Annual reporting requirements

November 2019

Contents

Introduction

Introduction

This publication has been prepared for use in respect of the annual reporting requirements of an English public company with securities listed on the premium segment of the Official List of the UKLA.

The publication contains two checklists which provide a summary of the relevant laws and practice in England for such companies with respect to their: (i) annual reports and accounts; and (ii) AGM notices.

If your company is incorporated, or has a dual listing, in another jurisdiction then other requirements may apply and relevant legal advice should be obtained.

The checklists do not set out the full text of each provision or piece of guidance. Accordingly, they should be reviewed alongside each of the primary sources.

The endnotes to this document contain important information. Please read the endnotes along with the tables below.

Disclaimer

The checklists were current at the date of publication (26 November 2019). This document provides general information only and does not constitute legal advice or seek to be an exhaustive statement of the law. You should take legal advice on any particular matter which concerns you. If you do require advice on a specific legal issue, please get in touch with your usual contact at Slaughter and May.

Definitions and sources

Definitions and sources

Definition (if applicable)	Source
"ABI Guidance on Comply or Explain"	Comply or Explain: Investor expectations and current practices (December 2012)
"ABI Report on Board Effectiveness"	ABI Report on Board Effectiveness: Updating progress, promoting best practice (December 2012)
"ABI"	The Association of British Insurers (all guidance formerly issued by the ABI is now administered by the Investment Association (IA))
"APM"	Alternative performance measure
"Articles"	The relevant company's articles of association
"Audit Directive"	Directive 2014/56/EU concerning the statutory audit of annual and consolidated financial statements
"Audit Regulation"	Regulation (EU) No 537/2014 on the statutory audit of public interest entities
"BEIS Directors' Remuneration FAQs"	The BEIS FAQs, Corporate Governance, The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 - Frequently Asked Questions (June 2019)
"BEIS Environmental Reporting Guidelines"	BEIS Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance (March 2019)
"BEIS Green Finance Strategy"	The industrial strategy published by BEIS, Green Finance Strategy: Transforming Finance for a Greener Future (July 2019)
"BEIS Research Paper on Perceptions of Non-Financial Reporting"	BEIS Research Paper: Stakeholder perceptions of non-financial reporting (Research Paper number 2019/027, October 2019)

Definition (if applicable)	Source
"BEIS Select Committee Inquiry"	The inquiry of the BEIS Committee launched on 16 September 2016 on corporate governance, focussing on executive pay, directors duties, and the composition of boardrooms, including worker representation and gender balance in executive positions
"BEIS Select Committee Response"	The Government response to the BEIS Select Committee Inquiry published by authority of the House of Commons on 22 September 2017
"BEIS Strategy Committee Report on Executive Rewards"	The report of the BEIS Strategy Committee on Executive rewards: paying for success (Eighteenth Report of Session 2017-19, HC 2018 26 March 2019)
"BEIS Strategy Committee Report on Gender Pay Gap Reporting"	The report of the BEIS Strategy Committee on Gender pay gap reporting (Thirteenth Report of Session 2017-19, HC 928, 2 August 2018)
"BEIS"	The Department for Business, Energy and Industrial Strategy
"BIS's letter to the FRC"	Letter from the Department for Business, Innovation & Skills ("BIS") (now known as BEIS) to the FRC, dated 30 April 2014
"Briefing Paper on Corporate Governance Reform"	The House of Commons briefing paper, Corporate Governance Reform (Number 8143, 4 January 2019)
"CA 06"	The Companies Act 2006
"CA 85"	The Companies Act 1985
"CDSB Guidance on TCFD Recommendations"	TCFD Implementation Guide - Using SASB Standards and the CDSB Framework to Enhance Climate-Related Financial Disclosures in Mainstream Reporting (1 May 2019)
"CDSB"	The Climate Disclosure Standards Board
"CGC 2016" or "Corporate Governance Code 2016"	UK Corporate Governance Code (April 2016 edition for financial years commencing on or after 17 June 2016 and prior to 1 January 2019)
"CGC 2018", "Code" or "Corporate Governance Code 2018"	UK Corporate Governance Code (July 2018 edition for financial years commencing on or after 1 January 2019)
"CMA Order"	Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, published by the CMA
"CMA"	Competition and Markets Authority

Definition (if applicable)	Source
“Commission Recommendation”	Commission Recommendation of 9 April 2014 on the quality of corporate governance reporting (‘comply or explain’) (2014/208/EU)
“Davies Review”	The review of Lord Davies of Abersoch into Women on Boards (February 2011) and final report Women on Boards: 5 year summary (October 2015)
“Directors’ Remuneration Regulations”	Companies (Directors’ Remuneration Policy and Directors’ Remuneration Report) Regulations 2019 (No 970)
“DTR”	The FCA’s Disclosure Guidance and Transparency Rules
“Eighth Commencement Order”	Companies Act 2006 (Commencement No. 8 Transitional Provisions and Savings) Order 2008 (SI 2008/2860)
“Energy and Carbon Report Regulations”	Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (No. 1155)
“ERRA 2013”	The Enterprise and Regulatory Reform Act 2013
“ESG”	Environmental, social and governance
“ESMA’s Guidelines on Alternative Performance Measures”	Guidelines published by ESMA in June 2015 (relevant to communications issued on or after 3 July 2016)
“ESMA’s Public Statement 2017”	The Public Statement of European common enforcement priorities for 2017 financial statements published by ESMA on 27 October 2017
“ESMA’s Public Statement 2018”	The Public Statement of European common enforcement priorities for 2018 annual financial reports published by ESMA on 26 October 2018
“ESMA’s Public Statement 2019”	The Public Statement of European common enforcement priorities for 2019 annual financial reports published by ESMA on 22 October 2019
“ESMA”	The European Securities and Markets Authority
“Ethical Standard”	The FRC’s Ethical Standards for Auditors 2010, as reissued in June 2016 for financial periods commencing on or after 17 June 2016
“EU Non-Financial Reporting Directive”	Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups
“FCA”	The Financial Conduct Authority
“FRC Brexit Letter 2019”	The FRC’s letter to audit committee chairs and finance directors concerning preparations for Brexit (16 September 2019)

Definition (if applicable)	Source
"FRC Corporate Reporting Review 2017"	FRC Annual Review of Corporate Reporting (October 2017)
"FRC Corporate Reporting Review 2018"	FRC Annual Review of Corporate Governance and Reporting (October 2018)
"FRC Corporate Reporting Review 2019"	FRC Annual Review of Corporate Governance and Reporting (October 2019)
"FRC FAQ on ESMA's Guidelines on APMs"	The FRC's ESMA Guidelines on Alternative Performance Measures: Frequently Asked Questions (May 2016)
"FRC Guidance on Auditor Liability Limitation Agreements"	FRC Guidance on Auditor Liability Limitation Agreements (June 2008)
"FRC Guidance on Risk Management and Business Reporting"	Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, published by the FRC in September 2014
"FRC Implementation Study on Disclosure of Dividends"	The FRC's Lab Implementation Study: Disclosure of dividends - policy and practice (December 2016), as updated in October 2017
"FRC Lab Report on Business Model Reporting 2016"	The FRC's Lab Project Report: Business Model Reporting (October 2016)
"FRC Lab Report on Business Model, Risk and Viability Reporting 2018"	The FRC's Lab Project Report: Business model reporting Risk and viability reporting, Where are we now? (October 2018)
"FRC Lab Report on Climate-related Reporting"	The FRC Lab Project Report: Climate-related corporate reporting: Where to next? (October 2019)
"FRC Lab Report on Disclosure of Dividends"	The FRC Lab Project Report: Disclosure of Dividends - Policy and Practice (November 2015)
"FRC Lab Report on Disclosures on the Sources and Uses of Cash"	The FRC Lab Project Report: Disclosures on the sources and uses of cash (September 2019)
"FRC Lab Report on Performance Metrics November 2018"	The FRC Lab Project Report: Performance metrics - Principles and practice (November 2018)

Definition (if applicable)	Source
"FRC Lab Report on Reporting of Audit Committees 2013"	The FRC Lab Project Report: Reporting of Audit Committees (October 2013)
"FRC Lab Report on Reporting of Audit Committees 2015"	The FRC Lab Project Report: Reporting of Audit Committees - how companies responded to investor needs identified by the Lab; experience of the first year (May 2015)
"FRC Lab Report on Reporting of Audit Committees 2017"	The FRC Audit and Assurance Lab Project Report: Audit Committee Reporting (December 2017)
"FRC Lab Report on Reporting of Performance Metrics June 2018"	The FRC Lab Project Report: Reporting on performance metrics (June 2018)
"FRC Lab Report on Risk and Viability Reporting 2017"	The FRC Lab Project Report: Risk and viability reporting (November 2017)
"FRC Letter to Larger Listed Companies 2015"	The FRC's letter to audit committee chairmen "Summary of Key Developments for 2015 Annual Reports" (15 December 2015)
"FRC Notes on Best Practice for Audit Tendering"	The FRC's guidance: Audit Tenders: Notes on Best Practice (February 2017)
"FRC Report on Developments in Audit 2018"	The FRC's Report: Developments in Audit (October 2018)
"FRC Report on Developments in Audit 2019"	The FRC's Report: Developments in Audit (November 2019)
"FRC Report on Narrative Reporting 2015"	The FRC's Report: Clear and Concise: Developments in Narrative Reporting (December 2015)
"FRC's 2016 Reporting Summary"	The FRC's letter to audit committee chairs and finance directors (10 October 2016)
"FRC's 2017 Reporting Summary"	The FRC's letter to audit committee chairs and finance directors (10 October 2017)
"FRC's 2018 Reporting Summary"	The FRC's letter to audit committee chairs and finance directors (24 October 2018)
"FRC's 2019 Reporting Summary"	The FRC's letter to audit committee chairs and finance directors (30 October 2019)

Definition (if applicable)	Source
"FRC's Report on Corporate Culture 2016"	The FRC's Report of Observations, Corporate Culture and the Role of Boards, July 2016
"FRC's Thematic Review of Alternative Performance Measures 2016"	The Corporate Reporting Thematic Review (Alternative Performance Measures) published by the FRC on 28 November 2016
"FRC's Thematic Review of Alternative Performance Measures 2017"	The Corporate Reporting Thematic Review (Alternative Performance Measures (APMs)) published by the FRC on 9 November 2017
"FRC's Thematic Review of Pension Disclosures"	The Corporate Reporting Thematic Review (Pension Disclosures) published by the FRC on 9 November 2017
"FRC's Thematic Review of Tax Reporting"	The Corporate Reporting Thematic Review (Tax Disclosures) published by the FRC on 31 October 2016
"FRC"	Financial Reporting Council
"FRRP Annual Report 2012"	The Financial Reporting Review Panel Annual Report (September 2012)
"GC100 and Investor Group Guidance"	GC100 and Investor Group: Directors' Remuneration Reporting Guidance (July 2019)
"GC100 Guidance on Directors' Duties"	GC100: Guidance on Directors' Duties - Section 172 and Stakeholder Considerations (October 2018)
"GC100 Paper on Directors' Conflicts"	GC100 paper on Directors' Conflicts: Companies Act 2006 - Directors' Conflicts of Interest (January 2008)
"GDPR"	General Data Protection Regulation ((EU) 2016/679)
"Gender Pay Gap Regulations"	The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 (No. 172)
"Glass Lewis Proxy Guidelines"	The Glass Lewis 2020 Proxy Paper, Guidelines: An Overview of the Glass Lewis Approach to Proxy Advice, United Kingdom (November 2019)
"Guidance on Audit Committees"	The FRC's Guidance on Audit Committees (April 2016)
"Guidance on Board Effectiveness"	The FRC's Guidance on Board Effectiveness (July 2018)
"Guidance on the Strategic Report"	The FRC's Guidance on the Strategic Report (July 2018)

Definition (if applicable)	Source
“Guidelines on Non-Financial Reporting”	The European Commission’s Communication from the Commission: Guidelines on non-financial reporting (methodology for reporting non-financial information) (2017/C 215/01) (July 2017)
“Guidelines on Reporting Climate-Related Information”	The European Commission’s Communication from the Commission: Guidelines on non-financial reporting: supplement on reporting climate-related information (2019/C 209/01) (June 2019)
“Hampton-Alexander Report”	The report of the Hampton-Alexander committee published on 8 November 2016: the Hampton-Alexander Review, FTSE Women Leaders, Improving gender balance in FTSE Leadership
“Hermes Principles”	Hermes Investment Management and PLSA Remuneration Principles: clarifying expectations (November 2016)
“IA Companies Act Guidance”	Investment Association: “Companies Act and Articles of Association Guidance” (October 2009 and updated for the purpose of rebranding on 3 June 2015)
“IA Covering Letter”	The covering letter of the Investment Association of 1 November 2019 addressed to FTSE 350 remuneration committee chairs accompanying the revised IA Remuneration Principles
“IA Disclosure Guidelines”	Investment Association Guidelines on Responsible Investment Disclosure (January 2007 and updated for the purpose of rebranding on 3 June 2015)
“IA Guidelines on Viability Statements”	The Investment Association Guidelines on Viability Statements (16 November 2016)
“IA Long Term Reporting Guidance”	The Investment Association Long Term Reporting Guidance (May 2017)
“IA Position on Executive Pensions”	The IA’s “Investment Association Position on Executive Director Pensions Provision”, dated September 2019
“IA Remuneration Principles”	The Investment Association Principles of Remuneration (November 2019)
“IA Report on Board Effectiveness”	EY and IA report, Board Effectiveness, Continuing the Journey (April 2015)
“IA Share Capital Management Guidelines”	Investment Association Share Capital Management Guidelines (July 2016)
“IA”	The Investment Association (formerly the Investment Management Association and ABI Investment Affairs, which merged in 2014 and which now has responsibility for all guidance formerly issued by the ABI)

Definition (if applicable)	Source
"ICSA Guidance Note on Voting at General Meetings"	ICSA Guidance Note on Voting at General Meetings (December 2003)
"ICSA Proxies Guidance"	ICSA Guidance on Proxies and Corporate Representatives at General Meetings (January 2008)
"ICSA Registrars Group Guidance Note"	ICSA Registrars Group Guidance Note: Practical Issues Around Voting at General Meetings (April 2012)
"ICSA"	The Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators)
"IMA Remuneration Letter 2014"	Letter from the Investment Management Association (now the IA) to remuneration committee chairmen dated 20 October 2014
"International <IR> Framework"	The International <IR> Framework published by the International Integrated Reporting Council (December 2013)
"IOSCO Statement on Disclosure of ESG Matters"	IOSCO Statement on Disclosure of ESG Matters by Issuers (18 January 2019)
"ISS Proxy Voting Guidelines Updates"	The ISS Europe, Middle East and Africa (EMEA) Proxy Voting Guidelines Updates for 2020 (11 November 2019, effective for meetings on or after 1 February 2020)
"ISS Proxy Voting Guidelines"	ISS United Kingdom and Ireland Proxy Voting Guidelines: Benchmark Policy Recommendations (6 December 2018, effective for meetings on or after 1 February 2019)
"ISS"	Institutional Shareholder Services
"IVIS"	The Institutional Voting Information Service, which is part of the Investment Association
"Joint Statement (2008) on Executive Contracts and Severance by ABI and NAPF"	Joint Statement on Executive Contracts and Severance by the ABI and the National Association of Pension Funds (now renamed as PLSA) (February 2008)
"Kingman Review of the FRC"	The Independent Review of the Financial Reporting Council conducted by Sir John Kingman (December 2018)
"LMCG Regs"	The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (No. 410)
"LR" or "Listing Rules"	The FCA's Listing Rules
"LSE Admission and Disclosure Standards"	LSE Admission and Disclosure Standards (October 2018)

Definition (if applicable)	Source
“LSE Dividend Procedure Timetable”	LSE Dividend Procedure Timetable 2020
“LSE Guidelines on ESG Disclosures”	The London Stock Exchange Group’s Guidance: Revealing the full picture, Your guide to ESG reporting, Guidance for issuers on the integration of ESG into investor reporting and communication (January 2018)
“LSE”	The London Stock Exchange
“Market Abuse Regulation” or “MAR”	Regulation (EU) No 596/2014 on market abuse
“Miscellaneous Reporting Q&A”	The BEIS Q&A, Corporate Governance, The Companies (Miscellaneous Reporting) Regulations 2018 Q&A (November 2018)
“Miscellaneous Reporting Regulations”	The Companies (Miscellaneous Reporting) Regulations 2018 (No. 860)
“MSA 2015”	The Modern Slavery Act 2015
“NAPF”	The National Association of Pension Funds (now known as The Pensions and Lifetime Savings Association or “PLSA”)
“Non-Financial Reporting Regulations”	The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 (No. 1245)
“Non-Financial Reporting Statement”	A statement required to be published for financial years commencing on or after 1 January 2017 pursuant to the Non-Financial Reporting Regulations, as defined in the commentary on the Strategic Report below within this checklist
“Parker Review”	The Parker Review Committee report into the Ethnic Diversity of UK Boards (12 October 2017)
“Payment Practices Regulations”	The Reporting on Payment Practices and Performance Regulations 2017 (No. 395)
“Payment Practices Reporting Guidance”	BEIS guidance, “Duty to Report on Payment Practices and Performance” (September 2019)
“PEG Template”	Template resolutions for the disapplication of pre-emption rights published by the Pre-Emption Group on 5 May 2016 applicable to meetings held after 1 August 2016
“PIRC Guidelines”	PIRC UK Shareholder Voting Guidelines (April 2019)
“PIRC”	Pension and Investment Research Consultants
“PLSA Guidelines”	PLSA Corporate Governance Policy and Voting Guidelines 2019 published in January 2019
“PLSA’s Letter to FTSE 350 Chairs”	PLSA’s letter to FTSE 350 chairs concerning workforce reporting (7 November 2016)

Definition (if applicable)	Source
“PLSA”	The Pensions and Lifetime Savings Association (formerly known as the National Association of Pension Funds (“NAPF”))
“Pre-Emption Group Principles”	The Pre-Emption Group Guidelines: Disapplying Pre-Emption Rights – A Statement of Principles (March 2015)
“public interest entity”	An issuer with securities listed on a regulated market, certain kinds of credit institutions and certain kinds of insurance undertakings (as defined by Directive 2006/43/EC and amended by Directive 2014/56/EU)
“SATCAR”	The Statutory Auditors and Third Country Auditors Regulations 2016 (No. 649) (as amended by the Statutory Auditors and Third Country Auditors Regulations 2017 (No. 516) and the Statutory Auditors Regulations 2017 (No. 1164))
“SRD II”	Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement
“TCFD Implementation Guidance”	Annex produced by the TCFD containing guidance on how organisations can implement the TCFD Recommendations (June 2017)
“TCFD Recommendations”	The final report and recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)
“TCFD Status Report 2018”	Task Force on Climate-related Financial Disclosures: Status Report (September 2018)
“TCFD Status Report 2019”	Task Force on Climate-related Financial Disclosures: Status Report (June 2019)
“The Stakeholder Voice in Board Decision Making”	ICSA (now known as “The Chartered Governance Institute”) and the IA’s publication, “The Stakeholder Voice in Board Decision Making” (September 2017)
“UKLA 2010 Technical Notes”	UKLA Technical Notes: Disclosure and Transparency Rules (October 2010) available at http://www.fsa.gov.uk/pubs/ukla/disclosure_transparency.pdf
“Wates Principles”	The Wates Corporate Governance Principles for Large Private Companies (December 2018)

Part 1:
Checklist for Annual Reports

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Checklist for Annual Reports

If your company is incorporated, or has a dual listing, in another jurisdiction then other requirements may apply and relevant legal advice should be obtained.

This checklist has been prepared as an aid to companies that are preparing their annual reports. Companies should not, however, limit the disclosures in their annual reports to the items listed below.

The annual report is a medium of communication between the company's directors and shareholders, and other stakeholders, and directors should carefully consider what they need to communicate in their reports and how best to do so. Guidance on the Strategic Report from the FRC states that "*effective communication of the matters required to be addressed in a component [of the annual report] will not usually be achieved through the use of a 'checklist style' approach to drafting. This can result in the structure of the component being driven by the order in which disclosure requirements arise and the presentation of more granular detail in such a way that other important information is obscured*". Accordingly, companies are encouraged not to be constrained by the content requirements set out in this checklist, but should instead use the checklist as a means of ensuring that basic content requirements have been met. [1]

This checklist does not address the requirements in relation to the accounts themselves and their accompanying notes, nor does it reflect all guidance, particularly guidance published by industry-specific bodies (for example, in areas such as climate change), or address any sector-specific requirements including the specific requirements for banking and insurance companies, companies active in the extractive industries or sovereign controlled companies. [2]

This checklist does not set out the full text of each provision or piece of guidance. Accordingly, it should be reviewed alongside each of the primary sources.

The primary sources require that some annual report disclosures are made in particular sections of the annual report. Where an asterisk * appears next to a disclosure in the tables below, its inclusion in the relevant part of the annual report is optional and companies can make the disclosure elsewhere in the annual report if preferred. There may also be some discretion over the location of other items and companies should review the primary source against their particular requirements.

The 2018 edition of the UK Corporate Governance Code applies to financial years commencing on or after 1 January 2019. Accordingly, this checklist includes the requirements of the 2018 edition of the Corporate Governance Code (although it does refer to some provisions of the 2016 edition in the endnotes for information purposes only). [3]

The endnotes to this document contain important information. Please read the endnotes along with the tables below.

Disclaimer

This checklist was current at the date of publication (26 November 2019).

This document provides general information only and does not constitute legal advice or seek to be an exhaustive statement of the law. You should take legal advice on any particular matter which concerns you. If you do require advice on a specific legal issue, please get in touch with your usual contact at Slaughter and May.

A. DIRECTORS' REPORT[4]	Authority	Company comments
Note that where asterisked (*) in this table, guidance requires disclosure but does not expressly require the disclosure to be made in the Directors' Report.		
The directors' report must include:		
1. the names of the persons who, at any time during the financial year, were directors;	Section 416(1)(a) CA 06	
2. the amount (if any) that the directors recommend be paid by way of dividend; [5]	Section 416(3) CA 06	
3. a statement by the directors that: (a) so far as the directors are aware, there is no relevant audit information [6] of which the auditors are unaware; and (b) the directors have taken all reasonable steps to ascertain any relevant audit information and ensure the auditors are aware of such information; [7]	Section 418(2) CA 06	
4. disclosure of any: (a) qualifying third party indemnity provisions; and (b) qualifying pension scheme indemnity provisions, for the benefit of directors of the company or directors of associated companies, stating that such provisions are or were in force during the financial year;	Section 236 CA 06	
5. where a company has chosen to set out information required to be contained in the directors' report under Schedule 7 of LMCG Regs in the strategic report, [8] a statement that it has done so and the information in respect of which it has done so;	Schedule 7 Part 1 para 1A LMCG Regs	
6. specified particulars of political contributions exceeding £2,000 made during the relevant year and a statement on amount of contribution(s) made to a non-EU political party during the year;	Schedule 7 Part 1 paras 3 and 4 LMCG Regs	

A. DIRECTORS' REPORT [4]	Authority	Company comments
7. risk management objectives and policies, including hedging policies, and exposure (including price/credit/liquidity/cash flow risk) of the company in relation to the use of financial instruments unless such information is not material for the assessment of the assets, liabilities, financial position and profit or loss of the company; [9]	Schedule 7 Part 1 para 6 LMCG Regs DTR 4.1.11(6)	
8. particulars of important post-balance sheet events of the company or its subsidiaries; [10]	Schedule 7 Part 1 para 7(1)(a) LMCG Regs DTR 4.1.11(1)	
9. an indication of likely future developments in the business of the company or its subsidiaries;	Schedule 7 Part 1 para 7(1)(b) LMCG Regs DTR 4.1.11(2)	
10. an indication of research and development activities of the company or its subsidiaries;	Schedule 7 Part 1 para 7(1)(c) LMCG Regs DTR 4.1.11(3)	
11. the existence of branches outside the UK;	Schedule 7 Part 1 para 7(1)(d) LMCG Regs DTR 4.1.11(5)	
12. particulars of acquisitions of own shares (including number and nominal value and reasons for their purchase) or charges on them; [11]	Schedule 7 Part 2 paras 8 and 9 LMCG Regs DTR 4.1.11(4)	
13. if, on average, the company employed more than 250 people during the financial year [12], a description of the company's policies on: (a) giving full and fair consideration to applications for employment made by disabled persons; (b) continuing the employment of, and arranging training for, employees who have become disabled; and (c) the training, career development and promotion of disabled persons;	Schedule 7 Part 3 para 10 LMCG Regs	

A. DIRECTORS' REPORT[4]	Authority	Company comments
14. unless the company is exempted [13], if, on average, the company, or for financial years commencing on or after 1 January 2019, the group [14] employed more than 250 UK employees during the financial year [15], a description: (a) of action taken to introduce, maintain or develop arrangements aimed at: (i) providing employees systematically with information on matters of concern to them as employees; (ii) regularly consulting employees or their representatives to take account of their views in decision making; (iii) encouraging employee involvement in the company's performance; and (iv) achieving awareness among employees of factors affecting the performance of the company; (b) for financial years commencing on or after 1 January 2019 summarising: (i) how the directors have engaged with employees; and (ii) how the directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company; [16], [17], [18], [19]	Schedule 7, Part 4 para 11 – 11A LMCG Regs CGC 2018 Provision 5	
15. for financial years commencing on or after 1 January 2019, unless the company is exempted [20], a statement summarising how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and	Schedule 7, Part 4 para 11B – 11C LMCG Regs	

A. DIRECTORS' REPORT[4]	Authority	Company comments
the effect of that regard, including on the principal decisions taken by the company[21] [22];		
16. where the company has securities carrying voting rights admitted to trading on a regulated market at the end of the financial year, detailed information on: (a) the structure of the company's capital; (b) any restrictions on the transfer of securities in the company; (c) persons with a significant holding of securities in the company; (d) securities carrying special rights; (e) employee share schemes under which rights in respect of shares are not directly exercisable by the employees; (f) restrictions on voting rights; (g) any agreements between holders of securities that may restrict transfer of securities or voting rights; (h) rules relating to the appointment/removal of directors or amending the articles; (i) the powers of the company's directors; (j) significant agreements that alter or terminate on change of control of the company; and (k) any agreements with employees/directors for compensation for loss of office or employment that occurs because of a takeover bid;	Schedule 7 Part 6 para 13 LMCG Regs	
17. any necessary explanatory material with regard to information that is required to be included in the report by Schedule 7 para 13 LMCG Regs;	Schedule 7 Part 6 para 14 LMCG Regs	

A. DIRECTORS' REPORT[4]	Authority	Company comments
18. for companies with financial years commencing on or before 31 March 2019, where the company is a quoted company: [23] (a) either: (i) the annual quantity of emissions [24] of carbon dioxide equivalent from activities for which that company is responsible, including combustion of fuel; and the operation of any facility; and (ii) the annual quantity of emissions in tonnes of carbon dioxide equivalent [25] resulting from the purchase of electricity, heat, steam or cooling by the company for its own use; or (iii) where the information at (a)(i) and (ii) above is not included, [26] a statement that the information is not included and why; (b) methodologies used to calculate the information at (a)(i) and (ii) above; (c) at least one ratio which expresses the quoted company's annual emissions in relation to a quantifiable factor associated with the company's activities; (d) the information provided at (a)(i) and (ii) and (c) above as disclosed in the report for the preceding financial year; [27] and (e) a statement if the period for which it is reporting the information required at (a)(i) and (ii) above is different to the period in respect of which the directors' report is prepared;	Schedule 7 Part 7 paras 15 – 20 LMCG Regs [28]	

A. DIRECTORS' REPORT[4]	Authority	Company comments
19. for companies with financial years commencing on or after 1 April 2019, where the company is a quoted[29] company that is not exempt[30] [31] [32]: I. (a) the annual quantity of emissions[33] in tonnes of carbon dioxide equivalent from activities for which that company is responsible, including combustion of fuel; and the operation of any facility, including the methodologies used to calculate the information disclosed; (b) the annual quantity of emissions in tonnes of carbon dioxide equivalent[34] resulting from the purchase of electricity, heat, steam or cooling by the company for its own use, including the methodologies used to calculate the information disclosed;[35] (c) a figure, in kWh, which is the aggregate of: (i) the annual quantity of energy consumed from activities for which the company is responsible, including the combustion of fuel[36]; and the operation of any facility[37]; and (ii) the annual quantity of energy consumed resulting from the purchase of electricity, heat, steam or cooling by the company for its own use,[38] including the methodologies[39] used to calculate the information disclosed;[40] (d) what proportion of the figures reported in accordance with (a) and (b), above, relate to emissions in the United Kingdom and offshore area[41];	Schedule 7 Part 7 para 15-20 LMCG Regs	

A. DIRECTORS' REPORT [4]	Authority	Company comments
(e) what proportion of the figure reported in accordance with (c) related to energy consumed in the United Kingdom and offshore area; (f) if the company has, in the financial year to which the report relates, taken any measures for the purpose of increasing the company's energy efficiency [42], a description of the principal measures taken for that purpose; and (g) at least one ratio which expresses the company's annual emissions in relation to a quantifiable factor associated with the company's activities; (h) where the information at (a) to (g) above is not included, [43] a statement that the information is not included and why; [44] **Note: further provisions apply if the report is a group directors' report.** [45] II. with the exception of the first year for which it contains the information at 1(a) to (g), above, the information required to be disclosed at 1(a) to (g) as disclosed in the report for the preceding financial year; and III. a statement in relation to the period for which it is reporting the information required at 1(a), above, if it is different to the period in respect of which the directors' report is prepared.		
20. details of continuing professional development programmes for all directors and evidence that these programmes have been under review during the year;* **Note: guidance requires disclosure but does not expressly require this to be in the Annual Report.**	PIRC Guidelines (Chapter 2 – The Board)	

A. DIRECTORS' REPORT[4]	Authority	Company comments
21. a corporate governance statement (to be included as a specific section in the directors' report)[46] containing at least the following information: (a) a reference to: (i) the corporate governance code to which the company is subject, or may have voluntarily decided to apply; and (ii) all relevant information about the corporate governance practices applied over and above requirements of applicable national law;[47] (b) where the relevant corporate governance code is publicly available; (c) where it departs from the relevant corporate governance code an explanation of which parts of the code it departs from and reasons for doing so;[48] (d) if it has decided not to refer to any provisions of the corporate governance code to which it is subject or which it has voluntarily decided to apply, an explanation of the reasons for that decision; (e) a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process;[49] (f) information required by Schedule 7 para 13(2)(c), (d), (f), (h) and (i) LMCG Regs where the company is subject to the requirements of that paragraph;[50] (g) a description of the composition and operation of the company's administrative, management and supervisory bodies and their committees;[51] and	DTR 7.2 DTR 7.2.2-7.2.7 DTR 7.2.8A[56] DTR 7.2.10 Commission Recommendation Parker Review, page 11	

A. DIRECTORS' REPORT[4]	Authority	Company comments
(h) a description of the diversity policy applied to the company's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional background; the objectives of the diversity policy; how the diversity policy has been implemented; and the results in the reporting period; [52] (i) if no diversity policy is applied by the company, an explanation as to why this is the case; [53] and (j) if the company is required to prepare a group directors' report (under section 415(2) CA 06) and the company presents its own annual report and consolidated annual report as a single report [54], a description of the main features of the group's internal control and risk management systems in relation to the financial reporting process for the undertakings included in the consolidation, taken as a whole. [55]		
22. an explanation of the board's activities in relation to assessing and monitoring culture and any action taken where the board is not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose [57], values and strategy (including where it seeks assurance that management has taken corrective action);	CGC 2018 Provision 2	
23. an explanation of the company's approach to investing in and rewarding its workforce;	CGC 2018 Provision 2	
24. Companies may voluntarily decide to report on boardroom diversity matters in line with the recommendations of the Davies Review:	Recommendation 4 of the Davies Review report (2011), Recommendation 2 of the Davies	

A. DIRECTORS' REPORT[4]	Authority	Company comments
(a) the percentage of women that the company aims to have on its board (and executive committees); [58] and (b) the proportion of women that the company has on its board, women in senior executive positions and female employees in the whole organisation. [59], [60]	Review report (2015) PLSA Guidelines, Appendix 1, paras 4.11-4.12 and 5.11-5.12	
25. Companies may voluntarily publish details of the number of women on the Executive Committee and in the Direct Reports to the Executive Committee. [61]	Hampton-Alexander Report, para 2.4	
26. Companies may voluntarily publish details of whether the company meets the board composition requirements of the Parker Review on ethnic diversity by the date specified and, if it does not, the reason why the company has not been able to achieve compliance. [62]	Parker Review, page 11	
The directors' report must be approved by the board and signed by a director/secretary. [63] **Any copy of the directors' report must state the name of the person who signed it on behalf of the board.**	Section 419(1) CA 06 Section 433 CA 06	

B. STRATEGIC REPORT[64] [65]	Authority	Company comments
Unless the company is subject to the small companies' regime (see sections 381 to 384 CA 06), the directors of a company must prepare a strategic report for each financial year of the company. For a financial year in which (a) the company is a parent company, and (b) the directors of the company prepare group accounts, the strategic report must be a consolidated report relating to the undertakings included in the consolidation. [66]	Sections 414A(1) to 414A(3) CA 06	
The strategic report must: [67] [68]		
1. contain a fair review of the company's business; [69]	Section 414C(2)(a) CA 06 DTR 4.1.8(1)	
2. contain a description of the principal risks and uncertainties facing the company [70] [71] [72] and an explanation of how they are managed or mitigated;	Section 414C(2)(b) CA 06 DTR 4.1.8(2) Paragraph 7B.27, Guidance on the Strategic Report	
3. be a balanced [73] and comprehensive analysis of the development and performance of the company's business during the financial year and the position of the company's business at the end of that year, consistent with the size and complexity of the business; [74] [75] [76]	Section 414C(3) CA 06 DTR 4.1.9(1) Paragraph 7B.59, Guidance on the Strategic Report	
4. include, to the extent necessary for an understanding of the development, performance or position of the company's business, analysis using financial key performance indicators; [77], [78]	Section 414C(4)(a) CA 06 DTR 4.1.9(2) Paragraph 7B.68, Guidance on the Strategic Report	
5. include, to the extent necessary for an understanding of the development, performance or position of the company's business, analysis using other key performance indicators including information relating to environmental matters and employee matters; [79] and	Section 414C(4)(b) CA 06 [80] DTR 4.1.9(2)	

B. STRATEGIC REPORT[64] [65]	Authority	Company comments
6. include references to, and additional explanations of, amounts included in the company's annual accounts. [81]	Section 414C(12) CA 06 DTR 4.1.9(3) Paragraph 7B.66, Guidance on the Strategic Report	
The strategic report must be approved by the board of directors and signed on behalf of the board by a director or secretary of the company. **Any copy of the strategic report must state the name of the person who signed it on behalf of the board.**	Section 414D(1) CA 06 Section 433 CA 06	
For a quoted company, the strategic report must also include:		
7. the main trends and factors likely to affect the future development, performance and position of the business; [82]	Section 414C(7)(a) CA 06 [83] Paragraph 7B.21, Guidance on the Strategic Report	
8. information about: (a) environmental matters (including the impact of the company's business on the environment); [84] (b) the company's employees; and (c) social, community and human rights issues, including information about any relevant company policies in relation to those matters and the effectiveness of those policies; [85] [86]	Section 414C(7)(b) CA 06 [87] Paragraph 7B.35 and 7B.48, Guidance on the Strategic Report	
For traded, banking and insurance companies [88] **with more than 500 employees** [89]**:** 9. a non-financial information statement (the "**Non-Financial Reporting Statement**") [90] [91] [92] containing information, to the extent necessary for an understanding of the company's development, performance and position and the impact of its	Sections 414CA and 414CB CA 06 Paragraph 7B.82-7B.83, Guidance on the Strategic Report [111] Sections 3.1, 3.2 and 4, Guidelines on Non-Financial Reporting	

B. STRATEGIC REPORT [64] [65]	Authority	Company comments
activity [93], relating to, as a minimum [94]: (a) environmental matters (including the impact of the company's business on the environment), [95] [96] [97] (b) the company's employees, [98] (c) social matters, (d) respect for human rights, and (e) anti-corruption and anti-bribery matters. The information must include: (a) a brief description of the company's business model, [99] (b) a description of the policies pursued by the company in relation to the matters required to be covered by the statement and any due diligence processes implemented by the company in pursuance of those policies; [100] [101] (c) a description of the outcome of those policies; [102] [103] (d) a description of the principal risks relating to the matters required to be covered by the statement in connection with the company's operations and, where relevant and proportionate: (i) a description of its business relationships [104], products and services which are likely to cause adverse impacts in those areas of risk; (ii) a description of how it manages the principal risks; [105] [106] (e) a description of the non-financial key performance indicators relevant to the company's business; [107] [108]	Sections 2.2 and 3, Guidelines on Reporting Climate-Related Information [112]	

B. STRATEGIC REPORT [64] [65]	Authority	Company comments
If the company does not pursue policies in relation to one or more of the matters required to be covered by the statement, the statement must provide a clear and reasoned explanation for the company's not doing so. [109] The statement must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts. If information required to be included in the statement is published by the company by means of a national, EU-based or international reporting framework [110], the statement must specify the framework or frameworks used, instead of including that information;		
10. disclosure of how the following aspects were taken into account in determining what information should go into the Non-Financial Reporting Statement: (a) the information needs of different stakeholders and their relative importance; (b) the selection of relevant time horizons; and (c) the probabilities associated with financial and non-financial impacts; [113]	ESMA's Public Statement 2019, page 9	
11. a description of the company's strategy and the objectives it is intended to achieve; [114] [115]	Section 414C(8)(a) CA 06 Paragraphs 7B.11 to 7B.13, Guidance on the Strategic Report PLSA Guidelines, Appendix 1, paras 4.2-4.3)	
12. a description of the company's business model [116];	Section 414C(8)(b) CA 06 Paragraph 7B.14, Guidance on the Strategic Report	

B. STRATEGIC REPORT[64][65]	Authority	Company comments
	PLSA Guidelines, Appendix 1, paras 4.2-4.3)	
13. (though no longer a specific requirement, it is usual to include) an explanation of the basis on which the company generates or preserves value over the longer term;* **Note: Though this is no longer a specific disclosure requirement, the board is required to assess the basis on which the company does this.**	CGC 2018 Provision 1 PIRC Guidelines (Chapter 3 – Report and Accounts, Audit and Financial Controls)	
14. a description of how the opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model; and how the company's governance contributes to the delivery of its strategy;* [117]	CGC 2018 Provision 1 PIRC Guidelines (Chapter 3 – Report and Accounts, Audit and Financial Controls) PLSA Guidelines, Appendix 1, paras 4.1-4.3	
15. a breakdown showing at the end of the financial year the number of persons of each sex who were: (i) directors of the company; [118] (ii) senior managers of the company [119] (other than those falling within category (i)); and (iii) employees of the company. [120]	Section 414C(8)(c) and 414C(9) CA 06 Paragraph 7B.77, Guidance on the Strategic Report	
The strategic report should also:		
16. disclose material financial and non-financial information that is necessary for an understanding of the development, performance, position or future prospects of the company, irrespective of whether there is an explicit statutory disclosure requirement; [121] **Note: The Guidance on the Strategic Report "encourages" such disclosure.**	Paragraph 2.3, Guidance on the Strategic Report	
17. provide essential context to the financial statements to support an understanding of developments in the year and the future financial	Paragraph 4.4, Guidance on the Strategic Report	

B. STRATEGIC REPORT[64][65]	Authority	Company comments
performance and position of the entity; [122]		
18. include information relating to sources of value that have not been recognised in the financial statements, and how those sources of value are managed, sustained and developed;	Paragraph 4.5, Guidance on the Strategic Report	
19. provide additional explanations of amounts recognised in the financial statements and an explanation of the conditions and events that shaped the information contained in the financial statements; [123]	Paragraph 4.5, Guidance on the Strategic Report	
20. include information on how a fact or circumstance might affect the company when it is material to an assessment of the development, performance, position or future prospects of the entity;	Paragraph 6.12, Guidance on the Strategic Report	
21. highlight and explain linkages [124] between pieces of information in the strategic report and the annual report more broadly;	Paragraph 6.17, Guidance on the Strategic Report	
22. include an explanation of how the directors have fulfilled their duties under the Companies Act 2006, including by having had regard to the non-exhaustive list of items included in section 172 CA 06; [125]	PIRC Guidelines, Chapter 8, Sustainability and Corporate Responsibility Reporting PLSA Guidelines, Appendix 1, para 3.1	
23. describe how the board has taken the impact on key stakeholders into account when making decisions, including in particular: (a) who are the key stakeholders; (b) how does the board hear from its key stakeholders and how are stakeholder relationships managed? (c) what were the outcomes of the company's engagements with its	The Stakeholder Voice in Board Decision Making, Part 7 PLSA Guidelines, Appendix 1, para 3.2 FRC Corporate Reporting Review 2018 , page 4 and FRC Corporate	

B. STRATEGIC REPORT[64][65]	Authority	Company comments
key stakeholders, how are the stakeholder perspectives fed into boardroom considerations and what impact did that have on the board's decisions?[126]	Reporting Review 2017, page 5 CGC 2018 Provision 5	
24. where the board has chosen not to use one of the three specified workforce[127] engagement methods,[128] an explanation of what alternative engagement arrangements are in place and why the board considers them to be effective;	CGC 2018 Provision 5	
25. for financial years commencing on or after 1 January 2019, unless the company qualifies as medium-sized[129] in relation to the financial year, a statement which describes how the directors have had regard to[130] the matters set out in section 172(1)(a) to (f)[131] when performing their duty under section 172 (a "**section 172 statement**")[132] [133]	Section 414CZA CA 06 CGC 2018 Provision 5 Q&A 3-4 (Section D), Miscellaneous Reporting Q&A Paragraphs 8.1-8.32, Guidance on the Strategic Report	
26. a description of how the company's key stakeholders' interests and the matters set out in section 172 CA 06 have been considered in board discussions and decision making;[134]	CGC 2018 Provision 5	
27. a fair and balanced explanation of the composition, stability, training, skills, capabilities and engagement levels of the company's workforce, explaining how this relates to the underlying business strategy as well as the risks and opportunities that derive from the employment models and working practices;[135]	PLSA Guidelines, Section 4: Audit, Risk and Internal Control (Guidance) and Appendix 1, para 4.3	
28. in relation to culture, a discussion of the company's performance against indicators that it has chosen as being most appropriate to its business and the outcomes it seeks, and an explanation of why those indicators have been selected;[136]*	IA Long Term Reporting Guidance, para 60	

B. STRATEGIC REPORT[64][65]	Authority	Company comments
29. a discussion of: (a) the significant investments that company has made over the past year, and is planning to make in the next, to improve the productivity of its workforce, including the outcomes of decisions where possible; (b) the significant opportunities, and principal risks, relating to the company's approach to human capital management, and the strategy adopted by the board to respond to these issues; (c) the manner by which the workforce is incentivised to be more productive, and how this is compatible with the businesses' long-term strategy; and (d) appropriate metrics to support the narrative discussion; [137]*	IA Long Term Reporting Guidance, paras 49 and 50 to 55	
30. in relation to productivity: (a) the process by which productivity is regularly assessed within the business, the criteria used to conduct this assessment and the outcome of those assessments; (b) the main drivers of productivity, the extent to which these influence operations and planned investments to improve productivity over the next year; (c) the significant opportunities and challenges facing the company in terms of improving productivity over the next year and the strategy adopted by the board to respond to this; and (d) evidence of the investments the company is making, or planning to make, to support productivity; [138]	IA Long Term Reporting Guidance, paras 13 and 15	

B. STRATEGIC REPORT[64][65]	Authority	Company comments
31. in relation to capital management[139]: (a) the objectives and investment priorities of the company's capital management strategy (including key criteria and underlying assumptions used to assess capital allocation opportunities); (b) the policies governing what the company regards as capital (including the approach to distinguishing between maintenance capital and capital used for growth); (c) the process by which capital allocation decisions are made, how often relevant policies are reviewed and how performance of these decisions are assessed over the long term; (d) the role of the board in setting capital management strategy (including in providing oversight over final capital allocation decisions and reviewing past performance); (e) a discussion of significant capital allocation decisions made during the year; (f) an explanation of the dialogue with key shareholders on capital allocation and how this has influenced decision making; (g) the outcomes of significant capital allocation decisions, how expenditures have led to productivity improvements and supported long term strategy; (h) where relevant, an explanation of significant cancellations or withdrawals from past capital allocation decisions; and (i) supporting quantitative disclosures;[140]	IA Long Term Reporting Guidance, paras 23, 27 and 30	

B. STRATEGIC REPORT[64 65]	Authority	Company comments
32. in relation to the cost of capital: (a) the company's cost of capital and how this is calculated; (b) the process by which the cost of capital influences its capital allocation decisions (including how a discount rate is applied for risky or volatile activities); and (c) the extent to which the expected return on investment will exceed the cost of capital;*	IA Long Term Reporting Guidance, para 37	
33. an explanation of any inconsistency in comparatives for the prior period where companies have adopted IFRS 15's modified retrospective method of implementation; and	FRC's 2018 Reporting Summary ESMA's Public Statement 2018	
34. where complex supplier arrangements and related financing arrangements are in place, a description of the nature and amount of any material funding arrangement and the impact that it has on the company's liquidity. [141]	FRC's 2018 Reporting Summary	
35. The strategic report may contain such of the matters otherwise required by regulations [142] to be disclosed in the directors' report as the directors consider are of strategic importance to the company. [143]	Section 414C(11) CA 06 Paragraph 7B.85, Guidance on the Strategic Report	
Viability Statement [144 145]		
36. The viability statement must: (a) taking account of the company's current position and principal risks set out an explanation of how the board has assessed the prospects [146] of the company, over what period it has done so [147] and why it considers the period to be appropriate [148]; and (b) include a statement as to whether the board has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, drawing attention to any	LR 9.8.6(3) CGC 2018 Provision 31 FRC Guidance on Risk Management and Business Reporting [151] IA Guidelines on Viability Statements [152]	

B. STRATEGIC REPORT[64][65]	Authority	Company comments
qualifications or assumptions [149] (known as the "**viability statement**"); [150] IA Guidelines on Viability Statements also recommend that viability disclosures should include: (a) a description of the processes which the directors have undertaken to stress test the company's strategy and assess prospects and viability, including disclosure of specific scenarios considered together with the likely outcomes; [153] (b) a description of specific mitigating or remedial actions undertaken or which may be necessary, including an explanation of what could cause risks to crystallise, the likely impact and how this could be mitigated or managed; and (c) details of scenarios and circumstances that would mean the business model is no longer viable, together with their plausibility. [154]		
NOTE: Many companies choose to locate the viability statement within the strategic report in order to benefit from the safe harbour under section 463 CA 06 (see endnote 4) and to align with similar disclosures in the strategic report. The viability statement can, however, be located elsewhere in the annual report.		

C. AUDITOR'S REPORT[155]	Authority	Company comments
The auditor's report must include:		
1. an introduction identifying the company[156] and the annual accounts which are the subject of the audit, the period covered by those accounts[157], the financial reporting framework that has been applied in their preparation and a description of the scope of the audit identifying the auditing standards in accordance with which the audit was conducted;	Section 495(2) CA 06	
2. a statement as to whether the accounts: (a) give a true and fair view:[158] (i) in the case of an individual balance sheet, of the state of affairs of the company as at the end of the financial year;[159] (ii) in the case of an individual profit and loss account, of the profit or loss of the company for the financial year; and (iii) in the case of group accounts, the state of affairs at the end of the financial year and of the profit or loss for the financial year, of the undertakings included in the consolidation as a whole, so far as concerns members of the company; (b) have been properly prepared in accordance with the relevant financial reporting framework; and (c) have been prepared in accordance with the requirements of CA 06 (and where applicable, Article 4 of the IAS Regulation[160]);	Section 495(3) CA 06	

C. AUDITOR'S REPORT[155]	Authority	Company comments
3. a statement[161] as to: (a) whether in the auditor's opinion, (i) the information given in the strategic report and directors' report is consistent with the relevant accounts, and (ii) any strategic report and directors' report have been prepared in accordance with applicable legal requirements; (b) whether, in light of the knowledge and understanding of the company and its environment obtained in the course of audit, the auditor has identified material misstatements in the strategic report and the directors' report; and (c) if applicable, the nature of the misstatements referred to in paragraph (b); Where more than one person is appointed as auditor, the report must include a statement as to whether all the persons appointed agree on the statements and indications under section 496(1) CA 06 (as set out immediately above). If the appointed auditors cannot agree on those statements and indications, the report must include the opinions of each person appointed and give reasons for the disagreement.[162]	Section 496 CA 06	
4. a report on the auditable part of the directors' remuneration report[163] and a statement whether, in the opinion of the auditor, it has been prepared in accordance with CA 06;	Section 497 CA 06	
5. where the company prepares a separate[164] corporate governance statement[165]: (a) a statement as to whether, in the auditor's opinion, the information given in the statement in compliance with DTRs 7.2.5 and 7.2.6 (i) is consistent with those	Section 497A CA 06 Section 498A CA 06	

C. AUDITOR'S REPORT[155]	Authority	Company comments
accounts, and (ii) has been prepared in accordance with applicable legal requirements; (b) a statement as to whether, in light of the knowledge and understanding of the company and its environment obtained in the course of audit, the auditor has identified material misstatements in the statement; (c) if applicable, an indication of the misstatements referred to in (b) above; and (d) statement as to whether, in the auditor's opinion, DTRs 7.2.2, 7.2.3 and 7.2.7 have been complied with; Where more than one person is appointed as auditor, the report must include a statement as to whether all the persons appointed agree on the statements and indications under section 497A(1) CA 06 (as set out immediately above). If the appointed auditors cannot agree on those statements and indications, the report must include the opinions of each person appointed and give reasons for the disagreement. [166] Where the company is required to prepare a corporate governance statement and no such statement is included in the directors' report, the auditor must ascertain whether a corporate governance statement has been prepared and, if it appears that it has not, must state that fact in the auditor's report.		
6. if the auditor is of the opinion: (a) that adequate accounting records have not been kept or that returns adequate for their audit have not been received from branches not visited by the auditor; (b) that the company's individual accounts are not in agreement with the accounting records	Section 498(2) CA 06	

C. AUDITOR'S REPORT [155]	Authority	Company comments
and returns; or (c) in the case of a quoted company (and from 10 June 2019, an unquoted traded company [167]), that the auditable part of the directors' remuneration report is not in agreement with the accounting records and returns, a statement of that fact;		
7. if the auditor fails to obtain all the information and explanations which, to the best of the auditor's knowledge and belief, are necessary for the purpose of his audit, a statement of that fact; and	Section 498(3) CA 06	
8. if (a) requirements under section 412 CA 06 (disclosure of directors' benefits: remuneration, pensions and compensation for loss of office) are not complied with in the annual accounts; or (b) in the case of a quoted company, the requirements of section 421 CA 06 (information forming the auditable part of the directors' remuneration report) are not complied with in that report, a statement giving the required particulars, so far as the auditor is reasonably able to do so.	Section 498(4) CA 06	
Where more than one person is appointed as auditor, the report must include a statement as to whether all the persons appointed agree on the statements and indications under section 496(2 - 4) CA 06 (as set out immediately above at rows C.6-8 of this checklist). If the appointed auditors cannot agree on those statements and indications, the report must include the opinions of each person appointed and give reasons for the disagreement. [168]	Section 498(6) CA 06	
The auditor's report must be either qualified [169] or unqualified and must include a reference to any matters to which the auditors wish to draw attention by way of emphasis without qualifying the report.	Section 495(4) CA 06	

C. AUDITOR'S REPORT[155]	Authority	Company comments
The report must include a statement on any material uncertainty relating to events or conditions[170] **that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting and must identify the auditor's place of establishment.**[171]		
Where more than one person is appointed as an auditor, all the persons appointed must jointly make the auditor's report and the report must include a statement as to whether all the persons appointed agree on the matters contained in the report. If the persons appointed cannot agree on the matters contained in the report, the report must include the opinions of each person appointed and give reasons for the disagreement.[172]	Section 495(5) CA 06	
Additional requirements for the auditor's report of public interest entities[173]		
The auditor's report should include[174]**:**		
9. a statement setting out by whom or by which body the statutory auditor(s) or the audit firm(s) were appointed;	Audit Regulation, article 10(2)(a)	
10. the date of the appointment and the period of total uninterrupted engagement of the statutory auditors or the audit firms, including previous renewals and reappointments;	Audit Regulation, article 10(2)(b)	
11. in support of the audit opinion: (a) a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud; (b) a summary of the auditor's response to those risks; (c) where relevant, key observations arising with respect to those risks; (d) clear references to disclosures in the financial statements which are relevant to each significant	Audit Regulation, article 10(2)(c)	

C. AUDITOR'S REPORT[155]	Authority	Company comments
assessed risk of material misstatement;		
12. an explanation setting out to what extent the statutory audit was considered capable of detecting irregularities, including fraud;	Audit Regulation, article 10(2)(d)	
13. confirmation that the audit opinion is consistent with the report to the audit committee required by article 11 of the Audit Regulation;	Audit Regulation, article 10(2)(e)	
14. a declaration that prohibited non-audit services (as referred to in article 5(1) of the Audit Regulation) were not provided and that the auditor remained independent of the audited entity in conducting the audit; and	Audit Regulation, article 10(2)(f)	
15. disclosure of any services, in addition to the statutory audit, which were provided by the statutory auditor or the audit firm to the company and its controlled undertaking(s) and which have not been disclosed in the management report or financial statements.	Audit Regulation, article 10(2)(g)	
The annual report should include:		
16. an explanation of the directors' responsibility for preparing the accounts and a statement that they consider the report and accounts, taken as a whole, is fair balanced and understandable, and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy;	CGC 2018 Provision 27	

C. AUDITOR'S REPORT [155]	Authority	Company comments
17. details of the lead audit engagement partner together with his/her date of appointment and the length of tenure of the audit firm; [175]	PIRC Guidelines (Chapter 3 – Report and Accounts, Audit and Financial Controls The FRC Lab Report on Reporting of Audit Committees 2017, page 5	
18. a confirmation that all related party transactions have been reviewed and approved by the board, or if not, how such transactions were monitored, and a disclosure of transactions that are significant, whether by virtue of their significance to the business, the individuals involved or the perception of potential conflict.	PLSA Guidelines, Appendix 1, para 12.3	
The auditor's report must state the names of the auditors and be signed and dated by them. **Where the auditor is a firm, the report must be signed by the senior statutory auditor in his/her own name, for and on behalf of the auditor.** **Where more than one person is appointed as auditor, the report must be signed by all those appointed.** [176]	Section 503 CA 06	

D. AUDIT COMMITTEE REPORT [177]	Authority	Company comments
The audit committee report must be a separate [178] section of the annual report, signed by the chair, and should include:	CGC 2018 Provision 26 Guidance on Audit Committees, para 80	
1. the names of the chair and members of the audit committee and the qualifications of all members of the audit committee during the period [179], including a description of how the committee has complied with the audit committee composition requirements [180];	DTR 7.1.5 Guidance on Audit Committees, para 81 CGC 2018 Provision 14 and Provision 24 [181]	
2. the responsibilities of the audit committee;	CGC 2018 Provision 14 and Provision 24 [182]	
3. any audit committee member's connection with the current or potential auditors [183];	PLSA Guidelines, Section 4: Audit, Risk and Internal Control (Guidance)	
4. the number of meetings of the audit committee and individual attendance by directors; [184]	CGC 2018 Provision 14 Guidance on Audit Committees, para 81	
5. a summary of the role and description of the work of the committee, including [185]: (a) details of how the audit committee's performance evaluation has been conducted; (b) the significant [186] issues that the committee considered [187], and how these issues were addressed, including: (i) issues in relation to the financial statements, having regard to matters communicated to the committee by the auditors; (ii) the nature and extent of interaction (if any) with the	CGC 2018 Provision 26 PLSA Guidelines, Appendix 1, paras 7.7-7.9 and Section 4: Audit, Risk and Internal Control (Guidance) Guidance on Audit Committees, para 81 DTR 7.1.5R DTR 7.2.7R FRC Lab Report on Reporting of Audit Committees 2013	

D. AUDIT COMMITTEE REPORT [177]	Authority	Company comments
FRC's Corporate Reporting Review team and (iii) any findings of the FRC's Audit Quality Review team which the committee and the auditors consider to be significant and the actions they and the auditors plan to take. [188] (c) an explanation of how the committee has assessed the independence and effectiveness of the external audit process; [189] (d) the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm, the current audit partner name, and for how long the partner has held the role; when a tender was last conducted and advance notice of any retendering plans; [190] (e) if the external auditor provides non-audit services, the committee's policy for approval of non-audit services and an explanation of how auditor objectivity and independence is safeguarded; [191], [192], [193]	FRC Notes on Best Practice for Audit Tendering, pages 6 and 7 The FRC Lab Report on Reporting of Audit Committees 2017, pages 3-6, 19-20, 23 and 29-30	
6. a clear explanation of the company's policy on submitting the audit function to tender and on audit firm rotation, including when the audit was last subject to tender, overall length of the audit firm's tender and how they ensure independence is safeguarded; [194] disclosure on the auditor reselection decision and of any contractual obligation to appoint audit firms; disclosure on the change of the audit partner and the process carried out by the audit committee to agree the appointment; and communication that the decision in relation to nomination for appointment of the external auditor	PLSA Guidelines, Appendix 1, paras 7.2-7.4	

D. AUDIT COMMITTEE REPORT [177]	Authority	Company comments
and scope of audit work is the audit committee's responsibility; [195]		
7. an explanation of how the committee has assessed the effectiveness of the internal audit function and satisfied itself that the quality, experience and expertise of the function is appropriate for the business; [196]	Guidance on Audit Committees, para 81 The FRC Lab Report on Reporting of Audit Committees 2017, pages 6 and 37 CGC 2018 Provision 25 [197]	
8. where there is no internal audit function, an explanation for its absence, how internal assurance is achieved and how this affects the work of external audit; [198] [199]	CGC 2018 Provision 26	
9. if the company is a FTSE 350 company, a statement of compliance with the provisions of the CMA Order 2014; [200]	Article 7.1, CMA Order	
10. if the company is a FTSE 350 company, where it has not completed a competitive tender process in relation to five consecutive financial years, in the Audit Committee Report of the fifth financial year (and of all subsequent years until the competitive tender process has been completed), a statement of: [201] (a) the year in which the company will complete the competitive tender process; and (b) the reasons as to why completing the competitive tender process in that year is in the best interests of the company;	Articles 4.1-4.3, CMA Order	
11. if a company which is a public interest entity [202] proposes to appoint a new auditor at its next accounts meeting, a recommendation in connection with the appointment, setting out: (a) the audit committee's first and second choice candidates for	Sections 489A and 489(4) CA 06 Article 16(6) Audit Regulation	

D. AUDIT COMMITTEE REPORT [177]	Authority	Company comments
appointment drawn from those auditors who have participated in a selection procedure under Article 16(3) of the Audit Regulation; (b) reasons for the committee's choices; (c) a statement that: (i) the recommendation is free from influence by a third party, and (ii) no contractual term of the kind mentioned in Article 16(6) of the Audit Regulation has been imposed on the company (i.e. a clause restricting the members' choice to certain categories or lists of auditors); [203]	FRC Notes on Best Practice for Audit Tendering	
12. where the board does not accept the audit committee's recommendation on the appointment, reappointment or removal of the external auditor, a statement from the audit committee explaining the recommendation and the reasons why the board has taken a different position; [204] and	CGC 2018 Provision 26	
13. if appropriate, details of any disagreement with the board which has not been resolved through discussion. [205]	Guidance on Audit Committees, para 30 Guidance on Board Effectiveness, para 62	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
A quoted company[208] (and from 10 June 2019, an unquoted traded company (i.e. a traded company[209] that is not also a quoted company[210]) must prepare a directors' remuneration report.[211] [212] [213] [214]	Section 420(1) CA 06	
The remuneration report must include:[215]		
1. a statement (the "**annual statement**") by the director who is the chair of the remuneration committee (or, where there is no such person, a director nominated to make such statement) summarising for the financial year:[216]	Schedule 8 para 3 LMCG Regs Guidance under 2.2, GC100 and Investor Group Guidance Guidance on Board Effectiveness, para 140 ISS Proxy Voting Guidelines Updates, page 14	
(a) the major decisions on directors' remuneration;		
(b) for financial years commencing on or after 1 January 2019, any discretion which has been exercised in the award of directors' remuneration;[217]		
(c) any substantial changes relating to directors' remuneration made during the year; and		
(d) the context in which those changes occurred and decisions have been taken;		
(e) the rationale for the major decisions made by the remuneration committee during the year;		
(f) the remuneration philosophy underpinning decisions and how company performance during the year is reflected in the remuneration outcome;[218]		
(g) the link between remuneration and the company's strategy, including how the remuneration package balances rewards for management performance and a share in the		

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
success (or failure) of the company[219];		
(h) where approval of the remuneration policy is sought, highlighting the key changes to the remuneration policy, including an explanation of why changes were required;		
(i) why the remuneration committee considered it appropriate to exercise discretion in a particular fashion and the impact on the payment of that exercise of discretion[220]; and		
(j) comment on any stakeholder engagement during the year;[221]		

For financial years commencing on or after 10 June 2019, subject to certain exceptions[222], all information required to be included in the remuneration report by schedule 8 LMCG Regs and which refers to a "director" or "directors" includes:

- ***the company's chief executive officer (however described); or***
- ***where such a function exists, the company's deputy chief executive officer,***

even where those persons are not also directors of the company (Schedule 8 para 2(8) LMCG Regs)[223].

