About this report

This publication is a yearly feature from EY's UK Regulatory and Public Policy team. The report offers a recap of the key developments from the past 12 months and provides a strategic overview of the regulatory and public policy themes expected to be significant for the year ahead.

We find ourselves in an unprecedented situation. At the time of going to press with this edition, over a third of the global population is under some form of government-imposed ‘lockdown’ due to the COVID-19 outbreak. As governments make significant interventions in response to COVID-19, businesses are having to rapidly adjust to the changing needs of their people, their customers and suppliers, while navigating financial and operational challenges.

With every industry and geography affected, the volume of potential change is uncertain. EY can help with navigating the COVID-19 crisis, through insights on structured crisis management, enterprise resilience and planning for recovery.

The 2020 strategic regulatory outlook, while acknowledging the significant impact and lasting effects of COVID-19, also provides a lens on the breadth of regulatory updates and public policy developments still in the pipeline.

These are examined by megatrend: the fourth industrial revolution; geopolitical shifts; the rise in stakeholder capitalism; and purposeful governance and reporting.

The developments presented in the 2020 strategic regulatory outlook can be viewed through three lenses:

- The ‘now’, as companies navigate the present crisis.
- The ‘next’, as they adapt to a regulatory and economic environment changed by the experience of COVID-19.
- The ‘beyond’, as long-term policy and regulatory focus areas return onto the agenda, having been deprioritised by the immediate need to respond to the pandemic.

Contents

Strategic policy priorities ........................................... 1

Megatrends: a deep dive into policy undercurrents ....... 4

Geopolitical shifts ....................................................... 5

Purposeful governance and reporting ......................... 9

Rise in stakeholder capitalism .................................... 15

The fourth industrial revolution ................................... 19

Conclusion and contacts ............................................ 21

Endnotes ...................................................................... 22
Strategic policy priorities
Reflections on 2019

1. The geopolitical picture continued to evolve:

In 2019, businesses faced challenges from the uncertainties around the UK’s exit from the European Union (EU), and from growing tensions around international trade. US-China relations continued to be a key area of focus as talk of a ‘trade war’ resulted in uncertainty and headwinds for economic growth. However, the outcome of the December UK general election provided a sense of stability for UK businesses and a clearer direction for the Brexit process.

2. Technology and innovation presented opportunities and challenges

Keeping pace with digital innovation continued to be a business imperative. However, emerging technologies, such as artificial intelligence (AI), 5G and robotic process automation, have exacerbated the risks around data privacy and cybersecurity as organisations continue to implement the General Data Protection Regulation (GDPR). The challenges of keeping customer data safe remained critical for businesses, as threats were constantly evolving.

The socio-political implications of disruptive technology also generated concerns from government and regulators around the risk of biases in AI, the impact of automation on workforces and the impact on technological sovereignty.

3. Corporate governance expectations continue to evolve

Corporate governance and reporting practices were still high on the agenda in 2019. The Shareholders Rights Directive II (SRD II) was transposed into UK law in June 2019. This introduced new executive pay measures, transparency requirements for institutional investors and asset managers and a stronger framework for related party transactions. Additionally, businesses faced scrutiny on their corporate governance practices, including a greater focus on corporate purpose, culture and diversity and inclusion.

4. There was a step-change for the environment and stewardship

The Financial Reporting Council (FRC) published the revised Stewardship Code in September 2019. Main changes included: a strong focus on activities and outcomes; new expectations around how investment and stewardship is integrated with environment, social and governance considerations; and new principles and reporting requirements for asset owners and service providers (including proxy advisors).

Calls for climate-related disclosures continued to build momentum throughout the year. The Government published its Green Finance Strategy in June 2019, setting out the enhanced role it expected financial services to play in sustainable finance. Businesses also faced increased pressure to reduce carbon emissions, and heightened expectations from stakeholders such as investors, regulators and wider society in terms of their engagement with climate change.
What to expect in 2020

COVID-19 has caused major disruption and uncertainty to the world, both socially and economically. The immediate priority for the UK Government and regulators has been to provide guidance and aid to businesses, to help support the continued functioning of the capital markets and the wider economy.

This reprioritisation by the UK Government and regulators has meant that some regulatory reforms have been postponed. However, although postponed in the short term, these policy developments have not disappeared. Businesses will still need to prepare for when the reforms do rise back up the priority list after the worst of the current crisis is over.

In our previous report (The 2019 UK strategic regulatory outlook) we analysed public policy areas and aligned them to four overarching megatrends. Amid the current pandemic, these megatrends continue to provide a useful framework for analysis, to help businesses understand the regulatory landscape that they currently face ‘now’, what will need to be considered ‘next’, and how this will manifest in policy and regulation for 2020 and ‘beyond’. The key trends and policy undercurrents that we believe will develop during this year and beyond are presented below:
Immediate priorities (the ‘now’):

Geopolitical shifts: In the wake of the COVID-19 outbreak, governments around the world have set out unprecedented measures to help curtail the global humanitarian crisis. Global leaders such as G20 are seeking to remove barriers to trade and disruption to supply chains. However, it is likely that the emergency measures which include fiscal and monetary policies will have an impact on the economy for years to come. The shift away from globalisation has been exacerbated by the current pandemic: as countries become more inward looking, geopolitical relationships will evolve, having an impact on international trade agreements.

Purposeful governance and reporting: As the UK Government’s economic stimulus is spread across all areas of the economy, business leaders will be held to account on their public interest responsibilities through good governance. Companies will increasingly need to demonstrate their purpose and wider benefit to society, as demands grow for greater transparency and evidence of value for all stakeholders through effective reporting.

