

# UK Regulatory Radar

Recovery in the public interest

EY UK Regulatory and Public Policy (R&PP)

**November 2020 update**

# This quarter's Regulatory Radar comes at a challenging and uncertain time for business leaders

The resurgence of COVID-19 infections across Europe has led to renewed lockdowns in the UK and beyond, bringing with it economic harm and uncertainty. Government support measures have quickly been extended to lessen the blow, but the ongoing COVID-19 pandemic is postponing the UK's economic recovery. Yet despite the prospect of a prolonged recovery, there is a sense the public interest should be at the heart of that recovery and a greener, more equitable economy should emerge from the crisis. This Radar includes many of the key upcoming regulatory developments that will contribute to higher levels of corporate transparency and accountability, and to greater value generation for a broader set of stakeholders.



- ▶ The sudden reintroduction of lockdowns across the UK has dashed hopes of life returning to normal for the foreseeable future
- ▶ Government support mechanisms for businesses and employees that were soon to be wound down have been extended or refreshed
- ▶ Despite economic growth bouncing back over the summer, UK GDP is expected to end the year below its pre-COVID level and unemployment is expected to continue to rise until the middle of 2021



- ▶ Implementing climate-related disclosures will be a focus, as the UK works towards a greener recovery
- ▶ The Government has signalled its intent to level up productivity between the regions of the UK, invest in infrastructure, reform the planning system and strengthen local government
- ▶ The Government will shortly consult on wide-ranging reforms to the business ecosystem, including audit, corporate governance and reporting



- ▶ Time is rapidly running out for the UK and European Union to agree on a Free Trade Agreement. If a deal is not reached before the end of the transition period, a more complicated and challenging regulatory environment will result
- ▶ A change in the US presidency will likely impact how multilateral relationships evolve in the future

# Regulatory Radar as of November 2020

1. Racial inequality high on the corporate agenda
2. UK Parliament to debate mandatory ethnicity pay gap reporting (date TBC)
3. By 2021, FTSE 100 companies are expected to have met the Parker Review diversity targets
4. Business Secretary urges all FTSE 350 companies to have 33% women on their boards by the end of 2020
5. Government halts enforcement of gender pay gap reporting due to COVID-19 (2020)
6. PCRIG guidance on occupational pension scheme TCFD alignment published (Q3 2020)
7. Expected implementation of FCA proposals on climate-related disclosures (Q1 2021)
8. New provisions to the Pensions Bill 2019 - 21 (Royal assent expected 2021)
9. TCFD reporting mandatory for PRI signatories from 2020
10. UK Government interim report on the implementation of TCFD recommendations
11. EU sustainable finance action plan introduces measures such as revision to the Non Financial Reporting Directive (2020)
12. FCA to consult on TCFD-aligned disclosures for asset managers and contract-based pension schemes (Q1 2021)
13. ICO COVID-19 guidance applies to firms
14. ICO AI auditing framework (H2.2020)
15. Joint cybersecurity guidance issued

16. Extension of measures to protect businesses from insolvency (30.03.2021)
17. Lockdowns in place across the UK
18. EY ITEM Club predicts significant rise in unemployment
19. Coronavirus Business Interruption Loan facility (CBILS) extended (11.2020)
20. End of Coronavirus Job Retention Scheme (CRJS) (03.2021)
21. ONS data shows UK GDP is 9.2% below what it was pre-COVID-19
22. G20 summit: Riyadh (21-22.11.20)
23. Brexit transition period ends (31.12.20)
24. Changes to Immigration Rules
25. New requirements for FCA-regulated firms on operational resilience (likely implementation early 2021)
26. FCA Business Interruption insurance test case finds in favour of policyholders
27. US presidential inauguration (20.01.21)
28. Stewardship reporting deadline (31.03.21)
29. Investment Association executive remuneration guidelines apply from 2020
30. UK Government responds to audit market reform proposals (Q4 2020)
31. Temporary COVID-19-related flexibility ends for issuances extended (30.11.21)
32. In 2020, large private companies' reports will include disclosures on the Wates principles
33. FRC Future of Corporate Reporting discussion paper deadline (05.02.21)