2. a "single total figure table" for each person who has served as a director of the company at any time during that year in the following form:[224]	Schedule 8 para 4 LMCG Regs Guidance under 3.1, GC100 and Investor Group Guidance Schedule 8 para 5 LMCG Regs	

for financial years commencing on or before 9 June 2019:

Single Total Figure Table						
	a	b	c	d	e	Total
Director 1						
Director 2						

for financial years commencing on or after 10 June 2019:

Single Total Figure Table								
	a	b	c	d	e	Total	Total Fixed Remuneration	Total Variable Remuneration
Director 1								
Director 2								

E. REMUNERATION REPORT [206] [207]	Authority	Company comments
containing the following information: [225]		
(a) in column "a", the total amount of salary and fees; [226]	Schedule 8 para 7(1)(a) LMCG Regs	
(b) in column "b", all taxable benefits;	Schedule 8 para 7(1)(b) LMCG Regs	
(c) in column "c", money or other assets received or receivable for the relevant financial year as a result of the achievement of performance measures or targets relating to a period ending in the relevant financial year; [227]	Schedule 8 para 7(1)(c) LMCG Regs	
(d) in column "d", money or other assets received or receivable for periods of more than one financial year where final vesting: (i) is determined as a result of the achievement of performance measures or targets relating to a period ending in the relevant financial year; and (ii) is not subject to the achievement of performance measures or targets in a future financial year; [228]	Schedule 8 para 7(1)(d) LMCG Regs	
(e) in column "e", all pension-related benefits including: (i) payments in lieu of retirement benefits; and (ii) all benefits in the relevant financial year from participating in pension schemes;	Schedule 8 paras 7(1)(e), 10(1)(e) and 10(2) LMCG Regs	
(f) additional columns to set out any other items in the nature of remuneration, [229] which are not set out in columns "a" to "e"; [230]	Schedule 8 para 6(1)(a) LMCG Regs	
(g) where any money or assets reported in the single total figure table in respect of any previous financial year are the subject of a recovery of sums paid or the withholding of any sum in the relevant financial year, a separate column showing the recovery or withholding as a negative value (and deducted from the column headed "Total") and an explanation	Schedule 8 para 8(2) LMCG Regs	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
of the recovery or withholding and the basis of calculation;		
(h) in the column headed "Total", the amount of sums set out in the previous columns; and	Schedule 8 para 7(1)(f) LMCG Regs	
(i) in the column headed "Total Fixed Remuneration", the total amount of the sums set out in columns headed "a", "b" and "e" and any additional columns relevant to this calculation; [231]	Schedule 8 para 7(1)(g) LMCG Regs	
(j) in the column headed "Total Variable Remuneration", the total amount of the sums set out in the columns headed "c" and "d" and any additional columns relevant to this calculation; [232]	Schedule 8 para 7(1)(h) LMCG Regs	
(k) each column containing, in such a manner as to permit comparison, the following two sums: (i) the sum set out in the corresponding column in the report of the financial year preceding the relevant financial year; [233] and (ii) the sum for the relevant financial year;	Schedule 8 para 9 LMCG Regs	
3. in relation to short and long-term incentives, a section after the single total figure table setting out details of the performance measures used, the performance targets set [234] at the beginning of the performance period and details of actual performance achieved[235];	Guidance under 3.1, GC100 and Investor Group Guidance	
4. an explanation where the business has suffered an exceptional negative event and there has been payment of variable remuneration to executive directors;* [236]	IA Remuneration Principles, Section A(5)	
5. in respect of the "single total figure table": (a) in respect of the sum set out in column "b", a summary identifying: (i) the types of benefit; and (ii) the value (where significant);	Schedule 8 para 12(1) LMCG Regs	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
(b) for every component included in the sums set out in columns "c" and "d", the following details: (i) details of any performance measures and their relative weighting; (ii) within each performance measure, the performance targets set at the beginning of the performance period and corresponding value of the award achievable; (iii) for each performance measure, details of actual performance relative to targets and measured over the relevant period and resulting award; (iv) for financial years commencing on or after 1 January 2019, the amount of the award attributable to share price appreciation or, where not ascertainable, an estimate of that amount; [237] and (v) where discretion has been exercised, how it was exercised, how the resulting reward was determined and for financial years commencing on or after 1 January 2019, whether the discretion has been exercised as a result of share price appreciation or depreciation; [238]	Schedule 8 para 12(2) – 12(3) LMCG Regs	
(c) for each component value included in the sum set out in column "c", whether any amount was deferred, the percentage deferred, whether deferred in cash or shares, and whether the deferral was subject to any conditions other than performance measures; [239] and	Schedule 8 para 12(4) LMCG Regs	
(d) where additional columns other than "a" to "e" are included, a note setting out the basis on which the	Schedule 8 para 12(5) LMCG Regs	

E. REMUNERATION REPORT [206] [207]	Authority	Company comments
sums were calculated and other details as are necessary for an understanding of the sums, including any performance measures relating to that component of remuneration or, if there is none, an explanation of why not;		
6. for each person who has served as a director for the relevant financial year and who has a prospective entitlement to defined benefits or cash balance benefits (or a hybrid arrangement which includes such benefits), the following information in respect of pensions: [240] (a) details of those rights as at the end of the year, including the person's normal retirement date; (b) a description of any additional benefits in the event that the director retires early; and (c) where the person has rights under more than one type of pension benefit identified in column "e" of the "single total figure table", separate details for each type of pension benefit;	Schedule 8 para 13 LMCG Regs	
7. for each person who has served as a director for the relevant financial year, a table [241] setting out details of scheme interests [242] awarded, and for each scheme interest: (a) a description of the type of interest awarded; [243] (b) a description of the basis on which the award was made; [244] (c) the face value of the award (and the basis upon which it was calculated); [245] (d) the percentage of scheme interests receivable if minimum performance achieved; (e) where the scheme interest is a share option, explanation of any difference between (i) the exercise price per	Schedule 8 para 14 LMCG Regs Guidance under 3.3, GC100 and Investor Group Guidance	

E. REMUNERATION REPORT [206] [207]	Authority	Company comments
share and (ii) the share price used to calculate the "face value" of the scheme interest under Schedule 8 para 14(3) LMCG Regs, and, for financial years commencing on or after 10 June 2019, any change in the exercise price or date; [246] (f) the end of the period over which performance measures and targets have to be achieved; [247] and (g) a summary of performance measures and targets (if not elsewhere in the report);		
8. details of payments of money or other assets to past directors; [248]	Schedule 8 para 15 LMCG Regs Guidance under 3.4, GC100 and Investor Group Guidance	
9. a statement setting out whether departing directors are a good or bad leaver and the reasons for the company giving the director that status;* [249]	IA Remuneration Principles, Section A(11)	
10. for each person who has served as a director during the relevant financial year, any payment for loss of office paid to or receivable by a director, broken down into each component comprised in that payment and the value of each component, an explanation as to how each component was calculated, other payments in connection with the termination of qualifying services and, where discretion was exercised in respect of the payment, an explanation of how it was exercised; [250]	Schedule 8 para 16 LMCG Regs Guidance under 3.5, GC100 and Investor Group Guidance	
11. for each person who has served as a director during the relevant financial year, a statement of any requirements for the director to own shares or guidelines on share ownership, [251] and whether they have been met, and a table containing: (a) the total number of interests in shares of the company, including interests of connected persons;	Schedule 8 para 17 LMCG Regs Guidance under 3.6, GC100 and Investor Group Guidance	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
(b) the total number of scheme interests; (c) details of the scheme interests; and (d) details of share options which are (x) vested but unexercised, and (y) exercised in the relevant financial year;		
12. for the relevant period, [252] a line graph comparing total shareholder return [253] for a holding of the company's shares and a hypothetical holding based on a broad equity market index; [254]	Schedule 8 para 18(1) LMCG Regs	
13. for the relevant period, [255] a table containing the following information in respect of the chief executive officer: (a) total remuneration as set out in the "single total figure table"; [256] (b) the sum from column "c" of the "single total figure table" expressed as a percentage of the maximum that could have been paid; and (c) the sum from column "d" of the "single total figure table" restated as a percentage of the number of shares vesting against the maximum number of shares that could have been received, or where paid in money or other assets, against the maximum that could have been paid; [257]	Schedule 8 para 18(2) LMCG Regs	
14. for financial years commencing on or before 9 June 2019, in relation to the remuneration required to be set out under columns "a", "b" and "c", in a manner that permits comparison, the following information: (a) the percentage change from the preceding financial year in respect of the chief executive officer; and (b) the average percentage change from the preceding financial year in respect of the employees taken as a whole; [258]	Schedule 8 para 19 LMCG Regs Guidance under 3.8, GC100 and Investor Group Guidance	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
15. for financial years commencing on or after 10 June 2019, in relation to the kinds of remuneration required to be set out in each of the columns headed "a", "b" and "c", in such a manner as to permit comparison, the following information: (a) the annual percentage change over the five financial years[259] preceding the relevant financial year in respect of each director; and (b) the average percentage change, from financial year to subsequent financial year, over the five financial years preceding the relevant financial year in respect of the employees[260] of the company[261] on a full time equivalent basis;[262]	Schedule 8 para 19 LMCG Regs Guidance under 3.8, GC100 and Investor Group Guidance	
16. for financial years commencing on or after 1 January 2019, if, on average, the group employed more than 250 UK employees during the financial year[263], a table (the "**pay ratios table**") in the following form[264] [265]:	Schedule 8 para 19A – 19C LMCG Regs Q&A 1-24 (Section F), Miscellaneous Reporting Q&A	

Pay ratios table				
Year	*Method*	*25th percentile pay ratio*	*Median pay ratio*	*75th percentile pay ratio*
[year]	[Option A, B or C][266]	(X/Y25):1	(X/Y50):1	(X/Y75):1

setting out:	Schedule 8, para 19C(1) – (3) LMCG Regs	
(a) in the first column, the year in which that financial year ends;	Schedule 8, para 19C(1)(a) LMCG Regs	
(b) in the second column the method used by the company to determine Y25, Y50 and Y75;[267]	Schedule 8, para 19C(1)(b) LMCG Regs	
(c) in subsequent columns, the specified ratios (the "**pay ratios**");	Schedule 8, para 19C(1)(c) LMCG Regs	
(i) where X is the remuneration of the director undertaking the role of Chief Executive Officer ("**CEO**"), using the total for the	Schedule 8, para 19C(2) and (3) LMCG Regs	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
CEO in the single total figure table[268]; (ii) where Y25 is the pay and benefits[269] figure relating to P25; (iii) where Y50 is the pay and benefits figure relating to P50; (iv) where Y75 is the pay and benefits figure relating to P75; (v) P25 is a UK employee[270] whose pay and benefits are on the 25th percentile of pay and benefits of the company's UK employees for the financial year; (vi) P50 is a UK employee whose pay and benefits are on the 50th percentile of pay and benefits of the company's UK employees for the financial year; (vii) P75 is a UK employee whose pay and benefits are on the 75th percentile of pay and benefits of the company's UK employees for the financial year;		
(d) unless the relevant financial year is the first year in which the requirement to produce a pay ratios table applied to the company, information for up to nine[271] earlier financial years in separate rows setting out: (i) the information set out in rows E.16(a), (b) and (c) above; or (ii) where the company was not required to produce a pay ratios table for that financial year, the year of that financial year and the statement "*The company was exempt from reporting pay ratios for this financial year*";	Schedule 8, para 19C(4) – (6) LMCG Regs	
(e) an explanation of why the company chose Option A, Option B or Option C;[272]	Schedule 8, para 19E(a) LMCG Regs	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
(f) if the company was required to report pay ratio information in the preceding financial year, and the company then used a different option to determine Y25, Y50 and Y75, an explanation for the change;	Schedule 8, para 19E(b) LMCG Regs	
(g) the day by reference to which the company worked out Y25, Y50 and Y75;	Schedule 8, para 19E(c) LMCG Regs	
(h) where the company has used Option B: (i) a brief explanation of how the best equivalents are reasonably representative of P25, P50 and P75; and (ii) whether, and if so how, it has relied on the use of estimates or adjustments;	Schedule 8, para 19E(d) LMCG Regs	
(i) where the company has used Option C: (i) the methodology used for estimating the best equivalents, describing any estimates, adjustments or material assumptions; (ii) a brief explanation of how the best equivalents are reasonably representative of P25, P50 and P75;	Schedule 8, para 19E(e) LMCG Regs	
(j) where the company has omitted any component from pay and benefits in reliance on paragraph 19D(6) of schedule 8 of the LMCG Regs[273], the component omitted and the reason for the omission, and if the company omitted any component in the previous financial year, whether the company has continued to omit that component;	Schedule 8, para 19E(f) LMCG Regs	
(k) where the company has used a different methodology to calculate a component of pay and benefits from that set out in paragraph 10 of schedule 8 of the LMCG Regs, a	Schedule 8, para 19E(g) LMCG Regs	

E. REMUNERATION REPORT[206] [207]			Authority	Company comments
	description of the different methodology and why the methodology in paragraph 10 was not used;[274]			
(l)	a brief explanation of any assumptions or statistical modelling used to determine full-time equivalent remuneration;		Schedule 8, para 19E(h) LMCG Regs	
(m)	for each of Y25, Y50 and Y75:[275] (i) total pay and benefits; and (ii) the salary component of total pay and benefits;[276]		Schedule 8, para 19F(a) and (b) LMCG Regs	
(n)	a summary for the relevant financial year explaining:[277] (i) any reduction or increase in the relevant financial year's pay ratios compared to the previous year's pay ratios (if ratios were recorded for that financial year); (ii) whether a reduction or increase in a pay ratio is attributable to a change in: a. the remuneration of the CEO, or the pay and benefits of the company's UK employees as a whole; b. the company's employment models (including any increase in the proportion of employees employed to work wholly or mainly outside the UK, and any increase in the proportion of the company's workforce that is not employed under contracts of service); c. the use of a different option to calculate Y25, Y50 and Y75; (iii) any trend in the median pay ratio over the period of		Schedule 8, para 19G LMCG Regs	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
financial years covered by the pay ratios table; and (iv) whether, and if so why, the company believes the median pay ratio for the relevant financial year is consistent with the pay, reward and progression policies for the company's UK employees taken as a whole[278];		
17. disclosure of remuneration paid to groups of employees in the company's workforce including the median, upper and lower quartile through the use of pay ratios;*[279]	IA Remuneration Principles, Sections A(1) and A(6) Glass Lewis Proxy Guidelines, page 23	
18. in graphical or tabular form, the actual expenditure of the company (in the relevant and preceding financial years) and the difference in spend between those years on: (a) remuneration paid to or receivable by all employees of the group; (b) distributions to shareholders by way of dividends and share buyback; and (c) any other significant distributions, payments or other uses for profit or cash-flow deemed by the directors to assist in understanding the relative importance of spend on pay (including an explanation of why the matters were chosen and how the amounts were calculated and any changes in the matters referred to under (c) when compared with previous years);[280]	Schedule 8 para 20 LMCG Regs Guidance under 3.8, GC100 and Investor Group Guidance	
19. a statement describing how the company intends to implement the approved remuneration policy, including: (a) performance measures and relative weighting for each; (b) performance targets determined for the performance measures and how awards will be calculated; and (c) where this is not the first year of the approved remuneration policy, details of significant changes in the way that the remuneration policy will be implemented in the next financial year and, for financial years commencing on or after 10 June 2019, any deviations from the procedure for the implementation of	Schedule 8 para 21 LMCG Regs Guidance under 3.11, GC100 and Investor Group Guidance	

E. REMUNERATION REPORT [206] [207]	Authority	Company comments
the remuneration policy set out in the policy; [281]		
20. the names of the chairman and each member of the remuneration committee; [282]	Schedule 8 para 22(1)(a) LMCG Regs CGC 2018 Provision 14 [283]	
21. the responsibilities of the remuneration committee;	CGC 2018 Provision 14 [284]	
22. the number of meetings of the remuneration committee and individual attendance by directors; [285]	CGC 2018 Provision 14	
23. the names of any persons who provided the remuneration committee with advice or services that materially assisted the committee, including, where that person was not a director, a statement of: (i) the nature of any other services the person has provided to the company during the financial year; (ii) who that person was appointed by and how they were selected; (iii) whether and how the remuneration committee has satisfied itself that the advice received was objective and independent; [286]; and (iv) the amount of fees paid by the company to that person. There should also be a statement made as to whether the remuneration consultants have any connection with the company or individual directors;	Schedule 8 para 22(1)(b) and (c) LMCG Regs CGC 2018 Provision 35 PIRC Guidelines (Chapter 6 - Directors' Remuneration) Guidance under 3.12, GC100 and Investor Group Guidance	
24. a statement setting out in respect of the last general meeting: [287] (a) in respect of a resolution to approve the remuneration report, the percentage of votes cast for and against and number of votes withheld; (b) in respect of a resolution to approve the remuneration policy, the percentage of votes cast for and against and votes withheld; and (c) where there was a significant percentage of votes against either resolution, a summary of the reasons for those votes (as far as known to	Schedule 8 para 23 LMCG Regs Guidance under 3.13, GC100 and Investor Group Guidance IA Remuneration Principles, Principle 2(d) PIRC Guidelines (Chapter 4 - Shareowner Rights, Capital Stewardship and Corporate Actions)	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
the directors) and any actions taken in response to those concerns;[288], [289]		
25. a statement of how the company's pay policies meet the five principles of the Hermes Principles;[290]	PLSA Guidelines, Section 5: Remuneration (Guidance) and Appendix 1, para 1.2	
26. details of the unexpired term of any director's service contract of a director proposed for election or re-election at the AGM, and, if any director proposed for election or re-election does not have a directors' service contract, a statement to that effect; and	LR 9.8.8	
27. where the remuneration policy of a company is omitted from the remuneration report (in circumstances where the company does not intend to move a resolution to approve the remuneration policy at that accounts meeting):[291] (a) the date of the last general meeting at which a resolution was moved in respect of the remuneration policy and at which the policy was approved; and (b) where, on the company's website or at some other place, a copy of that remuneration policy may be inspected.	Schedule 8 para 1(3) LMCG Regs	
Remuneration Policy[292], [293]		
The remuneration report should also include the remuneration policy in a separate part of the report, preferably with a clear stand-alone heading, which must include:[294] [295] ***WARNING: By way of reminder, in relation to remuneration, there is of course a distinction between the report and the policy: the directors' remuneration report as a whole must include (i) a directors' remuneration <u>policy</u>; and (ii) an annual remuneration <u>report</u> on remuneration in the financial year being reported on and how the policy will be implemented in the next financial year. The***	Section 421(2A) CA 06	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
policy is subject to a binding vote at least every three years, whereas the annual remuneration report is subject to an annual advisory vote. The checklist items in this section are no substitute for careful consideration of the scope and nature of any particular remuneration policy. The remuneration policy is legally binding and should therefore incorporate sufficient flexibility (including as to matters of discretion and judgement) to ensure it will be fit for purpose over a three-year period. ***For a remuneration policy approved on or after 10 June 2019, the provisions relating to remuneration policies extend to*** • ***the company's chief executive officer (however described); or*** • ***where such a function exists, the company's deputy chief executive officer,*** ***even where those persons are not also directors of the company (Section 226A(10) CA 06 and Schedule 8 para 2(8) LMCG Regs)***[296].		
1. for all remuneration policies approved by shareholders on or after 10 June 2019, an explanation of the decision-making process by which it has been determined, reviewed and implemented, including measures to avoid or manage conflicts of interest[297] and, where applicable, the role of the remuneration committee or other committees concerned; [298]	Schedule 8 paras 24(1A), LMCG Regs	
2. where a company intends to move a resolution at a meeting of the company to approve a remuneration policy and it is intended that some or all of the provisions of the last approved remuneration policy are to continue to apply, a statement of this fact, making clear which provisions of the last approved remuneration policy are to continue to apply and for what period of time it is intended that they shall apply; *OR* on the first occasion that a resolution is moved to approve the remuneration policy	Schedule 8 para 24(2) LMCG Regs Schedule 8 para 24(5) LMCG Regs	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
after 1 October 2013, the date from which it is intended by the company that the policy is to take effect; [299]		
3. notwithstanding the content requirements listed below at 4 - 18, all matters for which the company requires approval for the purposes of making a remuneration payment or loss of office payment; [300]	Schedule 8 para 24(3) LMCG Regs	
4. where the remuneration policy provides for the exercise of discretion by the directors on any aspect of the policy, the extent of that discretion in respect of any variation, change or amendment; [301]	Schedule 8 para 24(4) LMCG Regs Guidance under 1.3, GC100 and Investor Group Guidance IA Remuneration Principles, Section A(5)	
5. in tabular form (the "future policy table"), a description of each of the components of the remuneration package for the directors [302] which are comprised in the remuneration policy. The following information must be set out in respect of each component:	Schedule 8 paras 25 - 27 LMCG Regs	
(a) how that component supports the short and long-term strategic objectives of the company (or group, where the company is a parent company); [303]	Schedule 8 para 26(a) LMCG Regs	
(b) an explanation of how that component operates and, for all remuneration policies approved by shareholders on or after 10 June 2019, information on any deferral periods;	Schedule 8 para 26(b) LMCG Regs	
(c) for all remuneration policies approved by shareholders on or after 10 June 2019, where the company awards share-based remuneration, information on any vesting periods and any holding periods; [304]	Schedule 8 para 26(ba) LMCG Regs	
(d) the maximum that can be paid in respect of that component; [305]	Schedule 8 para 26(c) LMCG Regs	

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(e) where applicable, the description of the framework used to assess performance; [306], [307] and	Schedule 8 para 26(d) LMCG Regs	
(f) an explanation as to whether there are any provisions for the recovery of sums paid or the withholding of the payment of any sums; [308]	Schedule 8 para 26(e) LMCG Regs	
6. accompanying notes to the "future policy table" setting out:		
(a) in respect of any component falling within 4(d) above, an explanation of why any performance measures were chosen and how performance targets are met;	Schedule 8 para 27(a) LMCG Regs	
(b) in respect of any component which is not subject to performance measures, an explanation of why;	Schedule 8 para 27(b) LMCG Regs	
(c) if the component did not form part of the remuneration package in the last remuneration policy, why it is now contained in the remuneration package;	Schedule 8 para 27(c) LMCG Regs	
(d) if the component did form part of the such package, what changes have been made and why; and	Schedule 8 para 27(d) LMCG Regs	
(e) an explanation of differences (if any) in the company's policy on remuneration of directors from the policy on remuneration of employees;	Schedule 8 para 27(e) LMCG Regs	
7. in respect of the following components of the remuneration package for the directors set out in the "future policy table": (a) **salary:** a description of factors that the remuneration committee will consider when determining the level of salary to be paid on an annual basis, and the basis on which pay is determined; [309]	Guidance under 4.3.1 - 4.3.4, GC100 and Investor Group Guidance	
(b) **benefits:** a broad description of the type of benefits (including those that might be offered during the		

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remuneration policy period even if not currently being paid) and how the benefits support the company's strategy;		
(c) **pension:** a clear explanation of pension-related benefits, including the approach taken to making payments in lieu of retirement benefits or defined benefit arrangements; [310]		
(d) **short-term incentives:** a description of how the short-term incentive supports the objectives of the company and an explanation of how the plan operates; maximum amount that might be earned as well as amounts that could be paid for reaching certain targets; performance measures; and arrangements for deferrals, including period of deferral and any conditions; [311] and		
(e) **long-term incentives:** a description of how the long-term incentive supports the objectives of the company and an explanation of how the plan operates; maximum amount that might be earned as well as amounts that could be paid for target performance; nature of the award; performance measures; and vesting period, performance period and any additional holding period after vesting differentiating between holding periods post vesting and post employment; [312]		
8. where the information regarding the components of the remuneration package for directors not performing an executive function is set out in a separate table to the "future policy table", the approach of the company to the determination of: (a) the fees payable to such directors; [313]	Schedule 8 para 28 LMCG Regs	

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(b) any additional fees payable for any other duties to the company; and (c) such other items as are to be considered in the nature of remuneration;		
9. a statement of the principles which would be applied when agreeing the components of a remuneration package for appointment of directors, which must set out: [314] (a) the various components which would be considered for inclusion in that package and the approach to be adopted in respect of each component; (b) the maximum level of variable remuneration which may be granted; [315] (c) detail of remuneration which constitutes compensation for the forfeit of award under variable remuneration arrangements with a previous employer; (d) if relevant, principles around relocation policies and any other benefits; [316] (e) if companies wish to have the ability to make sign-on payments, details of such payments; [317] and (f) if a company is considering the promotion of senior management to the board, its policy to honour commitments made before the promotion (if it intends to do so);	Schedule 8 para 29 LMCG Regs Guidance under 4.6, GC100 and Investor Group Guidance	
10. a description of any obligation on the company that is contained in all, or in one or more, directors' service contracts (or letters of appointment), or is proposed to be contained in directors' service contracts (or letters of appointment) to be entered into by the company and which could give rise to, or impact on, remuneration payments or payments for	Schedule 8 para 30 LMCG Regs	

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loss of office, and which is not disclosed elsewhere in the report; [318]		
11. for all remuneration policies approved by shareholders on or after 10 June 2019, an indication of the duration of directors' service contracts; [319]	Schedule 8 para 30A LMCG Regs	
12. where directors' service contracts are not available for inspection at the registered office, details of where such contracts are kept, and if they are available on a website, a link to that website; [320]	Schedule 8 para 31 LMCG Regs PLSA Guidelines, Appendix 1, para 4.13	
13. in respect of each director (other than one who is not performing an executive function), a bar chart (and narrative description of calculations and assumptions) [321] indicating the level of remuneration that would be received by the director in accordance with the remuneration policy in the first year to which the policy applies, containing separate bars which represent: (a) minimum remuneration receivable (including salary, fees, benefits and pension); (b) remuneration receivable if the director was performing in line with the company's expectation; (c) maximum remuneration receivable, where each bar must contain separate parts which represent: (d) salary, fees, benefits, pensions and any other item falling within (a) above; [322] (e) remuneration where performance measures or targets relate to one financial year; and [323] (f) remuneration where performance measures or targets relate to more than one financial year, [324]	Schedule 8 paras 33 - 34 LMCG Regs Guidance under 4.8, GC100 and Investor Group Guidance [325]	

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and each bar must show: (g) percentage of the total comprised by each of the parts; and (h) total value of remuneration expected for each bar;		
14. for remuneration policies introduced on or after 1 January 2019 [326], in respect of each person who is a director (other than a director who is not performing an executive function) the policy must: (a) set out for performance targets or measures relating to more than one financial year, an indication of the maximum remuneration receivable assuming company share price appreciation of 50% during the relevant performance period, and (b) a short description of the basis of the calculation reported under sub-paragraph (a); [327]	Schedule 8 para 35A LMCG Regs	
15. the company's policy on the setting of notice periods under directors' service contracts;	Schedule 8 para 36 LMCG Regs	
16. the principles on which determination of payments for loss of office will be approached, [328] including: (a) an indication of how each component of the payment will be calculated ; (b) whether, and if so how, the circumstance of loss of office and performance are relevant to any exercise of discretion; and (c) any contractual provision agreed prior to 27 June 2012 that could have an impact on the quantum of payment;	Schedule 8 para 37 LMCG Regs Guidance under 4.9, GC100 and Investor Group Guidance	
17. a statement of how pay and employment conditions of employees (other than directors) were taken into account when setting the policy for directors' remuneration, setting out:	Schedule 8 paras 38 - 39 LMCG Regs Guidance under 4.10, GC100 and Investor Group Guidance	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
(a) whether, and if so, how, the company consulted with employees when drawing up the remuneration policy; and[329] (b) whether any remuneration comparison measurements were used, and, if so, what and how that information was taken into account;		
18. a statement of whether, and if so how, any views in respect of directors' remuneration expressed to the company by shareholders (at a general meeting or otherwise) have been taken into account in the formulation of the remuneration policy;[330] and	Schedule 8 para 40 LMCG Regs Guidance under 4.11, GC100 and Investor Group Guidance	
19. for all remuneration policies approved by shareholders on or after 10 June 2019, where the policy is a revised policy, a description and explanation of all significant revisions.	Schedule 8 para 42 LMCG Regs	
The remuneration report (as distinct from the remuneration policy) should also include:[331]		
Note that where asterisked (*) in this table, guidance requires disclosure but does not expressly require the disclosure to be made in the remuneration report.		
1. a description of the work of the remuneration committee, including: (a) an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics; (b) reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps; (c) a description, with examples, of how the remuneration committee has addressed the factors in CGC 2018, Provision 40;[332] (d) whether the remuneration policy operated as intended in terms of company performance and quantum,	CGC 2018 Provision 41	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
and, if not, what changes are necessary; (e) what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes; (f) what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy; and (g) to what extent discretion has been applied to remuneration outcomes and the reasons why; [333]		
2. where a company releases an executive director to serve as a non-executive director, a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is; [334]	PIRC Guidelines (Chapter 2 – The Board)	
3. disclosure and an explanation and justification of the level of salary increases implemented during the year; [335]	PIRC Guidelines (Chapter 6 - Directors' Remuneration) IA Remuneration Principles, Section B(1) IA Covering Letter, page 2 ISS Proxy Voting Guidelines, page 20 Glass Lewis Proxy Guidelines, pages 2 and 23	
4. information on whether the remuneration committee is able to consider corporate performance on ESG issues when setting remuneration of executive directors (including an explanation of the link to strategy and method of performance management). If the report states that the committee has no such discretion, then a reason should be provided for its absence;	IA Disclosure Guidelines, para 3.2 IA Remuneration Principles, Section C IA Long Term Reporting Guidance, para 45.1	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
5. information on whether the remuneration committee has ensured that the incentive structure for senior management does not raise ESG risks by inadvertently motivating irresponsible behaviour;	IA Disclosure Guidelines, para 3.2 IA Long Term Reporting Guidance, para 45.2	
6. disclosure and explanation of any exercise of discretion; [336]	Guidance on Board Effectiveness, para 140	
7. for meetings held on or after 1 February 2020, disclosure of how the remuneration committee has taken into account any relevant ESG matters when determining remuneration outcomes;*	ISS Proxy Voting Guidelines Updates, page 14 [337]	
8. where no discretion has been used in the year under review, confirmation that this is the case;	IA Remuneration Principles, Section A(5)	
9. where there has been a disagreement between the remuneration committee and the board that cannot be resolved, a report on the issue; [338]	Guidance on Board Effectiveness, para 62	
10. clear disclosure of the use of discretion by the remuneration committee and details of the range of discretion which can be applied to bonus awards [339];*	IA Remuneration Principles, Section A(5) and Section C(1) Guidance on Board Effectiveness, para 140	
11. full disclosure of benefits;*	IA Remuneration Principles, Section B(3)	
12. clear disclosure and definition of all measures used for the calculation of annual bonuses with the targets set at the start of the year; [340]*	IA Remuneration Principles, Section C(1) Glass Lewis Proxy Guidelines, page 24 ISS Proxy Voting Guidelines Updates, pages 12-14	
13. a full analysis of the extent to which performance targets were actually met where a bonus is paid;	IA Remuneration Principles, Section C(1)	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
14. disclosure of maximum participation levels in any bonus scheme and any increases in the maximum from one year to the next should be explicitly justified;	IA Remuneration Principles, Section C(1)	
15. disclosure that quantifies aggregate payments in respect of long-term incentive schemes arising on a change of control and an explanation showing that the key determinant of the level of award vesting is underlying financial performance and for the reasoning of any justification that, as regards early vesting, the measured performance provides genuine evidence of underlying financial achievement over any shorter time period;	IA Remuneration Principles, Section C(2)(vii)	
16. details in relation to the cost of awards: (a) the potential value of awards due to individual scheme participants on full vesting. This should be expressed by reference to the face value of shares or shares under option at point of grant, and expressed as a multiple of base salary; and (b) the maximum dilution which may arise through the issue of shares to satisfy entitlements; [341]*	IA Remuneration Principles, Section C(2)(vi)	
17. in relation to long-term incentives: (a) performance measures and vesting conditions should be fully explained and be clearly linked to the achievement of appropriately challenging financial and strategic performance which will lead to enhancement of shareholder value; (b) explain performance criteria in the light of the specific business characteristics of the group in question; (c) the definition of any performance measurement should be clearly disclosed[342]; (d) new incentives or substantive changes to existing schemes should	IA Remuneration Principles, Sections C(2)(i)-(iii) and A(12)	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
be subject to prior approval by shareholders and any change in quantum should be fully explained and justified; (e) share incentives should have clearly disclosed participation limits, both on an individual basis and in aggregate (scheme limits); (f) special awards (outside normal LTIP or other incentive plans) must be justified; (g) for performance on grant schemes, there should be clear disclosure (in advance) of the performance required, and achieved, to justify grants; and (h) for restricted share awards, there should be confirmation that the remuneration committee has reviewed the vesting outcomes and an explanation as to why a level of pay-out is appropriate and how such a decision was reached; [343]*		
18. a clear summary of key elements of directors' contracts; [344]	Para 2.7 Joint Statement (2008) on Executive Contracts and Severance by ABI and NAPF Glass Lewis Proxy Guidelines, page 21	
19. full disclosure of the constituent parts of any severance payments, and justification of the total level and elements paid; [345]	Para 2.8 Joint Statement (2008) on Executive Contracts and Severance by ABI and NAPF	
20. for meetings held on or after 1 February 2020, if a company has served formal notice later than the day on which a departing executive director's leaving date is announced, an explanation of the reason for this;*	ISS Proxy Voting Guidelines Updates, page 15 [346]	
21. any minimum shareholding requirements that executives are expected to meet, the time period in which the executive has to	IA Remuneration Principles, Section A(2)	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
achieve the requirement and the consequences of the executive not achieving the stated shareholding requirement;*		
22. in relation to executive shareholdings, full disclosure of the use of shareholdings in hedging arrangements or as collateral for loans;*	IA Remuneration Principles, Section A(2)	
23. disclosure of the structures or processes that are in place to ensure that the post-employment shareholding requirements are maintained; [347]*	IA Remuneration Principles, Section A(2)	
24. disclosure of the specific circumstances in which the malus and clawback provisions can be used; [348]*	IA Remuneration Principles, Section A(4)	
25. a clear explanation of contract policy, including terminations and the approach to mitigation;	Para 3.2 Joint Statement (2008) on Executive Contracts and Severance by ABI and NAPF	
26. a clear explanation of the corporate objectives set for executives by the board;	Para 3.2 Joint Statement (2008) on Executive Contracts and Severance by ABI and NAPF	
27. a clear statement of the policy and objectives on directors' contracts;	Para 3.3 Joint Statement (2008) on Executive Contracts and Severance by ABI and NAPF	
28. disclosure and review of any arrangements that guarantee pensions with limited or no abatement on severance; **Note: the IA Remuneration Principles state that pensions paid on early retirement should be subject to abatement.**	Para 3.11 Joint Statement (2008) on Executive Contracts and Severance by ABI and NAPF IA Remuneration Principles, Section B(2)	
29. clear and full disclosure of payments in lieu of pension scheme participation;	IA Remuneration Principles, Section B(2)	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
30. informative disclosure identifying incremental value accruing to pension scheme participation and any other superannuation arrangements;*	IA Remuneration Principles, Section B(2)	
31. identification and explanation of changes in pension entitlements or to transfer values reflecting significant changes in actuarial and other relevant assumptions and, where changes to pension benefit entitlements or transfers are made at the discretion of the Remuneration Committee, these should be clearly disclosed and a justification should be provided;*	IA Remuneration Principles, Section B(2)	
32. a statement as to whether pension contribution rates for executives are aligned with those available to the workforce;*[349]	IA Remuneration Principles, Section B(2) ISS Proxy Voting Guidelines Updates, page 9	
33. where pension contributions for incumbent directors are above the majority of the workforce rate, an action plan to reduce the pension contributions of incumbent directors to the majority of the workforce rate by the end of 2022;*[350]	IA Remuneration Principles, Section B(2) IA Covering Letter, page 2	
34. the pension contribution rate that the company considers to be given to the majority of the workforce and how this has been derived;*[351]	IA Remuneration Principles, Section B(2)	
35. where companies have provided for an Employee Share Ownership Trust to be used to meet scheme requirements, disclosure of the number of shares held by the trust and an explanation of strategy;*	IA Remuneration Principles, Section C(2)(xiii)	
36. where a remuneration committee has considered a payment of an allowance to be necessary, a justification and explanation of the allowance in the context of the overall remuneration package;*	IA Remuneration Principles, Section B(4)	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
37. details of any public assurances or further information provided on the operation of the remuneration policy;	Guidance under 3.11, GC100 and Investor Group Guidance[352]	
38. evidence that companies have considered their pay policy in the context of the group's objectives, business model, competitive environment and market place;	PIRC Guidelines (Chapter 6 - Directors' Remuneration)	
39. pay in the context of other payments or distributions;[353]	PIRC Guidelines (Chapter 6 - Directors' Remuneration)	
40. in respect of share awards that are not options: grant date; grant date price; vesting date; and price on vesting date;	PIRC Guidelines (Chapter 6 - Directors' Remuneration)	
41. in respect of pension contributions and entitlements, explicit disclosure of accrual or contribution rates, and comparative information of those rates for executives and employees;	PIRC Guidelines (Chapter 6 - Directors' Remuneration)	
42. confirmation that the remuneration committee will seek to apply mitigation rigorously;[354]	PIRC Guidelines (Chapter 6 - Directors' Remuneration)	
43. where targets used for the annual bonus or LTIP have been amended subsequent to the performance period, a demonstration that the revised targets are no less challenging than the targets that were originally set; [355]	ISS Proxy Voting Guidelines, page 22	
44. where the executive remuneration policy deviates from the Glass Lewis Proxy Guidelines, a clear and compelling rationale as to why the proposed structure or practice is appropriate for the company, including adequate disclosure of the terms of the policy; and[356]*	Glass Lewis Proxy Guidelines, pages 21-22	
45. KPIs for reducing and eliminating the company's gender pay gap. The remuneration committee, when reporting on pay policy, should explain how this	BEIS Strategy Committee Report on Gender Pay Gap Reporting, para 58	

E. REMUNERATION REPORT[206] [207]	Authority	Company comments
commitment to reducing the gender pay gap is being reflected in their decisions.* **Note: this disclosure is voluntary but is recommended by the BEIS Strategy Committee**		
The remuneration report must be approved by the board and signed on behalf of the directors by a director or the company secretary. **Any copy of the remuneration report must state the name of the person who signed it on behalf of the board.**	Section 422(1) CA 06 Section 433 CA 06	

F. NOMINATION REPORT[357]	Authority	Company comments
Note that where asterisked (*) in this table, guidance requires disclosure but does not expressly require the disclosure to be made in the Nomination Report.		
The CGC 2018 recommends that the annual report should describe the work of the nomination committee.[358]	CGC 2018 Provision 23	
The nomination report should include:		
1. the names of the chairman and members of the nomination committee;[359]	CGC 2018 Provision 14[360]	
2. the responsibilities of the nomination committee;	CGC 2018 Provision 14[361]	
3. the number of meetings of the nomination committee, and individual attendance by directors;[362]	CGC 2018 Provision 14	
4. a clear explanation if the chair has remained in post beyond nine years from their first appointment to the board;[363]	CGC 2018 Provision 19	
5. a description of the work of the nomination committee, including: (a) the process used in relation to appointments[364], its approach to succession planning and how both support developing a diverse pipeline; (b) how the board evaluation has been conducted, the nature and the extent of an external evaluator's contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence board composition; (c) the policy on diversity[365] and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives; and (d) the gender balance of those in senior management and their direct reports;[366] [367] [368] [369]	CGC 2018 Provision 23 PLSA Guidelines, Section 3: Composition, Succession and Evaluation (Guidance) and Appendix 1, paras 4.9-4.10 and 5.15 PIRC Guidelines (Chapter 2 - The Board)	

F. NOMINATION REPORT[357]	Authority	Company comments
6. where there has been a disagreement between the nomination committee and the board that cannot be resolved, a report on the issue; [370]	Guidance on Board Effectiveness, para 62	
7. details of the company's succession and refreshment policies where the board is proposing the re-election of a long serving non-executive director;	PLSA Guidelines, Section 3: Composition, Succession and Evaluation (Guidance) and Appendix 1, para 6.11	
8. evidence of implementation of a succession policy and its link to company strategy. A statement on succession should cover the board's policy on diversity (including gender and ethnicity - see below) and set out the board's approach to succession planning, any changes anticipated in the next year(s) and its diversity objectives and progress towards achieving them, bearing in mind the need to develop the right skills, experience and diversity of perspectives and personalities on the board (making reference to the efforts to develop talent internally to create a pipeline to the board); [371]*	PLSA Guidelines, Section 3: Composition, Succession and Evaluation (Guidance) and Appendix 1, para 5.14 Recommendation 5 of the Davies Review (2011)	
9. where an external search consultancy has been used, it should be identified in the report and a statement should be made as to whether it has any other connection with the company or individual directors. [372]	CGC 2018 Provision 20	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
The annual report and accounts must include:		
1. responsibility statements by the directors as the persons responsible for the company's accounts. The statements must include the name and function of any person making it and must provide that to the best of the directors' knowledge: (a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit/loss of the company (and group as a whole); and (b) the management report includes a fair review of the development/performance of the business and the position of the company (and group as a whole), together with a description of the principal risks and uncertainties;	DTR 4.1.12 CGC 2018 Provision 27 PLSA Guidelines, Section 4: Audit, Risk and Internal Control (Guidance)[374]	
2. a statement setting out the interests (in respect of which transactions are notifiable to the company under Article 19 of the Market Abuse Regulation) of each director (and connected persons), including either all changes that have taken place between the end of the period under review and a date no more than one month prior to the date of the notice of the AGM or a statement that there has been no change in the interests of each director; **Note: the AGM notice must therefore be published within one month of this date. Where the proposed date of the AGM notice is more than one month after the date of the relevant information, an alternative solution may be to include**	LR 9.8.6(1)	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
updated information on DTR 5 disclosures in the AGM notice instead.		
3. a statement showing the interests disclosed to the listed company in accordance with DTR 5 as at the end of the period under review and:	LR 9.8.6(2)	
(a) all interests disclosed to the listed company in accordance with DTR 5 that have occurred between the end of the period under review and a date not more than one month prior to the date of the notice of the annual general meeting; or **Note: the AGM notice must therefore be published within one month of this date. Where the proposed date of the AGM notice is more than one month after the date of the relevant information, an alternative solution may be to include updated information on DTR 5 disclosures in the AGM notice instead.**		
(b) if no interests have been disclosed to the listed company in accordance with DTR 5 in the period described in (a), a statement that no changes have been disclosed to the listed company;		
4. a statement as to whether the directors[375] consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements, identifying any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements (prepared in accordance with FRC Guidance on Risk Management and Business Reporting);[376]	LR 9.8.6(3)[377] CGC 2018 Provision 30[378]	
5. a statement setting out any shareholder authority for the company to purchase its own shares that is still valid at the end of the	LR 9.8.6(4)	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
period under review and specified details if certain purchases are made;		
6. a statement of how the listed company has applied the Main Principles set out in the UK Corporate Governance Code, in a manner that would enable shareholders to evaluate how the principles have been applied;[379]	LR 9.8.6(5)	
7. a statement as to whether the listed company has complied throughout the accounting periods with all relevant provisions of UK Corporate Governance Code, specifying which provisions have not been complied with, for what period, and the reasons for non-compliance;[380]	LR 9.8.6(6)	
8. details of interest capitalised by the group during the period under review with an indication of the amount and treatment of any related tax;	LR 9.8.4(1)	
9. if the company has published unaudited financial information in a class 1 circular or prospectus, or any profit forecast or profit estimate, it must: (a) reproduce that financial information, profit forecast or profit estimate; (b) produce and disclose the actual figures for the same period covered by the financial information, profit forecast or profit estimate; and (c) provide an explanation of any difference of 10% or more between (a) and (b);	LR 9.8.4(2), 9.2.18 and 9.2.19	
10. details of long-term incentive schemes;	LR 9.8.4(4), 9.4.3 and 13.8.11	
11. details of any waiver of, or agreement to waive, directors' emoluments (including future emoluments);	LR 9.8.4(5) and (6)	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
12. specified details of any allotments for cash of equity securities otherwise than to the holders of the company's equity shares in proportion to their holdings and which have not been specifically authorised by the holders (including for any unlisted major subsidiary undertaking of the company);	LR 9.8.4(7) and (8)	
13. following a non-pre-emptive issue of equity securities pursuant to a general disapplication of pre-emption rights, the company's next annual report should include information on the actual level of discount achieved, the net proceeds raised, how the net proceeds were used and the percentage increase in issued share capital due to non-pre-emptive issuance for cash over the three-year period preceding the issue;	Paragraph 9, Part 2B, Pre-Emption Group Principles PEG Template	
14. where the company is a subsidiary undertaking, particulars of a parent undertaking's participation in any placing made during the period under review;	LR 9.8.4(9)	
15. details of any contract of significance of the company or a subsidiary in which a director was materially interested or to which a controlling shareholder was a party;	LR 9.8.4(10)	
16. subject to certain exceptions, details of any contract for the provision of services to the company or subsidiaries by a controlling shareholder;	LR 9.8.4(11)	
17. details of any arrangement where a shareholder has waived or agreed to waive any current or future dividends;[381]	LR 9.8.4(12) and (13)	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
18. in the case of a company with a controlling shareholder, a statement by the board:[382] (a) that the company has entered into a relationship agreement with the controlling shareholder (as required by the LRs); (b) where the company has not entered into a relationship agreement with the controlling shareholder (as required by the LRs), (i) that the FCA has been notified of that non-compliance, and (ii) a brief description of the reasons for failing to enter into the agreement that enables shareholders to evaluate the impact of non-compliance on the company; (c) that, in respect of the relationship agreement entered into with the controlling shareholder: (i) the company has complied with the independence undertakings; (ii) so far as the company is aware, the independence undertakings have been complied with by the controlling shareholder or any of its associates; and (iii) so far as the company is aware, the procurement obligation has been complied with by the controlling shareholder; and (d) where the independence undertakings or procurement obligations referred to in (c)(i) to (iii) above have not been complied with, a statement that the FCA has been notified of the non-compliance and a brief description of the background to and reasons for non-compliance that enables shareholders to evaluate the impact of non-compliance on the company;	LR 9.8.4(14)	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
19. where all requirements of LR 9.8.4R are not in a single identifiable section, a cross-reference table indicating where that information is set out;	LR 9.8.4CR	
20. the names and sufficient biographical details of each director (including a statement of the director's other directorships or trusteeships or other appointments and responsibilities, including any changes over the previous year and relevant previous positions and including those outside of the corporate sector, and details of the relevant skills and experience that each director brings to the board and the contribution the director will make to the board and/or has made to the board) and any other relevant information to enable shareholders to make an informed decision on election (not specifically an annual report requirement);[383] and	PIRC Guidelines (Chapter 2 – The Board) PLSA Guidelines, Section 2: Division of Responsibilities and Appendix 1, para 6.3 ISS Proxy Voting Guidelines, page 9	
21. the specific reasons why the contribution of each director is, and continues to be, important to the company's long-term sustainable success. **Note: this is not strictly an annual report requirement but must go in the papers accompanying the resolutions to elect each director.**	CGC 2018 Provision 18	
The annual report should include:		
1. a statement setting out the ways in which the board has sought to ensure its effectiveness;[384]	PLSA Guidelines, Section 2: Division of Responsibilities (Guidance)	
2. an outline of how the board has fulfilled its responsibilities;[385]	PLSA Guidelines, Appendix 1, para 4.1	
3. the names and responsibilities of the chairman, deputy chairman (if any)[386], chief executive and the senior independent director;[387]	CGC 2018 Provision 14 DTR 7.2.7R DTR 7.1.5R	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
4. the number of meetings of the board and each board committee [388] and individual attendance by directors, together with a reasoned explanation where a director has been unable to attend a number of board or committee meetings (whether scheduled or ad hoc); [389]	CGC 2018 Provision 14 PLSA Guidelines, Appendix 1, para 6.18	
5. the number of meetings of the non-executive directors (without executives present);	PIRC Guidelines (Chapter 2 – The Board)	
6. the names of the non-executive directors whom the board considers to be independent and, where there are circumstances which are likely to impair, or could appear to impair, the director's independence (e.g. lengthy tenure), a clear explanation of the reasons why the board nonetheless considers that a director is independent; [390] [391]	CGC 2018 Provision 10 PLSA Guidelines, Appendix 1, paras 6.8 - 6.17[392] PIRC Guidelines (Chapter 2 -The Board)	
7. where the presence of one (or more) non-independent non-executive directors impairs board balance, clarification of the role of such non-executive directors. The company should justify why it believes the independent element is sufficiently strong to counter the imbalance and why the continued presence of the non-independent non-executive director is in the interests of the company and its shareholders;* **Note: The PLSA Guidelines do not expressly require disclosure in the annual report.**	PLSA Guidelines, Appendix 1, para 6.14	
8. where there is insufficient independent representation, a detailed explanation as to why the company's exceptional circumstances justify the situation (and, ideally, a timetable for compliance);* **Note: The PLSA Guidelines do not expressly require disclosure in the annual report**	PLSA Guidelines, Appendix 1, para 6.15	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
9. details of the relationship with a controlling shareholder; [393] **Note: The PLSA Guidelines do not expressly require disclosure in the annual report.**	PLSA Guidelines, Appendix 1, para 6.16 ISS Proxy Voting Guidelines, page 10	
10. if (after consulting major shareholders) the chief executive goes on to be the chairman of the same company, the reasons for the appointment, along with confirmation that external search consultants had been engaged and that external candidates of at least equivalent stature had been considered; [394] **Note: only the PIRC Guidelines refer expressly to disclosure in the annual report.**	CGC 2018 Provision 9 [395] PLSA Guidelines, Appendix 1, para 5.8 [396] ISS Proxy Voting Guidelines, page 13 PIRC Guidelines (Chapter 2 - The Board)	
11. an explanation of the reasons for permitting significant external appointments; [397]	CGC 2018 Provision 15	
12. a summary of the outcomes and actions of the board evaluation process in the chair's statement; [398]	Guidance on Board Effectiveness, para 110 PIRC Guidelines (Chapter 2 - The Board)	
13. where evaluation of the board has been externally facilitated (required at least every three years for FTSE 350 companies), the external evaluator should be identified in the annual report and a statement should be made about any other connection it has with the company or individual directors; [399]	CGC 2018 Provision 21	
14. where a director is proposed for re-election, an explanation of why that director should be re-elected and confirmation that the director has recently been subject to formal performance evaluation in relation to the fulfilment of their section 172 duty and continues to be an effective member of the board; [400]	PLSA Guidelines, Appendix 1, para 6.4	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
15. confirmation that the board has carried out a robust assessment of the company's emerging and principal risks including a description of its principal risks[401], what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated[402]	CGC 2018 Provision 28 PLSA Guidelines, Section 4: Audit, Risk and Internal Control (Guidance) and Appendix 1, paras 4.5-4.6	
16. a report on the board's review of the effectiveness of the company's risk management and internal control systems (covering all material controls, including financial, operational and compliance controls);	CGC 2018 Provision 29[403]	
17. where a significant number of votes[404] on a resolution - based on the judgement of the board and in the context of the type of resolution - have not been registered in support of management (i.e. votes against and active abstentions), a disclosure of what actions have been taken or will be taken to resolve the concerns;	PLSA Guidelines, Overview (The Role of the AGM) PIRC Guidelines (Chapter 4 - Shareowner Rights, Capital Stewardship and Corporate Actions) CGC 2018 Provision 4[405]	
18. where 20% or more of votes have been cast against a resolution recommended by the board, a final summary of what impact feedback from shareholders has had on decisions the board has taken and any actions or resolutions now proposed;[406]	CGC 2018 Provision 4[407]	
19. details of the broader strategic risks facing the business;	PLSA Guidelines, Appendix 1, para 4.7	
20. a summary of the company's environmental approach, goals and performance with a clear reference as to where detailed information is available;[408]	PIRC Guidelines (Chapter 8 - Sustainability and Corporate Responsibility Reporting) PLSA Guidelines, Appendix 1, para 3.4	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
21. a statement whether as part of its regular risk assessment procedures, the board takes account of the significance of ESG matters to the business of the company;[409]	Para 1.1 IA Disclosure Guidelines IA Long Term Reporting Guidance, para 43.1	
22. a statement whether the board has identified and assessed the significant ESG risks[410] to the company's short and long-term value, as well as the opportunities to enhance value that may arise from an appropriate response;	Para 1.2 IA Disclosure Guidelines IA Long Term Reporting Guidance, para 43.2	
23. a statement whether the board has received adequate information to make this assessment and that account is taken of ESG matters in the training of directors;	Para 1.3 IA Disclosure Guidelines IA Long Term Reporting Guidance, para 43.3	
24. a statement whether the board has ensured that the company has in place systems for managing and mitigating significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives;	Para 1.4 IA Disclosure Guidelines IA Long Term Reporting Guidance, para 43.4	
25. disclosure of[411] [412]: (a) the organisation's governance around climate-related risks and opportunities, including a description of: (i) the board's oversight of climate-related risks and opportunities[413]; and management's role in assessing and managing climate-related risks and opportunities[414]; [415], [416] (b) the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material, including (i) a description of the climate-related risks and opportunities	TCFD Recommendations[429] Guidelines on Reporting Climate-Related Information FRC's 2019 Reporting Summary, page 2[430] FRC Lab Report on Climate-related Reporting FRC Lab Report on Climate-related Reporting: Questions CDSB Guidance on TCFD Recommendations TCFD Implementation Guidance	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
the organisation has identified over the short, medium and long term[417]; (ii) a description of the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning[418]; (iii) a description of the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2˚C or lower scenario[419] [420];	PLSA Guidelines, Appendix 1, para 3.3-3.4 PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting)	
(c) how the organisation identifies, assesses and manages climate-related risks, including (i) a description of the organisation's processes for identifying and assessing climate-related risks[421]; (ii) a description of the organisation's processes for managing climate-related risks[422]; (iii) a description of how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management[423] [424]; and		
(d) the metrics and targets used to assess and manage relevant climate-related risks and opportunities, including (i) disclosure of the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process[425]; (ii) disclosure of Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks[426]; and (iii) a description of the targets used by the organisation to manage climate related risks and		

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
opportunities and performance against those targets[427] [428];		
26. disclosure of all global charitable donations and other forms of giving, particularly if there are any connections to the directors' outside positions on non-corporate bodies and their family connections or if the recipient organisation has any recognised political leanings;	PIRC Guidelines (Chapter 4 - Shareowner Rights, Capital Stewardship and Corporate Actions and Chapter 8 - Sustainability and Corporate Responsibility Reporting)	
27. if a new chairman has been appointed or a successor for the current chairman has been announced/proposed, confirmation should be provided that the past/retiring chairman was not involved in the selection or appointment of his/her successor;	PLSA Guidelines, Appendix 1, para 5.6	
28. confirmation that there are procedures in place to deal with conflicts of interest and that they have operated effectively;	ABI/GC100 Paper on Directors' Conflicts IA Companies Act Guidance[431]	
29. the justification of any share purchases made in the previous year, including an explanation of why this method of returning capital was decided upon;[432]	Para 2.1.4 IA Share Capital Management Guidelines	
30. where the company has dealt in derivatives over its own shares, the effectiveness and benefits of any such dealing;	Para 2.4.1 IA Share Capital Management Guidelines	
31. information on accounting policies, judgements and estimates arising from complex supplier arrangements;[433]	FRC press release on complex supplier arrangements (8 December 2014)	
32. disclosures that explain the impact of IFRS 15 Revenue[434], IFRS 9 Financial Instruments[435] and IFRS 16 Leases;[436], [437], [438]	FRC's 2018 Reporting Summary FRC's 2019 Reporting Summary	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
	ESMA's Public Statement 2018 ESMA's Public Statement 2019	
33. where the company has received a significant level of dissent to a resolution at a general meeting, an explanation of how the company has sought to understand the reasons behind the result and how the company has communicated its response to the dissent and the steps it has taken, or will take, to resolve shareholder concerns;[439]	ISS Proxy Voting Guidelines, page 5 PLSA Guidelines, Overview (The Role of the AGM) PIRC Guidelines (Chapter 4 - Shareowner Rights, Capital Stewardship and Corporate Actions)	
(a) information regarding the company's funding arrangements and the nature of funding, including: (i) the policy and approach to leverage, including net debt to EBITDA; (ii) mix of funding approaches, including bonds, bank loans, private placement and other funding sources; (iii) a net debt reconciliation showing how a company's indebtedness has changed over a period as a result of cash flows and other non-cash movements; (iv) key maturity dates; (v) impact of bonds / the state of bank covenants; and (vi) actuarial assumptions;	IA Long Term Reporting Guidance, para 35	
(b) where relevant[440], comply with the disclosure requirements of ESMA's Guidelines on Alternative Performance Measures,[441] including (in summary): (i) definition of the APM, including its method of	ESMA's Guidelines on Alternative Performance Measures FRC FAQ on ESMA's Guidelines on APMs	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
calculation and details of any material assumptions; (ii) meaningful labels reflecting the APM's content and basis of calculation avoiding conveying misleading messages; (iii) indication of whether the APM or any of its components relate to the performance of the past or expected performance of a future reporting period; (iv) explanation for the use of an APM to allow users to understand its relevance and reliability; (v) reconciliation identifying and explaining the material adjustments between the APM and a financial statement line-item; and (vi) APMs of comparative previous periods (and reconciliations for all comparatives) or explanations why an APM was revised or is no longer presented.		
With regard to policies, procedures and verification, the company should include, or consider inclusion of, the following in the annual report: [442]		
1. information on ESG-related risks and opportunities that may significantly affect the company's short and long-term value, and how they might impact on the future of the business; [443] [444]	Para 2.1 IA Disclosure Guidelines IA Long Term Reporting Guidance, para 44.1 IOSCO Statement on Disclosure of ESG Matters	
2. in the description of the company's policies and procedures for managing risks, the possible impact on the short	Para 2.2 IA Disclosure Guidelines	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
and long-term value arising from ESG matters. If there are no such policies and procedures, the board should state this is so and provide reasons for their absence;	IA Long Term Reporting Guidance, para 44.2	
3. information, where appropriate using Key Performance Indicators, about the extent to which the company has complied with its policies and procedures for managing material risks arising from ESG matters and about the role of the board in providing oversight;[445]	Para 2.3 IA Disclosure Guidelines IA Long Term Reporting Guidance, para 44.3	
4. where performance falls short of the objectives, a description of the measures the board has taken to put it back on track;	Para 2.4 IA Disclosure Guidelines IA Long Term Reporting Guidance, para 44.4	
5. a description of the procedures for verification of ESG disclosures. The verification procedure should be such as to achieve a reasonable level of credibility; and	Para 2.5 IA Disclosure Guidelines IA Long Term Reporting Guidance, para 44.5	
6. a distribution policy, which clearly sets out the company's approach to making decisions on the amount, structure and timing of returns to shareholders.[446]	IA Paper: Shareholder Votes on Dividend Distributions in UK Listed Companies: The case for a Distribution Policy (May 2019)	
Where a company has chosen to adopt the International <IR> Framework,[447] the integrated report should:		
1. include a statement from those charged with governance that includes: (a) an acknowledgement of their responsibility to ensure the integrity of the integrated report; (b) an acknowledgement that they have applied their collective mind to the preparation and presentation of the integrated report; and (c) their opinion or conclusion about whether the integrated report is presented in accordance with the International <IR> Framework;	Para 1.20 International <IR> Framework	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
2. provide insight into the organisation's strategy, and how that relates to its ability to create value in the short, medium and long term;	Para 3.3 International <IR> Framework	
3. show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time;	Para 3.6 International <IR> Framework	
4. provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests;	Para 3.10 International <IR> Framework	
5. disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term; and	Para 3.17 International <IR> Framework	
6. answer the following questions:		
(a) What does the organisation do and what are the circumstances under which it operates?	Para 4.4 International <IR> Framework	
(b) How does the organisation's governance structure support its ability to create value in the short, medium and long term?	Para 4.8 International <IR> Framework	
(c) What is the organisation's business model?	Para 4.10 International <IR> Framework	
(d) What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?	Para 4.23 International <IR> Framework	
(e) Where does the organisation want to go and how does it intend to get there?	Para 4.27 International <IR> Framework	
(f) To what extent has the organisation achieved its	Para 4.30 International <IR> Framework Para 4.34 International <IR> Framework	

G. GENERAL CONTENT REQUIREMENTS[373]	Authority	Company comments
strategic objectives for the period and what are its outcomes? (g) What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance? (h) How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?	Para 4.40 International <IR> Framework	

H. SLAVERY AND HUMAN TRAFFICKING STATEMENT[448] [449]	Authority	Company comments
Commercial organisations[450] **which supply goods or services and have a total turnover**[451] **of no less than £36 million per year**[452] **must prepare a slavery and human trafficking statement for each financial year of the organisation.**[453]	Section 54(1) to (3) MSA 2015 Para 2 Modern Slavery Act 2015 (Transparency in Supply Chains) Regulations 2015)	
1. The statement must include: (a) a statement of the steps the organisation has taken during the financial year[454] to ensure that slavery and human trafficking is not taking place in any of its supply chains[455] and in any part of its own business; or (b) a statement that the organisation has taken no such steps.	Section 54(4) MSA 2015	
2. The statement may[456] include information about: (a) the organisation's structure, its business and its supply chains; (b) its policies in relation to slavery and human trafficking; (c) its due diligence processes in relation to slavery and human trafficking in its business and supply chains; (d) the parts of its business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps it has taken to assess and manage that risk; (e) its effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chains, measured against such performance indicators as it considers appropriate; and	Section 54(5) MSA 2015	

H. SLAVERY AND HUMAN TRAFFICKING STATEMENT[448] [449]	Authority	Company comments
(f) the training about slavery and human trafficking available to its staff.		
The statement must be approved by the board of directors of the company and signed by a director.[457]	Section 54(6)(a) MSA 2015	

I. PAYMENT PRACTICES REPORT [458]	Authority	Company comments
Qualifying companies [459] **must publish a half-yearly payment practices report setting out:**		
1. a description of the qualifying company's standard payment terms in relation to qualifying contracts [460], which must include: (a) the payment period specified in those standard payment terms, expressed in days; (b) where the qualifying company varied the standard payment terms in the reporting period: (i) details of the variation, and (ii) details of any notification or consultation conducted by the qualifying company with its suppliers before making the variation; [461]	Payment Practices Regulations, Schedule, para 2	
2. a description of the maximum payment period specified in a qualifying contract which the qualifying company has entered into during the reporting period; [462]	Payment Practices Regulations, Schedule, para 3	
3. an explanation of the qualifying company's process for resolving a dispute with a supplier in relation to payment under a qualifying contract; [463]	Payment Practices Regulations, Schedule, para 4	
4. a statement as to whether the qualifying company's payment practices and policies in relation to qualifying contracts include an arrangement under which a supplier can receive payment of an invoiced sum from a finance provider before the end of the payment period, with the qualifying company paying the invoiced sum to the finance provider;	Payment Practices Regulations, Schedule, para 5	
5. a statement as to whether the qualifying company's payment practices and policies in relation to qualifying	Payment Practices Regulations, Schedule, para 6	

I. PAYMENT PRACTICES REPORT [458]		Authority	Company comments
	contracts provide for the electronic submission and tracking of invoices;		
6.	a statement as to whether the qualifying company is a signatory to a code of conduct or standards on payment practices and, if so, the name of that code; [464]	Payment Practices Regulations, Schedule, para 7	
7.	a statement as to whether the qualifying company's payment practices and policies allow the qualifying company to deduct a sum from a payment under a qualifying contract, as a charge to a supplier to remain on the qualifying company's list of suppliers or potential suppliers;	Payment Practices Regulations, Schedule, para 8	
8.	in relation to the payments made under qualifying contracts within the reporting period, a statement of: (a) the average number of days taken to make such payments, where day 1 is the first day after the relevant day; and (b) the percentage of those payments which were made, where day 1 is the first day after the relevant day: (i) within the period beginning on day 1 and ending with day 30; (ii) within the period beginning on day 31 and ending with day 60; and **(iii)** on or after day 61;	Payment Practices Regulations, Schedule, para 9	
9.	in relation to the payments under qualifying contracts that fall due within the reporting period, a statement of the percentage of these payments which were not made within the payment period;	Payment Practices Regulations, Schedule, para 10	
10.	a statement as to whether the qualifying company has during the reporting period deducted a sum from a payment under a qualifying contract,	Payment Practices Regulations, Schedule, para 11	

I. PAYMENT PRACTICES REPORT [458]	Authority	Company comments
as a charge to a supplier to remain on the qualifying company's list of suppliers or potential suppliers; and		
11. the name of the director of the qualifying company who has approved the information set out in the Payment Practices Report. [465]	Payment Practices Regulations, Schedule, para 12	

J. GENDER PAY GAP REPORT	Authority	Company comments
A company which is a relevant employer[466] **(i.e. which has 250 or more employees on the snapshot date) must publish, for 2017 and each subsequent year, a statement setting out the following information:**[467]	Gender Pay Gap Regulations, para 2(1)	
1. the difference between the mean hourly rate of pay of male full-pay relevant employees and that of female full-pay relevant employees;	Gender Pay Gap Regulations, para 2(1)(a)	
2. the difference between the median hourly rate of pay of male full-pay relevant employees and that of female full-pay relevant employees;	Gender Pay Gap Regulations, para 2(1)(b)	
3. the difference between the mean bonus pay paid to male relevant employees and that paid to female relevant employees;	Gender Pay Gap Regulations, para 2(1)(c)	
4. the difference between the median bonus pay paid to male relevant employees and that paid to female relevant employees;	Gender Pay Gap Regulations, para 2(1)(d)	
5. the proportions of male and female relevant employees who were paid bonus pay; and	Gender Pay Gap Regulations, para 2(1)(e)	
6. the proportions of male and female full-pay relevant employees in the lower, lower middle, upper middle and upper quartile pay bands.	Gender Pay Gap Regulations, para 2(1)(f)	

K. CERTAIN REQUIREMENTS RELATING TO SUBSIDIARIES	Authority	Company comments
Certain subsidiaries of the company may need to make disclosures in their own annual reports pursuant to changes introduced by the Miscellaneous Reporting Regulations. ***Note: the list below does not include other disclosures that subsidiaries may need to make.*** **These include:**		
1. for financial years commencing on or after 1 January 2019, unless the company qualifies as medium-sized in relation to the financial year [468] or is not required to produce a strategic report, a statement in the strategic report which describes how the directors have had regard to [469] the matters set out in section 172(1)(a) to (f) [470] when performing their duty under section 172 (a "**section 172 statement**") [471] [472] [473];	Section 414CZA CA 06 CGC 2018 Provision 5	
2. unless the company is exempted [474], if, on average, the group [475] employed more than 250 people during the financial year [476], a description in the directors' report:	Schedule 7, para 11 - 11A LMCG Regs	
(a) of action taken to introduce, maintain or develop arrangements aimed at:		
(i) providing employees systematically with information on matters of concern to them as employees;		
(ii) regularly consulting employees or their representatives to take account of their views in decision making		
(iii) encouraging employee involvement in the company's performance; and		

K. CERTAIN REQUIREMENTS RELATING TO SUBSIDIARIES	Authority	Company comments
(iv) achieving awareness among employees of factors affecting the performance of the company;		
(b) for financial years commencing on or after 1 January 2019 summarising: (i) how the directors have engaged with employees; and (ii) how the directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company; [477] [478] [479] [480] [481]		
3. for financial years commencing on or after 1 January 2019, unless the company is exempted [482], a statement in the directors' report summarising how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company [483] [484] [485]; and	Schedule 7, para 11B – 11C LMCG Regs	
4. for financial years commencing on or after 1 January 2019, where the company meets the qualifying conditions [486] and it is not exempted [487], a statement in the directors' report [488] of the company's corporate governance [489] arrangements setting out [490]:	Schedule 7, paras 21-27 LMCG Regs	
(a) where the company applied a corporate governance code [491]:		
(i) which corporate governance code, the company applied;		
(ii) how the company applied the corporate governance code;		

K. CERTAIN REQUIREMENTS RELATING TO SUBSIDIARIES	Authority	Company comments
(iii) if the company departed from any corporate governance code, the respects in which it did so and the reasons for doing so; or (b) if the company did not apply any corporate governance code, the reasons for that decision and what corporate governance arrangements were applied for that financial year.		

