Soaring to new heights

Governance considerations for boards with commentary from 2020 annual reports

September 2021

Part 1 of 3

EY

Building a better working world

Contents

	Introduction	**1**
1	**The board**	**4**
1.1	Introduction	5
1.2	Investor expectations	6
1.3	Governance	10
1.4	Strategy	24
1.5	Risk management	26
1.6	Metrics and targets	29
1.7	Key questions to assess effectiveness	35
1.8	Reporting examples	38

Introduction

Stakeholder capitalism[1] and moving away from a focus on maximising shareholder value was the theme of the **Davos Manifesto** 2020. Whilst this concept dates as far back as 1932[2], its more recent revival, with a specific focus on 'people' and 'planet', has reignited the debate about the role of governance and the board in the context of, what often seem like, competing stakeholder priorities. As a result, the concept of purpose as the North Star that helps navigate this complexity has come to the fore in recent years.

The changes in the UK's governance framework resulting from the 2018 UK Corporate Governance Code (2018 Code or the Code) and Companies Miscellaneous Reporting Regulations (MRR) reflected these global trends. However, high profile business failures keep resurfacing the underlying sentiment and concerns that some critical aspects of governance are not being addressed in their entirety, or in some cases, potentially at all. These concerns were only exacerbated by the impact that COVID-19 has had on all aspects of the economy.

Contrary to the expectations of some, the much anticipated White Paper issued in March 2021 by the Department for Business, Energy & Industrial Strategy (BEIS)[3], went beyond proposals to reform the audit market and product solely. Welcomingly titled "Restoring trust in audit and corporate governance", it recognises that rebuilding public trust in business also requires changes in how the UK's largest companies are run and the frameworks governing the oversight of directors' duties.

Given this broadened focus on planet and people, the prospects of increasing directors' accountability and new requirements likely to be placed on companies and those running them, we decided to shift gear this year. Instead of our traditional review of narrative reporting practice in the FTSE 350, we have instead focussed on analysing what reporting can tell us about FTSE 350 governance practices and how governance is likely to continue to evolve in light of the Government's reform proposals, the shift towards stakeholder capitalism and the pandemic. We cover this analysis in three parts:

Part 1

This report which is dedicated to the board, with a specific emphasis on governance over social, environmental and other sustainability matters.

Part 2

Published in July 2021, and focussed on the audit (and risk) committee – the committee most impacted by the BEIS proposals.

Part 3

Published in September 2021, addressing the oversight of human capital and matters related to people, with a focus on the evolving roles of the nomination and remuneration committees.

[1] **A form of capitalism in which companies do not only optimise short-term profits for shareholders, but seek long term value creation, by taking into account the needs of all their stakeholders, and society at large.**
[2] Referring to the publication, The Modern Corporation and Private Property by Adolf A. Berle and Gardiner C. Means.
[3] Referred to throughout this publication as the BEIS consultation.

Each part follows a similar structure:

We start by setting the scene and discussing investor expectations according to EY's annual investor insights report that highlights investor priorities and responsible stewardship practices, and the direct engagement we have had.

We then provide points of view, thoughts and analysis under the broad headings of:

- Governance
- Strategy
- Risk
- Targets and metrics

supplemented with disclosure extracts from a sample of over 100 FTSE 350 annual reports (ARAs) to illustrate specific points.

To close, we suggest broad, future facing questions that those charged with governance can debate when assessing their roles including how they may evolve and their board and committee effectiveness.

Our ambition is for boards and board committees to be able to use the *Soaring to new heights* series when they are debating their roles and their forward rolling agenda.

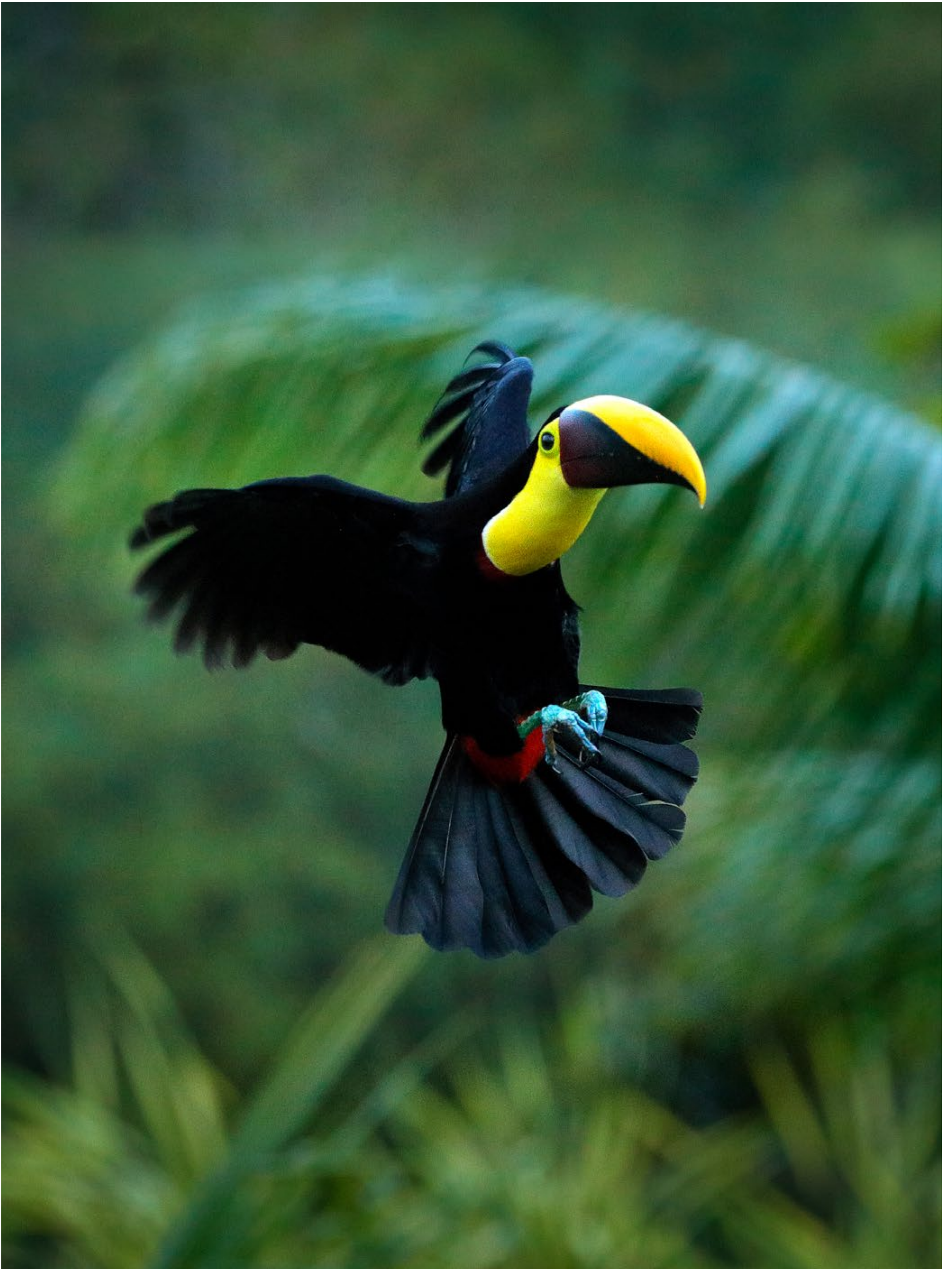
For those of you, who look forward to our annual narrative reporting analysis, we have your backs! The only new narrative reporting requirement applicable for 31 December 2021 year ends relates to companies' disclosures against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and we covered this separately in our publication "**Towards TCFD compliance**" issued in May 2021. For those looking for a broader review of narrative reporting, we believe that our September 2020 report "**From intent to action**" remains relevant. Looking back at this report, we stated that change in the governance and reporting arena and adapting to it seems to be set as a constant fixture for some years to come. This statement couldn't be truer given the events of the last 18 months and the Government's future agenda.

The breadth of topics that directors need to have a grasp of to effectively discharge their duties has been growing steadily. In recent times, the board's role on oversight of environmental, social and sustainability matters has taken centre stage. With the COP26 climate summit just over a month away at the time of writing, we only see this going one way. The decisions made at COP26 will ultimately affect every business regardless of its size and location. Businesses will need to work collaboratively with governments to help countries to deliver on their emissions targets whilst protecting jobs, preventing energy poverty and further driving economic growth and prosperity. Boards will need to evolve and adapt their governance to oversee this.

We hope that together the three Parts of this series *Soaring to new heights* will not only help boards and their committees tackle the inevitable regulatory change that is coming, but also think more broadly about the issues as well as opportunities they should have on their radars complemented with insight on how other FTSE 350 boards are addressing them. After all, corporate governance extends to beyond managing risk — going back to the definition in the 1992 Cadbury Report, it is the system by which companies are directed and controlled. Many UK listed companies have emerged from the pandemic as forces for good. The board's role in creating and promoting a governance framework that directs and channels this behaviour rather than stifles it is of up-most importance.

Best regards,

Mala and Maria



The board

1.1 Introduction

Corporate scandals at Carillion, BHS, Patisserie Valerie and Thomas Cook raised awareness of directors' duties and liabilities as well as questions about the adequacy of oversight from boards. Many shared the view that the directors were not involved actively and deeply enough, and were not sufficiently robust in their challenge of management. As a consequence, the BEIS consultation includes proposals to strengthen directors' accountability predominantly by increasing directors' responsibilities regarding risk mitigation.

The Government also proposes introducing greater powers to investigate and sanction breaches of directors' duties in relation to corporate reporting and audit. Currently, the Financial Reporting Council (FRC) only has authority to enforce these when a director is a member of a professional accountancy body. Under the proposals, the new statutory authority – Audit, Reporting and Governance Authority (ARGA) – would have investigative and civil enforcement powers to hold all directors of large businesses to account. These would include:

- powers to impose more detailed requirements as to how certain statutory directors' duties related to corporate reporting and audit are met;
- taking civil enforcement action against public interest entity (PIE) directors for breaches of existing directors' duties relating to corporate reporting and audit;
- gathering information and carrying out investigations to establish whether a director has breached a requirement;
- imposing sanctions for breaches (including reprimands, fines, and, in the most serious cases, temporary prohibition on acting as a director);
- placing an observer on the AC if it is particularly concerned about an AC's compliance with the requirements.

To complement the above, the Government also proposes to strengthen the rules around malus and clawback arrangements to prevent directors from being rewarded when a company fails.

The breadth of the proposals and strengthened enforcement regime along with rising investor and societal expectations, have led to some questioning not only the attractiveness of being a non-executive director in the UK but also the availability of people with the right skills, experiences and diversity to fulfil these obligations.

Although the consultation maintains the principle of collective board responsibility and the unitary board, the other inevitable question is whether it increases the 'dichotomy' of the non-executive director (NED) role: on the one hand, NEDs are supposed to exercise objective oversight and bring independent perspectives, but on the other, there are ever greater expectations about the level of detail they need to go into and the extent and depth of their involvement. These will only increase given the risks of enforcement and sanctions.

In June, I hosted EY UK's Centre for Board Matters event for FTSE 100 audit committee (AC) members to hear their views on the Government's proposals to reform corporate governance and audit. The consensus was that the spirit and intention behind some of the content in the proposals was appropriate, but the manner and tone in which they may be implemented is negative and demotivating for all parties within the eco-system. AC members were concerned that it may lead to the attractiveness of the UK market diminishing on several fronts and will also impact on choices all concerned make — whether or not to become or remain a UK NED, whether or not to join the audit profession and whether or not to list or remain listed in the UK.

Mala Shah-Coulon, EY Corporate Governance Team

1.2 Investor expectations

EY's research into investor stewardship reporting and engagement first published in 2019 highlighted that in addition to traditional governance themes such as director independence, board composition and executive remuneration, investors had started to significantly increase their engagement on environmental and social topics.

Over the last two years, investor action and headlines have been dominated by environmental matters and especially climate change, an area we covered in our publication, ***Towards TCFD compliance*** issued in May 2021. According to the results of Institutional Shareholder Services' annual **global benchmark policy** survey released in September 2020, three-quarters of investors indicated that they would consider voting against directors deemed accountable for poor climate change risk management. The need for a '**just transition**' is gaining renewed traction ahead of COP26, as is the momentum for a global baseline climate disclosure standard[4].

The COVID-19 pandemic and Black Lives Matter movement have not reduced the emphasis on climate, but resulted in a greater focus on social and human capital matters, especially diversity and inclusion, as discussed in Part 3 of this series.