The reallocation of capital will mean that the role of investors in exercising responsible stewardship will become increasingly important, aligning to the FRC’s revised 2020 UK Stewardship Code which places increased expectations on institutional investors and service providers. Businesses can expect a step change in terms of investor engagement, as investors will increasingly focus on outcomes within their stewardship activities, taking into consideration environmental, social and governance issues.

Fourth industrial revolution: As society becomes increasingly connected by technology, particularly as companies change their approach to working during the COVID-19 outbreak to help manage the disruption, cybersecurity will continue to remain a key priority area for the Information Commissioner’s Office (ICO).

Medium-term priorities emerging beyond the current crisis (the ‘next’):

Rise in stakeholder capitalism: COVID-19 will call into focus businesses’ social impact. There will be a growing expectation for businesses to clearly report how they consider and engage with their stakeholders (i.e., customers, employees and suppliers), having regard to issues that matter most to them. Beyond COVID-19, businesses’ human capital will also receive attention, with legislative changes underway to extend pay gap reporting to ethnicity and other prescribed characteristics.

Returning to the purposeful governance and reporting megatrend, stronger oversight of pension schemes and trustees will also be seen, with The Pensions Regulator (TPR) expected to receive more powers from the Pension Schemes Bill which is currently under review in Parliament.

Businesses will also continue to experience demands for greater disclosure on long-term value creation, with increasing momentum for the use of consistent and comparable reporting frameworks for non-financial information. As a part of this, businesses will need to clearly articulate how their strategies enable them to deliver for all stakeholders.

The fourth industrial revolution will generate further regulatory activity: ethical concerns around how disruptive tech, such as AI makes its decisions will be a focus for the ICO, and the Centre for Data Ethics and Innovation (CDEI) particularly regarding data protection and its access to personal information.

Long-term priorities on the policy agenda (the ‘beyond’):

Environmental: issues such as climate change and sustainability will remain firmly on the agenda for many stakeholders, even though the immediate priority will be in responding to COVID-19. The decrease in travel, due to COVID-19 has had a positive impact on decreasing carbon emissions, even as companies face growing expectations around sustainability. Greater supervisory focus by regulators and policymakers is to be expected, with a bigger push on companies to provide more climate-related financial disclosures, aligning to the industry led Taskforce on Climate Related Reporting Financial Disclosures (TCFD) framework isn’t focused on just audit but wider business ecosystems.

A series of corporate failures have heightened scrutiny across all aspects of the business ecosystem, including audit. This has led to a suite of Government and regulatory reviews. Outcomes of the reviews are expected to lead to an increase in oversight on all aspects of the business ecosystem, with a greater emphasis on boards’ accountability and wider corporate reporting.

Across our four megatrends, as businesses seek to navigate in uncertain times, actions being taken by regulators, governments and businesses now – in the public interest – have the potential to achieve sustainable benefits for the economy, society and the environment. Even more than previous years, 2020 is set to be both challenging and transformative for businesses.
Megatrends: a deep dive into policy undercurrents
Geopolitical shifts

Geopolitical landscape

COVID-19

COVID-19 has accelerated many of the trends that were already underway in geopolitics – from concerns around technological sovereignty to regional shifts and the move from globalism towards an international order more aligned around the nation state. The vulnerability of the interconnected world is clearly apparent to businesses with international customer bases and supply chains, as the COVID-19 pandemic causes countries to close their borders, disrupting supply chains, markets and trade. With a third of the global population undertaking some form of social distancing (as of April 2020), access to workforces and customers has been severely curtailed.

The economic effects of the pandemic will be felt across the economy long after the public health emergency has subsided. By some estimates, some economies could face falls in GDP entering double digits, with similarly sharp rises in government deficits.¹

Populism and anti-globalisation

As was the case last year, populism and anti-globalisation sentiment continue to drive many aspects of public policy.² This has resulted in governments being less focused on international collaboration on trade, and more on political interest in regional organisations, bilateral agreements and the nation state. Initiatives such as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the Regional and Comprehensive Economic Partnership (RCEP), indicate a shift to countries being more regionally focused and an increase in the fragmentation in the global economy. Additionally, the global trading environment is being shaped by geostrategic competition and rivalry between the US, China and the EU – three major economic influencers who are challenging the well-established rules-based global trading system. These geopolitical tensions may continue to rise in the wake of the pandemic.

The impact of these strategic shifts will continue to be felt by businesses. Examples include the increased cost of running international supply chains as tariffs increase, implications for business planning as market access becomes more tightly controlled in some jurisdictions, and the increasing encroachment of politics into boardrooms, as businesses find themselves encouraged by governments to take politically-driven decisions (e.g., committing the sale of their manufactured products to the national workforce).³

The COVID-19 pandemic has created heightened pressure on internationally-distributed supply chains, furthering the arguments made in favour of more local or regional operations. Consequently, more businesses are reporting that political risk is receiving greater attention in boardroom compared with two years ago, according to EY’s Geostrategic Business Group.⁴
Technology and technological sovereignty

Global populism is also affecting how businesses engage with emerging innovations and the fourth industrial revolution. While uptake in technologies such as 5G and AI increases, there is growing political scrutiny against the use of technology from other jurisdictions due to increasing political sensitivities around technological sovereignty. As companies consider the benefits of adopting new technologies, they are also faced with political decisions.

Businesses will also need to prepare for increased political interest in data privacy. Personal data and connected devices play an increasingly important role in the lives of consumers around the world, while the uptake in new technology has also meant that firms are using increasing volumes of customer data, which must be stored and handled securely. Public awareness of the volume of data that businesses hold has increased pressure on policymakers to act. In a number of jurisdictions around the world public awareness of the volume of data that businesses hold has increased pressure on policy makers to act, meaning that there is increased focus on regulation to mitigate the risks of data breaches.

