

Technical update workshop for Non-Executive Directors

Guernsey and Jersey
17 and 18 January 2023



Welcome



Olaf Pusch
IFRS specialist,
PwC United Kingdom



Arran Jones
IFRS specialist,
PwC United Kingdom



John Patterson
Corporate Governance
specialist, PwC United Kingdom

Agenda



1

Inflation - impact on financial reporting



2

Feedback from the 2022 PwC review of FTSE 350 reporting



3

FRC Thematic reviews and Annual review of corporate reporting



4

Current FRC and FCA developments and areas of focus



5

Update on the latest IFRS IC agenda decisions and other reporting development



6

Climate change disclosures and wider ESG reporting developments



7

Update on UK regulatory reform

1

Inflation



Inflation – consistency in models

Cash flows

Expressed in future prices (incl inflation)

Expressed in current prices

Discount rate

Use 'nominal' rate

Use 'real' rate

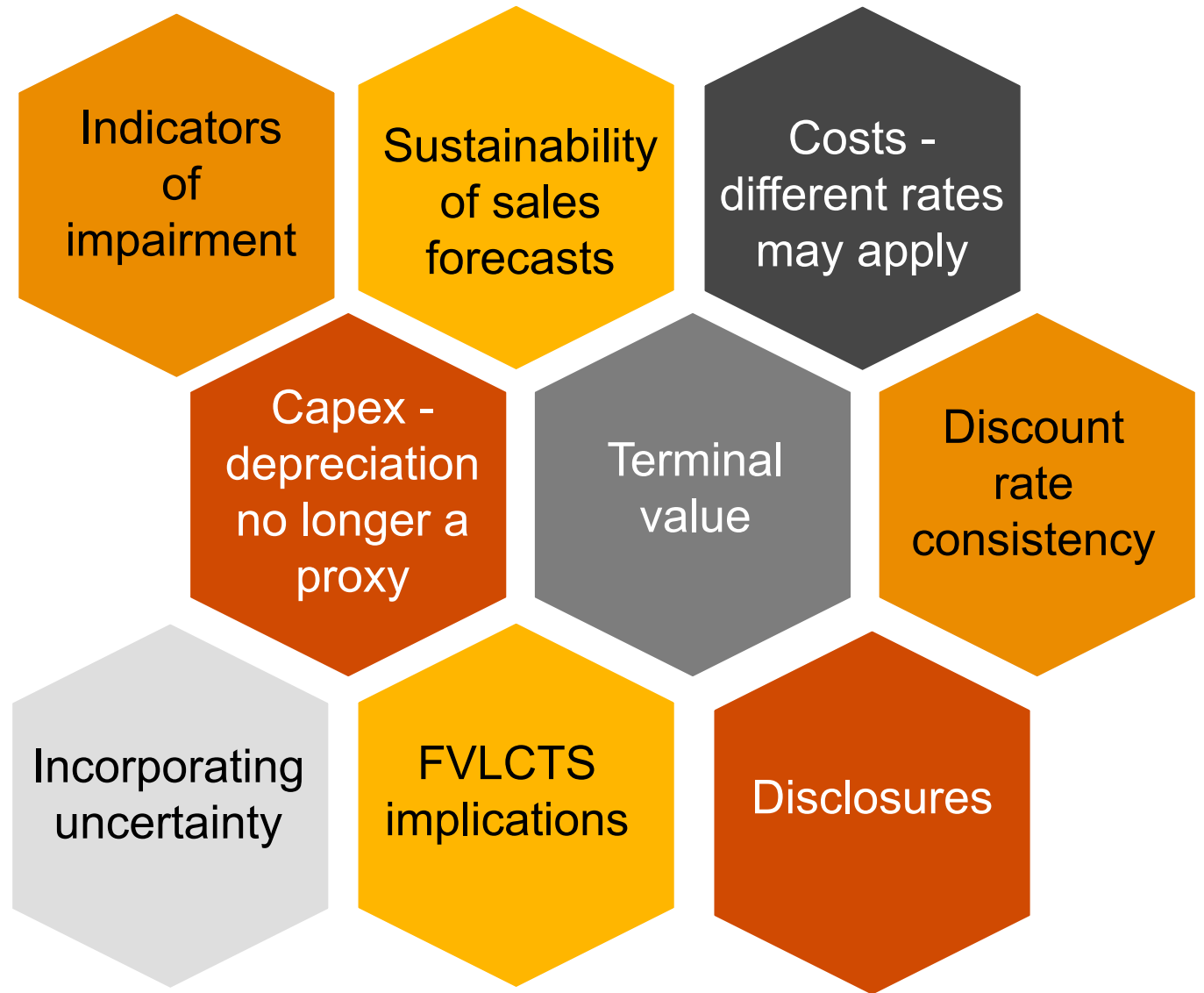
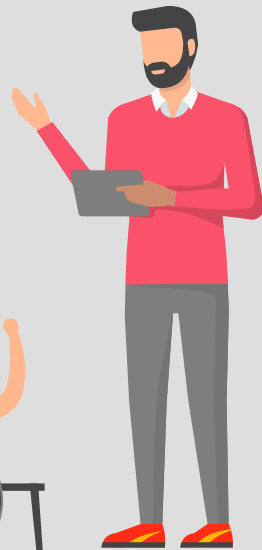
NPV of cash flows adjusted for price changes using a nominal rate to discount

=

NPV of cash flows not adjusted for inflation using a real rate to discount



Inflation – effects on cash flow forecasts in impairment models



Inflation – effects on some other accounting topics

Materiality	<ul style="list-style-type: none">● Provision discounting and borrowing cost capitalisation may now become material● Line item aggregation
Use of estimates	<ul style="list-style-type: none">● More frequent valuations: PPE revaluations, pensions, investment property● Consideration required for interims
PPE/ Intangibles	<ul style="list-style-type: none">● Revaluation model – more critical to get up to date valuations● Reassessment of RVs, UELs: RV less likely to be nil, depreciation may fall
Investment properties	<ul style="list-style-type: none">● Need FV - even if cost model used/ disclosure● For FV, if rent is fixed for a period of time – will negatively impact FV
Inventory	<ul style="list-style-type: none">● Recoverability – can price rises be passed on? Consider costs to finish/sell?● Margins impact of cost approach
Taxes	<ul style="list-style-type: none">● Deferred tax assets - Recoverability of DTA? Still as much taxable profits forecast?● Unrecognised DTA – can it be recognised?● Uncertain tax positions – may need to revisit transfer pricing, impact on tax planning
Publication	<u>Navigating IFRS Accounting Standard</u>