Investor engagement has been given new impetus by the publication of the revised **UK Stewardship Code 2020** ('2020 Stewardship Code'). The 2020 Stewardship Code sets a higher bar of stewardship standards for institutional investors (including foreign ones[5]), investing money on behalf of UK savers and pensioners. It is explicit that asset owners and asset managers cannot delegate their stewardship responsibility, and, under Principle 7, they are required to systematically integrate stewardship including material environmental, social and governance (ESG) issues and climate change into investment decisions.

Although the 2020 Stewardship Code is voluntary, compliance is encouraged by third parties such as The Pensions Regulator. Financial Conduct Authority (FCA) authorised asset managers are required under the FCA's Conduct of Business Rules to disclose whether, and if so how, they comply with it, and many asset owners expect compliance from asset managers to whom they give mandates.

Institutional investors that want to become signatories are required to produce an annual stewardship report that explains how they have applied the 2020 Stewardship Code in the year. The FRC will assess these reports each year to determine whether expectations to be included in the list of signatories were met.

[4] **Three dynamics to watch on global climate disclosure standards | EY — Global**.

[5] According to **the last share ownership bulleting form the Office for National Statistics**, the proportion of UK shares held by the rest of the world as at the end of 2018 was at 54.9% of the value of the UK stock market.

The focus of the 2020 Stewardship Code, as compared to the 2012 version, shifted from policies or processes to outcomes, meaning that to meet its requirements, investors have been expanding their stewardship teams and increasing the level of direct engagement with investee companies[6]. Stewardship teams are no longer seen as a back-office function, but are playing increasingly important roles in investment decisions.

The topics of engagement are also expanding, most notably to include purpose and stakeholder engagement beyond the workforce:

- As referenced in an Investor Forum **webinar** on purpose, Fidelity International is interested in understanding how much of board discussions are anchored around purpose and how often purpose changes the decision making process of a board.
- The second **report** from the Enacting Purpose Initiative[7] highlights that investors would like boards to be clearer about the value of purpose and to focus not just on the obvious broad statements around big societal issues, but also on how they are managing conflicts and deciding on capital allocation trade-offs. Investors are looking for companies to report the business impacts arising from purpose-led activity in meaningful financial terms that allow purpose to be assessed.

How shareholders have their say through voting

Types of resolutions

Shareholders of public companies can exercise their rights at general meetings by voting on resolutions proposed by the company that affect its governance or will result in fundamental changes in the company:

- Ordinary resolution — passed with a simple majority (50%) of those members present and voting e.g., appointment of directors or grant authority for the allotment of shares.
- Special resolution — passed with a majority of not less than 75%. Typical types of business that must be dealt with via a special resolution will be specified in law or the company's articles of association e.g., alteration of the articles or reduction of capital.

General meetings also offer the opportunity for shareholders to propose their own resolutions. The process of proposal is complex for public companies given the need to gain support from the requisite number of shareholders. Shareholder resolutions are considered special resolutions, requiring 75% votes cast in favour to pass[8]. Recent shareholder resolutions that have garnered support include those related to climate at HSBC and BP[9].

Types of votes

Binding vote — the majority of resolutions put to members are binding, meaning they are legally made decisions i.e., a yes or no to a specified action.

Advisory vote — resolutions may be put to an advisory vote, meaning they do not legally require the board to change its course of action. However, should a significant advisory vote be received against a resolution, the board would be expected to take steps to address shareholder concerns on the matter.

At the moment, the only required advisory vote in the UK is the annual vote on the implementation of the remuneration policy — the 'Say on Pay'. More 'say on' resolutions are being advocated for a range of issues, such as 'Say on Climate' and 'Say on Purpose', though they have not become commonplace. The BEIS consultation also proposes introducing an advisory vote on the Audit and Assurance policy.

6 According to the **2021: The Playing Field** report from SquareWell Partners, in 2020 of the top 50 asset managers, 45 had a dedicated stewardship team appointed to engage on ESG issues and vote at general meetings of companies, increasing from 37 in 2019.

7 The **Enacting Purpose Initiative** is a multi-institution partnership between the University of Oxford, the University of California Berkeley, BCG BrightHouse, EOS at Federated Hermes, and the British Academy. It aims to research and report on emerging global best practices around the implementation of corporate purpose within organisations.

8 In the US shareholder resolutions only require 50% of the votes to pass, however they can only be advisory in nature.

9 **ShareAction's Shareholder Resolutions Tracker 2021**.

We believe that inconsistency and incomparability of ESG data and the proliferation of standards and frameworks to solve this have resulted in a wide range of market inefficiencies, including increased costs from duplicated reporting, verifying ESG data across the investment chain and in some cases the potential risk of mispricing assets.

As a result, many of us are increasingly seeking third-party extended assurance to help increase confidence in the robustness and reliability of ESG information. We believe that independent assurance enhances credibility and trust in the information that companies disclose.

Creating a More Inclusive Economy: Practical insights from global institutional investors, The Investor Leadership Network[10] (ILN), July 2020

- In October 2020, investors worth $10.2 trillion **wrote** to the boards of global mining companies to better understand their engagement with First Nations and Indigenous communities in the wake of the Juukan Gorge disaster.
- Recently, EdenTree Investment Management **engaged** with 10 fashion companies in their holdings on their supply chain management in light of COVID-19.

Despite the increased engagement, investors are hampered by a lack of reliable sustainability data which is essential to meaningful engagement. Based on a **2020 BlackRock survey** of 425 investors worldwide, poor quality or unavailable ESG data and analytics represents the biggest obstacle to sustainable investing. Many investors are calling on companies to provide material non-financial disclosures that are consistent, accurate and audited. Companies must report on their sustainable impact more transparently, otherwise they risk adverse inferences by investors based on estimates that may not be accurate.

Initiatives to drive more accurate and consistent sustainability data are emerging. For example, in July, a new **G7 Impact Taskforce** was unveiled to bring together an influential group of people from the investment, regulatory and corporate worlds to look at impact transparency. Amongst other matters, the Taskforce will seek to explore standards for measuring the social or environmental impact of financial investments simply, transparently and in a globally consistent way, making it easier for all investors to invest based on impact as well as financial return.

[10] The ILN is comprised of 14 global institutional investors representative of six countries, with over US$8 trillion in assets under management.

Keeping on the front foot of investor expectations – how EY can help

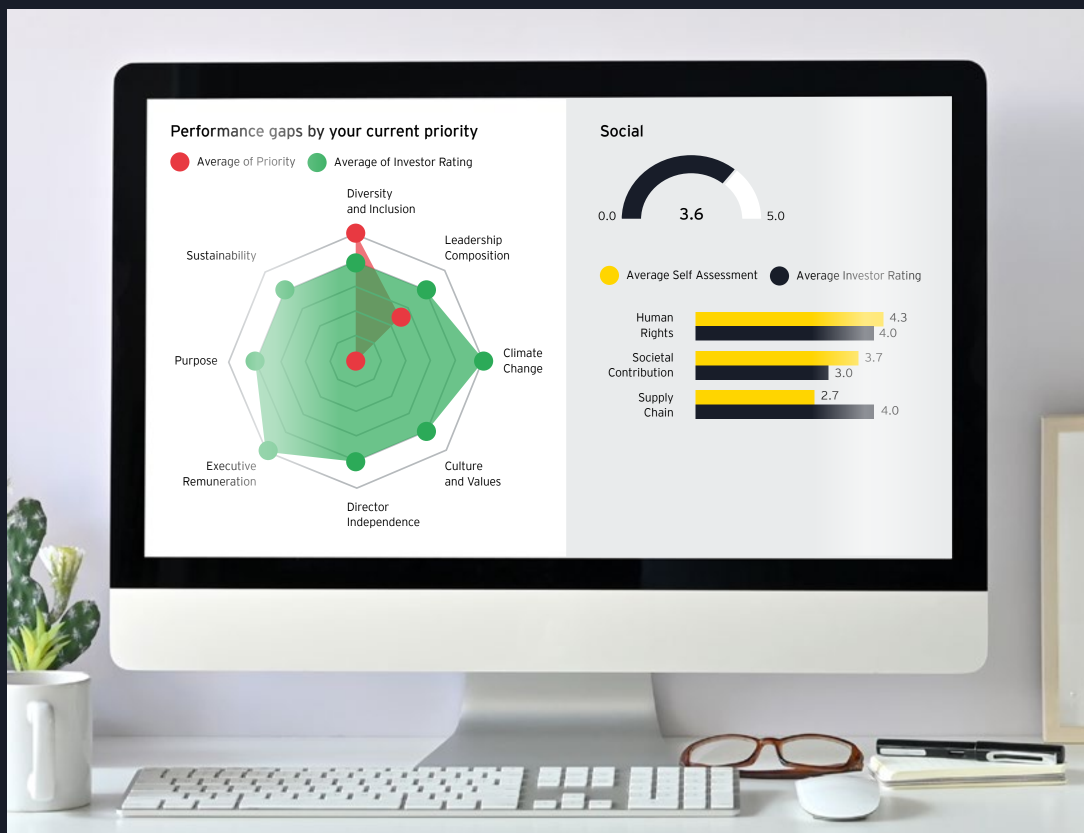
The enhanced requirements introduced by the 2020 Stewardship Code have meant that investors are turning up the dial on direct engagement, expecting tangible outcomes to demonstrate effective stewardship. Investors are demanding heightened accountability from companies around commitments on ESG and broader sustainability matters and are expecting proxy advisors to deliver more robust and comparable data to use in decision making.

Proxy advisors are also having their say – Institutional Shareholder Services, which tends to hold sway over approximately 12% of shareholder votes, has updated its proxy voting policy to allow recommendations to vote against company directors for underperformance with respect to ESG.

Many companies will now be focussed on taking steps to prepare for the most likely outcomes of the BEIS consultation, including enhancing controls over financial reporting. But regardless of expected regulatory changes, boards need to remain on the front foot of investor expectations and societal trends.

Capital allocation for companies with strong ESG credentials is at an all-time high. Conversely views of stakeholders like ShareAction around insufficient disclosures can influence divestments. With numerous initiatives like the HM Treasury-led Asset Management Taskforce's Stewardship Working Group focussed on finding ways in which the expertise in responsible investment can be deepened[11], and investors publishing their engagement plans on a case by case basis, investor action is set to drive corporate change quicker than regulation.

Understanding investor engagement strategies can focus the board on the relevant issues and ensure that corporate reporting meets shareholder expectations to deliver long-term perspectives. To assist executive and non-executive board members in navigating this landscape, EY has developed a proprietary Stewardship Tool – a set of dynamic, investor-validated questions that directors can use to prepare themselves to respond to actual investor priorities.



Loree Gourley, Associate Partner, Financial Services
lgourley@uk.ey.com

11 Investing with purpose: placing stewardship at the heart of sustainable growth.

1.3 Governance

The breadth of topics that directors need to have an understanding of to effectively discharge their duties has been growing steadily. In Part 2 of this series we focus on the expanding remit of the AC and the new obligations likely to arise from the BEIS consultation. In Part 3, we cover how the growing emphasis on human capital matters is demanding more board-level involvement on matters of diversity, inclusion, employee engagement and culture. In addition, ESG matters and especially climate change are becoming the latest area of increasing board oversight, a topic we explore in this Part of the series.

The impact on directors' time commitments from both preparation for and attendance at an increased number of scheduled board and committee meetings is notable. This, combined with the need for more frequent ad hoc, unscheduled meetings to navigate a crisis such as the pandemic, have renewed concerns about 'overboarding'[12]. It is hardly surprising that disclosures on the outcomes of board evaluations identify that a common area of improvement is planning meetings in a way that allows directors to focus on points most material to the success of the business whilst avoiding lengthy presentations on topics that should be included in pre-read materials.

To achieve this, processes related to the flow of information to the board and its committees need to keep pace with changes in the business and risk environment, and reporting thresholds need to be clearly established and well understood. Data, e.g., summarised in the form of controls and performance dashboards and/or made available in real-time through the use of board portals rather than quarterly packs, will play an increasingly important role in how boards discharge their roles.

Boards also need to ensure that their governance structures remain fit for purpose and that responsibilities are being allocated between committees and directors equitably. Increasingly, companies are starting to report on the allocation of time across key areas. **Barclays** (see **Figure 1.1**), also compares the allocation of time by its board and committees between 2020 and 2019. The **Severn Trent** board (2021 ARA, p103) participated in a time apportionment exercise to establish the time commitment of individual directors on the board and its committees, with a particular focus on committee chairs, to ensure this reflected the time commitment expectations outlined within its Charter of Expectations (a document that sets role profiles and states expectations for all of the key positions on the board).