Governments are also increasingly concerned with the localisation of data, to ensure that they can exercise control and prevent it being exploited by other nation states. Businesses are experiencing heightened interest in the data that they hold, how it is kept, and where it is kept. Amid the COVID-19 pandemic, the dividing line between the utility of emerging technology to help solve major societal challenges and the data privacy trade-offs has become stark: e.g., contact-tracing apps on citizens’ mobile phones have been proposed as a potential means of easing social distancing restrictions, but these bring concerns about data protection, consent and privacy.

Climate risk

The interconnected nature of global supply chains means that climate change and climate-related risks are an increasingly important concern of many companies. Climate change has been described as the defining issue of our time. Businesses are increasingly being required, through initiatives such as the TCFD and the UK’s 2020 Stewardship Code, to demonstrate how they are incorporating climate risk into their decision-making and planning.

Businesses with international supply chains will need to consider the impact of climate change on the different jurisdictions in which they operate: different geographies face different risks, meaning that the need for business continuity planning will become increasingly important, just as public and political pressure for businesses to act on climate change continues to rise. However, responses to the pandemic have accelerated several economic and social trends – the sudden shift to remote working and significant reduction in public transportation have created a new normal for businesses around the world. Investors, who are increasingly focused on investees’ approaches to sustainability, will look to see how these practices are adapted once social distancing measures are relaxed.

Looking beyond – what to look out for:

- **US presidential election**: The US presidential election is due to take place on 3 November 2020. This is significant geopolitically because of the influence the president and his administration have on international trade (e.g., USMCA), defence (e.g., NATO) and climate change (e.g., Paris Agreement).
- **G20 summit in Riyadh, Saudi Arabia**: On 21-22 November 2020 the next Group of 20 (G20) summit is scheduled to take place. Pre-summit papers, submitted from the 19 countries which comprise the G20, outline the priorities for the meeting (e.g., COVID-19, shaping new frontiers, empowering people and safeguarding the planet).
- **United Nations Climate Change Conference of Parties (COP26)**: The 26th Conference of Parties was set to take place in Glasgow in November 2020. While this has been postponed due to COVID-19, other activities such as the Private Finance Initiative have started to focus on engaging businesses in tackling climate change.
- **UK-EU transition period expires**: On 31 December 2020, unless an extension is agreed, the transition period will expire following the UK’s exit from the EU on 31 January 2020. The UK will then begin its new trading relationship with the EU and third countries.
UK’s exit from the EU

As of 1 February 2020, the UK and EU entered into a ‘status quo’ transition period, during which EU law continues to apply to the UK in almost every regard. Free movement of goods, services (including financial services passporting), capital and people continues, along with the implementation of new EU laws in the UK, until 31 December 2020. During this period, both sides are committed to work towards a new trade relationship to be ready for 1 January 2021, but time is short. In parallel, the UK will also be looking to revise its trading relationships with countries around the world.

Under the Withdrawal Agreement, there is an option to extend the transition period once, for either one or two years, but both sides must agree to such an extension by 1 July 2020. The UK Government has for now legislated away the possibility of using this formal extension mechanism, but the issue may resurface again as we approach July. This is especially the case as the UK and EU are focused on dealing with the COVID-19 pandemic.
The UK and the EU have each published their negotiating mandates. In terms of outcomes, there are now two potential scenarios: either the UK will negotiate a comprehensive free trade agreement (FTA) with the EU, or will revert to the default ‘no deal’ alternative such that the UK will switch to trading with the EU on World Trade Organisation (WTO) terms. Businesses will need to plan for both scenarios, therefore contingencies for ‘no deal’ are still required.

The Government is seeking a deal that would see no tariffs on most goods and minimal border checks. When it comes to services the end state is much less clear. It is difficult to see how services market access can be achieved without comprehensive and dynamic regulatory alignment, an option that the UK has rejected. There are precedents for goods, as the EU has agreed similarly ambitious provisions with other countries such as Canada and Japan. However, there are no precedent for EU FTAs of this nature on services.

Businesses with significant interests in countries outside the EU will additionally be impacted by any agreements the UK will reach with the rest of the world (RoW).

It is imperative for businesses to regularly update their risk assessments and revisit contingency planning. Boards should avoid over-focussing on single issues in isolation, as the negotiations play out. Instead, companies will need to ‘look beyond the event’, at emerging trends.

Looking beyond – what to look out for:

- **UK and EU equivalence assessments for financial services regulation**: By the end of June 2020 the EU has committed to complete its assessment of regulatory equivalence in the financial services sector.

- **Final deadline to request extension to implementation period**: The UK has until the end of June 2020 to formally request an extension to the negotiation period, of either one or two years. If this is not requested/agreed, negotiations have to be completed and the agreement ratified by 31 December 2020.

- **End of transition period**: on 31 December 2020 the transition period ends. If no extension is sought by the UK, it will start its new relationship with the EU in terms of a FTA or WTO arrangements.
Purposeful governance and reporting

Governance, stewardship and pensions

Governance

COVID-19 has altered the regulatory, societal and economic environment in which businesses operate. An immediate consequence of this has been felt in the regulatory and policy landscape, where a suite of temporary measures, guidance and relaxations have been issued to help businesses reprioritise and deal with the virus’ impact and challenges. For example, the Chartered Governance Institute, in collaboration with several law firms (and endorsed by the FRC and BEIS), prepared guidance which offers companies an alternative approach to running annual general meets (AGMs) virtually. Companies have been offered extensions to their accounts filing deadlines (see the Corporate reporting section for more detail) and BEIS is expected to issue legislation addressing AGMs, insolvency and other corporate governance matters. Preserving the functioning and stability of the capital markets is a key priority. So businesses can expect continued regulatory monitoring of how they are dealing with COVID-19 related issues in terms of governance and reporting developments in the near term.

