy and financial planning.
- ▶ The ways in which the company's business model can impact the climate, both positively and negatively.
- ▶ The resilience of the company's business model and strategy, to different climate related scenarios over different time horizons.

Policies and due diligence processes

- ▶ Any policies related to climate, including any climate change mitigation or adaptation policy.
- ▶ Any climate-related targets the company has set as part of its policies, especially any GHG emissions targets, and how company targets relate to national and international targets and to the Paris Agreement in particular.
- ▶ The board's oversight of climate-related risks and opportunities.
- ▶ Management's role in assessing and managing climate-related risks, opportunities and the rationale for the approach.

Outcomes

- ▶ The outcomes of the company's policy on climate change, including performance against the indicators used and targets (including GHG emissions targets) set to manage climate related risks and opportunities.

Principal risks and their management

- ▶ The principal climate-related risks the company has identified over the short, medium, and long term throughout the value chain, any assumptions that have been made when identifying these risks and the processes for identifying, assessing and managing these risks.

KPIs

- ▶ Any indicators and targets used to assess climate related risks and opportunities in line with the company's strategy and risk management processes.

Shareholder Rights Directive (SRD II)

Scope: Related party transactions: companies with a premium listing or a standard listing of equity shares (regardless of their country of incorporation).

Executive remuneration: Quoted companies and UK incorporated unquoted traded companies

Source: EU. See detail for UK regulatory implementation.

Timing: 10 June 2019, but see detail

SRD II was implemented into UK regulation and legislation effective 10 June through a variety of instruments. It aims to encourage long-term shareholder engagement and transparency between traded companies, investors and intermediaries, including proxy advisors.

Although, in most areas, it brings the EU in line with UK legislation and the updated Stewardship Code, there are two key areas of reporting change to be aware of:

- ▶ **Related party transactions (RPT): implemented via changes to DTR 7.3:** The primary impact will be on standard listed companies as UK premium listed companies are already subject to more extensive RPT requirements under Listing Rule 11 than those set out in SRD II. However, SRD II defines RPTs by reference to International Accounting Standard 24, which is a broader definition than the previous Listing Rule 11. As such, for premium listed companies some additional limited disclosures may be needed.
- ▶ **Executive remuneration:** implemented via Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 (SI 2019/970).
 - Most of the new requirements were already reflected in the UK's existing executive remuneration framework, however UK incorporated unquoted traded companies are now also in scope.
 - The reporting changes are very detailed and impact both the remuneration policy (approved on or after 10 June 2019) and annual report on remuneration (for financial periods beginning on or after 10 June 2019) sections of the directors' remuneration report. We recommend companies refer to the statutory instrument and the accompanying BEIS FAQs.

B. Impending developments which companies should keep a watching brief on

Reporting development, scope, regulatory source and timing	Detail
<p>European Single Electronic Format (ESEF)</p> <p>Scope: Issuers with securities listed on a regulated EU market</p> <p>Source: European Securities and Markets Authority (ESMA)</p> <p>Timing: Annual financial reports from 1 January 2020, although UK impact is uncertain due to Brexit</p>	<p>As part of amendments made to the EU Transparency Directive in 2013, to facilitate accessibility, analysis and comparability of annual reports, issuers will be required to prepare their annual reports in a single electronic reporting format. ESMA was assigned the responsibility to develop regulatory technical standards (RTS) to specify this electronic reporting format. The key changes are as follows:</p> <ul style="list-style-type: none"> ▶ Companies will have to file the entirety of their ARA in XHTML format – a combination of XML and HTML – that can be read by standard internet browsers. ▶ Companies will initially have to tag/mark up their IFRS primary financial statements using iXBRL, a form of XBRL which can be embedded within XHTML web pages. <p>The RTS was approved by the European Commission and published in the Official Journal in May 2019. It contains the core taxonomy (based on IFRS taxonomy) that companies can use to tag their financial statements.</p> <p>In the event the UK remains subject to EU law on 1 January 2020, the FCA is currently consulting on a new provision in the DTR to implement UK requirements for ESEF. Refer to FCA CP 19/27 issued in September 2019.</p>
<p>Climate change reporting</p> <p>Scope: All listed companies and large asset owners</p> <p>Source: UK Government</p>	<p>As part of the UK Government's Green Finance Strategy, <i>Transforming finance for a greener future</i>, published in July 2019, there are several proposals which may lead to new disclosure changes, including:</p> <ul style="list-style-type: none"> ▶ All listed companies and large asset owners to disclose in line with the TCFD recommendations by 2022. ▶ The government and the Pensions Regulator have jointly established an industry group to develop TCFD guidance for pension schemes which will be put into statutory footing in due course. <p>The FRC concurrently issued a statement to say it will continue to review whether companies are complying with the current statutory disclosure requirements of the strategic report (which includes reporting on principal risks and uncertainties) as well as any financial statement implications of climate change.</p>
<p>Independent Review of the Modern Slavery Act 2015 (MSA 2015)</p> <p>Scope: TBC. Current scope of the MSA 2015 is organisations with a turnover, or group turnover of £36m or more which are either incorporated in the UK or carry on a business in the UK.</p> <p>Source: UK Government</p>	<p>In May 2019, an independent review report of the Modern Slavery Act 2015 was published. The Government issued concurrently in July 2019, its response as well as a consultation, to inform future legislation in this area. Among the proposals being consulted on, those likely to affect reporting are:</p> <ul style="list-style-type: none"> ▶ Companies should not be able to state they have taken no steps to address modern slavery in their supply chains, as the legislation currently permits, and that the six areas of reporting currently recommended in guidance should be made mandatory. ▶ The statutory guidance on transparency in supply chains will be strengthened to include a template of the information organisations are expected to provide on each of the six areas. ▶ MSA statements will be filed a centralised online government registry and there will be a single reporting deadline.