In response to the growing remit of the board, a number of boards established new committees this year and others rebranded and/or revisited existing committees' terms of reference, mainly reflecting a stronger focus on sustainability, environmental and social matters. As is necessary for the effective functioning of standard board committees, these new committees will need to have the right support infrastructure including access to external advisors and input from management.

[12] According to the **Chartered Governance Institute UK & Ireland (CGI)** whilst there are varying definitions of overboarding, a NED is generally regarded as overboarded if they hold more than five public company directorships (with the role of a chair being counted as two directorships).

The board has traditionally been supported by the company secretariat in the discharge of its governance duties. In the past, this role was seen as focussed on administrative tasks — company law compliance, arranging board and committee meetings, collating and distributing board packs, drafting minutes and ensuring that regulatory filings were done on time.

But as the volume of governance matters in the board's remit has grown, the role of the company secretary has had to become more strategic. Pivotal is ensuring that the right topics find their way onto the agenda at the right time, supported by decision-useful information, and that there is effective liaison between the committees and the board.

Reflective of the growing remit and the central position that the company secretary holds in relation to the remits of directors, management and shareholders, some companies are redefining the role as Chief Governance Officer.

Peter Swabey, Policy and Research Director, The Chartered Governance Institute UK and Ireland

Examples of new board committees established in 2020/21

Capital and Counties – Environment, Sustainability and Community Committee.

Rotork – Environmental, Social and Governance Committee.

Marks and Spencer (see **Figure 1.2**) – Environmental, Social and Governance Committee.

Johnson Matthey – Societal Value Committee.

Unite – Sustainability Committee.

Pennon – Health and Safety.

Vodafone – ESG Committee.

Examples of changes to committees' remits

IAG added sustainability matters to the remit of its Safety Committee.

Intercontinental Hotel Group expanded the remit of its Responsible Business Committee to assume responsibility for assessing the board's engagement with the workforce.

Direct Line renamed its Corporate Responsibility Committee to Sustainability Committee and refreshed its scope.

Entain renamed its Corporate Social Responsibility Committee to Environmental, Social and Governance and expanded its agenda to cover environmental and social matters.

Pennon refreshed the focus of and renamed its Sustainability Committee to ESG Committee, strengthening and prioritising ESG.

Persimmon restructured its Corporate Social Responsibility Committee which became the Sustainability Committee with a stronger focus on climate change.

Aviva revised the remit of its Governance committee and changed its name to the Customer, Conduct and Reputation Committee, reflecting its revised focus areas which include shaping the culture and ethical values of the group and the approach to corporate responsibility.

As discussed in Part 3 of this series, boards are also increasing oversight over human capital issues, often with the nomination and remuneration committees being given new responsibilities in this respect. E.g., **BP** renamed its nomination committee to become the People and Governance Committee, reflecting its wider remit.

1.3.1 Purpose and trust

COVID-19 has tested the boundaries of the section 172 directors' duty. Never have there been more boardroom debates about the simultaneous trade-offs between securing the future of the company and supporting its stakeholders in a time of crisis. Boards are having to question the changing roles of their organisations and what value they are delivering.

Throughout the pandemic many UK companies have played an active role in supporting the fight against COVID-19 in a variety of ways – from donating funds to repurposing their own production lines to produce masks or vital medical equipment, as well as distributing food and vaccines. They have actively supported their communities and found innovative ways to step up and meet the evolving needs of their employees. Some companies that fared better through the disruption are repaying government support they have received or have committed to do so. All this whilst continuing to work on the climate agenda and confronting racial inequality. Boards are articulating more clearly how being purpose-led in their decision making helps build trust with their stakeholders. This sentiment is reflected in the Chairman's statements of **National Express** (2020 ARA, p7) and **Barclays** (2020 ARA, p4) to give but a few examples.

No wonder therefore that, according to the **2021 Edelman trust barometer spring update**, "my employer" remains considerably more trusted than other institutions in the UK. But this also means that expectations on business are high, with a majority believing that the UK will not be able to overcome its challenges without business involvement, and there are greater expectations for CEOs to prioritise social issues. According to the barometer, seven in 10 employees in the UK expect their employer to act on social issues with addressing vaccine hesitancy, climate change and racism identified as the priority areas.

Regardless, scepticism remains about the extent to which companies are truly purposeful as opposed to just using purpose rhetoric as the latest PR tool. This was recently brought to the fore by a much publicised **academic paper** from Professor Lucian Bebchuk and Roberto Tallarita of Harvard Law School, who, on the second anniversary of the Business Roundtable's Statement on the Purpose of a Corporation (the 'BRT Statement') – the much celebrated pledge by US corporate leaders to protect stakeholders – found that 'the BRT Statement was mostly for show and that BRT Companies joining it did not intend or expect it to bring about any material changes in how they treat stakeholders.' The signatories for the best part failed to publish information to allow the reader to see how their practices and metrics have changed because of the new commitment.

Board conversations on this matter are therefore set to continue. As highlighted by **The Purpose Tapes**, an amalgam of interviews conducted in 2021 by the Purposeful Company with 14 business leaders who have a stated commitment to purpose, finding better ways for companies

In recent years, there has been a growing momentum for alternative corporate forms which require companies to factor society and the environment into their decisions. For example, over 30 states in the US have a public benefit corporation statute or something similar; France has a statute that governs the entreprise à mission structure.

The **Better Business Act** campaign in the UK – supported by hundreds of companies and the Institute of Directors – is pushing to change section 172 of the Companies Act to ensure there is a requirement to put environmental, social and shareholder interests on an equal footing. This effectively challenges shareholder primacy as the status quo.

> "(...) ultimately it must be Directors and businesses themselves who should be trusted to uphold their values and champion their workers, this is in everyone's interest and many did so valiantly prior to and during the coronavirus crisis. The role for legislation and oversight is to step in when this trust fails, as a precautionary measure, rather than to guide behaviour in the first instance. By getting this balance right, we can ensure that British businesses are working towards what is in the public interest and ultimately create the greatest value for their stakeholders too.
>
> **Social contract: The relationship between business and society after the crisis**[13]

[13] Summary report of a joint Onward (an independent, not-for-profit thinktank) and EY event.

and investors to engage about purpose is a vital area of focus. One of the challenges will be demonstrating how companies are living up to their purpose and how that purpose supports value creation rather than being an abstract statement; something that maybe was easier to do in the past months because of the acute circumstances. To address this, increasingly companies are translating their purpose statements into commitments with measurable targets, for example:

- **NatWest** presents a clear mapping of the metrics it uses to measure how well it is realising its purpose (to champion potential, helping people, families and businesses to thrive) along with the targets that it has set itself (2020 ARA, pp18-20), linking this back to Sustainable Development Goals.
- **Lloyds Banking Group** (see **Figure 1.3**) has evolved the focus of its purpose to reflect the role it aspires to play in Britain's recovery and identified five priority areas, each with a number of commitments with clear targets.
- **GSK** (see **Figure 1.4**) considers that trust is crucial to its purpose. It has 13 public 'Trust commitments' in the ESG areas where it can make the biggest difference. Trust is also one of GSK's three long-term priorities, with three of its 10 operating key performance indicators (KPIs) tracking progress against it.
- **Aviva** (2020 ARA, p87) has designated its Customer, Conduct and Reputation Committee as the custodian of Aviva's purpose on behalf of the board and tasked it with overseeing the development of metrics to give insight on performance against the purpose.

The ability to demonstrate that a company is living up to its purpose may become even more critical should proposals to introduce a 'Say on Purpose' materialise. Whilst not yet mainstream, it has been endorsed by several parties, including **NatWest's CEO Alison Rose**, the Purposeful Company Steering Group, as well as academics and governance practitioners Alex Edmans and Tom Gosling. Under such proposals, Edmans and Gosling **envisaged** that companies could i) disclose a purpose beyond profits; ii) clarify the principles that would apply to trade-offs the company might make between investors and stakeholders, or between different stakeholders; iii) provide an advisory vote every three years for investors to reflect their opinion on principles under ii), and a separate annual advisory vote on the implementation of the purpose.

However, whilst the 'Say on Purpose' idea is well-intentioned, it might be limited in effectiveness and seen by some as another means of 'purpose-washing.' Also, there could be unintended consequences, such as reducing director accountability and the risk of investors rubberstamping inadequate practices of companies making unprofitable investments in sustainability.

Purpose and sustainability are related but different ideas. Purpose comes first. Sustainability can either contribute to it or can detract from it. (...) Long-term sustainable value creation starts with clarity of purpose. The products and services that are the solutions for people and planet will need to change as the world evolves in terms of its sustainability concerns about the negative externalities created by these solutions. Addressing these externalities must be done in a way that keeps the solutions profitable. Failure to do so will result in sustainability detracting from purpose, rather than supporting it.

The Difference Between Purpose and Sustainability (aka ESG), by Robert Eccles, Colin Mayer, and Judith Stroehle

1.3.2 Micro and Macro G

The destruction of the Juukan Gorge is a devastating proof point of the need for strong governance over environmental and social matters. Across its entire 2020 ARA **Rio Tinto** apologises for its actions, explains the changes it has and continues to make to governance arrangements, including implementing a new Integrated Heritage Management Process that supports a systematic review of heritage sites the company manages.

An increasing number of companies are discussing the governance structures they have in place over sustainability initiatives and programmes[14]. To differentiate this from the broader, board level governance at the overarching strategic level – or the 'Macro G', we refer to this as the 'Micro G.' Clearly, the two intersect – as discussed in **section 1.3.4**, many companies now have board level ESG committees and explicit responsibilities over human capital oversight. **Severn Trent** (2021 ARA, p59) shares a very detailed overview of its sustainability governance, across a number of board and management committees. We are also seeing sustainability roles emerging at C-suite level, e.g., a few companies like **Unilever** (2020 ARA, p72) have a Chief Sustainability Officer (CSO)[15].

A number of companies set up new governance structures or enhanced existing ones. **Bunzl** (2020 ARA, p58)) established a new governance structure to implement its sustainability strategy and manage delivery of the programme across the group. **Spirax-Sarco Engineering** (2020 ARA, p66) further developed its sustainability governance structures in 2020, including appointing a head of sustainability. **IAG** (see **Figure 1.5**) strengthened its sustainability governance and shares its organisational chart, highlighting new structures introduced in 2020 which are further explained as part of its GRI disclosure (2020 ARA, p49). Some have taken a blended approach of establishing an executive working group with a board representative. This provides a two-way line of communication between management and the board, without the burden of an additional board committee. For example, during 2020, **Imperial Brands** (2020 ARA, p70) established an ESG Steering Committee comprised of senior managers from functions including sustainability, procurement, legal, manufacturing and supply chain and corporate affairs chaired by the board chair.

Whilst allocating the oversight of environmental, social and other sustainability matters to a separate committee elevates their consideration, care is needed to ensure that these matters are also considered holistically as part of the overall strategy rather than in a silo. Many companies continue to discuss their sustainability strategy quite separately from the broader strategy. Reporting in ARAs too often remains in a discrete ESG section, elements of which read like a rebranded corporate social responsibility (CSR) insert.

14 The majority of companies in our sample referred to their 'sustainability governance' framework, with a few referring to 'ESG governance' or 'responsible business governance' frameworks.

15 The importance of the CSO role has been recognised by the creation of the S30 forum, which brings together leading CSOs to accelerate business action on sustainability. CSOs help to explain how profit and purpose can be complementary, demonstrating that environmentally-conscious organisations protect their finances as well as the planet (**Why CSOs are key to value-led sustainability**, Steve Varley, EY Global Vice Chair – Sustainability, February 2021).

To the external reader many of today's ESG narratives can indicate that the board has not fully grasped the need for full strategic integration of environmental and social topics. An example of a company that embeds ESG into core business strategy well and reports on this in a meaningful way is **Unilever** (2020 ARA, pp8,10,11, and 34). It refers to "win[ning] with our brands as a force for good, powered by purpose and innovation" as one of its five strategic choices that is supported by specific objectives, such as improving the health of the planet as well as people's health, confidence and well-being. Performance against these aspects are measured through the business' KPIs.