Endnotes to the checklist for annual reports

1 See the Guidance on the Strategic Report, paragraph 3.24 and the FRC Report on Narrative Reporting 2015. Similar guidance is set out in the GC100 and Investor Group Guidance in respect of directors' remuneration reports, which suggests that "*companies should avoid boilerplate language and strive instead to provide meaningful and preferably concise disclosures relevant to the company and its particular circumstances*" (Guidance under 1.1, GC100 and Investor Group Guidance).

Companies are encouraged to move towards clearer and more concise reporting by the FRC, and the FRC Report on Narrative Reporting 2015 advocates that companies remove information from the annual report wherever possible. Companies are also encouraged to think about whether the annual report needs to be primarily a printed document or whether it is possible to be innovative in sending the information electronically to members. It is noted that investors prefer to read PDF versions of the annual report and appreciate where companies do not switch between portrait and landscape views in their publications, but choose one or the other. Investors also find the use of charts and diagrams helpful and stress the importance of clear cross-referencing (FRC Report on Narrative Reporting 2015, pages 3 and page 14). BEIS's response to the consultation on implementation of the EU Non-Financial Reporting Directive (November 2016) states that the Government proposed that it would clarify legislation relating to annual reports which are sent to shareholders electronically and would also continue to work with the FRC to encourage innovative digital reporting (page 3, BEIS response to consultation on the Non-Financial Reporting Directive, November 2016).

For financial years starting on or after 1 January 2020, the EU will require companies that have their securities traded on any financial markets in the EU to publish their annual financial reports (AFR) in the European Single Electronic Format (ESEF) with the aim of making AFRs more easily accessible and able to be assimilated by users. The enabling legislation, Commission Delegated Regulation (EU) 2019/815, details the relevant technical standards that companies must meet. The standards require that all companies submit their AFR to the National Storage Mechanism using a standard digitised reporting system. For all affected companies, this will require that their AFR is submitted in XHTML format and, for companies that prepare consolidated AFRs in accordance with IFRS, certain disclosures will need to be tagged using Extensible Business Reporting Language (iXBRL). ESMA has published guidance on the Corporate Disclosure section of its website to assist companies in preparing for ESEF. In July 2019, it published an update of its ESEF Reporting Manual. ESMA's Public Statement 2019 states that ESMA expects companies to undertake all the necessary steps to ensure compliance with the new requirements on a timely basis (page 2). The FCA, in its Quarterly Consultation No. 25 published on 6 September 2019 (page 22), proposed a new rule in the DTRs to implement these requirements. The FCA advised, however, in its Primary Market Bulletin No. 24 (October 2019) that this proposal caters for the situation where the UK remains subject to EU law on 1 January 2020 and, should this not be the case, that it will provide a further update on its plans for implementation. The FRC notes that the ESEF is expected to lead to a significant change in the way in which annual reports are produced and consumed and is likely to require additional governance processes for companies and auditors (FRC Corporate Reporting Review 2019, page 31). Although the requirements will be set by the FCA, the FRC has experience with XBRL technology and aims to support the FCA and other stakeholders in implementation of the new rules (FRC Corporate Reporting Review 2019, page 31). BEIS is also consulting on the introduction of minimum iXBRL tagging standards for digital accounts (see paragraphs 141 to 143 and Q21 of the BEIS consultation, Corporate Transparency and Register Reform, Consultation on options to enhance the role of Companies House and increase the transparency of UK corporate entities (May 2019)). ←

2 For example, specific reporting requirements apply to large and listed companies operating in extractive industries. The requirements originate in the Accounting Directive (2013/34/EU) and are implemented in the Reports on Payments to Governments Regulations 2014, which came into force on 1 December 2014 for financial years beginning on or after 1 January 2015. ←

3 The references to CCG 2016 in these endnotes focus on the provisions that required disclosure in the annual report and which are not replicated in the 2018 edition of the Code. ←

4 Section 463 CA 06 introduced a special liability regime for directors' reports, strategic reports, directors' remuneration reports and, for financial years commencing on or after 17 June 2016, any separate corporate governance statement (which would otherwise be included as a section of the directors' report), which provides a safe harbour that will exclude liability for negligent errors (untrue or misleading statements or omissions). The only potential liability *under English law* will be limited to liability, to the company only, on the basis of, broadly, knowledge, recklessness or dishonesty. It may therefore be advisable to reorganise information in the annual report so that all narrative reports are presented as part of the directors' report or strategic report or any separate corporate governance statement, which it is suggested, would bring the

information within the scope of the safe harbour. However, in BIS's letter to the FRC, BIS stated that it was concerned that "the overly cautious might place inappropriately large volumes of information, including that not required to meet a specific legal requirement, in these reports to benefit from the 'safe harbour' clause". If this starts to detract from clear and concise reporting, BEIS has warned that it may revisit the operation of the safe harbour.

BIS's letter to the FRC also considered the application of the safe harbour to information incorporated by cross-reference into the sections protected by the safe harbour. In BIS's view, "information incorporated by reference into one of the protected areas from other parts of the annual report and necessary to meet the requirements in one of the protected areas will be covered by the safe harbour". However, information placed outside of the annual report will not be covered.

For listed companies many of the content requirements of the "management report" required by DTR 4.1.5 overlap with the content requirements of the directors' report and the strategic report. Companies may therefore wish to combine the management report with those reports, particularly to benefit from the safe harbour. In such a combined report, the directors should state that they have consulted with management. The directors will also have to include the additional information required by DTR 4.1.12 ("Responsibility statements" - see Section G of this checklist: G. GENERAL CONTENT REQUIREMENTS). In respect of the responsibility statement required to be made about the management report, directors should ensure that it covers the strategic report and/or the directors' report if the content requirement of the management report has been combined with those reports. ←

5 The FRC Implementation Study on Disclosure of Dividends (December 2016) considered the recommendations of the earlier FRC Lab Report on Disclosure of Dividends (November 2015). In October 2017, the FRC published an updated Implementation Study which reviewed dividend disclosure practice and identifies a few areas where further improvements could be made as follows:

- identifying the explicit links between dividend, principal risks and viability;
- enhancing disclosure on constraints;
- explaining more fully what policy means in practice;
- enhancing understanding of structure and process.

The 2016 Implementation Study summarised the FRC's recommendations concerning good dividend policy disclosure as including: (i) an understanding of the board's considerations in setting the policy; (ii) the rationale for the approach selected; and (iii) sufficient detail to understand how the policy will operate. Good dividend practice disclosure includes: (i) the key judgements and constraints considered by the board in applying the dividend policy; (ii) the availability of dividend resources (cash and distributable profits) to pay dividends; and (iii) clear linkage from the disclosed policy to the application of the policy in the period.

The FRC Lab Report on Disclosure of Dividends (November 2015) sets out that, once the annual report has been published, it becomes the most important source of dividend disclosure. The FRC recommends that disclosures relating to dividends should be grouped in one part of the report, rather than being spread through the strategic report, financial statements and shareholder information sections (page 19). The report also suggests that it is useful if information which is released outside of the reporting cycle, such as updates on dividend policy, is published online. The report recommends that companies publish an explanation of their dividend policy and provides some example wording for the disclosure at figure 1, page 6, of its report. The FRC notes that some investors assume and expect that the dividend policy will be in place at least over the period covered by the viability statement, if applicable. The FRC's 2017 Reporting Summary states that dividend disclosure continues to be a source of investor focus and that the FRC encourages further adoption of reporting on the capacity to pay dividends, including the extent to which profits can be distributed by subsidiary companies and the extent of any restrictions.

The FRC Implementation Study on Disclosure of Dividends (December 2016) makes further recommendations for dividend resource disclosure; see also its 2017 follow-up (Disclosure of dividends – policy and practice (October 2017)). Additional guidance is included in the FRC Lab Report on Disclosures on the Sources and Uses of Cash. In particular, pages 41 to 49 look at distributions to shareholders and recommend that areas for improvement include: (i) disclosure on the timing and size of any returns; (ii) disclosure on the availability and nature of dividend resources currently accessible to the parent company; and (iii) details about risks, restrictions and variabilities that might impact returns in the future (see also page 8). See also pages 30-31 on cash generation within groups and how dividends flow through the group as a whole. ←

6 "Relevant audit information" means information needed by the company's auditors in connection with preparing their report (section 418(3) CA 06). ←

7 This statement is not required where the directors have taken advantage of the audit exemption in part 16 of CA 06. ←

8 The strategic report may contain such of the matters otherwise required to be disclosed in the directors' report as the directors consider are of strategic importance to the company under section 414C(11) CA 06 (see Section B of this checklist: B. STRATEGIC REPORT). The Guidance on the Strategic Report indicates that information that would otherwise be disclosed in the directors' report "should" be included in the strategic report to the extent that the matters are considered to be of strategic importance to the company (paragraph 7B.85). ←

9 In relation to a group directors' report, Schedule 7 paras 1, 6 and 7(1)(a)-(c) LMCG Regs have effect as if the references to the company were references to the undertakings included in the consolidation. ←

10 The FRC's Letter on Volatility and Uncertainty, published in March 2016, states that this disclosure needs to include details of the nature of each event and its estimated financial impact or a statement that such an estimate cannot be made. The FRC reminds companies to review statements which may have been made some time ago. The letter is written with specific reference to volatility in asset prices, oil prices, fluctuations in interest rates and Brexit. ←

11 Article 5 of the Market Abuse Regulation provides a safe harbour for share repurchases from the civil offences of insider dealing and market manipulation where issuers comply with the requirements of MAR and the related Delegated Regulation ((EU) No 2016/1052). To benefit from the safe harbour, the sole purpose of the buy-back programme must be: (a) to reduce the capital of an issuer; (b) to meet obligations arising from debt financial instruments that are exchangeable into equity instruments; or (c) to meet obligations arising from share option programmes, or other allocations of shares to employees or to members of the administrative, management or supervisory bodies of the issuer or of an associate company. Certain other conditions must also be met.

Insider dealing is also a criminal offence under the Criminal Justice Act 1993. The Criminal Justice Act provides that share repurchases carried out within the terms of MAR Article 5 are not criminal insider dealing (paragraph 5 of schedule 1 – Special Defences).

12 For financial years commencing on or after 1 January 2019, the average number of the company's UK employees is calculated by ascertaining each monthly total number and working out the average (schedule 7, para 10(2) LMCG Regs as amended by the Miscellaneous Reporting Regulations). For financial years commencing on or before 31 December 2018, the average number of the company's UK employees was calculated by ascertaining each weekly total number and working out the average (schedule 7, para 10(1) and (2) LMCG Regs before amendment by the Miscellaneous Reporting Regulations).

13 For financial years commencing on or after 1 January 2019, a company must report on engagement with employees unless it is exempt (Schedule 7, para 11 LMCG Regs). It is exempt if it has an average of 250 or fewer UK employees in the group (or company where the company is not a parent):

(a) in its first financial year (for newly incorporated companies); and/or

(b) for subsequent years,

(i) in the reporting year in question *and* the previous reporting year;

(ii) in the reporting year in question *and* it was not required to report in the previous year; or

(iii) in the previous reporting year *and* it was not required to report in the previous reporting year,

(Schedule 7, para 11A LMCG Regs).

The average number of UK employees employed by the group (or company where the company is not a parent) during the financial year is calculated by ascertaining each monthly total number and working out the average (schedule 7, paras 11A(3), (4) and (5) LMCG Regs).

The above rules apply in the same way in the first year of reporting under the new provisions (as if the regime had been operative for the preceding year).

The table below illustrates how the exemptions may apply in practice.

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**
No of employees	250 or less	250 or less	250 or less	251+	250 or less	251+	251+	250 or less	250 or less

Which exemption applies (as set out above)	Exempt – (a)	Exempt – (b)(i)	Exempt – (b)(i)	Exempt – (b)(iii)	Exempt – (b)(ii)	Exempt – (b)(iii)	Not exempt	Not exempt	Exempt – (b)(i)
Reporting	No reporting	No reporting	No reporting	No reporting	No reporting	No reporting	Must report	Must report	No reporting

For financial years commencing on or before 31 December 2018, reporting on employee involvement was required where the average number of UK employees employed by the company exceeded 250 in that reporting year. The above exemption therefore does not apply to financial years commencing on or before 31 December 2018. The above changes were introduced by the Miscellaneous Reporting Regulations.

14 For financial years commencing on or after 1 January 2019, the test looks at UK employees employed by the group (or company where the company is not a parent). For financial years commencing on or before 31 December 2018, the test looked at the company's UK employees only.

15 For financial years commencing on or after 1 January 2019, the average number of UK employees employed by the group (or company where the company is not a parent) during the financial year is calculated by ascertaining each monthly total number and working out the average (schedule 7, para 10(2) LMCG Regs as amended by the Miscellaneous Reporting Regulations). For financial years commencing on or before 31 December 2018, the average number of the company's UK employees is calculated by ascertaining each weekly total number and working out the average (schedule 7, para 10(1) and (2) LMCG Regs before amendment by the Miscellaneous Reporting Regulations).

16 Although the disclosure requirement relates to employees only, companies are encouraged not to limit their consideration to those with a contract of employment only and look at the wider workforce (paragraph 8.19, Guidance on the Strategic Report).

17 This requirement is included in addition to the requirement to produce a section 172 statement (and despite the fact that there will be some overlap) so that company reports include information about these important aspects even where the information is not judged to be of sufficient strategic importance to be included in the strategic report (Q&A 6 (Section D), Miscellaneous Reporting Q&A and FRC Corporate Reporting Review 2019, page 30, which states that they should be reported on "irrespective of materiality"). It also gives the opportunity to provide more information, for example in relation to Provision 5 of the CGC 2018.

18 Nothing in this sub-paragraph (b) requires disclosure of information about impending developments or negotiations taking place if such disclosure would be seriously prejudicial to the company (Schedule 7, Para 11(2) LMCG Regs).

19 Both Q&A 5 of Section D of the Miscellaneous Reporting Q&A and paragraph 8.5 of the Guidance on the Strategic Report note that where the board considers this information to be of strategic importance, it may be included in the strategic report and incorporated into the directors' report by cross-reference (see also section 414C(11) CA 06). See row A.5 of this checklist for more information on the disclosures that should be made where this is the case.

20 For financial years commencing on or after 1 January 2019, a company must report on engagement with suppliers, customers and others unless it is exempt (Schedule 7, para 11B LMCG Regs). It is exempt if the qualifying conditions are met:

(a) in its first financial year (for newly incorporated companies); and/or

(b) for subsequent years,

  (i) in the reporting year in question *and* the previous reporting year;

  (ii) in the reporting year in question *and* it was not required to report in the previous year; or

  (iii) in the previous reporting year *and* it was not required to report in the previous reporting year,

(Schedule 7, para 11C LMCG Regs).

The qualifying conditions ("QC") are met where the company satisfies two or more of the following requirements:

- Turnover: not more than £36 million
- Balance sheet total: not more than £18 million
- Number of employees: not more than 250 (calculated by ascertaining the monthly total number of employees of the company during the financial year and working out the average)

(Schedule 7, para 11C LMCG Regs, see para 11C for more information on how to work out these figures).

Note that the exemption relates purely to the size thresholds set out above and therefore although it looks very similar to the provisions that determine whether a company is medium-sized under the CA 06, the exclusions that determine whether a company is medium-sized under sections 467 CA 06 do not apply here.

The above rules apply in the same way in the first year of reporting under the new provisions (as if the regime had been operative for the preceding year).

The table below illustrates how the exemptions may apply in practice.

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**
No of employees	QC met	QC met	QC met	QC not met	QC met	QC not met	QC not met	QC met	QC met
Which exemption applies (as set out above)	Exempt – (a)	Exempt – (b)(i)	Exempt – (b)(i)	Exempt – (b)(iii)	Exempt – (b)(ii)	Exempt – (b)(iii)	Not exempt	Not exempt	Exempt – (b)(i)
Reporting	No reporting	No reporting	No reporting	No reporting	No reporting	No reporting	Must report	Must report	No reporting

21 This requirement is included in addition to the requirement to produce a section 172 statement (and despite the fact that there will be some overlap) so that company reports include information about these important aspects even where the information is not judged to be of sufficient strategic importance to be included in the strategic report (Q&A 6 (Section D), Miscellaneous Reporting Q&A and FRC Corporate Reporting Review 2019, page 30, which states that they should be reported on "irrespective of materiality"). It also gives the opportunity to provide more information, for example in relation to Provision 5 of the CGC 2018.

22 Nothing in this row A.15 requires disclosure of information about impending developments or negotiations taking place if such disclosure would be seriously prejudicial to the company (Schedule 7, Para 11B(2) LMCG Regs).

23 A "quoted company" means a company whose share capital (a) has been admitted to listing on the Official List maintained by the FCA; (b) is officially listed in an EEA State; or (c) is admitted to dealing on either NYSE or Nasdaq (section 385(2) CA 06). Note that this definition states that a company is a quoted company for the purposes of this part of the CA 06 "in relation to a financial year if it is a quoted company immediately before the end of the accounting reference period by reference to which that financial year was determined" (section 385(1) CA 06).

24 "Emissions" means the emissions into the atmosphere of a greenhouse gas which are attributable to human activity as defined in section 92 of the Climate Change Act 2008.

See also the BEIS Environmental Reporting Guidelines, which set out guidance on five key steps of environmental reporting, explaining how to determine: (i) the boundaries of the organisation for reporting purposes; (ii) the period for which to collect data; (iii) the key environmental impacts for the organisation (with a particular focus on GHGs, water, waste, resource efficiency and materials, biodiversity and ecosystem services and emissions to air, land and water); (iv) the best methods for measuring impacts; and (v) how best to report. These guidelines go on to consider the different types of environmental impact (identified at (iii)) and offer more detailed guidance on how to report on those specific impacts. See also endnotes 32, 33, 39 and 44, which contain further guidance from the BEIS Environmental Reporting Guidelines that is also of relevance to quoted companies reporting in respect of financial years commencing on or before 31 March 2019.

PIRC recommends that companies publish a comprehensive assessment of their resilience to climate change as part of a meaningful environmental policy and presentation of quantitative environmental impact data. This should acknowledge and describe the board's responsibilities regarding environmental issues, cover all group companies and supply chain information, include a commitment to and report on environmental goals and performance and set out the board's objectives in addressing the company's main environmental impacts. PIRC Guidelines also state that companies should disclose other relevant key environmental performance indicators (PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting)). See the PIRC Guidelines for further information on these recommendations.

See also the TCFD Recommendations detailed at Section G of this checklist: G. GENERAL CONTENT REQUIREMENTS.

25 "Tonne of carbon dioxide equivalent" has the meaning given in section 93(2) of the Climate Change Act 2008.

26 The information described at (a)(i) and (ii) is only required to the extent that it is practical for the company to obtain such information (Schedule 7 para 15(4) LMCG Regs).

27 The information for the preceding financial year is not required for the first year for which the directors' report contains the required information (Schedule 7 para 18 LMCG Regs).

28 See also the TCFD Recommendations detailed at Section G of this checklist: G. GENERAL CONTENT REQUIREMENTS.

29 A "quoted company" means a company whose share capital (a) has been admitted to listing on the Official List maintained by the FCA; (b) is officially listed in an EEA State; or (c) is admitted to dealing on either NYSE or Nasdaq (section 385(2) CA 06). Note that this definition states that a company is a quoted company for the purposes of this part of the CA 06 "in relation to a financial year if it is a quoted company immediately before the end of the accounting reference period by reference to which that financial year was determined" (section 385(1) CA 06).

30 See Schedule 7 Para 15 LMCG Regs as amended by the Energy and Carbon Report Regulations. The company is exempt if (a) it is a subsidiary undertaking at the end of the financial year; (b) it is included in the group report of a parent undertaking; and (c) the group report is prepared for a financial year of the parent undertaking that ends at the same time as, or before the end of, the company's financial year; and -- (i) if the group report is a group directors' report -- (aa) of a quoted company, it complies with Part 7 of Schedule 7 other than in reliance on paragraph 15(5)(b); or (bb) of an unquoted company, it complies with Part 7A of Schedule 7 other than in reliance on paragraph 20D(7)(b); or -- (ii) if the group report is a group energy and carbon report, it complies with Part 7A of Schedule 7 as applied and modified by regulation 12B of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 other than in reliance on paragraph 20D(7)(b).

31 See Schedule 7 Para 15(5) LMCG Regs as amended by the Energy and Carbon Report Regulations. Disclosure is not required if (a) the company consumed 40,000 kWh of energy or less during the period in respect of which the directors' report is prepared and the report states that the information is not disclosed for that reason; or (b) the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company, and the report states that the information is not disclosed for that reason. As per the BEIS Environmental Reporting Guidelines, businesses are encouraged to rely on (b) only in exceptional circumstances, such as specific sensitivities arising from restructuring or acquisitions by an organisation in the run up to producing the relevant report, or when there are exceptional commercial sensitivity considerations (page 33).

32 The BEIS Environmental Reporting Guidelines contains an example reporting template that organisations are strongly encouraged to use to facilitate consistency of disclosed information on pages 51-54. The guidelines also encourage organisations to report the required information in a digital format if the annual report and accounts are also filed digitally (page 48).

33 "Emissions" means the emissions into the atmosphere of a greenhouse gas which are attributable to human activity as defined in section 92 of the Climate Change Act 2008 (Schedule 7 Para 20 LMCG Regs). Additionally, although not a legal requirement, companies should consider reporting on nitrogen trifluoride, especially if material to operations (page 37, BEIS Environmental Reporting Guidelines).

The BEIS Environmental Reporting Guidelines set out guidance on five key steps of environmental reporting, explaining how to determine: (i) the boundaries of the organisation for reporting purposes; (ii) the period for which to collect data; (iii) the key environmental impacts for the organisation (with a particular focus on GHGs, water, waste, resource efficiency and materials, biodiversity and ecosystem services and emissions to air, land and water); (iv) the best methods for measuring impacts; and (v) how best to report. These guidelines go on to consider the different types of environmental impact (identified at (iii)) and offer more detailed guidance on how to report on those specific impacts.

PIRC recommends that companies publish a comprehensive environmental policy and quantitative environmental impact data. PIRC Guidelines also state that companies should disclose other relevant key environmental performance indicators (PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting)). See the PIRC Guidelines for further information on these recommendations.

See also the TCFD Recommendations detailed at Section G of this checklist: G. GENERAL CONTENT REQUIREMENTS.

34 "Tonne of carbon dioxide equivalent" has the meaning given in section 93(2) of the Climate Change Act 2008.

35 The period for which the directors' report is reporting the information here must be the same as the period for which it is reporting the information required by 1(a) (Schedule 7 Para 19A LMCG Regs).

36 Including both stationary combustion (e.g. in boilers, furnaces, incinerators etc.) and mobile combustion (e.g. in transportation devices) (page 38, BEIS Environmental Reporting Guidelines).

37 Including both permanent, land-based or stationary, and mobile sources. Companies should consider reporting (i) process emissions (i.e. emissions from physical or chemical processes), and (ii) fugitive emissions (i.e. intentional and unintentional releases, such as leaks and fugitive emissions from wastewater treatment) (page 38, BEIS Environmental Reporting Guidelines).

38 Companies that are lessees of an emission source should decide if they have responsibility for emission sources or if they have operational control over the emission sources. If a company decides that it does have responsibility for emissions, either as a lessee or as a lessor, but cannot get the consumption data necessary to calculate the emissions, then the emissions may be estimated, or excluded (along with an explanation as to why they have been excluded). Companies are not required to report on other emissions associated with inputs into the company (e.g. from the supply chain) or emissions linked with outputs from the company (such as emissions from products when they are used by customers) (page 38, BEIS Environmental Reporting Guidelines).

39 There is no prescribed methodology required by law. However, it is important that robust and accepted methods are used. It is also recommended that a widely recognised independent standard is used, such as those listed on pages 43 and 44 of the BEIS Environmental Reporting Guidelines.

40 The period for which the directors' report is reporting the information here must be the same as the period for which it is reporting the information required by 1(a) (Schedule 7 Para 19A LMCG Regs).

41 "Offshore area" has the meaning set out in Schedule 7 Para 20 LMCG Regs.

42 "Energy efficiency" means the ratio of output of performance, service, goods or energy to input of energy (Schedule 7 Para 20 LMCG Regs). It is recommended that principal actions reported are ones that have had a direct impact on the energy efficiency of an organisation and, where possible, that the resulting energy saving from actions reported is also stated (page 42, BEIS Environmental Reporting Guidelines).

43 The information described at (a) to (g) is only required to the extent that it is practical for the company to obtain such information (Schedule 7 para 15(4) LMCG Regs).

44 There is no requirement that emission and energy use data, or narrative on energy efficiency action to be independently assured, but this is recommended as good practice in the BEIS Environmental Reporting Guidelines. When calculating total energy consumption, companies must use verifiable data where reasonably practicable (for example by obtaining metre data, using invoices from suppliers or using annual statements from suppliers). If verifiable data of energy use or spend cannot be obtained, companies must use a reasonable estimate derived through calculation (based on other verifiable data if possible) and show how estimates were made (using direct comparisons, pro-rata extrapolation or benchmarking) (pages 46 and 47, BEIS Environmental Reporting Guidelines).

45 See Schedule 7 Para 15A LMCG Regs as amended by the Energy and Carbon Report Regulations. The required disclosures listed in l(a) to (c), l(f) and 1(g) and the exception in part (a) of endnote 31, have effect as if references to the company were references to the company and its subsidiary undertakings included in the consolidation that are quoted companies, unquoted companies or limited liability partnerships. Para 15A also lists information companies may exclude from their reports where its subsidiary undertakings are quoted companies, unquoted companies or limited liability partnerships.

46 The company may elect to have the corporate governance statement and information required to be included in it as a separate report published together with, and in the same manner as, the annual report. Alternatively, the statement and information can be set out on the company's website, in which case there must be a cross-reference in the directors' report to where such document is publicly available. A statement published on a website must also contain the information required by paragraph 13(2)(c), (d), (f), (h) and (i) of Schedule 7 to the LMCG Regs or cross-refer back to the directors' report where such information is made available (DTR 7.2.9) (see endnote 50). The statement must also contain the information required by DTR 7.2.10 (set out at row A.21(e)) and DTR 7.2.8A (set out at rows A.21(h) and (i)). See also Appendix B to the Guidance on Board Effectiveness (Disclosure of Corporate Governance Arrangements and Overlap with the FCA Handbook). That Appendix B also discusses and sets out some of the overlaps between the disclosure requirements of the Corporate Governance Code 2018 and DTR 7.2.

47 Where the company has applied practices beyond requirements under applicable national law, it must make details of its corporate governance policies publicly available and state where they can be found (DTR 7.2.3(2)).

48 A company which complies with LR 9.8.6R(6) will also satisfy the requirements of DTR 7.2.2 and 7.2.3.

The Corporate Governance Code 2018 states that in providing an explanation where there has been a departure from the Code, the company should aim to illustrate how its actual practices are consistent with the principle to which the particular provision relates, and contribute to good governance and promote delivery of business objectives. The Code states that it should set out the background, provide a clear rationale for the action it is taking, and describe any mitigating actions taken to address any additional risk and maintain conformity with the relevant principle. Where deviation from a particular provision is intended to be limited in time, the explanation should indicate when the company expects to conform to the provision. For further guidance on the level of detail required for such explanations, see the Commission Recommendation and the ABI Guidance on Comply or Explain and endnote 380 of this checklist below.

49 There is some overlap between this requirement and Provision 29 of the CGC 2018, which provides that the board should report to shareholders that they have conducted a review of the effectiveness of the company's risk management and internal control systems. It is envisaged that both requirements could be met by a single internal control statement.

50 See row A.16 (Directors' Report). Broadly, the information relates to: significant holdings of securities; special rights of control over the company; restrictions on voting rights; rules about appointment of directors and amendments to articles; and details of directors' powers, particularly with regard to issuing and buying back shares.

51 Information specified in Provisions 14, 20, 23, 26, 35 and 41 of the Corporate Governance Code 2018 should fulfil this requirement to the satisfaction of the FCA on the basis set out below.

In November 2019, the FCA closed its consultation on proposed changes to the DTR, which, if implemented, would replace references in DTR 7.2.8 from the relevant CGC 2016 provisions (A.1.1, A.1.2, B.2.4, C.3.3, C.3.8 and D.2.1) to references to the CGC 2018 (14, 20, 23, 26, 35 and 41, respectively). The amendments also make reference to paragraph 63 of the Guidance on Board Effectiveness and state that fulfilling the above CGC 2018 provisions would satisfy DTR 7.2.7R, "except as regards a description of the composition of the issuer's administrative, management and supervisory bodies and their committees". Transitional provisions have also been included, which state that reporting under CGC 2018 should start from January 2020, with CGC 2016 applying only to accounting periods beginning before 1 January 2019.

52 See section 6 of the Guidelines on Non-Financial Reporting for more information. The Guidelines on Non-Financial Reporting specify that the statement should specify which diversity criteria are applied and explain the reasons for choosing them. In addition to the diversity characteristics specified in the DTRs, the guidelines also refer to geographical provenance, international experience, expertise in relevant sustainability matters, employee representation and other aspects, for example socioeconomic background. They also recommend disclosure of specific measurable targets, in particular quantitative targets and time-frames. Additional guidance is provided on implementation of the diversity policy and results. The Guidelines on Non-Financial Reporting note that these disclosures do not form part of the Non-Financial Reporting Statement and state that section 6 is without prejudice to the need to disclose material diversity information as part of the Non-Financial Reporting Statement.

53 The requirements in rows A.21(a), (h) and (i) first applied to financial years commencing on or after 1 January 2017 (DTR 7.2.8A/7.2.8B and DTR TP1). The requirements do not apply to a company which qualifies as a small or medium company under DTR 1B.1.7R.

The Parker Review recommends that the annual report should set out a description of the Board's policy on diversity which should include a description of the company's efforts to increase, amongst other things, ethnic diversity within its organisations, including at Board level (Parker Review, page 11). The FRC and University of Exeter Business School report on Board Diversity Reporting (September 2018) notes that almost one third of FTSE 350 companies now refer to ethnic diversity in their board's diversity policy (page 9). In 2019, according to data from Practical Law's What's Market, as at 25 October 2019,of the 283 companies reviewed, only 28 companies disclosed in their annual report that there was at least one director of colour on the board (based solely on specific statements in the annual report).

See section 6 of the Guidelines on Non-Financial Reporting for more information.

54 Otherwise, the information required should be included in the group directors' report (DTR 7.2.10).

55 If the company elects to include its corporate governance statement as a separate report under DTR 7.2.9 or in a document on the company's website, the information required should be included in that report (DTR 7.2.11).

56 Applies to financial years commencing on or after 1 January 2017 (FCA Handbook Instrument 2016/70).

57 Many companies have previously chosen to state their purpose on their website or in their annual report; others have not. The Corporate Governance Code 2018 requires businesses to report against their purpose, and requires that boards satisfy themselves that their business' purpose is aligned with its values, strategy and culture. In order to be able to report against these provisions, we expect that many companies will include a statement of purpose in their annual report and therefore they will need to be able to articulate that purpose, as well as measure performance against it. Companies therefore need to devise (or refresh) a statement of purpose. We consider that an effective statement of purpose should: (i) be relevant to what you do as a business; (ii) be inclusive; (iii) be a source of energy; (iv) offer stability and resilience in turbulent times; (v) be authentic; and (vi) be challengeable.

58 See endnotes 60 and 367.

59 The second recommendation (row A.24(b)) applies to quoted companies only. The Davies Review (2011) states that this disclosure should be made annually.

60 There is some overlap with Section F of this checklist, which deals with the contents of the Nomination Report (see the requirements of Provision 23 of the Corporate Governance Code as set out in Section F of this checklist: F. NOMINATION REPORT. As well as the reference to Principle J. Also note that diversity is listed as a factor that should be considered during annual evaluation of the board (CGC 2018, Principle L).

Reporting on gender diversity is also addressed in the requirements of the strategic report under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, which came into force on 1 October 2013. The CA 06 includes a requirement that the strategic report of a quoted company must contain a breakdown showing: (a) the number of persons of each sex who are directors of the company; (b) the number of persons of each sex who are managers of the company (other than persons falling within paragraph (a)); and (c) the number of persons of each sex who are employees of the company (see row B.15 of this checklist above). The ABI Report on Board Effectiveness provides further recommendations on diversity disclosures (see Section F of this checklist: F. NOMINATION REPORT), and also states that meaningful disclosures made by companies include the skills and experience that they will need on their boards to guarantee effectiveness, the challenges they are facing in achieving board diversity, disclosures on board diversity policies and the steps they are taking to improve gender diversity within their organisations. Quoted companies may also cover diversity within the Non-Financial Reporting Statement for financial years commencing on or after 1 January 2017.

61 The Hampton-Alexander Report builds on the targets set out in the Davies Review (2015) and requires that by 2020: (i) FTSE 350 companies should aim for a minimum of 33% female representation on their boards; and (ii) FTSE 100 companies should aim for a minimum of 33% female representation across their Executive Committee and in the Direct Reports to the Executive Committee (in October 2017 this target was amended also to include the FTSE 250 recognising that it may take the FTSE 250 longer to reach the 33% target given the later starting point; see the supplementary report of the Hampton-Alexander Review published in November 2017 for more information). Information on companies' progress in this area is detailed in a series of updated figures and supplementary reports of the Hampton-Alexander Review published iteratively since 2017 and described in more detail at the end of this endnote.

The Hampton-Alexander Report recommends that this information should be disclosed in the Corporate Governance section of the annual report and/or on websites. FTSE 350 companies have been asked to submit company-specific information covering specified periods to a secure website portal maintained by the Review. The portal is only open for a limited time each year (in 2019, it was open from 1st July until 31st July).

The PLSA expects companies to explain what steps they are taking to bring diversity – in all its guises, including gender diversity – into their boardroom (PLSA Guidelines, Appendix 1, paras 4.11–4.12 and 5.11-5.12). PLSA states that, “the Davies Report and 33 per cent target is a useful benchmark for gender diversity, and a failure to move closer to the target is one example of a criterion that could justify a vote against the re-election of the Chair or Chair of the Nominations Committee” (PLSA Guidelines, Appendix 1, para 4.12).

The PIRC Guidelines state that PIRC supports the Davies Review and Hampton-Alexander review recommendation that FTSE 350 boards aim for women to account for 33% of board positions in FTSE 350 companies by 2020. It also supports the Hampton-Alexander review recommendation that FTSE 100 companies aim for a minimum of 33% female representation across their Executive Committee and in the Direct Reports to the Executive Committee by 2020 (it does not refer to the FTSE 250). PIRC will not recommend supporting re-election of a nomination committee chair of a FTSE 350 company where current female representation falls below these expectations with no clear and credible proposals for reaching these objectives (Chapter 2 – The Board).

For meetings held on or after 1 February 2020, ISS has proposed, subject to specified mitigating factors, recommending a vote against the chair of the nomination committee (or other directors on a case-by-case basis) in circumstances where there are no female directors on the board of widely-held companies (ISS Proxy Voting Guidelines Updates, page 4). Mitigating factors include the presence of a female director on the board at the preceding AGM and a firm, public commitment to appoint at least one female director within a year.

Although it values the importance of board diversity, Glass Lewis does not generally base voting recommendations solely on strict diversity quotas. However, Glass Lewis may recommend voting against the nomination committee chair where a FTSE 350 board has neither met the 33% gender diversity target set out in the Hampton-Alexander Review (or failed to make progress towards best practice prevalent in the market) nor disclosed any cogent explanation or plan to address the issue (Glass Lewis Proxy Guidelines, pages 2 and 15-16). Glass Lewis will also take into account a company's disclosed gender pay gap data and the composition of its executive pipeline when determining the severity of its concern over these matters.

The IA reported on 22 November 2018 that its latest Stewardship Survey showed that investors are placing a strong focus on gender diversity with 42% of asset managers making a voting decision based on the gender diversity of a company in 2018 and 56% of asset managers actively engaging with UK companies on the issue of gender diversity. IVIS noted, on 21 February 2019, that it will ‘red top’ companies that have no or only one women on their board. IVIS will also issue an ‘amber-top’ (the second highest warning) to companies not on course to meet the requirements of the Hampton-Alexander review. IVIS will highlight any board with women representing 25% or less. This was reiterated in a press release issued by the IA in March 2019 in which the IA also stated that it had written to 69 of the FTS 350 companies who have no women or just one woman on their board outlining concerns about lack of women on their board and asking them what action they are taking to make progress and ensure they are meeting the Hampton-Alexander targets by 2020.

62 The Parker Review states that each FTSE 100 board should have at least one director of colour by 2021 and that each FTSE 250 board should have at least one director of colour by 2024. This is a voluntary disclosure but some inclusion of this information may be best practice ahead of the target dates.

The PLSA Guidelines state that progress towards the target set by the Parker Review is a useful measure of whether diversity is being sufficiently considered (PLSA Guidelines, Appendix 1, para 4.12).

The PIRC Guidelines state that PIRC will be looking for companies to acknowledge the Parker Review, at the very minimum, and will require FTSE 100 companies to follow the targets recommended by the review unless they disclose why the target does not apply. In 2019, the PIRC Guidelines were amended to state that PIRC will recommend abstaining on the re-election of the nomination committee chair in a FTSE 350 company for lack of disclosure on progress in line with the Parker Review recommendations (PIRC Guidelines, Chapter 2 – The Board).

The Glass Lewis Proxy Guidelines support these targets stating that a board should “strive” to meet these targets (page 15).

In October 2018, the BEIS Committee launched a consultation on ethnicity pay reporting, which asked for views on ethnicity pay reporting by employers, including in respect of what ethnicity pay information should be reported and whether companies should be required to produce ‘action plans’ to redress any disparities. The consultation notes that the “government believes it is time to move to mandatory ethnicity pay reporting”. The BEIS Strategy Committee Report on Gender Pay Gap Reporting recommends that the Government consult upon introducing requirements to collect and report pay gap data in respect of disability and ethnicity and, subject to consultation, introduce the requirement in time for publication in 2020 (pages 23-24). The Government's response to the BEIS Strategy Committee Report on Gender Pay Gap Reporting stated that the responses to the consultation on ethnicity pay reporting will “enable government and employers to move forward in a consistent and transparent way” and that it will ensure that it understands how best to implement ethnicity pay reporting whilst also ensuring the proposals are “proportionate and do not cause undue burden” (pages 7-8). The consultation closed on 11 January 2019 and the outcome of the consultation had not been published at the date of publication of this document. The PLSA has noted, in its consultation response published on 11 January 2019, that “that where disclosure on pay gap issues has been voluntary, companies have been slow to act”. It made clear its support for the “government’s intention to take a mandatory approach to ethnicity pay reporting” but stressed that “balance must be maintained between ensuring any information is useful and that additional reporting requirements do not place a disproportionate burden on firms.” The PLSA further commented on the need for any disclosures to be consistent, comparable and provided alongside appropriate narrative context, which it suggested could be supported by non-statutory guidance.

63 Any separate corporate governance statement (not included in the directors’ report) must be approved by the board and signed by a director/secretary (section 419A CA 06).

64 Following the FRC Corporate Reporting Review 2017, which stated that, “a company’s strategic report continues to be one of the areas which is most frequently subject to challenge through the FRC’s monitoring activity”, the FRC Corporate Reporting Review 2018 states that, strategic reports “remain an area that we regularly challenge in our monitoring work”. This trend continued in the FRC Corporate Reporting Review 2019, with the strategic report being ranked second in a table of areas in which the FRC put substantive questions to companies (page 10). However, the FRC noted that the areas that commonly feature are the most complex and that reporting is generally improving in these areas, with companies getting the basics right, but with the FRC asking more targeted questions (page 8). The FRC stated that the FRC most often raised questions relating to: (i) the identification, description and mitigating actions taken to manage principal risks and uncertainties; (ii) the comprehensiveness of business reviews; and (iii) disclosures relating to APMs (page 21). There were some similarities last year as the FRC referred to missing or incomplete principal risks and uncertainties as being a common issue, but it also referred to the strategic report being insufficiently balanced and comprehensive to meet the requirements of the CA 06 or where the strategic report did not include discussion of all material aspects of the company’s reported performance (FRC Corporate Reporting Review 2018, page 22).

The FRC has stated that the strategic report provides an opportunity to “present a single, coherent narrative explaining and complementing the information” in the financial statements. It expects companies to ensure that their reports include a fair review of the company’s business that is a balanced and comprehensive analysis of both performance and position, and to pay particular attention to APMs and the Non-Financial Reporting Statement. The FRC’s Corporate Reporting Review 2017 stated that quality can be improved by ensuring that strategic reports explain the relationships and linkages between different pieces of information, e.g. the linkages between key performance indicators and remuneration policies.

Smaller companies (outside the FTSE 350) should also refer to the FRC’s Corporate Reporting Thematic Review: Reporting by Smaller listed and AIM quoted companies (November 2018) as this includes an analysis of smaller listed company’s strategic reports.

65 A company is permitted under section 426 CA 06 to provide shareholders with the strategic report with “supplementary material” instead of the accounts and reports, provided certain conditions are complied with. In those circumstances, the content requirements of section 426A CA 06 and LR 9.8.13 must be complied with, together with the requirements set out in this Section B of this checklist: B. STRATEGIC REPORT. Disclosures that are included in the strategic report by cross-reference to another part of the annual report must also be sent to shareholders along with the main body of the strategic report (paragraph 9.2, Guidance on the Strategic Report). For further guidance on the statutory option to provide the strategic report with supplementary material, see paragraphs 9.1 to 9.4 of the Guidance on the Strategic Report.

66 A group strategic report may, where appropriate, give greater emphasis to the matters that are significant to the undertakings in the consolidation, taken as a whole (section 414A(4) CA 06).

67 In relation to a group strategic report, section 414C CA 06 has effect as if the references to the company were references to the undertakings included in the consolidation (section 414C(13) CA 06). Nothing in section 414C CA 06 requires disclosure of information about impending developments or negotiations taking place if such disclosure would be seriously prejudicial to the company (section 414C(14) CA 06). However, companies subject to the DTRs must be mindful of the requirement for the directors to give responsibility statements under DTR 4.1.12 (see Part G: General Content Requirements) and may, therefore, find it difficult to make use of the permitted omission under section 414C(14) CA 06. The Guidance on the Strategic Report encourages the directors to consider whether there is summarised information that is not seriously prejudicial which should be disclosed (paragraph 5.15).

68 The Guidance on the Strategic Report provides non-mandatory guidance supporting the strategic report requirements and encouraging best practice. It notes that the strategic report and the annual report more broadly should contain information that is material to shareholders, including information that enables shareholders to assess the directors' stewardship. It notes that the needs of all significant shareholder groups (including those who take a long-term view on investment) should be considered when determining whether a matter is material as well as whether the fact or circumstance would affect the ability of the company to generate or preserve value over the long-term (paragraph 5.2, Guidance on the Strategic Report). See section 5 of the Guidance on the Strategic Report for further guidance on materiality, including guidance on when it would be appropriate to apply the concept of materiality. See also section 3.1 of the Guidelines on Non-Financial Reporting. In particular, the Guidelines on Non-Financial Reporting include a list of factors that may be taken into account when assessing materiality of information (page 10). The FRC Letter to Larger Listed Companies 2015 encouraged companies, in applying the concept of materiality, to disclose how the risks specifically affect them and the steps they are taking in mitigation. The letter also noted that investors had expressed surprise that risks relating to data protection in IT systems, cyber risk and climate change risks were not reported more often as principal risks.

69 Principle N of the Corporate Governance Code states that the board should present a fair, balanced and understandable assessment of the company's position and prospects. Further, Provision 27 states that the board should state in the annual report that this is the case and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy. Paragraphs 6.3 to 6.7 of the Guidance on the Strategic Report also provide guidance on the communication principles which contribute to making the strategic report "fair, balanced and understandable". PLSA states that reporting should cover both the financial and non-financial, and outline how the board has fulfilled its responsibilities (PLSA Guidelines, Appendix 1, para 4.1). The PLSA Guidelines ask that the strategic report should provide a clear articulation of how the company's key assets – both physical and intangible – are engaged in the generation of sustainable value creation and clear connections made to the chosen financial and non-financial KPIs and the reciprocal link with executive pay (PLSA Guidelines, Appendix 1, para 4.2).

The FRC Report on Narrative Reporting 2015 (page 10) advocates taking a forward-looking approach in the strategic report. Examples of information which investors find useful include: quantitative targets so that performance against strategic objects can be measured over time; information about new products under development; information on expansion or divestment plans; proposals to enter new markets; succession planning; plans for capital expenditure; and expectations for the company's key products and markets over future years. Care should be taken in including forward-looking statements, notwithstanding the safe harbour provided by section 463 of the Companies Act 2006 for information included in the strategic report. Forward-looking information should be verified and boards should be circumspect about including information which could be affected by unpredictable circumstances.

The FRC's 2017 Reporting Summary states that the FRC encourages companies to consider the broader drivers of value that contribute to the long-term success of the company, including, for example, a highly trained workforce, intellectual property or internally generated intangible assets. The FRC requests disclosure of how those sources of value are managed, sustained or developed. The FRC also asks companies to describe how they engage with key stakeholders and how the allocation of resources will support the achievement of their strategy and impact on stakeholders (FRC's 2017 Reporting Summary, page 2). The FRC discussion paper, Business Reporting of Intangibles: Realistic prospects (February 2019) includes a section on narrative reporting setting out how it might usefully complement information in the financial statements (see pages 4-5 and 17-19).

70 The Guidance on the Strategic Report provides advice on the disclosures to be made of the risks and uncertainties facing the company at paragraphs 7B.27 to 7B.34. It suggests that the risks and uncertainties should be limited to those considered by management to be material to the development, performance, position or future prospects of the company or where the impact of the company's activity poses a significant risk. They should include the full range of business risks, both financial and non-financial including, but not limited to, risks that might threaten the company's business model, future performance, solvency or liquidity or result in significant value erosion (taking impact, probability and timescale into consideration). Disclosures should be specific so a shareholder can understand why they are material. The FRC states that significant changes in principal risks, such as likelihood, probable timing or possible effect, or inclusion of new risks, should be highlighted and explained. New guidance is provided on long-term systemic risks. Companies are now advised to look beyond their own operations to risks and impacts from business relationships, products and services. See also section 4.4 of the Guidelines on Non-Financial Reporting. This contains similar guidance, but, among other things, also refers to material information on supply and sub-contracting chains. The FRC Corporate Reporting Review 2019 stated that the FRC wrote to more companies questioning the adequacy of their disclosure of principal risks and uncertainties than in the previous year with these enquiries being prompted by information elsewhere in the annual report or external matters which were not referred to in the report, or to which there were only sparse references (page 21, which gives examples of specific areas of questioning during the year). Boilerplate reporting in relation to topical issues such as climate change, Brexit and cyber risk is discouraged with cursory and boilerplate reporting challenged (page 21). Although companies are only required to disclose principal risks, where environmental matters are an area of investor interest, the FRC encourages companies to go beyond the statutory requirements and disclose the environmental risks and opportunities that the group is exposed to and how these are managed whilst noting that they are not principal risks (FRC Corporate Reporting Review 2019, page 26).

The FRC Lab Report on Risk and Viability Reporting 2017 and the FRC Lab Report on Business Model, Risk and Viability Reporting 2018 both note that all investors are looking for disclosures that are company-specific and avoid jargon and boilerplate. The reports also set out which attributes of risk reporting are most important to investors (pages 12 and 14 respectively). Both reports also include quick questions for companies on their principal risk disclosures including the following:

- Does the description of principal risks identify how they are specific to the company?
- Are the risk disclosures detailed and specific enough to understand why the risk is material and over what time period?
- Is it clear how the company categorises and prioritises principal risks? Some form of categorisation is useful and most investors seek to understand the priority placed on each risk (and with no obvious ordering may assume that the first risk listed is the most important).
- Are movements in principal risks, including movements into and out of the principal classification, explained? Investors gain confidence when disclosures set out year on year changes and give an indication of the likelihood of risks occurring.
- Is it clear how the principal risks link to other parts of the annual report and accounts, in particular the viability statement business model strategy, KPIs and the risk reporting in the financial statements?
- Do the mitigating activities include specific information that allows the reader to understand the company's response?

The FRC Lab Report on Risk and Viability Reporting 2017 notes the tension between the desire to provide succinct and useful information and the pressure to disclose a list of principal risks which does not give away any competitive advantage (and which may result in unspecific and excessive disclosure). The quality of disclosures was more important to investors than the quantity and disclosures should be given in context and linked to relevant areas in the annual report. Investors also felt that information on the likelihood and possible impact of risks is useful, including the use of heat maps. Heat maps were found to be more useful when they are accompanied by a narrative description to provide further information. It is important to disclose whether risks are presented as gross or net of controls.

See also the disclosures relating to the appropriateness of the going concern basis of accounting at row G.4 and in Section C. AUDITOR'S REPORT of this checklist.

71 In 2016, the expectation of the FRC was that, as the economic and political effects of the UK's Brexit vote became more certain, boards should provide increasingly company-specific disclosures with quantification of the effects (FRC Corporate Reporting Review 2016, page 31). This was reflected in the FRC's Corporate Reporting Review 2017, where the FRC noted that the majority of annual reports recently reviewed by the FRC included disclosure on the continuing uncertainties regarding the effects of Brexit and that many were beginning to identify, in more detail, the specific nature of the likely risks (FRC Corporate Reporting Review 2017, page 3). The FRC advised that companies should keep Brexit disclosures under review. On 17 November 2017 the FRC announced that it would undertake thematic reviews on various topics in 2018/19 including the effect of Brexit on companies' disclosure of principal risks and uncertainties. Although this review has not been published at the date of publication, the FRC did state in the FRC's 2019 Reporting Summary that it expects companies to consider carefully the detail provided in areas of the report that are exposed to heightened areas of risk, for example the impact of Brexit (see page 2).

The FRC Lab Report on Risk and Viability Reporting 2017 contains an investor perspective, stating that investors consider that companies should only include Brexit, cyber and climate change risks where they are relevant (page 19). However, they found it helpful where companies included an explanation of the effect of Brexit and how they are responding to the potential impact. The FRC Lab Report on Business Model, Risk and Viability Reporting 2018 noted that the level of information investors want on Brexit has increased. In particular, investors would like information on the effect of differing Brexit scenarios and mitigating actions and how they are responding to the potential impact as well as information on how companies are preparing to address the risks that may arise and quantification of those risks or the impact of mitigating actions where available (page 17).

The FRC Corporate Reporting Review 2018 notes that the continuing uncertainty has meant that the development of focussed disclosures has been patchy. Interestingly the FRC notes that nearly a third of companies tracked who reported Brexit as a principal risk in their 2017 reports did not do so in 2018, with varying reasons given (page 21). Where there was no obvious specific impact, some companies referred to the continuing uncertainty in the markets generally. Other companies had firmed up their view that Brexit would have an impact on their business including specific reference to the potential for higher tariffs on imported goods and the consequences of increased customs declarations. The "most informative" disclosures were made by those companies specifically impacted and included an explanation for any change in their risk assessment and a range of mitigating options with some identifying those responsible for developing their strategic response to the challenge and/or a range of possible scenarios attaching to the current position. The FRC Corporate Reporting Review 2019 noted that all companies in the sample with EU or UK operations referred to the risks of Brexit (either as a standalone principal risk or a wider principal risk) with most companies considering not only an orderly exit but also the risk of a no-deal Brexit (see page 24 for examples of general risks identified). Over 75% of the sample referred to uncertainty about the future economic and political consequences of Brexit and several even referred to the possibility of a recession. Focussed disclosures were no longer patchy with companies highlighting a variety of specific risks, that varied by industry (see page 24 for examples of specific disclosures). More companies provided disclosures on proposed mitigating actions (see page 24 for examples of proposed mitigating actions). Almost all of the companies with UK or EU operations referred to Brexit in their viability statements with none concluding that it threatened their viability, although disclosures varied from a general consideration of Brexit to scenario testing for a no-deal outcome. According to Practical Law's What's market survey data (as at 25 October 2019), in 2019 37% of FTSE 350 respondents made reference to Brexit in their viability statements, compared to 14% in 2018.

ESMA's Public Statement 2019 reminds companies of the importance of monitoring Brexit negotiations and of providing disclosures on the impact of Brexit on the company's activities and its financial information (page 2). ESMA's Public Statement 2018 reminded companies to follow closely the impact that Brexit negotiations will have on their activities. ESMA stated, for example, that the details of the exit scenario might become clearer by the date that 2018 annual report and accounts are authorised for issue and therefore companies should provide sufficient transparency on its impact on their exposures and activities, risks and sources of estimation uncertainty and the way these are managed based on the company's specific circumstances (page 1). ESMA's Public Statement 2017 also asked companies to disclose risks related to the Brexit referendum result, including the expected impacts on business strategy and activity. The 2016 edition of ESMA's Public Statement clarified that this disclosure should encompass in particular the company's exposure to financial, operational and strategic risks; expected impacts and uncertainties that might affect the company's activities; and how the board manages and plans to mitigate these risks. Those points are likely to remain relevant for companies' 2019 annual reports.

72 The FRC's Thematic Review on Impairment of non-financial assets (October 2019) notes that companies should consider Brexit (including linking relevant assessments with descriptions of business model, viability and principal risks and uncertainties), climate change (principal risks, business model and long term performance) and the interaction with IFRS 16 when preparing impairment related disclosures for their 2019 annual reports. See also page 4 of the FRC's 2019 Reporting Summary which refers to the FRC's expectations around key assumptions.

73 The FRC Corporate Reporting Review 2016 stated that one of the most common areas for challenge by the FRC in 2015 – 2016 was whether reports were sufficiently balanced. Specific reasons for challenge were: lack of focus on negative trend information; absence of discussion of the results of material parts of the business; where discussion focussed exclusively on the income statement (page 29). The FRC also expressed concern about inappropriate use of APMs. See endnotes 440 and 441 for more information on APMs.

74 The Guidance on the Strategic Report provides advice at paragraphs 7B.59 to 7B.65. It states that the report should include a narrative of the development, performance and position of the

business in the financial year which is consistent with the information in the financial statements (paragraph 7B.60, Guidance on the Strategic Report). Where necessary, the analysis should make reference to cash flows and factors that might affect future cash flows (paragraph 7B.62, Guidance on the Strategic Report). The strategic report should explain the company's performance in the context of its performance relative to prior periods and could explain performance relative to stated targets and the external environment in which it operates (paragraph 7B.63, Guidance on the Strategic Report).

The FRC Lab Report on Disclosures on the Sources and Uses of Cash refers to this guidance and gives further guidance on how companies can 'bring together' disclosures related to cash (see pages 4 and 17 to 19). Investors are looking for disclosures on the sources of cash which link to strategy, working capital and risks to allow an assessment of future cash generation (see pages 3 and 11). It also discusses connecting cash and working capital with investors wanting more information on the interaction between profit, cash, trade debtors and trade creditors (see pages 6 and 26 to 29 of the FRC Lab Report on Disclosures on the Sources and Uses of Cash for more information) and supplier financing / reverse factoring (see Appendix 1 for more information). See also the FRC's 2019 Reporting Summary for more information on the FRC's expectations in relation to the reporting of cash, in particular, contextual disclosures beyond the cash flow statement and disclosures around supplier financing arrangements. The FRC expects to see significant cash flows, or changes in cash flowed, discussed (FRC Corporate Reporting Review 2019, page 23).

The Guidance on the Strategic Report also states that if part of the business has had a material impact on business performance, that should be disclosed and shareholders should be able to distinguish between one-off events and movements that are expected to continue. It is also important to identify the impact of acquisitions and disposals (to understand performance of the existing business and the likely future impact of the acquisition or disposal) (paragraph 7B.64, Guidance on the Strategic Report). Where the structure of a group has changed significantly, an entity may choose to use proforma figures to explain performance (paragraph 7B.65, Guidance on the Strategic Report).

The IA Long Term Reporting Guidance contains suggested disclosures related to acquisitions at paragraph 33.

Previous FRC guidance highlighted the importance of explaining the impact of significant items or events in the financial year (the FRRP Annual Report 2012). (This would include the effect of acquisitions or reorganisation charges, for example.) Those changes should also be reflected in the accounts to ensure consistency between the front end narrative and back end accounting information. The FRC's 2017 Reporting Summary considers accounting for business combinations and the FRC finds that sometimes it is not clear why few or no intangible assets, other than goodwill, were recognised in accounting for an acquisition.

The FRC Corporate Reporting Review 2016 emphasised the FRC's preference for clear and concise reporting. The review states that comprehensiveness means a breadth of information that covers significant trends and changes in financial statements having regard to their materiality, rather than including all possible information (page 6).

The FRC Corporate Reporting Review 2015 focused on the need for explanation of significant balance sheet and cash flow events, not just items which impact on the profit statement. The review also stated that companies had been challenged where there was insufficient explanation of unusual or non-recurring items.

75 The FRC's Thematic Review of Tax Reporting reviewed taxation disclosures in strategic reports made between December 2015 and November 2016. The Thematic Review highlighted the following good practices (page 6):

- inclusion of information on material tax matters likely to be important to investors, including emerging risks arising from the OECD's Base Erosion and Profit Shifting actions; and
- discussion of the effective tax rate including commentary on variances on prior periods, key influences and the expected future rate.

In the Thematic Review, the FRC noted that it would be focussing on disclosure of uncertain tax provisions in its audit monitoring activities for 2016/2017 and would continue to challenge companies who do not disclose uncertain tax provisions when there is a risk of material change in the following year. Companies were advised to explain how they account for tax uncertainties by explaining the basis for recognition and measurement (FRC's Thematic Review of Tax Reporting, page 6).

If the company makes disclosures relating to taxation in the strategic report (or elsewhere), it should ensure consistency with any published tax strategy or country-by-country report (as required by the Finance Act 2016 and the Taxes (Base Erosion and Profit Shifting) Country-by-Country Reporting Regulations 2016).

76 The FRC Corporate Reporting Review 2019 states that there were frequent instances where significant balances or transactions were not discussed or adequately explained with a significant minority omitting information that reflected unfavourably on the group's position or performance (see page 23 for examples of developments the FRC would expect to see discussed). The FRC expects comprehensive breadth.