2

Feedback from the 2022 PwC review of FTSE 350 reporting

Overall findings

Annual report is experiencing more asks and growing scrutiny

A challenging, complex landscape

No end in sight to new regulation

Increased regulatory activity



Positive response to ESG agenda

Growth in volume

Rise in quality slowed, innovation plateaued



There are too many regulators involved in the annual report that are not working to the same agenda, and as a result the annual report has become a hybrid beast

FTSE 350 company

Drawing a line in the sand

Emerging FTSE 350 reporting practices

Growing volume

12%

Increase in the length of the average strategic report since last year

64%

Increase in the length of the average strategic report over last five years

Emphasis on ESG

26%

Of the strategic report covers ESG matters

59%

Indicated ESG was integral or underpinned strategy

Strategic intent

42%

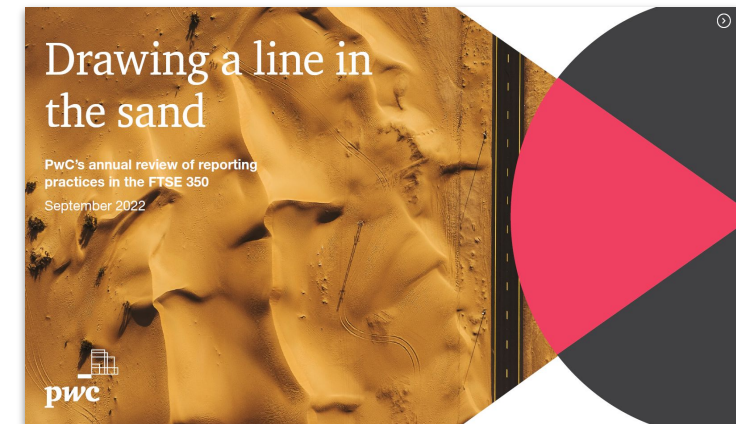
Do not provide a timeframe for strategy

Yet **78%**

Provide a climate commitment for over 5 years into the future

Just **53%**

Link strategy and KPIs



¹ Based on a review of 267 FTSE 350 companies with years ended from 30 April 2021 to 31 March 2022

Drawing a line in the sand

Emerging FTSE 350 reporting practices

Stakeholder engagement

52%

Described what the key issues were for their stakeholders

17%

Explained how stakeholder engagement influenced decisions made or actions taken

Depth of risk

30%

Provided a detailed view of emerging risks

54%

Did not include supply chain issues in principal or emerging risks

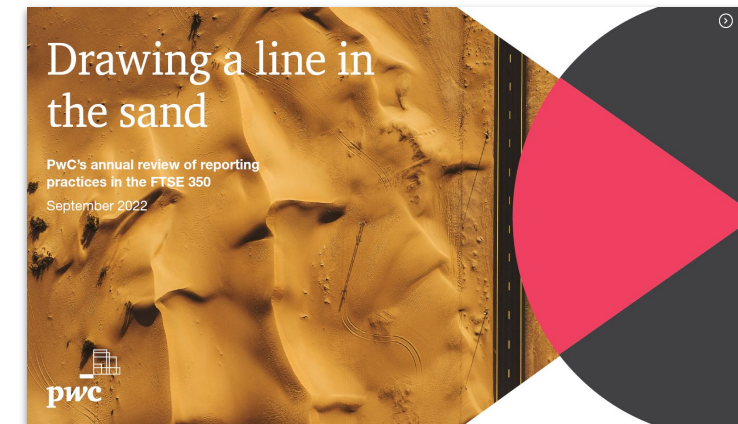
Climate change

41%

Included climate-related measures as part of current year variable remuneration

61%

Mentioned 'climate change' in their financial statements



¹ Based on a review of 267 FTSE 350 companies with years ended from 30 April 2021 to 31 March 2022

Drawing a line in the sand

What we heard

“

There are too many regulators involved in the annual report that are not working to the same agenda, and as a result the annual report has become a hybrid beast

FTSE 350 company

“

You have to run to stay still just to achieve reporting compliance

FTSE 350 company

“

There are safe harbour provisions but there is a fear of providing forward-looking information and being judged, but this information would help investors to understand the business better

FTSE 350 company

“

There is no incentive to “cut the clutter”. Regulators need to encourage companies to try and do this without worrying about getting it wrong

FTSE 350 company

“

It would take one A4 page to explain our story – what we do, why we do it, how we are structured and our governance – it is very simple. But by the time this information has been applied across the structure of the whole annual report, it becomes complex and confusing

FTSE 350 company

“

There is an intense focus on the ‘E’ – from investors, rating agencies, customers – so we have to tell that story but it is probably overweight compared to the ‘S’ and ‘G’, which are arguably more mission critical for our business and where we would like to focus our efforts. Having said that, where would we be on climate without this?

FTSE 350 company

“

Climate is a principal risk for us, and we have a number of pages dedicated to it, but we don’t have this for any other risk. Is this sustainable?

FTSE 350 company

“

Board members don’t always care about achieving the best quality of reporting, as long as it is not deficient

FTSE 350 company

“

The level of perceived value of the annual report internally is reducing as there is a growing feeling that it is not used

FTSE 350 company

Our 'game-changers'

Ways to tackle the issues

Report smarter, not harder

- Start with a clean sheet
- Identify key messages
- Challenge additions
- Challenge content focused on process
- Be company specific

Create a feedback loop

- Create a plan to follow up on previous targets and plans
- Carefully manage expectations
- Determine appropriate timeframes for looking ahead

Clarity of voice

- Clear voice, capturing authors language and tone
- Involve in content generation
- Identifiable author

Clarity of audience

- Identify what is important and address this
- Make it clear why it is relevant
- Determine appropriate timeframes

Report smarter, not harder

Britvic, Annual Report 2021, p.19

Overview of the company's strengths which acts as a topline of the business's key messages.



A portfolio of market leading brands

In Great Britain and Ireland, we have a full portfolio of family favourites, both owned and as the bottler for PepsiCo. In France and Brazil, the portfolios are all owned brands in a smaller number of categories. In each market we are the leading supplier of flavour concentrates, underpinning our strategic pillar of flavouring billions of water occasions.



A well-invested infrastructure

The completion of our business capability programme in 2019 in Great Britain means we have a fantastic supply chain platform to enable us to lead market growth. In our other markets we continue to invest in the supply chain to support growth, efficiency and our sustainability targets. Beyond supply chain we are investing in both our digital capability and IT infrastructure to ensure that the business is future fit to realise our growth ambitions.