Directors also need to consider their duty under Principle N of the Code for the ARA to present a fair, balanced and understandable (FBU) assessment of the company's position and prospects and challenge the presentation and disclosure in these areas with this duty in mind. Careful thought is needed to discuss material issues with relevant data points. Reporting should not be crowded out by matters immaterial to the core business e.g., a construction company should focus on reporting initiatives on building more energy efficient properties rather than highlighting those that have a relatively minor impact, such as using recycled coffee cups in their head office. In addition, unsubstantiated, hollow claims can destroy trust, reputation and value. This year the **European Commission and national consumer authorities** screened websites for 'greenwashing', the practice by which companies claim they are doing more for the environment than they actually are. National consumer protection authorities had reason to believe that 42% of the claims were exaggerated, false or deceptive.

Under Provision 25 of the Code, the AC should provide advice where requested by the board on its FBU duty in relation to the ARA which is discussed above. If the AC does not oversee sustainability matters, it may not be in a position to advise the board and specific input may be needed from other committees. **Tullow Oil**'s Safety and Sustainability Committee (2020 ARA, p45) has broader oversight of Tullow's sustainability disclosure, ensuring it is balanced, complete and accurate.

ESG needs to mature to have the same level of rigor and relevance as financial disclosures and to better demonstrate the economic impact of different ESG strategies and targets.

There needs to be a stronger connection between the "F" of financials and ESG — "FESG" — otherwise the true costs and opportunities of business aren't properly measured. This will help businesses to rethink how they use ESG to inform strategic choices, drive innovation, and articulate how they're creating long-term value.

(...) leading companies are embracing a broader vision of ESG to set out their unique narrative and to drive innovation. By adding in elements that positively differentiate themselves from others they are pushing to be more attractive to investors, employees, consumers and others. We call this emerging dynamic, which connects financial disclosures more closely to ESG and indicates the innovation of additional disclosures ahead, "FESG+.

How to realize the full potential of ESG+, EY, July 2021

1.3.3 TCFD and climate governance

Although TCFD is a reporting requirement, governance over TCFD is often part of the broader sustainability governance framework, as the reporting can only ever be an outcome of the underpinning practices and processes adopted by a company. These practices and process are not within the regular remit of the three committees required by the Code. Therefore, it is not surprising that the approach to TCFD governance varies between companies and depends on how material climate change and carbon are to an organisation.

Examples of structures adopted in this regard include:

- Oversight maintained predominantly at the board level, often with AC support (e.g., BAT)
- Oversight delegated to an ESG/Sustainability Committee (e.g., BT)
- Oversight split between the board and most of its committees (e.g., National Grid)

On the one hand, good governance should intrinsically include effective climate governance. To this point, climate change is simply another issue that drives financial risk and opportunity, which boards inherently have the duty to address with the same rigour as any other board topic. On the other hand, climate change is a new and complex issue for many boards that entails grappling with scientific, macroeconomic and policy uncertainties across broad time scales and beyond board terms. In this regard, general governance guidance is not necessarily sufficiently detailed or nuanced for effective board governance of climate issues.

World Economic Forum – How to Set Up Effective Climate Governance on Corporate Boards[16]

The last approach is common in industries most affected by climate change with the main aspects being dealt with by an ESG/Sustainability committee (which oversees material policies, processes, and strategies designed to manage climate risks and opportunities, monitors the implementation of climate related initiatives and sets and monitors progress against targets on behalf of the board) and the AC (which has oversight over meeting reporting requirements, considers the integration of climate risk into the overall enterprise risk management, monitors the reliability of climate metrics and assurance over them as well as ensuring that climate change impacts are adequately reflected in the financial statements).

Similar to broader sustainability, companies continue to reassess and evolve their TCFD governance. For example, BT (2021 ARA, p67) commissioned an independent review based on the World Economic Forum's Principles for Effective Climate Governance on Corporate Boards which helped set internal governance priorities, including integrating climate change better within its risk management framework. Babcock (2021 ARA, p62) notes that it will be conducting the **Chapter Zero board readiness check** next year.

ARAs detail collaboration between committees on various aspects of TCFD and make reference to climate change working groups/management committees which support the board committees.

To increase corporate accountability on climate action, many investors are supporting '**Say on Climate**' (SoC) initiatives. For example, in July 2021, $14 trillion investors, via the Institutional Investors Group on Climate Change, **called** on companies to: i) disclose a net zero transition plan, ii) identify the director responsible for the plan and iii) provide a means for investors to provide an advisory vote annually on progress against the plan. However, as highlighted in a recent global **review** by SquareWell of SoC proposals, these have been used by some companies to simply appear progressive.

16 This report launched in Davos by the World Economic Forum presents a set of principles and questions to assess the strength of corporate boards' climate governance.

1.3.4 Board committees

The Code requires only three mandatory committees and indicates the matters that must fall within their remit. Whilst delegation of oversight responsibilities to these committees is generally aligned to the Code requirements, it is clear that there is no right or wrong answer, or one size fits all approach. For example, **NatWest** (2020 ARA, pp102 and 151) states it does not comply with Provisions 17 and 33 of the Code as its board considers that succession planning and remuneration setting should be reserved for the board.

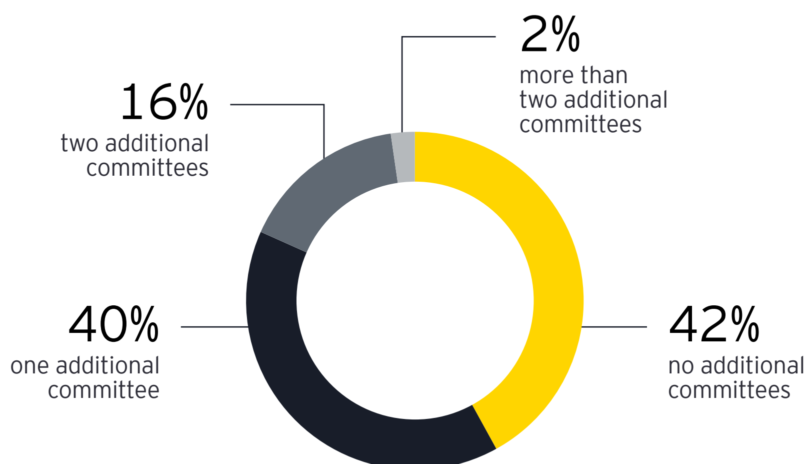
More than 50% of the companies within our sample had committees additional to those required by the Code — unsurprising in the context of the rising focus on sustainability and climate; of these, 62% had sustainability related responsibilities. All mining companies within our sample had either a Health and Safety committee, or a broader sustainability committee with oversight over health and safety matters.

The plethora of companies that now have a sustainability focussed committee suggests that boards want to ensure that newer areas get equal board focus to the more traditional, established ones like financial reporting and risk. It is therefore incumbent on the board and its chair with support from the company secretary, to challenge whether governance structures remain fit for purpose in light of the issues and opportunities facing the company. Our findings could indicate that simply aligning governance structures with the Code may not contribute to achieving the highest standards of corporate governance for much longer.

The proliferation of committees is also reigniting the debate about which matters should be delegated to committees and which remain with the board. The 2018 Code elevated the monitoring of whistleblowing from the AC to the board and allocated the new requirement to monitor culture to the whole board as well. The Code's Provisions have a comply or explain footing and boards have the freedom to reallocate responsibilities as they see fit. As discussed in Part 3 of this series, many boards have delegated aspects of culture monitoring to various committees and in many cases the AC continues to advise the board on whistleblowing topics.

By delegating more of the specific topics to committees, the board can create more time for strategic debate. Board committees also allow for specialisation which leads to both efficiency and clearer accountability. But they do bring challenges — such as information segregation. This can be alleviated by NEDs serving across committees or through planned and structured interaction between committees. **Rio Tinto**'s AC (2020 ARA, p132) reviewed the quality and effectiveness of the Group's internal control and risk management systems in a joint session with the Sustainability Committee, which oversees a number of key corporate risks. Similarly, **Smith+Nephew**'s AC (2020 ARA, p94) works closely with the Compliance & Culture Committee to review the impact

Figure 1.01
Board committees in addition to Audit, Risk, Remuneration and Nomination



> In light of developing practice as observed from our review (Figure 1.01), is the Code's stipulation of three committees (audit, nomination and remuneration) becoming an outdated concept? In line with the 2018 Code's emphasis on applying its Principles, has the time come for boards to decide which responsibilities should be delegated to what committees and explain their choice of governance structures?
>
> Mala Shah-Coulon, Associate Partner, EY UK Corporate Governance Team

of risk management and internal controls. In 2020, **GSK**'s board oversight (2020 ARA, p43) over risks and the strategies used to address them was extended beyond the Audit & Risk Committee to include more involvement from the Corporate Responsibility and Science Committees. **Marks and Spencer**'s newly established ESG Committee (see **Figure 1.2**) supported the AC in its review of new and existing risks relating to ESG topics. There will be an increased need for cross-committee working as both the number of issues such as TCFD reporting that straddle the traditional remits of committees grows (see **National Grid** (**Figure 1.6**)) and more non-financial metrics are included within remuneration structures, a topic discussed in detail in Part 3.

But when such arrangements are in place, and when committees take on new tasks, it is important to ensure that their terms of reference (ToRs) are appropriately updated. Many ToRs available on companies' websites remain very generic and not reflective of some of the narrative included in committee reports in the ARA. Accurate ToRs, that are regularly revisited and updated, are critical to ensure that there are no misunderstandings about responsibilities, the actual workload and what it entails, the items on the rolling agenda and to avoid duplication of work. For example, **Centrica** (2020 ARA, p55) explains that its AC regularly undertakes reviews of its ToRs to ensure it reflects the actual role carried out by the committee and how it is operating. During the year, the AC and the Safety, Environment and Sustainability Committee (SESC) reviewed their respective roles and ToRs to identify areas of duplication and possible opportunities to simplify their operation. As a result of that review and with effect from 1 January 2021, the AC was renamed the Audit and Risk Committee and assumed sole responsibility for the oversight of the overall enterprise risk framework together with the oversight of the risk management of cyber risks and legal, regulatory and ethical compliance, some of which were previously in the remit of the SESC. As a consequence of these changes, the committees dispensed with their joint twice-yearly meetings.

> "
> It will be interesting to observe whether the move to virtual meetings during the pandemic is going to have a long-term impact. Previously, the imperative to cluster all committee and board meetings around the same time, often on consecutive days even, was linked to minimising travel time and cost. Online interactions remove this consideration and make cross-committee working easier and perhaps even more effective as actions from one committee that fall into another committee's remit could be addressed if their meetings were spaced. At the same time, however, it creates the risk of reducing site visits and personal connectivity.
>
> Maria Kępa, Director, EY UK Corporate Governance Team

> All organisations need to demonstrate they are trustworthy in order to operate effectively and sustainably. Reputations are not based solely on the delivery of products and services, but on how an organisation values its stakeholders. Having a reputation for acting with honesty and ethics will not only differentiate an organisation, it will make it more successful.

Institute of Business Ethics (IBE) Board Briefing: Ethics and section 172

1.3.5 Ethics and reputation

According to the Institute of Business Ethics' 2020 **report**[17] on corporate ethics policies and programmes, ways of promoting ethical leadership include making ethics a part of the board's performance appraisals; ensuring boards receive mandatory training on their companies' ethics programme; and insisting that the head of ethics has access to the board and does not have to go through the legal department. Another important way to elevate discussions on ethics is through the presence of board-level committees.

Although there were only seven companies within our sample that had a committee with the word 'ethics' in their name e.g., **Hikma** – Compliance, Responsibility and Ethics; **Wood Group** – Safety, Assurance & Business Ethics, **Investec** – Social and Ethics, (by virtue of its listing in South Africa), others had words such as conduct or reputation e.g., **Standard Chartered** – Brand, Values and Conduct; **Pearson** – Reputation and Responsibility and others still referred to ethics in their terms of references or activities in the year e.g., **Derwent**, Responsible Business; **Smith+Nephew** – Compliance and Culture.