77 "Key performance indicators" are factors by reference to which the development, performance or position of the company's business can be measured effectively (DTR 4.1.10 and section 414C(5) CA 06). The Guidance on the Strategic Report provides further guidance on the disclosure of key performance indicators ("**KPIs**") at paragraphs 7B.68 to 7B.76. It states that the KPIs used should be those that the directors judge to be most effective in assessing progress against objectives or strategy, monitoring principal risks, or are otherwise used to measure the development, performance or position of the company or the impact of its activity. There should be alignment between the KPIs in the strategic report and the key sources of value and risks identified in the business model (paragraph 7B.69, Guidance on the Strategic Report). The strategic report should also include information that enables shareholders to understand each KPI (paragraph 7B.73, Guidance on the Strategic Report). Where a line item from the financial statement or a KPI has been adjusted for inclusion in the strategic report, the term used for that adjusted measure should be clear (paragraph 7B.74, Guidance on the Strategic Report). KPIs should be consistently presented and changes from year to year explained (paragraph 7B.72). The Guidelines on Non-Financial Reporting add that KPIs should be consistent with those actually used by the company in their internal management and risk assessment processes, that both (material) general and sectoral KPIs should be disclosed and that narratives explaining KPIs and analysis of them are helpful (section 4.5).

The FRC Corporate Reporting Review 2018 notes that the FRC expects management to identify and report on the most relevant metrics they use to monitor their performance, clearly explaining their purpose and the basis on which they have been calculated and includes a case study setting out the FRC approach to monitoring KPIs (pages 22 to 23).

ESMA's Guidelines on Alternative Performance Measures may apply to KPIs within an annual report published on or after 3 July 2016. KPIs are within the scope of ESMA's Guidelines if they fall within the definition of an APM. The FRC notes that KPIs can be APMs and notes that ESMA's Guidelines on Alternative Performance Measures set out principles for disclosure for APMs even where not directly applicable (paragraph 7B.76, Guidance on the Strategic Report). For more information on APMs, see endnotes 440 and 441. In the FRC FAQ on ESMA's Guidelines on APMs, the FRC clarifies that, although ESMA's Guidelines on Alternative Performance Measures are not directed at the provision of non-financial measures, such as customer numbers or retail floor space, the principles of clarity of explanation and definition are useful to ensure such measures are properly understood.

The FRC has also published a Financial Reporting Lab report on performance metrics (the FRC Lab Report on Reporting of Performance Metrics June 2018). This looks at the investor perspective and sets out a framework and a set of questions for companies and their boards to consider when reviewing their reporting of performance metrics. The term 'performance metrics' is intended to cover "all forms of metric a company might disclose in order to provide information about its performance, position and prospects" including GAAP, non-GAAP and wider metrics (that are not covered by ESMA's Guidelines on Alternative Performance Measures). The report states that reporting on metrics should comply with five principles, namely disclosures should be: (i) aligned to strategy; (ii) transparent; (iii) in context; (iv) reliable; and (v) consistent. It also contains questions that company boards and their management should ask. Further guidance is contained in the report. The FRC followed this with a further report on performance metrics, the FRC Lab Report on Performance Metrics November 2018. This sets out additional information on each of the five principles in the FRC Lab Report on Reporting of Performance Metrics June 2018, including examples of good practice that illustrate attributes of each of those principles.

78 A medium-sized company (see sections 465-467 CA 06, see endnote 129 for more information) need not comply with this requirement insofar as the requirement relates to non-financial information (section 414C(6) CA 06).

79 A medium-sized company (see sections 465-467 CA 06, see endnote 129 for more information) need not comply with this requirement insofar as the requirement relates to non-financial information (section 414C(6) CA 06). See also endnotes 440 and 441 on the application of ESMA's Guidelines on Alternative Performance Measures to non-financial KPIs and endnote 77 on the FRC Lab Report on Reporting of Performance Metrics June 2018 and the FRC Lab Report on Performance Metrics November 2018.

80 The requirements of section 414C(4)(b) CA 06 need not be complied with again if required information has already been included within the Non-Financial Reporting Statement (for financial years commencing on or after 1 January 2017) (section 414CB(7) CA 06).

81 The Guidance on the Strategic Report provides guidance at paragraphs 7B.66 to 7B.67 and notes that the analysis should complement the financial statements, where relevant, providing additional explanations of amounts recognised in the financial statements and the conditions and events that shaped the information contained in them. The FRC's Thematic Review of Pension Disclosures states that the FRC expects companies, where appropriate, to consider supplementing pension disclosures in the accounts with additional explanation in the strategic report (page 23). The FRC will continue to question companies where the strategic report does not refer to the pension scheme but it appears appropriate to do so.

82 This information must be provided to the extent necessary for an understanding of the development, performance or position of the company's business (section 414C(7) CA 06). The Guidance on the Strategic Report provides further recommendations concerning disclosures on the business environment, trends and factors affecting the business in paragraphs 7B.21 to 7B.26. The guidance notes that in considering external trends, it is also important to consider trends and factors relating to society more generally (as well as those affecting the market in which the company operates) and other significant features of the company's external environment and how they influence the business (paragraphs 7B.22 and 7B.23). The report should set out the directors' analysis of the potential effect of the trends or factors on the future development, performance or position or future prospects of the company (paragraph 7B.23). The guidance also discusses internal trends at paragraph 7B.24. The relevant trend or factor should be quantified and the source of evidence identified (paragraph 7B.25).

83 The requirements of section 414C(7) CA 06 need not be complied with if required information has already been included within the Non-Financial Reporting Statement (for financial years commencing on or after 1 January 2017) (section 414CB(7) CA 06) except as it relates to community issues.

84 See endnote 96.

85 This information must be provided to the extent necessary for an understanding of the development, performance or position of the company's business (section 414C(7) CA 06). The Guidance on the Strategic Report provides guidance on the disclosure of these matters in paragraphs 7B.35 to 7B.58.

It states that information should only be included in the strategic report if that information is necessary for an understanding of the development, performance, position or impact of the entity's business. Some stakeholders may require a greater level of detail in certain areas but the FRC suggests that in this scenario the strategic report could provide signposting to where this more detailed information is available (paragraph 7B.47, Guidance on the Strategic Report).

The FRC notes that information on these matters should not be considered in isolation but should be integrated throughout the report where appropriate and considered when disclosing the company's strategy and business model, principal risks and uncertainties and KPIs (paragraph 7B.37, Guidance on the Strategic Report). Disclosures should not be limited to the matters stated in the CA 06 but companies should consider all the resources and relationships necessary for an understanding of the development, performance and position of the entity's business (paragraph 7B.39, Guidance on the Strategic Report). The Guidance on the Strategic Report contains a list of non-exhaustive factors which are relevant when determining the appropriate level of information to disclose in the strategic report (paragraph 7B.40). Noting that disclosures should be company-specific, it also includes a list of questions to help boards consider the types of issues which could be relevant to their business and encourage discussion on appropriate disclosures in relation to the matters set out in the CA 06 (paragraph 7B.42).

The Guidance on the Strategic Report also states that, where directors wish to put additional information in the public domain that it should be located outside of the strategic report, for example in a separate sustainability or corporate social responsibility report, which could be located online (paragraph 7B.57). Directors can include a reference to where this complementary information is located. The guidance also states that the directors may refer to a source of guidance or a voluntary framework that provides advice on how the company should conduct its business, suggests ways of monitoring performance, or provides examples of disclosures (paragraph 7B.58).

The FRC Report on Narrative Reporting 2015 asked companies to be transparent in balancing positive disclosures with sufficient discussion of any negative impacts of the business, particularly where such matters are referred to elsewhere in the annual report (FRC Report on Narrative Reporting 2015, page 21).

86 If the report does not contain the information itemised at (a), (b) and (c), it must state which item has not been included (section 414C(7) CA 06). In BIS's letter to the FRC, BIS stated that, if the directors decide that the information in section 414C(7)(b) CA 06 is not necessary for the strategic report, they cannot simply omit it; they must identify which information has been omitted.

On environmental matters, PIRC expects companies to provide a summary of the company's environmental approach, goals and performance within the annual report and accounts, and to include clear references to where detailed information is available. (PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting).

On 12 June 2018, the Department for Digital, Culture, Media & Sport and HM Treasury published the "Government response to the industry-led report, Growing a Culture of Social Impact Investing in the UK". The response encouraged companies, when reporting on their social and environmental impacts, to report in a way that is meaningful – i.e. clear, concise and genuinely informative and aligned with management approaches to business planning and risk management, as well as being aligned to investor expectations. The report discouraged a "tick box" approach to compliance.

87 The requirements of section 414C(7) CA 06 need not be complied with if required information has been included within a Non-Financial Reporting Statement (for financial years commencing on or after 1 January 2017) (section 414CB(7) CA 06) except as it relates to community issues.

88 The requirements in row B.9 apply to traded companies, banking companies, authorised insurance companies and companies carrying on insurance market activity (section 414CA(1)) - i.e. public interest entities (although the CA 06 does not use this term).

The definition of "traded company" for these purposes is a company any of whose transferable securities are admitted to trading on a regulated market" (section 474(1) CA 06). This includes companies with securities listed on the Official List of the UKLA and admitted to trading on the Main Market of the London Stock Exchange. This definition may change depending on the outcome of Brexit as it refers to regulated markets in an EEA state.

89 Companies which have no more than 500 employees (including employees of subsidiary companies), or which are small or medium-sized, as defined by the CA 06, in relation to that financial year, are exempt from the requirements (section 414CA(3) and (4)). Companies to which the requirements do not apply are permitted to comply with the requirements voluntarily (section 414CA(10) CA 06).

90 The requirements in row B.9 are set out in the Non-Financial Reporting Regulations. The Regulations apply to financial years commencing on or after 1 January 2017. The Non-Financial Reporting Regulations implement requirements of the EU Non-Financial Reporting Directive 2014/95/EU and the Accounting Directive 2013/34/EU.

If the company is a parent company, then the Non-Financial Reporting Statement must be prepared on a group consolidated basis. ESMA's Public Statement 2019 reminds companies to consider material information relating to the activities of the group, including all subsidiary undertakings, when preparing the consolidated Non-Financial Reporting Statement (ESMA's Public Statement 2019, page 10).

Within the Non-Financial Reporting Statement, the company is not required to disclose information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the commercial interests of the company, provided that the non-disclosure does not prevent a fair and balanced understanding of the company's development, performance or position or the impact of the company's activity (section 414CB(9) CA 06). The Guidance on the Strategic Report encourages the directors to consider whether there is summarised information that is not seriously prejudicial which should be disclosed (paragraph 5.15). The Guidelines on Non-Financial Reporting also note that disclosing summarised information that is not seriously prejudicial may go some way to meeting the overall transparency objective (section 4.6). ESMA states that where information is not disclosed because it is seriously prejudicial, this should not prevent the company from providing a fair and balanced understanding of the company's development, performance, position and impact of its activity (ESMA's Public Statement 2019, page 10). See section 3.4 of the Guidelines on Non-Financial Reporting, which notes that information may be provided in broader terms that still conveys useful information.

See also the FRC's Factsheet on Non-Financial Reporting (July 2017) for an overview of the Non-Financial Reporting Statement requirements and, in particular, a list of the areas of reporting which are new for quoted companies that are already subject to existing similar strategic reporting requirements (Factsheet, pages 3-4). Further information on the additional new requirements is set out in the FRC's FAQs on Non-Financial Reporting (December 2017) (page 3).

Following the first year of reporting, the FRC Corporate Reporting Review 2018 noted that there was scope for improvement in certain areas including explaining policies and due diligence processes while avoiding boilerplate, and reporting on the positive and negative impacts of a company's activities on key stakeholders (page 26). The FRC's 2018 Reporting Summary states that the FRC expects disclosures to focus on the impact of the company's activities in respect of the listed matters, the policies it has in place, any due diligence processes introduced in order to assess and track their effectiveness and related outcomes.

ESMA's Public Statement 2018 states that the disclosures should reflect relevant, material and company-specific information (page 9), and refers to the Guidelines on Non-Financial Reporting, which may help companies comply with the relevant requirements. ESMA's Public Statement 2019 reminds companies that they should, as a minimum, address each of the factors set out in rows B.9(a) to (e) and must include the remaining information set out in row B.9 and that these disclosures should be concise and avoid non-material disclosures.

The BEIS Research Paper on Perceptions of Non-Financial Reporting notes that the general view that non-financial reporting allows investors to determine which companies are performing well in specific areas such as environmental or human rights with stakeholders perceiving a clear link between non-financial reporting and business reputation (although little evidence from respondents that companies that lagged behind were being challenged on this basis) (page 23). Although there is increasing engagement with investors over non-financial information and increasing demand for it, there are mixed views over the value of reporting in the Non-Financial Reporting Statement and under section 414C CA 06 due to the mixed quality of the content of the reports (page 20).

91 The explanatory memorandum to the Non-Financial Reporting Regulations states that the Non-Financial Reporting Statement must be a separate and distinct part of the management report, as required by Directive 2014/95/EU (explanatory memorandum, para 4.4). Section 414CA CA 06 states that the statement must be located within the strategic report. Where there is overlap with the following requirements of CA 06, there is no need to set the information out again elsewhere within the strategic report: section 414C(4)(b); section 414C(7) (except as it relates to community issues); section 414C(8)(b); and section 414C(12), (so far as relating to environmental, employee or social matters).

The FRC encourages companies to meet the requirements of the Non-Financial Reporting Statement through a title and a series of cross-references so as to maintain the coherence of the strategic report (paragraph 7B.84, Guidance on the Strategic Report). It discourages companies from replicating information located elsewhere in the strategic report (paragraph 7B.84, Guidance on the Strategic Report). See also paragraph 7B.38 of the Guidance on the Strategic Report, which notes that the requirement to produce a Non-Financial Reporting Statement can be met by including cross-references to where the relevant information is included in the strategic report. (Note that the FRC is no longer advising companies that the Non-Financial Reporting Statement does not have to be either a discrete element within the strategic report or a separate statement, as previously stated in its 'Frequently Asked Questions on Non-Financial Reporting (December 2017) at question 5. The FRC noted in its Feedback Statement to the consultation on amendments to the Guidance on the Strategic Report that the legislation requires the disclosures to be in a separate statement (page 7).) ESMA notes that it is helpful to provide clear information (including by way of high-level mapping) on where the relevant non-financial disclosures have been included in the statement (ESMA's Public Statement 2019, page 10). The FRC continues to challenge companies that fail to present this in a separate statement and reminds them that the requirement can be met through a title and a series of cross-references to other information in the strategic report (but not information disclosed elsewhere, for example, on the company's website) (FRC Corporate Reporting Review 2019, page 25).

Due to the overlap with the requirements set out in section 414C CA 06 and the advice from the FRC that companies should meet the requirements through a title and series of cross-references, guidance in the Guidance on the Strategic Report on the overlapping requirements is set out next to, or endnoted to, the equivalent requirements in section 414C.

92 Section 3 of the Guidelines on Non-Financial Reporting includes guidance on key principles to consider when drafting the Non-Financial Reporting Statement. These principles are: (i) disclose material information; (ii) fair, balanced and understandable; (iii) comprehensive but concise; (iv) strategic and forward-looking; (v) stakeholder oriented; and (vi) consistent and coherent.

93 The FRC states that information should be disclosed in relation to these matters which could affect the long-term success of the entity as the purpose of requiring this information is to enable a reader to understand the impact of these factors on the business of the company and the impact of that business on stakeholders and society (paragraph 7B.43, Guidance on the Strategic Report). Further guidance is provided on the 'Impact of activities' at paragraphs 7B.43 to 7B.47 of the Guidance on the Strategic Report and section 3.1 of the Guidelines on Non-Financial Reporting.

ESMA describes this materiality concept as a 'double materiality perspective' (further expanded upon in section 3.1 of the Guidelines on Non-Financial Reporting), requiring consideration of both the impact of the non-financial matters on the company and the impact of the company on non-financial matters. It recommends that companies pay particular attention to the double materiality perspective when preparing non-financial disclosures in order to ensure that all material information is provided (ESMA's Public Statement 2019, page 9).

ESMA also states that the Non-Financial Reporting Statement may be misleading if it focuses on matters in relation to which there is good news to convey and gives less prominence to other matters where there is less positive news. ESMA therefore recommends that companies provide a balanced description of the performance, position and impact of the company's activity, including how those matters affect the company (ESMA's Public Statement 2019, page 10).

The BEIS Research Paper on Perceptions of Non-Financial Reporting notes that materiality was a key issue for many stakeholders with the reports not meeting the investors' needs due to the length of them and the "sometimes vague and wordy nature of the information contained within them" and worry over potential 'green-washing'. Differing interpretations of what is material also means that reports of different companies cannot easily be compared. Sheer volume of information can make the reporting inaccessible and generic reporting is unhelpful (pages 17 to 19). Variations in reporting generally lead to difficulties in comparing reports. There were also questions over whether companies gave a "fair and accurate reflection" of the positive and negative and that mandatory reporting has led to 'box-ticking' producing reports more akin to "marketing brochures" rather than a "detailed account of strategy, risks and opportunities" (page 20). One of the key benefits of non-financial reporting was seen as focusing on the strategic purpose of a business and allowing the board to tell the company's story but the lack of common metrics makes it difficult for investors to compare reports and indeed it is difficult to quantify many of the impacts reported (page 32). These comments apply to both the Non-Financial Reporting Statement and reporting under section 414C CA 06 (covered elsewhere in this checklist) as the BEIS review covered non-financial reporting introduced since 2013.

94 See section 4.6 of the Guidelines on Non-Financial Reporting for more information. It notes that 'thematic aspects' are often interconnected and that companies should provide a clear, fair and comprehensive view that encompasses all relevant aspects of an issue. Detailed guidance is provided on each of the items listed at rows B.9(a) to (e) including the types of disclosures that companies are expected to make. It also states that the list is non-exhaustive and that companies should also consider other topics, including supply chains (material information on supply chain matters that have significant implications for the company's development, performance, position or impact) and conflict minerals (section 4.6 9(a) to (e).

95 The Guidelines on Reporting Climate-Related Information supplement the Non-Financial Reporting Guidelines and recommend companies additionally include climate change information under this heading. Only climate change information that an investor would find material should be disclosed. Specifically this is climate change information necessary to have an understanding of the company's development, performance, position and the impact of its activities (see page 4 of the Guidelines on Reporting Climate-Related Information).

When considering climate change risks (and environmental risks generally), the company should consider a longer-term time-horizon than is traditionally the case for financial information. In particular, companies are advised not to prematurely conclude that climate change related information is not material just because the risk may be seen as long-term in nature (see page 4 of the Guidelines on Non-Financial Reporting). This longer term approach is also recommended in the UK Government's recent Green Finance Strategy which was published in July 2019.

As well as considering the impact of its own activities, companies should also consider the impact of its value/business chain as a whole (both 'up-stream' and 'down-stream') (see page 5 of the Guidelines on Non-Financial Reporting).

Companies that conclude that climate change information is immaterial to their business should nonetheless disclose a statement to this effect accompanied by a statement explaining how that conclusion has been reached (see page 5 of the Guidelines on Reporting Climate-Related Information).

ESMA's Public Statement 2019 reminds companies of the continued relevance of environmental matters and particularly climate change (page 10-11). ESMA urges companies to provide information on: (i) the consequences of their activities and of the use of their products and services by customers for climate change and the environment; and (ii) how they are impacted by the consequences of climate change and other environmental matters. ESMA also refers to the Guidelines on Reporting Climate-Related Information, noting that they are aligned with those of the TCFD. The FRC Corporate Reporting Review 2019 notes that companies often overlook the fact that the regulations require disclosure of the impact of the company's business on the environment as well as the risks that the environment poses to the company (page 25). See pages

25 to 26 of the FRC Corporate Reporting Review 2019 for a case study relating to environmental disclosures.

ESMA's Public Statement 2018 highlighted the requirement to disclose a description of the policy addressing environmental matters, which ESMA considers should include climate change-related matters. ESMA also emphasised that companies should include information on both the actual and potential impacts relating to environmental matters and also information on the principal risks related to environmental matters, which should include climate change-related aspects stemming from the company's operations, or which may be linked to the company's business relationships, products or services (page 9). Companies should disclose information on the impacts of their operations on the environment and how environmental matters may affect the company's development, performance or position. Companies should consider whether environmental matters may have adverse consequences of an operational as well as financial nature and provide relevant disclosures explaining the relevance of the risks and any mitigating actions being taken. The Environment Agency has stated that "worryingly few FTSE boards are disclosing the strategic risks to their shareholders brought by the physical impacts of climate change" and that "boards cannot continue to see extreme weather events, like floods and heatwaves, as purely operational" (Environment Agency, Climate change impacts and adaptation, November 2018).

96 The FRC has stated that the boards of UK companies have a responsibility to consider their impact on the environment and the likely consequences of any business decisions in the long-term and they should therefore address, and where relevant report on, the effects of climate change (both direct and indirect) (especially given the focus in the CGC 2018 on emerging risks). This reporting should set out how the board has "taken account of the resilience of the company's business model and its risks, uncertainties and viability in both the immediate and longer-term in light of climate change" (FRC's 2019 Reporting Summary and FRC press release dated 2 July 2019 entitled 'FRC statement on the Government's Green Finance Strategy'). This was reiterated in the FRC Corporate Reporting Review 2019, at page 21, where the FRC went on to state that it had challenged companies whose business models appear to give rise to significant climate change risk but this was not discussed in the annual report. Where either physical or transition risks are significant, the FRC expects to see them discussed in the annual report.

97 When considering disclosure of the negative risks posed by climate change, companies are advised to consider including both the principal risks to the development, performance and position of the company ('Negative Risks') <u>from</u> climate change and the negative impact <u>on</u> the climate which has been caused, or can be attributed to, the company's activities ('Climate-Related Risks'). This includes risk from the company's own operations together with risks from both up and down-stream in the supply chain (see pages 4-6 of the Guidelines on Reporting Climate-Related Information).

Negative Risks to the company can be categorised as either transitional risks or physical risks. Transitional risks are those that arise from the transition to a low-carbon and climate-resilient economy (e.g. risks posed by government policy changes, litigation risks, market risks (for example a change in consumer behaviour whereby consumer prefer 'green' alternatives to existing products or services), reputational risks or technology risks (for example, the cost of replacing existing plant or equipment with environmentally friendly alternatives)). Physical risks are those that arise from the physical effects of climate change. These risks can be further classified as 'acute physical risks' and 'chronic physical risks'. Acute physical risks particularly include weather-related events (storms, floods, or heatwaves). These events may damage production facilities and disrupt supply chains. Chronic physical risks are long-term climate-change related risks which arise from longer-term changes to the climate. These include temperature changes, rising sea levels, reduced water availability, biodiversity lost and changes in land/soil productivity (page 6 of the Guidelines on Reporting Climate-Related Information and also discussions on the nature of climate risk on page 8 of the CDSB Guidance on TCFD Recommendations).

Climate-Related Risks may, for example, be direct and include greenhouse gas emissions that result from the operation of the company's manufacturing facilities, or arise from the energy used by a company to run its operation (specifically the risks posed by any fossil fuels utilised for this purpose). Likewise, Climate-related risks may be indirect such as the down-stream example of the any fossil fuels that the company's products may need in order to operate (a car burning petrol as fuel for instance) or the up-stream example of CO2 emissions required to produce materials necessary for production of the company's goods for sale (e.g. aluminium needed for the construction of cars) (page 6 of the Guidelines on Reporting Climate-Related Information).

A further element to consider when assessing climate-related risk is dependency. Most importantly (in this context) is a company's dependency on natural capital which can be threatened by the effects of climate change. The vulnerability of any natural capital which is relied upon by a company should be identified and reported on when the company is disclosing climate-related risks. Note, both social and human capital is also relied on by companies and can be affected by climate change. Companies should integrate information on vulnerable social and human capital in their reporting on climate-related issues (page 6 and 7 of the Guidelines on Reporting Climate-Related Information).

98 In its response to the Taylor Review of Modern Working Practices in February 2018, the Government highlighted various existing requirements and developments that require (or will require) companies to report on employee-related issues, including: (i) the Non-Financial Reporting Statement (employee policies and principle risks related to employees); and (ii) the narrative reporting requirements related to employee engagement and section 172 CA 06 (applying to financial years commencing on or after 1 January 2019; see endnote 126 for more information on the new requirements). The Government expects that in responding to this stronger framework "larger companies will be more transparent about their workforce structures, particularly where these are an important aspect of their business model" and that this will be expected by shareholders where it is material to the company's financial results and an understanding of its business (page 41). The Government will review the impact of reforms on reporting practice and if there is no change, take further action, potentially including a new requirement on companies to publish a 'People Report' (page 42). See also the PLSA report - Hidden Talent 2: Has Workforce Reporting by the FTSE 100 improved? (April 2019) that updates the PLSA's previous work on corporate reporting of workforce-related issues. The report concludes that although there have been some minor improvements in a few metrics, more work is required to improve the overall quality of workforce reporting across the FTSE 100. Reporting on many issues remained at similar levels and of similar quality to those of the previous report and cases of best practice are still the exception rather than the rule. The FRC Lab conducted a review of workforce reporting with a final report due out in late 2019. It had not been published by the date of the checklist. Initial findings include: (i) investors want to understand the way in which the board engages with the topic of the workforce, including where the inherent risks and opportunities lie; (ii) investors would like more basic data about the workforce, including the number of people under director employment as well as contractors and others, the amount invested in training and development, levels of staff turnover (broken down where possible by business segment or level of staff) with this baseline allowing them to understand the challenges and support the introduction of more strategic information or KPIs (FRC Corporate Reporting Review 2019, pages 29 to 30).

Stakeholders interviewed by BEIS for the BEIS Research Paper on Perceptions of Non-Financial Reporting criticised the use of the word 'employee' noting that it excluded those employed through agencies and those on zero hours contracts. Several respondents also said that it would be helpful to have more detail on the workforce (page 20). These criticisms apply to both the Non-Financial Reporting Statement and reporting under section 414C CA 06 (covered elsewhere in this checklist) as the BEIS review covered non-financial reporting introduced since 2013.

99 See paragraph 3.1 of the Guidelines on Reporting Climate-Related Information for specific information on how to report climate change-related risks to a company's business model and strategy and how a company's activities can affect the climate over the short, medium and long term. One area of focus should be how climate change-related risks will evolve under different climate change scenarios (pages 8-9 of the Guidelines on Reporting Climate-Related Information). The CDSB Guidance on TCFD Recommendations recommends that at least two different scenarios are tested (due to advances in forecasting by scientific models).

100 See paragraphs 7B.48 to 7B.58 of the Guidance on the Strategic Report and sections 4.2 and 4.3 of the Guidelines on Non-Financial Reporting for further guidance on disclosures relating to policies. Disclosures should be clear, concise, proportionate and provide a fair view. In relation to due diligence processes, the Guidance on the Strategic Report states that the report should include an entity-specific and informative description of any due diligence processes over material matters that are in place to ensure that the company's policies relating to those matters are adhered to throughout its group and, where appropriate, its supply chain (paragraph 7B.52 and 7B.54). It also provides guidance where a company has a framework for managing a number of risks rather than specific processes relating to each policy area (paragraph 7B.53). The Guidelines on Non-Financial Reporting state that companies may consider disclosing information on the decisions taken to set up due diligence processes and how they are intended to work as well as relevant information on setting targets and measuring progress (section 4.2). The guidelines also state that companies should disclose changes to their policies and processes (section 4.2). The FRC Corporate Reporting Review 2019 states that disclosures are often generic and do not always identify the company's policies in these areas, the specific outcome of those policies or due diligence carried out in relation to them (page 25).

101 See paragraph 3.2 of the Guidelines on Reporting Climate-Related Information for specific information on reporting how a company's governance and control systems contribute to climate related issues. In particular, the Guidelines emphasise how board and management responsibilities to climate change inform stakeholders on the level of the company's awareness of climate change-related issues.

Stakeholders may also be interested in the company's policies and any associated targets demonstrating the company's commitment to climate change mitigation and adaption (and also in its due-diligence process) (page 10 of the Guidelines on Reporting Climate-Related Information).

102 See endnote 100.

103 See paragraph 3.3 of the Guidelines on Reporting Climate-Related Information for specific information on how to report on climate change-related policy outcomes (page 10 of the Guidelines on Reporting Climate-Related Information). The Guidelines note that disclosure of climate-related policy outcomes helps stakeholders monitor and assess a company's development, position, performance and impact as a result of its policies and allows the company to demonstrate the consistency of its strategy, actions, and decisions related to climate change.

104 ESMA recommends that companies carefully assess whether their involvement in supply chains may give rise to material information to be disclosed, including information needed for a general understanding of the company's supply chains and of how relevant non-financial matters are considered in managing the supply chain (ESMA's Public Statement 2019, pages 11-12).

105 The FRC's 'Frequently Asked Questions on Non-Financial Reporting (December 2017) note that this differs from the requirement in section 414C(2)(b) CA 06 to describe the "principal risks and uncertainties facing the company". The FRC identifies the difference as a requirement to consider the principal risks that "the company poses to the outside world more generally", although in its view, "any crystallisation of risk that the company poses externally will also affect its long-term success through loss of reputation". Therefore, these risks should already have been considered under section 414C(2)(b). However, the introduction of the requirement to provide information on the impact of a company's activities may lead to the identification of more risks as boards think more broadly about the "consequential effects" of those impacts.

106 See paragraph 3.4 of the Guidelines on Reporting Climate-Related Information for specific guidance on reporting how a company identifies and manages climate change-related risks. Any disclosures should include both the negative climate impacts caused by the company and also any negative impact on the company caused by climate change (and whether/how they are linked) (page 11 of the Guidelines on Reporting Climate-Related Information).

107 See also endnotes 440 and 441 regarding the application of ESMA's Guidelines on Alternative Performance Measures to non-financial KPIs and endnote 77 on the FRC Lab Report on Reporting of Performance Metrics June 2018 and the FRC Lab Report on Performance Metrics November 2018. ESMA's Public Statement 2019 recommends the inclusion of KPIs that are: (i) entity-specific; and (ii) consistent with those used internally for steering the business and for determining executive remuneration (page 11). Disclosure of KPIs should also be accompanied by information on progress made with respect to previous years, any pre-determined internal or external targets which enable effective assessment of the company's performance, as well as information related to definitions, methodology and why the KPIs are deemed to be relevant (ESMA's Public Statement 2019, page 11). See also the principles in the Guidelines on Non-Financial Reporting which require the company to select KPIs which it deems most useful in monitoring and assessing progress in pursuing relevant policies and supporting comparability across companies and sectors. In ESMA's Public Statement 2018, ESMA stated that companies may also wish to explain KPIs in relation to strategic targets and benchmarks and should provide full disclosure on the methodology adopted and perimeter of activities covered by the non-financial reporting. In addition, the perimeter of KPIs disclosed should be consistent with the metrics actually used by the company in its internal management and risk assessment processes and any changes from one year to another and the related impact should be explained.

108 Companies should disclose indicators and targets used by the company to assess climate-related risks and opportunities in line with their strategy and risk management processes. See paragraph 3.5 of the Guidelines on Reporting Climate-Related Information for specific information (page 12 of the Guidelines on Reporting Climate-Related Information).

109 See endnote 100. ESMA's Public Statement 2018 clarifies that a clear explanation of a decision not to pursue a policy on any listed matter is required regardless of whether the company deems these matters material. ESMA also reminds companies that other reporting requirements still apply even if a company has decided not to pursue a policy in respect of a particular matter and that disclosure is required even if this requirement is applicable for the first time (page 10).

110 See section 5 of the Guidelines on Non-Financial Reporting for more information. ESMA's Public Statement 2019 states that companies should clarify the extent that they have used any disclosure frameworks used, for example, whether they have been complied with in full or in part and setting out which disclosures were prepared using those framework (page 11). Where the frameworks set out sustainability targets, disclosures should explain how the company's activities contribute to those goals and progress made towards achieving them (ESMA's Public Statement 2019, page 11).

111 Paragraph 7B.83 of the Guidance on the Strategic Report contains a list setting out where guidance on each element can be found in the Guidance on the Strategic Report.

112 Note that the Guidelines on Reporting Climate-Related Information are applicable to companies on a voluntary basis. However, they are endorsed by other market-led bodies, such as the International Capital Market Association (ICMA) in its paper, 'Update on European Technical Expert Group on Sustainable Finance and on EU Sustainable Finance Legislative Initiatives' (20 June 2019), in which it highlights that the guidelines are an important endorsement of, and supplement to, the TCFD Recommendations.

113 ESMA encourages companies to explain how they have determined what is material when preparing the Non-Financial Reporting Statement and to consider disclosing the aspects set out in row B.10(c) of the table (ESMA's Public Statement 2019, page 9).

114 The Guidance on the Strategic Report states that disclosing the company's objectives places the strategy in context and allows shareholders to make an assessment of its appropriateness (paragraph 7B.12). It also states that linkage to and discussion of KPIs should be included in any descriptions to allow an assessment of the company's progress against its strategy and objectives. Similarly, emphasising the relationship between the company's principal risks and its ability to meet its objectives may provide relevant information (paragraph 7B.13).

115 PLSA states that shareholders expect a clear elucidation of the strategy, culture and business model and expects clarity on these areas to flow through all areas of the annual report. Where disclosure of the business model and strategy fails to convey how the company intends to generate and preserve value over the longer term, the PLSA warns that this could lead to a vote against the report and accounts or the submission of a shareholders resolution (PLSA Guidelines, Appendix 1, paras 4.2-4.3).

116 The requirements of section 414C(8)(b) CA 06 need not be complied with elsewhere in the strategic report if the business model description has already been included within a Non-Financial Reporting Statement (for financial years commencing on or after 1 January 2017): section 414CB(7) CA 06.

Guidance as to matters that should be considered in an explanation of a business model is provided in paragraphs 7B.14 to 7B.20 of the Guidance on the Strategic Report, section 4.1 of the Guidelines on Non-Financial Reporting and paragraph 6 of the IA Long Term Reporting Guidance. The Guidance on the Strategic Report states that the report should explain the company's key sources of value (considering tangible and intangible assets) and explain the actions it takes in order to manage, sustain and develop them (including resources and relationships not reflected in the financial statements), focusing on the parts that are most important to an understanding of the generation and a preservation of value (paragraphs 7B.16 and 7B.17). The description should include a high-level understanding of how the entity is structured, the markets in which it operates and how it engages with those markets (its main products, services, customers and distribution), and what makes it different from, or how it competes with, its peers (paragraph 7B.18). This should reflect the way that the business is managed. The Guidelines on Non-Financial Reporting add that companies should avoid immaterial disclosures of a promotional or aspirational nature and should explain material changes to their business model (section 4.1). The IA Long Term Reporting Guidance states that the report should also explain what a company's competitive advantage is, how the business model connects to long-term strategy, the key inputs, processes and outputs in the value chain and how the key assets are delivering value consistent with the long-term interests of shareholders. It should also make clear the key risks to the successful delivery of the business' long-term strategy. Where it operates different business models, these should be explained separately.

The FRC Lab Report on Business Model Reporting 2016 advises that most investors want companies to include details of: what the company does and where it sits in the value chain; key divisions and their contribution and legal structure; key markets and segments; the company's competitive advantage; key inputs and how they are maintained/enhanced; key revenue/profit drivers; value created for other stakeholders that supports economic value generation; and statistics to indicate relative importance of elements. The FRC Lab Report on Business Model, Risk and Viability Reporting 2018 notes that there has been a trend to present the business model in an "inputs, business activities, outputs/outcomes" format, which can be helpful but runs the risk of leaving basic questions going unanswered (page 9). It includes a list of questions for the board as follows:

- Does your business model clearly communicate how you create value (both in terms of cash generation and non-financial value) over the longer-term?
- Is it clear for the reader as to what this longer-term period is?
- Is your business model disclosure comprehensive, covering all elements investors find useful that are relevant to your business, either in a single disclosure or through clear and meaningful cross-referencing?
- Does your disclosure include the business models of all your significant businesses, or refer to where that information is, and the value of combining them within one group?
- Are the key drivers of your business model(s) clear?
- Does your disclosure demonstrate how your business is unique?
- Does the business model graphic improve the understandability of the business model for those outside your organisation?

The FRC also notes that nearly all investors believe the business model should be presented near to the front of the strategic report, as it provides context to the remainder of the information (FRC Lab Report on Business Model Reporting 2016, page 4, see also paragraph 6.2 of the IA Long Term Reporting Guidance). According to this Lab Report, investors prefer the business model not to include promotional or aspirational statements and find it helpful if the report highlights any changes or expected future changes to the business model. Further analysis in the FRC Lab Report on Business Model, Risk and Viability Reporting 2018 revealed that investors do not expect the relevant information to always reside within the business model disclosure itself and appreciate the need for flexibility (page 7). Investors seek clear disclosure that builds understanding, either directly, or through cross-referencing or linkage with the best disclosures acting as a guide for the rest of the annual report (though linkage and cross-referencing are only useful where they add value and meaning).

117 Sustainability features in other provisions, notably Principles A, E and P and Provision 18 CGC 2018, which refer to the "long-term sustainable success" of the company.

118 Where the strategic report is a group strategic report, the "company" means the parent company (section 414C(10)(a) CA 06).

119 "Senior manager" means a person who has responsibility for planning, directing or controlling the activities of the company or a strategically significant part of the company and is an employee of the company (section 414C(9) CA 06). In relation to a group strategic report, the breakdown required by this disclosure must include the number of persons of each sex who were directors of the undertakings included in the consolidation (section 414C(10)(b) CA 06). The Guidance on the Strategic Report states that, where entities do not consider the statutory definition of "senior managers" to reflect accurately the executive pipeline, it may be appropriate to provide an enhanced analysis of the "senior manager" category (paragraphs 7B.80 to 7B.81, Guidance on the Strategic Report). BEIS's response to consultation on the implementation of the EU Non-Financial Reporting Directive, which was published on 8 November 2016, states that the Government would like to improve the definition of "senior manager" and would welcome suggestions for improvement. The FRC notes that there have been inconsistencies about how companies interpret 'senior manager' and that this is the reason for the new requirement in Provision 23 of the Corporate Governance Code 2018 to report in accordance with the Hampton-Alexander recommendation i.e. the most senior level of management below the board and their direct reports (FRC Corporate Reporting Review 2018, page 28). The FRC has set out some information on how the CGC 2018 definition of senior management fits with the CA 06 definition of senior manager (see the FRC's webpage which sets out FAQs on the 2018 UK Corporate Governance Code (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/2018-uk-corporate-governance-code-faqs,)).

120 The FRC Corporate Reporting Review 2018 notes a decline in the number of FTSE 350 companies that use infographics to present this information (page 28) which has the effect of making the information less accessible and stark differences stand out less. The FRC also found that several companies only partially complied with the requirement (55 of the FTSE 100 were fully compliant and 30 were partially compliant and 142 of the FTSE 250 were fully compliant and 24 were partially compliant).

121 The Guidance on the Strategic Report notes that the purpose of the strategic report is to provide shareholders with information that will enable them to assess how the directors have performed their duty in section 172 CA 06 (paragraph 4.1). To that end, directors should apply judgement in determining the level of information that is disclosed, which may require the inclusion of additional information, which is not specifically set out in the CA 06 (paragraph 4.2).

The Guidance on the Strategic Report also states that companies should ensure that the strategic report meets its overall purpose: to provide information to shareholders and help them assess how the directors have performed their duty under section 172 CA 06 (paragraph 7B.3).

122 The Guidance on the Strategic Report notes that directors should apply judgement in determining the level of information that is disclosed, which may require the inclusion of additional information, which is not specifically set out in the CA 06 (paragraph 4.2).

123 The Guidance on the Strategic Report gives the example of a highly trained or experienced workforce, natural capital, intellectual property or intangible assets, as these are relevant to an understanding of the company's development, performance, position or future prospects (paragraph 4.5).

124 The Guidance on the Strategic Report explains that linkages "are relationships or interdependencies between, or the causes and effects of, facts and circumstances disclosed in the annual report". The Guidance suggests that a greater insight into a company's business can be provided through the use of linkages (paragraphs 6.17–6.24 of the Guidance on the Strategic Report).

125 See endnote 126.

126 Disclosing the extent to which directors have taken into account the interests of other stakeholders became a matter of increasing focus during the Government's review of corporate governance reform that commenced in 2016. On 17 July 2018, the final version of secondary legislation implementing these plans was published. These require all large companies which are required to produce a strategic report to include a separately identifiable statement describing how the directors have had regard to the matters set out in section 172(1)(a) to (f) CA 06 (including employee, supplier and other wider stakeholder interests) when performing their duty to promote the success of the company under section 172 (regulations 3-6 of the Miscellaneous Reporting Regulations which amend certain sections of the CA 06 and introduce new sections 414CZA and 426B). This requirement has been incorporated into this edition of the checklist at rows B.25 and K.1.

Regulation 13 of the Miscellaneous Reporting Regulations also replaces Part 4 of Schedule 7 LMCG Regs, introducing new provisions requiring:

- companies with an average of more than 250 UK employees to include a statement in their directors' report summarising how the directors have engaged with employees and had regard to their interests and the effect of doing so, including on principal decisions taken by the company (see rows A.14(b) and K.2(b); and
- large companies to make a statement in their directors' report summarising how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others and the effect of doing so, including on principal decisions taken by the company on wider engagement (see rows A.15 and K.3). .

The requirements apply to financial years commencing on or after 1 January 2019 so 2020 will see the first year of mandatory reporting. Companies should also take into account the increased focus on employee and other stakeholder engagement in the Corporate Governance Code 2018. In particular, Provision 5 requires the board to understand the views of key stakeholders and describe in the annual report how their interests and the matters in section 172 CA 06 have been considered in board discussions and decision making (see also Principles A and D, which refer to "generating value for shareholders and contributing to wider society" and ensuring effective engagement with, and encouraging participation from "shareholders and stakeholders"). Provision 5 also requires companies to choose one or a combination of three specified methods of engaging with the workforce, and failing that, to explain what alternative arrangements are in place and why it considers that they are effective (see also paragraph 55 Guidance on Board Effectiveness, and paragraph 50, Guidance on Board Effectiveness for the meaning of workforce in this context). The Government rejected the idea of requiring companies to appoint at least one employee representative to the remuneration committee in its June 2019 response to the BEIS Strategy Committee Report on Executive Rewards stating that the huge variety of UK companies and group structures mean one method of engagement will not suit all (see pages 4 to 5). It stated that the FRC's successor as regulator should monitor company compliance with the CGC 2018 and investigate the range of engagement techniques that companies had adopted in response to Provision 5 CGC 2018. However, "assessing the effectiveness of the engagement mechanisms themselves is a matter for the company" and an area on which shareholders should be prepared to challenge a company's management with a view to assessing which method of engagement proves most effective (page 4).

The GC100 Guidance on Directors' Duties (October 2018) notes the connection between the reporting and disclosure obligations on companies and how boards address stakeholder engagement. To that end, the guidance recommends that boards consider their obligations under section 172 CA 06 when assessing how best to engage with stakeholders and suggests a number of factors and practical steps that ought to be considered when a director seeks to discharge their duty under section 172 CA 06 (e.g. in relation to strategy setting, training, information gathering and policies and processes).

The PLSA Guidelines include a note that the "2006 Companies Act requires Directors to have regard for other stakeholders, including workers, customers, suppliers and wide society and the environment, and boards should be aware of these requirements when carrying out their work" (PLSA Guidelines, Section 1: Board Leadership and Company Purpose).

127 See paragraph 50 of the Guidance on Board Effectiveness for information on the meaning of 'workforce' in this context'.

128 The specified engagement methods are one or a combination of the following:

- a director appointed from the workforce;
- a formal workforce advisory panel; and/or
- a designated non-executive director

(Provision 5, CGC 2018).

In 2019, according to data from Practical Law's What's Market, of the 283 FTSE 350 companies reviewed, 171 companies (60%) had included a statement in their annual report on the workforce engagement mechanism they have adopted or will adopt to comply with Provision 5 of CGC 2018, with the most popular method including a designated NED (approximately 60% of companies). Fewer companies have, or will, adopt a workforce advisory panel (around 16%) (including when combined with other methods). Very few companies had chosen a director appointed from the workforce (five companies). There is some overlap in the figures above as companies may have decide to adopt a workforce engagement mechanism in combination with another method set out in Provision 5 or with alternative arrangements. Having seen these figures, the FRC states "…we will be looking to see how the board has considered matters raised and what impact these have had on the decisions taken. It is equally important that there is feedback to the workforce. The outcome is therefore more important than the individual choice of method".

According to a Practical Law poll carried out among GC100 members in 2019, of the 34 respondents, a number chose to either explain alternative arrangements that are in place (13 companies) or appoint a designated NED (10 companies). Some companies opted for a combination of methods, with 17 companies (50%) appointing a designated NED in conjunction with a workforce advisory panel or some other method of engagement. No company indicated that it has or will be appointing a director from the workforce. The majority of respondents that indicated they will be adopting and explaining alternative methods of engagement in the annual report, stated that this would involve enhancing existing methods of engagement (including via employee forums, committees and advisory networks and improved reporting and board engagement). The poll also contains responses in relation to the operation of the workforce advisory panel (including how it differs from an employee forum) and the kinds of forums companies have put in place as well as some more general feedback on lessons learned thus far from GC100 members who have already adopted a form of workforce engagement. The Local Authority Pension Fund Forum (LAPFF) carried out an anonymised survey of FTSE-All-Share companies aimed at understanding the approach that they were taking to workforce engagement. This found that a large majority of companies will designate a NED for workforce engagement (LAPFF, Employees on Boards, Modernising Governance, May 2019).

129 A company qualifies as medium-sized if it satisfies two or more of the following requirements in that financial year and the preceding financial year:

- Turnover: not more than £36 million
- Balance sheet total: not more than £18 million
- Number of employees: not more than 250 (calculated by ascertaining the monthly total number of employees of the company during the financial year and working out the average)

(section 465 CA 06). See sections 465 to 467 CA 2006 for more detail, including in relation to a parent company qualifying as medium-sized (section 466) and the exclusions from being treated as medium-sized in section 467 (in particular, under section 467(1)(c) and 467(2) a company is excluded from being treated as medium-sized if any member of the group is a traded company). See endnote 88 for the definition of 'traded company'.

130 The FRC suggests that the section 172 statement identify the principal decisions taken by the board during the year, how regard was had to the matters in section 172(1) and the effect of that regard (paragraph 8.23, Guidance on the Strategic Report). It could also set out where there are conflicts between different groups of stakeholders or where one group have been prioritised over

another group and how the directors considered different interests and the factors that were taken into account when making principal decisions (paragraph 8.24, Guidance on the Strategic Report).The FRC suggests that there should be consistency between the principal decisions discussed in the section 172 statement and in the review of the business in the strategic report (paragraph 8.25. Guidance on the Strategic Report).

131 Section 172(1) states:

"(*1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to*

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) *the need to act fairly as between members of the company.*"

The FRC states that the section 172 statement could, amongst other things:

- include information on how the long-term success of the company has been considered in making strategic decisions including consideration of the interests of other stakeholders and the long-term impact of its activities on the community and environment (paragraph 8.14, Guidance on the Strategic Report);
- consider links between the principal risks disclosed in the strategic report and the section 172 statement (paragraph 8.15, Guidance on the Strategic Report);
- identify key stakeholders, for example through a stakeholder map, and their importance to the company; the description of the company's business model should provide an insight into the company's key resources and relationships (paragraph 8.16, Guidance on the Strategic Report);
- include information which helps to explain the benefits created for other stakeholders (noting that, although it can be difficult to measure, it can provide significant insight) (paragraph 8.17, Guidance on the Strategic Report);
- consider all relevant stakeholders, including those not listed in section 172 including pensions schemes, pensioners and their workforce (paragraph 8.18, Guidance on the Strategic Report);
- describe how the company engages and communicates with its stakeholders including the outcomes of any engagement and the impact on board decision making (paragraphs 8.20-8.22, Guidance on the Strategic Report);
- consider workforce issues more generally and not limit consideration to those with a contract of employment (paragraph 8.19 Guidance on the Strategic Report);
- if the setting and application of the capital allocation and dividend policies are principal decisions, explain how directors have had regard to the long-term and the interests of stakeholders in both setting and applying those policies, including in determining the dividend level and allocating free cash flow (paragraph 8.26, Guidance on the Strategic Report, see paragraphs 8.26-8.29 of the Guidance on the Strategic Report for more information);
- disclose information in relation to the culture the board has set in order to ensure that decisions taken are in line with company values and objectives; it could also include the factors the board thinks are important for the company's reputation (paragraph 30, Guidance on the Strategic Report);

  (see paragraphs 8.14 to 8.30 of the Guidance on the Strategic Report for more information, including examples).

See endnote 458 in relation to consideration of payment practices in section 172 statements.

132 Q&A 7 (Section D) of the Miscellaneous Reporting Q&A clarifies that the section 172 statement needs to be a separately identifiable statement, although the statement can cross-refer to other parts of the report.

Q&A 3 (Section D) of the Miscellaneous Reporting Q&A and paragraph 8.11 of the Guidance on the Strategic Report states that companies will probably want to include information on some or all of the following:

- the issues, factors and stakeholders the directors consider relevant in complying with section 172(1)(a) to (f) and how they have formed that opinion;
- the main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard; and
- information on the effect of that regard on the company's decision and strategies.

Q&A 4 (Section D) of the Miscellaneous Reporting Q&A and paragraph 8.12 of the Guidance on the Strategic Report note that the statement should be meaningful and informative, shed light on matters that are of strategic importance and be consistent with the size and complexity of the company.

Paragraph 8.5 of the Guidance on the Strategic Report states that companies are encouraged to avoid repetition, maintain the cohesion of the narrative within the strategic report and incorporate information in the section 172 statement by cross-references where appropriate.

There is no exemption for information about impending developments or matters in the course of negotiation (clarified in paragraph 8.5, Guidance on the Strategic Report).

Although the statement must be prepared at individual company level, the FRC acknowledges that the success of the parent company is dependent on the success of the group and therefore companies are encouraged to consider whether they should disclose regard to matters listed in section 172(1)(a) to (f) as they relate to the group as a whole when it is a group strategic report (paragraph 8.8, Guidance on the Strategic Report).

The Government has stated that it expects the FRC's successor as regulator to monitor how remuneration reports and reporting against section 172 CA 06 meet the aims of increase transparency and alignment of pay with objectives (see the June 2019 response to the BEIS Strategy Committee Report on Executive Rewards at page 4).

133 The requirement in section 426B to make the section 172 statement available on the company's website does not apply to quoted companies.

134 The Code makes it clear that nothing in the Code "*overrides or is intended as an interpretation of the statutory statement of directors' duties*" in section 172 CA 06 (Introduction, p.3). Despite this clarification and acknowledging that the section 172 duty itself has not changed, Provision 5 of the Code does require companies to ensure effective engagement with stakeholders and report how their views have been considered in board discussions and decisions and new processes may need to be introduced in order to comply with this provision (and Principle D). PIRC nonetheless considers that the CGC 2018 is confusing or contradictory in respect of fiduciary duties with the emphasis on following processes rather than the law itself (PIRC Guidelines (Chapter 2 – The Board).

PLSA notes that shareholders may want to closely analyse the narratives used to assess the approach to the company's workforce and its other stakeholders and ask whether it indicates that the company sees the workforce as a source of value or a risk and also whether there is a clear sense of corporate purpose culture and values and how these align with strategy (PLSA Guidelines, Section 1: Board Leadership and Company Purpose (Guidance)).

135 Guidance at Section 4: Audit, Risk and Internal Control (Guidance), PLSA Guidelines. The PLSA Guidelines state that a vote against the annual report will be appropriate where these disclosures are not made as "A company's employment model and working practices are a critical component of its business model and long-term performance" with strategic information on how the company's workforce is critical to its long term success being a key component of the annual report (PLSA Guidelines, Appendix 1, para 4.3). See also PLSA's Toolkit from July 2016 "Understanding the Worth of the Workforce: a Stewardship Toolkit for Pension Funds".

PLSA's Letter to FTSE 350 Chairs of 7 November 2016 also called for disclosures about the status of the company's workforce. PLSA suggested this disclosure could include details of the level of staff turnover and a breakdown of total staff by full-time, part-time and temporary employment status. See also endnote 98 on the Government response to the Taylor Review.

136 The IA Long Term Reporting Guidance states that boards should demonstrate how the strategy to achieve a company's purpose reflects the values and culture of the company, and the extent to which it is actively engaged in the business of shaping, overseeing, and monitoring culture (paragraph 59). It states that boards should carefully consider how culture is assessed and reported and choose and monitor indicators it believes are most appropriate to its own business (paragraph 60). The FRC's Report on Corporate Culture 2016 called for better reporting on the impact of culture on the business. The FRC stated that this might include defining the values and purpose of the company alongside the corporate culture, as well as non-financial metrics and details of how the company expects business to be conducted (page 11). According to the FRC's report, shareholders seek reliable and consistent data which allows comparison with previous years and with others in a sector (page 34). The FRC Corporate Reporting Review 2018 notes that culture is an area of increasing focus for company reporting (especially given the new board responsibility for monitoring culture in Provision 2 of the CGC 2018). However, the FRC states that only a quarter of companies are linking purpose and culture to strategy and value creation (page 27). The FRC expects to see increased sophistication in reporting and an increase in the number of companies setting a purpose that encompasses a broader set of objectives (beyond profit). The CGC 2018 requires the board to assess and monitor culture and where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose, values and strategy, it should seek assurance that management has taken corrective action. The company is required to explain the board's activities and action taken in the annual report (Provision 2 and see also Principle B). Generally, the Corporate Governance Code 2018 places greater emphasis on purpose, culture and values (see, for example, Principles B, E and P).

137 The IA states that companies should also include appropriate metrics to support the narrative discussion (paragraphs 50 to 52, IA Long Term Reporting Guidance). Paragraph 53 of the IA Long Term Reporting Guidance contains metrics that have been identified as being particularly useful. The IA also includes additional information on the presentation of metrics at paragraphs 54 to 55.

138 The IA notes that these will be different for each company and companies are encouraged to develop their own set of KPIs by which improvements in productivity can be measured over time (paragraph 16, IA Long Term Reporting Guidance). Paragraph 17 includes a suggested framework to structure these quantitative disclosures.

139 The FRC Lab Report on Disclosures on the Sources and Uses of Cash states that investors want cash disclosures that provide detail on uses of cash, both in the past and the future (pages 7 and 33). Given the significance of capital allocation decisions, investors and other stakeholders need information on those decisions including policy, process and risks including the future uses of cash. Three areas for improvement are: (i) disclosure that clarifies priorities for generated and available cash (see pages 34 to 37 for more information, including a statement that the findings of the IA Long Term Reporting Guidance were consistent with those of the FRC); (ii) disclosure to allow assessment of the priorities in action (see pages 38 to 40 for more information); and (iii) clearer explanation of how the priorities are impacted by relevant risks, restrictions and variabilities (see pages 8 and 46 to 49 for more information) (page 33).

140 Information on supporting quantitative disclosures that the IA expects can be found in paragraphs 29 to 31 of the IA Long Term Reporting Guidance.

141 See also the FRC press release "*FRC urges clarity in the reporting of complex supplier arrangements by retailers and other businesses*", dated 8 December 2014, which the FRC states remains relevant to this area of reporting.

142 See requirements under the LMCG Regs outlined above under PART A: **DIRECTORS' REPORT**. Where information that is required to be disclosed in the directors' report is included in the strategic report, the Guidance on the Strategic Report states that the directors' report should cross-reference information that has been included in the strategic report (paragraph 7B.87, Guidance on the Strategic Report).

143 The Guidance on the Strategic Report indicates that information that would otherwise be disclosed in the directors' report "should" be included in the strategic report to the extent that the matters are considered to be of strategic importance to the company (paragraph 7B.85).

144 The FRC's 2017 Reporting Summary and the FRC Corporate Reporting Review 2017 asked companies to consider developing their viability statements in two stages – first to consider and report on the prospects of the company over a period reflecting its business and investment cycles, and second to state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary (FRC Corporate Reporting Review 2017, page 3). See also page 24 of the FRC Lab Report on Risk and Viability Reporting 2017.

The FRC Lab Report on Business Model, Risk and Viability Reporting 2018 notes that there has been some progress with companies separating the statement into an assessment of prospects then an assessment of viability but that the two-stage process works best where each element is supported with sufficient details and linkage to the rest of the report. There has also been an improvement in companies disclosing more information about the factors considered when making an assessment of prospects. The FRC's 2018 Reporting Summary also encourages boards to apply the two-stage process noting that the second stage of the review may potentially be over a shorter period and refers companies to the FRC Lab Report on Business Model, Risk and Viability Reporting 2018 for examples. It notes that risk and viability reporting is still an area of focus for investors. The FRC Corporate Reporting Review 2018 states that viability statements could be enhanced to show more clearly how companies have assessed their prospects and viability (page 4).

The Guidance on Board Effectiveness contains useful guidance at paragraphs 123 to 128. It also recommends a two-stage approach: first, consider and report on the longer-term prospects, taking into account the company's current position and principal risks and then state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their viability assessment, drawing attention to any qualifications or assumptions as necessary (paragraph 126). The guidance refers to the FRC Lab Report on Risk and Viability Reporting 2017 for a helpful summary of where improvements in transparency can give greater meaning and contains a list of questions for boards to consider in relation to the viability statement (paragraph 128 and page 33).

145 The FRC Lab Report on Risk and Viability Reporting 2017 and the FRC Lab Report on Business Model, Risk and Viability Reporting 2018 include the following quick questions for management on their viability statement disclosures:

- Does the disclosure differentiate between the directors' assessment of long-term prospects and their statement on the company's viability and clarify why different time horizons are used?
- When disclosing the long-term prospects has the board considered their stewardship responsibilities, previous statements they have made, especially in raising capital, the nature of the business and its stage of development, and its investment and planning periods?
- Does the viability statement disclose any relevant qualifications and assumptions when explaining the directors' reasonable expectation of the viability of the company?
- Is the link between the viability statement and principal risks clear, particularly in relation to the scenario analyses?
- Are the stress and scenario analyses disclosed in sufficient detail to provide investors with an understanding of the nature and potential impact of those scenarios, and the extent and likelihood of mitigating activities?

The FRC Lab Report on Risk and Viability Reporting 2017 also states that the viability statement should not be prepared as a longer-term going concern statement with a focus on liquidity but should communicate how the company will remain solvent in the long-term and be able to adapt to emerging risks. The FRC Lab Report on Business Model, Risk and Viability Reporting 2018 states that the more effective statements describe how management balance the longer-term prospects of the company's business model with the risks and uncertainties that it might be subject to.

146 IA Guidelines on Viability Statements state that it is helpful if disclosures around prospects are differentiated from viability disclosures and if prospects disclosures address the long-term strategic plans and look longer than the period over which viability is assessed (IA Guidance on Viability Statements, page 3). This is echoed in the FRC Lab Report on Risk and Viability Reporting 2017.

The IA's Guidelines on Viability Statements consider it important that disclosures are not limited to risks but also consider the current state of affairs. Other recommendations in the IA's Guidelines on Viability Statements are that companies should: (i) address the sustainability of dividends; (ii) distinguish risks that impact performance from those that threaten operations; (iii) separate prospects from viability; (iv) state clearly why the risks are important, and how they are managed and controlled; and (v) prioritise risks (IA Guidelines on Viability Statements, pages 4-5). See endnote 71 in relation to the FRC's discussion of Brexit references in viability statements in the FRC Corporate Reporting Review 2019.

The FRC Lab Report on Business Model, Risk and Viability Reporting 2018 states that investors want companies to explain the long-term prospects of the company more clearly.

147 In 2015, the FRC Letter to Larger Listed Companies 2015 stated that, although companies may choose the time period covered by the viability statement, it was expected that the period assessed would be significantly longer than 12 months and that directors should explain their reasoning for the period chosen, taking into account the circumstances of the company. The PLSA Guidelines also say that directors should articulate why they have chosen a specific time-frame, taking account of FRC guidance that the length of the period should take account of the board's "stewardship responsibilities; previous statements they have made, especially in raising capital; the nature of the business and its stage of development, and its investment and planning periods" (PLSA Guidelines, Appendix 1, para 4.6).

The FRC's 2017 Reporting Summary notes that a majority of the viability statements reviewed by the FRC during the reporting period from January 2017 tend to use a three-year period based on a reflection of the company's medium-term business plan. It notes that investors are calling for greater differentiation of the time periods used by different companies and sectors and encourages companies to take into account other factors, for example investment and planning periods, the board's stewardship responsibilities, the nature of the business and its stage of development and previous statements made, especially in raising capital (FRC's 2017 Reporting Summary, page 3).

The IA's Guidelines on Viability Statements, published in November 2016, also noted that it had become standard practice for viability statements to cover a three to five-year period. The IA considers that there should be more differentiation between companies and that viability statements should address a longer time-frame given the long-term nature of equity capital and directors' fiduciary duties (IA Guidelines on Viability Statements, page 3).

The FRC Lab Report on Business Model, Risk and Viability Reporting 2018 states that there has not been any lengthening of the viability period with most companies maintaining a three to five-year period (page 19). This is echoed in the FRC Corporate Reporting Review 2018 (page 39).

The FRC Lab Report on Risk and Viability Reporting 2017 states that investors are looking for information that is consistent with other time horizons in the annual report, for example, strategic and business cycles, debt repayments, lease periods, goodwill impairment, capital investment periods and technology development periods (page 22). Companies often choose a period consistent with their medium-term strategy whereas investors would like more information about the risks and prospects of a company over a longer term even if the viability statement is limited to a shorter period (despite the Corporate Governance Code suggesting that the time period for both the assessment of prospects and the statement should be the same) (pages 22 and 24). This is echoed in the FRC Lab Report on Business Model, Risk and Viability Reporting 2018 (page 18) and the FRC Corporate Reporting Review 2019 (page 21). The FRC Corporate Reporting Review 2018 (page 39) recommends that boards should undertake an assessment of a company's prospects and the resilience of the business model over a longer period.

In 2019, according to data from Practical Law's What's Market, as at 25 October 2019, 80% of companies disclosed a three year period, 2% disclosed a four year period, 17% disclosed a five year period and 1% disclosed a 7 year period.

Noting that decisions made by the board will have a direct impact on the viability of the company, over differing time periods, the Guidance on Board Effectiveness suggests that it might be useful to discuss with investors their information needs to help inform the period selected (paragraph 123).

148 The FRC Guidance on Risk Management and Business Reporting listed factors to be considered in determining the length of the assessment period, which include but are not limited to: the board's stewardship responsibilities; previous statements they have made, especially in raising capital; the nature of the business and its stage of development; and its investment and planning periods (Appendix B, para 3, FRC Guidance on Risk Management and Business Reporting). This guidance is also referred to in the Guidance on the Strategic Report (paragraph 124). The Guidance on the Strategic Report also notes that the factors considered will depend on the circumstances and maturity of the relevant company and the industry in which it operates with some industries having longer-term investment strategies and funding arrangements (paragraph 125). Companies should tailor their approach to their specific circumstances and planning cycles.