A long-term agreement with PepsiCo

In October 2020, we signed a new and exclusive 20 year franchise bottling agreement for the production, distribution, marketing and sales of its soft drink brands in Great Britain. Our PepsiCo relationship provides access to a portfolio of global brands, including Pepsi MAX, 7UP, Lipton Ice Tea and, more recently, Rockstar Energy. This follows a similar 10 year agreement signed in 2016 with PepsiCo in Ireland.



A sustainable business

Britvic's Healthier People, Healthier Planet sustainability ethos underpins every element of our business strategy to ensure that we deliver sustainable value for all our stakeholders, and we create a better tomorrow. This year, we developed five interactive training modules for Britvic colleagues to learn more about our Healthier People, Healthier Planet strategy.



A well-financed and cash generative business

Britvic has a strong financing platform, with a £400m sustainability-linked multi-bank revolving credit facility and a series of private placement notes in place. The business is cash generative and has a clear capital allocation policy, including a commitment to a dividend policy that pays out 50% of profits.



A track record of growth

Since the appointment of Simon Litherland in 2013, we have consistently delivered excellent returns for shareholders. While the COVID-19 pandemic interrupted progress in 2020, we have continued to generate total shareholder returns significantly ahead of the FTSE 250.



A resilient and growing category

Soft drinks are a consumer staple, meaning category performance is consistent, stable and projected to grow. Growth is achievable through increasing consumption by innovating to meet emerging consumer needs, accessing new spaces and premiumisation.



An engaged and agile workforce set up for success

We're building a working environment where everyone belongs. This year we launched Working Well – our new dynamic ways of working. We have repurposed our work spaces to increase interactions, collaboration and opportunities for innovation with performance based on output rather than hours spent.

Create a feedback loop

Fresnillo, Annual Report 2021, p.10

For each strategic objective, the prior year goals are outlined, and progress and future targets are given.

1 EXPLORE		
2021 Goals	2021 Progress	2022 Targets
<ul style="list-style-type: none"> Invest a further US\$175-180 million during the year with approximately US\$15 million being capitalised, maintaining a continued focus on our Fresnillo and San Julián operations, as well as on the Rodeo, Orisyvo and Guanajuato advanced projects. Convert resources into reserves at all our operating mines. Continue standardising and improving our reserves and resources estimation process. Improve mine plans and geotechnical and financial models to upgrade probable reserves to the proven category. Continue the exploration programme at Juanicipio to further confirm reserves and resources. Complete the metallurgical testing at Orisyvo and land access at Tajitos and Rodeo. Advance the drilling programmes at our projects in Chile and Peru. 	<ul style="list-style-type: none"> US\$140.1 million was invested in risk capital in exploration. Silver resources up 1.2% to 2,319.7 moz primarily due to successful exploration at Fresnillo and San Julián (Neins), partly offset by depletion and a higher cut-off grade at Saucito and San Julián (DOB); gold resources remained stable at 39.0 moz. Drilling at Juanicipio successfully confirmed reserves and resources and two additional potentially mineable structures are being evaluated in the vicinity of the main Valdecañas vein. A geotechnical drilling programme at Orisyvo is progressing well, with the aim of developing an updated geotechnical model for mine design. 	<ul style="list-style-type: none"> Invest US\$180 million with a continued focus on the San Julián and Fresnillo districts and advanced exploration projects. Further develop resource modelling and reserve engineering activities initiated in 2020, with the aim of reporting proven reserves for all operating assets. Convert resources into reserves at all our operating mines. Continue the exploration programme at Juanicipio to investigate the deeper areas of the Valdecañas vein. Reach land access agreements at the Rodeo Project, increase the total resources and produce metallurgical and geotechnical data to advance the project to pre-feasibility level. Continue engineering, social and environmental studies and advance land acquisition at Orisyvo; refine the mining and ore processing methods progressing towards a feasibility study. Advance drilling programmes at our Chilean projects; continue to strengthen our community relations programmes and resume drilling at our Peruvian projects.

Clarity of audience

Barratt Developments, Annual Report 2021, p.50

For each stakeholder, a consistent format is used to explain: why the company engages; the KPIs used to measure effectiveness; interests and concerns; the outcomes from the engagement process; and the effect of engagement with sub-contractors on board decisions.



Sub-contractors and supply chain

Why we engage

Without our sub-contractors and supply chain we would not be able to build high quality products at the volume expected by the market. It is therefore important for us to build relationships with our sub-contractors and our supply chain in order to secure continuity of supply of materials, help support our productivity levels, avoid increased costs of sourcing alternative suppliers and avoid undue delays in construction. We must ensure that we have a good understanding of what they expect from the Company in return for their continued support.

How we engage

The following methods of engagement are utilised as they give us the opportunity to speak to our sub-contractors and supply chain as a group which ensures consistency in the messaging being provided and enables an opportunity for networking and sharing ideas and best practice. Individual meetings allow us to focus on specific areas or issues relevant to that stakeholder.

1. Supplier conferences

- We held two supplier conferences during the year. At each conference we shared our immediate and medium term plans and the role our suppliers can play in helping us to achieve our objectives whilst gaining a better understanding of the issues and challenges they were facing and how we could support them.

2. Ongoing supplier relations

- Engaged with sub-contractors and our supply chain to understand their capacity to continue to support our build programmes on recommencement and throughout each lockdown.
- Made further progress on the Supplier Sustainability matrix developed for our suppliers to drive performance against our strategic priorities.
- Engaged with 30 of our highest emitting suppliers and sub-contractors to better understand our Scope 3 emissions. Further information can be found on page 23.

- Our divisions held sub-contractor and supplier days to discuss local business plans and 'Thank you' events for our sub-contractors and suppliers for their continued support.
- Conducted trials to eliminate or reduce single use plastics and involvement collaborative projects with Zero Waste

Scotland to research packaging waste and its manufacturing and supply source.

- Continued to promote the Supply Chain Sustainability School to provide targeted learning and training resources.

KPIs – How is effectiveness measured

The following information is reported to the Board by the Chief Operating Officer and/or the Group Procurement Director to enable it to consider and agree what, if any, changes may be required to our methods and frequency of engagement with our sub-contractors and supply chain:

- Feedback received from a survey which is issued following the annual conference to help improve the conference in the following year.
- Availability of supply of materials and services to support our build delivery programme despite shortages and/or challenges in the industry.

Interests and concerns

Through the engagement activities undertaken, the following areas were identified as the key interests and concerns of our sub-contractors and supply chain:

- Safety and health of their employees working on our sites.
- Sustainability and carbon reduction.
- Prompt payment.
- Ability to meet demand for materials.