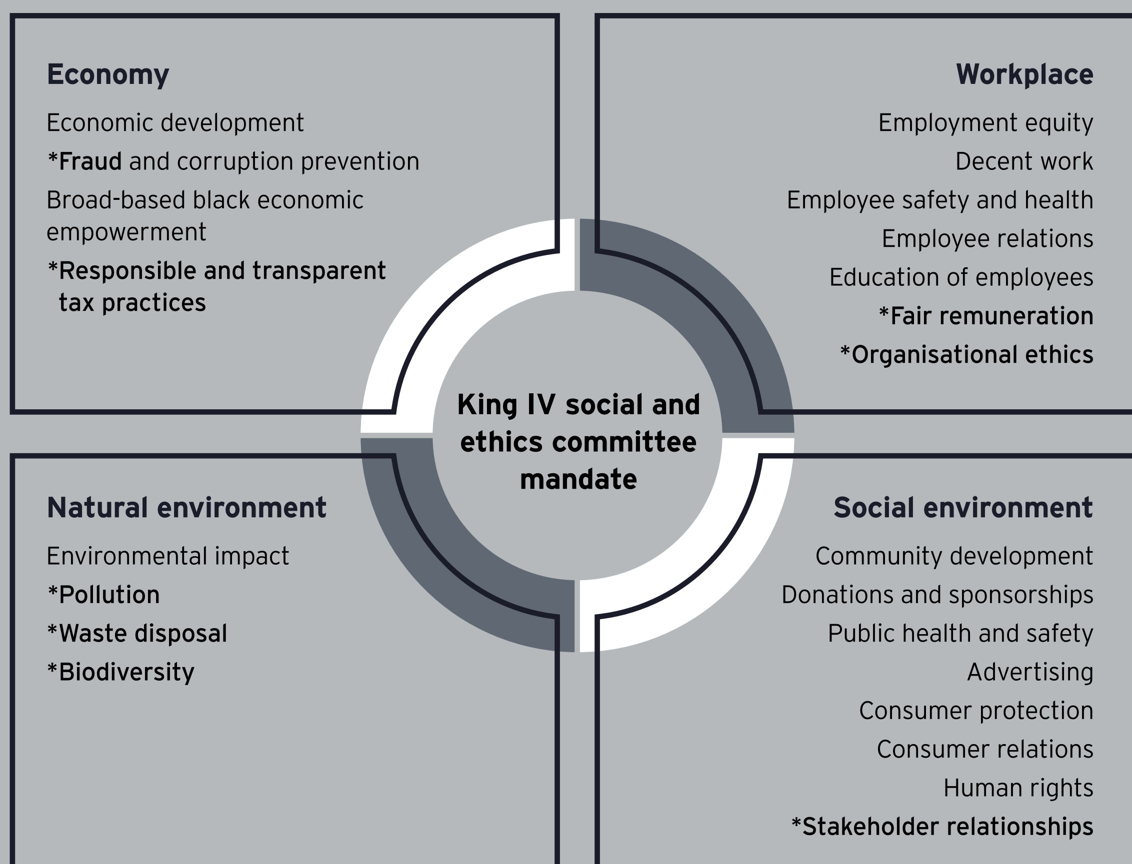
[17] The report includes findings from desktop research undertaken in 2019 from a sample of 242 large companies listed on the following stock market indices: the French CAC 40, the German DAX 30, the Italian FTSE MIB 40, the Spanish IBEX 35 and the UK's FTSE 100, an online survey of 35 senior ethics and compliance professionals, as well as interviews with 14 ethics and compliance professionals.

In South Africa, Section 72 (4) of the Companies Act 71 of 2008 as amended read with Companies Regulation 43, made the social and ethics committee (SEC) a requirement for listed public companies. The statutory nature of this governance structure is unique on a worldwide scale, and, according to the **Social and Ethics Committee Trends Survey Report 2020** published by the Institute of Directors in South Africa NPC and the Ethics Institute, in the eight years since the SEC requirement came into effect, it has already started changing boardroom conversations.

The committee's key statutory functions broadly relate to monitoring an organisation's activities with respect to social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships and labour and employment — a remit not so dissimilar to many ESG and sustainability committees in the UK.

The King IV Report on Corporate Governance™ for South Africa 2016 (King IV™) recommended expanding the role of the SEC to include oversight of and reporting on responsible corporate citizenship, sustainable development and stakeholder relationships, but also specifically on organisational ethics. As per the Ethics Institute's **Social and Ethics Committee Handbook**, leading committees following these recommendations have started to play a strategic role in advising the organisation on how it can improve its social and ethics performance, advancing ethical culture and corporate citizenship and moving beyond the statutory compliance obligations.

This diagram indicates how the statuatory mandate of the SEC is expanded when the King IV recommendations are incorporated:



*King IV additions

Diagram 7, Social and Ethics Committee Handbook: Expanded King IV mandate of the SEC.

Reporting on a number of compliance aspects of ethical issues such as modern slavery reporting and anti-bribery measures, including whistleblowing, is already required in the UK, with some companies also discussing how these matters translate into culture and values:

- **Balfour Beatty** (see **Figure 1.7**) discusses its business integrity programme (which is owned by the board) and notes that its directors receive business integrity reports twice a year.
- **Derwent** (2020 ARA, pp142, 148) discloses both an overview of its overall anti-bribery and corruption policies and procedures and a summary of its supply chain sustainability standard, which addresses bribery and corruption considerations. Derwent requests evidence that suppliers with whom the company spends more than £20,000 per annum comply with it. At the same time, promptness of payments to suppliers is one of the culture indicators monitored by the board, as ethical payment practices are considered to be a key aspect of governing the supply chain (2020 ARA, pp57, 111).
- **Fresnillo** (2020 ARA, pp82-85) dedicates a significant portion of the sustainability section of its ARA to discuss its ethics culture initiative, noting that it monitored progress using Ethisphere's 'Ethics Quotient,' which it discloses. Fresnillo also provides granular insights into whistleblowing cases, including types of matters and number of disciplinary actions and controls reinforcements.

Furthermore, although not required, according to **IBE's desktop analysis**, 85% of FTSE 100 companies have a code of ethics, the vast majority of which are publicly available. We have noted that to make such codes more practical, companies are introducing ethical decision making frameworks into their codes of conduct – for example **National Grid** (one of the five UK companies **recognised by Ethisphere** in 2021 for their unwavering commitment to business integrity) includes a quick test for employees to apply, as does **Lloyds Banking Group**, which emphasises that legality is not enough, as internal standards may go beyond, but even adherence to those may not be sufficient if the decision is not aligned with its corporate values (see **Figure 1.8**).

Based on the above it therefore seems that there is a strong focus on ethical compliance. However, ethical considerations in decision making at the board level are not often discussed in UK corporate reporting. This may need to evolve, as boards are faced with issues such as data privacy and use of big data, rising societal condemnation for harassment and bullying and ethical considerations relating to products and services based on artificial intelligence (AI).

Whilst the word 'ethics' doesn't specifically feature in s172, its requirement for directors to consider (among other matters) "the desirability of the company maintaining a reputation for high standards of business conduct" may mean that boards need to provide more insight into how ethics factored into decision making than is currently the case.

For example, a number of UK companies have made the decision to return cash received through furlough and other schemes set up by the government to support businesses during the pandemic. In some cases, this was in response to pressure from investors criticising plans to pay large bonuses despite having relied on government aid; in others this was an independent decision of the board when the company had performed better than expected.

Boards are increasingly having to consider the ethics of such situations and how their decisions will impact the reputation of their companies. Coupled with this is the risk to directors' personal reputations should they be found to fall short of stakeholder expectations. The Code's Principle C stipulates a requirement for all directors to act with integrity. Individual actions could undermine trust in organisations as well as result in significant personal consequences such as disqualifications, fines or even imprisonment under company law. Noting the rarity of prosecutions against directors, the BEIS consultation is looking to strengthen directors' accountability (see **section 1.1**).

A company's use of AI should be consistent with the values it espouses. Most corporations want to live up to these value statements, but to do so, they have to make sure that the way they use AI is consistent with them. The key is for organizations to see AI as a strategic tool, not a tactical one.

AI Ethics: What Leaders Must Know to Foster Trust and Gain a Competitive Edge, Nigel Duffy, EY global AI leader

> All companies, regardless of industry, face ethical questions, and [ethics] committees would take on difficult conundrums before it is too late to change course. Companies that collate and handle private data — such as software companies, banks, and utilities — should more urgently pursue the possibility of establishing an ethics committee than, say, an infrastructure company that is more business-to-business focussed.
>
> The ethics committee of a pharmaceutical company might be focussed on data privacy issues, whereas the ethics committee of a mining conglomerate might be occupied with whether to invest in countries led by governments that are seen as authoritarian or that have morally reprehensible human right records. A consumer goods company, such as a clothing chain, will be concerned with maintaining an ethical supply chain, in particular ensuring that no child labour or worker abuse takes place.

"How Boards Work: And How They Can Work Better in a Chaotic World," by Dambisa Moyo

1.3.6 Stakeholder engagement

The Code has long required that directors ensure satisfactory dialogue with shareholders and use general meetings to communicate with investors and to encourage their participation.

Companies are proactively seeking to understand the sentiment from their investors – however this can be difficult given how dispersed ownership is. Based on **OECD Corporate Governance Factbook 2021**, the percentage of UK companies where the three largest shareholders own more than half of the shares is only 19%. **National Grid** (2021 ARA, p48) conducted an independent audit of investor perceptions from 20 different institutions representing almost 20% of the company's share capital. The results were reviewed by the board, with findings and actions disclosed in the ARA.

Due to the long-standing requirement in the Code, ARAs have historically had disclosures on shareholder engagement; however, not many provide much substance on what was discussed or any actions arising.

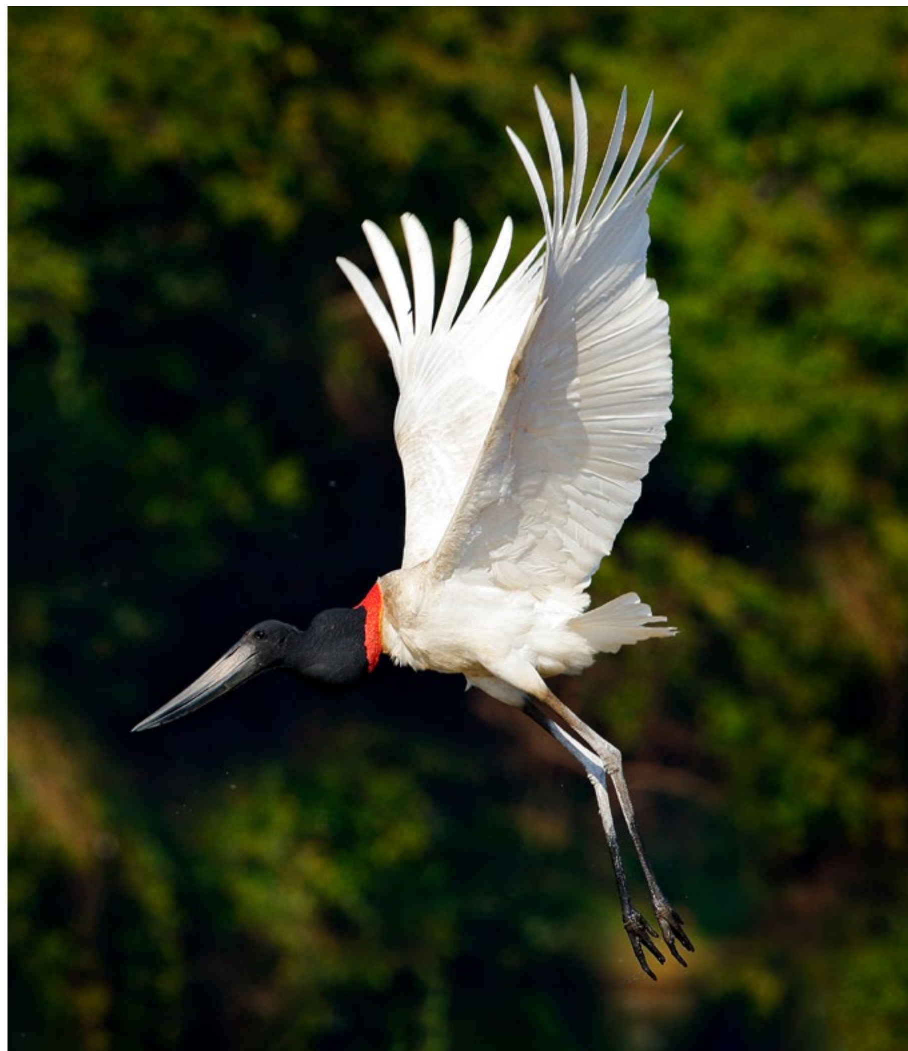
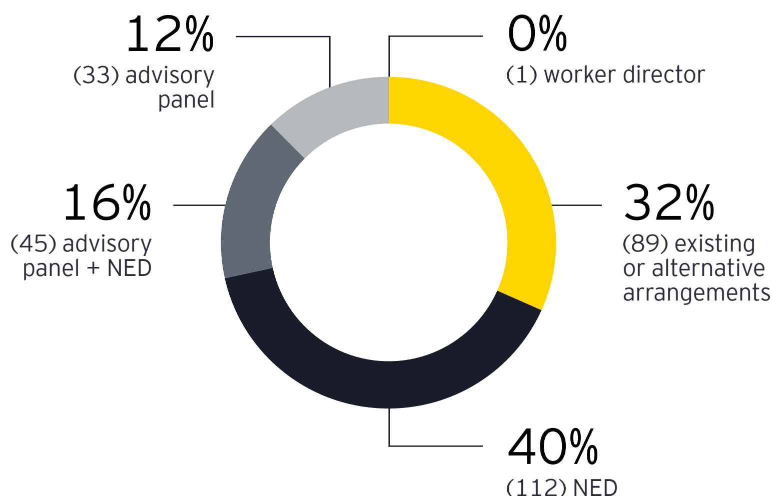


Figure 1.02
Workforce engagement and the UK corporate governance code: a review of company reporting and practice, page 10, FRC, May 2021

Response to Code by 280 FTSE 350 Employers



The 2018 Code's requirements for specific workforce engagement mechanisms (as complemented by UK company law) has led to clarity on how directors engage with employees. According to a recent **FRC survey** (see Figure 1.02) a designated NED, sometimes in conjunction with an advisory panel, is the most popular choice of engagement mechanism. The same survey, however, indicates that only 6% of respondents felt that their chosen workforce engagement mechanism has led to 'significant improvements' in boardroom decision making, whilst 71% described 'minor improvements' and 23% 'no effect'.