Key: Impact and relevance

- High
- Medium
- FYI

Key: timeframe

- Priority now
- 3 - 6 months
- 6 months +

# Regulatory developments: brief summaries (1 of 3)

Item	Description
<a href="#">1. Investors call for greater transparency on ethnic diversity on boards</a>	Following mass protests around 'Black Lives' earlier in the year, racial inequality has risen high on the corporate agenda and investors are keen to hold companies to account on their progress.
<a href="#">2. UK Parliament to debate mandatory ethnicity pay gap reporting</a>	The UK Parliament is required to dedicate time to debating mandatory ethnicity pay gap reporting, as a result of a petition calling for this to be mandatory for employers.
<a href="#">3. The Parker Review</a>	UK Government initiative to increase ethnic minority representation on the board of the top UK listed companies. It recommends FTSE 100 firms have at least one person of colour as a director by 2021 and FTSE 250 companies achieve the same by 2024.
<a href="#">4. Hampton-Alexander</a>	The headline target set by the Hampton-Alexander Review of realising a minimum 33% women on FTSE 350 boards has been achieved in the aggregate according to new data. However, many companies have so far failed to individually ensure women make up 33% of their boards by the end of 2020.
<a href="#">5. Gender pay gap reporting</a>	Due to COVID-19 The Government Equalities Office (GEO) and the Equality and Human Rights Commission (EHRC) suspended enforcement of gender pay gap reporting for financial year 2019/20. The suspension is for one year but reporting remains optional.
<a href="#">6. PCRIG guidance on occupational pension scheme TCFD alignment published</a>	The Pensions Climate Risk Industry Group (PCRIG)'s guidance aims to help pension trustees and managers to report more effectively on climate-related risks and aims to publish final guidance in autumn 2020.
<a href="#">7. FCA proposals on climate-related disclosures (01.10.20)</a>	FCA proposes new listing rules on climate related disclosures effective for accounting periods beginning on or after 1 January 2021. Expected implementation to take post March 2021.
<a href="#">8. Pensions Bill 2019-21 (Royal Assent expected 2021)</a>	This will 'impose requirements on the trustees or managers of an occupational pension scheme of a prescribed description with a view to securing that there is effective governance of the scheme with respect to the effects of climate change.'
<a href="#">9. TCFD reporting for PRI signatories (throughout 2020)</a>	Reporting on the strategy and governance indicators of the Principles for Responsible Investment's (PRI) climate risk indicators will become mandatory for investors signed up to the UN's Principles for Responsible Investment initiative.
<a href="#">10. Government report on implementation of TCFD recommendations</a>	As part of the Government's review of its Green Finance Strategy, this report sets out its expectations for all listed companies and large asset owners to disclose in line with the TCFD recommendations by 2022.