Outcomes from engagement

- Positive feedback regarding our leadership on sustainability issues ranging from carbon and waste, to ensuring we uphold our commitments to modern slavery and the real Living Wage.
- Long term relationships between sub-contractors, suppliers and the divisions which ensured that delivery and performance standards were mutually understood and enabled us to secure materials to support build requirements during a period of shortage of certain components.
- Ability to introduce strategies to retain trades which remains a constant challenge.
- Better understanding on the availability of carbon emission data, and the challenges associated with reporting this data.

Effect of engagement with sub-contractors and the supply chain on Board decisions

- To hold an additional conference with sub-contractors and the supply chain to further enhance relationships.
- To increase the frequency at which the availability of materials is reviewed and considered by the Board.
- Refined the GHG emissions factors we use for specific products and services to improve the accuracy of the baseline and yearly emissions performance.
- Considered the impact of future policy, such as carbon pricing, based on the information obtained through engagement.

Clarity of voice

Hays, Annual Report 2021, p.13

As part of the CEO statement, insights into the areas that 'keep the CEO awake at night' are included in a way that feels genuinely personal.

Q11. What keeps you awake at night as a CEO?

A. Our markets have rebounded far stronger and faster than anyone could have envisaged a year ago. Given the positive momentum we now see across our business, most of my attention is focused on capitalising on the many opportunities in front of us.

Our success in achieving this will be underpinned by the quality of our people. I'm deeply passionate about their development, motivation, and our succession planning. Making sure we have the right internal talent for both today and for the future is a vital part of my job.

Supported by our financial strength, we started making strategic investments well before our end markets started to recover. This gave us an excellent head start for growth but there remains a lot to do. My ambition is that we emerge from the pandemic much stronger in every way, with significant profit runway ahead of us.

The pace of change in digitalisation has been breath-taking in the last few years, but it will only accelerate from here. This has big implications for all businesses, and as well as being at the forefront in helping clients find the digital talent they need to grow, we are continuously seeking to improve how clients and candidates engage with Hays and how we deliver back to them. Superior customer service is what should stand us apart from our rivals and we are actively designing how that experience can be improved across everything we do.

With increased digitalisation comes greater cyber threat. We take this threat extremely seriously and it occupies a central position at Board level. It is my job as CEO to be 'professionally paranoid' around the subject and do everything we can to protect our systems and our candidate, client and employee data. It is a continual battle, but our IT, Legal and Operations teams' level of engagement gives me great comfort as CEO. However, we can never be complacent.

We have all learned valuable lessons in the last year, me included. Those lessons are helping us transform our business in so many ways and we have raised our already-high ambitions for the Company to new heights. There's no reason why we cannot achieve them if we challenge ourselves hard, set aspirational targets and relentlessly focus on doing whatever we need to do to get there.

The ongoing cyclical recovery is a strong tailwind for us, but the long-term structural opportunities are where the real value lies, and we want to open up those opportunities sooner rather than later. But we must never forget that our business is about helping people. Last year we helped more than 280,000 people find their next job, and over 40,000 clients find the talent they need to grow. That's massive scale on a global stage, but next year those numbers will be even larger.

Never has our role in helping people develop their careers and finding highly skilled workers been as relevant. What we do is important to so many people's lives and I am honoured and privileged to lead a business that makes such a contribution to our societies and communities.

3

FRC reviews

Recent FRC thematic and other reviews

Business combinations

Deferred tax assets

Earnings per share

Discount rates

TCFD and climate disclosures

Judgements and estimates

Corporate Governance

Annual review

Key areas to look out for

Top three areas for improvement

- Cash flow statements.
- Financial instruments.
- Tax.

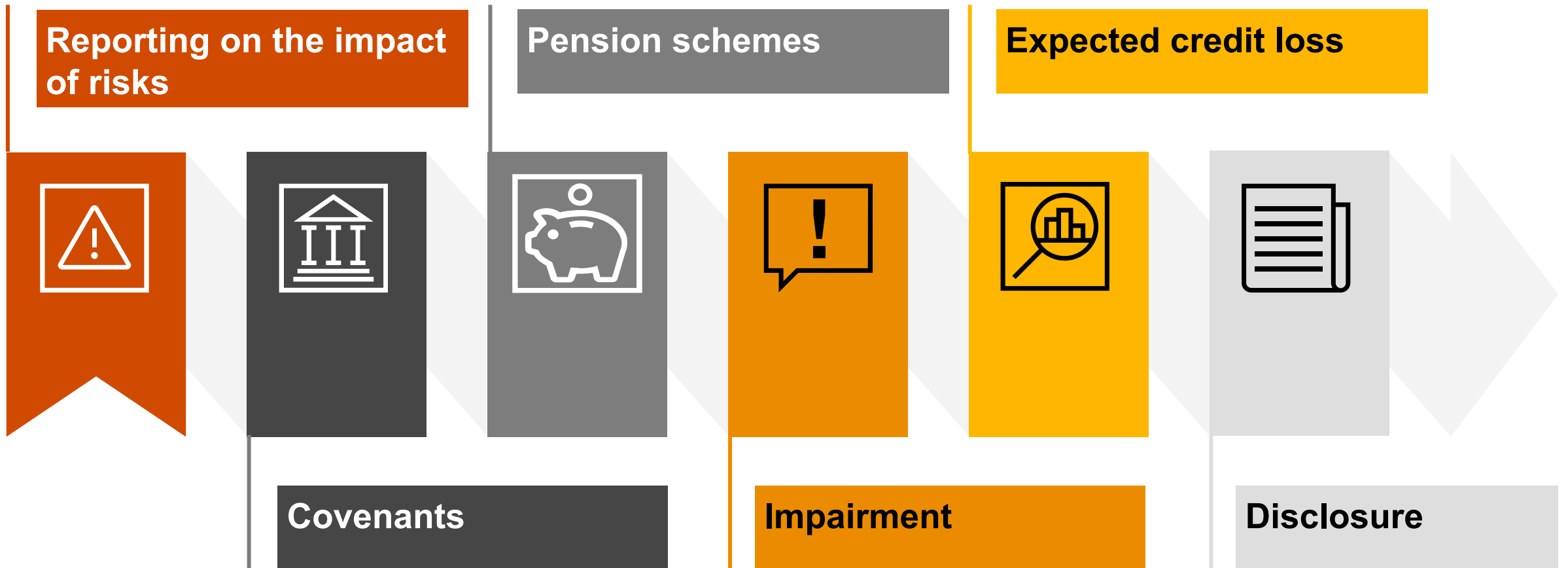
Clear, concise and understandable reporting

- Company-specific disclosures.
- Omit immaterial disclosures.
- Overall objective of standards.

Judgements and estimates

- Significance.
- Key assumptions.
- Meaningful sensitivities.
- Consistency.
- Especially important in times of uncertainty.