In order to improve the consideration of workforce matters in boardroom decision making, it will be interesting to see whether boards evolve how their chosen workforce engagement mechanism operates, incorporate changes that functioned well under remote working or potentially change the mechanism entirely. Equally, as we discuss in Part 3 of this series, engagement approaches might evolve further in response to the growing calls to consider human capital across the value chain, not just in respect of the workforce.

Different boards are also taking different approaches to engaging other stakeholders to solicit their views. This is both in terms of the degree of direct board versus indirect (management) engagement, and also whether this responsibility for some stakeholder groups is maintained at the board level or delegated to specific committees.

58%

of companies do not clearly differentiate in their reporting between direct engagement by the board versus indirect engagement by management.

This is to be expected, as the overall engagement needs to be reflective of the specific circumstances of the entity. According to the FR Lab report published in July 2021: **Reporting on stakeholders, decisions and Section 172**, although many companies say that consideration of stakeholders had been part of 'business as usual' for many years, the recent wave of new regulations has led companies to reassess, formalise and articulate how they think about and engage with stakeholders. Some are continuing to refine the approach, for example, **Smith+Nephew**'s Compliance and Culture Committee (2020 ARA, p100) will in 2021 formulate a programme for the committee and board to meet and receive direct feedback from stakeholders beyond the workforce.

However, it is not easy to discern from ARAs the basis for a board's overall stakeholder engagement approach and how it supports and aligns with overall strategy. Of the 13% of companies in our sample that disclosed a stakeholder materiality matrix in their ARA, none made an explicit link to board level engagement.

Our review of Section 172(1) statements also indicated very low levels of direct board engagement with customers, even for companies emphasising their client-centric culture. More could be done to explain how directors stay on top of customer sentiment when direct engagement is simply not pragmatic. **Aviva**'s Customer, Conduct and Reputation Committee (2020 ARA, pp50 and 87) has oversight of operational risks related to customer and business conduct, the Group's customer strategy and customer conduct obligations. It receives regular reporting on customer outcomes and customer-related strategic initiatives. During 2020 this included the creation of an enhanced customer dashboard to provide a greater overview of key customer metrics, data and insights.

Investors note that companies tend to discuss the engagement mechanisms in detail, particularly for employees. However, many companies do not sufficiently discuss the outcomes of the engagement, including the feedback received, how the company responded to it, and what implications it has on strategy and decisions.

(...) while investors are interested in the "how", what they are truly interested in and would like to see more of in the annual report is the why and the outcomes of processes, implementation of policies and engagement.

Reporting on stakeholders, decisions and Section 172, FR Lab, July 2021

As section 172(1) statements still often lack outcome focussed reporting, it is also not always clear how and to what extent the board holds management to account for addressing stakeholder feedback. Whilst companies reference commitments to stakeholders and the board often emphasises this fact, there are few companies that discuss the process for overseeing those commitments. An exception is **GSK** (see **Figure 1.4** and p102) – its Corporate Responsibility Committee is tasked with overseeing how the company is addressing the evolving views and expectations of its stakeholders.

1.4 Strategy

During the pandemic, companies have been doing in weeks what would have normally taken months or indeed years. But deploying resources quickly and the immediacy of having to respond to shifting internal and external factors has unsurprisingly involved a trade-off. The EY Long-Term Value and Corporate Governance Survey[18] found that 59% of CEOs and C-suite executives of European companies said that the pandemic had challenged their ability to focus on long-term growth.

Adapting to the impacts of the pandemic, companies are changing not just the ways in which they serve clients and customers, but fundamentally revising their business and operating models. Some, as noted earlier, will be redefining not only their strategy, but also their purpose.

Where some boards might have taken less of an active role in defining and setting strategy in the past, focussing rather on oversight of progress against it, a greater degree of upfront involvement to support the executive through the turbulent and complex times might now be required.

Some even suggest a step further – in order to bring truly independent challenge, board members could first discuss strategy in a session separate from management to form their own views before hearing those of the executive. The challenge, however, will be for boards to find the time for this increased involvement in strategy and future-oriented scenario planning in light of the ever-expanding regulatory and compliance burden.

In our "**Towards TCFD compliance**" publication, Susan Hooper, plural NED and founding director of Chapter Zero, stated that whilst recognising that this might feel uncomfortable, NEDs need to demand to be brought into the conversation as the CEO is shaping the climate strategy, rather than waiting to critique the final output.

And the same rings true for other aspects of strategy and critical decisions about the direction of the company, for example, how the post-pandemic 'future of work' will look in the context of the company. 18 months on since the start of the pandemic, business leaders are shifting gears from immediate crisis response around health and safety to longer-term ways of re-imagining the future of work. Management's return-to-work strategy will shape the 'new normal' and have long-lasting implications for the business and its culture. It will not be enough for boards just to understand the proposed approach and monitor the progress of its execution.

The board's role on this issue is multifaceted – the board should be involved in setting long-term strategies for the new normal, monitor how the chosen approach is impacting organisational priorities and values and hold management to account for making necessary adjustments to safeguard competitive advantage, retain talent and maintain productivity.

Their broader workforce engagement obligations mean that the board should also oversee whether employee feedback is being taken into account, something some companies were already discussing this reporting cycle. **Smith+Nephew** (see **Figure 1.9**) undertook a Workplace Unlimited survey to understand what flexibility meant to its teams to help it determine what the new normal

"

Common wisdom places strategic responsibility on the shoulders of the organisation's executives; strategic thinking is what CEOs and their teams should do. As a result, some boards often find themselves acting as nothing less than a rubber stamp of the CEO, while other boards that make an effort to get substantively involved in the strategic decision making often find themselves embattled with the executive team. (...) Board members themselves need to accept and even assert the insights they can add to strategy, while executives must accept the board's role and not be dismissive or frustrated by its involvement.

Does Your Board Really Add Value to Strategy?
By Professor Didier Cossin and Estelle Metayer

[18] EY Long-Term Value and Corporate Governance Survey, 2021, **Will there be a 'next' if corporate governance is focussed on the 'now'?**

65%

of more than 16,000 respondents surveyed from across 16 countries and representing 23 industries consider themselves more productive and more creative with the new mix of on-site and remote work.

48%

of employees believe their company culture has changed and improved since the beginning of the pandemic.

54%

of employees would consider leaving their job post-COVID-19 pandemic if they are not afforded some form of flexibility in where and when they work.

The EY 2021 Work Reimagined Employee Survey

would mean for working practices across its markets and workplaces worldwide. Its Compliance & Culture Committee received regular updates on the programme.

Also, as part of monitoring culture, boards will need to assess the impact that hybrid working is having on diversity in the workplace. Whilst the results of EY's **Work Reimagined Survey** indicate that virtual experiences and remote working improved the employee experience for many, allowing colleagues to be more accessible, more visible and sometimes providing for more equitable participation, there are concerns about proximity bias and the impact hybrid working might have specifically on career opportunities for employees working remotely due to caring duties — most often women — and those with disabilities.

The pandemic has clearly challenged traditional views and experiences of work and immediate response is needed, but this also represents an opportunity to assess the future of work more broadly. For example, boards should consider the types of jobs and skills that will become increasingly important such as those relating to technology and climate change and trends such as working beyond retirement age.

United Utilities' Corporate Responsibility committee (2021 ARA, p158) received two updates on plans for employee working patterns post-pandemic. The first phase of work will develop a 'flexibility framework' and common principles to optimise and hardcode the benefits of the current ways of working. The second phase considers the medium-term workforce strategy, assessing the impact from disruptors such as technology and automation, changing demographics and changing employee expectations. The committee debated the impact of online management, measuring productivity, and the development of skills, and observed how other factors such as diversity and inclusion were shaping working patterns.

Whilst companies are discussing the board's action regarding the new normal/post-pandemic ways of working for employees, a topic that ARAs have, for the best part, remained silent on is changes in ways of working with suppliers. For reasons seldom explained, this stakeholder group is often an amalgamation of 'suppliers' and 'strategic partnerships'. Historically there have been very low levels of direct engagement between boards and suppliers — 61% of companies within our sample make no reference to direct board engagement with suppliers. The pandemic and Brexit are, however, causing companies to reassess how they manage and work with their suppliers. On one hand, it highlighted the risks associated with a just-in-time supply chain approach that can be insufficiently resilient in a time of crisis. On the other, it showcased the benefits of partnerships and collaborations that, for example, helped accelerate the development of COVID-19 vaccines. This, the increasing emphasis on decarbonisation across the entire value chain[19] and the broadening of the concept of human capital to refer to all people involved in a company's value chain, suggests that boards will need to become more actively and strategically engaged with this stakeholder group.

61%

of companies within our sample make no reference to direct board engagement with suppliers.

[19] Refer to the **TCFD's consultation** which, amongst other things, suggests that organisations should disclose Scope 3 emissions in line with the methodology in the **GHG Protocol's Scope 3 standard**.

1.5 Risk management

A traditional enterprise risk management (ERM) process, with a once a year risk assessment dusted off at the half year is no longer fit for purpose. There is a growing emphasis on the agility needed to respond to the constantly changing global risk landscape and on having appropriate communication channels allowing for dynamic escalation to the board. This is not only to mitigate risk, but also to capitalise on the opportunities it creates.

1.5.1 Strategic opportunities

According to EY's **Global Board Risk Survey 2021**, board members today believe that those responsible for risk management are too focussed on downside mitigation: 80% say that risk and compliance teams need to find a better balance between mitigating downside risks and driving growth. After all, where there is risk, there can often be reward. Illustrating this, boards say that technology disruption and changing customer expectations are not only major risks but are also the top two strategic opportunities for their organisations.

Whilst audit (and risk) committees are tasked with oversight of risk identification and mitigations, to capitalise on the upsides, the discussion about risk needs to be integrated into strategic conversations at the board level. One of the ways in which boards are approaching this is by articulating risk appetite and explicitly linking this to strategy. Firstly, this helps clarify the level of risk inherent in the adopted strategy, secondly it fosters a debate about whether the potential performance upsides warrant the downsides at stake and thirdly it necessitates scenario planning on how strategy would respond to changes in risks and their levels. This, in turn, should help define the appropriate risk escalation policy from management to the board.

Increasingly companies outside financial services are starting to disclose their risk appetite statements. For example, **Page Group** (2020 ARA, p42) includes an illustration of its risk appetite for each principal risk and annotates the actual net risk assessment for the current and prior year. **Pennon** (2021 ARA, pp65 and 66) includes a risk appetite narrative by risk category and additionally, as part of horizon scanning, explains how its emerging risks map against those risk categories.

> "It's essential to devote enough time at board level to emerging risks," says Michael Lynch-Bell, non-executive director at a number of organizations including Barloworld. "Our board monitors traditional risks every quarter, but in addition dedicates a large proportion of a strategy day every year to discussing emerging risks.
>
> **EY's Global Board Risk Survey 2021**

EY Enterprise Risk Management Solutions – how EY can help

Risks are hard to anticipate and respond to – their origin can be internal or external and they can have upside and downside impacts.

A disruptive risk landscape and shifting stakeholder expectations are forcing boards to rethink their purpose and revisit how they operate. EY's 2021 Global Board Risk Survey shows that boards want to spend more time on strategy and scenario planning and less on traditional risk and compliance.