The IA's Guidelines on Viability Statements approve of the FRC Guidance on Risk Management and Business Reporting and say that investors value directors making clear how they have considered the wider factors set out by the FRC, rather than basing the explanation for the assessment period solely on the medium-term business plan. The IA asks companies to consider the specifics of the company's business and sector and not only the business cycle but the investment cycle as well (IA Guidance on Viability Statements, page 3).

The FRC Lab Report on Risk and Viability Reporting 2017 states that Investors would like to see more discussion around the periods companies have considered and how these have led to the chosen period. Following this, the FRC Lab Report on Business Model, Risk and Viability Reporting 2018 notes that there has been an improvement with companies starting to provide more disclosure on their rationale and reasoning for the chosen time period (albeit that the viability period has not changed overall) (page 19). This is echoed in the FRC Corporate Reporting Review 2018 (page 39) which notes that far fewer companies are referring to the strategic planning cycle and are instead being more specific and referring to factors such as contract lengths, lease terms, R&D pipelines etc. The FRC expects companies to select a viability period that reflects the nature of its business and specify why it is appropriate (page 4).

149 IA Guidelines on Viability Statements recommend that qualifications should be distinguished from assumptions. Both should be specific to the company. Matters which are highly unlikely to arise or to have a significant impact on the company should not be disclosed (IA Guidelines on Viability Statements, page 5).

150 The FRC's Letter on Volatility and Uncertainty, published in March 2016, reminded companies that it may be necessary to revisit pre-drafted statements in the strategic report in the context of asset and oil price volatility, interest rate fluctuations and the Brexit vote. The same may apply here within the viability statement. As the economic and political effects of the UK referendum result become more certain, the FRC expects boards to provide increasingly company-specific disclosures with quantification of the effects. See endnote 71 for more information on Brexit.

The FRC Corporate Reporting Review 2016 highlighted funding of defined benefit pension schemes in a low interest rate environment as a particular issue (page 33) and provided guidance on disclosures relating to pension scheme risks. This was repeated in the FRC's April 2017 letter to investors (page 3).

The Kingman Review of the FRC stated that viability statements "are not performing an effective role. In general they consist of boilerplate statements that provide little meaningful insight for investors and users of accounts" (paragraph 3.22). The review recommended that they are "reviewed and reformed with a view to making them substantially more effective" and that if this cannot be achieved that serious consideration should be given to abolishing them (recommendation 52). The Government's subsequent consultation on the recommendations (which closed on 11 June 2019), proposed that the FRC take this recommendation forward immediately (page 26).

151 LR 9.8.6(3) requires companies to comply with FRC Guidance on Risk Management and Business Reporting. Supplementary guidance was also produced for directors of banks.

152 IVIS will have regard to companies' compliance with IA Guidelines on Viability Statements when monitoring viability statements (IA Guidelines on Viability Statements, page 2).

153 The FRC Lab Report on Risk and Viability Reporting 2017 states that investors find descriptions of the work performed by directors around the viability statement as helpful, in particular, details of stress or scenario analyses. However, disclosures are often too high level and they should include details of the extent and likelihood of mitigating activities (pages 23 and 26). Providing specific insight into the scenarios considered is particularly useful. The subsequent review in the FRC Lab Report on Business Model, Risk and Viability Reporting 2018 noted a significant increase in scenario information often including summaries of the scenarios and more detail on the severity of the scenarios tested. Companies provided disclosure of the rationale or process for deciding which scenarios to model less often and where this was not disclosed, this often raised additional questions (page 20). However, the FRC Corporate Reporting Review 2018 notes that many companies are still not explaining the processes that they have undertaken to prepare their statement, including the stress and scenario testing they have carried out (page 39). In the FRC Corporate Reporting Review 2019, the FRC noted that investors find this information useful in understanding the company's resilience to risk (page 21). The FRC reports that investors are interested in understanding the role of the audit committee in reviewing the work underpinning the viability statement (The FRC Lab Report on Reporting of Audit Committees 2017, page 37).

154 IA Guidelines on Viability Statements, page 5.

155 This section contains a summary of the content requirements for an auditor's report set out in the Companies Act 2006 for a company which is required to prepare a strategic report (see also paragraphs 3.7 and 3.8 of the Guidance on the Strategic Report). It does not consider the requirements of auditing standards or for conduct of an audit. In particular, this checklist does not address International Standard on Auditing 700 (ISA (UK) 700) 'Forming an Opinion and Reporting on Financial Statements' regarding the content and format of an auditor's report, which was revised in June 2016.

The FRC has published a guide to changes to audit report requirements for financial years commencing on or after 17 June 2016 on its website.

On 18 October 2016, the FRC also published a compendium of illustrative auditor's reports in United Kingdom private sector financial statements for periods commencing on or after 17 June 2016. The compendium contains suggested wording for areas of the auditor's report and can be used as a non-prescriptive source of reference material for companies preparing auditor's reports.

Audit has been the subject of a number of reviews during 2019, on the function of audit, the quality of audit services and competition within the audit market. Reviews that have concluded include the Kingman Review of the FRC, which issued recommendations on the role of the FRC (or its successor) in relation to audit fees and auditor appointment, and the BEIS Committee inquiry into the future of audit, which focussed on the scope and effectiveness of audit, auditor independence and competition in the audit market. The CMA also published its audit market study report in April 2019 with recommendations to improve resilience, quality and competition within the audit market by addressing regulatory oversight of auditor selection and the audit process, mandatory joint audit for most large companies and an operational split between certain audit and non-audit services. The Brydon review, ongoing as of November 2019, is tasked with looking at audit as a product and what audit should be in the future. It will address the audit expectation gap - the difference between what people think audit does and what it actually does - and the scope of audit, including how it can better serve the public interest. The review is expected to provide a report to Government by the end of the 2019 and report publicly in January 2020. The Government has consulted or will be consulting on all of these reports and, following the Queen's Speech in October 2019, the Secretary of State for BEIS reiterated the intention to "take forward this work in the first quarter of next year to ensure we maximise all the learning points", having the benefit of the "full suite" of advice from the various reviews. There will, of course, be a new Queen's Speech following the UK General Election on 12 December 2019.

On 27 September 2019, the FRC closed its consultation on revisions to UK Ethical and Auditing Standards. The revisions were the result of the FRC's post implementation review of the efficacy of the standards, a process which included a call for feedback in November 2018, and a position paper in March 2019. The proposals included more stringent ethical rules, standards and responsibilities for auditors, a redefinition of the 'objective, reasonable and informed third party test' and a restricted list of permitted services that auditors of public interest entities are able to provide. The FRC intends that the revised standards will apply to the audit of financial periods commencing on or after 15 December 2019. It notes that its proposals are not intended to pre-empt the outcome of other concurrent reviews, including the Brydon review. In particular, it is deferring any changes outlined in its March 2019 position paper, to the extent that such changes are also being considered by the Brydon review, until the latter is concluded and its recommendations have been considered by the Government. The proposed revisions include text which contemplates changes coming about due to Brexit, but the paper notes that, in finalising the standards, the FRC will update the text as necessary to reflect the applicable legal position. Further resources on the implications of Brexit for auditors and audited entities can be found at: https://www.gov.uk/guidance/auditing-if-theres-no-brexit-deal. The guidance addresses, among other things, how Brexit could affect: the scope of what constitutes a public interest entity; the prohibition of blacklisted non-audit services for overseas subsidiaries of UK public interest entities; and the scope of the DTR audit committee requirements.

156 The requirement to identify the company applies to financial years commencing on or after 17 June 2016 pursuant to regulation 1(2), SATCAR.

157 The requirement to include a description of the period covered by those accounts applies to financial years commencing on or after 17 June 2016 pursuant to regulation 1(2), SATCAR.

158 PIRC has concerns that accounting standards have become out of step with the "true and fair view" standard of the law and notes that there is confusion in this area. PIRC refers to Mr Bompas's opinions on the law, which it states makes it clear that the FRC has been setting and approving accounting standards on a wrong model of the law, and advises companies to follow his position. The PIRC Guidelines state that where it is clear that a company's adherence to IFRS has led to a failure of the accounts to provide a true and fair view, PIRC will critically review its support of the annual report and accounts, the re-election of any member of the audit committee or the finance director (Chapter 3, Report and Accounts, Audit and Financial Controls, PIRC Guidelines).

The FRC published a True and Fair statement in June 2014 to confirm that the "true and fair requirement remains of fundamental importance in IFRS" and the introduction of IFRS has not changed the fundamental requirement for accounts to give a true and fair view. The FRC stated that it expects preparers of financial statements, those charged with governance and auditors: (a) to stand back and ensure the accounts as a whole do give a true and fair view; (b) to provide additional disclosures when compliance with an accounting standard is insufficient to present a true and fair view; (c) to use the true and fair override where compliance with the standards does not result in the presentation of a true and fair view; and (d) to ensure that the consideration given to these matters is evident in documentation.

The PLSA Guidelines state that shareholders should consider voting against the adoption of the report and accounts, auditor and/or audit committee chair if the accounts are deemed to fail to provide a true and fair view of profit or loss, assets or liabilities (PLSA Guidelines, Appendix 1, para 4.1).

The FRC's Audit Quality Thematic Review, published in December 2017, considered the concept of materiality as it applies to an auditor's determination of whether financial statements are true and fair. In this context, the FRC recommends that Audit Committees should assess whether information included in the Audit Committee Report could be improved to provide additional clarity and insight on the judgements made in preparing the financial statements and provide users of the financial statements with evidence of the degree of challenge by the audit team in the areas of risk which had the most significant effect on the audit strategy.

The scope of audit and related matters is also being considered as part of the various reviews and reports referred to in endnote 155.

159 The PLSA Guidelines ask for a clear and understandable explanation of how the company generates value from its key tangible and intangible assets (PLSA Guidelines Section 4: Audit, Risk and Internal Control (Guidance)).

160 Regulation (EC) No 1606/2002 on the application of International Accounting Standards.

161 Inserted by the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 and applies to financial years beginning on or after 1 January 2016.

The FRC's Audit Quality Thematic Review, published in December 2018, considered auditors' work on "Other Information" in the annual report. This Other Information includes all financial and non-financial information included in a company's annual report other than the financial statements and the audited parts of the Directors' Remuneration Report – e.g. the Strategic Report, the Corporate Governance Statement and the Directors' Report. The FRC found that auditors' work on such Other Information does not meet the requirements of auditing standards consistently, often because insufficient work is performed to support the auditors' statements in relation to Other Information. To remedy this, the FRC suggests a number of measures, including increasing the auditors' focus on Other Information and requiring companies to supply appropriate supporting documentation to enable proper scrutiny of key sections of the annual report.

162 This paragraph applies to financial years commencing on or after 17 June 2016 (regulation 1(2), SATCAR).

163 The "auditable part" of the directors' remuneration report is the part containing the information specified in Part 5 of Schedule 8 to the LMCG Regs (section 497(2) CA 06), being paragraphs 4 to 17 (inclusive) of Part 3 of that Schedule. The FRC advises in its Bulletin 4 (revised) (June 2015) that the auditor's report will need to describe accurately which elements of the directors' remuneration report it has audited, and it would be unsatisfactory for an auditor to describe what it has audited in a manner as uninformative as "the disclosures required by Part 3 of Schedule 8" (paragraphs 41 to 43). The FRC repeats this requirement at para 41 of its Compendium of Illustrative Auditor's Reports (October 2016).

164 A corporate governance statement is "separate" where it is not contained within the directors' report (section 538A CA 06).

165 (a)(ii) to (d) was inserted by the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 and applies to financial years beginning on or after 1 January 2016.

166 This paragraph applies to financial years commencing on or after 17 June 2016 (regulation 1(2), SATCAR).

167 "Unquoted traded company" means a traded company that is not a quoted company (section 498(7) CA 06). "Traded company" means a company any shares of which: (a) carry rights to vote at general meetings; and (b) are admitted to trading on a regulated market in an EEA state by or with the consent of the company (section 360C CA 06). This definition may change depending on the outcome of Brexit as it refers to regulated markets in an EEA state. BEIS states that the "vast majority of traded companies are also quoted" (BEIS Directors' Remuneration FAQs, page 8). However, some traded companies are not quoted because their shares are not admitted to listing on the Official List; these are primarily specialist investment firms which trade on the Specialist Fund Segment. This does not include AIM companies.

168 Applies to financial years commencing on or after 17 June 2016 (regulation 1(2), SATCAR).

169 "qualified" means that the report does not state the auditor's unqualified opinion that the accounts have been properly prepared in accordance with the CA 06 (definition added to section 474 CA 06, which applies to financial years commencing on or after 1 January 2016)

170 The words "or conditions" were added by the Statutory Auditors and Third Country Auditors Regulations 2017 (SI 2017/516), which came into effect on 1 May 2017 with retrospective effect for financial years of companies beginning on or after 17 June 2016.

171 This paragraph applies to financial years commencing on or after 17 June 2016 (regulation 1(2), SATCAR).

In September 2019, the FRC issued a revised version of ISA (UK) 570 Going Concern, which becomes effective for audits of financial statements for periods commencing on or after 15 December 2019. The revised standards will require greater work by the auditor to challenge management's assessment of going concern, test the adequacy of the supporting evidence, evaluate the risk of management bias and make greater use of the viability statement. They also call for improved transparency with a new reporting requirement for auditors of public interest entities (PIEs), listed companies and large private companies, to enable the drawing of a clear, positive conclusion on whether management's assessment is appropriate.

172 Applies to financial years commencing on or after 17 June 2016 (regulation 1(2), SATCAR).

173 Requirements in rows C.9 to C.15 apply to financial years commencing on or after 17 June 2016 pursuant to article 10 of the Audit Regulation. See the European Commission's Q&A of 3 September 2014: https://ec.europa.eu/info/system/files/questions-answers-03092014_en.pdf.

The Kingman Review of the FRC recommended that the UK definition of 'public interest entity' should be reviewed on the basis that the UK definition is too narrowly drawn compared with other countries' definitions (paragraphs 2.8 to 2.9 and recommendation 18). The Government's subsequent consultation on the recommendations (which closed on 11 June 2019), welcomed this recommendation and stated that it "will consult on proposals this year" (page 18). This consultation had not been published at the date of this checklist.

174 Aside from the cross-reference required by article 10(2)(e) of the Audit Regulation (auditor to confirm that the audit opinion is consistent with the additional report to the audit committee required by article 11 of the Audit Regulation), the auditor's report shall not contain any cross-references to the additional report to the audit committee required by article 11 of the Audit Regulation.

175 The FRC Lab Report on Reporting of Audit Committees 2017 states that the normal rotation period for the audit engagement partner and key audit partners is five years, but a degree of flexibility over the timing of rotation is possible, for instance, where the audit committee decides that it is necessary to safeguard the quality of the audit without compromising the independence and objectivity of the external auditor. In such circumstances, it is advised that the audit engagement partner may continue in this position for an additional period of up to two years, so that no longer than seven years in total is spent in this position. The audit committee should disclose this fact and the reasons for it to the shareholders as early as practicable.

176 This paragraph applies to financial years commencing on or after 17 June 2016 (regulation 1(2), SATCAR).

177 Provision 25 of the Corporate Governance Code provides that, where requested by the board, the audit committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. In May 2019, the FRC and ICAEW published guidance for audit committees of smaller listed and AIM companies on improving financial reporting.

178 The Code no longer requires this to be in a separate section of the annual report but the Guidance on Audit Committees still states that it should be. See also the other FRC guidance referred to below.

The FRC Lab Report on Reporting of Audit Committees 2013 stated that investors consider that the audit committee reporting is best presented by way of a separate audit committee report, rather than a section of another report. It suggests that the audit committee report should have a personalised introduction by the audit committee chair, their picture, name or signature, which demonstrates accountability and single ownership, stewardship and transparency (page 2 of the FRC Lab Report on Reporting of Audit Committees 2013). The FRC Lab Report on Reporting of Audit Committees 2015 reiterated this. The FRC was encouraged that 82% of the reports reviewed presented the audit committee report in a separate part of the annual report, but stated that further personalising the report by adding an audit committee chair photo and signature would build on the perception of accountability.

The FRC Lab Report on Reporting of Audit Committees 2017 states that if the audit committee report sits within the governance section of the annual report and is not separately listed on the contents page, it lacks prominence (page 9). It also includes a list of useful questions to assist audit committee chairs, which sets out items that investors will expect to see in the audit committee report (pages 5 to 6). It also suggests that there is a culture of "comply and explain" rather than "comply or explain", which leads to excessive boilerplate description of process meaning that key information can be lost (page 8). Clear cross-referencing and linkage can reduce repetition (page 9). The FRC Lab Report on Reporting of Audit Committees 2017 also contains best practice examples of reporting across a variety of audit committee responsibilities.

179 Names and qualifications must be included within the audit committee report if not provided elsewhere (Guidance on Audit Committees, para 81) and companies may wish to cross-refer to the directors' biography section of the annual report. The FRC Lab Report on Reporting of Audit Committees 2017 notes that it is helpful to provide information on the ability of audit committee chairs to fulfil their role, especially where they have other high-profile roles. Investors also want to understand the interaction between the audit committee and other board committees (page 8).

180 Requirements for audit committee composition are set out in DTR 7.1.1A. A majority of the members of the committee must be independent and the members of the committee as a whole must have competence relevant to the sector in which the issuer is operating. The requirement for the committee as a whole to have competence relevant to the sector in which the company operates is also set out in CGC 2018 24 (first introduced in provision C.3.1 of the CGC 2016, for financial years commencing on or after 17 June 2016).

Note that the ISS Proxy Voting Guidelines state that all members of the audit committee should be independent (ISS Proxy Voting Guidelines, page 12). The PLSA Guidelines state that the audit committee should be "staffed solely by independent directors (both from the executive, but also taking into account independence from the external auditor)" (PLSA Guidelines, Overview, The PLSA's Corporate Governance Principles) and that the recent and relevant financial experience should relate to audit, accountancy or investor practitioner experience (PLSA Guidelines, Section 4: Audit, Risk and Internal Control). The Glass Lewis Proxy Guidelines state that only independent directors should serve on the audit committee and that it recommends that shareholders vote against any affiliated or inside directors serving on the audit committee (page 6) (see endnote 390 for more information on affiliated and inside directors).

DTR 7.1.2A requires that the chair of the committee must be independent and appointed by the members of the committee or by the administrative or supervisory body of the issuer.

The PIRC Guidelines state that the audit committee should be comprised exclusively of independent directors and that PIRC will oppose the re-election of any non-independent member of the committee (PIRC Guidelines (Chapter 2 – The Board)).

181 Although the Code no longer requires the annual report to identify the chair and members of the audit committee, it does require the report to set out individual attendance by directors at audit committee meetings, thereby identifying which directors are members of the committee (see CGC 2018 14 and CGC 2016 A.1.2). It also requires the responsibilities of the board committees to be clear, set out in writing, agreed by the board and made publicly available, though not specifically in the annual report (CGC 2018 14).

182 Although the Code no longer requires the annual report to identify the chair and members of the audit committee, it does require the report to set out individual attendance by directors at audit committee meetings, thereby identifying which directors are members of the committee (see CGC 2018 14 and CGC 2016 A.1.2). It also requires the responsibilities of the board committees to be clear, set out in writing, agreed by the board and made publicly available, though not specifically in the annual report (CGC 2018 14).

183 The PLSA Guidelines do not specifically require disclosure in the annual report.

184 From 2020, Glass Lewis will consider recommending against the election of the chair of the audit committee at any FTSE 350 company where the audit committee has failed to hold a minimum of three meetings during the year without explanation (Glass Lewis Proxy Guidelines, pages 2 and 10, see also paragraph 18 of the Guidance on Audit Committees).

185 DTR 7.1.3 was amended for financial years commencing on or after 17 June 2016 so that the audit committee was to be given additional express responsibilities, including that the committee must monitor the provision of non-audit services by the auditor and must submit recommendations or proposals to ensure the integrity of the financial reporting process.

The FRC's 2016 Reporting Summary stated that investors would like to see more informative reporting about the specific actions taken by Audit Committees.

The PLSA states that it strongly supports the on-going evolution of and improvements to audit committee and auditor reporting and is monitoring ongoing policy developments in this area closely. It highlighted that it was important to avoid 'boiler-plate' language and stated that the audit committee and auditor reports should provide sufficient 'colour' to enable shareholders to form a judgement about the committee's and auditor's work. The PLSA Guidelines state that particular areas of interest are critical accounting policies and principles used, level of materiality adopted, assumptions and judgements, and evidence of professional scepticism by the auditor. Where a review has been undertaken by the FRC's Audit Quality Review Team, the board should share its main findings and actions that have been taken to respond to any recommendations (PLSA Guidelines, Section 4: Audit, Risk and Internal Control (Guidance)).

PIRC states that it welcomes meaningful high-level disclosure in the annual report of the company's procedures in relation to whistleblowing, which the board is now required to review under Provision 6 of the CGC 2018. In particular, PIRC believes it would be beneficial if companies disclosed how the whistleblowing mechanism was reviewed, whether the mechanism had been used during the year and what the outcome had been (PIRC Guidelines (Chapter 3 – Report and Accounts, Audit and Financial Controls)). The FRC Lab Report on Reporting of Audit Committees 2017 notes that investors are interested in disclosure on whistleblowing, especially over time in order that a comparison of progress can be made (page 37). Note that under the CGC 2018 and as stated above, the board is now required to review whistleblowing arrangements (instead of the audit committee) and the Code provision no longer refers to concerns relating to "possible improprieties in matters of financial reporting or other matters" but rather includes a general reference to allowing the workforce to raise any concerns, anonymously if they wish (Provision 6).

The FRC states that investors are interested in understanding the different roles of management and the audit committee in preparation of the annual report and accounts and the report should identify the work done by each (The FRC Lab Report on Reporting of Audit Committees 2017, page 29).

186 The FRC Lab Report on Reporting of Audit Committees 2013 provides some guidance on what should be disclosed, along with example disclosures. It states that: (a) investors appreciate that companies will need to use their judgement to determine whether a matter is significant, taking into consideration what may be useful to a reasonable investor. Having said that, issues reported to the board may be a good indicator of issues for disclosure, or if the audit committee and auditors have spent significant time dealing with an issue this is a strong indication that it is important enough to be disclosed; (b) investors also want the audit committee to move away from boilerplate disclosure and to be bespoke and company-specific. Providing context to issues will help do this (e.g. quantifying the issue, identifying the related business unit, geography, contract or transaction type, describing the nature of the issue as being related to a specific policy or involving a specific assumption or estimate, and stating clearly the outcome); and (c) investors would like to understand in greater depth how the audit committee fulfilled its role and the robustness of steps it undertook to assess each significant issue and reach conclusions, using active and descriptive language in the past tense (page 3 of the FRC Lab Report on Reporting of Audit Committees 2013). The FRC Lab Report on Reporting of Audit Committees 2015 recommended improvement on both the depth and quality of explanations (page 7, The FRC Lab Report on Reporting of Audit Committees 2015). The FRC Letter to Larger Listed Companies 2015 stated that investors look for consistency and clarity between the audit committee and auditor reporting and the company's financial statements. The FRC Lab Report on Reporting of Audit Committees 2017 suggests that investors want the audit committee to be open and specific, clearly stating their conclusion on each significant issue and explaining the rationale for that conclusion (page 29). Investors say that they are interested in the process but unlikely to read disclosures that are heavy with detail. The FRC report that the greatest consensus among investors is their wish to see quantification of the significant issues (page 29). Some investors wanted to see more information about the significant estimates or judgements that were considered as well as cross-references to where investors can find additional information in the annual report on the significant issues raised in the audit committee report (pages 29 to 30). In relation to critical judgements and estimates, the FRC Reporting Summary 2019 states that some companies provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting. The FRC will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties (page 3).

187 The PIRC Guidelines recommend that the audit committee report should also provide "reference to actual results of agenda items covered". The PIRC Guidelines do not make clear what "agenda items" refers to. However, it could be implied from the context that it refers to the agenda items discussed in the audit committee meeting. The PIRC Guidelines go on to state that PIRC would like to see more focus on the discussion of areas in which external auditors exercise discretion and what interpretations have been used in the application of accounting standards. (Chapter 3 – Report and Accounts, Audit and Financial Controls).

188 Guidance states that this discussion should not include disclosure of the audit quality category (Guidance on Audit Committees, para 81).

189 The FRC Lab Report on Reporting of Audit Committees 2013 states that investors expect audit committees to report concisely the activities performed, together with the outcome, and to avoid cluttering the annual report with extensive disclosure (page 4 of the FRC Lab Report on Reporting of Audit Committees 2013). The FRC Lab Report on Reporting of Audit Committees 2015

reported that companies had significant room to improve reporting in this area by providing more detail on activities undertaken and each of their outcomes (page 8, The FRC Lab Report on Reporting of Audit Committees 2015). The FRC produced a publication, "Audit Quality: Practice Aid for audit committees" in May 2015 (available on the FRC's website under "Publications" - Audit & Assurance - Promoting audit quality) to assist audit committees in their assessment of the effectiveness of the external audit. IOSCO, in January 2019, released a report providing its views on good practices for audit committees of listed companies in supporting external audit quality. The report focussed on areas such as auditor appointment, facilitating the audit process and auditor quality and independence (for further detail see the report: IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality (January 2019)).

The FRC Lab Report on Reporting of Audit Committees 2017 suggests that investors are more concerned with the quality of the external audit than the fees charged and that too low a fee may indicate that the firm is not planning a sufficiently rigorous audit (although they are looking for information on fees in the audit committee report). Investors want to understand the criteria against which the audit firm is being assessed (page 11). Investors expect the factors considered in the assessment of the effectiveness of the audit process to be disclosed as well as an understanding of the process and the process for obtaining external evidence of effectiveness (page 23). Private meetings between the audit committee chair and external auditor should be disclosed in the audit committee report (page 23). For recently appointed auditors, it can be helpful to refer to the original tender (so that investors can understand if the auditor has met expectations) as well as confirming the effectiveness of the outgoing auditor in the last year of their appointment (it is not always clear if this has been assessed) (page 23).

The FRC Report on Developments in Audit 2018 suggests that, in order to make the audit process more accessible, companies may consider providing information on how auditors challenged management – for example, the tolerances used to test management estimates rather than generic references to management being within the 'upper' or 'lower' part of an undisclosed range; or more detail of areas where management and auditors took a different view, but the auditors were ultimately prepared to accept management's judgement as reasonable. The FRC Report on Developments in Audit 2019 again highlighted insufficient challenge by auditors of management's estimates as a key issue, stressing the need for auditors to adopt "the right mindset and sufficient professional scepticism"(page 10).

The Institute of Chartered Accountants in England and Wales, in association with the FRC, has published a report offering practical suggestions for Audit Committees on how to deliver high quality financial and non-financial reporting to the users of the annual report and accounts. The report offers sample questions that an Audit Committee could pose to management and internal and external auditors to help develop productive relationships and improve the quality of reporting (Smaller Listed and AIM Quoted Companies: a practical guide for audit committees on improving financial reporting (2019)).

190 The wording here regarding the requirement to give advance notice of plans to re-tender is repeated in Guidance on Audit Committees 2016 (para 81) and overlaps with the requirement under the CMA Order for FTSE 350 companies to disclose a proposed date for re-tendering where a tender has not been conducted within the last five financial years (CMA Order, articles 4.1 and 4.2).

The FRC Notes on Best Practice for Audit Tendering (pages 6 and 7) state that "Audit Committees are required to disclose in their annual report that a tender is taking place. If the timing of this information is not sufficiently in advance to give investors an opportunity to engage, Audit Committees should consider other ways of alerting shareholders to the start of the tender process". The FRC Notes on Best Practice for Audit Tendering also ask for disclosure in the annual report of:

- the timetable for the tender process, including when the process will take place and which year-end will be the first for the new auditor;
- which big firms are being invited to tender and whether or not firms outside the big four are being considered;
- whether the Audit Committees of less complex entities are inviting firms outside the big four to participate; and
- details of potential conflicts of interest and how they have been mitigated and/or will be managed.

The FRC stresses the importance of engagement before the formal process of audit tender commences and that "if the annual report timing comes too late in the process, companies should consider other forms of publication, as well as direct engagement with the largest investors".

The FRC suggests companies consider making some disclosures at the end of the tender process concerning what factors led to the decision, how conflicts are being managed and/or mitigated and what diligence was carried out, particularly in connection with the audit engagement partner.

The FRC Lab Report on Reporting of Audit Committees 2017 notes that investors want to have early notice that a tender will take place with good practice including a clear description of the timeline (page 12). See section 6 for more guidance on audit tenders.

The PLSA Guidelines require that the intention to tender should be disclosed in advance in the report and accounts. In addition, PLSA requests an explanation of the reasons behind any change of auditor (PLSA Guidelines, Section 4: Audit, Risk and Internal Control (Guidance) and Appendix 1, para 7.5). See also Section D of this checklist: D **AUDIT COMMITTEE REPORT**

191 The explanation should describe the audit committee's policy on the engagement of the external auditor to supply non-audit services and should set out (or cross-refer to) the fees paid to the auditor and its network firms for audit services, audit-related services and non-audit services, including the ratio of audit to non-audit work (Guidance on Audit Committees, paras 81 and 71). The policy should specify the types of non-audit services (if any) for which the use of the external auditor is pre-approved (such approval should only be in place for matters that are clearly trivial) and reporting the use of non-audit services should include those subject to pre-approval (Guidance on Audit Committees, para 73). The committee should also set a policy for how it will assess whether non-audit services have a direct or material effect on the audited financial statements, how it will assess and explain the estimation of the effect on the financial statements and how it will consider the external auditors' independence (Guidance on Audit Committees, para 74). See also paragraph 69 of the Guidance on audit Committees in relation to the requirement for a policy for the employment of former employees of the external auditor.

192 If the auditor provides non-audit services, other than audit-related services, the annual report should include an explanation for each significant engagement, or category of engagements, what the services are, why the audit committee concluded that it was in the interests of the company to purchase them from the external auditor (rather than another supplier), and how auditor objectivity and independence has been safeguarded (Guidance on Audit Committees, para 81)). This should correlate with the formal policy on non-audit services required by paragraph 73 of the Guidance on Audit Committees 2016. See also pages 5 and 19-20 of the FRC Lab Report on Reporting of Audit Committees 2017. Investors would like more specific reporting on the justification of non-audit services and disclosure of the amount of non-audit fees and the ratio of audit fees to non-audit fees as well as explanations of significant non-audit engagements and why the external auditor is best placed to undertake any non-audit services.

From 17 June 2016, the Audit Regulation has prohibited public interest entities from agreeing contingent fee arrangements with their auditors, i.e. fees determined by the outcome of a transaction (article 4, Audit Regulation). The Audit Regulation restricts auditors from providing certain kinds of non-audit services to the audited entity, e.g. tax planning, and imposes a cap of 70% on non-audit services as a proportion of the average audit fee paid in the last three financial years (article 4, Audit Regulation). This is reflected in the FRC's Revised Ethical Standard of June 2016, which limits non-audit services both on an individual and group-wide basis (4.34 and 4.35, Ethical Standard). Note that in July 2019, the FRC published an exposure draft of a revised ethical standard. Its intention is that the revised standard will apply to the audit of financial periods commencing on or after 15 December 2019. The draft proposes to simplify and restructure the standard as well as clarify and enhance certain requirements and redefine the objective, reasonable and informed third party test. It also includes a list of "permitted services" that auditors of public interest entities can provide limiting these to those which are closely related to the audit and/or required by law and regulation. The FRC is also proposing to expand the scope of certain requirements to entities that are not formally public interest entities and strengthen ethical prohibitions and requirements related to auditor independence. At the time of writing, the final version of the revised ethical standard has not been published.

The PLSA Guidelines recommend that companies should spend no more than 50% of the audit fee on non-audit services (or a material monetary sum - £500k) (PLSA Guidelines, Appendix 1, para 7.9). PLSA also encourages full disclosure of the value of all non-audit fees including a clear breakdown between the types of services received, with tax compliance services differentiated from tax advisory services and non-statutory acquisition-related services separated from statutory services (PLSA Guidelines, Appendix 1, para 7.8).

PIRC has consistently regarded the provision of non-audit services as a material risk factor that can compromise auditors' ability to confront directors on difficult issues. PIRC states that it will normally recommend abstention from the vote to appoint the auditor where non-audit fees are between 25% and 50% of audit fees and to oppose if non-audit fees exceed 50% of audit fees for either the year under review or the previous three years. PIRC will also recommend opposing the re-election of the audit committee chair where the nature of non-audit fees has not been adequately disclosed. (PIRC Guidelines (Chapter 3 – Report and Accounts, Audit and Financial Controls)).

ISS encourages companies to make full disclosure of the amount and nature of payments for non-audit services. Where such payments appear under the category of “other fees” in the annual report, ISS expects the company to disclose the nature of those services. Where the ratio of non-audit fees exceeds 100% for more than one year and the company seems to be unwilling to address the issue, ISS states that it may recommend a vote against the remuneration of the external auditors (ISS Proxy Voting Guidelines, page 8 and page 28 for smaller companies). See also pages 5 and 19-20 of the FRC Lab Report on Reporting of Audit Committees 2017.

Glass Lewis states that it will usually recommend a vote against the audit committee chair, appointment of the auditor and authority to set its fees where non-audit fees are greater than audit and audit-related fees paid to the auditor (for more than one year in a row in relation to the vote against the audit committee chair), though it may grant one-off exceptions for one-time corporate finance transactions and due diligence work related to IPOs, mergers, acquisitions or disposals (Glass Lewis Proxy Guidelines, page 9). It also recommends a vote against the chair of the audit committee and authority to set the auditor’s fees where the company fails to disclose the fees paid to the auditor or a breakdown thereof for more than one year in a row (page 10). It will also recommend a vote against all members of an audit committee if the company’s non-audit fees include fees for tax services for senior executives or services related to corporate tax avoidance or tax shelter schemes (page 10 and see also pages 18-19 in relation to the auditor and auditor’s fees).

193 The FRC Lab Report on Reporting of Audit Committees 2013 states that investors appreciate disclosure of the company’s tendering policy, and any intention to tender in advance, so it is able to engage in the process. There is a preference for a summary of the company’s policies to preserve auditor independence to be included in the audit committee report, although the full policy could be made available on the company website. Any changes to the company’s policy on non-audit services should also be disclosed, together with the reason for the change. Investors also favour disclosures of the nature and amount of non-audit services, and a disclosure of those non-audit services fees as a percentage of audit fees (page 4 of the FRC Lab Report on Reporting of Audit Committees 2013). Investors also want an explanation of how any conflicts of interest have been managed to offset any impact on auditor independence (FRC Lab Report on Reporting of Audit Committees 2017, page 12). Investors are also concerned that there is a level playing field for all candidates, especially where rotation is not mandatory and the current auditor is tendering (page 13). The audit committee should drive the process and the criteria and reasons for selecting the firm should be disclosed with audit quality not fees driving the decision (page 13). If the incumbent firm is not invited to tender, the reason for this should be set out.

194 The Corporate Governance Code 2014 edition, which applied to financial years commencing before 17 June 2016, stated that FTSE 350 companies should put the external audit contract out to tender at least every 10 years (C.3.7). This requirement was superseded by the Audit Regulation as implemented within the Companies Act 2006 by SATCAR. Section 494ZA CA 06 imposes a 20-year maximum term of engagement for auditors of public interest entities, with mandatory tendering every 10 years. Transitional periods apply where auditors were appointed prior to 17 June 2016.

Related to these requirements, the CMA Order requires that FTSE 350 companies put their audit services out to competitive tender every at least every 10 years and recommends a five-yearly competitive tender. If that recommendation is not followed, companies must disclose in the audit committee report the date on which the company proposes it will next complete a competitive tender process and the reasons why completing a competitive tender process in the financial year proposed is in the best interests of members (See further at row D.10 for details of the required disclosure: CMA Order, Articles 4.1 and 4.2).

The PLSA Guidelines say that a 10-yearly tender process, with a maximum 20-year audit firm tenure, should be seen as a minimum expectation (PLSA Guidelines, Section 4: Audit, Risk and Internal Control) and PIRC says that it may not recommend support for re-election of audit firms with more than a five-year tenure (with the audit firm and not just the audit partner rotating at least every five years), regardless of whether the level of non-audit work be considered acceptable (PIRC Guidelines (Chapter 3 – Report and Accounts, Audit and Financial Controls)). Glass Lewis states that it will recommend a vote against the audit committee chair if the company has not put its audit services out to tender in the past 10 years without sufficient rationale (Glass Lewis Proxy Guidelines, pages 10 and 19).

Companies undertaking an audit process may find it helpful to refer to the FRC Notes on Best Practice for Audit Tendering.

195 Where a company proposes a new auditor, or an auditor resigns and does not seek re-election, the ISS Proxy Voting Guidelines state that the company should offer an explanation to shareholders. If it does not do so, ISS recommends a vote against the election of the new auditor (ISS Proxy Voting Guidelines page 8).

196 The FRC Lab Report on Reporting of Audit Committees 2017 states that, where the audit committee has delegated responsibility for monitoring and reviewing only a part of the internal control and risk management system, this should be made clear. Investors say that a lack of clarity may raise doubts about the effectiveness of internal control and risk management systems (page 35). Investors also expect audit committees to explain how they have included strategic considerations in their review of effectiveness of risk management and internal controls, ensuring that they give company-specific insight and clear linkage to discussion of other aspects of internal control and risk management. Investors would also like to understand how the committee plans to address any significant failings or weaknesses identified.

197 The Code does not contain a requirement to disclose this information but it does require the audit committee to have responsibility for monitoring and reviewing the effectiveness of the company's internal audit function (see CGC 2018 25).

198 In these circumstances, the CGC 2018 will also require an explanation of how internal assurance is achieved and how this affects the work of external audit (Provision 26).

199 If the company is considering engaging the external auditor to carry out internal audit functions, Guidance on Audit Committees (2016, para 56) states that the audit committee should consider the effect this may have on the company's overall arrangements for internal control, the effect on the objectivity and independence of the external auditor and the internal audit functions as well as the effect on investor perceptions.

PIRC states that it considers internal audit functions are appropriate for listed companies in almost all cases and that, where a board has determined that an internal audit function is not required, it should justify its position. PIRC also states that shareholders should consider voting against reappointment where a company's auditor is undertaking the internal audit functions (PIRC Guidelines (Chapter 3 – Report and Accounts, Audit and Financial Controls)).

The FRC Lab Report on Reporting of Audit Committees 2017 sets out some expectations on disclosures relating to the effectiveness of internal audit, including that investors expect the audit committee to review the effectiveness of internal audit and report on the outcome (page 37).

200 The CMA Order permits the CMA to request that auditors provide the CMA with information on whether the annual report published in the preceding year included (a) a statement of compliance with the CMA Order, as required by Article 7.1 of the Order, and (b) a statement in accordance with Articles 4.1 or 4.2 of the CMA Order, from 1 January 2016 onwards.

201 See endnote 200 above.

202 Different requirements apply to public interest entities which do not have an audit committee (see section 489B CA 06). A recommendation of the audit committee under this section is not required where the committee recommends reappointment of the company's existing auditors and the directors are in agreement (section 489A(7) in relation to public interest entities which are public companies).

203 The provisions in D.11 are not required to be within the annual report, but must be provided before a resolution to appoint auditors is passed by the members under section 489(4) CA 06. The requirement applies to financial years commencing on or after 17 June 2016.

The FRC Notes on Best Practice for Audit Tendering (at page 12) state that "the legislation requires the Audit Committee of a PIE to make a recommendation to the Board for appointment of an auditor. The Audit Committee must validate or approve a report on the tendering and appointment process… it is a decision for the Board of the audited entity if it wishes to make such a report public. The FRC considers that the legislative requirements can be satisfied by a combination of some or all of: (i) the paper prepared for the Audit Committee to support its deliberations and recommendation to the Board for appointment; (ii) the Board paper which sets out the Audit Committee's assessment and recommendations; and (iii) material contained in the annual report of the Audit Committee in the company's annual report, as that will set out the main areas of focus of the Audit Committee during the year being reported upon".

From 17 June 2017, article 16(6) of the Audit Regulation renders void any clause of a contract entered into between a public interest entity and a third party limiting the choice of auditor to certain categories or lists of auditors or audit firms (article 44, Audit Regulation). The prohibition on clauses limiting the choice of auditor applies to companies which are not public interest entities from 16 June 2016 (regulation 12, SATCAR). The requirement to disclose contractual obligations that acted to restrict the audit committee's choice of external auditors was removed from Guidance on Audit Committees by the deletion of paragraph 4.26 in the 2016 edition.

204 This information should also be supplied in any papers recommending appointment or reappointment (CGC 2018, Provision 26).

205 Where there has been a disagreement between the audit committee and the board that cannot be resolved, the Guidance on Board Effectiveness suggests that the audit committee should have the right to report the issue to shareholders as part of the report on its activities in the annual report (paragraph 62).

Note that the FRC has clarified that the purpose of the Guidance is to encourage thinking on how boards carry out their role; it is not mandatory nor prescriptive but contains suggestions of good practice to support directors and their advisers in applying the Code (Guidance on Board Effectiveness, paragraph 3).

206 The GC100 and Investor Group Guidance looked at compliance with the remuneration reporting requirements in the LMCG Regs during meetings held in 2014 – 2016. Generally, GC100 and the Investor Group stated that there had been an improvement in the quality of remuneration reporting since the reporting requirements in the LMCG Regs were introduced. It advises that companies should continue to focus on clarity and conciseness and that committees may find it helpful to consider: (i) any feedback from shareholders since the last remuneration report and policy and whether this suggests that matters could be set out more clearly and concisely in the next; (ii) what might make it easier for investors to assess and understand each part of the report or policy; and (iii) whether the report clearly explains the thinking and purpose behind the committee's decision and choices (GC100 and Investor Group Guidance, 1.1).

The FRC Corporate Reporting Review 2018 noted that the communication principles set out in the Guidance on the Strategic Report can equally be applied to remuneration reports (page 38). Noting that there has been little change in the quality of remuneration reporting in the year under review, the FRC hoped that changes to the remuneration section of the Corporate Governance Code 2018 would lead to "more meaningful and insightful reporting" (page 38). Further analysis by the FRC includes a call for more companies to link incentives and performance metrics with corporate strategy and to meaningfully explain employee engagement over executive remuneration and how the remuneration committee takes account of workforce pay. Note that Provision 2 of the CGC 2018 requires companies to explain their approach to investing in and rewarding their workforce.

The letter from the IA to remuneration committee chairs in November 2018 highlighted that the IA's members were concerned that some companies were not understanding or responding to the views of their shareholders on remuneration and that members had no option but to vote against remuneration proposals as the committee fails to take account of their views or argues "exceptional circumstances". Members felt that remuneration committees were overly considerate of the management perspective often at the expense of shareholder's views and were relying solely on the contractual nature of remuneration rather than considering the issue fairness. Remuneration committees should ensure that they consider the wider employee pay context when taking executive remuneration decisions (pages 1-2). The IA also stated that members are concerned that some companies treat shareholder consultation as a validation exercise rather than as a process for obtaining the views of their major shareholders. Companies should be satisfied that they have been transparent enough that the final proposals do not contain any surprises. They should provide details of the complete remuneration structure, not just the proposed changes, so that investors have the full picture (page 2).

In 2019, the IA's Remuneration Principles were updated to state that dialogue on remuneration can be a drawn out process and while dialogue and communication is important, shareholders will only make a decision when they have full disclosure on remuneration and company performance following publication of the annual report (IA Remuneration Principles, Foreword). The IA Covering Letter also states that this remains an issue with investors continuing to look closely at how increases to basic salary or variable pay opportunity are justified and will expect remuneration committees to show restraint in relation to overall quantum as they remain concerned by incremental increases that can lead to substantial increases in overall remuneration (page 2), echoing the letter sent to remuneration committee chairs in 2018.

207 In March 2019, the European Commission issued a consultation on draft guidelines on the standardised presentation of the remuneration report under the SRD II amendments to the Shareholder Rights Directive. The guidelines aim to help companies disclose clear, understandable, comprehensive and comparable information on individual directors' remuneration which meets the requirements of SRD II. The consultation closed on 21 March 2019. However the final version of the guidelines was not available at the date of publication of this document and so final guidelines are not reflected in this edition of the checklist. As well as giving general guidance in a set of key principles (see section 4 of the draft guidelines), the draft

guidelines also set out more specific recommendations about the presentation of information. The draft guidelines refer to the provisions of the Shareholder Rights Directive (as amended by SRD II) and so any companies that would like to identify the equivalent provisions under UK law should refer to the Transposition Notes that accompany the Directors' Remuneration Regulations as these set out how each relevant provision of the directive has been implemented in UK law.

208 A "quoted company" means a company whose share capital (a) has been admitted to listing on the Official List maintained by the FCA; (b) is officially listed in an EEA State; or (c) is admitted to dealing on either NYSE or Nasdaq (section 385(2) CA 06). Note that this definition states that a company is a quoted company for the purposes of this part of the CA 06 "in relation to a financial year if it is a quoted company immediately before the end of the accounting reference period by reference to which that financial year was determined" (section 385(1) CA 06).

209 A "traded company" means a company any shares of which: (a) carry rights to vote at general meetings; and (b) are admitted to trading on a regulated market in an EEA state by or with the consent of the company (section 360C CA 06). This definition may change depending on the outcome of Brexit as it refers to regulated markets in an EEA state. BEIS states that the "vast majority of traded companies are also quoted" (BEIS Directors' Remuneration FAQs, page 8). However, some traded companies are not quoted because their shares are not admitted to listing on the Official List; these are primarily specialist investment firms which trade on the Specialist Fund Segment. This does not include AIM companies.

210 For traded companies that are not quoted, there are various transitional provisions relating to the remuneration policy; see regulation 2 of the Directors' Remuneration Regulations for more information.

211 Information required to be shown in the remuneration report for or in respect of a particular person must be shown in the report in a manner that links the information to that person identified by name (Schedule 8 para 2(1) LMCG Regs).

212 Where the requirements of Schedule 8 LMCG Regs make reference to a "director", those requirements may be complied with in such a manner as to distinguish between directors who perform executive functions and those who do not (Schedule 8 para 2(3) LMCG Regs). Any requirement of Schedule 8 LMCG Regs to provide information in respect of a director may, in respect of those directors who do not perform executive functions, be omitted or otherwise modified where that requirement is not applicable to such a director and in such a case, particulars of, and the reasons for, the omission or modification must be given in the report (Schedule 8 para 2(4) LMCG Regs).

213 The requirements of Schedule 8 LMCG Regs to provide information in respect of performance measures or targets does not require the disclosure of information which, in the opinion of the directors, is "commercially sensitive" in respect of the company (Schedule 8 para 2(5) LMCG Regs). Where information is not included in the report in reliance on this provision, particulars of, and reasons for, the omission must be given and an indication of when (if at all) the information is to be reported to the members (Schedule 8 para 2(6) LMCG Regs). There is no definition of "commercially sensitive" within the LMCG Regs. GC100 and the Investor Group's previous edition of the Directors' Remuneration Reporting Guidance (September 2013) suggested that a possible interpretation is where disclosure of a measure or target is likely to damage the company's commercial interest. That definition is not set out within the 2016, 2018 or 2019 edition of their guidance, which instead states that any decision to rely on the commercial sensitivity carve-out should not be taken lightly and only where justified by company-specific circumstances. The GC100 and Investor Group Guidance (at 2.1) distinguishes between short-term incentives, where withholding prospective disclosure is more easily justified, and long-term incentives, where disclosure is expected unless, for example, it relates to a key strategic initiative that would be valuable information to competitors if disclosed. In either case, unless the item relates to a short-term incentive and is disclosed at the end of the reported year, GC100 and Investor Group Guidance expects a commitment to disclosure at a specified future time and retrospective disclosure in the next remuneration report once a measure or target ceases to be commercially sensitive (Guidance under 2.1, GC100 and Investor Group Guidance)). IA Remuneration Principles state that, where commercial sensitivities prevent a fuller disclosure of specific short-term targets at the start of the performance period, shareholders expect to be informed of the main performance parameters, both corporate and personal, for the financial year being reported on (C(1)). A full analysis in the remuneration report is expected following payment. See endnotes 227, 235 and 340 for further details.

214 Any remuneration reports first made available on or after 10 June 2019 must remain free of charge on the company's website for ten years and may be kept longer if it does not contain personal data (section 430(4ZA) CA 06). See section 430 CA 06 for additional documents and information that must also be made available on the company's website, including new requirements introduced by the Directors' Remuneration Regulations, which amend section 430.

215 For financial years commencing on or after 10 June 2019, the remuneration report must not include certain types of personal data of a director including data that reveals racial or ethnic origin, political opinions, religious or philosophical beliefs, or trade union membership or which refers to the family situation of individual directors (Schedule 8 para 2(2A) LMCG Regs).

216 The GC100 and Investor Group Guidance acknowledges that there is flexibility in how the annual statement should be presented but suggests it could be "a short, succinct letter to shareholders" (reflecting shareholders' desire to see this as a personal statement by the chairman).

217 This requirement was introduced by the Miscellaneous Reporting Regulations for financial years commencing on or after 1 January 2019. ISS states that, where a remuneration committee uses its discretion, it should provide a clear explanation of its reasons, which are expected to be clearly justified by the financial results and underlying performance of the company (ISS Proxy Voting Guidelines, page 22). In addition, for meetings held on or after 1 February 2020, it also states that the remuneration committee should disclose how it has taken into account any ESG matters when determining remuneration outcomes (ISS Proxy Voting Guidelines Updates, page 14). ISS sets out a non-exhaustive list of relevant factors including workplace fatalities and injuries, significant environmental incidents and certain fines, sanctions, judgments and settlements (ISS Proxy Voting Guidelines Updates, page 14). ISS notes that there have been a number of cases where remuneration committees have not disclosed how they have taken into consideration ESG risks or controversies and that it is expected that these matters should be reflected in the remuneration outcomes and, if not, that a sufficient explanation is provided (ISS Proxy Voting Guidelines Updates, page 15).

Referring to the guidance from BEIS set out in endnote 238, GC100 and Investor Group Guidance encourages remuneration committees to apply discretion in either an upwards or a downwards direction, but notes that any upwards direction will be the subject of considerable shareholder scrutiny and will need considerable explanation and, in some cases, prior dialogue with shareholders. This includes using discretion to give account to overall business results where qualitative performance measures are used (Guidance under 1.3, GC100 and Investor Group Guidance).

IA Remuneration Principles state that discretion can help remuneration committees ensure the outcome of executive pay schemes properly reflect overall corporate performance and the experience of shareholders in terms of value creation (IA Remuneration Principles, Section A(5)). They also state the remuneration committee should have appropriate discretion to ensure the remuneration outcomes are commensurate with company performance and are not excessive (IA Remuneration Principles, Section 4(b)). Companies should disclose the range of discretion which can be applied to bonus awards (IA Remuneration Principles, Section C(1)).

This is one of three express requirements in the LMCG Regs relating to discretion. See rows E.5(b)(v) and E.4 and also endnotes 220, 238 and 301 on discretion generally and for more information about the other requirements, including more guidance from the GC100 and Investor Group.

218 Glass Lewis will recommend voting against all remuneration committee members where the remuneration report fails to disclose the relationship between the company's remuneration policy and the company's performance (if one exists) (Glass Lewis Proxy Guidelines, page 11).

219 GC100 and Investor Group Guidance states that explaining the link between remuneration and strategy is important to investors and stresses the need to cross-refer and align this disclosure with the strategic report. Disclosure may, for example, explain how the company's KPIs and risks have been factored into remuneration structures (guidance under 2.2, GC100 and Investor Group Guidance).

See endnotes 77, 440 and 441, in connection with use of APMs and note in particular that in 2017, the FRC stated that one of its focusses was on ensuring that KPIs which are linked to executive remuneration are explained in sufficient detail (FRC's 2017 Reporting Summary, page 2).

220 As set out in endnote 221, this disclosure is recommended by the GC100 and Investor Group. It was amended following the introduction of the requirement in row E.1(b) for quoted companies to summarise any discretion which has been exercised in the award of directors' remuneration for financial years commencing on or after 1 January 2019 (new paragraph 3(aa) of Part 2 of Schedule 8 LMCG Regs, introduced by the Miscellaneous Reporting Regulations). Prior to this, the recommendation was to summarise any discretion applied by the remuneration committee during the year.

See section A(5) of the IA Remuneration Principles for guidance on use of discretion. See also endnotes 217, 238 and 301 in relation to discretion, including guidance from the GC100 and Investor Group. Note that investors have been seeking more information on discretion since at least 2016; in that year the letter from the IA to remuneration committee chairs stated that IA members wish for companies to be clear when the remuneration committee has exercised discretion and that the committee should fully outline the circumstances, reasons and outcomes of the use of discretion (pages 2-3).

221 Wording in rows E.1(b) to (j) is recommended by GC100 and the Investor Group, rather than mandatory (Guidance under 2.2, GC100 and Investor Group Guidance). The company may prefer to articulate engagement with other stakeholders within the strategic report (see the commentary under row B.23 of this checklist).

222 Other than references to directors in paragraphs 2(2), 2(5), 3, 5(2), 6(1)(b), 10(3), 22(1), 23(c), 24(4) and 48 of schedule 8 of the LMCG Regs.

223 The BEIS Directors' Remuneration FAQs clarify that this is solely for the purpose of remuneration reporting and this change does not extend the responsibilities of a company's directors under UK law to a CEO or deputy CEO who does not sit on the board (page 9). Remuneration reporting is not extended to any other senior management roles including individuals not on the board that have 'director' in their title. The GC100 and Investor Group Guidance states that the intention of this new requirement is to ensure that the most appropriate person is caught by the reporting requirements and that this may be the most senior member of the company's executive committee (Guidance under 2.1).

Where a company is required to treat a CEO or deputy-CEO as a director for the purposes of remuneration reporting but the provisions relating to remuneration policies do not yet apply to them, BEIS suggests that the company may want to include a clarificatory note that an approved remuneration policy under the Directors' Remuneration Regulations which would include CEOs and deputy CEOs not on the board has not yet been required to be brought forward for approval (BEIS Directors' Remuneration FAQs, page 12). The remuneration of CEOs or deputy CEOs that do not sit on the board should be reported on for financial years commencing on or after 10 June 2019. However, the provisions relating to remuneration policies only apply to a policy approved on or after 10 June 2019 and existing policies are not affected and can continue until the end of their maximum three year period (BEIS Directors' Remuneration FAQs, page 10). Payments can continue to be made to such CEOs and deputy CEOs in accordance with existing practices until the company chooses to, or is required to, bring forward a new remuneration policy for shareholder approval (BEIS Directors' Remuneration FAQs, page 12).

We are aware of some companies who are considering nominating an existing plc director (say the CFO) to carry out the function of deputy CEO. This is to avoid inadvertently breaching this provision by not reporting on the remuneration of another person who is not a director but is found to be acting as the deputy CEO.

224 The report may set out in separate tables the information to be supplied in respect of directors who perform executive functions and those who do not (Schedule 8 para 4(2) LMCG Regs). Unless otherwise indicated, the sums set out in the table are those in respect of the relevant financial year and relate to the director's performance of, or agreement to perform, qualifying services (Schedule 8 paras 4(3) and 44(1) LMCG Regs). The directors may choose to display the table using alternative orientation (Schedule 8 para 5(2) LMCG Regs). Where it is necessary to assist the understanding of the table by the creation of sub-totals, the columns headed "a" to "e" may be set out in an order other than that set out in the table above (Schedule 8 para 7(2) LMCG Regs). The ISS Proxy Voting Guidelines also require disclosure of directors' individual emoluments for smaller companies (page 30).

225 See Schedule 8 paras 10–11 LMCG Regs for methods to be used to calculate the sums to be set out in the "single total figure table" and relevant definitions. See also Schedule 8 para 8 LMCG Regs to address circumstances where: (i) performance measures are substantially, but not fully, completed by the end of the relevant financial year; (ii) money or assets reported in a previous year are the subject of a recovery of sums paid or withholding; or (iii) where calculations result in a negative number.

226 PIRC expects each director's fees to be separately disclosed (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

227 See Schedule 8 para 7(1)(c)(i) and (ii) LMCG Regs for exclusions.

PLSA states that failure to disclose or retrospective disclosure of variable pay performance conditions for annual bonuses could result in a voting sanction against the remuneration policy, (PLSA Guidelines, Appendix 1, para 1.4). The PLSA Guidelines also require a clear explanation of how pay is aligned to performance (PLSA Guidelines, Section 5: Remuneration).

ISS states that the annual bonus earned for the year should be explained in a fashion that allows shareholders to link performance with pay (ISS Proxy Voting Guidelines, pages 20). ISS requires that both financial and non-financial targets should be disclosed in an appropriate level of detail, preferably with a full target range (e.g. threshold, target and maximum) (and see section C(1) IA Remuneration Principles).

Any increases in the maximum from one year to the next should be explicitly justified. The lowering of targets should generally be accompanied by a reduction in the bonus potential (ISS Proxy Voting Guidelines page 20). For meetings held on or before 31 January 2020, ISS states that it may recommend a vote against a remuneration report where bonus targets are not disclosed retrospectively and where there is no commitment to disclose in the future noting that there is an increasing expectation that bonus target will be disclosed retrospectively (ISS Proxy Voting Guidelines page 21). ISS also notes that it is standard market practice for retrospective disclosure to be provided no more than one year after the end of the relevant performance year. For meetings held on or after 1 February 2020, ISS has strengthened this voting recommendation, stating that it will normally recommend a vote against the remuneration report where bonus targets are not disclosed as it is now standard market practice for such disclosure to be provided immediately following the reporting year with companies disclosing one or more years in arrears being out of step with wider market practice and therefore potentially attracting a negative vote recommendation (ISS Proxy Voting Guidelines Updates, pages 12-13). ISS also states that "very few companies do not disclose their bonus targets on a immediately retrospective basis and that as an "overwhelming majority" of companies do not face any issues around commercial sensitivity, any company disclosing on or more years in arrears would be viewed "sceptically, and a compelling explanation would be expected" ((ISS Proxy Voting Guidelines Updates, page 14). (See also endnote 340 for more information.)

228 GC100's revisions to its GC100 and Investor Group Guidance in 2016 make specific note that Schedule 8 para 10(1)(d) LMCG Regs requires that companies must disclose any dividend or dividend equivalent payment receivable in relation to a long-term incentive that is required to be included in this column.

229 There is no definitive list of "items in the nature of remuneration" and so companies must consider whether they have any unusual remuneration arrangements that do not fall within the specified headings. See the Guidance under 3.1, GC100 and Investor Group Guidance for some examples.

230 Additional columns may be included if there are any sub-totals or other items which the directors consider necessary in order to assist the understanding of the table (Schedule 8 para 6(1)(b) LMCG Regs).

231 This will only be relevant for financial years commencing on or after 10 June 2019.

The BEIS Directors' Remuneration FAQs explain that fixed pay should be the sum of salary, any taxable benefits and pension (columns a, b and e of the existing Single Figure table), and variable pay should be the sum of any annual bonus or long-term award (columns c and d of the existing Single Figure table) (page 19). Any items of remuneration recorded in the Single Figure table as "any other items in the nature of remuneration" should be counted as fixed or variable pay as the company judges is appropriate (BEIS Directors' Remuneration FAQs, page 19).

232 This will only be relevant for financial years commencing on or after 10 June 20

233 Where the sum in the preceding financial year had been included as an estimate only, the actual sum must be provided in the following financial year, and details of the revised sum must be given in a note to the table (Schedule 8 para 9(2) LMCG Regs). Where the difference is substantial, the GC100 and Investor Group Guidance states that companies may wish to consider a publication on their website to ensure timely disclosure to the market (Guidance under 3.1, GC100 and Investor Group Guidance).

234 The IA Covering Letter states that members request that strategic and personal targets and outcomes are disclosed separately (page 2).

235 GC100 and Investor Group Guidance states that, where disclosure of short-term incentive measures has been withheld for reasons of commercial sensitivity, companies should disclose the measures retrospectively here, unless commercial sensitivity remains an issue. If commercial sensitivity does remain an issue, investors generally expect the remuneration report to contain a commitment to disclose at a specified time in the future (Guidance under 2.1, GC100 and Investor Group Guidance). IA Remuneration Principles require a full analysis of the bonus following payment if prospective disclosures were withheld due to commercial sensitivity. This includes the specific target ranges for financial measures and the extent to which the relevant targets were actually met. The company must disclose a detailed rationale for payment of personal or strategic objectives and the weightings, achievement and outcomes of personal and strategic objectives should be disclosed separately (IA Covering Letter, page 2 and IA Principles of Remuneration, section C(1)). Disclosures are expected within one year and no later than 12 months following payment of the bonus award. Where financial metrics do not warrant a bonus payment, members will scrutinise the payment and rationale for the payment of any personal or strategic elements to ensure that such a payment is warranted (IA Remuneration Principles, section C(1)).

Where disclosure of long-term incentive measures has been withheld, GC100 and Investor Group Guidance states that investors expect that the remuneration report should include a commitment to disclose at a specified time in the future. If targets have not been disclosed prospectively, investors generally expect remuneration committees to consider including qualitative commentary relating to intra-cycle performance (i.e. updates on performance to date) in order to provide an indication of future vesting (Guidance under 2.1, GC100 and Investor Group Guidance).

Companies should disclose the full range of targets applicable to a particular incentive if making a retrospective disclosure (e.g. threshold, target and maximum) (GC100 and Investor Group Guidance).

ESMA's Guidelines on Alternative Performance Measures may apply to key performance indicators within the annual report. See endnotes 77, 440 and 441.

236 The IA Remuneration Principles state that shareholders discourage the payment of variable remuneration in these circumstances, even if particular targets have been met, in particular ones that impact on stakeholders including the company's workforce, for example if there has been a significant health and safety failure or poor outcome for clients (Section A(5)). Glass Lewis generally expects remuneration committees to consider exercising downward discretion where a company has suffered an exceptional negative event, even if formulaic targets have been met (Glass Lewis Proxy Guidelines, page 25).

237 BEIS has clarified that "while the primary objective of this new provision is to enable investors to see the difference that share price growth may have had on variable pay awards compared to the maximum receivable envisaged in the remuneration policy, it is recognised that such awards may also depend in part on whether targets were linked to share price growth. Companies may therefore wish to provide an explanation of how share price growth may have enabled directors to meet a target, and the impact of this on the variable pay awards" (Q&A 5 (Section G), Miscellaneous Reporting Q&A).