As companies respond to the impact of COVID-19, they will need to strike a balance between surviving in the short-term but managing for the long-term. Decisions such as dividend payments, the reallocation of capital and the treatment of employees will be crucially important. Businesses will need to act with purpose and focus on their public interest responsibilities, exercising good governance, integrity and accountability. The decisions made now should clearly feature when businesses report against their Section 172 (s172) duties and the UK Corporate Governance Code 2018. Businesses that exercise sound judgement through the crisis and have a long-term focus are more likely to be resilient and emerge with their reputation and trust in their business intact.

Stewardship

The pandemic and the resulting stimulus packages raise the importance of the stewardship role that institutional investors play. Investors who are enforcers of good governance, will be increasingly looking for their investee companies to be sustainable and to demonstrate how they are delivering long-term value. This aligns with the UK Stewardship Code 2020 (‘the Code’) which came into effect on 1 January 2020. The Code, which closely mirrors the UK Corporate Governance Code 2018, introduces an ‘apply and explain’ approach for UK-based asset managers and asset owners across 12 key principles. These principles include a broader definition of stewardship, the integration of environment, social and governance (ESG) considerations as part of investment decision-making, a focus on outcomes achieved, specific responsibilities for asset owners, and the encouragement of collaborative engagement, where appropriate. It also sets out

The Government’s economic stimulus measures mean that now, more than ever, businesses will need to be firmly rooted in the public interest. Consequently, there will be a renewed focus on areas such as governance, stewardship and the trusteeship of pensions. Companies will need to demonstrate their commitment to their public interest responsibilities through their purpose, not only in this current climate, but also in the long term.
six separate principles that have unique application to service providers.

The Code will result in immediate implications for corporates: businesses should expect to have more interactions with groups of investors through collective engagement. Companies should also expect increased interest from investors on ESG matters, with an emphasis on social and governance issues in the short-term. This not only represents a critical new area within the Code, but also one in which investors are increasingly being criticised for perceived substandard approaches. Matters requiring a long-term focus, such as environmental issues, will still be of keen interest to investors. As set out in the Environment and Corporate reporting sections of this report, disclosures will be crucial in explaining to investors how companies are taking these matters seriously.

Pensions

COVID-19 will undoubtedly present challenges to UK pensions, putting trustees’ fiduciary responsibilities and obligations to the test. The Pensions Regulator (TPR) will expect trustees to address immediate challenges such as: assessing their business continuity plans, scheme administration and being vigilant regarding pension savers who are at risk of being targeted by scammers.

The COVID-19 pandemic has shown us that risks that have a small probability of occurring but a high impact on pension scheme funding needs to be considered as part of long-term strategic planning. Although pension trustees have immediate practical challenges to contend with, pensions are essentially long-term investments. So there will still be an expectation both from regulators and pension savers to incorporate ESG considerations into the governance and administration of pension schemes, regardless of the probability of ESG risks materialising, to ensure long-term value is generated for all. For example, initiatives such as ‘Make my Money Matter’, which featured at the launch of the COP26 Private Finance Agenda in February 2020, aim to increase public engagement in how their pensions are invested. The greater influence pension funds can exert in driving long-term value creation comes with higher expectations on sustainability, TPR (via the Pensions Climate Risk Industry Group) is consulting on guidance related to TCFD disclosures this year. See the Environment section for more details.

For pension funds that are signatories of the United Nations’ Principles for Responsible Investment (PRI), there will be even further demands to act on TCFD. Reporting on the strategy and governance indicators of the PRI’s climate risk indicators becomes mandatory this year. The Pension Schemes Bill, which has been laid in Parliament and is expected to be finalised in 2021, seeks to ensure effective governance of pension schemes with respect to the effects of climate change and will also usher in a stronger pensions regulator.

Looking beyond – what to look out for:

- **Reporting against the UK Stewardship Code 2020:** The revised Code applies to asset owners, managers and service providers (including proxy advisors, investment consultants, and data research providers). The first deadline for reporting against the revised Code (e.g., including outcomes on stewardship activities) is 31 March 2021. The FRC plans to review these reports and intervene where individual reports are sub-standard.

- **Implementation of the Shareholder Rights Directive II (SRDII):** The second phase of SRDII is scheduled to come into effect on 3 September 2020. This will bring in new rules on disclosures e.g., shareholder identification, transmission of shareholder information and confirmation of voting.

- **The Pension Schemes Bill 2019-21:** The Bill currently includes, amongst other things, an increased duty on pension trustees to take account of climate change risk, and proposals for greater regulatory powers for The Pensions Regulator (TPR). The Bill is expected to be finalised in 2021.

- **Revised Defined Benefit (DB) funding Code of Practice:** TPR is consulting on new principles to underpin a framework that will clarify the responsibilities and obligations, on companies and pensions trustees, for the future funding of DB schemes. The revised Code will come into force at the end of 2021.

- **Replacement of the Retail Prices Index (RPI):** A joint consultation, issued by the Government and the UK Statistics Authority (The Authority), details plans to replace the RPI with the Consumer Price Index including owner occupiers’ housing costs (CPIH), for the purposes of valuing index-linked investments (including pension schemes). The consultation seeks views on whether the Authority’s proposed change should be made before 2030 and, if so, when.
Corporate reporting

Corporate reporting in the context of COVID-19

The pandemic has created unprecedented challenges for corporate reporting. These have not gone unnoticed. Within the first quarter of 2020, bodies including the FRC, Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA)/Bank of England (BoE), and BEIS have struck a series of measures and published guidance to help support the continued functioning of the UK capital markets and provide businesses with some relief to reprioritise and respond to the effects of the pandemic. Guidance from policymakers and regulators is expected to be continuously updated as the situation develops.