# Regulatory developments: brief summaries (2 of 3)

Item	Description
<a href="#">11. EU Sustainable Finance Action Plan (2020)</a>	The EU is considering how to integrate sustainability considerations into financial policy e.g., a common taxonomy and clarifying asset managers' and institutional investors' duties regarding sustainability.
<a href="#">12. FCA consultation on TCFD-aligned disclosures for asset managers and contract based pension schemes</a>	FCA is considering implementing client-focused TCFD-aligned disclosures for asset managers and contract-based pension schemes. Once finalised the new rules will take effect in 2022.
<a href="#">13. ICO COVID-19 guidance (12.06.20)</a>	The ICO has provided guidance to businesses in the wake of COVID-19, for example, on workplace testing and principles for use of personal information.
<a href="#">14. ICO AI auditing framework (H2.2020)</a>	The ICO is developing guidance and advice on how to audit the application of AI. The consultation closed on 1 May 2020, and the guidance is expected to be published later in 2020.
<a href="#">15. Joint international cybersecurity guidance for organisations issued</a>	The UK's National Cyber Security Centre (NCSC) has issued joint guidance in conjunction with international cybersecurity agencies to provide technical guidance to organisations on avoiding malicious attacks.
<a href="#">16. Insolvency special measures and other arrangements to assist companies are extended</a>	Various changes to protect businesses from insolvency - introduced in the Corporate Insolvency and Governance Act 2020, and due to expire on 30 September 2020 - have been extended.
<a href="#">17. Differing COVID restrictions apply in the regions of the UK: <a href="#">England</a>, <a href="#">Scotland</a>, <a href="#">Wales</a> and <a href="#">Northern Ireland</a></a>	Regional systems of COVID restrictions have been introduced across the UK. In England, a three-tier system of local rules is in place, which for now is superseded by a full national lockdown. In Scotland, local areas are subject to restrictions according to five protection levels. In Wales, a single set of national restrictions is in place following a two-week 'firebreak lockdown' that ended on 09 November 2020. In Northern Ireland, four weeks of tighter restrictions are due to end on 13 November 2020.
<a href="#">18. EY ITEM Club Autumn Forecast predicts increase in unemployment</a>	Analysis by the EY ITEM Club predicts the unemployment rate will get up to around 7.0% at the end of 2020, and reach a peak of 7.7% in mid-2021 before stabilising and then starting to fall back.
<a href="#">19. End of Coronavirus Business Interruption Loan facility (CBILS)</a>	The support mechanism was set up to help companies to manage the disruption caused by COVID-19 and has been extended (again) to 30 November 2020.
<a href="#">20. Coronavirus Job Retention Scheme (furlough) extended again</a>	Under the furlough scheme, the government pays 80% of the salary of employees of affected businesses, up to a maximum of £2,500. With the commencement of a national lockdown in England the scheme has been extended to March 2021.
<a href="#">21. Office for National Statistics (ONS): August 2020 GDP statistical bulletin</a>	The ONS August 2020 GDP bulletin estimates that UK GDP had recovered 21.7% from its April 2020 low, but is still 9.2% below where it was in February 2020 before the impact of COVID-19 hit the economy.
<a href="#">22. G20 summit: Riyadh</a>	On 21-22 November 2020 the next Group of 20 (G20) summit is scheduled to take place. The agenda for the meeting will cover international response to COVID-19 and climate change.

# Regulatory developments: brief summaries (3 of 3)

Item	Description
<a href="#">23. Brexit transition period ends (31.12.20)</a>	The date at which the transition or implementation period of EU exit is set to end. The status of relationship between both parties thereafter depends on ongoing negotiations.
<a href="#">24. Changes announced to the Immigration Rules announced (01.12.2020)</a>	Tier 2 visas are being replaced by a new Skilled Worker route. There will be greater flexibility around Intra-Company Transfers and what is permissible on Visitor visas. A new visa for Hong Kong British Nationals (Overseas) will offer a path to full British Citizenship.
<a href="#">25. New requirements for FCA-regulated firms on operational resilience (likely implementation early 2021)</a>	FCA issued guidance for insurers, including setting out expectations for fair treatment of customers when assessing rights and claims over a range of insurance policies.
<a href="#">26. FCA Business Interruption insurance test case finds in favour of policyholders</a>	The outcome of the FCA's test case provides clarity for many businesses who made claims on business interruption insurance policies after suffering losses as a result of the public response to COVID-19. Policyholders will now not have to resolve a number of key issues individually with their insurers.
<a href="#">27. President-elect Joe Biden will be sworn in as the 46<sup>th</sup> US President on 20 January 2021</a>	The change in the US presidency is likely to have an impact on global political and economic dynamics, including on the prospect of negotiating a UK-US free trade agreement.
<a href="#">28. Stewardship reporting deadline (31.03.21)</a>	Firms which are signatories to the 2020 UK Stewardship Code are required to report by this date. There is greater focus on investee engagement and outcomes. Asset owners who are also signatories to the 2020 UK Stewardship Code have an extended reporting deadline of 30 April 2021.
<a href="#">29. Investment Association executive remuneration guidelines apply from 2020</a>	The Investment Association has developed a set of principles to help listed companies provide shareholders with meaningful executive pay disclosures.
<a href="#">30. UK government responds to audit market reform proposals (Q4 2020)</a>	The Government is expected to publish a cohesive package of legislative, regulatory and voluntary measures as well as further public consultation, taking forward outcomes of recent audit reviews such as the Kingman and Brydon Reviews and the CMA statutory audit market study.
<a href="#">31. Temporary COVID-19-related flexibility ends for issuances (30.11.21)</a>	The FRC had offered temporary relief to issuers of up to 20% on a case-by-case basis amid COVID-19. This measure was due to close on 30 September 2020 but has been extended to 30 November 2021.
<a href="#">32. Disclosures on Wates Principles apply to large private companies (from 2020)</a>	Large privately-owned companies to report according to new corporate governance measures, bringing them more in line with publicly listed companies.
<a href="#">33. FRC Future of Corporate Reporting paper (05.02.21)</a>	The FRC's Future of Corporate Reporting discussion paper aims to challenge existing thinking about corporate reporting and consider how companies should better meet the information needs of shareholders and other stakeholders.