Navigating complexity and uncertainty



4

Current FRC and FCA developments and areas of focus

Narrative reporting and governance for corporates



FRC annual review of corporate reporting

Areas of focus for 2022/23



... unambiguous description in the strategic report of risks facing the business, their impact on strategy, business model, going concern and viability, and cross-referenced to relevant detail in the reports and accounts.

... specific, balanced and well-integrated information about the impact of climate change on the company in narrative reporting, and appropriate reflection of material climate-related commitments, risks and uncertainties in the financial statements; clarity about the relationship between assumptions and sensitivities considered in any TCFD scenarios⁴² (including any Paris-aligned scenarios) and those applied in the financial statements.

... impairment disclosures that assign values to, and explain how, the key assumptions used have been determined, with reference to future expectations regarding external conditions and the company's own strategy.

... clear disclosure of significant management judgements and key assumptions underlying major sources of estimation uncertainty, including information about the sensitivity of reported amounts to changes in assumptions.

... transparent disclosure of the nature and extent of material risks arising from financial instruments, including changes in investing, financing and hedging arrangements; the use of factoring and reverse factoring in working capital financing and the approach to and significant assumptions made in the measurement of expected credit losses; concentrations of risks and information about covenants (where material).

... company-specific information that meets the disclosure objectives of the relevant accounting standards and not just the specific disclosure requirements. Additional information (beyond the standards' requirements) should be included where needed to understand the impact of particular transactions, events or circumstances.

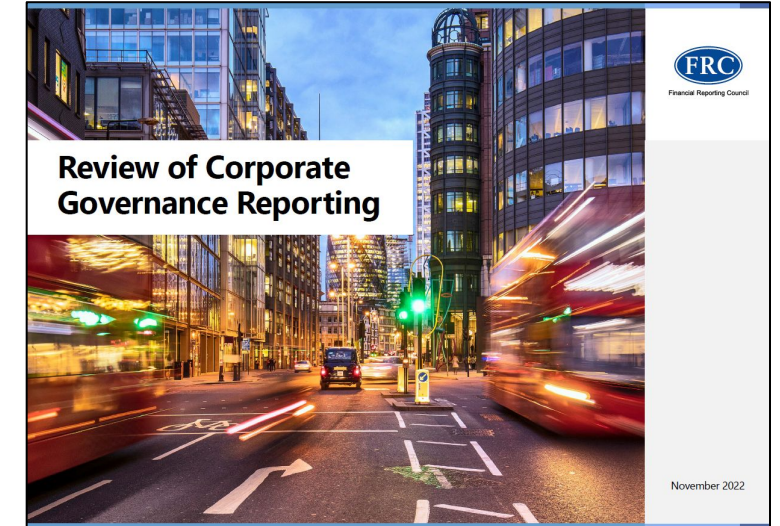


... clear explanation of the nature of significant inflationary features in revenue, supply, leasing and other financing contracts, and their effect on the financial statements.

... clear, concise and understandable disclosure that omits immaterial information.

FRC annual review of governance reporting

Areas of focus for 2022/23



Quality of reporting

Comply-or-explain reporting that is vague or boilerplate

Quality of reporting

'Applied' governance reporting that focuses on disclosure of actions and outcomes resulting from governance policies, procedures and activities

Workforce engagement

Including reporting that goes beyond flexible working

Wider stakeholder engagement

Reporting on outcomes including whether the board acted on issues and how decisions align with strategy, culture, purpose and values

Shareholder engagement

Often not done in full when significant votes against
Also expected on major areas of interest such as ESG

Diversity

Limited evidence for going beyond external targets
CEO/CFO roles still lag

Internal controls

Not enough explanation of how effectiveness reviewed

Regulatory interest stepped up: FRC Corporate Reporting Review Team now writing to companies on governance reporting

Targets and reporting now established by FCA

Diversity & Inclusion

FCA Policy Statement PS 22/3 April 2022

Targets Disclosure against new targets (on a **comply-or-explain** basis):

- At least **40%** of the board should be women.
- At least **one of the senior board positions** (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) should be a woman.
- At least **one member of the board** should be from a **non-White ethnic minority** background.

Data tables Companies to publish numerical data on the sex or gender identity and ethnic diversity of their board, senior board positions (Chair, CEO, SID and CFO) and executive management in a specified format of table.

Applicable to: UK and overseas issuers with premium or standard listings of equity shares or GDRs

Periods starting on or after: 1 April 2022



Policy disclosures now also for key board committees



Consistent with **FTSE Women Leaders Review** (was Hampton-Alexander) targets for 2025

Stewardship Code update



FRC research on influence of Stewardship Code

July 2022



Overall messages

- Asset managers and asset owners positive about the impact of the Code.
- Evidence of material changes in practice.

Resourcing

- Improved position, especially in growth of stewardship teams and use of external experts.
- Resourcing still an issue but many expecting growth in staffing and research budgets.

Governance

- Every organisation identified some form of organisational restructuring to better integrate stewardship within investment decision-making.
- Large organisations had separate ESG teams.

Engagement, collaboration and escalation

- Most identified collaborative engagement as an increasingly important tool.
- ESG issues (climate, governance, diversity, and biodiversity) are increasingly prominent themes for investors.

Monitoring and reporting

- Emphasis on reporting the activities and outcomes of stewardship has prompted major change in behaviour.
- Some highlighted that the time taken to produce reports is a challenge.

Credibility of the Stewardship Code

- Positive perception of Code and increased market expectation that organisations will be signatories - demonstrating good practice and avoiding reputational risk.
- Calls for better join up with other initiatives around ESG.

FRC review of Stewardship Code reporting

November 2022



- Pushes for more information on **activities and outcomes**, including case studies.
- Combination of **narrative reporting and metrics** expected to illustrate stewardship activities.
- Cover **all asset classes** to an appropriate extent, not just equities.
- Report on engagement with **manager** where investment is **indirect**.

5

IFRIC AD and reporting updates

Reporting developments

Amendment to IAS 1

- Non-current liabilities with covenants.
- Introduction of additional disclosure requirements.

Lessor forgiveness of lease payments

- Application of IFRS 9 versus IFRS 16.
- Consideration of the forgiveness of lease payments in the measurement of ECL.

Cash received via Electronic transfer

- Respondents concerns reported to the IASB.
- Disclosure of current accounting policy recommended.

Demand deposits agenda decision

- Restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash in IAS 7.

Narrow scope amendments

- IAS 16, property, plant and equipment.
- IAS 37, provisions, contingent liabilities and contingent assets.