Detailed guidance on this provision is given in the Guidance under 3.1 in the GC100 and Investor Group Guidance, including which types of short-term incentive awards should be reported under this provision and also how to calculate the amount of the award attributable to share price appreciation for long-term incentive awards delivered in performance shares and awards delivered in market priced options. The guidance also discusses whether long-term incentive awards vesting due to satisfaction of an absolute share price or absolute TSR target should be disclosed under this provision noting that the intended focus of the provision is the difference (if any) between the vested value and the face value at the time of grant (as set out in the BEIS guidance above) and that the company may wish to make a note of the technical application of the provision to the award. The guidance also states that one example of where an estimate would be required is where the company includes an amount in the single figure table where the performance measures or targets are substantially, but not fully, completed by the end of the reported year (Guidance under 3.1, GC100 and Investor Group Guidance). Although the LMCG Regs do not refer to where a long-term incentive award vests and the share price has depreciated since the time of grant, the guidance notes that investors generally expect this to be acknowledged in the disclosure of long-term incentives that vested during the reporting year (Guidance under 3.1, GC100 and Investor Group Guidance).

238 BEIS has stated that the Government recognises that discretion need not necessarily result in pay being adjusted down and that "just as significant share price growth may not always be attributable primarily to executive directors' performance, so a significant fall in the company's share price may be in spite of a strong performance by directors which a remuneration committee may wish to recognise" (Q&A 5 (Section G), Miscellaneous Reporting Q&A).

This is one of three express requirements in the LMCG Regs relating to discretion. See rows E.4 and E.1(b) and also endnotes 217, 220 and 301 on discretion generally and for more information about the other requirements.

239 While there is no equivalent requirement on disclosures of deferrals in respect of long-term incentives (i.e. sums included under column "d"), the GC100 and Investor Group Guidance states that investors generally expect that any such deferral would be explained (Guidance under 3.1, GC100 and Investor Group Guidance). The guidance also distinguishes between short-term incentives that are not subject to further performance measures and those described as short-term but where the deferred component is subject to further performance measures (the latter of which should be included in the long-term incentive column of the single total figure table in the year in which final vesting occurs) (Guidance under 3.1, GC100 and Investor Group Guidance).

240 The GC100 and Investor Group Guidance notes that investors would find it helpful if pension entitlements were disclosed "in a comprehensive form and in a way that aids understanding of the figures". It encourages additional disclosure if the single figure does not "capture the full entitlement". See the Guidance under 3.2, GC100 and Investor Group Guidance for further disclosures in respect of: (a) defined benefit schemes; (b) change to membership status; (c) prospective pension entitlements under any defined benefit schemes or cash balance benefits pension schemes (or hybrid arrangements including either); and (d) where directors have multiple pensions.

The FRC's 2017 Reporting Summary states that companies should improve the transparency regarding their pension arrangements and that pension disclosures should provide sufficient transparency of the nature and risks to which the schemes expose the company, including informative explanations of deficit funding arrangements, risk management strategies and scheme assets (FRC's 2017 Reporting Summary, page 5). See also endnote 70 in relation to the FRC's Thematic Review of Pension Disclosures.

241 Companies may wish to consider using separate tables for each type of award to make disclosure clearer (Guidance under 3.3, GC100 and Investor Group Guidance).

242 "Scheme interest" means an interest under a "scheme" and "scheme" means any agreement or arrangement under which money or assets become receivable by a person and which includes one or more qualifying conditions with respect to service or performance that cannot be fulfilled within a single financial year (see Schedule 8 para 44(1) LMCG Regs for the definition and details of what must be disregarded).

243 Description of type of interest may, for example, specify performance shares, nil cost options, market value options or matching shares (Guidance under 3.3, GC100 and Investor Group Guidance).

244 GC100 and Investor Group Guidance reiterates that it must be made clear how the award is determined, for example, a specified multiple of salary or a specified number of shares (Guidance under 3.3, GC100 and Investor Group Guidance).

245 Where the "face value" of an award is in respect of a scheme interest relating to shares or share options, it means the maximum number of shares that would vest if all performance measures and targets are met, multiplied by: (a) the share price at the date of grant (in which case, the report should specify this and include the price and date of grant); or (b) the average share price used to determine the number of shares awarded (in which case, the report should specify this and include the price and period for calculating that average)(Schedule 8 paras 14(2) – 14(3) LMCG Regs). The GC100 and Investor Group Guidance also suggests that, where market-priced or discounted options are used, companies may also wish to consider disclosing fair value for these options, as the "face value" may overstate the underlying value of the options. Any such fair value statement will require a clear explanation of the methodology used. It also suggests that companies that pay dividends or dividend equivalents accrued on awards over the performance period may wish to explain this in a note to the face value (Guidance under 3.3, GC100 and Investor Group Guidance).

246 SRD II does not set out any circumstances where there might be a change to the exercise price. BEIS suggests that one example would be when a company grants share options during the reporting year and subsequently carries out a share capital restructure which would necessitate a change in the exercise price for unvested share options (BEIS Directors' Remuneration FAQS at page 19 to 20).

247 GC100 and Investor Group Guidance states that investors would find it useful for the vesting schedule of an award with multiple performance periods to be explained clearly if not covered elsewhere in the remuneration report (Guidance under 3.3, GC100 and Investor Group Guidance).

248 Schedule 8 para 15 LMCG Regs provides that the following information can be excluded: (a) payments for loss of office that fall within the disclosure under Schedule 8 para 16 LMCG Regs; (b) payments contained in the single total figure table; (c) payments disclosed in a previous remuneration report of the company; (d) payments below the *de minimis* threshold set by the company as stated in the report; (e) payments by way of regular pension benefits commenced in a previous year or dividend payments in respect of scheme interests retained after leaving office; and (f) payments in respect of employment with or other contractual service performed for the company other than as a director.

GC100 and Investor Group Guidance recommends that, where no payments to past directors have been made, companies may wish to consider making a "nil return" statement confirming this fact and that, where applicable, the sentence could also refer to other matters such as no payments for loss of office. For further guidance, see Guidance under 3.4, GC100 and Investor Group Guidance.

249 See Section A(11) of the IA's Remuneration Principles for the IA's expectations in relation to leaver provisions.

250 Payments which are below the *de minimis* threshold set by the company and stated in the report do not need to be disclosed (Schedule 8 para 16 LMCG Regs). However, PIRC expects all such payments to be disclosed and the use of "good leaver" status to be applied cautiously and justified in the context of the company. PIRC's view is that loss of office payments have become a device which companies rely upon to make the exit of underperforming executives less confrontational and are often rewards for failure (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

GC100 and Investor Group Guidance suggests that remuneration committees may wish to consider explaining why any use of discretion is in the best interests of the company. Companies may also wish to consider including: (a) confirmation that payments have been/will be within the parameters of the termination policy; (b) the reason for leaving; (c) a detailed explanation of any cash bonus; (d) amounts payable under long-term incentives (companies may have difficulties in disclosing amounts where they vest over a number of years. Companies should state if the award is pro-rated in any way. If vesting is subject to performance conditions being met, companies may prefer to state a range of values); and (e) any difference between estimated amounts disclosed in an RIS announcement at the point of leaving and the amount disclosed in the remuneration report (Guidance under 3.5, GC100 and Investor Group Guidance).

For meetings held on or after 1 February 2020, ISS states that if a company chooses to serve formal notice later than the day on which the departing executive's leaving date is announced, it should explain the reason for this in the subsequent remuneration report (ISS Proxy Voting Guidelines Updates, page 13). This follows several exits in 2019 where a full payment-in-lieu of notice was made to a departing executive director, despite the fact that the director's leaving date had been announced in advance of the exit, thereby resulting in a larger payment and a time-in-service credit for outstanding LTIPs (ISS Proxy Voting Guidelines Updates, page 15).

251 If such guidelines or requirements exist, GC100 and Investor Group Guidance suggests that companies may wish to consider disclosing: (a) how many shares the director is required to hold; (b) whether this is a requirement or a guideline and the consequences of not meeting the requirement/guideline; (c) the time-frame for meeting the requirement/guideline; (d) details of requirements in relation to vested short-term or long-term awards; (e) requirements after directors have left the company; and (f) which shares are included in the requirement/guideline (Guidance under 3.6, GC100 and Investor Group Guidance). The GC100 and Investor Group Guidance also states that companies may wish to consider providing information on policies to regulate directors' hedging of awards and the use of shares as collateral.

The Hermes Principles state that the best means of aligning the interests of executives and shareholders is through significant executive shareholdings maintained over long periods of time (Hermes Principles, page 3). The Hermes Principles set out a suggested new pay structure which, as regards share awards, states that awarded shares should be held either until minimum shareholding requirements have been achieved or for five years, whichever is longer.

The IA Remuneration Principles state that it is expected that the performance and holding period for shares in long-term incentive schemes should cover a period of at least five years (Guidance at section C(2)). See also page 25 of the Glass Lewis Proxy Guidelines and Provision 36 CGC 2018.

ISS encourages performance periods of longer than three years and also states that share awards should be subject to total vesting and holding periods of five years or more, as recommended by the CGC 2018, Provision 36, which states that "share awards…should be released for sale on a phased basis and be subject to a total vesting and holding period of five years or more" (ISS Proxy Voting Guidelines, page 17). ISS also notes that post-employment shareholding requirements are becoming increasingly common and refers to the requirement in Provision 36 of the CGC 2018 to develop a formal policy for post-employment shareholding requirements (ISS Proxy Voting Guidelines, page 18). For smaller companies, ISS considers that it is inappropriate for share options to be re-priced, to be re-tested and/or for the performance period to be less than three years. ISS states that it would consider a negative recommendation on the remuneration report in such circumstances (ISS Proxy Voting Guidelines page 30). Glass Lewis updated its guidelines in 2019 to refer to the inclusion of post-employment shareholding requirements in remuneration policies as best practice (pages 3 and 21).

252 For the "relevant period", see Schedule 8 para 18(3) and (4) LMCG Regs. This is a period of 5 to 10 financial years of which the relevant financial year is the last, depending on how many years the company has been required to report under this requirement.

253 For calculation of "total shareholder return" (TSR), see Schedule 8 para 18(6) to (10) LMCG Regs. Companies may wish to consider explaining: (a) the key elements of the methodology adopted, for example whether an averaging methodology is used, whether constant or local currency has been used and any other aspects that will assist the reader in understanding the graph; and (b) any anomalies in the graph (Guidance under 3.7, GC100 and Investor Group Guidance). See also the IA Remuneration Principles, which state that where TSR is used as a performance criterion

and the chosen comparator group includes companies listed in overseas markets, the standard approach should be for a common currency to be used. Where there are compelling grounds for the calculation to be based on local currency TSR of comparator group companies, then the reasons for choosing the approach should be fully explained (IA Remuneration Principles, Section C(2)(iii)).

254 The report must state the name of the index selected for the purpose of the graph and set out reasons for selecting it (Schedule 8 para 18(1)(b) LMCG Regs). Where the performance measures used a comparator group that performed worse than the chosen market index, the company may wish to consider explaining that, and whether the performance measure was expressly approved by shareholders (Guidance under 3.7, GC100 and Investor Group Guidance).

255 For the "relevant period", see Schedule 8 para 18(3) and (4) LMCG Regs. This is a period of 5 to 10 financial years of which the relevant financial year is the last, depending on how many years the company has been required to report under this requirement.

256 PIRC will give credit to those companies where the percentage change in total realised pay for the CEO over the last five financial years is aligned with the percentage change in total shareholder return over the same period (PIRC Guidelines (Chapter 6 – Directors' Remuneration)). Glass Lewis states that incentive programs should feature clear and transparent award limits, expressed as a multiple of base salary per employee. In addition, pay-outs should be reasonable relative to company performance, and total remuneration to those included in the plan should be broadly in line with amounts paid by the company's peers (Glass Lewis Proxy Guidelines, page 24).

257 Where the CEO has changed in the relevant period, companies may wish to consider presenting the information in respect of each CEO on a separate line in the table. In respect of the disclosure under (b), companies may wish to consider including the actual amount of the bonus as well as the percentage, and in respect of the disclosure at (c), companies may wish to include the value and time of vesting of the shares as well as the percentage (see Guidance under 3.7, GC100 and Investor Group Guidance, in particular the sample table on page 19).

258 Where the company is a parent company, the statement must relate to the group and not the company (Schedule 8 para 19(3) LMCG Regs). The GC100 and Investor Group Guidance suggests that, in order to make the comparisons meaningful, the average percentage change in respect of each of salary, benefits and short-term incentives for employees as a whole (or the relevant comparator group) should be a per capita figure. Investors generally expect a meaningful comparator group and not, for example, a narrow group consisting of senior managers (Guidance under 3.8, GC100 and Investor Group Guidance).

259 The "five financial years" referred to must include financial years beginning on or after 10th June 2019 and where five financial years have not passed since that date the annual percentage change must be calculated for all financial years since that date preceding the relevant financial year (Schedule 8 para 19(4)). There is no requirement to calculate historic data (see page 19 of the BEIS Directors' Remuneration FAQs). This therefore involves disclosure over a rolling five year period covering the five most recent financial years with figures building incrementally and new annual percentage change figures being reported each year in order to eventually achieve five figures. As an example, companies with a December year end are required to comply for the first time in relation to the year ended 31 December 2020 (so in 2021). These companies will need to compare data from the years ended 31 December 2019 and 31 December 2020 in order to report the annual percentage change in the annual report that is released in 2021.

Prior to SRD II this provision only related to CEO, but it has been expanded to all directors. The previous provision allowed a choice of comparator group has been removed to bring the provision in line with SRD II. The GC100 and Investor Group Guidance suggests that companies may wish to consider including an explanation of the reported figures (Guidance under 3.8).

SRD II does not state whether a director who leaves the board may be removed from the five year comparison table. BEIS has stated that companies may therefore use their discretion as to whether such directors should be removed from the table after they have left the board, although information on the remuneration of these individuals must remain available in the comparison tables for previously published remuneration reports for the period that they sat on the board (BEIS Directors' Remuneration FAQs, page 17).

260 "Employee" for purposes of this paragraph means any employee other than a director (Schedule 8 para 19(5)). The BEIS Directors' Remuneration FAQs at page 18 explain that this comparison extends to all employees of the company. Where the company is a parent company, it covers the employees of the parent company only and not the whole group, unlike the previous provision bringing it into line with the requirements of SRD II. In instances where that parent company only employs a small proportion of the workforce, a company may choose voluntarily to disclose the change in directors' remuneration compared to a wider employee comparator group, if this will

provide a more representative comparison. This will need to be reported alongside the statutory disclosure. This suggestion is also made in the GC100 and Investor Group Guidance (Guidance under 3.8). The BEIS Directors' Remuneration FAQs at page 18 also note that SRD II did not specify how the average employee pay should be calculated for the purpose of determining the annual change in average employee remuneration. Therefore, companies may calculate average employee remuneration by reference either to the 'mean' or 'median' of employee pay. Companies are encouraged to state which method they have used for the information of shareholders and other interested stakeholders. The average percentage change in respect of the remuneration of employees of the company must be calculated on a Full Time Equivalent (FTE) basis. The BEIS Directors' Remuneration FAQs at page 19 explain that reporting FTE employee pay helps to give a clearer picture of the relationship between executive and wider employee pay, irrespective of the number of hours worked by individual employees. This requirement also corresponds with calculating employee pay and benefits on an FTE basis for the purposes of determining pay ratios.

The GC100 and Investor Group Guidance suggests that, in order to make the comparisons meaningful, the average percentage change in respect of each of salary, benefits and short-term incentives for employees should be a per capita figure. Investors generally expect a meaningful comparator group and not, for example, a narrow group consisting of senior managers (Guidance under 3.8, GC100 and Investor Group Guidance).

261 This requirement replaces the requirement in row E.14 for financial years commencing on or after 10 June 2019. This requirement extends only to employees of the parent company and not the whole group. However, companies may still choose to make a voluntary disclosure against a wider comparator group if the parent company's employees account for only a small minority of the total employee headcount of the group. This should be disclosed alongside the statutory requirement (BEIS Directors' Remuneration FAQs, page 19).

262 This requirement overlaps with the requirements on pay ratio disclosure introduced in 2018 under the Miscellaneous Reporting Regulations. Those regulations require UK quoted companies with more than 250 UK employees to disclose and explain each year the ratio of their CEO's 'Single Figure' to the median, lower quartile and upper quartile remuneration of the company's UK employees. There are some differences in scope between the pay ratio regulations, and the requirement in these regulations to compare changes in directors' pay with changes in average employee pay. The BEIS Directors' Remuneration FAQs explain that the main differences are: (i) the pay ratio reporting covers UK employee pay across the group as a whole if the company is a parent company, whereas the Directors' Remuneration Regulations cover the pay of all employees, wherever they are located, but only to the extent that they are employees of the parent company; and (ii) the pay ratio reporting covers employee pay across all categories of the 'Single Figure' where applicable (salary, pension, any bonus, any taxable benefits and any long-term share awards) whereas the Directors' Remuneration Regulations cover just salary, any bonus and any taxable benefits (page 18). Notwithstanding these differences, the gathering of employee pay data to help comply with the new pay ratio requirement may also help companies to comply with the Directors' Remuneration Regulations.

263 The average number of UK employees employed by the group (or company where the company is not a parent) during the financial year is calculated by ascertaining each monthly total number and working out the average (schedule 8, paras 19A(2) and 19B(3) and (4) LMCG Regs).

The legislation includes a 'smoothing' provision the effect of which is that a company must report pay ratios if it has an average of more than 250 UK employees in the group (or company where the company is not a parent):

(a) in its first financial year (for newly incorporated companies); and/or

(b) for subsequent years,

(i) in the reporting year in question *and* the previous reporting year;

(ii) in the reporting year in question *and* it was required to report in the previous year; or

(iii) in the previous reporting year *and* it was required to report in the previous reporting year.

(Schedule 7, para 19B LMCG Regs).

The above rules apply in the same way in the first year of reporting under the new provisions (as if the regime had been operative for the preceding year).

The table below illustrates how the smoothing provision may apply in practice.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
No of employees	251+	251+	251+	250 or less	251+	250 or less	250 or less	251+	251+
Which reporting requirement applies (as set out above)	Must report – (a)	Must report – (b)(i)	Must report – (b)(i)	Must report – (b)(iii)	Must report - (b)(ii)	Must report – (b)(iii)	No reporting	No reporting	Must report – (b)(i)

The GC100 and Investor Group Guidance suggest continuing to report pay ratios in accordance with the LMCG Regs where headcount varies from year to year above and below 250 in order to ensure consistency in reporting (and consider confirming that disclosures are voluntary) (Guidance under 3.9, GC100 and Investor Group Guidance).

See Q&A 4 to Q&A 8 of Section F of the Miscellaneous Reporting Q&A for more information on determining whether the company has more than 250 UK employees, including information on which persons to include and situations where the headcount varies.

The GC100 and Investor Group Guidance suggests that a company that is exempt from reporting may wish to consider including an affirmative statement explaining why it is exempt (Guidance under 3.9, GC100 and Investor Group Guidance).

The Government rejected the idea of expanding this requirement to all employers with over 250 UK employees (as opposed to quoted companies with over 250 UK employees) in its June 2019 response to the BEIS Strategy Committee Report on Executive Rewards stating that intends to monitor the impact of the new requirement before considering any potential extension (see page 5).

264 See Q&A17 (Section F) of the Miscellaneous Reporting Q&A for more information. Note that BEIS has confined that the table can be included anywhere in the directors' remuneration report, provided that it is immediately followed by the relevant supporting information. BEIS suggests that companies may, "for ease of reference", wish to include the table and supporting information in the same part of the remuneration report where compliance with paragraph 19 of the LMCG Regs is reported (Q&A 17 (Section F), Miscellaneous Reporting Q&A).

265 The BEIS Strategy Committee Report on Executive Rewards noted BEIS's hope that over time, sector norms will develop, potentially with the active intervention of the regulator; that by highlighting the link between executive and employee pay, the gap between them should, with public and peer pressure over time, reduce; that to assist and broaden this objective, BEIS recommends that pay ratio reporting requirements be expanded to include all employers with over 250 employees and that the lowest pay band be included alongside the quartile data required. The Government's response indicated that it intends to monitor the impact of this new requirement before considering any potential extension to other types of employer or extending pay ratio reporting to include the lowest pay band.

266 See endnote 267 for more information.

267 The company must choose one of three specified methods to determine the Y25, Y50 and Y75 figures as follows:

- 'Option A' requires the company to calculate the pay and benefits of all of its UK employees for the relevant financial year in order to identify the employees on the 25th, 50th and 75th percentile (P25, P50 and P75 respectively, see row E.16 of the table) and use their pay and benefits to calculate the pay ratios.
- 'Option B' requires the company to use its most recent hourly rate gender pay gap information to identify those UK employees that are the best equivalents of P25, P50 and P75 and calculate their pay and benefits for the relevant financial year, making adjustments as necessary so that the figures are reasonably representative of P25, P50 and P75.
- 'Option C' requires the company to use data other than, or in addition to, gender pay gap information to identify three UK employees as the best equivalents of P25, P50 and P75 and follow the same process as under Option B to calculate pay and benefits. Under Option C, the data must not be less up to date than any gender pay gap information or relating to a year prior to the year before the relevant financial year.

Schedule 8, paragraph 19D LMCG Regs contains more information on each of the three methods, including in relation to the date of the relevant data and when it is permissible to omit, or estimate, components from pay and benefits, or calculate them using a different methodology. See also Q&A 10 to Q&A 12 (Section F) of the Miscellaneous Reporting Q&A for more information on options, A, B and C and which option companies should choose and Q&A 14 to 16 (Section F) on when a company is unable to collect accurate employee data. The GC100 and Investor Group Guidance states that it discourages the use of estimates for employees' non-salary components (for example, bonuses) and, where this is unavoidable, a robust explanation is expected setting out why the actual figure could not be calculated and the methodology used for determining the estimated figure (Guidance under 3.9, GC100 and Investor Group Guidance).

Q&A 12 of the Miscellaneous Reporting Q&A (Section F) notes that option A is the most statistically accurate method for identifying pay ratios and therefore companies should use this method wherever possible and reasonable. The GC100 and Investor Group Guidance states that investors will generally expect option A to be adopted given it is considered the most robust statistically (Guidance under 3.9, GC100 and Investor Group Guidance).

In 2019, according to data from Practical Law's What's Market, as at 25 October 2019, of the 106 FTSE 350 companies that made voluntary pay ratio disclosures 57 used Option A, 25 used Option B and 6 used Option C. The remaining respondents used "Other" methods (7) or did not disclose their methods (11).

268 Where there was more than one CEO during the year, this should be the total remuneration in the single total figure table paid to those persons for the period they were undertaking the role of CEO (Schedule 8, para 19C(2) LMCG Regs) so the single total figure for the outgoing CEO(s) and the single total figure for the incoming or interim CEO(s). Q&A 9 (Section F) of the Miscellaneous Reporting Q&A clarifies that this should not include pay and benefits receivable by an individual before they assume the position of CEO. GC100 and Investor Group Guidance suggests that where a company does not have a CEO, investors expect the company to use the single total figure for the "equivalent executive who has operational control of the company" (Guidance under 3.9, GC100 and Investor Group Guidance). The GC100 and Investor Group Guidance also notes that a change in CEO could impact the disclosure, for example, a one-off payment to a departing CEO could make the pay ratio higher that previous or subsequent years without any change to the pay of the CEO excluding this payment, and suggests that the supporting explanation will be important in these circumstances (Guidance under 3.9, GC100 and Investor Group Guidance).

269 'Pay and benefits' of a UK employee means the employee's full-time equivalent (FTE) pay and benefits, calculating the applicable components in rows E.5(a) to (d) of this table (as set out in schedule 8, para 7(1)(a) to (e) and para 10 LMCG Regs) save that "salary" means "wages and salary" (schedule 8, para 19C(3) LMCG Regs). See Q&A 13 to 16 (Section F) of the Miscellaneous Reporting Q&A for more information. Pay and benefits are calculated on a FTE basis to give "a clearer picture of the relationship between executive and wider employee pay, regardless of the hours worked by individual employees". See also Q&A 20 (Section F) of the Miscellaneous Reporting Q&A on whether the pay of employees on leave for some or all of the year should be included and Q&A 20 on whether companies should use the FTE of data used under options B or C and also the summary of options A, B and C on pages 19-21 and in Annex A.

270 'UK employee' means a person employed under a contract of service by the company, other than a person employed to work wholly or mainly outside the UK (schedule 8, paragraph 44(1) LMCG Regs). The GC100 and Investor Group Guidance suggests that companies may wish to also consider reporting pay ratios as they relate to global employees to "provide context and further explanation" (Guidance under 3.9, GC100 and Investor Group Guidance).

271 Information on earlier financial years must be included for the first financial year that the company was required to include a pay ratios table in its remuneration report and every subsequent financial year before the relevant financial year up to a maximum of nine financial years immediately before the relevant financial year (schedule 8, para 19C(5) LMCG Regs). See Q&A 18 (Section F) of the Miscellaneous Reporting Q&A for more information which clarifies that the ten year period includes any year or years in which the company did not need to report ratios, having previously had to report them (the company should note in the relevant column that it was exempt in that year). Companies can choose to cover a longer time period.

272 The explanations required by paragraph 19E must be included "after the pay ratios table" (para 19E LMCG Regs). The GC100 and Investor Group believes that they should appear "directly underneath" the table (Guidance under 3.9, GC100 and Investor Group Guidance).

Although paragraphs 19E, 19F and 19G of the LMCG Regs require the inclusion of specific information and explanations, the GC100 and Investor Group Guidance states that "best practice reporting will be how the…[LMCG Regs] have been applied to the individual circumstances of the company" with investors expecting consistency of approach across multiple reporting periods for each of the requirements (Guidance under 3.9, GC100 and Investor Group Guidance). Any changes in approach should be made clear within the report and justified with a supporting explanation setting out the necessity for the change (Guidance under 3.9, GC100 and Investor Group Guidance).

273 Paragraph 19D(6)(b) of schedule 8 of the LMCG Regs states that the company may omit any component other than salary from pay and benefits to determine Y25, Y50 and Y75, provided that the company includes in its remuneration report the statement required by paragraph 19E(f) of schedule 8 of the LMCG Regs as set out in row E.16(j) of this table. See Q&A 14 and 15 (Section F) of the Miscellaneous Reporting Q&A for more information including for information on whether the corresponding component should be omitted from the CEO's single total figure.

274 See Q&A 16 (Section F) of the Miscellaneous Reporting Q&A for more information.

275 This information must be set out after the information required to be disclosed by paragraph 19E of schedule 8 of the LMCG Regs (as set out in rows E.16(e) to (l) of this Checklist) (schedule 8, para 19F LMCG Regs).

276 See Q&A21 of the Miscellaneous Reporting Regulations for more information on the supporting information generally including the information required to be disclosed under para 19F.

277 This summary must be set out after the information required to be disclosed by paragraph 19F of schedule 8 of the LMCG Regs (as set out in row E.16(m) of the Checklist) (schedule 8, para 19G LMCG Regs). See Q&A 22 to 24 (Section F) of the Miscellaneous Reporting Q&A for more information on these disclosures. In particular BEIS note that investors are interested in "meaningful and relevant explanations regardless of length" with a clear, concise explanation being "unlikely to require more than a few paragraphs of text" but the company provide more detailed explanations in certain years, for example, where there have been "significant changes to pay ratios compared to the previous year".

The GC100 and Investor Group Guidance states that investors will give "close attention" to the disclosure requirements set out in paragraph 19G, which will "help inform best practice reporting" (Guidance under 3.9, GC100 and Investor Group Guidance). Investors will generally expect the remuneration committee to explain why the median pay ratio is a "fair reflection of the company's approach to pay", citing the CEO single figure in the context of the policies for all employees' pay with remuneration committees describing the necessary actions to correct the issue where the ratio is not consistent with pay, reward and progression policies (Guidance under 3.9, GC100 and Investor Group Guidance).

278 In Q&A 24 (Section F) of the Miscellaneous Reporting Q&A, BEIS states that although existing regulations require companies to state how they have taken into account the pay and conditions of all the company's employees when setting directors' remuneration policy, this asks the company to consider the median pay ratio and explain whether it "fairly reflects and is in line with the company's approach to employee pay and incentives taken as a whole".

279 The IA's requirement was first published on 14 November 2016 and included in the 2017, 2018 and 2019 revised IA Remuneration Principles. The IA also requires that, when complying with relevant reporting obligations in relation to workforce pay, such as the gender pay gap reporting or executive to employee pay ratios, shareholders expect board and remuneration committees to explain fully why the figures are appropriate and disclose any actions the committee or company intend to take to rectify them (IA Remuneration Principles, section A(6)).

The Hermes Principles also request publication of a pay ratio and associated policy illustrating CEO to wider workforce pay (Hermes Principles, page 4). The IA Remuneration Principles and Hermes Principles do not expressly require these disclosures to be made within the annual report.

Note that PIRC looks for companies to disclose the ratio of CEO pay to average employee pay. PIRC feels that this is an important demonstration of how the board has taken into account pay elsewhere in the company. PIRC's methodology for rating remuneration policy will give credit to companies with a fixed pay CEO/average employee ratio of 20:1 or less (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

Glass Lewis encourages companies to disclose CEO to median or average UK-based employees, accompanied by a description of the methodology for their calculation. While it has the potential to provide insight, Glass Lewis will not usually base voting recommendations solely on such ratios (Glass Lewis Proxy Guidelines, page 23).

For financial years commencing on or after 1 January 2019, quoted companies with an average of more than 250 UK employees will have to report the ratio of CEO pay to median (50th), 25th and 75th percentile of UK employees and disclose supporting information and explanations, including any reasons for changes in relation to the previous year, pursuant to regulation 17 of the Miscellaneous Reporting Regulations, which introduce new paragraphs 19A-19G of Part 3 of Schedule 8 LMCG Regs. See row E.16 and endnotes 263 to 278. In 2019, according to data from

Practical Law's What's Market, as at 25 October 2019, of the 221 FTSE 350 companies reviewed, 80 made voluntary pay ratio disclosures and of these 80 companies, 40 used option A to calculate the pay ratio figures. In 2019, according to data from Practical Law's What's Market, 106 companies (57 FTSE 100 and 49 FTSE 250) (37%) made voluntary pay ratio disclosures. Of these 106 companies, 99 companies (52 FTSE 100 and 47 FTSE 250) (93%) disclosed the ratio of the CEO's pay to the median employee's remuneration, six companies disclosed the ratio by reference to the average of employees' remuneration only and one company made no disclosure as to how the ratio was calculated.

280 In respect of (b) (distributions to shareholders by way of dividend and share buyback), companies may wish to consider showing distributions by way of dividend and share buyback separately. In respect of (c) (any other significant distributions, payments or other uses for profit or cashflow), possible examples include profits retained within the business, investment for future growth (e.g. capital expenditure or research and development costs), debt repayments and expenditure related to wider, societal distribution (e.g. tax payments), but they must be suitable and relevant. It would be helpful for disclosures to be consistent over time, and where comparison items are changed, an explanation should be included (Guidance under 3.9, GC100 and Investor Group Guidance).

281 In respect of (c), while the LMCG Regs do not define "significant changes", companies may wish to consider including changes to basic salary, maximum short-term and long-term incentive awards, target short-term and long-term incentive awards, scheme interests to be awarded, any change in non-executive directors' fees and any other change in the way the policy will be implemented. Even where there is no change, companies may wish to consider stating this (Guidance under 3.10, GC100 and Investor Group Guidance). See also endnote 217 relating to exercise of discretion.

The GC100 and Investor Group Guidance notes that it has not been customary for UK companies to set out, within their remuneration policy, a procedure for the implementation of the policy and it will not be possible to detail any deviations where no such procedure has been set out (Guidance under 3.11, GC100 and Investor Group Guidance).

282 PIRC considers that the remuneration committee members should not be executive directors of other UK listed companies and will abstain on the election of such directors who sit on the remuneration committee (PIRC Guidelines (Chapter 6 – Directors' Remuneration)). PIRC also considers that the remuneration committee should be comprised exclusively of independent directors and it will oppose the re-election of any non-independent member of the committee (PIRC Guidelines (Chapter 2 – The Board)). ISS states that all members of the remuneration committee should be independent (ISS Proxy Voting Guidelines page 12). The Glass Lewis Proxy Guidelines state that only independent directors should serve on the remuneration committee (except for the chair who may be a member but not chair the committee if they were independent on appointment) and that it recommends that shareholders vote against any affiliated or inside directors serving on the remuneration committee (page 6) (see endnote 390 for more information on affiliated and inside directors). The CGC 2018 requires the chair of the remuneration committee to have served on a remuneration committee for at least 12 months (Provision 32).

283 Although the Code no longer requires the annual report to identify the chair and members of the remuneration committee, it does require the report to set out individual attendance by directors at audit committee meetings, thereby identifying which directors are members of the committee (see CGC 2018 14 and CGC 2016 A.1.2). It also requires the responsibilities of the board committees to be clear, set out in writing, agreed by the board and made publicly available, though not specifically in the annual report (CGC 2018 14).

284 Although the Code no longer requires the annual report to identify the chair and members of the remuneration committee, it does require the report to set out individual attendance by directors at audit committee meetings, thereby identifying which directors are members of the committee (see CGC 2018 14 and CGC 2016 A.1.2). It also requires the responsibilities of the board committees to be clear, set out in writing, agreed by the board and made publicly available, though not specifically in the annual report (CGC 2018 14).

285 PIRC wishes *all* attendees at remuneration committees to be disclosed, not just the attendance of committee members. Executives and consultants should only attend meetings at the specific request of the committee and for relevant periods of the meetings. (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

286 Companies may wish to consider disclosing the factors which the remuneration committee took into account in determining that the advice received was appropriate, objective and independent (Guidance under 3.12, GC100 and Investor Group Guidance). The GC100 and Investor Group Guidance notes that providers of advice may include external lawyers, remuneration consultants and advisers, executive directors who attend committee meetings by invitation (where their own

remuneration is not being discussed) and principal internal providers of material advice (for example, HR and the company secretary).

The PIRC Guidelines express particular concern where audit firms provide remuneration consultancy, which they say is wholly unacceptable (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

The Remuneration Consultants Group ('RCG') annual review of the effectiveness of its Code of Conduct (which sets out the role of executive remuneration consultants and describes the professional standards by which they advise their clients) states that:

- of the 96 FTSE 100 companies that disclose a named remuneration committee adviser:
    - 98% have a lead adviser that is a signatory to the RCG Code of Conduct; and
    - 93% disclose that the adviser is a signatory; and
- of the 178 FTSE 250 companies that disclose a named remuneration committee adviser:
    - 98% have a lead adviser that is a signatory to the RCG Code of Conduct; and
    - 88% disclose that the adviser is a signatory (page 8).

287 GC100 and Investor Group Guidance asks companies to disclose the results of all resolutions regarding remuneration at the last AGM, including resolutions to amend share schemes and other LTIPs or to approve other payments outside the remuneration policy. GC100 and Investor Group Guidance also suggests that investors would find it useful if *numbers* of votes cast for and against resolutions were disclosed in addition to percentages.

GC100 and Investor Group Guidance stresses that the remuneration report should include the voting outcome for the most recently voted upon remuneration policy, even if that voting outcome appeared in the previous year's annual remuneration report (Guidance under 3.13, GC100 and Investor Group Guidance).

288 Where the reasons for the vote against are not known, an explanation of what steps the directors have taken to find out such reasons should be disclosed. Equally, where a company has experienced a vote of significant dissent, has addressed shareholder concerns and received shareholder support for that resolution at a subsequent meeting, companies may wish to make an appropriate disclosure in the remuneration report (Guidance under 3.11 and 3.13, GC100 and Investor Group Guidance).

GC100 and Investor Group Guidance states that companies will have to use their judgement as to what they consider to be "significant" but, as a guideline, companies may wish to consider votes against of 20% or more as being significant – although a higher or lower level might be appropriate for some companies. Companies may wish to consider viewing votes withheld (or in combination with votes against) of 20% or more as also indicating a low level of support from investors that they wish to address in the remuneration report. They may also wish to consider setting out what they consider to be "significant" in the report. The GC100 and Investor Group also refer to the threshold set out in Provision 4 of the CGC 2018 (Guidance under 3.13, GC100 and Investor Group Guidance).

The 2018 and 2019 editions of the IA Remuneration Principles require companies to respond to a significant vote against any remuneration resolution when they appear in the IA's Public Register (previously this referred to "significant vote", which the IA interpreted as 20%). Companies should seek to understand the reasons for the dissent and issue an update statement in response to the dissent. This should include the views received from shareholders and what the company has done, or proposes to do, in response (IA Remuneration Principles, Section 2(d)). The Foreword to the IA Remuneration Principles highlights that where shareholders have demonstrated in their voting that they have concerns, these need to be acknowledged and addressed by the company. The IA also notes that there is a concern that some companies are treating shareholder consultation as a validation exercise rather than as a process for obtaining and understanding the views of the company's major shareholders. Companies should be satisfied that they have been transparent enough that the final proposals do not contain any surprises and should provide details of the complete remuneration structure, not just the proposed changes, so that investors have the full picture (IA Remuneration Principles, Section A(12)). Note, however, that the IA state that dialogue on remuneration can be a drawn out process and while dialogue and communication is important, shareholders will only make a decision when they have full disclosure on remuneration and company performance following publication of the annual report (IA Remuneration Principles, Foreword). See also the discussion of the relationship between investors and the remuneration committee and shareholders voting against remuneration resolutions in endnote 206.

Companies are increasingly using 20% as indicating "significant" in light of Provision 4 of the CGC 2018 (which refers to 20%, see endnote 407 for more information), the IA Public Register (discussed further in endnote 289 below, which also operates on a 20% threshold) and the updated guidance in the IA Remuneration Principles (which now refers to the IA Public Register). The above developments mean that it will be difficult to justify a level higher than 20% and companies will already be required to take action under Provision 4 CGC 2018 where 20% or more votes are cast against either resolution. In addition, companies should consider whether, in their particular circumstances, less than 20% of votes against either the remuneration report or the remuneration policy resolution should still be regarded as "significant" for these purposes.

289 In the BEIS Select Committee Response, the Government announced that it had asked the IA to implement its proposal to maintain a public register of companies experiencing shareholder dissent of more than 20% in any reporting year (recommendation 16). On 19 December 2017, the IA launched the Public Register. The Public Register includes FTSE All-Share companies which have received votes of 20% or more against any resolution. It includes:

- a description of the resolution;
- the result of the shareholder vote;
- a link to AGM results announcement;
- a link to any statement the company has made under Provision 4 of the Corporate Governance Code 2018; and
- a link to any further statement the company has made on the actions taken since the vote (the IA has published guidance on update statements which is available from the Public Register webpage).

The Public Register also includes any resolutions which were withdrawn by a company prior to the meeting for whatever reason. The purpose of the register is to increase transparency, accountability and scrutiny of listed companies. The IA wrote to companies that would appear on the register prior to its launch in order to give them an opportunity to provide a public explanation of how they have addressed any shareholder concerns. In December 2018 the IA also wrote to 32 companies who appeared on the public register for two year in a row for the same resolution expressing concern that they did not respond sufficiently to investor views and risked more shareholder dissent in the future.

In 2017, over one in five companies on the FTSE All-Share featured on the register and the two types of resolutions that were most frequently opposed were pay-related resolutions and the re-election of company directors. An update by the IA on 29 August 2018 indicated that 120 companies and 237 individual resolutions had been added to the register between 1 January and 31 July 2018. 80 were director-related resolutions (more than double the amount in the same period last year) and 62 were remuneration resolutions (down from 68 overall in the same period last year but featuring double the number of FTSE 100 companies). The PLSA AGM Voting Review (January 2019) examines AGM results for the FTSE All Share Index in 2018 highlighting resolutions that attracted significant level of dissent (20%). The report covers overall dissent, executive remuneration, board-related dissent (director elections), the role of auditors and key environmental and social issues.

The IA released a further update on 28 August 2019 indicated that overall there was a 5% increase in shareholder dissent in 2019 with 126 companies and 251 resolutions appearing on the public register between 1 January and 31 July 2019 compared with 120 companies and 237 resolutions over the same period in 2018. Once again most resolutions related to directors and pay with 86 resolutions related to director elections or re-elections (34% of all resolutions on the Public Register) compared to 80 (34% of all resolutions on the Public Register) in 2018 and only 38 (20% of all resolutions on the Public Register) in 2017. 60 remuneration resolutions appeared on the Public Register in that period (24%) compared with 61 (26%) in 2018 and 68 (36%) in 2017.

290 The PLSA Guidelines expect companies to be able to articulate how they meet the five principles set out in the Hermes Principles, and suggest that the remuneration committee chair's statement provides useful scope to do this. The PLSA Principles were written with reference to the previous edition of the Hermes Principles, which were produced in collaboration with the PLSA: Hermes Investment Management and PLSA Remuneration Principles for Building and Reinforcing Long-term Business Success (November 2013). In the 2016 edition of the Hermes Principles, Hermes revised the Principles, which now state: (i) executive management should make a material long-term investment in the company's shares; (ii) pay should be aligned to long-term success and the desired corporate culture; (iii) pay schemes should be clear and understandable for both investors and executives; (iv) remuneration committees should use discretion to ensure that awards properly reflect business performance; (v) companies and investors should regularly discuss strategy, long-term performance and the link to executive remuneration.

The previous edition of the Hermes Principles were not materially different and required that: (i) remuneration committees should expect executive management to make a material long-term investment in shares of the businesses they manage; (ii) pay should be aligned to long-term strategy and the desired corporate culture throughout the organisation; (iii) pay schemes should be clear and understandable for both investors and executives, and ensure that executive rewards reflect returns to long-term shareholders; (iv) remuneration committees should use the discretion afforded them by shareholders to ensure that awards properly reflect business performance; and (v) companies and investors should have appropriately regular discussions on strategy and long-term performance (PLSA Guidelines, Section 5: Remuneration (Guidance) and Appendix 1, para 1.2). ISS's approach is also aligned with these five principles (ISS Proxy Voting Guidelines, page 14).

291 The remuneration policy may be omitted from the remuneration report for the financial year if the company does not intend to move a resolution to approve the remuneration policy in accordance with section 439A CA 06 at the accounts meeting at which the report is to be laid (Schedule 8 para 1(2) LMCG Regs). The GC100 and Investor Group Guidance nevertheless suggests that, as the remuneration policy will be reported on, investors would generally find it useful for companies to include the remuneration policy in the remuneration report every year, though a summary or extract may be sufficient to provide clarity surrounding the report (Guidance under 2.1, GC100 and Investor Group Guidance). GC100 and Investor Group Guidance also states that, in any event, a full copy of the remuneration policy should be made available on the company's website. The IA has previously stated that it may be useful for the "Policy Table" to be disclosed in the remuneration report on an annual basis (IMA Remuneration Letter 2014).

292 Commonly, UK companies adopt an executive pay structure which includes a salary, bonus and a long-term incentive plan (LTIP). The IA Remuneration Principles do not promote a single remuneration structure over others. The IA Remuneration Principles state that companies should select a remuneration structure which is appropriate for the specific business and efficient and cost-effective in creating sustainable long-term value and that the selection of a scheme should be well justified to shareholders. The Principles do not seek to prescribe or recommend any particular remuneration structure (IA Remuneration Principles, Sections 3(a) and C(2)(ii)). However, they do state that shareholders will consider alternative remuneration structures if aligned to company strategy (IA Remuneration Principles, Section 3(b)). The IA has also separately stated that IA members are increasingly of the view that traditional LTIPs are not working as effectively as they could for all companies and can drive outcomes which cause concern for shareholders such as increasing grant levels or volatile and significant vesting outcomes and research shows that investors are willing to consider alternative structures if the remuneration committee can argue the strategic benefit of such schemes and remuneration committees are urged to evaluate their structures to ensure alignment with implementation of company strategy (IA Covering Letter, pages 1-2). Pay structure should be appropriate for implementation of the business strategy (IA Remuneration Principles, 3(d)). The IA discourages complex pay structures (IA Remuneration Principles, 3(b)).

The Hermes Principles, updated in November 2016, also criticise complexity in pay structures and set out a model for a suggested new structure for remuneration, which includes an increase in fixed pay, a single incentive scheme and a significant shareholding requirement with restrictions on the disposal of shares post-departure (Hermes Principles, page 5).

The ISS Proxy Voting Guidelines state that, when forming a view on pay structures which are different to the standard salary/bonus/LTIP model typically followed by many UK companies, ISS will pay particular attention to: (i) how far the proposals are consistent with the good practice principles set out in the ISS Proxy Voting Guidelines; (ii) the linkage between the proposals and the company's strategic objectives; (iii) whether or not proposals have an appropriate long-term focus; (iv) the extent to which the proposals help simplify executive pay; and (v) the impact on the overall level of potential pay (greater certainty of reward should entail a reduction in the size of awards) (ISS Proxy Voting Guidelines, page 15).

Both the IA Remuneration Principles (guidance under section 4) and the Hermes Principles (page 3, para 3 and page 4) highlight excessive executive remuneration as an area of concern. The IA Remuneration Principles state that the board as a whole must be cognisant of the pay and conditions in the wider workforce. See rows E.16 and E.17 (on pages 57 to 61) for details of disclosures relating to pay ratios and row E.7(e) for discussion of amending or adopting a new LTIP. Glass Lewis states that it will recommend voting against all member of the remuneration committee where executive pay is excessive relative to financial performance (Glass Lewis Proxy Guidelines page 11).

On 16 September 2016, BEIS launched an inquiry on corporate governance, focusing on executive pay, directors' duties, and the composition of boardrooms, including worker representation and gender balance in executive positions. Among other things, the committee considered worker representation on boards and whether executive pay takes account of long-term performance. BEIS published its report on the inquiry on 5 April 2017 and the Government issued a final response on 22 September 2017. The Government asked the FRC to consult on revisions to the UK Corporate Governance Code in late autumn 2017, which includes consideration of how the Code can give remuneration committees more responsibility for demonstrating how pay and incentives align across the company and to explain to the workforce each year how decisions on executive pay reflect wider pay policy. The final version of the updated Code was published on 16 July 2018 and applies to financial years commencing on or after 1 January 2019 (meaning first reporting against the CGC 2018 in 2020 (unless companies opted to report early). Section 5 (Remuneration) of the Corporate Governance Code 2018 includes several measures aimed at implementing these recommendations (see in particular Provisions 33 and 41 of the CGC 2018 and further detail on these provisions can be found in row E.1 on pages 49 and endnotes 332 and 333).

Remuneration reforms are also considered in the Government's response to the BEIS Green Paper on Corporate Governance Reform, 29 August 2017, following which ICSA and the IA published the Stakeholder Voice in Board Decision Making, referred to elsewhere throughout this checklist.

293 The UK Corporate Governance Code 2018 applies to financial years commencing on or after 1 January 2019, so 2020 is the first year in which we will see full reporting under the Code. The FRC's Feedback Statement: Consulting on a revised UK Corporate Governance Code (July 2018) notes that changes to existing remuneration policies should be developed with reference to the Corporate Governance Code 2018 and the Guidance on Board Effectiveness (paragraph 1.11). ISS referred to various new requirements in the CGC 2018 in the 2019 version of its voting guidelines as does the IA in the 2018 and 2019 editions of the IA Remuneration Principles.

294 A quoted company (and, from 10 June 2019, an unquoted traded company) may only make a remuneration payment or payment for loss of office to directors (including, for a quoted company, from the first date on or after 10 June 2019 on which a relevant directors' remuneration policy takes effect, and for an unquoted traded company, 10 June 2019, the company's CEO (however described) or, where such a function exists in the company, its deputy-CEO (however described) where those persons are not also directors of the company (section 226A(1) CA 06)) which is:

- consistent with the remuneration policy approved by shareholders (sections 226B(1)(a) and 226C(1)(a) CA 06); or
- in relation to remuneration policies approved on or before 9 June 2019, approved by an ordinary resolution of the shareholders (section 226B(1)(b) and 226C(1)(b) CA 06); or
- from the first date on or after 10 June 2019 on which a relevant directors' remuneration policy takes effect, where an amendment to the policy authorising the company to make the payment has been approved by an ordinary resolution of the shareholders (section 226B(1)(b) and 226C(1)(b) (as amended by the Directors' Remuneration Regulations)).

An amendment to the policy approved by an ordinary resolution of the shareholders does not count as approval of the whole policy, and therefore does not begin a new three year cycle of the remuneration policy (see page 21 of the BEIS Directors' Remuneration FAQs). Companies are still required to present a new/revised policy for shareholder approval at least every three years, under section 439A of the CA 06. This amendment brings the requirements in line with SRD II which require all payments to directors to be in accordance with an approved remuneration policy.

The remuneration of CEOs or deputy CEOs that do not sit on the board should be reported on for financial years commencing on or after 10 June 2019. However, the provisions relating to remuneration policies only apply to a policy approved on or after 10 June 2019 and existing policies are not affected and can continue until the end of their maximum three year period (BEIS Directors' Remuneration FAQs, page 10). Payments can continue to be made to such CEOs and deputy CEOs in accordance with existing practices until the company chooses to, or is required to, bring forward a new remuneration policy for shareholder approval (BEIS Directors' Remuneration FAQs, page 12).

"Unquoted traded company" means a traded company that is not a quoted company (section 226A(1) CA 06). "Traded company" means a company any shares of which: (a) carry rights to vote at general meetings; and (b) are admitted to trading on a regulated market in an EEA state by or with the consent of the company (section 360C CA 06). This definition may change depending on the outcome of Brexit as it refers to regulated markets in an EEA state. BEIS states that the "vast majority of traded companies are also quoted" (BEIS Directors' Remuneration FAQs, page 8).However, some traded companies are not quoted because their shares are not admitted to listing on the Official List; these are primarily specialist investment firms which trade on the Specialist Fund Segment. This does not include AIM companies.

295 GC100 and Investor Group Guidance suggests that companies may find it more appropriate to set out the remuneration policy first, followed by the remuneration report (Guidance under 2.1, GC100 and Investor Group Guidance).

296 See endnote 222 for certain exceptions to CEOs and deputy-CEOs being treated as directors for the purposes of Schedule 8 LMCG Regs.

The BEIS Directors' Remuneration FAQ clarify that this is solely for the purpose of remuneration reporting and this change does not extend the responsibilities of a company's directors under UK law to a CEO or deputy CEO who does not sit on the board (page 9). Remuneration reporting is not extended to any other senior management roles including individuals not on the board that have 'director' in their title. The GC100 and Investor Group Guidance states that the intention of this new requirement is to ensure that the most appropriate person is caught by the reporting requirements and that this may be the most senior member of the company's executive committee (Guidance under 2.1).

The remuneration of CEOs or deputy CEOs that do not sit on the board should be reported on for financial years commencing on or after 10 June 2019. However, the provisions relating to remuneration policies only apply to a policy approved on or after 10 June 2019 and existing policies are not affected and can continue until the end of their maximum three year period (BEIS Directors' Remuneration FAQs, page 10). Payments can continue to be made to such CEOs and deputy CEOs in accordance with existing practices until the company chooses to, or is required to, bring forward a new remuneration policy for shareholder approval (BEIS Directors' Remuneration FAQs, page 12).

We are aware of some companies who are considering nominating an existing plc director (say the CFO) to carry out the function of deputy CEO . This is to avoid inadvertently breaching this provision by not reporting on the remuneration of another person who is not a director but is found to be acting as the deputy CEO.

297 The GC100 and Investment Group Guidance states that examples may include procedures surrounding executive attendance at remuneration committee meetings and ensuring external advice received by the committee is independent (Guidance under 4.2, GC100 and Investor Group Guidance).

298 This explanation need not include information that is elsewhere in the directors' remuneration report. The BEIS Directors' Remuneration FAQs (at page 15) explain that the Directors' Remuneration Regulations do not elaborate further on what is expected in this explanation, so companies have flexibility to decide what would be helpful to shareholders to understand how the policy has been determined, and how it is to be implemented and reviewed. For example, a new policy might state that it has been determined after reviewing the impact of the previous policy, and taking account of discussions with shareholders; and that each year's remuneration report will note how the remuneration policy has been implemented over the previous year and how it will be implemented in the following year (as paragraph 21 of Schedule 8 already requires).In order to avoid repetition, companies may wish to cross refer to existing requirements under paragraph 22 of schedule 8.

299 The IA Remuneration Principles have previously stated that, in normal circumstances, investors would expect the remuneration policy to apply immediately after approval, as policies set to take effect at the start of the following financial year may be set too far in advance for meaningful engagement (the IA Remuneration Principles July 2016 (Appendix 1)). This recommendation was not retained in the 2016 edition of the IA Remuneration Principles or in the versions subsequently issued in November 2017, November 2018 or November 2019. However, there is no indication within the Principles, which according to the accompanying letter of 31 October 2016 were slimmed down to a set of high-level issues, to suggest that policy has changed on this point.

300 See endnote 294 above. A quoted company should ensure that all types of remuneration payment or loss of office payment that it intends to make are included in the remuneration policy, even if they do not fall within the content requirements of the LMCG Regs. If such payments are not included in a shareholder-approved remuneration policy, the company will need to obtain separate shareholder approval to make the payment.

301 The GC100 and Investor Group Guidance does not recommend including in the policy a general statement that all of the components of remuneration are subject to appropriate adjustment at the complete discretion of the remuneration committee. It does, however, acknowledge that it may be reasonable for the policy to provide for some discretion to be used in genuinely unforeseen circumstances. In addition to specifying operational discretions that the remuneration committee reasonably anticipates they may need as clearly as possible, it may be appropriate for the policy to provide for an "emergency" discretion for use only in other circumstances, which will be genuinely unforeseen and exceptional. See Guidance under 1.3, GC100 and Investor Group Guidance for a more detailed consideration of the issues.

One interpretation of the regulations is that such "emergency" discretion could be very wide, provided the shareholders approve such a policy. However, in the first year that schedule 8 of the LMCG Regs was in force, a number of remuneration committees provided "assurances" after publication of the annual report but before the AGM to narrow discretions which were published in their remuneration policies and which were considered to be too wide. The GC100 and Investor

Group's revisions to its Guidance (published in 2016) clarified that a discretion to address unexpected developments over the term of a policy will be more likely to be approved if it makes investors confident that it will be used only if and when "genuinely required" and within an acceptable general or higher exceptional maximum. GC100 and the Investor Group disapproves of the use of assurances to narrow discretions found to be too broad after publication of the annual report but prior to the AGM. Where such assurances are provided, GC100 requires disclosure of the assurance in the accounts and reports section of the company's website as well as within the remuneration report of the following year as a policy item (see endnote 352 below) (Guidance under 3.11, GC100 and Investor Group Guidance).

ISS has stated that it would recommend a vote against any policy that gives the remuneration committee the ability to make open-ended changes to the policy or where the policy does not operate within fixed overall limits (ISS Proxy Voting Guidelines, page 19).

Where any discretion is used to make payments, PIRC will expect disclosure which evidences genuinely unforeseen and exceptional circumstances (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

Glass Lewis expects the scope of potential discretionary power to be clearly disclosed and justified (Glass Lewis Proxy Guidelines, pages 24-25).

See also endnote 206 in relation to the discussion of the relationship between investors and the remuneration committee and shareholder consultation on remuneration.

The IA Remuneration Principles state that companies should disclose in the remuneration policy any discretion specific to a particular incentive scheme in addition to the plan rules (Section A(5)). In 2019 the IA Remuneration Principles were amended to state the remuneration committees should consider introducing discretion into incentive schemes to limit vesting outcomes if a specific monetary value is exceeded (IA Remuneration Principles, Section A(5); see also the IA Covering Letter at page 2 for information on why this change was made to the principles). The Government rejected the idea of setting an absolute cap on total remuneration in its June 2019 response to the BEIS Strategy Committee Report on Executive Rewards stating that it is for remuneration committees and shareholders to decide whether executive pay policies should set a cap (see page 8).

This is one of three express requirements in the LMCG Regs relating to discretion. See rows E.1(b) and E.5(b)(v) and also endnotes 217, 220 and 238 on discretion generally and for more information about the other requirements.

302 The table must also include any particular arrangements which are specific to any director individually (Schedule 8 para 25(2) LMCG Regs). Component parts of the remuneration package include, but are not limited to, all those items which are relevant for the "single total figure table" (Schedule 8 para 25(3) LMCG Regs). As the table will form part of the remuneration policy, the GC100 and Investor Group Guidance suggests that companies may wish to consider any exceptional items they do not currently pay or provide, but anticipate they might need to provide during the life of the remuneration policy (Guidance under 4.3, GC100 and Investor Group Guidance).

In respect of fixed and variable elements of remuneration, PIRC expects companies to disclose the proportion of the total pay formed by each element, in the context of the European regulatory cap on the ratio of fixed to variable pay (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

GC100 and Investor Group Guidance recommends that the table should set out how each component supports the company's short-term and long-term strategic objectives and that it is important to link remuneration to a company's strategy (guidance under 4.3 and 2.2, GC100 and Investor Group Guidance).

303 Although this is required in the policy table, GC100 and Investor Group Guidance states that investors expect this to be supplemented by relevant disclosures in the annual remuneration report, and suggests that companies should take the opportunity to give this emphasis in the annual statement from the chairman (Guidance under 2.2, GC100 and Investor Group Guidance). Disclosures made in the statement of directors' shareholding and share interests setting out requirements in relation to vested short-term or long-term awards should also be set out here or cross-referenced to the shareholding requirements part of the remuneration report. This includes, for example, a requirement that a specified percentage must be held until the provision is met (Guidance under 3.6 and 4.3.4, GC100 and Investor Group Guidance).

304 The BEIS Directors' Remuneration FAQs suggest that, in practice, companies which already provide detail on vesting and (any) holding periods in accordance with the Code will meet these requirements, provided that the information is included within the remuneration policy (page 14).

305 Companies will need to explain clearly the "expected" maximum, but may also wish to consider building in sufficient flexibility/headroom, and also building in an "exceptional" maximum (Guidance under 4.3, GC100 and Investor Group Guidance). GC100 and Investor Group Guidance states that this maximum should be disclosed at an individual executive director level. Companies may also wish to consider creating a generic director policy should they expect to create a new director role during a policy period (Guidance under 4.3, GC100 and Investor Group Guidance).

306 See Schedule 8 paras 26(d)(i) to (iii) and 27(a) LMCG Regs for what should be included in the description, including description of any performance measures and performance periods. PIRC expects companies to go beyond the disclosure of any performance measures and provide explicit disclosure of performance targets for all outstanding long-term awards. For share awards other than options, PIRC also expects companies to go beyond prescribed disclosure and provide grant date, grant date price, vesting date and price on vesting date (PIRC Guidelines (Chapter 6 – Directors' Remuneration)). Glass Lewis expects disclosure of the terms of incentive structures, including an explanation of how performance targets are determined, and the actual metrics and specific targets utilised should be disclosed and put into the context of the company's strategy (Glass Lewis Proxy Guidelines, page 22). Glass Lewis also states that there should be a clear explanation for the performance measures selected and how they are calibrated in the context of the company's strategy (Glass Lewis Proxy Guidelines, page 24).

307 Investors are likely to welcome remuneration policies that clearly link key performance measures and risks relating to the company to the components of remuneration and, where appropriate, the remuneration policy should cross-refer to such risks set out in the strategic report. See also endnote 340.

308 PIRC considers that the recovery of sums already paid or payable is more transparent than and preferable to withholding of sums to be paid (PIRC Guidelines (Chapter 6 – Directors' Remuneration)). See also GC100 and Investor Group guidance under 3.1 and 4.3.4.

309 In respect of salary, companies may also wish to describe the considerations that the remuneration committee will take into account for increasing salaries during the remuneration policy period (Guidance under 4.3.1, GC100 and Investor Group Guidance).

310 Companies may also wish to disclose anticipated changes to defined benefit pension arrangements where there is likely to be a material difference in arrangements disclosed in the remuneration report (Guidance under 4.3.3, GC100 and Investor Group Guidance).

The IA Remuneration Principles note that the CGC 2018 states that pension contribution rates for executive directors should be aligned with those available to the workforce, but the principles no longer specifically require disclosure related to pension contribution rates (see Provision 38 CGC 2018). The IA Remuneration Principles state that IA members consider this to be the rate which is given to the majority of the company's workforce and investors expect new executive directors or any director changing role to be appointed on this level of pension contribution. The contribution rates of incumbent directors should be reduced over time to the contribution rate available to the majority of the workforce with no compensation awarded for this change (IA Remuneration Principles, Fixed Remuneration, B(2)). A credible action plan to reduce pension contributions of incumbent directors to the majority of the workforce by the end of 2022 should be set out (IA Covering Letter, page 2, IA Remuneration Principles, Section B(2)). See also paragraph 143 of the Guidance on Board Effectiveness which states that, while it may not be practical to alter existing contractual commitments in this regard, remuneration committees will need to ensure that future contractual arrangements heed this. PIRC states that it would like disclosure of comparative pension accrual contribution rates for executives and employees (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

The PLSA Guidelines note that a vote against the remuneration policy may be warranted where a company has agreed pension payments or payments in lieu of pension worth over 50% of annual salary (PLSA Guidelines, Appendix 1, para 1.4).

ISS states that for meetings held on or after 1 February 2020, pension arrangements for new executive directors should be aligned with those of the wider workforce, and companies should "actively disclose whether this is the case". For incumbent directors, companies should seek to "align the contribution rates with the workforce over time, recognising that many investors in the UK will expect this to be achieved in the near-term" (ISS Proxy Voting Guidelines Updates, page 9). ISS also note that existing pension arrangements for incumbent directors will be assessed on a case-by-case basis, taking into account any relevant explanations provided by the company and that it will not normally issue a negative recommendation on a remuneration policy in 2020 due to existing pension arrangements with incumbent directors, although companies with "exceptionally generous provisions relative to the market should be aware of investor sentiment and set a clear plan to reduce this over time" (ISS Proxy Voting Guidelines Updates, page 10).

Glass Lewis generally expects pension provisions for executive directors to be in line with those available to the majority of the workforce, recognising that pension rates for incumbents may need to be reduced over time (Glass Lewis Proxy Guidelines, pages 2 and 23).

311 Examples including vesting schedule and/or holding periods for share-based elements (Short-term incentives under 4.3.4, GC100 and Investor Group Guidance).

ISS states that any increase in the maximum limit from one policy period to another should be fully explained. ISS does not typically support uncapped bonus schemes. Furthermore, any provision to pay a guaranteed bonus will attract a negative vote recommendation from the ISS (ISS Proxy Voting Guidelines, pages 16-17). ISS also states that the target bonus should be set at no more than 50% of the maximum bonus potential and any pay-out above this level should be supported by a sufficiently robust explanation (ISS Proxy Voting Guidelines, page 16).

312 ISS stated that the introduction of new pay schemes on top of existing plans would be likely to be viewed sceptically (ISS Proxy Voting Guidelines, page 14). ISS also states that it does not typically support uncapped LTIPs (ISS Proxy Voting Guidelines, page 17). The ISS Proxy Voting Guidelines require disclosure of performance metrics relating to long-term incentives for smaller companies (page 30). They also contain further recommendations for the structure of new or amended LTIPs.

ISS has advised that it will pay particular attention when voting on the remuneration policy, among other things, to whether any increase in the level of certainty of reward is accompanied by a material reduction in the size of awards (ISS Proxy Voting Guidelines, page 15).