Businesses are encouraged to reconsider their reporting deadlines and ensure that their disclosures provide as much useful information as possible. Disclosures around principal risks and emerging risks are expected to come increasingly into focus, particularly as companies must include this in their reporting as set out in the 2018 UK Corporate Governance Code. These disclosures provide an opportunity for businesses to offer confidence and reassure investors and wider stakeholders around business viability. On 16 March 2020, the FRC Financial Reporting Lab published guidance which summarises key areas on which investors require greater information: liquidity, viability and solvency of a company. Additionally, on 26 March 2020 the FRC issued guidance for companies to help them prepare their annual reporting and other areas of corporate reporting.

A tool for stakeholder engagement

Companies should also consider how their disclosures could be used by their stakeholders, particularly given the growing number of channels for stakeholder engagement. This will be increasingly important with investors who are encouraged through the UK Stewardship Code 2020 to deepen their engagement with their investee companies, and to demonstrate the outcomes to which that engagement leads. On balance useful disclosures presents greater potential for reward than risks. Companies should think about how they can use more specific and meaningful disclosures to enhance trust amongst different stakeholder groups (i.e., regulators, employees and customers).

Demonstrating a long-term value mindset

The unprecedented suite of stimulus packages introduced by the UK Government has raised expectations that businesses adopt a greater public interest role and demonstrate how they are looking after their stakeholders during the COVID-19 pandemic. Aligned with this, the investor community and other key stakeholders are increasing demands for enhanced disclosures on long-term value creation. Meeting these
expectations will require companies to demonstrate their long-term approach to managing present day urgencies and, importantly, to articulate their strategy to deliver for all stakeholders.19

Enhanced disclosures on long-term value creation will enable boards to evidence the sustained value created for investors and other stakeholders, even during times of uncertainty. This will increase confidence in business resilience, in turn supporting the economy for the short, medium and long-term. It may also help to address the business community’s trust deficit. However, it is critical that businesses heed the growing call for the use of consistent and comparable reporting frameworks for non-financial disclosures. This is an area that businesses should monitor as a priority as the year progresses.

Corporate reporting will continue to evolve

Upcoming developments anticipated in 2020 are also likely to further reshape corporate reporting. The Brydon Review20 into auditing featured several recommendations that would increase companies’ disclosure obligations to their shareholders and stakeholders (more information on this below). Additionally, the Brydon Review recommended that company directors provide an annual attestation to the board on the effectiveness of the company’s internal controls, over financial reporting similar in style to the Sarbanes-Oxley Act in the US. The proposals show a growing appetite for increased director accountability. BEIS is expected to publish a consultation in 2020 seeking views on these and other recommendations set out in the Brydon Review.

Closely related to this, the FRC is expected to release its thought leadership paper on the Future of Corporate Reporting (the release has been delayed due to COVID-19).

The ongoing momentum to evolve corporate reporting reflects a broad desire for increased transparency and the need to better communicate companies’ value creation stories for stakeholders. Recent data demonstrates that stakeholders, including shareholders, increasingly consider non-financial information in their decision making.21 To meet these heightened expectations, businesses will need to consider a fuller range of stakeholders in assessing the usefulness of their reporting. Boilerplate disclosures will fail to meet this test, and risk increasing report lengths without adding value and substance to the narrative.

Looking beyond – what to look out for:

Regulators have announced the changes listed below. How companies respond to the guidance will continue to be monitored.

- **Joint statement by financial regulators in response to COVID-19:** The FRC, FCA and PRA announced a series of actions to help ensure information continues to flow to investors and support the continued functioning of the UK’s capital markets. The suite of guidance includes, but is not limited to:
  - A statement22 by the FCA allowing listed companies an extra two-months to publish their audited annual reports.
  - Guidance23 from the FRC for companies preparing financial statements in the current uncertain environment.
  - Guidance24 from the PRA regarding the approach that should be taken by banks, building societies and PRA-designated investment firms in assessing expected loss provisions under IFRS 9.

- **Companies House extends reporting deadline during COVID-19:** Since 25 March 2020 businesses have been able to apply for a three-month extension for filing their accounts25 so they can prioritise managing the impact of the COVID-19 on their businesses.

- **London Stock Exchange extends reporting deadlines for AIM-listed companies during COVID-19:** AIM companies with financial year ends between 30 September 2019 to 30 June 2020 can apply for a three-month extension26 for the publication of their annual audited accounts.

- **BEIS response to independent reviews on auditing:** BEIS is expected to publish a consultation in the autumn of 2020. Recommendations from other reviews e.g., The Independent Review of the FRC, with implications for reporting, are also expected to be taken forward in 2020.
Business ecosystem

As developments continue to unfold, it is expected that the reforms underway will increase requirements and oversight measures on companies, auditors and investors. Companies, in particular, should expect a greater emphasis on boards’ accountability and corporate reporting. Businesses are encouraged to take part in the debate and respond to consultations.

The UK Government’s future plans were set out before the general election in December 2019. BEIS has committed to publish a cohesive package of reform proposals in 2020. This is expected to include: 1. A public consultation on relevant elements of the Kingman review.27 2. A public consultation on proposed remedies following previous consultation in response to CMA Market Study (the Competition and Markets Authority: Statutory Audit Market Study)28. 3. A public consultation on all relevant recommendations from the Brydon Report (the Independent Review into the Quality and Effectiveness of Audit).29

Companies are advised to strengthen engagement with relevant stakeholders in order to keep up to speed with key developments and consider the impact the implementation of any recommendations may have on their organisations.
Looking beyond – what to look out for:

- **A new stronger regulator**: The FRC will complete its transition into the Audit, Reporting and Governance Authority (ARGA). The new regulator will receive statutory powers which will enable it to investigate concerns relating to companies, their accounts and governance and to enforce greater sanctions for corporate failures.