6

Climate change disclosures and wider ESG reporting developments

Update on TCFD and climate change reporting generally



Climate change reporting

Scope and applicability

Premium listed companies

Periods beginning on or after 1 January 2021 > Listing Rule 9.8.6(8)R

Companies need to report:

- Whether they have made disclosures consistent with the TCFD's recommendations and recommended disclosures.
- Where they are not consistent explain why, what steps they are taking and when they will make the relevant disclosures.
- Why any disclosures have been made outside the annual report and where.

Applies to issuers incorporated in the UK or elsewhere

Companies with standard equity listings

Periods beginning on or after 1 January 2022 > Listing Rule 14.3.27R

- Same requirements as for premium listed companies.
- Requirements also apply to issuers of Global Depository Receipts representing equity under Listing Rule 18.4.3R.

Applies to issuers incorporated in the UK or elsewhere

AIM and private companies

Periods beginning on or after 6 April 2022 > Companies Act 2006 s414CA

Similar requirements to TCFD, now applied to a wider range of companies under UK law, in extension of the non-financial information statement:

- All PIEs with >500 employees.
- AIM companies with >500 employees.
- Private companies (and LLPs) with >500 employees and >£500m turnover.

Applies to UK-incorporated companies - some exemptions for subsidiaries

What companies need to disclose - new Regulations

- A. a description of the company's **governance** arrangements in relation to assessing and managing climate-related risks and opportunities;
- B. a description of how the company identifies, assesses, and manages climate-related **risks and opportunities**;
- C. a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall **risk management process**;
- D. a **description** of:
 - the **principal climate-related risks and opportunities** arising in connection with the company's operations, and
 - the **time periods** by reference to which those risks and opportunities are assessed;
- E. a description of the actual and potential **impacts** of the principal climate-related risks and opportunities on the company's **business model and strategy**;
- F. an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related **scenarios**;
- G. a description of the **targets** used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and
- H. a description of the **key performance indicators** used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.

FRC and FCA reviews of TCFD and climate disclosures

FCA emphasis: Have evidence to support the judgements that have been made

1

Materiality

Articulate **how** materiality has been considered in the context of disclosures when preparing the TCFD 'statement of compliance'.

2

Connectivity between TCFD and financial statement disclosures

Balance between narrative reporting and disclosure in financial statements.

Relationship of assumptions and sensitivities in scenario analysis and those applied in the financial statements.

How **commitments and strategies** are reflected in financial statements.

3

Granularity and specificity

Improve the **specificity and granularity** of disclosures as processes to manage climate-related risks and opportunities become more fully embedded into governance and management structures; so that the link to financial planning becomes **clearer and more quantified**.

4

Balance

Balance the discussion of climate-related risks and opportunities, and consider linking the description of climate-related opportunities to any technological dependencies.

5

Links with other narrative disclosures

Consider the **inter-linkage** of TCFD disclosures with other narrative disclosures in the annual report.

Listing Rules

- Every company is **expected** to be able to report in line with the pillars and recommended disclosures of the TCFD framework: governance; risk management; and points a) and b) in strategy. So it is **not appropriate** to use the comply or explain option to omit any of the seven recommended disclosures that relate to these.
- Where there are exceptions explain why and set out how they will be addressed, along with with timeline.

All sector guidance

Companies are **expected** to apply the 'all sector guidance' issued with the TCFD's main report (updated in 2021 and known as 'the Annex') in the same way as the eleven recommended disclosures.

Four key messages

Priorities for year two of TCFD

Judgement needs to be applied and reflected in reporting

- A company's response to the TCFD framework should be proportionate and based on a robust assessment.
- It should be clear how 'materiality' has been arrived at.
- The assessment process must be properly documented.
- Companies should bear in mind that this will be an ongoing process and judgements can change.

Listing Rule requirements all need to be followed (where applicable)

- Need to report on consistency with framework but also recognise that there is judgement as to what constitutes 'consistency'.
- Make sure that the Annex is fully considered.
- Don't omit any of the seven mandatory elements of the TCFD framework.

Scenario analysis and metrics and targets are problem areas

- The appropriate nature and extent of scenario testing depends on the judgements about risks and opportunities - it can be limited or extensive, qualitative or quantitative.
- Emission related metrics and targets may not be the most relevant with respect to the climate-related risks and opportunities identified.
- Report Scope 3 emissions where appropriate.

TCFD reporting is about financial impacts

- This will develop over time and many companies will not be in a position to estimate future impacts.
- But - arguably - **no TCFD disclosure is complete** without addressing this aspect specifically.

Financial statement focus areas and connectivity with TCFD



Global ESG developments



Global sustainability reporting developments

Summary of the proposals

International Sustainability Standards Board (ISSB)

- Consolidation
- Two Exposure Drafts
- Establishes a 'global baseline'
- Additional areas of emphasis
- Industry metrics - SASB
- To be finalised in 2023, followed by territory implementation

EU Corporate Sustainability Reporting Directive (CSRD)

- CSRD supersedes non-financial reporting directive
- 12 European Sustainability Reporting Standards (EFRAG)
- Imposes mandatory assurance
- Significant extension of scope incl large* EU subsidiaries and their global groups
- CSRD finalised November 2022; reporting from 2025 (on 2024 information)