In February 2013, PIRC announced that it would not support new LTIP-based schemes as, in PIRC's view, they were not long-term and they did not incentivise. PIRC stated in 2015 that its voting recommendations for future remuneration policies and implementations of those policies would reflect that position, as their rating model to assess remuneration policies would give credit to companies that do not use LTIPs. While PIRC recognises positive elements of some LTIP schemes, a company without an LTIP would rate better than a company with a "good" LTIP and PIRC expects a genuine attempt to align with shareholders to exclude LTIPs altogether (PIRC Guidelines (Chapter 6 – Directors' Remuneration)). Where the company continues to use LTIPs, see PIRC Guidelines for further details of features PIRC expects to see. The PIRC Guidelines also contain guidance on how PIRC will analyse restricted shares.

In 2019 the IA Remuneration Principles were amended to state that remuneration committees should consider introducing discretion into incentive schemes to limit vesting outcomes if a specific monetary value is exceeded (IA Remuneration Principles, Section A(5); see also the IA Covering Letter at page 2 for information on why this change was made to the principles).

See also endnote 292 for details of comments on pay structures.

313 This may include fees as a non-executive director, additional fees for acting as a senior independent director, chairman/member of a committee, travel and attendance fees, and, where relevant, consultancy fees. Legitimate business expenses are not remuneration and therefore are not required to be disclosed. Companies may wish to consider disclosing whether part of the fees is paid in shares instead of cash, and if there is any requirement to retain the shares (Guidance under 4.5, GC100 and Investor Group Guidance). PIRC considers it to be acceptable to pay non-executives partly in shares, but states that these should not be conditional shares or options, which could lead to too much emphasis on securing short-term share price performance. The remuneration for the chairman requires the fullest explanation (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

ISS considers it is inappropriate for non-executive directors to receive performance-related pay (ISS Proxy Voting Guidelines, page 19 and page 30 for smaller companies).

314 Companies may also wish to consider committing to timely disclosure on the remuneration structure of any new executive director or chairman in the remuneration policy (Guidance under 4.6, GC100 and Investor Group Guidance). Glass Lewis requires disclosure of a clear approach to recruitment, including reasonable award limits and delivery structures that align the interests of incoming executives with those of shareholders (Glass Lewis Proxy Guidelines, page 21).

315 IA Remuneration Principles are critical of excessive remuneration and state that the Board should explain why the chosen maximum remuneration level is appropriate for the company (Guidance at paragraph 4, IA Remuneration Principles).

PIRC expects new recruits to be subject to a scheme's normal maximum award limit, and explicitly buying out unvested awards to attract a new recruit and/or increasing normal award limits for recruitment will be considered to be a breach of best practice (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

ISS states that, in general, it does not support awards for new joiners except in appropriate situations and only if accompanied by an appropriate explanation (ISS Proxy Voting Guidelines (page 22).

The Hermes Principles require that a cap on total pay opportunity should be agreed and published in advance and that there should also be approved ex-ante caps for individual components (Hermes Principles, page 4).

The PLSA Guidelines state that a vote against the remuneration policy may be warranted where a company fails to disclose or retrospectively disclose variable pay performance conditions for annual bonuses, or where salary or performance-related pay awards are excessively generous (PLSA Guidelines, Appendix 1, para 1.4).

The IA letter to remuneration committee chairs in 2016 reminded companies that IA members expect companies to have maximum limits on each aspect of variable remuneration and that IA members do not expect companies to seek discretion to make payments outside of the scope of the remuneration policy. It also stated that, in normal circumstances, the remuneration policy is expected to contain sufficient flexibility to recruit individuals and any additional recruitment limits should be clearly justified (page 2).

In 2019 the IA Remuneration Principles were amended to state that remuneration committees should consider introducing discretion into incentive schemes to limit vesting outcomes if a specific monetary value is exceeded (IA Remuneration Principles, Section A(5); see also the IA Covering Letter at page 2 for information on why this change was made to the principles).

316 The IA Remuneration Principles require that any benefits relating to the relocation of an executive should be disclosed at the time of appointment. Where these benefits are deemed necessary, they should be in place for a limited period which is disclosed to shareholders. Each element of any relocation benefits should be detailed in the remuneration report (IA Remuneration Principles, Section B(3)). This is also set out in the ISS Proxy Voting Guidelines, page 20).

317 ISS states that the potential to offer sign-on payments should not be open-ended, and remuneration of this nature should be subject to specific caps (ISS Proxy Voting Guidelines, pages 18-19).

ISS states that, in general, it does not support awards for new joiners except in appropriate situations and only if accompanied by an appropriate explanation (ISS Proxy Voting Guidelines (page 22).

318 The GC100 and Investor Group Guidance suggests that, where relevant disclosures are made elsewhere in the remuneration policy, companies may wish to consider confirming that there are no further obligations which could give rise to a remuneration or loss of office payment (Guidance under 4.7, GC100 and Investor Group Guidance). PIRC notes that, in respect of the requirement to disclose obligations that may arise upon a loss of office, there is no explicit requirement to disclose the amount that would become payable. However, PIRC would expect companies to disclose quantifiable amounts (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

319 The BEIS Directors' Remuneration FAQs suggest (i) that although 'arrangements' is not defined in SRD II, it may be taken to mean any agreements to provide personal services that a company may enter into with directors for remuneration that do not constitute a service contract; and, (ii) where directors' contracts do not contain an end date, the remuneration policy should state that there is no fixed or indicative duration, or set out the notice period (this is already a requirement under Listing Rule 9.8.8 for premium listed companies: they must set out the unexpired term a service contract of any director up for re-election, or state if they do not have service contracts) (page 15). The GC100 and Investor Group Guidance states that companies should state the term length of fixed term directors' contracts or state if no fixed term exists with no fixed term being a common employment practice in the UK (Guidance under 4.7, Gc100 and Investor Group Guidance).

320 The PLSA recommends that shareholders have access online to the terms and conditions on which the directors are appointed (PLSA Guidelines, Appendix 1, para 4.13).

321 A narrative description of the basis of calculation and assumptions used to compile the bar chart must be set out to enable the understanding of the charts, save that it is not necessary to include any matter which is set out in the "future policy table" required under Schedule 8 para 25 LMCG Regs (Schedule 8 para 35 LMCG Regs).

322 The GC100 and Investor Group Guidance states that: (a) in respect of salary, this should be the last confirmed salary; (b) in respect of benefits, this should be the last known figure as set out in the "single total figure table" excluding any non-recurring items; and (c) in respect of pensions,

if a defined benefit, the amount set out in the "single total figure table", or if another kind, it would be consistent for the amount to be based on the policy set out in the "future policy table" and the last confirmed salary (Guidance under 4.8, GC100 and Investor Group Guidance).

323 In respect of short-term incentives, the amount should be based on the policy in the "future policy table" and the last confirmed salary. For further guidance, see Guidance under 4.8, GC100 and Investor Group Guidance. Any dividend accrual, dividend shares and dividend equivalent payments should be disregarded for the purposes of the bar charts for both short and long-term incentive plans, but their existence and exclusion must be explained in the description of the calculation and assumptions used.

324 The preferred approach suggested for long-term investments by the GC100 and Investor Group Guidance depends on how the company makes the award. For further guidance for: (a) awards based on a percentage or multiple of salary; (b) awards based on a fixed number of shares; and (c) option awards, see Guidance under 4.8, GC100 and Investor Group Guidance.

325 The GC100 and Investor Group Guidance on the components of the bar charts reflects the work carried out by the Financial Reporting Lab, as set out in the Financial Reporting Lab's report, "Reporting of pay and performance" (March 2013) available on the FRC's website, www.frc.org.uk.

326 Paragraph 35A applies to financial years commencing on or after 1 January 2019. The BEIS Q&A on the regulations (the Miscellaneous Reporting Q&A) clarifies that this means that this reporting requirement for companies to illustrate the impact of share price increases on executive pay outcomes "will apply to any new remuneration policies brought forward by companies from 1 January 2019" (Miscellaneous Reporting Q&A (Q&A 1, Section C). Therefore, for remuneration policies introduced on or after 1 January 2019, companies must comply with this requirement (see also Guidance under 4.8 and footnote 22 of the GC100 and Investor Group Guidance).

327 The origin of this provision can be found in the Government's response to the BEIS Green Paper on Corporate Governance Reform, 29 August 2017, which stated that part of the challenge highlighted by the Government Green Paper is "the risk of LTIPs leading to executive share awards that are inconsistent with investors' original expectations" with the Government accepting the arguments that remuneration policies should be required to "set out more clearly the potential remuneration outcomes of LTIPs under a range of scenarios including significant share price growth" (paragraph 1.55).

The GC100 and Investment Group Guidance states that although paragraph 35A does not require the information related to share price appreciation to be included in the bar chart (rather it must simply be included in the directors' remuneration report), it appears that it should at least appear in the same section of the remuneration report as the bar chart (if not in the bar chart itself) given that paragraph 35A is located in the same section of the LMCG Regs as the bar chart provisions (Guidance under 4.8, GC100 and Investor Group Guidance). The GC100 and Investor Group Guidance includes an example of a short description of the basis of calculation in the Guidance under 4.8.

More information on how companies should illustrate the impact of share price growth in the remuneration policy are set out in Q&A 4 of Section G of the Miscellaneous Reporting Q&A which notes that the potential impact will vary depending on the design of a company's share based performance plans, for example, whether the maximum shares receivable are limited by number or value.

328 The GC100 and Investor Group Guidance suggests that companies may wish to consider disclosing: (a) that the contractual entitlements of terminated directors will be honoured; (b) the length of service contracts and notice periods; (c) details of limitations, parameters or guarantees applied to severance payments; (d) how the remuneration committee classifies leavers (the guidance suggests that it would be advisable to make clear that the good and bad leaver scenarios are examples rather than a definitive list); (e) how the remuneration committee assesses salary, short-term incentives, long-term incentives, pension and other benefits for each category of leaver and any reductions that may apply in "normal" circumstances; (f) policies applied in "exceptional" circumstances, including change of control; and (g) whether there is a policy of requiring mitigation, and how that policy would work in practice (Guidance under 4.9, GC100 and Investor Group Guidance). PIRC expects companies to disclose liabilities that are quantifiable (PIRC Guidelines (Chapter 6 – Directors' Remuneration)). PIRC further expects full disclosure of the maximum amounts that could be payable on termination, whether or not they are for loss of office and regardless of whether they are included in the formal service contract (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

ISS expects that outstanding share awards should be appropriately pro-rated on termination (ISS Proxy Voting Guidelines, page 22).

329 Where companies have not consulted their employees when setting executive pay, PIRC expects them to say why (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

330 The GC100 and Investor Group Guidance suggests that companies may wish to consider including a summary of: (a) actions taken by the company and investors to engage with each other; (b) the broad topics discussed in the engagement process and indication of investors' reactions; and (c) any changes to the remuneration policy, or its implementation, made as a result of the engagement (Guidance under 4.11, GC100 and Investor Group Guidance).

331 See also: the IA Remuneration Principles, the Joint Statement (2008) on Executive Contracts and Severance by ABI and NAPF and the PIRC Guidelines.

332 Provision 40 CGC 2018 contains a list of factors that the remuneration committee should address when determining executive director remuneration policy and practices including: clarity; simplicity; risk; predictability; proportionality; and alignment to culture. Further detail on each of these can be found in Provision 40.

333 The remuneration committee has an expanded remit under the CGC 2018 (including increased responsibilities in relation to the remuneration of senior management and an obligation to review workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration - see Provision 33 for further information and para 131 of the Guidance on Board Effectiveness for a definition of workforce in this context). Provision 37 encourages boards to exercise discretion to override formulaic outcomes. The FRC notes that the broader role is intended to encourage remuneration committees to reflect on their approach and be more accountable for their decisions (see the FRC's webpage which sets out FAQs on the 2018 UK Corporate Governance Code, https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/2018-uk-corporate-governance-code-faqs.

334 Where a company releases an executive director to serve as a non-executive director elsewhere, the CGC 2016 required the company to include a statement as to whether or not the director will retain such earnings and, if so, to state what the remuneration is (D.1.2). This is not replicated in the CGC 2018. However, the PIRC Guidelines still refer to this requirement and state that, in addition to this information, it would be helpful if the company also disclosed the time commitment expected (PIRC Guidelines, Chapter 2 – The Board). PIRC goes on to state that it expects companies to adopt and disclose a policy on time commitments. See endnote 383 for information on when PIRC considers a director to be 'over-boarded'.

335 The IA Remuneration Principles state that, where Remuneration Committees seek to increase base pay, the reasons for doing so should be fully disclosed and justified (see also pages 2 and 23 of the Glass Lewis Proxy Guidelines). They also state that increases should be aligned to increases awarded to the wider workforce (IA Remuneration Principles, B(1)) (see also pages 2 and 23 of the Glass Lewis Proxy Guidelines). The IA's view has been that, in normal circumstances, basic salary increases should not exceed inflation or the increase for the general workforce. Any greater increase should be clearly set out. The increase to any maximum variable pay should also be clearly explained. In the IA's view, an increase in the size of the company is not in itself a sufficient rationale (IMA Remuneration Letter 2014). The IA states that the board as a whole must be cognisant of pay and conditions in the wider workforce and should consider the aggregate impact of employee remuneration (including executive director remuneration) on the finances of the company, its investment and capital needs and dividends to shareholders. The IA states that undeserved and excessive remuneration sends a negative message to all stakeholders, including the company's workforce, and causes long-term damage to the company and, to avoid this, that shareholders expect the remuneration committee to ensure that the remuneration structure is appropriate (IA Remuneration Principles, Section 4 (Levels of Remuneration)). The IA Covering Letter states that investors will look closely at how any increases are justified, and will expect remuneration committees to show restraint in relation to overall quantum, noting that members are concerned by incremental increase both to fixed and variable pay which, on aggregate, can lead to substantial increases in overall remuneration (page 2).

PIRC notes that salary increases should be explained as a matter of course, in particular, when they reach double digits. PIRC does not consider it appropriate for a significant increase to be made for the purpose of aligning pay "with the market". A significant increase should only be given for additional responsibilities (PIRC Guidelines, Chapter 6 – Directors' Remuneration). ISS states that increases should be justified by reference to the remuneration policy. Annual increases are expected to be in line with general increases and post-freeze "catch-up" salary increases or benchmark-related increases are discouraged (ISS Proxy Voting Guidelines, page 20).

ISS states that any increases to NED fees will be considered alongside pay increases to executive directors and the broader workforce and that the fees payable to NEDs should not be excessive relative to similar-sized companies in the same sector thus giving an option to recommend voting against the remuneration report where NED fees are considered to be relatively excessive (ISS Proxy Voting Guidelines, page 22).

336 The FRC has clarified that the purpose of the Guidance on Board Effectiveness is to encourage thinking on how boards carry out their role; it is not mandatory nor prescriptive but contains suggestions of good practice to support directors and their advisers in applying the Code (Guidance on Board Effectiveness, paragraph 3).

The Guidance on Board Effectiveness sets out specific circumstances where it may be appropriate to exercise discretion including taking account of share price growth and currency fluctuations, the impact of a share repurchase scheme or a government support initiative (paragraph 140). Paragraphs 139 and 140 also set out approaches to discretion and generally when the exercise of discretion may be necessary.

337 See also endnote 217.

338 The FRC has clarified that the purpose of the Guidance is to encourage thinking on how boards carry out their role; it is not mandatory nor prescriptive but contains suggestions of good practice to support directors and their advisers in applying the Code (Guidance on Board Effectiveness, paragraph 3).

Where there has been a disagreement between the remuneration committee and the board that cannot be resolved, the Guidance on Board Effectiveness suggests that the remuneration committee should have the right to report the issue to shareholders as part of the report on its activities in the annual report (paragraph 62).

339 The PLSA Guidelines state that a voting sanction may be triggered where there is inappropriate or inadequate use of discretion, for example not scaling back awards in light of how performance was achieved or in light of wider factors relating to the company, and its conduct, reputation and relationship with key stakeholders (PLSA Guidelines, Appendix 1, para 2.1).

Glass Lewis expects any exercise of discretion during the year to be clearly disclosed and justified (Glass Lewis Proxy Guidelines, pages 24-25).Glass Lewis also notes that the level of explanatory disclosure is particularly important in relation to one-off exceptional issues (including recruitment), areas where the policy or practices deviate from best practice, or any application of discretion (Glass Lewis Proxy Guidelines, page 22).

See endnotes 217, 220, 238 and 301 on discretion.

340 The IA Remuneration Principles state that any adjustments made to the metrics as set out in the company’s accounts should be clearly explained and the impact disclosed (IA Remuneration Principles, Section C(1)).

Where consideration of commercial confidentiality may prevent a fuller disclosure of specific short-term targets at the start of the performance period, shareholders expect to be informed of the main performance parameters, both corporate and personal, for the financial year being reported on (IA Remuneration Principles, C(1)). ISS states that the remuneration committee should explain when commercial sensitivity considerations will fall away and provide a commitment to disclose at such time (ISS Proxy Voting Guidelines, pages 20-21). For meetings held on or after 1 February 2020, ISS adds that it will normally recommend a vote against the remuneration report where bonus targets are not disclosed as it is now standard market practice for such disclosure to be provided immediately following the reporting year with companies disclosing one or more years in arrears being out of step with wider market practice and therefore potentially attracting a negative vote recommendation ((ISS Proxy Voting Guidelines Updates, pages 12-13). ISS also states that “very few companies do not disclose their bonus targets on a immediately retrospective basis and that as an “overwhelming majority” of companies do not face any issues around commercial sensitivity, any company disclosing on or more years in arrears would be viewed “sceptically, and a compelling explanation would be expected” ((ISS Proxy Voting Guidelines Updates, page 14).

The IA reported in 2014 that the level of retrospective disclosure that companies had provided on performance targets was disappointing. Shareholders were concerned that disclosures had deteriorated, with a large number of companies using the “commercially sensitive” opt-out (IMA Remuneration Letter 2014). The IA Remuneration Principles state that, following payment of a bonus, companies should provide a full analysis in the Remuneration Report, including specific target ranges for financial measures and the extent to which the relevant targets were actually met. For personal or strategic objectives, investors expect a detailed rationale for payment and the weightings, achievement and outcomes of personal and strategic objectives should be disclosed separately (IA Covering Letter, page 2 and IA Principles of Remuneration, C(1)). It is expected that bonus targets should be disclosed no later than 12 months following the payment of the bonus award (IA Remuneration Principles C(1)). This time period was reduced from the previous two-year target. Where financial metrics do not warrant a bonus payment, the IA

Remuneration Principles notes that members will scrutinise the payment and rationale for the payment of any personal or strategic elements to ensure that such a payment is warranted (IA Remuneration Principles, C(1)).

Repeating the message from its 2018 letter, the IA Covering Letter states that the IA's members' clients, continue to seek explanations as to why remuneration pay-outs are supported. In order to justify their support, they require robust transparency on financial and non-financial targets so that the link between pay and performance can clearly be seen (page 2).

The 2016 IA covering letter stated that IVIS had been asked to issue a red top where companies have not disclosed the threshold, target and maximum performance targets, the level of performance achieved against these targets and the resulting bonus outcome, or where the company had not made a commitment to disclose the target range in future (page 2).

Note also that the IA Remuneration Principles state that annual bonuses should be clearly linked to business targets (ideally through the financial and strategic KPIs reported in the strategic report) and, where other measures are chosen, these should be explained and justified (IA Remuneration Principles, C(1)).

341 Additionally, the IA Remuneration Principles provide guidance as to the limited circumstances in which options or other share-based incentives may be granted over subsidiary company shares (including setting out the relevant disclosures which will be required in these circumstances) (IA Remuneration Principles (Section C(2)(xii))).

342 Any adjustments to reported metrics should be clearly explained and the impact on the outcome detailed (IA Remuneration Principles, C2(iii)).

343 Glass Lewis states that the grant of restricted shares should be accompanied by significant shareholding requirements including a post-exit shareholding requirement of at least two years (Glass Lewis Proxy Guidelines, page 25).

344 Glass Lewis states that notice period entitlements should be limited to salary and benefits over 12 months or less, subject to mitigation (Glass Lewis Proxy Guidelines, page 21)

345 The IA Remuneration Principles state that special awards and one-off payments are not favoured. Where made, the Remuneration Committee must justify them (IA Remuneration Principles, Section A(13)).

346 This is following several exits in 2019 where a full payment-in-lieu of notice was made to a departing executive director, despite the fact that the director's leaving date had been announced in advance of the exit, thereby resulting in a larger payment and a time-in-service credit for outstanding LTIPs (ISS Proxy Voting Guidelines Updates, page 15).

347 The IA Remuneration Principles note that the CGC 2018 requires remuneration committees to develop a policy on post-employment shareholding requirements (see Provision 36 CGC 2018). The IA states that shareholders expect post-employment shareholding requirements to be established for all new executive directors and for existing executive directors at the earliest opportunity and at a minimum by the company's next remuneration policy vote. The IA also states that its members consider the requirement should apply for at least two years at a level equal to the lower of the shareholding requirement immediately prior to departure or the actual shareholding on departure (IA Remuneration Principles, Section A(2)). The IA Covering Letter states that shareholders expect post-employment shareholding requirements to be introduced for all new policy approvals (page 2).

348 In 2018, the IA Remuneration Principles were updated to note that the current market standard triggers for malus and clawback are gross misconduct or misstatement of results. The IA Remuneration Principles state that, given these events are likely to be rare and, when they do occur, it can be challenging to prove the individual culpability of directors, remuneration committees should establish a more substantial list of specific circumstances in which the malus and clawback provisions could be used (IA Remuneration Principles, Section A(4)). The IA Remuneration Principles note that these will vary by company but refers to the following examples set out in the Guidance on Board Effectiveness: payments based on erroneous or misleading data; misconduct; misstatement of accounts; serious reputational damage; and corporate failure (IA Principles of Remuneration, Section A(4). See also page 1 of the IA's 2018 Covering Letter which states that the principles require the remuneration committee to consider the most appropriate trigger events for the individual company and set out more clearly investors' expectations of the enforcement processes companies should have in place to implement malus and clawback provisions. The IA Remuneration Principles note that "Remuneration committees should develop clear processes for assessing executives against either malus and clawback criteria or how they will exercise discretionary clawback. Demonstration of process and evidence of decision-making is very important in the event that clawback is contested" (Section A(4)). Companies are also expected to require executives to sign forms of

acceptance at the time of grant setting out how malus and clawback provisions may be applied (Section A(4)).

349 The IA Remuneration Principles note that the CGC 2018 states that pension contribution rates for executive directors should be aligned with those available to the workforce, but the principles no longer specifically require disclosure related to pension contribution rates (see Provision 38 CGC 2018). The IA Remuneration Principles state that IA members consider this to be the rate which is given to the majority of the company's workforce and investors expect new executive directors or any director changing role to be appointed on this level of pension contribution. The contribution rates of incumbent directors should be reduced over time to the contribution rate available to the majority of the workforce with no compensation awarded for this change (IA Remuneration Principles, Fixed Remuneration, B(2)). A credible action plan to reduce pension contributions of incumbent directors to the majority of the workforce by the end of 2022 should be set out (IA Covering Letter, page 2, IA Remuneration Principles, Section B(2)). See also paragraph 143 of the Guidance on Board Effectiveness which states that, while it may not be practical to alter existing contractual commitments in this regard, remuneration committees will need to ensure that future contractual arrangements heed this. PIRC states that it would like disclosure of comparative pension accrual contribution rates for executives and employees (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

The PLSA Guidelines note that a vote against the remuneration policy may be warranted where a company has agreed pension payments or payments in lieu of pension worth over 50% of annual salary (PLSA Guidelines, Appendix 1, para 1.4).

ISS states that for meetings held on or after 1 February 2020, pension arrangements for new executive directors should be aligned with those of the wider workforce, and companies should "actively disclose whether this is the case". For incumbent directors, companies should seek to "align the contribution rates with the workforce over time, recognising that many investors in the UK will expect this to be achieved in the near-term" (ISS Proxy Voting Guidelines Updates, page 9). ISS also note that existing pension arrangements for incumbent directors will be assessed on a case-by-case basis, taking into account any relevant explanations provided by the company and that it will not normally issue a negative recommendation on a remuneration policy in 2020 due to existing pension arrangements with incumbent directors, although companies with "exceptionally generous provisions relative to the market should be aware of investor sentiment and set a clear plan to reduce this over time" (ISS Proxy Voting Guidelines Updates, page 10).

Glass Lewis generally expects pension provisions for executive directors to be in line with those available to the majority of the workforce, recognising that pension rates for incumbents may need to be reduced over time (Glass Lewis Proxy Guidelines, pages 2 and 23).

350 In September 2019, the IA Position on Executive Pensions was published alongside a press release, containing guidelines indicating that for companies with year-ends commencing on or after 31 December 2019, IVIS will: (i) amber top any company with an existing director who has a pension contribution of 25% of salary or more, as long as they have set out a credible plan to reduce that pension to the level of the majority of the workforce by 2022; (ii) red top any company with an existing director who has a pension contribution of 25% of salary or more and has not set out such a credible plan; and (iii) red top any company that appoints a new executive director or a director changes role with a pension contribution out of line with the majority of the workforce, or seeks approval for a new remuneration policy that does not explicitly state that any new director will have their pension contribution set in line with the majority of the workforce. The IVIS approach to executive pensions for the 2019 AGM season was announced in February 2019 and is also set out in the IA Position on Executive Pensions; this mirrors the approach to the 2020 AGM season. The IA Position on Executive Pensions also includes an update on progress to date stating that the "vast majority of companies appoint or commit to appoint any new executive director on a pension contribution which is equal to the level of the majority of the workforce" and that the IA has also seen "significant leadership from some executive directors, who have voluntarily reduced their pension contributions to align with the workforce, or committed to reduce them so that over time they will be aligned with the majority of the workforce level". The IA stated that 33 FTSE 100 companies had made significant changes as a result of the IA's position.

351 For example, is it an average of all employees, UK employees only or the rate given to all new joiners (IA Remuneration Principles, Section B(2).

352 The GC100 and Investor Group states that, where remuneration committees have published assurances about the way aspects of their proposed policies would be implemented, the assurance should be set out in the remuneration reports in the following years of the policy's term as a disclosure regarding policy implementation in those years. Assurances should also be disclosed in the accounts and reports section of the company's website, alongside the items required to be published there (Guidance under 3.11, GC100 and Investor Group Guidance).

353 PIRC expects companies to show pay in the context of other payments or distributions to show the relative importance of pay, but gives discretion to companies to choose which measure best serves this purpose (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

354 PIRC refers to the common law obligation on employees to seek work to mitigate loss under a contract (where employment is terminated) and to cease claiming remuneration if they secure new employment. PIRC supports the use of phased payments to reduce payments on termination (PIRC Guidelines (Chapter 6 – Directors' Remuneration)).

355 When forming a view on arrangements that sit outside the salary/bonus/LTIP model, ISS will pay particular attention to various points including the impact on the overall level of potential pay. ISS states that a proposal which provides for greater certainty regarding the ultimate rewards should be accompanied by a material reduction in the overall size of awards (ISS Proxy Voting Guidelines, page 15).

356 See pages 21 to 22 for more detail and also pages 20 to 28 of the Glass Lewis Proxy Guidelines for more information on Glass Lewis' approach to remuneration more generally, including expectations in relation to the remuneration policy.

357 In May 2016, the FRC published feedback in response to its October 2015 discussion paper, "UK Board Succession Planning" that considered nomination committee reporting. The feedback included that investors would appreciate better links between strategy and succession planning. The FRC published a paper on corporate culture, "Corporate Culture and the Role of Boards" (July 2016). A new version of the FRC's Guidance on Board Effectiveness was also published with the Corporate Governance Code in 2018. The updated guidance discusses the role of the nomination committee, succession planning and various other topics relevant to composition, succession and evaluation in Section 3.

358 While CGC 2018 is silent on how this information should feature in a company's annual report, CGC 2016 recommended that a separate section of the annual report be dedicated to recording the work of the nomination committee (CGC 2016 at B.2.4).

359 The PIRC Guidelines state that the nomination committee should be comprised exclusively of independent directors (PIRC Guidelines (Chapter 2 – The Board)). PIRC also states that it will recommend opposition for the re-election of a chief executive that sits on a nomination committee as a means to encouraging a balanced and impartial appointment process (PIRC Guidelines (Chapter 2 – The Board)). The Glass Lewis Proxy Guidelines state it recommends that shareholders vote against any affiliated or inside directors serving on the nomination committee where the committee does not have a majority of independent directors (pages 6-7) (see endnote 390 for more information on affiliated and inside directors).

360 Although the Code no longer requires the annual report to identify the chair and members of the nomination committee, it does require the report to set out individual attendance by directors at nomination committee meetings, thereby identifying which directors are members of the committee (see CGC 2018 14). It also requires the responsibilities of the board committees to be clear, set out in writing, agreed by the board and made publicly available, though not specifically in the annual report (CGC 2018 14).

361 Although the Code no longer requires the annual report to identify the chair and members of the nomination committee, it does require the report to set out individual attendance by directors at nomination committee meetings, thereby identifying which directors are members of the committee (see CGC 2018 14). It also requires the responsibilities of the board committees to be clear, set out in writing, agreed by the board and made publicly available, though not specifically in the annual report (CGC 2018 14).

362 Glass Lewis will recommend voting against the nomination committee chair where the committee did not meet during the year but should have (i.e. new directors were nominated) (Glass Lewis Proxy Guidelines, page 12).

363 Under the CGC 2018, the chair is only required to be independent on appointment, but they must "demonstrate objective judgement throughout their tenure" and the tenure of the chair should not extend beyond nine years from the date of their first appointment to the board, subject to the ability to extend for a "limited time" in certain circumstances (to facilitate effective succession planning and the development of a diverse board, particularly where the chair was an existing non-executive director on appointment) (Principle F, Provisions 9 and 19). If it does extend beyond nine years, a clear explanation should be given. Further guidance on the nine-year period is given on the FRC's webpage which sets out FAQs on the 2018 UK Corporate Governance Code (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/2018-uk-corporate-governance-code-faqs). The Guidance on Board Effectiveness states "There may be reasons for justifying a limited extension to the term of the

chair beyond nine years if prior to being appointed chair, they have been a board member for a significant amount of time, and the appointment supports the company's succession plan and diversity policy. (paragraph 105).

For meetings held on or after 1 February 2020 and noting this new provision, ISS has stated that it will "consider the re-election of the chair on a case-by-case basis, taking into account such factors as succession planning, diversity, and board independence, in addition to tenure" clarifying that tenure will not be considered in isolation but as one of several key indicators (ISS Proxy Voting Guidelines Updates, page 5).

364 PIRC notes that this description is important in order to demonstrate that appointments have been made on merit and against objective criteria (PIRC Guidelines, Chapter 2 – The Board).

365 The CGC 2018 has an expanded concept of diversity encompassing "gender, social and ethnic backgrounds, cognitive and personal strengths" (Principle J) as opposed to "diversity, including gender" (CGC 2016 at B.2.4). It also has an increased emphasis on diversity, requiring appointments and succession plans to promote diversity (Principle J) and requiring the nomination committee to oversee the development of a diverse pipeline for succession (Provision 17). The Guidance on Board Effectiveness also encourages greater transparency about the make-up of the workforce that might cover a range of different aspects of diversity including age, disability, ethnicity, education and social background, as well as gender (paragraph 89). PLSA states that it expects diversity information to run through any key corporate disclosures on the board and workforce (PLSA Guidelines, Section 3: Composition, Succession and Evaluation).

366 The ABI Report on Board Effectiveness recommended that chairmen should outline in their annual report their role in creating an effective board and how the board has been set up to respond to the business structure and any challenges which the company faces (see page 6). ISS may recommend a negative vote against the reappointment of the chairman if there is evidence of long-running, systemic issues around board and committee composition which the company seems unable or unwilling to address (ISS Proxy Voting Guidelines, page 12 and page 29 for smaller companies).

367 Companies should ensure consistency with similar diversity disclosures made within the Directors' Report and with any Non-Financial Reporting Statement (see the Directors' Report and Strategic Report sections of this checklist and in particular endnote 61 concerning gender diversity).

The ABI Report on Board Effectiveness set out a number of recommendations in relation to boardroom diversity. The Report states that companies should disclose the steps they are taking to promote a diversity of perspective in the boardroom, and that disclosures should be clear and company-specific. The Report also states that companies should seek to provide more forward-looking and candid disclosures on the steps they are taking to ensure they have the right balance of skills and experience in their boardrooms and that companies should ensure that they are providing meaningful disclosures about the board appointment process, the barriers they face in appointing women to their boards, and how they seek to address this issue. The Report recommends that companies should develop and disclose the initiatives they have in place to develop women in their organisation and the impact they are having (see pages 6 to 7). A further paper on this topic, "Board Effectiveness – continuing the journey" was published by EY and the Investment Association in April 2015, see also endnote 384.

The PLSA Guidelines also state that shareholders will expect companies to explain what steps they are taking to bring diversity to their boardroom, including gender diversity. The PLSA Guidelines state that this section should include a description of the board's policy on diversity – including professional, international and gender diversity - any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives. The PLSA Guidelines state that, if the diversity statement is not considered satisfactory, shareholders could consider voting against the report and accounts, and if there is no evidence of a policy on diversity or the successful implementation of measurable targets, or if insufficient progress has been made towards achieving a satisfactory level of diversity on the board, a vote against the re-election of the chair may be warranted or, where different, against the chair of the nomination committee. (PLSA Guidelines, Appendix 1, paras 4.11–4.12 and 5.11-5.12).

See also rows A.21, A.24, A.25 and A.26, regarding diversity disclosures.

368 The FRC and University of Exeter Business School report on Board Diversity Reporting (September 2018) found that just 30 of the FTSE 350 fully addressed all four elements of provision B.2.4 of CGC 2016 (i.e. is there a clear policy on diversity?; does it specifically mention gender diversity?; does the company set measurable objectives for gender board diversity?; and do they report progress against those measurable objectives?). In the FTSE 100, 35 scored three or four out of four (34 in the FTSE 250); 49 scored two out of four (157 in the FTSE 250) and 16 scored zero out of four (59 in the FTSE 250) (page 16). The report also assessed diversity reporting using other criteria and includes examples of reporting that "lead the way in terms of quality". 20-30% of the FTSE 100 and 10% of the FTSE 250 were estimated to be 'best in class' (page 2).

369 The definition of 'senior management' for this purpose should be the executive committee or the first layer of management below board level, including the company secretary. The FRC has set out some information on how the definition of senior manager fits with the CA 06 definition of senior manager (see the FRC's webpage which sets out FAQs on the 2018 UK Corporate Governance Code (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/2018-uk-corporate-governance-code-faqs)

370 Where there has been a disagreement between the nomination committee and the board that cannot be resolved, the Guidance on Board Effectiveness suggests that the nomination committee should have the right to report the issue to shareholders as part of the report on its activities in the annual report (paragraph 62).

Note that the FRC has clarified that the purpose of the Guidance is to encourage thinking on how boards carry out their role; it is not mandatory nor prescriptive but contains suggestions of good practice to support directors and their advisers in applying the Code (Guidance on Board Effectiveness, paragraph 3).

371 The ABI Report on Board Effectiveness recommends that companies should provide meaningful disclosures on their succession plans. The Report states that in providing meaningful disclosure on succession planning, companies should include a description of the skills and experience that the board is seeking for upcoming appointments, open discussion on the challenges faced with regard to CEO succession and disclosure on how the nomination committee ensures that they have oversight of the succession planning process below board level. The Report recommends that below board level, companies should report on the initiatives they have to develop the next cadre of senior management, irrespective of whether changes are expected in the short or long-term (see page 7).

The PLSA recognises the confidential nature of succession planning issues. However, it states that companies should disclose as much information as feasible about succession plans which: (i) looks out over multiple years; (ii) covers any identified skills shortages; and (iii) pays particular attention to the chair and CEO (PLSA Guidelines, Appendix 1, para 5.14).

Glass Lewis strongly supports periodic refreshment to foster the sharing of diverse perspectives and to bring in new ideas and strategies but it does not support term limits as it can restrict experienced and potentially valuable board members from service through an arbitrary means. Rather the board should evaluate the need for change to board composition based on an analysis of skills and experience necessary for the company, as well as the results of director evaluations (page 8).

The FRC and University of Exeter Business School report on Board Diversity Reporting (September 2018) reports on company reporting of initiatives to increase diversity at senior management levels (pages 23-25) and also whether nomination committees report that they are building diversity into their succession planning (pages 18-19). The FRC expects more focus on the pipeline by nomination committees under the CGC 2018 (FRC Corporate Reporting Review 2018, page 28) (see Provisions 17 and 23 CGC 2018).

372 Provision 20 of the CGC 2018 recommends that open advertising and/or external search consultancies should generally be used for the appointment of the chair and non-executive director but the Code no longer requires an explanation in the annual report if neither has been used (see B.2.4 CGC 2016 for information on the requirement under the CGC 2016).

373 As to the general overall structure of the annual report, the Guidance on the Strategic Report provides a table setting out the main components of the annual report, which is intended to help companies make judgements as to where information would be best located (Table 1, page 12 of the Guidance on the Strategic Report). The table is not intended to dictate or be restrictive as to the structure and contents, nor should it "stifle innovation or experimentation", according to the FRC, but it may be a useful tool for preparers when compiling their annual report.

374 The versions of the NAPF (now PLSA) Guidelines preceding the 2014/15 version stated that shareholders will expect disclosure of how the company has chosen to comply with CGC C.1.1 (now Provision 27 of the CGC 2018) and the relevant FRC Guidance (former NAPF Guidelines, Appendix 1, Section C, para C.1.1).

375 LR 9.8.6(3) refers to "the directors" and Provision 30 of the CGC 2018 refers to "the board".

376 The FRC has stated that investors look for greater transparency in corporate reports in times of uncertainty and that it expects companies to consider carefully the level of detail provided in those areas of their reports which are exposed to heightened levels of risk, for example, going concern consideration (FRC's 2019 Reporting Summary, page 2).

The PLSA Guidelines state that shareholders expect the accounts to present a "true and fair view" of the state of affairs of the business, its assets, liabilities, financial position and profit and loss meaning that profits (or losses), assets and liabilities should be prudently assessed to avoid overstating capital (PLSA Guidelines, Section 4: Audit, Risk and Internal Control (Guidance)).

On 17 September 2014, the FRC published the FRC Guidance on Risk Management and Business Reporting, which replaces existing Guidance on Internal Control (October 2005) and Guidance on Going Concern and Liquidity Risk (October 2009). This guidance applies to companies for accounting periods beginning on or after 1 October 2014.

377 In November 2019, the FCA closed its consultation on proposed changes to the LR, which, if implemented, would replace references in LR 9.8.6(3) from CGC 2016 C.1.3 and C.2.2 to CGC 2018 30 and 31 respectively. The proposed amendments also insert transitional provisions stating that reporting under CGC 2018 should start from January 2020, with CGC 2016 applying only to accounting periods beginning before 1 January 2019.

378 FRC provides guidance on this requirement in FRC Guidance on Risk Management and Business Reporting. Supplementary guidance was also produced for directors of banks.

The PLSA Guidelines state that directors should articulate whether they have a reasonable expectation that the company will remain viable and sustainable for the foreseeable future, and certainly over a period matching the planning and investment horizon. Directors should state whether they expect the company to meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. They should consider all the risks which might affect the ongoing viability of the company over this period (including matters such as licence to operate) (PLSA Guidelines, Appendix 1, para 4.5).

379 The CGC 2018 provides useful guidance on this reporting obligation at page 2. See also the FRC's webpage which sets out FAQs on the CGC 2018 (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/2018-uk-corporate-governance-code-faqs), which contains a Q&A related to reporting on the principles.

380 If the company does not comply with any of the provisions of the Corporate Governance Code, the annual report must include a statement setting out which provision(s) have not been complied with, for what period and the reasons for non-compliance (LR 9.8.6(6)). The Corporate Governance Code sets out guidance on the level of explanation required where there is a departure from the provisions of the Code (see page 2 of the CGC 2018).

For guidance on the level of explanation required where there has been a departure from the provisions set out in the Corporate Governance Code, see the Commission Recommendation on the quality of corporate governance reporting, which aims to improve the quality of corporate governance statements by companies, and specifically of the explanations provided by companies in the case of departure from the recommendations of the relevant corporate governance code. Also see the ABI Guidance on Comply or Explain. This guidance sets out the following six criteria that explanations should meet: (i) explain the company-specific context and historical background to the departure from the Code; (ii) give convincing and understandable rationale; (iii) explain what mitigating action has been taken to address any additional risk arising from the departure from the Code; (iv) set a defined time period for the departure from the Code (unless previous explanations justify ongoing departure, in which case, this should be reviewed periodically); (v) specify deviations from Code provisions as well as main principles; and (vi) explain how the alternative is consistent with the Code principles and contributes to the objective of good governance.

The FRC Corporate Reporting Review 2018 notes that companies remain reluctant to explain non-compliance with Code provisions with companies not providing sufficient detail to allow shareholders to understand the decision to depart from the Code (page 33). Explanations must be thoughtful and provide a clear rationale for the action the company is taking. The FRC also noted that, although compliance with the Corporate Governance Code was good, there was an "excessive focus on formulaic compliance" meaning that shareholders are unable to evaluate how companies have complied with the Code, as required by the Listing Rules (page 3). The CGC 2018 provides useful guidance on this reporting obligation at page 2.

Note that the FRC has clarified that it is not necessary to comply or explain against the Guidance on Board Effectiveness (see the FRC's webpage which sets out FAQs on the 2018 UK Corporate Governance Code (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/2018-uk-corporate-governance-code-faqs,). The FAQs also contain advice on what 'comply or explain' means in practice.

381 A listed company does not need to include details of waivers of dividends of less than 1% of the total value of any dividend provided some payment has been made on each share of the relevant class during the relevant calendar year (LR 9.8.5).

382 These requirements were introduced pursuant to FCA Policy Statement 14/8 for listed companies that have a controlling shareholder. If an independent director declines to support a statement described at (a) to (c), the statement must record that fact (LR 9.8.4AR).

383 In addition to the information specified here, in 2019 PLSA also stated that shareholders need to have a clear sense of other demands on directors' time and any significant developments since their appointment that could impact their ability to commit time to the company and that details of other current appointments, including changes over the year, should be set out in the annual report (PLSA Guidelines, Section 2: Division of Responsibilities (Guidance)). The responsibilities of the nomination committee were also updated to include that the committee should ensure that "each member is able to devote the necessary time to carry out their responsibilities" (PLSA Guidelines, Overview, The PLSA's Corporate Governance Principles).

The PIRC Guidelines recommend the disclosure of sufficient biographical details for each director so that shareholders are able to make an informed judgement on their independence and competence (PIRC Guidelines (Chapter 2 – The Board)). PIRC requires that changes to biographical details should be disclosed as soon as practicable (PIRC Guidelines (Chapter 2 – The Board)).

ISS suggests that biographical details should include a statement of a director's other directorships and responsibilities, including any relevant previous positions held, the experience and skills that they bring and the contribution that the director can make to the board (page 9). For a director who is standing for the first time, ISS warns that no biographical details about them is likely to result in a negative vote recommendation. A negative vote recommendation may also be considered in the absence of a supporting statement from the board where a director is standing for re-election (ISS Proxy Voting Guidelines, page 9).

Glass Lewis suggests that companies should disclose sufficient information to allow a meaningful assessment of a board's skills and competencies and will recommend voting against the chair of the nomination committee if a board has failed to address major issues of board composition, including the composition, mix of skills and experience of the non-executive element of the board (Glass Lewis Proxy Guidelines, pages 2 and 15). For FTSE 350 companies the disclosure should include a robust, meaningful assessment of the board's profile in terms of diversity and skills in order to align with developing best practice standards as for FTSE 350 companies, Glass Lewis' analysis for 2020 includes an explicit assessment of skills disclosure, excluding externally managed investment trusts (pages 2 and 15).

The PLSA Guidelines also set out that, for complex companies, it may be appropriate to vote against the (re)election of a non-executive director who holds more than four directorships and that, where a director chairs a number of key committees, a stricter view may be adopted, especially where an individual is a director of two or more companies in heavily regulated industries (PLSA Guidelines, Appendix 1, Para 6.19-6.20, see also endnote 384 and para 5.16 in relation to chairs).

PIRC considers that a chair of a listed company should not also be a chair of another listed company. For non-executive directors, PIRC considers four other significant positions to be the maximum acceptable, in the absence of further information on how these other commitments will be managed. Other commitments will also be judged in view of the director's board and committee attendance during the year. Where more than a third of a company board is considered to have excessive time commitment issues, PIRC will consider withdrawing support for the chairman of the nomination committee. In the 2019 edition of its guidelines PIRC adds that where it has concerns over a director's aggregate time commitments, it will not support re-election unless the director maintains 100% attendance at board and committee meetings during the year and it may not support re-election where a director's overall attendance record is below 90% (PIRC Guidelines (Chapter 2 – The Board)).

384 The PLSA Guidelines encourage companies to set out within the annual report the ways in which the board has sought to ensure its effectiveness. Companies should also set out within the report and accounts the contributions in the year of the individual directors and provide a rationale for their (re)election to the board, presenting a full picture of the relevant skills, contribution and experience the director is bringing to the board. A chair's time commitment may be questioned where they are a director of more than four companies and/or a chair of two or more global and highly complex companies. PLSA states that shareholders may wish to consider voting against the re-election of an over-committed Chair, or submitting a shareholder resolution (PLSA Guidelines, Section 2: Division of Responsibilities (Guidance) and Appendix 1 para 5.16). EY and the IA published a report in April 2015 discussing various practical aspects of board effectiveness, which may be of interest: "Board effectiveness – continuing the journey" (April 2015).

385 PLSA warns that boilerplate disclosure should be avoided (PLSA Guidelines, Appendix 1, para 4.1).

386 The Code no longer refers to the deputy chair, but it would be prudent to include this information, where there is one, in light of the requirement in the DTRs to include information on the composition of the company's administrative, management and supervisory bodies and their committees.

387 The CGC 2018 requires the responsibilities of the chair, chief executive, senior independent director, board and committees to be clear, set out in writing, agreed by the board and publicly available (Provision 14).

388 The annual report should also set out the number of meetings of any board committees that are not included in this checklist, such as a risk committee, as well as individual attendance by directors at those committee meetings (Provision 14 CGC 2018).

389 The PIRC Guidelines consider attendance of board and committee members to be a minimum disclosure noting that it is normal for committees to invite executives and paid advisers to committee meetings (Chapter 2 – The Board). The PIRC Guidelines also state that PIRC will oppose any director who misses any meeting without adequate or reasonable justification provided (for example, funeral attendance, hospital appointments, health-related issues or other serious unforeseen circumstances out of the director's control), given the increasing demands on a directors' time and an obvious sign of over-boarding or inability to meet commitments being to miss meetings without justification (PIRC Guidelines (Chapter 2 – The Board)). In the 2019 edition of its guidelines PIRC also states that where it has concerns over a director's aggregate time commitments, it will not support re-election unless the director maintains 100% attendance at board and committee meetings during the year and it may not support re-election where a director's overall attendance record is below 90% (PIRC Guidelines (Chapter 2 – The Board)). The ISS Proxy Voting Guidelines state that ISS may recommend voting against a resolution to reappoint directors who have an attendance rate at board and committee meetings which is lower than 75% (page 10). Glass Lewis recommends voting against directors who fail to attend at least 75% of board meetings and/or key committee meetings and do not provide an acceptable explanation for such poor attendance (except for first-year directors) (Glass Lewis Proxy Guidelines, page 8).

390 As the length of tenure increases, the PLSA Guidelines state that the directors will be subject to increasing scrutiny as to their effectiveness and independence and the company ought to explain why a long-serving non-executive director remains independent and why board refreshment is not advantageous (PLSA Guidelines, Appendix 1, para 6.10). Where the chairman is not independent on appointment, the PLSA states that the company should consult its investors and provide a detailed explanation as to why it considers the appointment desirable (PLSA Guidelines, Appendix 1, para 5.7).

In addition to the independence criteria in CGC 2018, Provision 10, the PIRC Guidelines set out a number of additional factors to be taken into account when determining whether a director is independent, including circumstances where they would not normally assess a director to be independent. ISS also provides its own criteria at page 11 of the ISS Proxy Voting Guidelines (see also page 29 for smaller companies).

The Glass Lewis Proxy Guidelines classify directors in four categories based on the types of relationship they have with the company: (i) independent director; (ii) non-executive chair; (iii) affiliated director; and (iv) inside director. See pages 5 to 6 of the Glass Lewis Proxy Guidelines for further information on these four categories.

391 CGC 2018, Provision 10, contains the following (non-exhaustive) criteria for identifying circumstances which are likely to impair, or could appear to impair, a non-executive director's independence:

- they are or were employees of the company or group within the last five years;
- they have or had within the last three years, a material business relationship with the company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- they have received or receive additional remuneration from the company (apart from a director's fee), participate in the company's share option or a performance-related pay scheme or are a member of the company's pension scheme;
- they have close family ties with any of the company's advisers, directors or senior employees;
- they hold cross-directorships or have significant links with other directors through involvement in other companies or bodies;
- they represent a significant shareholder; or

- they have served on the board for more than nine years from the date of their first appointment.

Provision 10 emphasises that these independence criteria are not exhaustive and states that a clear explanation should be provided when any of the stated criteria "or other relevant circumstances" apply and the board nonetheless considers the director to be independent (Provision 10). Although the criteria are substantially the same as in the CGC 2016 B.1.1, the criterion relating to tenure refers to nine years from the date of first appointment rather than nine years from the date of first election to the board. Paragraph 103 of the Guidance on Board Effectiveness states that boards will need to justify why they consider a non-executive director independent beyond nine years and the FRC has stated that this provision acts as a recommended tenure period for non-executive directors (see the FRC's webpage which sets out FAQs on the 2018 UK Corporate Governance Code (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/2018-uk-corporate-governance-code-faqs).

Under the CGC 2018, the chair is only required to be independent on appointment, but they must "demonstrate objective judgement throughout their tenure" and the tenure of the chair should not extend beyond nine years from the date of their first appointment to the board, subject to the ability to extend for a "limited time" in certain circumstances (to facilitate effective succession planning and the development of a diverse board, particularly where the chair was an existing non-executive director on appointment), (Principle F, Provisions 9 and 19). If it does extend beyond nine years, a clear explanation should be given. Further guidance on the nine-year period is given on the FRC's webpage which sets out FAQs on the 2018 UK Corporate Governance Code (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/2018-uk-corporate-governance-code-faqs. The Guidance on Board Effectiveness states "There may be reasons for justifying a limited extension to the term of the chair beyond nine years if prior to being appointed chair, they have been a board member for a significant amount of time, and the appointment supports the company's succession plan and diversity policy. (paragraph 105).

For meetings held on or after 1 February 2020 and noting this new provision, ISS has stated that it will "consider the re-election of the chair on a case-by-case basis, taking into account such factors as succession planning, diversity, and board independence, in addition to tenure" clarifying that tenure will not be considered in isolation but as one of several key indicators (ISS Proxy Voting Guidelines Updates, page 5).

392 The PLSA Guidelines do not expressly require disclosure in the annual report but do state, "The onus is on the company to provide a detailed and considered explanation as to why it considers a director to remain independent despite the existence of one (or more) of the seven factors which the Code suggests may impair independence." (Appendix 1, para 6.8). The guidelines also set out other guidance in relation to director independence (paras 6.8 to 6.17). In addition, in 2019, PLSA also added that shareholders need to ensure that they have a clear understanding of any "existing (or pre-existing) relationship between the independent non-executives and the company that could compromise directors' ability to hold management to account" (PLSA Guidelines, Section 2: Division of Responsibilities (Guidance)).

393 The PIRC Guidelines require a disclosure in the report and accounts of "all connections and relationships past and present between directors and controlling shareowners" and a disclosure of the terms of the formal relationship agreement with the controlling shareholder (Chapter 5 – Corporate Structure and Transactions).

394 CGC 2018, Provision 9 provides that a chief executive should not become chair of the same company. If, exceptionally, this is proposed by the board the major shareholders should be consulted ahead of the appointment and the shareholders should be advised of the reasons at the time of appointment. These reasons should also be published on the company's website.

PIRC will not, generally, support a chief executive becoming a chair at the same company, unless it is treated as an exception and the company explains the safeguards it is putting in place to manage the risks arising from the appointment. The subsequent re-election of such a chair will not be supported. PIRC applies the same approach to the appointment of finance directors as chair (PIRC Guidelines, (Chapter 2 – The Board)).

A combined role of CEO and chairman is generally considered to be a breach of good practice. However, a temporary combination of the role may be justified to "bridge the gap". In these circumstances, a convincing explanation would be required, or else the company risks a vote against the chairman by the shareholders (PLSA Guidelines, Appendix 1, para 5.2 and ISS Proxy Voting Guidelines, pages 12-13). PIRC believes that the combination of the roles of chair and chief executive of a listed company can only be justified on a temporary basis under exceptional circumstances. Where a chair is described as an executive, PIRC expects evidence to rebut the presumption that the roles of chair and chief executive have been combined, and the board should explain how their structure and division of responsibilities operate to avoid excessive concentration of power. PIRC considers that the chair should act with a proper degree of independence from the company's management team and that holding an executive position is incompatible with this role (PIRC Guidelines (Chapter 2 – The Board)).

If a company puts forward a chair who does not meet the independence criteria, PIRC will seek a reasoned explanation addressing the potential risk to the board structure, at the time of appointment and in the next annual report. PIRC considers that describing an incumbent chair as independent is misleading given his central role in relation to strategy and decision making. However, given the importance of the role, PIRC will recommend opposition for the re-election of a chair with ongoing significant independence issues. PIRC will also recommend opposition for re-election of a chair with a tenure of over nine years, regardless of whether they are considered independent on appointment (albeit considered on a case-by-case basis taking into account justifications provided by the company) (PIRC Guidelines, Chapter 2 – The Board).

Glass Lewis believes the roles of chief executive and chair should be separated, and if the board has an executive chair but no senior independent director it will recommend voting against the nomination committee chair. However, if the board has an executive chair and also a senior independent director, they will not recommend that shareholders vote against the remuneration committee chair solely for this reason. It may also recommend voting against the nomination committee chair or senior independent director if a former executive takes the role of chair or an executive chair is appointed if the board does not provide adequate justification for the appointment (pages 8 and 13).

ISS recommends against the appointment of a former CEO as chair and against the combination of the roles (ISS Proxy Voting Guidelines, pages 12-13 and page 29 for smaller companies), requiring that the company should provide a strong justification as to why either of these non-standard governance arrangements are appropriate for the company's specific situation and for a limited period of time.

The FRC Corporate Reporting Review 2018 included an analysis of explanations under Provision A.3.1 noting that nearly half provided boilerplate reporting and setting out the features of better practice explanations (page 34).

395 The Code no longer requires disclosure in the annual report, but instead requires it on the company's website (see CGC 2018 9 and CGC 2016 A.3.1).

396 The PLSA Guidelines do not expressly require disclosure in the annual report but do require a "meaningful explanation". In addition, in the 2019 edition of its guidelines PLSA also states that circumstances should be "exceptional" and it expects "significant engagement with shareholders, setting out the reasons for doing so and with clear timeframes indicated, in good time" in these circumstances (PLSA Guidelines, Section 2: Division of Responsibilities).

397 The Code no longer requires disclosure of the other significant commitments of the chairman and any changes to them during the year (with an explanation of the impact of any such changes) (see CGC 2016 B.3.1) but instead has a more general disclosure requirement relating to significant external appointment of all directors (CGC 2018 15). It also requires the prior approval of the board for any additional external appointments (CGC 2018 15). See endnote 383 on when PLSA, PIRC ISS and Glass Lewis considers a director to be 'over-boarded'.

398 The Guidance on Board Effectiveness encourages the chair to give a summary of the outcomes and actions of the board evaluation process in their statement in the annual report (paragraph 110).

Note that the FRC has clarified that the purpose of the Guidance is to encourage thinking on how boards carry out their role; it is not mandatory nor prescriptive but contains suggestions of good practice to support directors and their advisers in applying the Code (Guidance on Board Effectiveness, para 3).

399 The ABI Report on Board Effectiveness recommends that external board evaluations should be carried out by an independent party not subject to a conflict of interest. This should preclude those who provide other services to the company such as search agents who assist in the recruitment of directors, auditors and remuneration consultants. However, the Report goes on to recommend that companies who choose to appoint an evaluator with a past business relationship should explain in their annual report the previous relationship and how any potential conflict of interest has been managed (page 8).

The FRC Corporate Reporting Review 2018 includes a review of explanations under Provision B.6.2 CGC 2016, where no external board evaluation was conducted, including an analysis of the better explanations (page 34). It also notes that the Corporate Governance Code 2018 aims to promote higher quality board evaluations (see Provisions 21 to 23 CGC 2018). The FRC also analyses the descriptions of the board evaluations that were carried out (FRC Corporate Reporting Review 2018, page 37). Among other things, the FRC would like to see more information about the nature of board evaluations, the subsequent findings and any follow-up action (pages 3 and 37).

During June and July 2019, ICSA carried out a consultation, at the request of BEIS, aimed at assessing the quality of independent board evaluation in the UK listed sector and ways in which it might be improved. In particular, ICSA sought views on whether there is a need for a voluntary code of practice for the providers of board evaluation services and whether there ought to be voluntary principles to be applied by listed companies when engaging external reviewers and guidance on disclosure of the conduct and outcomes of board evaluations, in accordance with CGC 2018. ICSA is expected to submit a report of its findings to BEIS, who will then consider whether and how to act on its recommendations. This had not happened at the time of publication of this checklist.

400 Provision 18 of the CGC 2018 provides for the annual re-election of all directors (rather than just directors of FTSE 350 companies, as was the case under CGC 2016 B.7.1). The PLSA Guidelines state that annual elections of directors are important in providing accountability to shareholders. The PLSA Guidelines state that, where a company does not undertake annual re-elections, a thorough explanation of the rationale behind the decision should be provided (Appendix 1, paras 6.2 and 6.7). PLSA suggests that, over time, a failure to move to annual elections may lead to a vote against the re-election of the chair and/or the chair of the nomination committee, especially where an acceptable explanation is not provided. PIRC does not support the limited application of this provision to FTSE 350 companies and looks to all listed companies to hold full elections on an annual basis (PIRC Guidelines (Chapter 2 – The Board)).

401 Principal risks should include, but are not necessarily limited to, those that might threaten the company's business model, future performance, solvency or liquidity and reputation (footnote 9, CGC 2018).

402 The PLSA Guidelines state that shareholders expect to see appropriate prominence given to risk management. In particular, a focus on risk in the context of business strategy, its size and global footprint, its assets, liabilities and the wider political and regulatory environment. They further state that the report should cover key elements of the business, by size and by risk exposure and how it generates value from its key tangible and intangible assets. They also state that companies should set out the board's view of the key strategic and operational risks, including environmental, social, governance and reputational risks facing the business and how it seeks to manage those risks. Where a risk materialised within the year, the report should set out how the company has responded and what efforts have been taken to mitigate the risk going forward (PLSA Guidelines, Section 4: Audit, Risk and Internal Control (Guidance) and Appendix 1, paras 4.4-4.8). See also endnotes 70, 71 and 72for more information on reporting on risk.

403 In addition, DTR. 7.2.5R requires companies to describe the main features of the internal control and risk management systems in relation to the financial reporting process.

404 PIRC considers opposition levels of 10% and above as 'significant' (PIRC Guidelines (Chapter 4 – Shareowner Rights, Capital Stewardship and Corporate Actions)).

405 See endnote 407.

406 The Code no longer requires disclosure of the steps the board has taken to ensure the members of the board (in particular, the non-executive directors) have gained an understanding of the views of major shareholders (CGC 2016 E.1.2), although the CGC 2018 does require engagement with major shareholders in order to understand their views (see Principle D and Provision 3 of the CGC 2018 and para 35 of the Guidance on Board Effectiveness).

407 Where 20% or more of votes have been cast against the board recommendation for a resolution, the procedures in Provision 4 CGC 2018 should be followed in relation to those resolutions. The FRC has clarified that this means a board resolution proposed by the board or by shareholders, provided that the board recommends that shareholders vote in favour of the resolution (see the FRC's webpage which sets out FAQs on the CGC 2018 (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/2018-uk-corporate-governance-code-faqs).

The FRC's Feedback Statement: Consulting on a revised UK Corporate Governance Code (July 2018) notes that Provision 4 will be appropriate to "report on" during 2019 (paragraph 1.11). This is interpreted to mean that Provision 4 applies to meetings held on or after 1 January 2019. Therefore, where 20% or more of votes have been cast against a board recommended resolution on or after 1 January 2019, the procedures in Provision 4 should be followed in relation to those resolutions including providing a final summary in the 2020 annual report.

Provision 4 states: "When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed."

This differs from the requirement in E.2.2 of the CGC 2016 as it specifies a threshold of 20% (as opposed to just stating "significant proportion of votes"), it requires an update six months later and a final summary in the annual report and, if applicable, explanatory notes to resolutions at the next shareholder meeting. The IA has published advice on update statements, which is available from the IA Public Register webpage.

Details of significant votes against resolutions and company updates are available on the IA Public Register webpage. According to data from Practical Law's What's Market, of the 48 FTSE 350 companies that received a vote of 20% or more against one or more resolutions at their 2018 AGM, 83% made a corresponding disclosure in their annual report for the 2019 reporting season. According to data from Practical Law's What's Market, as at 25 October 2019, of the 272 FTSE 250 companies reviewed, 44 companies received a vote of 20% or more against one or more resolutions at their 2019 AGM.

408 PIRC does not consider a statement committing group companies to aim only at compliance with local legal and regulatory standards to be sufficient. It recommends the following disclosures, among others: (i) corporate strategy as it relates to environmental issues; (ii) quantitative environmental data (e.g. energy consumption, direct and indirect greenhouse gas emissions, waste, water consumption); (iii) additional indicators relevant to the business or sector; (iv) any contentious issues that have arisen in the year under review or certain longer running matters; (v) use of environmental audits, external standards and independent verification of environmental data; and (vi) evidence of formal procedures in place for monitoring performance (PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting)). The PLSA Guidelines state that companies in sectors affected by climate change and efforts to mitigate it should undertake rigorous examinations of whether their business model is compatible with commitments to mitigate global temperature increases and how they plan to address the issue of climate change. The PLSA Guidelines advise shareholders to vote against re-election of the chair or other key directors where companies fail to provide a detailed risk assessment and response to the effect of climate change or incorporate appropriate expertise on the board (PLSA Guidelines, Appendix 1, para 3.4)

409 This is also repeated in the LSE's Guidelines on ESG Disclosures (page 46), which request that issuers, "explain the relevance of ESG factors to their business model and strategy. These factors should not be 'bolt-on' but an integrated component of business drivers and considerations".