Successful organisations are learning to capitalise on the risks caused by disruption. Embracing disruption with fresh thinking about risk management can turn risk into a competitive advantage that builds value, trust and confidence.

EY's Enterprise Risk Management approach and services are aligned to these key client issues, helping organisations transform ERM into a value-added decision making capability.

Emma Price, EY Associate Partner, Business Consulting
EPrice1@uk.ey.com

1.5.2 Risk oversight

The term and emphasis on emerging risks was introduced by the 2018 Code. This was primarily driven by two factors: i) many risk disclosures appeared to be 'stale' (i.e., there was little or no change in principal risks year on year); and ii) there was inadequate consideration of risks which some boards saw as distant. The 2018 Code aimed to encourage boards to consider such risks in more detail given their identification is critical to long-term success and to apply appropriate challenge to their management and mitigation. Since then, discussion of emerging and atypical risks, has been intensifying.

According to **EY's 2020 Global Board Risk Survey**, board members were requesting more time to effectively oversee risk. Board members said making more time available on the agenda for open discussion on emerging risks and trends and setting time aside to discuss scenarios that could threaten the organisation's business model were the two most effective measures that would improve their risk oversight capabilities. To support directors in risk oversight, companies have started using greater automation and technology enabled reporting, that transforms data into dynamic insights about risks.

This year's **survey** reveals that risk management today typically lacks focus on emerging and atypical risks, is not always aligned with business strategy and is too entrenched in the here and now. 64% of boards say their organisations can effectively manage traditional risks, which include changes in regulation, drops in demand and increased borrowing costs. But only 39% say their organisations can effectively manage atypical and emerging risks, which might include threats associated with new technology or the impact of the climate emergency.

In an operating environment frequently characterized by the acronym VUCA (volatility, uncertainty, complexity, and ambiguity), boards need to help their organizations do a better job of assessing disruptive risks — those risks that, whether internally- or externally-driven, could have a significant economic, operational, and/or reputational impact — and to help them be better prepared to respond when they occur.

National Association of Corporate Directors (NACD) **Blue Ribbon Commission Report *Adaptive Governance: Board oversight of disruptive risks***

The traditional focus on principal risks, with scenario planning factoring the crystallisation of only high-impact, high-probability risks no longer suffices. Viability and resilience debates need to incorporate considerations of high-impact, low-probability events, as discussed in Part 2 of this series, and factor in the velocity of emerging risks. At the same time, a long-term perspective is essential because many risks transcend the next 5-10 years – despite having only a marginal impact today. The proposal in the BEIS consultation to introduce a resilience statement[20] has elevated the need for companies to be able to articulate their assessment of prospects in these longer-term horizons.

The pandemic has also highlighted the interconnectivity of risks and demonstrated that risks cannot be approached in isolation. Because risk drivers are often linked, a less material risk can trigger others and cause a domino effect, amplifying risks in other, sometimes unexpected, areas. Disruptive trends may interact in various combinations to create new challenges or opportunities and, as such, organisations need to ensure they have sufficient time to be proactive in determining how to respond to them. One way that risk teams are supporting organisations do this is by implementing predictive Key Risk Indicators (KRIs) monitoring focussed on common causes, as a means of increasing awareness of growing risk exposures in sufficient time to address them. As noted in **section 1.3.4**, committees are holding joint sessions to bring together all of the various risk areas.

Investors are interested in how companies determine when emerging risks and uncertainties are 'escalated to' principal risks and whether any potential opportunities are identified and exploited.

Reporting on risks, uncertainties, opportunities and scenarios, FR Lab, September 2021

[20] Refer to Part 2 in this series: *Soaring to new heights: governance considerations for the audit (and risk) committees.*

1.6 Metrics and targets

1.6.1 Reliability of non-financial metrics

Asset managers are not only including environmental and social factors into their voting policies, but are also creating ESG, impact and sustainable sector funds. In its letter dated 19 July 2021 to chairs of authorised fund managers, the FCA set out guiding principles to help authorised ESG and sustainable investment funds apply existing requirements. These stated that consumer communications should be clear, fair and not misleading, and that sufficient information be provided to enable consumers to monitor whether their expectations are being met.

Increasingly, investors are using raw ESG data reported by companies and not ESG scores, as this allows them to create bespoke data sets and assign weighting to factors in a manner that reflects their particular needs. But as discussed in **section 1.2**, investors are grappling with a lack of access to reliable and consistent ESG data to support decision making and publish their own reporting on the outcomes and impact of their engagement.

In response to such stakeholder demands, companies are raising their game on ESG data provision and increasing the number of disclosed data points. Not only are environmental and social themes being integrated into the front half narrative, but companies are publishing voluntary sustainability reports and providing extensive disclosures on their websites. Directors need to agree with management the best approach across all the various aspects of corporate reporting and how this will evolve. For example, as noted in our publication **Towards TCFD compliance**, we expect that more companies, especially those in high-risk sectors, will start producing standalone TCFD reports in due course.

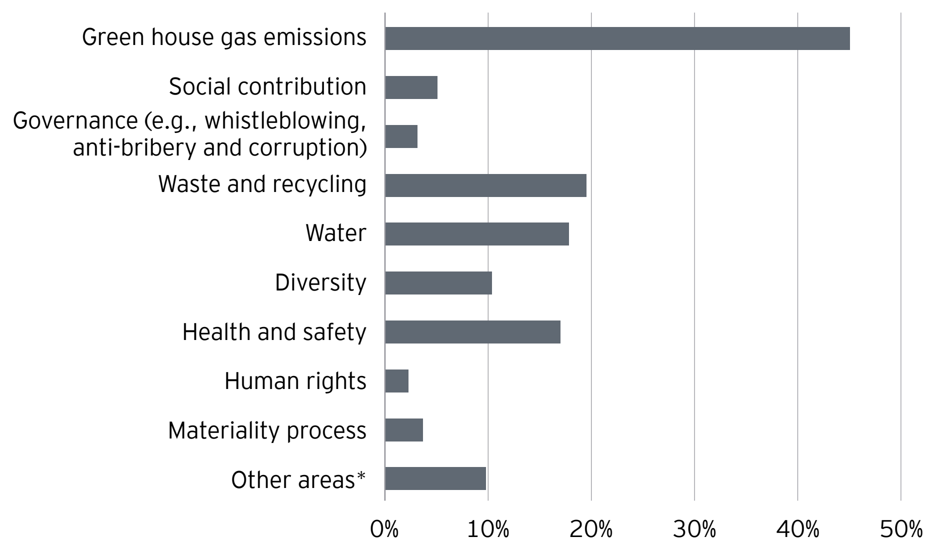
Sustainability metrics are increasingly becoming KPIs used to assess the performance of the company as a whole. For example, **Coats** (see **Figure 1.10**), presents five financial KPIs, two non-financial KPIs (recordable accident rate and employee engagement score) and an additional six sustainability KPIs. As discussed in Part 3 of this series, performance of the C-suite is also increasingly being assessed by reference to these.

As such, trust in the accuracy of non-financial information is becoming fundamental both externally and internally. Regardless of whether the BEIS consultation proposal to introduce a requirement to publish and Audit and Assurance Policy[21] is implemented, directors should already be considering the scope and extent of assurance over these disclosures across the entire suite of corporate reports.

In partnership with Audit Analytics, the International Federation of Accountants, the Association of International Certified Professional Accountants and the Chartered Institute of Management Accountants embarked **on a global benchmarking study** to better understand the extent to which companies are reporting and obtaining assurance over their sustainability disclosures, which assurance standards are being used, and which companies are providing the assurance service. Of the 1,400 companies selected from across 22 jurisdictions based on the largest market capitalisation, 91% provided some level of sustainability information and 51% provided some level of assurance over it. Of the 100 UK companies, 99% provided sustainability information and 55% received assurance, mainly limited assurance under ISAE 3000 or ISAE 3410.

This is broadly consistent with EY's analysis (see Figure 1.03) of reporting by over 200 FTSE350 companies outside of financial services (FS); 45% of the companies within the sample obtained assurance over some non-financial metrics, with assurance being obtained less often by companies with a lower market capitalisation.

Figure 1.03
Percentage of non-FS companies obtaining external assurance over non-financial metrics



* Includes, amongst others, fuel and energy consumption, pay equality, environmental incidents and company specific matters.

[21] Refer to the Audit and Assurance Policy section in Part 2 of *Soaring to new heights: governance considerations for the audit (and risk) committees.*

There can be a lack of credibility in ESG information, which entities are often keen to address by commissioning independent assurance. It is especially important to be clear about what is assured and what level of assurance is provided. A limited assurance opinion may well be insufficient to meet expectations. Although a reasonable assurance opinion provides a higher level of comfort that will better meet expectations, the current level of data maturity in most companies is unlikely to be sufficient to enable this to be provided and the criteria against which this would be assessed is unclear. Financial statements may also not take proper account of material ESG issues affecting the company.

FRC Statement of Intent on Environmental, Social and Governance challenges

This number drops to less than 20% if assurance over greenhouse gas emissions is excluded, with waste and recycling as well as water metrics being the next two most popular aspects being scrutinised.

The results are hardly surprising; our engagement with companies over a series of roundtables this year indicated that many of them consider that the processes underpinning their reporting on non-financial metrics are not yet assurance ready. As part of the processes supporting the board's assertion that the ARA is 'fair, balanced and understandable', **United Utilities** (2021 ARA, p141) took into account the existing processes of review and assurance over its TCFD and wider narrative reporting and next year it intends to further review the assurance processes of ESG matters, particularly those relating to TCFD reporting.

The EU social taxonomy draft

Investors, companies and policymakers are starting to focus on the need to address social-related issues in tackling climate change to ensure a just transition to low-carbon economies.

In July 2021, the EU Platform on Sustainable Finance (PSF) requested public feedback on its **draft report on social taxonomy**, with a finalised report to be submitted to the European Commission for review in October. The taxonomy is intended to identify activities that make a "substantial contribution" and do "significant harm" to social objectives.

The PSF proposes that the taxonomy should be developed both vertically (activities making relevant products and services accessible whilst doing no harm to other social objectives) and horizontally (impacts on different groups of stakeholders affected by economic activities). To avoid social washing[23] it intends to distinguish between inherent social benefits (e.g., job creation) and added social benefits (e.g., improving employee access to quality healthcare).

Once finalised, the taxonomy may drive more standardised social reporting by companies and investors. It has yet to be decided whether the taxonomy will result in the extension of the existing EU Taxonomy Regulation which focusses on climate, or building of a separate social taxonomy.

1.6.2 Measuring social impact

The way in which companies have approached social impact varies greatly. Many focus their efforts and reporting on the traditional philanthropic and CSR programmes in addition to managing more regulated social risk aspects like employee health and safety and product safety in their core business.

In a bid to demonstrate their positive contribution to society, companies are also summarising their Direct Economic Value Distributed[22] sometimes as part of their business model (**Spirax-Sarco**, 2020 ARA, p23) or in a standalone disclosure in the ARA (**Fresnillo**, 2020 ARA, p108) or sustainability report (**Evraz**, 2020 Sustainability Report, p25).

Businesses are, however, under increasing pressure from various stakeholders (including government and NGOs) to start quantifying – even monetising – and reporting social and environmental impacts in a more holistic and strategic way. In order to truly integrate sustainability into strategy and demonstrate the alignment between the "S" from ESG and the company's purpose, companies need to be able to measure the social impact of their products, programmes and activities.

[22] GRI 201-1.A: Economic value distributed: operating costs, employee wages and benefits, payments to providers of capital, payments to government by country, and community investments.

[23] Social washing refers to companies making unsubstantiated claims about being socially conscious.

“

(...) investors struggle to embed those [ESG] metrics in financial models because it's not clear what they mean or how they can affect the financials. One solution might be the creation of a system of impact-weighted accounting that could measure a firm's environmental and social impacts (both positive and negative), convert them to monetary terms, and then reflect them in financial statements. (...) At the Impact-Weighted Accounts Initiative (a Harvard Business School project that I lead), we are collaborating with the Global Steering Group for Impact Investing and the Impact Management Project on a simple approach: adjusting traditional accounting measures to consider the various types of impact that ESG actions might have.