- **Board accountability**: Introduction of a mechanism for enhanced directors’ reporting on internal controls over financial reporting.

- **Greater audit committee scrutiny**: Mandatory minimum standards could be imposed regarding the appointment of auditors and oversight. This could lead to greater accountability and transparency in the audit tendering process which will lead to enhancements in auditor selection and opportunity for increased engagement with shareholders in this regard.

- **Increased director reporting requirements**: New disclosure measures are likely to be included in companies annual and interim reports and their accounts. such as:
  - A Public Interest Statement within the Strategic Report setting out the company’s self-declared public interest responsibilities and how it discharged these.
  - A Resilience Statement which covers both the short term (going concern), medium term (stress testing scenarios) and long term (e.g., climate change) status of the company.
  - A Risk Report which will provide detail on principal risks, specifically detailing the level of risk that remains after taking account of the relevant controls and mitigations, and how the risks have changed from the prior year.
  - A three-year rolling Audit and Assurance Policy that explains the process of appointing the auditors and what is required of them including scope, materiality, fees.
  - Explanation of how the views of the workforce were considered by the board (to report on issues around risks and assurance raised by the workforce, and the how the board has responded).
  - Action taken by the directors to prevent and detect material fraud (processes which were considered and reasons for the directors’ confidence in their effectiveness).

- **Greater shareholder (and wider stakeholder) engagement**: Companies are likely to see a step change in terms of investor engagement, in response to their new responsibilities set out by the FRC revised 2020 UK Stewardship Code. In addition to this, the recommendations of the reviews are geared towards greater engagement with wider stakeholders particularly company employees.
Social impact – Ethics, culture and diversity and inclusion

Responsible business

The COVID-19 outbreak, and the resulting severe business disruption, led to the UK Government introducing a stimulus package unprecedented in size and scale. Significant attention has been paid not just to keeping businesses afloat, but also to keeping their staff employed and creating tangible benefits for society. Now, more than ever, businesses have an opportunity to demonstrate to their stakeholders how they are fulfilling their moral responsibilities. The PRI strongly encourages businesses to manage for the long term when assessing the needs of stakeholders such as employees, suppliers, and contractors. It further urges that these stakeholders’ needs should be prioritised over the immediate returns to shareholders. Increasingly, businesses are being asked to consider their social impact and the role they can play to help respond to the economic and social aspects of the pandemic.

Diversity and Inclusion

It is widely agreed that diversity and inclusion (D&I) and a company’s corporate culture is a business imperative. It is also acknowledged that, although progress has been reported, more work remains to be done. The recent update report on the Hampton Alexander Review highlighted the lack of gender balance amongst UK company boards. Some progress has been made, with 33% of all FTSE 100 board positions now being held by women. However the findings showed that further work needed to be done by FTSE100 companies individually and for the FTSE250 to meet the 33% target. Additionally, focus is still needed in terms of ethnic diversity. Recent reporting by the Parker Review has shown that a full 59% of FTSE100 companies did not meet the target of having at least one director of colour on their boards. Even fewer (69%) failed to meet the target in the FTSE250.

Today’s trust deficit is driven largely by a social sense of inequality and the perception that institutions, including businesses, only benefit a few. Transparently demonstrating ethical business conduct contradicts these perceptions, and therefore plays a paramount role in restoring trust in business. Particularly in the context of COVID-19, companies have an opportunity to demonstrate the practices they employ to create value and deliver positive outcomes for society.
The growing focus on diversity extends not just to the leadership of the organisation, but across the whole of the organisation itself. The Equal Pay Bill and the Workforce Information Bill have been laid in Parliament to enhance reporting in this regard (more on these bills below). One of the best opportunities businesses have to demonstrate the social contribution they make is to evidence that their board members and senior leaders are representative of their workforces and of wider society.

Culture

Closely linked to D&I is culture. This is a particularly important area of focus in today's environment, given the shift to remote working that many businesses have adopted. This may mean that businesses need to re-evaluate the factors they consider in meaningfully meeting the expectation of the FRC that they monitor their cultures using a combination of both surveys and metrics. Boilerplate disclosures will not satisfy requirements under the UK Corporate Governance Code 2018. Similarly, relying exclusively on employee engagement scores will not offer businesses the rich picture they need to ensure their cultures remains aligned with their business purpose and values – an even greater imperative given the current environment. Particularly, as stakeholders focus increasingly on how companies are acting responsibly both within and outside their organisations in their day to day operations, boards will need to consider how they reflect this in their disclosures.

Looking beyond – what to look out for:

- **Suspended enforcement of gender pay gap reporting:** Due to COVID-19 the Government Equalities Office (GEO) and Equality and Human Rights Commission (EHRC) have decided to suspend the enforcement of the gender pay gap deadlines for this reporting year (2019/20).

- **Competition and Markets Authority (CMA) launches COVID-19 marketing taskforce:** In response to public concerns, the taskforce aims to prevent irresponsible companies from profiteering during this COVID-19 crisis. Amongst other objectives, the taskforce seeks to scrutinise market developments to identify harmful sales and pricing practices as they emerge.


- **Workforce Information Bill 2019–21:** The Bill was laid in Parliament on 3 February 2020. It is expected to undergo a series of readings in Parliament during 2020. It proposes, for example, that companies with over 250 employees report data relating to disabled employees i.e., pay, recruitment and career progression.