LSE's Guidelines on ESG Disclosures note that many issuers choose to make ESG disclosures in a separate sustainability report, rather than within the annual report (see page 30). LSE's summary of its further recommendations concerning ESG disclosures includes that issuers should:

- explain how ESG issues may affect their business, e.g. through legislation, reputational damage, employee turnover, licence to operate, legal action or stakeholder relationships, and how these impacts may affect business strategy and financial and operational performance;
- explain how they intend to access the new opportunities and revenue streams generated by green and socially beneficial products and services. In this context they should explain how their investments in innovation and R&D will drive future growth for the business;
- as the most important part of the above, identify the parts of the business that manufacture or provide goods, products and services delivering environmental solutions and supporting the transition to a green economy; and break down and quantify the associated revenues; and
- provide data that is accurate, timely, aligned with their fiscal year and business ownership model, and based on consistent global standards to facilitate comparability.

On 18 October 2018, the Principles for Responsible Investment and International Corporate Governance Network issued a discussion paper on the investor agenda for corporate ESG reporting. The paper aims to provide a more unified view of investor perspectives on corporate ESG reporting. It contains a number of recommendations, including:

- a company should communicate its mission statement with full consideration given to its ESG performance, which may include articulating the role that the company wants to play in society;
- boards may find it beneficial to issue a statement clarifying how they determine the importance and materiality of different stakeholders/ESG factors and the time period considered when making these assessments; and

- disclosures should be consistent over time and provided in the appropriate context (e.g. via comparisons to historical company and industry trends). Disclosures that are standardised and based on a common set of performance metrics would enable comparisons to be made by industry, across time etc.

410 The ABI, in its Guidelines on Responsible Investment Disclosure, recommends that statements relating to significant risks should be made in the annual report as part of the Business Review or voluntary Operating and Financial Review, and not separately as part of the summary accounts or on a website dedicated to social responsibility.

411 Guidance on making these disclosures is provided in the FRC Lab Report on Climate-related Reporting with general tips for approaching climate change considerations and disclosures set out on page 6 and more detailed practical guidance (including recommended disclosures, examples of reporting and questions board should ask themselves when considering reporting against the TCFD Recommendations) in the rest of the document including guidance on bringing disclosures together on page 25 (see also the FRC's 2019 Reporting Summary at page 2 and the FRC Corporate Reporting Review 2019 at page 22). The FRC recommends reporting against the TCFD Recommendations and therefore this document is structured around the TCFD Recommendations and so will be discussed in this section of the checklist but the disclosures overlap with disclosures set out elsewhere in this checklist including disclosures required to be made in the strategic report under the CA 06 and disclosures required by the CGC 2018 (see page 8 and Appendix D for more information on the current reporting requirements and also information on other market initiatives and reporting requirements and page 7 for an overview of current reporting practice). This document also refers to other FRC Lab Reports that equally apply to climate-change reporting including the FRC Lab Report on Business Model, Risk and Viability Reporting 2018, the FRC Lab Report on Performance Metrics November 2018, the FRC Lab Report on Business Model Reporting 2016 and the FRC Lab Report on Risk and Viability Reporting 2017. These are discussed in more detail elsewhere in this checklist.

The FRC has made it clear that it expects companies to disclose risks that extend beyond the period covered by the viability statement (FRC's 2019 Reporting Summary, page 2). This is reiterated in the press release accompanying the FRC Corporate Reporting Review 2019 which states that the FRC expects companies to think beyond the period covered by their viability statement and identify key risks that challenge their business models in the medium to longer term with a particular focus on environmental issues (FRC press release dated 30 October 2019 entitled 'FRC sets out expectations for corporate reporting to improve trust in business').

412 See the CDSB Guidance on TCFD Recommendations for further colour on disclosures, along with annotated example disclosures.

413 The TCFD Implementation Guidance (page 14) recommends that when making disclosures about the board's oversight of climate-related risks and opportunities, organisations should consider disclosing: (1) the processes and frequency by which the board/board committees are informed about climate-related issues; (2) whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organization's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures; and (3) how the board monitors and oversees progress against goals and targets for addressing climate-related issues.

414 The TCFD Implementation Guidance (page 14) suggests that organisations should consider disclosing: (1) whether the organization has assigned climate-related responsibilities to management-level positions or committees and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues; (2) a description of the associated organizational structure(s); (3) processes by which management is informed about climate-related issues, and; (4) how management (through specific positions and/or management committees) monitors climate-related issues.

415 See endnotes 408 and 443 in relation to the requirements set out in the PIRC Guidelines.

416 The FRC state that investors would like a better understanding of "how boards consider and assess climate-related issues" (FRC Lab Report on Climate-related Reporting, page 11). See pages 11 and 12 of the FRC Lab Report on Climate-related Reporting for more information, including references to examples of what information investors are looking for in this area and questions that companies should ask themselves to help better provide this information. Page 1 of the FRC Lab Report on Climate-related Reporting: Questions also sets out these questions.

417 The TCFD Implementation Guidance (page 15) recommends that organisations should provide: (1) a description of what they consider to be the relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of the organization's assets or infrastructure

and the fact that climate-related issues often manifest themselves over the medium and longer terms; (2) a description of the specific climate-related issues potentially arising in each time horizon (short, medium, and long term) that could have a material financial impact on the organization; (3) a description of the process(es) used to determine which risks and opportunities could have a material financial impact on the organization; and (4) where appropriate, a description of their risks and opportunities by sector and/or geography.

418 The TCFD Implementation Guidance (page 15) recommends that organisations should discuss how identified climate-related issues have affected their business, strategy and financial planning. They should also consider including the impact on their businesses and strategy in: products and services; supply chain and/or value chain; adaptation and mitigation activities; investment in research and development; and operations (including types of operations and location of facilities). Organisations should describe how climate-related issues serve as an input to their financial planning process, the time period(s) used, and how these risks and opportunities are prioritized. Disclosures should reflect a holistic picture of the interdependencies among the factors that affect their ability to create value over time. Organisations should also consider including in their disclosures the impact on financial planning in the following areas: operating costs and revenues; capital expenditures and capital allocation; acquisitions or divestments; and access to capital. If climate-related scenarios were used to inform the organisation's strategy and financial planning, such scenarios should be described.

419 The TCFD Implementation Guidance (page 16) recommends that organisations consider discussing: (1) where they believe their strategies may be affected by climate-related risks and opportunities; (2) how their strategies might change to address such potential risks and opportunities; and (3) the climate-related scenarios and associated time horizon(s) considered.

One of the key takeaways in the TCFD Status Report 2018 and the TCFD Status Report 2019 are that few companies describe the resilience of their strategies under different climate-related scenarios, including a 2ºC or lower scenario, which is a key focus of the Task Force (pages iii and 13-14). The CDSB Guidance on TCFD Recommendations recommends testing at least two scenarios.

420 The FRC state that investors would like to better understand "how the business model may be affected by climate-related issues, whether it remains sustainable, and how the company may respond to the challenge posed by climate change, including what changes the company might need to make to strategy" (FRC Lab Report on Climate-related Reporting, page 13). See pages 13 to 17 of the FRC Lab Report on Climate-related Reporting for more information, including references to examples of what information investors are looking for in this area and questions that companies should ask themselves to help better provide this information. Page 2 of the FRC Lab Report on Climate-related Reporting: Questions also sets out these questions. Note that guidance on scenario analysis is included in the risk management section and not the strategy section, where it sits in the TCFD Recommendations.

421 See also the TCFD Implementation Guidance (page 16), which suggests that organisations should describe how they determine the relative significance of climate-related risks in relation to other risks. They should also describe whether they consider existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) as well as other relevant factors considered. Finally, they should also consider disclosing processes for assessing the potential size and scope of identified climate-related risks and definitions of risk terminology used or references to existing risk classification frameworks used.

422 The TCFD Implementation Guidance (page 16) recommends that organisations should describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks. In addition, they should describe their processes for prioritizing climate-related risks, including how materiality determinations are made.

423 The TCFD Implementation Guidance (page 17) suggests that organisations should describe how their processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.

424 The FRC state that investors would like to better understand "the risks and opportunities presented by climate change including the prioritisation, likelihood and impact, what scenarios might affect the company's sustainability and viability, and how the company is responding" (FRC Lab Report on Climate-related Reporting, page 18). See pages 18 - 21 of the FRC Lab Report on Climate-related Reporting for more information, including references to examples of what information investors are looking for in this area and questions that companies should ask themselves to help better provide this information. Page 3 of the FRC Lab Report on Climate-related Reporting: Questions also sets out these questions.

425 The TCFD Implementation Guidance (page 17) recommends that organisations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable. Where climate-related issues are material, they should consider describing whether and how related performance metrics are incorporated into remuneration policies. Where relevant, they should provide their internal carbon prices as well as climate-related opportunity metrics such as revenue from products and services designed for a lower-carbon economy. Metrics should be provided for historical periods to allow for trend analysis. In addition, where not apparent, companies should provide a description of the methodologies used to calculate or estimate climate-related metrics.

426 The TCFD Implementation Guidance (page 17) states that, as appropriate, organisations should calculate GHG emissions in line with the GHG Protocol methodology to allow for aggregation and comparability across organisations and jurisdictions. Where appropriate, organisations should also consider providing related, generally accepted industry-specific GHG efficiency ratios. GHG emissions and associated metrics should be provided for historical periods to allow for trend analysis. Where not apparent, organisations should provide a description of the methodologies used to calculate or estimate the metrics.

427 See endnote 77 regarding the FRC Lab Report on Reporting of Performance Metrics June 2018 and the FRC Lab Report on Performance Metrics November 2018.

The TCFD Implementation Guidance (page 18) states that organisations should describe their key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc., in line with anticipated regulatory requirements or market constraints or other goals. Other goals may include efficiency or financial goals, financial loss tolerances, avoided GHG emissions through the entire product life cycle, or net revenue goals for products and services designed for a lower-carbon economy. In describing their targets, organisations should consider including the following: whether the target is absolute or intensity based; time frames over which the target applies; the base year from which progress is measured; and key performance indicators used to assess progress against targets. Where not apparent, organisations should provide a description of the methodologies used to calculate targets and measures.

428 The FRC state that investors would like to better understand “how climate-related issues, and their impact, are measured, including metrics, data and financially-relevant information” (FRC Lab Report on Climate-related Reporting, page 22). See pages 22 - 24 of the FRC Lab Report on Climate-related Reporting for more information, including references to examples of what information investors are looking for in this area and questions that companies should ask themselves to help better provide this information. Page 4 of the FRC Lab Report on Climate-related Reporting: Questions also sets out these questions.

429 Further detailed guidance on the disclosures required can be found in the TCFD Recommendations and TCFD Implementation Guidance. The TCFD Implementation Guidance contains guidance on how organisations in all sectors can implement the TCFD Recommendations (some of which is detailed in the relevant sections of this checklist) as well as supplemental sector-specific guidance for the financial sector (pages 22-45) and for other sectors that are most at risk from climate change (energy, transport, materials and buildings and agriculture, food and forest products) (pages 46-66).

The Task Force recommends that preparers of climate-related financial disclosures provide such disclosures in their mainstream (i.e. public) annual financial filings. In the TCFD Status Report 2018 (pages iii and 13-14), key takeaways include:

- while many companies disclose some climate-related information, few disclose the financial impact of climate change on the company; and
- disclosures are often made in multiple reports (e.g. financial filings, annual reports and sustainability reports). If disclosures are spread across multiple reports, TCFD recommends cross-referencing or mapping.

The TCFD Status Report 2019 (pages iv, 7 and 9) further reported that:

- there has been increased disclosure of climate-related information by many companies, but more need to consider and disclose the potential impact of climate change on their businesses, strategy and financial information;
- between 2016 and 2018 recommended disclosures in annual reports or financial filings increased by 50%, compared to 30% in sustainability reports;
- the percentage of companies disclosing information in alignment with the TCFD Recommendations tends to increase with company size; and
- companies are generally still in the early stages of using climate-related scenario analysis internally to enhance their strategy formulation processes.

LSE states that it welcomes the TCFD Recommendations, which it sees as an important step in driving improved global consistency in voluntary global reporting standards (LSE Guidelines on ESG Disclosures, page 27). ESMA's Public Statement 2018 also refers companies to the TCFD Recommendations (page 10). See also the PIRC Guidelines, which state that there is "wide acceptance" of the standards set out by the TCFD (Chapter 8 – Sustainability and Corporate Responsibility Reporting) and paragraph 46 of the Guidance on Board Effectiveness.

430 See endnote 96 for information on the FRC's expectations on reporting in relation to climate change.

431 See paragraphs 1.8 and 4.12 of the GC100 Paper on Directors' Conflicts. See also the IA Companies Act Guidance at page 3. PIRC will not support the election of directors with unjustifiable conflicts of interest (Chapter 2 – The Board). Glass Lewis recommends voting against certain types of affiliated or insider directors where they have identifiable conflicts of interest (Glass Lewis Proxy Guidelines, pages 13-14) (see endnote 390 for more information on affiliated and insider directors). Glass Lewis also identifies various examples of conflicts of interest.

432 The IMA expects companies to discuss the effect of share buybacks on EPS, TSR and NAV per share. An average price paid should be disclosed, and the effect on the holdings of major shareholders might also merit a mention in the annual report (paragraph 2.1.4, IMA Share Capital Management Guidelines).

433 The FRC stated that it expects to see high quality disclosure of "complex supplier arrangements" (i.e. fees, contributions, discounts, multiple offers and volume rebates) in annual and interim reports and accounts and that they will be a focus of reviews during 2015 (FRC press release "*FRC urges clarity in the reporting of complex supplier arrangements by retailers and other businesses*", dated 8 December 2014). In the FRC 2018 Reporting Summary, the FRC stated that transparency of complex supplier arrangements and related financing arrangements remains an important issue. Where financing arrangements are in place, the FRC expects the strategic report and disclosure of financial instruments to describe the nature and amount of any material funding arrangement and the impact that it has on the company's liquidity. This is echoed in the FRC Corporate Reporting Review 2018 (page 20).

434 The FRC's 2019 Reporting Summary includes a list of questions that companies should ask themselves in order to benchmark the quality of their disclosures (see pages 4 to 5). See also the FRC's thematic review of IFRS 15 disclosures: IFRS 15 Thematic Review: Review of Disclosures in the First Year of Application (October 2019) which includes key findings on disclosures that could be improved. This follows the November 2018 paper 'IFRS 15 Thematic Review: Review of interim disclosures in the first year of application'. For more information see page 19 of the FRC Corporate Reporting Review 2019. See also page 1 of the FRC's 2018 Reporting Summary and pages 16 to 17 of the FRC Corporate Reporting Review 2018 for information on advice given by the FRC in 2018.

ESMA's Public Statement 2018 also contains detailed guidance on expected disclosures related to IFRS 15 (see pages 2 to 4); in ESMA's Public Statement 2019, it stated that the expectations relating to implementation and application of IFRS 15 set out in ESMA's Public Statement 2018 continue to be valid (see pages 4 and 6-7 of ESMA's Public Statement 2019).

435 The FRC's 2019 Reporting Summary includes a list of questions that companies should ask themselves in order to benchmark the quality of their disclosures (see page 5, which includes different questions for banks and non-banking companies). See also the FRC's thematic review of IFRS 9 disclosures: IFRS 9 Thematic Review: Review of Disclosures in the First Year of Application (October 2019) which includes key findings on disclosures that could be improved and areas where no disclosure was provided at all. This follows the November 2018 paper 'IFRS 9 Thematic Review: Review of interim disclosures in the first year of application'. For more information, see pages 17 to 18 of the FRC Corporate Reporting Review 2019. See also page 2 of the FRC's 2018 Reporting Summary and page 18 of the FRC Corporate Reporting Review 2018 for information on advice given by the FRC in 2018.

ESMA's Public Statement 2018 includes guidance on the application of IFRS 9 and expected disclosures, including specific considerations applicable to credit institutions and insurance undertakings/conglomerates (see pages 4 -7 of ESMA's Public Statement 2018). ESMA's Public Statement 2019 states that its expectations relating to implementation and application set out in ESMA's Public Statement 2018 continue to be valid (see pages 4-6 of ESMA's Public Statement 2019).

436 The FRC's 2019 Reporting Summary notes that IFRS 16 is effective for periods commencing on or after 1 January 2019. It sets out the FRC's expectations in relation to reporting on the adoption of IFRS 16 as follows:

- Clear explanation of the key judgements made in response to the new reporting requirements;
- Effective communication of the impact on profit and loss, addressing any lack of comparability with the prior year;
- Where alternative performance measures are used to help users of the accounts to understand the effect, ensure consistency with ESMA's Guidelines on Alternative Performance Measures including proper labelling, reconciliation and explanation of the measures whilst not giving them more prominence than the IFRS measures;
- Clear identification of practical expedients used on transition (with links to other information disclosed in the annual report) and accounting policy choices; and
- Well explained reconciliation, where necessary, of operating lease commitments under the previous standard and the new lease liability

(FRC's 2019 Reporting Summary, page 5 and the FRC's IFRS 16 Thematic Review: Review of Interim Disclosures in the First Year of Application (November 2019)).

See the FRC's IFRS 16 Thematic Review: Review of Interim Disclosures in the First Year of Application (November 2019), which is based on reporting on adoption of IFRS 16 in June interim accounts, for more information as well as page 20 of the FRC Corporate Reporting Review 2019. See page 2 of the FRC's 2018 Reporting Summary and page 19 of the FRC Corporate Reporting Review 2018 for more information on the FRC's recommendations in 2018.

ESMA also has detailed guidance on the application of IFRS 16; see pages 2-4 of ESMA's Public Statement 2019 for further information. ESMA's Public Statement 2019 notes that some companies have modified or included new APMs as a result of the implementation of IFRS 16 and reminds companies that: (i) companies should provide disclosures that enable investors to understand the extent of, and rationale for, changes to APMs (see paragraphs 41 to 44 of ESMA's Guidelines on Alternative Performance Measures); (ii) APMs should not be displayed with more prominence than, and should be consistent with, measures stemming directly from financial statements; (iii) companies should explain why they believe that an APM provides useful information regarding the financial position, cash flows or financial performance as well as the purposes for why they use a specific APM (see paragraphs 33 and 34 of ESMA's Guidelines on Alternative Performance Measures (page 12).

437 Changes to IFRS 9 and IFRS 15 were effective for financial periods commencing on or after 1 January 2018 and changes to IFRS 16 for financial periods commencing on or after 1 January 2019. IFRS 15 was formally endorsed by the European Union on 29 October 2016 pursuant to Commission Regulation (EU) No 2016/1905. IFRS 9 has been adopted under Commission Regulation (EU) No 2016/2067, effective on 19 December 2016. IFRS 16 has been adopted under Commission Regulation (EU) 2017/1986 of 31 October 2017.

438 The FRC Corporate Reporting Review Briefing 2018 includes further guidance on IFRS 9 and IFRS 15 disclosures, including that companies should "consider the materiality of their impact when deciding the extent of their disclosures, which should be clear, concise, company-specific, and focus on the areas of change". It also states that the FRC expects "directors to disclose significant judgements made in applying the new standards".

The FRC's 2018 Reporting Summary contains the FRC's expectations for year-end disclosures that explain the impact of IFRS 15, IFRS 9 and IFRS 16.

439 PIRC and PLSA also require a statement within the company's RIS results announcement (PLSA Guidelines, Overview (Role of the AGM); PIRC Guidelines (Chapter 4 – Shareowner Rights, Capital Stewardship and Corporate Actions)). Failure to adequately explain the company's reaction to dissent may result in a negative vote recommendation against the relevant resolution (ISS Proxy Voting Guidelines page 5). See also disclosures required in relation to significant dissent to remuneration policies in endnote 288. See also endnote 407 in relation to the similar requirement in Provision 4 of the CGC 2018.

440 ESMA's Guidelines on Alternative Performance Measures apply to any APMs within the narrative sections of an annual report:

- of a company whose securities are admitted to trading on a regulated market; and who is required to publish Regulated Information (as defined in the Transparency Directive); and
- published on or after 3 July 2016.

KPIs (and other APMs) are within the scope of ESMA's Guidelines if they fall within the definition of an APM, i.e. "a financial measure of historical or future financial performance, position or cash flows of an entity which is not a financial measure defined or specified in the financial reporting framework (e.g. EU-adopted IFRS) applied by the entity". They do not apply to APMs disclosed in Financial Statements (as defined in ESMA's Guidelines on Alternative Performance Measures). For further information on the meaning of APM see paragraphs 17 to 19 of ESMA's Guidelines on Alternative Performance Measures, page 1 of the FRC FAQ on ESMA's Guidelines on APMs and the ESMA Questions and Answers: ESMA Guidelines on Alternative Performance Measures (APMs) (latest version available from the Q&A section of the ESMA website).

See endnote 77 in relation to guidance in the FRC Lab Report on Disclosures on the Sources and Uses of Cash on performance metrics related to cash.

Companies within scope must make "every effort" to comply with the guidelines. The FRC's Corporate Reporting Review team (CRR) will consider whether companies' strategic reports are consistent with the ESMA Guidelines. CRR will take material inconsistencies with the Guidelines into account when deciding whether the strategic report is fair, balanced and comprehensive and, as a consequence, whether enforcement action is required (FRC FAQ on ESMA's Guidelines on APMs).

Smaller companies (outside the FTSE 350) should also refer to the FRC's Corporate Reporting Thematic Review: Reporting by smaller listed and AIM quoted companies (November 2018) as this includes an analysis of disclosures by smaller listed companies of information related to APMs.

441 ESMA's Guidelines on Alternative Performance Measures include guidelines on: (i) disclosure principles; (ii) presentation; (iii) reconciliations; (iv) explanation on the use of APMs; (v) prominence and presentation of APMs; (vi) comparatives; (vii) consistency; and (viii) compliance by reference.

In addition to the FRC FAQ on ESMA's Guidelines on APMs, the FRC produced two thematic reviews of companies' use of APMs (the FRC's Thematic Review of Alternative Performance Measures 2016 and the FRC's Thematic Review of Alternative Performance Measures 2017). In addition, ESMA publishes periodic updates to its Q&A Guidelines on APMs, which can be accessed from the Q&A section of the ESMA website. This includes questions and answers on specific paragraphs of ESMA's Guidelines on Alternative Performance Measures.

The FRC's 2018 Reporting Summary states that the FRC expects all companies who report APMs to apply ESMA's Guidelines on Alternative Performance Measures. ESMA's Public Statement 2018 states that companies should disclose definitions of APMs used, their components and the basis of calculation including details of material hypotheses and assumptions. ESMA also highlights that they should not be mislabelled as non-recurring or similar and entity-specific disclosures should be provided (pages 10 - 11). ESMA also notes that APMs may be subject to change with the introduction of new accounting standards (IFRS 9, IFRS 15 and IFRS 16). Companies should provide disclosures that allow investors to understand the extent of and rationale for changes to APMs. Companies should also explain why APMs provide useful information and the purpose for which they use a specific APM. It also reminds companies that APMs should not be displayed with more prominence, emphasis or authority than measures directly stemming from financial statements. ESMA's Public Statement 2019 reminds companies that: (i) companies should provide disclosures that enable investors to understand the extent of, and rationale for, changes to APMs (see paragraphs 41 - 44 of ESMA's Guidelines on Alternative Performance Measures); (ii) APMs should not be displayed with more prominence than, and should be consistent with, measures stemming directly from financial statements; (iii) companies should explain why they believe that an APM provides useful information regarding the financial position, cash flows or financial performance as well as the purposes for why they use a specific APM (see paragraphs 33 and 34 of ESMA's Guidelines on Alternative Performance Measures) (page 12).

The FRC's 2019 Reporting Summary notes some improvements in the quality of APM disclosures and the FRC encourages companies to continue to enhance their reporting in this area (page 3), although this is still one of the most common areas of questioning (FRC Corporate Reporting Review 2019, page 23). The FRC continues to challenge disclosures that appear to fail to comply with ESMA's Guidelines on Alternative Performance Measures and noted that a particular cause for concern is an unwillingness to identify and highlight the audited IFRS number from which the APMs derive (FRC's 2019 Reporting Summary, page 3 and FRC Corporate Reporting Review 2019, page 23). The most common area of challenge continued to be absent or unclear definitions of APMs and/or reconciliations to the closest equivalent IFRS line item with questions also relating to excluded amounts from adjusted measures that related to ordinary business, inclusion of amounts that met the company's definition of non-underlying and describing activities that were reported over a number of years as non-recurring (FRC Corporate Reporting Review 2019, page 23). The FRC expects compliance with ESMA's Guidelines on Alternative Performance Measures and notes that the FRC Lab Report on Reporting of Performance Metrics June 2018 sets out user expectations in relation to reporting of APMs (FRC's 2019 Reporting Summary, page 3). However, there was (i) improvement in the labelling of APMs; (ii) few instances of undue prominence of APMs; and (iii) some more informative reasons for explaining why APMs are used (FRC Corporate Reporting Review 2019, page 23).

The FRC's Thematic Review of Alternative Performance Measures 2016 stated that the FRC will question companies where: (i) good explanations are not provided for the use of APMs and for changes made in the APMs used, including changes in definition; (ii) good explanations of why items have been excluded from adjusted measures of profit are not provided, in particular where an item is excluded from adjusted profit that the FRC has not seen others exclude; (iii) a description such as "non-recurring" is used and that description does not appear to apply in the circumstances; (iv) there is no discussion of either the IFRS results themselves or of the adjustments made to those results to arrive at adjusted profit; or (v) the IFRS results are not highlighted at an early point in the narrative.

442 PIRC believes that companies should publish formal policies on a range of social issues such as employment, health and safety, and human rights. These might take the form of an employee code of conduct or mission statement on employment strategy. PIRC suggests that this should be a single overarching statement made under a separate heading and should be declaratory in nature. Other policies should also be disclosed including health and safety, workplace health and wellness, harassment or violence, equal opportunity issues and freedom of association and collective bargaining (although it does not specify that these disclosures should be in the annual report) (PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting)). PIRC also expects, where relevant, that the company should have a community investment policy in the form of formal statement outlining the company's position on community involvement and philanthropy, which should include a description of the company's charitable and community investment objectives, showing how they are relevant to the company's business and of benefit to the company (PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting)). Further detail on these recommendations is set out in the PIRC Guidelines. See also endnote 445.

443 PIRC also requires disclosure of information regarding the company's management approach to ESG issues including: (i) corporate, environmental, social and governance values; (ii) company policies relating to corporate governance arrangements, as well as environmental, employment, stakeholder engagement and community investment issues; (iii) corporate strategy in relation to ESG factors; (iv) principal risks and uncertainties facing the company and the risk management processes and system of internal control; (v) shareowner returns; and (vi) key stakeholder relationships (PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting)). PIRC believes that ESG risks must be considered together to assess business risk properly as performing well on one of E, S or G but poorly on others risks the possibility of failing to perform sustainably in the long-term (PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting)).

PIRC also expects companies to: (i) have a designated director or board committee responsible for environmental and social issues; (ii) demonstrate evidence of the board and company management regularly communicating with each other regarding ESG matters; (iii) invest in research and development and communicate the directors' view of future business success incorporating environmental and social factors; and (iv) establish management structures and systems to monitor and evaluate environmental and social performance (PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting)).

None of these disclosures are specifically required to be made in the annual report.

See also TCFD Implementation Guidance and endnote 408.

444 The IOSCO Statement on Disclosure of ESG Matters encourages issuers to consider the materiality of ESG matters to their business and to assess risks and opportunities in light of their business strategy and risk assessment methodology. When ESG matters are considered to be material, issuers should disclose the impact or potential impact on their financial performance and value creation in its security filings. IOSCO also encourages issuers to give insight into the governance and oversight of ESG-related material risks. An issuer may decide to disclose this information outside its securities filings by following a voluntary disclosure framework, but the issuer may also be required to disclose this under security filings if an issue is material. IOSCO also encourages issuers to clearly disclose the framework(s) that they have used (if any) in preparing and disclosing material ESG information.

445 See also endnote 77 regarding the FRC's recommendations on the applicability of ESMA's Guidelines on Alternative Performance Measures to non-financial KPIs and the FRC Lab Report on Reporting of Performance Metrics June 2018 and the FRC Lab Report on Performance Metrics November 2018.

PIRC expects disclosure of various social indicators (though not specifically in the annual report) including: (i) board level responsibility for human resources, employment standards and human rights; (ii) evidence of management structures and systems to monitor and evaluate social impact on relevant stakeholders; (iii) employment statistics and a breakdown of remuneration by gender and job level; (iv) diversity targets at all levels of the company and within the company's suppliers; (v) employee satisfaction surveys, time and resource allocated to employee training, health and safety goals and indicators and opportunities for employees to have formal input into matters affecting them; and (vi) any contentious issues that have arisen in the year under review (PIRC Guidelines (Chapter 8 – Sustainability and Corporate Responsibility Reporting)).

Glass Lewis will note instances where board oversight of material risks to operations including those that are environmental and social in nature, has not been clearly defined by companies in their governance documents and may recommend that shareholders vote against members of the audit and/or risk committee (Glass Lewis Proxy Guidelines, page 16).

446 The IA, in its May 2019 report "Shareholder Votes on Dividend Distributions in UK Listed Companies: The case for a Distribution Policy", addressed the practice of companies avoiding an annual shareholder vote on dividends by declaring only interim dividends. The IA called for companies to provide more information about their approach to paying dividends by publishing a 'distribution policy' setting out their approach to making decisions on the amount, structure and timing of returns to shareholders, including dividends, share buy-backs and other capital distributions. According to the IA's research, conducted on behalf of BEIS, 22% of FTSE listed companies that pay dividends are not holding annual votes on the payment of the final dividend or are paying only interim dividends. Further, among the top 20 FTSE companies, 12 had paid dividends without holding a shareholder vote. The IA recognised that there may be legitimate reasons for companies opting to pay interim dividends – such as meeting a demand from investors to receive a regular income stream – and therefore, to improve transparency and accountability, the IA recommends that companies should publish a distribution policy. The IA intends to develop guidance articulating investors' expectations of this policy. The guidance had not been published by the date of this checklist.

See endnote 5 for more information on dividend policies.

447 Integrated reporting is a form of corporate reporting that is being developed by the International Integrated Reporting Council ("IRRC") to enhance the effectiveness of reporting. It does this by encouraging companies to take a more cohesive and efficient approach when it delivers information to its stakeholders by way of an "integrated report". The primary purpose of an integrated report is stated to be to explain to stakeholders how an organisation creates value over time. The IRRC has published the "International <IR> Framework", setting out "Guiding Principles" and "Content Elements" relating to the contents of an integrated report. The integrated report can be "either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication" (International <IR> Framework, page 4). It is not a legal requirement to comply with the International <IR> Framework in the UK. This checklist does not, therefore, set out the detailed requirements of the framework. Please refer to the International <IR> Framework itself, available on the website of the IRRC, for more information.

448 Section 54 MSA 2015 came into force on 29 October 2015 and applies to financial years ending on or after 31 March 2016. The Home Office published statutory guidance on the requirements of section 54: Transparency in Supply Chains, a Practical Guide ("Home Office Guidance"), which was updated in October 2017. Affected organisations are expected to publish their slavery and human trafficking statement as soon as possible and no later than six months after their financial year-end (Home Office Guidance, section 7). There is no requirement for the slavery and human trafficking statement to form part of the annual report and accounts and companies may decide to produce a separate report or to combine the statement in the annual report with wider information about human rights and corporate social responsibility policies. Various registers of slavery and human trafficking statements are maintained by non-governmental organisations and companies may wish voluntarily to submit statements to be added to a register. For an example of an online register, companies may wish to review the register created by CORE: https://business-humanrights.org/en/uk-modern-slavery-act-registry. There is additional guidance on the Government website under the 'Additional resources' section: https://www.gov.uk/government/publications/transparency-in-supply-chains-a-practical-guide.

449 If the organisation has a website, it must (a) publish the slavery and human trafficking statement on that website; and (b) include a link to the slavery and human trafficking statement in a prominent place on that website's homepage (section 54(7) MSA 2015).

The Home Office Guidance suggests that organisations should look to keep historic statements from previous years available online even when new statements are published (Home Office Guidance, section 7).

On Anti-slavery day, 18 October 2018, the 2018 UK Annual Report on Modern Slavery was published. A Home Office Press Release issued at the same time stated that only 60% of the companies required to produce a slavery and human trafficking statement had done so and that. some statements were "poor in quality" or "failed to even meet the basic legal requirements". The Home Office, in an effort to improve reporting, also wrote directly to chief executives of the17,000 registered organisation identified as being in scope for reporting, telling them to improve disclosures on modern slavery in their supply chains, or risk being named as in breach of the law..

In July 2018, the Home Secretary announced an independent review of the MSA 2015 (the "Independent Review") which was asked to focus on four areas, one of which was transparency in supply chains. The Independent Review reported on transparency in supply chain in its 'Second Interim Report: Transparency in Supply Chains' in January 2019. This report identified shortcomings to the s54 MSA 2015 requirements that had, to date, limited their impact. The Second Interim Report recommended that the Government:

- clarify the scope of the organisations required to report;
- carry out initiatives to improve the reporting quality of slavery and human trafficking statements and boost transparency;
- monitor compliance with section 54 with a view to mandating compliance where necessary;
- extend section 54 reporting obligations to the public sector.

In March 2019 the Home Office published Summary Guidance for Modern Slavery Statements to help organisations to identify if a modern slavery statement is needed and best practice for producing a statement. This Summary Guidance supplements the Home Office Guidance.

The final report of the Independent Review was published in May 2019 and made 80 recommendations (which included imposing a mandatory reporting regime for slavery and human trafficking statements, international alignment in reporting standards, the creation of a Government registry for slavery and human trafficking statements and, introducing a single reporting deadline, among others).

The Government issued its response to the final report of the Independent Review in July 2019. It announced that in response to the Independent Review's recommendations, it would:

- publish revised statutory guidance on transparency in supply chains in 2020. In order to inform changes to the legislation a consultation on Transparency in supply chains was also published to consult with relevant stakeholders which remained open to September 2019
- develop a publicly accessible online registry of slavery and human trafficking statements (to be designed alongside similar lines to the Government's Gender Pay Gap Reporting registrar).
- introduce a single reporting deadline for slavery and human trafficking statements (in order to make tracking of anti-slavery measures easier from year to year).
- undertake a compliance audit of organisations required to make slavery and human trafficking statements, with the possibility of naming and shaming' non-compliant companies as a possibility.
- aim to introduce legislative changes in order to harmonise the UK's approach to reporting to international standards (with a particular regard to multinational organisations which have to report in a number of different jurisdictions).
- consult to gather evidence from the public sector as to the appropriate identity and size of public sector bodies that should be required to produce annual slavery and human trafficking statements to ensure an appropriate approach (while noting that a number of public sector bodies already do so voluntarily).

450 The Section 54 Summary Guidance sets out the following criteria to clarify which commercial organisations are required to publish an annual section 54 statement. They should be:

- either a 'body corporate' or a partnership (wherever incorporated/formed);
- carrying out business, or part of a business, in the UK;
- supplying goods and services to the market; and
- have an annual turnover of £36 million or more.

The Home Office is conscious that some corporate groups may have more than one subsidiary organisation which meets the criteria publishing an annual statement. In these circumstances subsidiary organisation can either publish separate statements (reflecting the different nature of their business) or the group as a whole can publish one statement covering all the organisations which meet the section 54 criteria. Group reports must clearly identify how each affected individual organisation is complying with MSA 2015 and be published on the UK websites of each organisation covered by the section 54 statement.

451 Paragraph 3 of the Modern Slavery Act 2015 (Transparency in Supply Chains) Regulations 2015 defines "total turnover" of a commercial organisation as the turnover of that organisation and

the turnover of any of its subsidiary undertakings. More detail on how to calculate turnover is given in the Home Office Guidance at Chapter 3.

452 The Section 54 Summary Guidance clarifies ‘total turnover’ to mean the turnover of the organisation and any of its subsidiary undertakings (including those operating wholly outside the UK). ‘Turnover’ means the amount received from the provision of the goods and services falling within the ordinary activities of the organisation or its subsidiary undertakings, after the deduction of:

- trade discounts;
- value added tax; and
- any other taxes.

453 The Home Office Guidance added a new section suggesting that organisations which do not meet the requirements of MSA 2015, for example by having a turnover below £36 million, can still choose to voluntarily produce a slavery and human trafficking statement. Even if the legislation does not apply, the Government encourages all businesses to be open and transparent about their recruitment practices, policies and procedures in relation to modern slavery.

The Government also encourages organisations which have once produced a slavery and human trafficking statement to continue to produce one even where turnover has subsequently fallen below the threshold (Home Office Guidance, section 7).

454 The Home Office Guidance has been updated to include a new section highlighting the importance of showing year-on-year improvements outlining practical progress on how organisations are tackling the risks and incidence of modern slavery in their operations and supply chains.

455 “supply chains” is not defined in the MSA 2015 and Home Office Guidance indicates it bears its everyday meaning. Outside the context of the MSA 2015, PIRC says that it looks for evidence of whether major suppliers of products or services are evaluated or accredited by third parties; whether the company has adopted environmental and social procurement standards; and whether the company promotes or encourages the adoption of relevant environmental, employment and health and safety standards by its suppliers (PIRC Guidelines, Chapter 8 (Sustainability and Corporate Responsibility Reporting).

456 The Home Office Guidance replaces ‘may’ with ‘should aim to’ indicating that the Government expects all of the required points to be addressed within an organisation’s slavery and human trafficking statement. The updated guidance also states that organisations should paint a detailed picture of all the steps it has taken to address and remedy modern slavery, and the effectiveness of all such steps.

457 Home Office Guidance clarifies that it is best practice for the director who signs the statement also to sit on the board that approved the statement, and for the statement to include the date on which the board or members approved the statement. This indicates that companies using a group consolidated statement should arrange for a member of the board of each relevant subsidiary to sign off on the version of the statement included on that subsidiary’s website.

458 The payment practices report must be published on a web-based service at www.gov.uk/government/publications/business-payment-practices-and-performance-reporting-requirements. The information may, but is not required to be, published on the company’s website and included in the annual report.

The duty to prepare a report applies to financial years beginning on or after 6 April 2017. A company which is newly-incorporated is not required to report during its first financial year (Payment Practices Regulations, section 5). BEIS published Payment Practices Reporting Guidance providing practical advice to companies on how to comply in 2017.This Guidance was revised in September 2019 to update the information on procedures by including more detail and expanding the questions section to reflect responses to customer queries.

Company payment practices remain high on the Government’s agenda. In his Spring Statement, in March 2019, the Chancellor announced that the Government will require audit committees to review payment practices and report on them in the Annual Report. The Government’s response to the Call for Evidence in tackling late payment published in June 2019 stated that a company’s payment practices was something that should be elevated to board level to increase transparency and complement the new requirement for directors’ to report on compliance with Section 172 CA 2006 in the Directors’ report. The Government’s preferred approach is for this to be implemented through guidance that sets out the expectation that audit committees will review payment practices and report on them in the annual report. This is being considered with the FRC as a method although the possibility of legislation is not ruled out. In the FRC’s 2019 Reporting Summary (see Appendix A to the FRC Corporate Reporting Review 2019), in relation to the section

172 report, boards are encouraged to disclose the issues, factors and stakeholders they consider relevant in complying with section 172(1) and the basis for that conclusion including, for example, consideration of reporting on payments to suppliers in line with the Government's response to the Call for Evidence.

The FRC has been asked to review how well payment practices are reflected in the first year of the new reporting requirement, which will inform the Government's future thinking on this issue.

See also endnote 131 covering section 172 reporting.

459 "Qualifying company" is defined in regulation 5 of the Payment Practices Regulations. A qualifying company is a company which is incorporated in the UK (section 3, Small Business Enterprise and Employment Act 2015) and which, on its last two balance sheet dates, exceeded two or all three of the medium-sized company thresholds set out in section 465 CA 06 either individually or if the company is a parent company, on an individual and group consolidated basis:

- more than £36 million annual turnover (£36 million net / £43.2 million gross for groups);
- more than £18 million balance sheet total (£18 million net / £21.6 million gross for groups); and
- more than 250 employees.

460 "Qualifying Contract" is defined in section 6 of the Payment Practices Regulations and can be summarised as a contract, other than a contract for financial services, which is:

- business-to-business;
- sufficiently linked to the UK;
- for goods, services or intangible property, including intellectual property (see also paragraphs 42-44of the Payment Practices Reporting Guidance); and
- is not for financial services.

The Payment Practices Reporting Guidance states that, if a business has different types of standard contracts depending on the product, company size or any other variation, they should describe what the different payment terms are (Payment Practices Reporting Guidance, para 71).

461 If there were no changes to standard payment terms in the reporting period, the report should show a sentence to that effect (Payment Practices Reporting Guidance, para 82).

462 Payment Practices Reporting Guidance states that a business may choose to provide extra information about maximum payment periods, for example if they have different payment periods depending on the product, company size or any other variation, then they could give the maximum period for each type. Where the maximum period entered into was unusual for the business, an explanation about why the terms were different may be included (Payment Practices Reporting Guidance, para 80).

463 This could be a detailed process, or simply an explanation that a complaint or concern will be considered by a particular department or job title, the usual timescale and next steps (Payment Practices Reporting Guidance, para 85-87).

464 The Prompt Payment Code is referred to in Payment Practices Reporting Guidance (para 95).

465 The payment practices report must be approved by a director of the company before it is published (Payment Practices Regulations, section 4).

466 "Relevant employer" is defined in section 1(2) of the Gender Pay Gap Regulations. Although the BEIS Strategy Committee Report on Gender Pay Gap Reporting recommended reducing the reporting threshold to 50 employees, the Government's response stated that the Government would not, at this stage, reduce the reporting threshold under the relevant reporting regulations (250 employees) because it would be particularly burdensome for small and medium sized enterprises (see page 6 of the response).

467 The Gender Pay Gap report sets out information as at the "snapshot" date and must be published within the period of 12 months beginning with that date in each year (Gender Pay Gap Regulations, section 2). For private sector employers, the snapshot date is 5th April in the year to which the information relates (section 2, Gender Pay Gap Regulations).

Information must be published on the company's own website and on the designated government website at www.gov.uk/report-gender-pay-gap-data. Companies can find the notification template available on ACAS's website at http://www.acas.org.uk/index.aspx?articleid=5768. A survey on "Gender Pay Gap Employer Insights" carried out from December 2017 to January 2018 by the Government Equalities Office ("GEO"), noted that only 63% of respondent firms that had reported their results (3% of overall respondents) had done so on the official government portal, which is a requirement for complying with the Gender Pay Gap Regulations. Employers are responsible for the accuracy of data provided on the portal, but they can adjust their reported data.

See the ACAS and GEO Guidance, “Managing Gender Pay Gap Reporting” (February 2019) for detailed guidance on the reporting obligation.

In August 2018 the GEO issued guidance to employers on which actions are likely to improve the recruitment and progression of women and reduce the gender pay gap. ‘Reducing the gender pay gap and improving equality in organisations: Evidence based actions for employers. Additional GEO guidance was published in February 2019 ‘Eight ways to understand your organisation’s gender pay gap’

The BEIS Strategy Committee Report on Gender Pay Gap Reporting noted that some organisations had gone above and beyond the basic reporting requirements and published comprehensive action plans for addressing the pay gap. The report recommended that organisations should be required to provide some narrative reporting alongside the statistics and an action plan setting out how pay gaps are being and will be addressed (paragraph 12). This is also recommended in the Institute for Public Policy Research report, ‘The State of Pay: Demystifying the gender pay gap’ (2018) (pages 5 and 18). The Government’s response to the BEIS Strategy Committee Report on Gender Pay Gap Reporting, published in January 2019, encourages companies to produce an action plan but confirms that this should not be a mandatory requirement to avoid imposing a prescriptive format with limited value to employers and employees that may not be relevant to a company’s individual situation.

In February 2019 the GEO published guidance on an action plans ‘Four steps to developing a gender pay gap action plan’.

The Gender Pay Gap Employer Insights survey collected data on whether employers planned to publish any additional information alongside the mandatory reporting requirements. Almost a third (30%) intended to do so, with such additional information most likely to take the form of an accompanying narrative commentary (20%). The survey indicated that the larger the organisation the more likely they were to plan to publish additional information. 32% of firms had developed a plan for reducing their gender pay gap, although only 9% had begun implementation. 41% of those interviewed intended to take action but had not yet developed any concrete plans, and approaching a fifth (18%) did not intend to do anything. The GEO report ‘Gender Pay Gap Information Regulations 2017: Summary of reported data for 2017/18’ (October 2017) notes that as of May 2018 an estimated 48% of in-scope employers had published an action plan setting out how they intended to tackle their gender pay gap (pages 4 and 29).

In December 2018, the Equality and Human Rights Commission (“EHRC”) published an analysis of employer gender pay gap action plans. The EHRC’s findings revealed (among other things):

- ‘around half’ of employers submitting pay gap reports had included narratives (of variable insight) to accompany their figures; however many were considered ‘high-level’ without much in the way of detail or clear commitments to future action.
- 11% of employers set targets as a means of measuring the annual progress of their gender pay gap action plans.
- 20% produced a time-bound action plan upon request.
- employers with a head-count greater than 499 were more likely to set gender pay gap targets.

Following this analysis the EHRC issued a call for more employers to publish action plans in order to demonstrate their commitment to reducing the gender pay gap. It also made a number of recommendations to employers which can be found at https://www.equalityhumanrights.com/en/publication-download/closing-the-gender-pay-gap.

468 See endnote 129 for information on qualifying as a medium-sized company.

469 The FRC suggests that the section 172 statement could identify the principal decisions taken by the board during the year, how regard was had to the matters in section 172(1) and the effect of that regard (paragraph 8.23, Guidance on the Strategic Report). It could also set out where there are conflicts between different groups of stakeholders or where one group have been prioritised over another group and how the directors considered different interests and the factors that were taken into account when making principal decisions (paragraph 8.24, Guidance on the Strategic Report).The FRC suggests that there should be consistency between the principal decisions discussed in the section 172 statement and in the review of the business in the strategic report (paragraph 8.25. Guidance on the Strategic Report).

470 Section 172(1) states:

"(*1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to*

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) *the need to act fairly as between members of the company.*"

The FRC states that the section 172 statement could, amongst other things:

- include information on how the long-term success of the company has been considered in making strategic decisions including consideration of the interests of other stakeholders and the long-term impact of its activities on the community and environment (paragraph 8.14, Guidance on the Strategic Report);
- consider links between the principal risks disclosed in the strategic report and the section 172 statement (paragraph 8.15, Guidance on the Strategic Report);
- identify key stakeholders, for example, through a stakeholder map, and their importance to the company; the description of the company's business model should provide an insight into the company's key resources and relationships (paragraph 8.16, Guidance on the Strategic Report);
- include information which helps to explain the benefits created for other stakeholders (noting that, although it can be difficult to measure, it can provide significant insight) (paragraph 8.17, Guidance on the Strategic Report);
- consider all relevant stakeholders, including those not listed in section 172 including pensions schemes, pensioners and the workforce (paragraph 8.18, Guidance on the Strategic Report);
- describe how the company engages and communicates with its stakeholders including the outcomes of any engagement and the impact on board decision making (paragraphs 8.20-8.22, Guidance on the Strategic Report);
- consider workforce issues more generally and not limit consideration to those people with a contract of employment (paragraph 8.19 Guidance on the Strategic Report);
- if the setting and application of the capital allocation and dividend policies are principal decisions, explain how directors have had regard to the long-term and the interests of stakeholders in both setting and applying those policies, including in determining the dividend level and allocating free cash flow (paragraph 8.26, Guidance on the Strategic Report, see paragraphs 8.26-8.29 of the Guidance on the Strategic Report for more information);
- disclose information in relation to the culture the board has set in order to ensure that decisions taken are in line with company values and objectives; it could also include the factors the board thinks are important for the company's reputation (paragraph 30, Guidance on the Strategic Report),

  (see paragraphs 8.14 to 8.30 of the Guidance on the Strategic Report for more information, including examples).

471 Q&A 7 (Section D) of the Miscellaneous Reporting Q&A clarifies that the section 172 statement needs to be a separately identifiable statement, although the statement can cross-refer to other parts of the report. Unquoted companies must ensure that disclosures made by cross-reference are included within the statement if it is published on a website without the rest of the annual report (Q&A 7 (Section D) Miscellaneous Reporting Q&A).

Q&A 3 (Section D) of the Miscellaneous Reporting Q&A and paragraph 8.11 of the Guidance on the Strategic Report state that companies will probably want to include information on some or all of the following:

- the issues, factors and stakeholders the directors consider relevant in complying with section 172(1)(a) to (f) and how they have formed that opinion;

- the main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard; and
- information on the effect of that regard on the company's decision making and strategies.

Q&A 4 (Section D) of the Miscellaneous Reporting Q&A and paragraph 8.12 of the Guidance on the Strategic Report note that the statement should be meaningful and informative, shed light on matters that are of strategic importance and be consistent with the size and complexity of the company.

Paragraph 8.5 of the Guidance on the Strategic Report states that companies are encouraged to avoid repetition, maintain the cohesion of the narrative within the strategic report and incorporate information in the section 172 statement by cross-references where appropriate.

Note that there is no exemption for information about impending developments or matters in the course of negotiation (clarified in paragraph 8.5, Guidance on the Strategic Report).

472 It is not possible for a parent or holding company to fulfil the reporting obligation for its subsidiaries, even where it is required to produce a consolidated group strategic report or group directors' report (see Q&A 9 and 10 (Section D) Miscellaneous Reporting Q&A). Where decisions and policies affecting employees, the environment, suppliers and other relevant stakeholders/factors are made or set at group level, BEIS notes that it may be acceptable for the subsidiary to provide less detail in its own report, where the parent's report provides a full explanation of the policy or strategy and where it is possible to refer to accessible parent company statements (Q&A 11 (Section D) Miscellaneous Reporting Q&A). However, the subsidiary will still need to explain how its directors have applied or reflected group policies or decisions (Q&A 11 (Section D) Miscellaneous Reporting Q&A). The FRC makes a similar point, noting that the interests of parents and subsidiaries will generally be closely aligned and, although decisions and policies can be taken or made at group level, consideration should still be given to matters that are specific to the individual company (paragraph 8.9, Guidance on the Strategic Report).

Q&A 12 and Q&A 13 of Section D of the Miscellaneous Reporting Q&A give guidance where the parent does not meet the qualifying conditions but the subsidiary does or neither the parent nor the subsidiary meet the qualifying conditions individually but in either case the qualifying conditions are met when the parent prepares consolidated accounts.

473 Section 426B CA 06 requires all companies that are not quoted companies to make the section 172 statement available on a website that is maintained by or on behalf of the company (such as the website of a parent company, see Q&A 1 (Section D) Miscellaneous Reporting Q&A and paragraph 8.31 of the Guidance to the Strategic Report) and which identifies the company. This requirement can be met by publishing the whole annual report or the whole strategic report on the website (ensuring that disclosures included by cross-referencing are included in the statement or report published on the website) (Q&A 8 (Section D) Miscellaneous Reporting Q&A and paragraph 8.32, Guidance to the Strategic Report). Section 426B also contains additional requirements relating to accessing the statement and the duration that the statement must be kept available on the website. It is an offence not to comply with section 426B CA 06.

474 For financial years commencing on or after 1 January 2019, a company must report on engagement with employees unless it is exempt (Schedule 7, para 11 LMCG Regs). It is exempt if it has an average of 250 or fewer UK employees in the group (or company where the company is not a parent):

(a) in its first financial year (for newly incorporated companies); and/or

(b) for subsequent years,

(i) in the reporting year in question *and* the previous reporting year;

(ii) in the reporting year in question *and* it was not required to report in the previous year; or

(iii) in the previous reporting year *and* it was not required to report in the previous reporting year,

(Schedule 7, para 11A LMCG Regs).

The average number of UK employees employed by the group (or company where the company is not a parent) during the financial year is calculated by ascertaining each monthly total number and working out the average (schedule 7, paras 11A(3), (4) and (5) LMCG Regs).

The above rules apply in the same way in the first year of reporting under the new provisions (as if the regime had been operative for the preceding year).

The table below illustrates how the exemptions may apply in practice.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
No of employees	250 or less	250 or less	250 or less	251+	250 or less	251+	251+	250 or less	250 or less
Which exemption applies (as set out above)	Exempt – (a)	Exempt – (b)(i)	Exempt – (b)(i)	Exempt – (b)(iii)	Exempt – (b)(ii)	Exempt – (b)(iii)	Not exempt	Not exempt	Exempt – (b)(i)
Reporting	No reporting	No reporting	No reporting	No reporting	No reporting	No reporting	Must report	Must report	No reporting

For financial years commencing on or before 31 December 2018, reporting on employee involvement was required where the average number of UK employees employed by the company exceeded 250 in that reporting year. The above exemption therefore does not apply to financial years commencing on or before 31 December 2018. The above changes were introduced by the Miscellaneous Reporting Regulations.

475 For financial years commencing on or after 1 January 2019, the test looks at UK employees employed by the group (or company where the company is not a parent). For financial years commencing on or before 31 December 2018, the test looked at the company's UK employees only.

476 For financial years commencing on or after 1 January 2019, the average number of UK employees employed by the group (or company where the company is not a parent) during the financial year is calculated by ascertaining each monthly total number and working out the average (schedule 7, para 10(2) LMCG Regs as amended by the Miscellaneous Reporting Regulations). For financial years commencing on or before 31 December 2018, the average number of the company's UK employees was calculated by ascertaining each weekly total number and working out the average (schedule 7, para 10(1) and (2) LMCG Regs before amendment by the Miscellaneous Reporting Regulations).

477 Although the disclosure requirement relates to employees only, companies are encouraged not to limit their consideration to those with a contract of employment only and look at the wider workforce (paragraph 8.19, Guidance on the Strategic Report).

478 This requirement is included in addition to the requirement to produce a section 172 statement (and despite the fact that there will be some overlap) so that company reports include information about these important aspects even where the information is not judged to be of sufficient strategic importance to be included in the strategic report (Q&A 6 (Section D) Miscellaneous Reporting Q&A). It also gives the opportunity to provide more information.

479 See endnote 472.

480 Nothing in this sub-paragraph (b) requires disclosure of information about impending developments or negotiations taking place if such disclosure would be seriously prejudicial to the company (Schedule 7, Para 11(2) LMCG Regs).

481 Both Q&A 5 (Section D) of the Miscellaneous Reporting Q&A and paragraph 8.5 of the Guidance on the Strategic Report note that where the board considers this information to be of strategic importance, it may be included in the strategic report and incorporated into the directors' report by cross-reference (see also section 414C(11) CA 06). See row A.5 of this checklist for more information on the disclosures that should be made where this is the case.

482 For financial years commencing on or after 1 January 2019, a company must report on engagement with suppliers, customers and others unless it is exempt (Schedule 7, para 11B LMCG Regs). It is exempt if the qualifying conditions are met:

(a) in its first financial year (for newly incorporated companies); and/or

(b) for subsequent years,

  (i) in the reporting year in question *and* the previous reporting year;

  (ii) in the reporting year in question *and* it was not required to report in the previous year; or

  (iii) in the previous reporting year *and* it was not required to report in the previous reporting year, (Schedule 7, para 11C LMCG Regs).

The qualifying conditions ("QC") are met where the company satisfies two or more of the following requirements:

- Turnover: not more than £36 million
- Balance sheet total: not more than £18 million
- Number of employees: not more than 250 (calculated by ascertaining the monthly total number of employees of the company during the financial year and working out the average)

(Schedule 7, para 11C LMCG Regs, see para 11C for more information on how to work out these figures).

Note that the exemption relates purely to the size thresholds set out above and therefore although it looks very similar to the provisions that determine whether a company is medium-sized under the CA 06, the exclusions that determine whether a company is medium-sized under sections 467 CA 06 do not apply here.

The above rules apply in the same way in the first year of reporting under the new provisions (as if the regime had been operative for the preceding year).

The table below illustrates how the exemptions may apply in practice.

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**
No of employees	QC met	QC met	QC met	QC not met	QC met	QC not met	QC not met	QC met	QC met
Which exemption applies (as set out above)	Exempt – (a)	Exempt – (b)(i)	Exempt – (b)(i)	Exempt – (b)(iii)	Exempt – (b)(ii)	Exempt – (b)(iii)	Not exempt	Not exempt	Exempt – (b)(i)
Reporting	No reporting	No reporting	No reporting	No reporting	No reporting	No reporting	Must report	Must report	No reporting

483 This requirement is included in addition to the requirement to produce a section 172 statement (and despite the fact that there will be some overlap) so that company reports include information about these important aspects even where the information is not judged to be of sufficient strategic importance to be included in the strategic report (Q&A 6 (Section D) Miscellaneous Reporting Q&A). It also gives the opportunity to provide more information.

484 See endnote 472.

485 Nothing in this row K.3 requires disclosure of information about impending developments or negotiations taking place if such disclosure would be seriously prejudicial to the company (Schedule 7, Para 11B(2) LMCG Regs).

486 The qualifying conditions ("qualifying conditions" or "QC") are that the company (not the group, there is no consolidation (see Q&A 13 (Section E) Miscellaneous Reporting Q&A)) satisfies either or both of the following requirements:

- it has more than 2,000 global employees calculated by ascertaining the monthly total number of employees of the company during the financial year and working out the average;
- it has:
    - o a global turnover of more than £200 million, and
    - o a global balance sheet total of more than £2 billion,

(Schedule 7, para 23(3) LMCG Regs and page 4 of the Miscellaneous Reporting Q&A). The legislation includes a 'smoothing' provision which provides that a company must include a statement of corporate governance arrangements if it meets the qualifying conditions:

(a) in its first financial year (for newly incorporated companies); and/or

(b) for subsequent years,

(i) in the reporting year in question *and* the previous reporting year;

(ii) in the reporting year in question *and* it was required to report in the previous year; or

(iii) in the previous reporting year *and* it was required to report in the previous reporting year,

(Schedule 7, para 23 LMCG Regs; see paras 23 and 24 of Schedule 7 LMCG Regs for more information, including on how to calculate turnover, balance sheet total and number of employees, and see also page 4 of the Miscellaneous Reporting Q&A).

The above rules apply in the same way in the first year of reporting under the new provisions (as if the regime had been operative for the preceding year).

The table below illustrates how the smoothing provision may apply in practice.

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**
QC	QC met	QC met	QC met	QC not met	QC met	QC not met	QC not met	QC met	QC met
Which reporting requirement applies (as set out above)	Must report – (a)	Must report – (b)(i)	Must report – (b)(i)	Must report – (b)(iii)	Must report - (b)(ii)	Must report – (b)(iii)	No reporting	No reporting	Must report – (b)(i)

See also Q&A 14 (Section E) Miscellaneous Reporting Q&A on the ‘smoothing’ provision, including some examples of how that provision applies.

See also Q&A 12 (Section E) of the Miscellaneous Reporting Q&A where the subsidiary meets the conditions but not the parent and the parent prepares consolidated group accounts.

487 Exemptions apply to: companies required to produce a corporate governance statement under DTR 7.2; community interest companies; and charitable companies (Schedule 7, para 22 LMCG Regs).

There is no exemption for subsidiaries, which must comply where they meet the qualifying thresholds. This includes subsidiaries of listed companies (including premium listed companies applying the CGC 2018 and overseas listed companies applying an overseas code) and subsidiaries of parent companies preparing a consolidated directors’ report (Q&A 9, Q&A 10 and Q&A 11 (Section E) Miscellaneous Reporting Q&A).

488 Where the board considers this information to be of strategic importance, it may be included in the strategic report and incorporated into the directors’ report by cross-reference (see section 414C(11) CA 06 and Q&A 2 (Section E)of the Miscellaneous Reporting Q&A). See row A.5 of this checklist for more information on the disclosures that should be made where this is the case.

If the company is unquoted, the corporate governance statement must be made available on a website that is maintained by or on behalf of the company and which identifies the company (Schedule 7, para 27 LMCG Regs). The company can choose to publish just the corporate governance statement, the whole directors’ report (or strategic report if the statement is included there) or the whole annual report (Q&A 3 (Section E) Miscellaneous Reporting Q&A). Paragraph 27 of Schedule 7 of the LMCG Regs also contains additional requirements relating to accessing the statement and the duration that the statement must be kept available on the website. It is an offence not to comply with para 27 of Schedule 7 of the LMCG Regs.

489 ‘Corporate governance’ is defined in para 25 of Schedule 7 of the LMCG Regs and means:

“*(a) the nature, constitution or functions of the organs of the company,*

(b) the manner in which organs of the company conduct themselves,

(c) the requirements imposed on organs of the company,

(d) the relationship between different organs of the company,

(e) the relationship between the organs of the company and the members of the company”

490 BEIS has stated that it expects companies to include sufficient detail to ensure that their corporate governance arrangements are explained (Q&A 4 (Section E) Miscellaneous Reporting Q&A). For companies adopting the Wates Principles, BEIS envisage that companies should include “a short supporting statement for each principle explaining how it has been applied to achieve better outcomes” (Q&A 4 (Section E) Miscellaneous Reporting Q&A). BEIS acknowledges that some subsidiaries are distinct and largely run independently and others are more integrated and therefore the level of detail in the statement will depend on the company’s individual circumstances (Q&A 9 (Section E) Miscellaneous Reporting Q&A).

The Wates Principles state that companies should report using an "'apply and explain' approach in a way that is most appropriate for their particular organisation" applying each principles by considering them individually within the context of the company's specific circumstances (Wates Principles, page 8). Unlike the 'comply or explain' approach taken with respect to the CGC 2018, the Wates Principles do not include a set out detailed provisions, but rather, they offer guidance under each principle. The guidance is intended to assist companies in explaining their approach to applying each principle. See the Wates Principles for further information (in particular, at page 8).

BEIS states that a subsidiary could state that it did not apply a code because its parent applied to CGC 2018, or an overseas code, which was applied throughout the group but that it would still have to explain how the CGC 2018/overseas code applied to the governance arrangement in the subsidiary and its directors (Q&A 10 and Q&A 11 (Section E) Miscellaneous Reporting Q&A).

491 'Corporate governance code' means a code of practice on corporate governance (Schedule 7, para 25 LMCG Regs). BEIS has stated that it hopes that the Wates Principles (which were commissioned by the Government and were drafted by a coalition of industry and wider society bodies led by Sir James Wates) will be widely adopted and become a commonly used code of practice for private companies but that companies can choose the most appropriate code for them, or none (explaining why that is the case and what arrangements are in place) (Q&A 6 (Section E) Miscellaneous Reporting Q&A). Companies can choose to refer to a foreign corporate governance code but where this is the case, it should ensure that an English language version is easily accessible on a website free of charge and the company should provide a weblink (or explain the code's provisions as part of the corporate governance statement) (Q&A 8 (Section E) Miscellaneous Reporting Q&A).