# There are four megatrends and 12 policy undercurrents in the UK Regulatory Radar

Megatrend	Definition
Geopolitical shifts	COVID-19, economic measures aimed at managing it, the impact of it and other geostrategic shifts on international trade.
Purposeful governance and reporting	Growing regulatory, governmental and societal focus on audit quality, reporting, and on environment, social and governance.
Fourth industrial revolution	The rise in disruptive technology and accompanying risks in terms of cybersecurity and data protection.
Rise in stakeholder capitalism	Increased focus on purpose and social impact on the part of businesses.
Policy undercurrent	Definition
Humanitarian	Humanitarian issues including COVID-19 and governmental attempts to manage the public health emergency.
Economy	Fiscal policies enacted by the UK Government, regulators and supervisory bodies.
Globalisation	International trade, and the internationalisation of supply chains and markets.
Stewardship	'The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.' <sup>1</sup>
Audit	Upcoming legislative changes, regulatory requirements, policy developments in the audit landscape (product, market and profession).
Corporate reporting	Financial and non-financial information companies are required, or voluntarily decide, to disclose for the benefit of shareholders or wider public interest.
Cybersecurity	Preventing online crimes such as hacking and theft.
Disruptive tech	Technology that revolutionises established ways of doing business.
Data protection	Legislative framework protecting personal information, owners' rights and regulating how it should be used, stored and processed.
Environment	Efforts to mitigate climate change and enhance sustainability.
Human capital	The collective capability, skills and knowledge of the people employed in an organisation, it tends to focus particularly on aspects such as human rights, diversity and inclusion, workplace culture.
Social impact	The perceived or effective consequences that business directly or indirectly has on the community where it operates and on wider society.

# Megatrend: Rise in stakeholder capitalism

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12. FCA to consult on TCFD-aligned disclosures for asset managers and contract-based pension schemes (Q1 2021)



## Rise in stakeholder capitalism

- ▶ There are growing societal, government and investor expectations around diversity, inclusion and gender and ethnic representation within the corporate world.
- ▶ Implementing climate-related disclosures will be a focus, as the UK works towards a greener recovery.

# Megatrend: Fourth industrial revolution

- 13. ICO COVID-19 guidance applies to firms
- 14. ICO AI auditing framework (H2.2020)
- 15. Joint cybersecurity guidance issued



## Fourth industrial revolution

- ▶ COVID-19 has greatly accelerated existing trends towards technology-enabled remote working and current working behaviours may become the new normal even beyond the crisis.
- ▶ Mass remote working has also brought with it new and heightened risks around data protection and cybersecurity.
- ▶ Organisations would be well advised to prepare for these risks and utilise new guidance issued to deal with COVID-19-specific considerations.