- **Ethnic diversity on boards:** The Parker Review provided companies with targets to increase their ethnic representation on boards. Companies should consider the Parker Review recommendations that there should be at least one director of colour on each FTSE 100 board by 2021 and each FTSE250 board by 2024.
Environment – Climate change and sustainable finance

Businesses will experience growing pressures to adopt or align their disclosures with the framework proposed by the TCFD. How they respond will be closely watched by regulators, policy makers, investors, customers and wider society.

Policy

The immediate focus on COVID-19 has resulted in a short-term re-prioritisation for policymakers and regulators. Plans to take forward climate change initiatives, such as the UN’s 26th session of the Conference of Parties (COP26), have been postponed. However, the issues that made climate change a priority have not gone away for either Government or businesses: forest fires will continue to endanger supply chains and damage our environment, just as flooding will continue to dislocate populations and close factories. Similarly, energy efficiency issues will continue to strain already limited resources. For these reasons and many more, we expect regulatory developments in this area still to proceed, albeit potentially with a delay. Examples include:

• The Environment Bill, which was laid on 30 January 2020, will hold both the existing and successive governments accountable for fulfilling their environmental responsibilities, such as meeting the net zero emissions target by 2050 and making life more sustainable for future generations; and

• The rescheduled COP26 will play a key role in leaders coming together to rebuild the economy and create a more sustainable financial system to support the transition towards a net zero carbon economy.

Climate change is a defining issue of our time, as reflected by the increasing scrutiny applied to it, and the heightened expectations on companies from virtually every stakeholder group. In future, businesses will need to be more proactive in understanding the risks posed and potential opportunities presented through climate change. They will need to think about how they communicate on these effectively by providing high-quality financial disclosures on their resilience and planning to address climate transition risks.
While businesses are understandably focused on critical resilience issues in the short-term, they must also manage the impact of climate change on their organisation for the long-term. There continues to be an increased expectation for businesses to provide climate-related disclosures illustrating how they have taken climate change into account in their financial decisions. Industry-led initiatives like the TCFD will move from being a ‘nice to have’ to a mandatory requirement, with the Government expected to publish an interim report on the implementation of TCFD recommendations by the end of 2020.41 It will set out its expectations for all listed companies and large asset owners to disclose in line with the TCFD recommendations by 2022.

Regulators
The financial regulators have also demonstrated the importance they place on climate change. While the timeline is not confirmed, the FRC announced that it plans to undertake a major review into how companies and auditors assess and report on the impact of climate change on business to ensure reporting requirements are being met.42 Additionally the Financial Conduct Authority (FCA) intends to review its requirements for listed companies to make their climate-related disclosures consistent with the TCFD recommendations.

Investors
Investors increasingly want to see companies report on climate-related matters in a meaningful and consistent way. EY’s recent research on investor stewardship found that investors’ foremost engagement priorities relate to understanding how companies assess and manage climate risks.43 This focus is in line with new requirements under the UK Stewardship Code 2020 which set greater expectations around how institutional investors integrate environmental (including climate change) and ESG into their investment and stewardship strategy. Investors will be seeking more information from investee companies to better understand their emerging risks (including climate risks) and how these impact their ability to deliver sustainable value.

Looking beyond – what to look out for:

- **Financial Conduct Authority (FCA) consultation on proposals to enhance climate-related disclosures:**44 The consultation proposes that listed companies should be required to make climate-related disclosures consistent with the TCFD recommendations or explain the reasons for declining to do so.

- **New provisions to the Pensions Scheme Bill 2019-21:** The Bill currently includes, amongst other things, an increased duty on pension trustees to take account of climate change risk, and proposals for greater regulatory powers for The Pensions Regulator (TPR). The Bill is expected to be finalised in 2021.

- **Consultation on guidance for occupational pension schemes to align with TCFD disclosures:** The Pensions Climate Risk Industry Group (PCRIG), established by TPR, the Department for Work and Pensions and other Government departments have published a consultation.45 It aims to help pension trustees and managers to report more effectively on climate-related risks, in line with the recommendations of the TCFD disclosures. The PCRIG aims to publish the final guidance in the autumn of 2020.

- **Company Transparency (Carbon in Supply Chains) Bill 2019-21 introduced into Parliament:** The Private Members Bill46 proposes a new requirement for companies to prepare an annual statement on carbon in their supply chains. The Bill had its first reading on 17 March 2020 and is scheduled to be debated through Parliament. If approved, it could receive royal assent in 2021.
Unsurprisingly, the Information Commissioners Office (ICO) is attuned to the implications of our heightened dependency on technology at this time of crisis. Therefore, we expect to see it focus on data transparency, and the accountability and ethics of AI. This may extend to the use of virtual-meeting software and document sharing technologies, driven by the massive expansion in home working.

Cybersecurity and data privacy

EY's Global Information Security Survey 2020 found that approximately 60% of the organisations it questioned faced a significant cybersecurity incident in the past 12 months. As technology continues to develop, businesses should view cybersecurity as an evolving and integral risk that needs to be considered in the context of innovation and change.

Regulators, including the ICO, will continue to increase their focus on the security and governance of data. Therefore, cybersecurity will continue to be a key focus for public policy and regulation, with organisations sharing best practice. In terms of the latter, businesses are expected to consider a security-by-design approach towards their new technological products and services, whereby cybersecurity becomes an integral feature, rather than an afterthought.