US SEC proposals

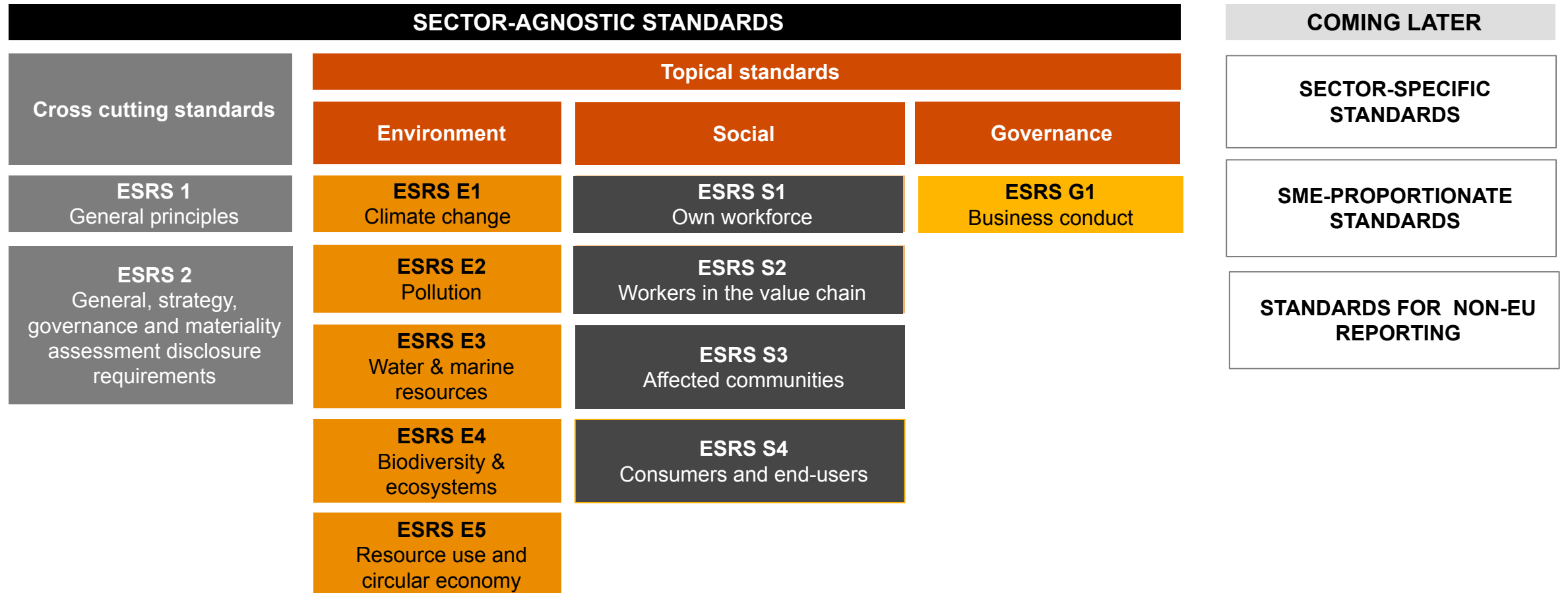
- Climate-related disclosures required in the Form 20-F
- Financial statement footnote disclosures
- Assurance over scope 1 and 2 emissions
- Includes foreign registrants
- Due to be finalised by end of 2022
- Reporting from 2024 (on 2023 information)

UK Government proposals

- Expand beyond climate change through proposed Sustainability Disclosure Requirements (SDRs)
- ISSB baseline standards
- UK Green Taxonomy
- Net Zero transition plans
- Consultations have begun in 2022 - transition plans and SDRs for asset managers

* "Large" defined as a balance sheet total > €20m; net turnover > €40m; average number of employees > 250.

EFRAG - 12 ESRS Exposure Drafts



MANDATORY ASSURANCE - starting with limited and extending to reasonable

First time application of CSRD

Assuming calendar fiscal year-end

Effective for all other large companies (first reporting in 2026)

Additional reporting for non-EU companies required to report at a global consolidated level under the €150 million criterion of the CSRD (first reporting in 2029)



Effective for NFRD companies + “large” non-EU companies with debt or equity securities listed on an EU-regulated market with more than 500 employees (first reporting in 2025)

Effective for listed SMEs*, certain small and non-complex institutions and captive insurance undertakings (first reporting in 2027)

* “Large” defined as a balance sheet total > €20m; net turnover > €40m; average number of employees > 250.

Common ways CSRD could be applicable for non-EU companies

	Scenario 1: Non EU-incorporated company or group with parent listed in the EU	Scenario 2: Non EU-incorporated parent with a 'large' ^{**} EU-incorporated subsidiary or sub-group	Scenario 3: Non EU-incorporated parent of a group with > €150m net turnover (for two consecutive years) in the EU, with at least one 'large' ^{**} or listed EU-incorporated subsidiary, or a branch in the EU generating >€40m net turnover in the preceding year
Who reports externally and at what level	Reporting will be required on a group basis. At a subsidiary level, reporting will be required by large ^{**} EU-incorporated subsidiaries, although they are subject to exemption if included in an appropriate group report.	If there is an EU sub-group, reporting will be required on an EU sub-group consolidated basis. If there is no EU sub-group, the largest EU-incorporated subsidiary will report covering itself and all other EU subsidiaries.	Report at the global consolidated level of ultimate parent, using best efforts to obtain the necessary information in order to report.
Standards used	ESRS, or other reporting recognised as equivalent	ESRS	Reporting under a specific EU standard* for non-EU companies
When	For financial years beginning on or after 1 January 2024	For financial years beginning on or after 1 January 2025	For financial years beginning on or after 1 January 2028

* If local sustainability reporting requirements are recognised as 'equivalent' to those of the EU in due course they will be able to be used instead of ESRS.

** "Large" defined as a balance sheet total > €20m; net turnover > €40m; average number of employees > 250.

EU Corporate Sustainability Due Diligence Directive (CSDDD)

Earlier stage - but significant - proposal

The European Commission has adopted a proposal for a Directive on corporate sustainability due diligence. The upcoming directive aims towards sustainable economy and society through addressing human rights and environmental rights by identifying their impacts through the value chains.

Companies will be required to identify and, where necessary, prevent, end or mitigate adverse impacts of their activities on human rights, such as child labour and exploitation of workers, and on the environment, for example pollution and biodiversity loss.

This proposal applies to the company's own operations, their subsidiaries and their value chains (direct and indirect established business relationships).

The proposal also introduces directors' duties to set up and oversee the implementation of due diligence and to integrate it into the corporate strategy.

Scope of application:

Group 1 Large companies

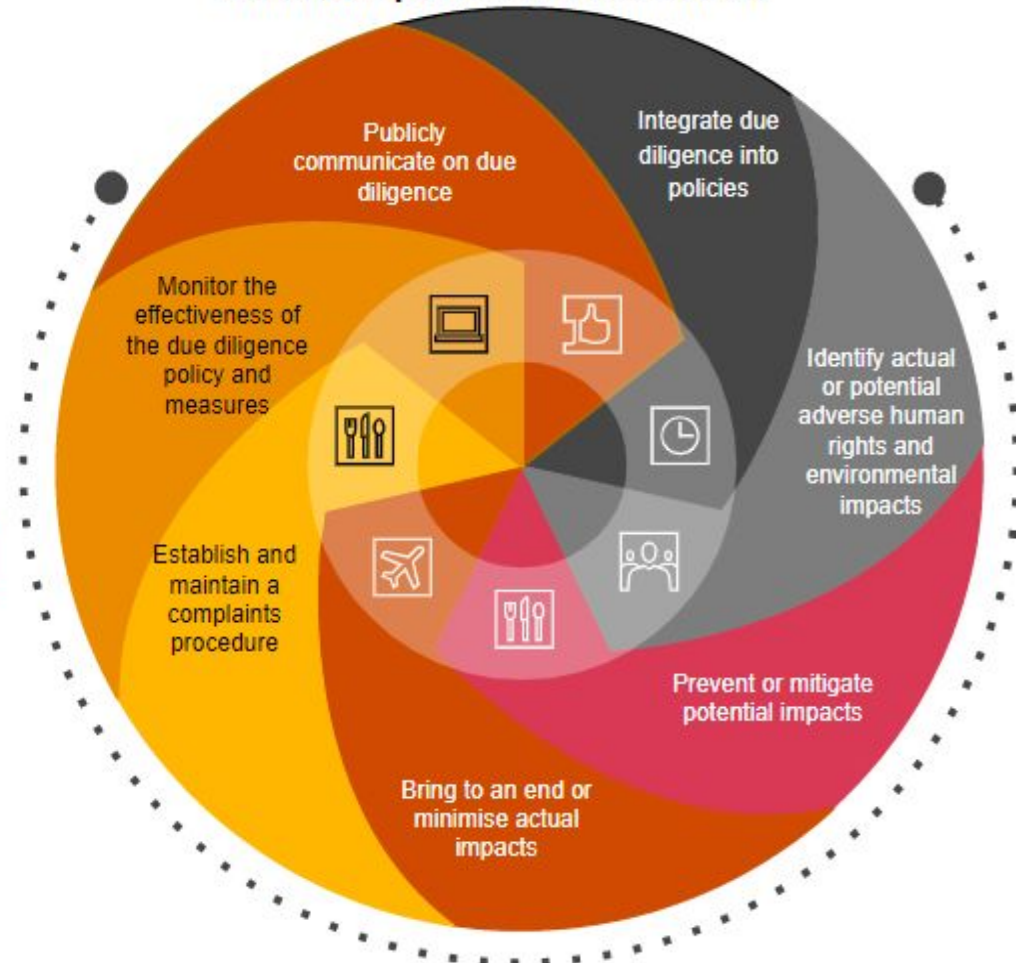
EU limited liability company with more than 500 employees and worldwide net turnover of over €150 million
Non EU companies active in the EU that generated a net turnover of more than €150 million in the EU

Group 2 High impact companies

Other EU limited liability companies operating in high impact sectors with more than 250 employees and €150 million net turnover worldwide
Non-EU companies with net worldwide turnover between 40 million and 150 million operating in high impact sector.

High-impact sectors are listed in the Draft Directive and are those where a high risk of human rights violations or harm to the environment has been identified.* For companies in those sectors (Group 2), the rules will come into effect two years later than for Group 1.

What companies will need to do



7

Update on UK regulatory reform

BEIS - Restoring trust



BEIS consultation - 'Restoring trust in audit and governance'

Summary of the corporate reporting proposals

1 PIE definition

Extend definition of a PIE

Large private companies with both:

- 750 employees
- £750m annual t/o

2 Internal control

Code based approach

Explicit board statement about their view of the effectiveness of the internal control systems

Explore how audit report could be improved

Report on steps taken to prevent fraud

3 Resilience statement

Combines existing going concern and viability

Consider material challenge to resilience - S/M/L term (and response)

Choose and explain length of assessment

One (or more) reverse stress test

Material uncertainties (gross) to going concern

4 Audit and Assurance Policy

Every three years

Annual implementation report

Approach to ensuring quality of information outside of FS

Internal auditing and assurance process

Audit tender policies

Independent "limited" or "reasonable" assurance

Shareholder and employee views

Min reqt - independent external assurance over resilience and internal controls

<https://www.pwc.co.uk/audit/assets/pdf/beis-consultation-response-statement-external-summary.pdf>

BEIS consultation - 'Restoring trust in audit and governance'

Latest update

Overall status



- Much delayed process but FRC and UK Government now at work.
- Consultation on revised UK Corporate Governance Code due March/April 2023.
- Originally planned to be applicable for periods beginning 1 January 2024.
- ESG matters to be more explicitly embedded.
- Other 'Restoring trust' changes through UK company law and standards:
 - Minimum standard for audit committees.

Strengthening internal control



- Code-based approach now being taken rather than US-style 'UK SOx' legal requirements.
- Aim is still to create a step-change in process and reporting.
- Details of format and content not yet known - will be part of Code consultation.

‘Restoring trust in audit and governance’

FRC Minimum standard for audit committees

- Standard exclusively focused on interaction between audit committee and auditor and not proposed to cover broader audit committee responsibilities.
- Following the consultation (response period ends 8 February 2023), standard available on a voluntary basis by the end of 2023, ahead of the planned legislation that will make the standard mandatory.
- Required for FTSE 350 companies, best practice for others.
- Largely includes what is already in the Code and FRC guidance **but this will make it enforceable.**
- New areas/ areas brought more into focus include:
 - Focus on ensuring diversity in tender decisions.
 - More focus on challenge and setting the right culture for the audit.
 - Engaging with shareholders to gauge their views on audit scope.
 - Consideration of engagement level AQIs.
 - Reporting on application of accounting principles.

London Capital Markets reform



London Capital Markets reform

Significant post-Brexit activity - some headlines

Lord Hill Review of UK Listing (May 2021)

- Dual-class share structures now permitted.
- Minimum market cap raised from £700k to £30m.
- Minimum free float reduced from 25% to 10%.
- FTSE Russell has also amended index requirements.

FCA Discussion Paper DP 22/2 (May 2022)

- One market segment to replace Premium and Standard.
- Minimum standards to be Mandatory; Supplementary standards to be opt-in.
- For instance: UK Corporate Governance Code = Mandatory; circular & shareholder vote on significant transitions = Supplementary.
- Sponsor regime = IPO only.

Austin on Secondary Capital Raising (July 2022)

- Higher % threshold for prospectus on secondary share issue (75% up from 10%).
- No sponsor needed.
- Significant reliance on ongoing reporting, including for going concern/ working capital.

Any questions?



Contact us



Paul Silcock

Director
PwC Channel Islands
+44 7700 838286
paul.silcock@pwc.com



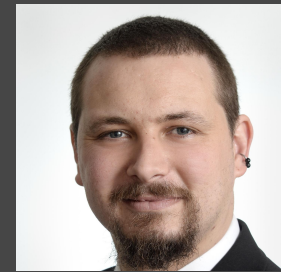
Jonathan Mauger

Director
PwC Channel Islands
+44 7781 139 410
jonathan.x.mauger@pwc.com



Olaf Pusch

IFRS specialist
PwC United Kingdom
olaf.pusch@pwc.com



Arran Jones

IFRS specialist
PwC United Kingdom
jones.arran@pwc.com



John Patterson

Corporate Governance
specialist, PwC United Kingdom
john.t.patterson@pwc.com

Read more at
www.pwc.com/jg

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers CI LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2023 PricewaterhouseCoopers CI LLP. All rights reserved. PwC refers to the PwC network and/ or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 152 countries with more than 328,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.