<p>Payment practices</p> <p>Scope: Currently, large private companies, large limited liability partnerships and large listed companies.</p> <p>Source: UK Government, FRC</p>	<p>Following a call for evidence, the Government published a response in June 2019 proposing to introduce a package of measures to tackle late payments. It states that it will use its enforcement powers to prosecute and fine large companies which have not yet reported or have reported payment practice data incorrectly.</p> <p>The proposed changes which are likely to impact reporting include:</p> <ul style="list-style-type: none"> ▶ As announced in the Chancellor's 2019 Spring Statement, audit committees of large companies will be required to review their payment practices and report on them in their ARA. The FRC is expected to publish guidance for audit committees on this in due course. ▶ The Government has also asked the FRC to review how well payment practices are reflected in the first year of the new MRR requirement on stakeholder reporting.
<p>Board evaluation in the UK listed sector</p> <p>Scope: Listed companies</p> <p>Source: ICASA: The Governance Institute, UK Government</p>	<p>The Government's response to its consultation on Insolvency and Corporate Governance, recommended an examination on the quality of board evaluations. ICASA consulted on this matter and in due course will publish and submit a report of its recommendations to the Government for its consideration. Depending on the outcome, listed companies may be required in the future to provide additional disclosures on the conduct of and outcomes from evaluations.</p>
<p>Ethnicity pay reporting</p> <p>Scope: TBC, consultation proposal was companies with 250 employees or more UK Government</p> <p>Source: UK Government</p>	<p>The UK government consulted between October 2018 and January 2019 to inform future government policy on ethnicity pay reporting.</p> <p>The Government has not yet finalised its analysis of the responses, but companies may be required in the future to conduct an equal pay review and publish information on their ethnicity pay gap.</p>

Appendix 2 About EY's Corporate Governance team and our resources

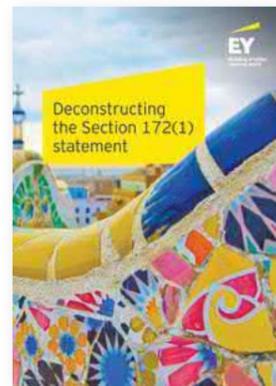
EY's UK Corporate Governance team provides guidance and thought leadership on governance issues to help management and boards, and to contribute to wider discussions on good governance, based on our research and engagement with investors, boards and regulators.

We can provide further insights, bespoke governance advice and annual report reviews. In addition to the publications highlighted below, in alignment with this report, we have developed a detailed aide memoire comparing the 2018 Code disclosures to those under the 2016 Code. To find out more contact us at corporategovernance@uk.ey.com or visit our website <http://www.ey.com/corporategovernance>.



2018 UK Corporate Governance Code and new legislation

Analyses how the new 2018 Code and secondary legislation will impact premium listed companies.



Deconstructing the Section 172(1) Statement

Practical guidance including illustrative examples to help companies prepare for meeting the new requirement under MRR to include a separately identifiable Section 172(1) statement.



Governing culture: practical considerations for the board and its committees

Updated in early 2019 to reflect latest developments, this paper is designed to help boards and committees consider the decisions they make and the oversight they exercise through the lens of culture.



Turning the tide to greater corporate accountability

Produced by EY's UK Regulatory and Public Policy team, this research shows how UK-based asset managers and asset owners are currently reporting on and engaging with their investee companies on key areas of stewardship focus.

EY Corporate Governance team contacts



Ken Williamson
Partner

kwilliamson@uk.ey.com
+44 20 7951 4641



Mala Shah-Coulon
Associate Partner

mshahcoulon@uk.ey.com
+44 20 7951 0355



Maria Kepa
Director

mkepa@uk.ey.com
+44 20 7951 8164

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities. EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2019 EYGM Limited.
All Rights Reserved.

Artwork by JDJ Creative Ltd.

ED None



In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com