Key: Impact and relevance

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- Medium
- FYI

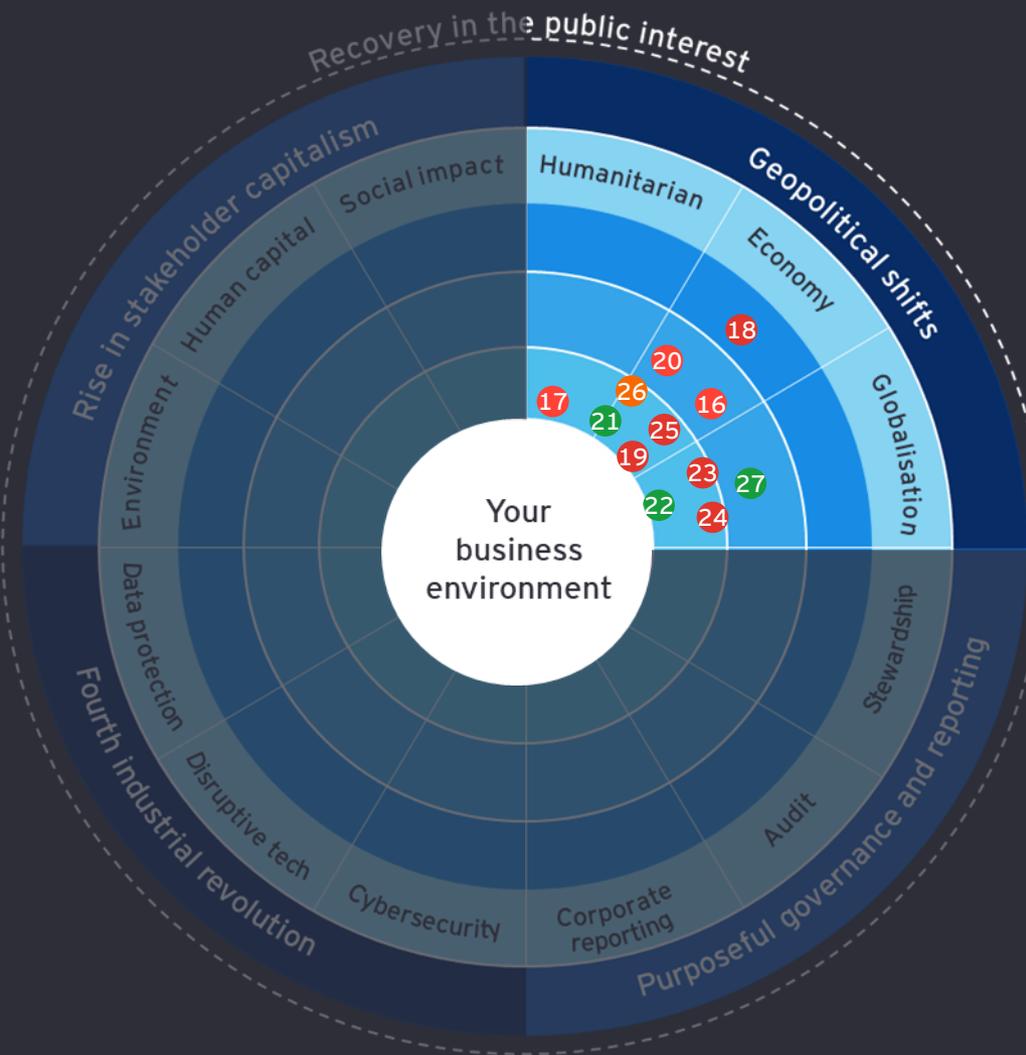
Key: timeframe

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# Megatrend: Geopolitical shifts

## Geopolitical shifts

- ▶ The sudden reintroduction of lockdowns across the UK is hampering the recovery and made it necessary for the Government to extend COVID-19 support measures.
- ▶ Time is rapidly running out for the UK and European Union to agree on a Free Trade Agreement. If a deal is not reached before the end of the transition period a more complicated and challenging regulatory environment will result.
- ▶ A change in the US presidency will likely impact how multilateral relationships evolve in the future.



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- 26. FCA Business Interruption insurance test case finds in favour of policyholders

# Megatrend: Purposeful governance and reporting

## Purposeful governance and reporting

- ▶ For the first time, institutional investors are required to report publicly against the Stewardship Code which will drive more robust engagement activity by investors with their investee companies.
- ▶ The Government will shortly consult on wide-ranging reforms to the business ecosystem, including audit, corporate governance and reporting.
- ▶ Executive remuneration is a key priority for investors who are expecting listed companies provide shareholders with meaningful executive pay disclosures.



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Key: Impact and relevance



Key: timeframe



# Glossary of abbreviations

Abbreviation	Definition
AI	Artificial Intelligence
CMA	Competition and Markets Authority
EHRC	Equality and Human Rights Commission
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
GEO	Government Equalities Office
ICO	Information Commissioners Office
NCSC	National Cyber Security Centre
PCRIG	The Pensions Climate Risk Industry Group
PRI	Principles for Responsible Investment
TCFD	Taskforce on Climate-related Financial Disclosures

# Contact us

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