There is continued regulatory focus on the implementation and monitoring of the GDPR and the Data Protection Act 2018 in the marketplace. COVID-19 also presents new challenges to cybersecurity and data privacy measures. Organisations must consider what measures can be put in place to ensure they continue to meet the requirements of the GDPR, particularly as they adapt their ways of working, including the greater use of home working and the sharing of information. The National Cyber Security Centre has provided guidance to help organisations prepare for an increase in home working, and the associated security implications (e.g., COVID-19 scam emails). Additionally, the ICO encourages businesses to be proportionate with the measures they put in place. It explains that it will not penalise organisations in circumstances where they need to prioritise other areas or adapt their usual approach to personal data compliance during the crisis.

Threats to cybersecurity and data privacy continue to be a prominent risk that companies need to manage and mitigate, not only for commercial and reputational reasons, but to meet regulatory requirements as well. The world is increasingly connected by, and dependent on, the freedoms and enablement that technology brings, especially during the COVID-19 pandemic. Consequently, expectations for good governance, accountability and transparency in the use of data are greater than ever.

Use of AI

AI enables systems to learn, predict and improve outcomes that are critical to the day-to-day operations of organisations. However, although AI provides an opportunity to be more efficient and effective, it also presents reputational and regulatory risks. Areas such as data privacy, management of data, social selection, increased automation of jobs, online
targeting, the use of facial recognition and online safety of children, bring into question the wider social and ethical implications of AI.

Both regulators and policymakers are addressing these concerns, for example:

- Further to the ICO’s investigation last year, into the use of Live Facial Recognition (LFR), without the knowledge of data subjects. It has recommended that the Government introduce a statutory and binding code of practice on the deployment of LFR.

- The ICO has mandated that Data Protection Impact Assessment (DPIA) is required for any intended processing operation(s) involving innovative use of technologies (whether new or existing technologies including AI) including any processing of biometric data for the purpose of uniquely identifying an individual.52

- In January 2020, the ICO published its final Age Appropriate Design Code53 – a set of 15 standards that online services should meet to protect children’s privacy. The code, which is yet to be laid in Parliament, will apply to businesses who provide services that are likely to be accessed by children and which processes their data.

- CDEI has undertaken two major reviews: an interim report on bias in algorithmic decision-making,54 where final recommendations are expected to be proposed to the Government in 2020; and a final report on online targeting which was presented to the Government in February 2020. Its response is expected to be published six months after the publication of the report (more details offered below).

- Linked to online targeting, the ICO continues to investigate and develop an appropriate regulatory response to the ‘adtech’ real time bidding industry, further to their review last year.55

Another issue with AI is the existence of the impenetrable ‘black boxes’ that make it difficult to understand how the results and outcomes, generated using this technology, are derived. The opaqueness of what data AI accesses, and how it makes decisions, causes ethical issues for stakeholders (e.g., investors, regulators and policymakers). The ICO is likely to issue guidance later this year which aims to provide organisations with practical advice to help them explain the AI assisted processes, services and decisions to the individuals who are affected by them.

There is renewed pressure to protect consumer rights as it concerns the use of technology. The current reviews underway indicate a growing need for accountability and transparency in terms of how innovative technology is used. Organisations seeking to deploy such technology will not only need to weigh the risks versus rewards, but also how they can implement internal data governance frameworks, to help manage stakeholder expectations and strengthen their trust.

Looking beyond – what to look out for:

- **ICO consultation on guidance for an AI auditing framework:** The guidance56 offers advice on how to audit the application of AI. Deadline is 1 May 2020, and the guidance is expected to be published later in 2020.

- **Online Harms Reduction Regulator (Report) Bill 2019-21:** This Private Members Bill57 was introduced to Parliament on 14 January 2020. It proposes that the Communications Act 2003 be amended to assign certain functions to Ofcom in relation to online harms regulation.

- **CDEI publishes its report and recommendations to Government on online targeting:** The report,58 which was published in February 2020, explores the use of data in shaping people’s online experiences. It is linked to cross-regulatory and government workstreams including the CMA study into online platforms and digital advertising.

- **The ICO and the Alan Turing Institute (The Turing) issued a consultation on Explaining AI decisions:**59 The consultation focused on draft co-badged guidance which aims to provide organisations with practical advice to explain the processes, services and decisions delivered or assisted by AI to the individuals affected by them.60 ICO has committed to issuing the final guidance later in 2020.
Conclusion

2020 will be a challenging and transformative year for businesses, the economy and society.

The global pandemic has led to unprecedented measures by the Government to maintain economic stability while addressing the global health emergency. The UK’s policy and regulatory landscape has been dramatically adapted to meet the ‘now’. Where regulatory relaxation has been introduced to relieve the immediate pressure on businesses, the impact of these changes will be monitored closely, with a strong expectation that businesses demonstrate good governance, evidenced through clear and detailed reporting.

While much attention has been focused on addressing urgent issues, the current pandemic has also underscored the importance of business purpose and of taking a long-term view. The commitments made today, in the public interest, will be directly linked to tomorrow’s achievement of sustainable benefits for the economy, society and the environment. Businesses must actively consider their priorities for the ‘next’ to position themselves for when the economy begins to recover and a new form of normality returns.

Looking ‘beyond’ COVID-19 and the recovery that follows, it is very likely that all of us – individuals, societies, businesses and governments – will have been changed by this truly unprecedented experience. Reflections on new approaches, priorities, insights gained, and lessons learned will have a powerful influence on the policy and regulatory landscape ahead. Momentum behind each of the four megatrends identified in this report will almost certainly accelerate. It is crucial that businesses proactively assess the full range of potential developments and adapt their strategies for the new world ahead of us. Doing so will enable them to better engage with their stakeholders, reinforce their social license to operate and position themselves for long-term value generation.

2020 will bring significant change, as short-term challenges result in long-term implications. Focusing on the policy themes of trust, purpose and sustainability is now more important than ever.

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