George Serafeim, **Social Impact Efforts That Create Real Value**

Whilst there is no agreed upon definition of social impact and this needs to be unique to every organisation, generally it is considered to be the net change (positive or negative) experienced by people that can be attributed to the activities of an organisation during a specific period. To-date however, most companies attempt to report 'impacts' by highlighting outcomes anecdotally and providing metrics that predominantly focus on inputs and outputs (e.g., the number of people enrolled in a leadership course) rather than outcomes (the number of people who were promoted into leadership positions). One exception is BASF, as illustrated in the summarised extract to the right with fuller detail in **Figure 1.04** 'Measuring social impact – BASF case study'.

Needless to say, how to measure social impact continues to be debated; there is currently no common method for monetising and we observe diverse approaches through our review of reporting by global companies. This makes it costly to implement and difficult to compare between organisations, which is why initiatives like the Value Balancing Alliance[24], the Capital Coalition[25] and the Impact Management Project[26] are now attempting to standardise valuation approaches and make these open-source. They argue that measuring and valuing the impacts on society will lead to making more conscious business decisions, better accountability as well as assisting companies with data-driven communications to a range of stakeholders.

In its business model disclosure, which is based on the Integrated Reporting Framework, BASF (2020 ARA, pp 24-25) discloses the outcomes (negative and positive) of its value creation activities categorised into: economic, environmental and social. It follows on to explain (2020 ARA, pp 43-44) how it applies its uniquely developed 'Value to Society approach' to measure its impacts and how these impacts contribute to the UN Sustainable Development Goals.

These impact categories are selected based on a combination of materiality for the business, availability of reliable data, and suitable methods as well as practicability and feasibility of calculation.

As an example, to quantify and value the benefits to society provided by human capital, corporate development programmes and funding of education are taken into account. Improved experience and skills lead to higher wages – by a wage increase either at an individual's current or future employers. The projected future additional earnings of trained employees after leaving BASF are considered to benefit society through higher purchase power of employees and higher wage taxes. These benefits are projected into the future using country-specific wage growth rates and discounted to their value today. BASF training data and staff leaving rates are used for quantification.

[24] **The Value Balancing Alliance (VBA)** is an alliance of multinational companies that aims to create a way of measuring and comparing the value of contributions made by businesses to society, the economy, and the environment. In 2020, VBA created version 1.0 of the method and tested it with its member firms. The feedback of its members was published in May 2021 and will be incorporated in version 2.0 of its impact valuation method.

[25] **The Capitals Coalition** is a global collaboration whose ambition is that the majority of business and governments include the value of natural, social and human capital in their decision making. The Coalition has developed two internationally recognised and standardised frameworks that provide organisations with tools to identify, measure and value their impacts and dependencies on natural capital, social capital and human capital to inform their decision making.

[26] **The Impact Management Project (IMP)** facilitates standard-setting organisations that, through their specific and complementary expertise, are coordinating efforts to provide comprehensive standards and guidance related to impact measurement, assessment and reporting. The IMP also convenes a community of over 2,000 practitioners to share best practices, delve into technical issues and identify areas where further consensus is required in impact measurement and management.

Reorienting capital flows towards a more sustainable economy – how EY can help

The ultimate aim of the European Union (EU) Action Plan on sustainable finance, which relates directly to entities in the EU, is to reorient capital flows towards a more sustainable economy, foster long-termism and manage the increasing importance of sustainability risks. The **EU Taxonomy Regulation**, the **Sustainable Finance Disclosure Regulation** (SFDR) and the **Benchmark Regulation** are all already in force.

In April 2021, the European Commission published further measures aimed at fostering sustainable investment. These include a proposal for a **Corporate Sustainability Reporting Directive** (CSRD) which builds on and revises the requirements of the Non-Financial Reporting Directive (NFRD) aiming to bring sustainability reporting on equal terms with financial reporting.

The CSRD introduces several new requirements for companies in scope. These include:

- reporting on a mandatory basis in accordance with soon to be developed EU sustainability reporting standards.
- digitally tagging the reported information.
- disclosing ESG indicators, in particular the proportion of their turnover, capital expenditure and operating expenditures that are derived or associated with economic activities that qualify as environmentally sustainable, in accordance with the EU Taxonomy.
- reporting on alignment to the Paris Agreement objective, with 1.5° and 2°C scenarios, in line with TCFD requirements in addition to reporting on principal adverse impacts connected to the company and its value chain as well as intangibles (social, human and intellectual capital).

More attention will be paid to the principle of double materiality, meaning that companies will need to report information necessary to understand how sustainability matters affect them, and vice versa, also to report on the impact they have on people and the environment.

If the European Financial Reporting Advisory Group (EFRAG) meets its target of having the first set of draft standards ready by mid-2022 then the Commission should be able to adopt them by the end of 2022. That could mean that companies would apply the standards for the first time to reports published in 2024, covering their 2023 financial year ends.

The CSRD also calls for a general EU-wide assurance requirement for reported sustainability information to ensure that reported information is accurate and reliable. The Commission is proposing to start with a 'limited' assurance requirement. This represents a significant advance on the current situation. Reasonable assurance of sustainability reporting is difficult at this stage in the absence of sustainability assurance standards. The proposal therefore gives the Commission the possibility of adopting such standards, in which case the legal requirement would automatically become a requirement for reasonable assurance. Audit committees will have enhanced responsibilities under the new directive, as they will need to monitor the company's sustainability reporting process and assurance over it in order to ensure the integrity of the sustainability information provided by the company.

You can read more in EY's **Corporate Sustainability Reporting Directive** brochure.

Although the UK government opted not to implement the SFDR into UK domestic law following the end of the UK's Brexit transition period, adhering to its high standards should be seen as good practice. Furthermore, in June 2021, the UK government created a working group – **the Green Technical Advisory Group** (GTAG) – which will oversee the delivery of the green taxonomy in the UK. Following the requirements of the SFDR now is likely to facilitate compliance with the UK green taxonomy in the future.

Whilst CSRD will not apply directly in the UK, UK companies could be caught indirectly. Asset managers (subject to SFDR) wishing to include UK companies in financial products marketed to EU clients may request these companies provide ESG data in line with the requirements of CSRD. They may also be requested to provide such information if they are material investees of EU parents. EU subsidiaries of UK companies will also be caught, if they meet the size criteria of a 'large undertaking[27]'.

EY Sustainability Assurance is working with companies to provide assurance to management and boards over the quality of information, in turn providing transparency and accountability to their stakeholders.

We can help with the following:

- Working with the company to understand and prioritise the most significant sustainability matters to focus on when looking through a double-materiality lens.
- A gap analysis and maturity assessment of the systems and processes that will be needed to comply with the new directive. Technology plays a huge role in measurement, standardisation and management of sustainability matters, so we consider data from the start.
- Support in performing readiness assessments for newly reported metrics or compliance with materiality principles as a company develops and matures its assurance approach.
- Providing non-financial assurance in accordance with relevant industry, sector or professional standards through the issuance of an Independent assurance report.

Dr Rebecca Farmer, Partner, EY Climate Change and Sustainability Services rfarmer@uk.ey.com

[27] A "large undertaking" is a defined term in the Accounting Directive and means an entity that meets two of the following three criteria: a net turnover of more than €40m, balance sheet assets greater than €20m, more than 250 employees.

WEF IBC: Governance body composition (GRI 102-22, GRI 405-1a, IR 4B)

Composition of the highest governance body and its committees by: competencies relating to economic, environmental and social topics; executive or non-executive; independence; tenure on the governance body; number of each individual's other significant positions and commitments, and the nature of the commitments; gender; membership of under-represented social groups; stakeholder representation.

Rationale

The capabilities and perspectives of board members are important for making robust decisions on an ongoing basis. This disclosure captures a variety of important dimensions to composition, going beyond a single metric, and emphasizes competencies relating to economic, environmental and social topics.

The metrics selected for inclusion within the 'prosperity' pillar of the WEF's International Business Council (IBC) common metrics drew on the efforts and recommendations of these organisations. We expect that in time, as social impact measurement matures and these metrics gain broader adoption, stakeholders will expect that boards demonstrate how projected social impact was taken into account in arriving at principal decisions.

1.6.3 Quality of governing body

Governance body composition

'Governance' is one of the four pillars of the WEF's IBC common metrics. 'Governance body composition' is the core metric proposed under the 'Quality of governing body' theme.

We encourage disclosures in the form of a matrix, which combines information about skills and experience with tenure and demographic diversity, in the manner presented by **RDI Reit** (see **Figure 1.11**). This presentation highlights what gaps might arise when board members reach their tenure limit, therefore providing insights into focus areas for succession planning. There is, however, a degree of scepticism about the value of skills matrices given that they are typically based on directors' self-assessment. If deemed a material disclosure by the nomination committee, there may be merit in having it reviewed or assured e.g., by the external evaluator, an approach that could be set out in the A&A policy.

Overboarding and meeting attendance

Some companies, like **RDI Reit** (see **Figure 1.11**), closely monitor external appointments of directors against overboarding guidelines of proxy services. We encourage the presentation of directors' appointments in a more summarised and standardised manner to allow for a better assessment of directors' capacity. For example, **Alliance Trust** (2020 ARA, pp42 and 43) colour-codes the types of appointments grouping them by the level of commitment required from the director.

An indicator of overboarding is poor attendance at meetings. Provision 14 of the Code states that the ARA should set out the number of meetings of the board and its committees, and the individual attendance by directors. Although no such reference is made, common practice is for this disclosure to be limited to scheduled meetings only. We noted some examples of companies that, although not disclosing attendance, were transparent about the number of actual meetings that took place in 2020 to deal with the impact of COVID-19 — and in many cases the difference between the attendance statistics and the number of meetings makes for stark reading. Unscheduled meetings are most likely to happen in a time of crisis or one-off events like a major transaction. It is especially in those circumstances that directors' involvement is critical and overboarded directors might not have the bandwidth to exercise due oversight.

We recommend transparent and fair disclosure e.g., as done by **Barclays** (see **Figure 1.1**), **National Express** (see **Figure 1.12**), **Kingfisher** (see **Figure 1.13**), **Weir** (2020 ARA, p81), and **Rolls Royce** (2020 ARA, p69) which all disclose attendance at unscheduled meetings.

1.7 Key questions to assess effectiveness

1

Is there tangible evidence on how the organisation's purpose guides board decision making? Are ethics or ethical considerations given airtime in the boardroom?

2

Is the board able to articulate the social impacts of the organisation?

3

Does the board understand the priorities of its investors and the needs of material stakeholders?

4

Do directors feel they have enough time for their increasing responsibilities? Has the board established the appropriate committees with terms of reference that reflect the governance issues and opportunities that need to be addressed for the future success of the business?

5

Are board meetings structured effectively e.g., composition, agenda, pre-read materials, attendees? Does the way in which management present at the board facilitate effective debate and discussion on material issues?

6

Do the board dynamics enable dissenting views or is there an atmosphere of overwhelming consensus?

7

Is the board actively involved in shaping the company's strategy? Does the debate on strategy incorporate a discussion on how emerging risks may impact the business model and resilience? Has the board engaged in defining or refining the risk appetite of the company in the year?

8

Are material ESG issues embedded within the broader strategy and not treated separately as compliance matters or as CSR topics? Does the board have the right and reliable ESG data it needs to make decisions?

9

Has both the extent and topics of direct engagement between directors and stakeholders been purposefully determined, taking into account both strategic objectives and stakeholder materiality assessments? Does the board actively hold management to account for acting on material stakeholder feedback?

10

With cultural and working practice changing as a result of the pandemic, is the board actively engaging in the debate on the future of work?

1.8 Reporting examples

Figure 1.1
Barclays: Current and prior year allocation of committee and board time (2020 ARA, pp67,74,82 and 89)

Board Audit Committee

Committee members

Member	Meetings attended/ eligible to attend
Mike Ashley	10/10
Tim Breedon	10/10
Crawford Gillies	10/10
Diane Schueneman	10/10

Committee allocation of time

%

2020: 4, 23, 36, 11, 11, 15

2019: 5, 17, 39, 11, 12, 16

- Control Issues
- Business Control Environment
- Financial Results
- Internal Audit Matters
- External Audit Matters
- Other (including litigation, governance and compliance)

Board Nominations Committee

Committee members

Member	Meetings attended/ eligible to attend
Nigel Higgins	8/8
Mike Ashley	8/8
Tim Breedon	8/8
Crawford Gilles	8/8
Sir Ian Cheshire	6/7
Diane Schueneman	8/8

Committee allocation of time

%

2020: 9, 19, 54, 11, 7

2019: 9, 25, 44, 10, 12

- Corporate governance matters
- Board and Board Committee composition
- Succession planning and talent
- Board effectiveness
- Other

Note
Including ad hoc meetings.

Board Risk Committee

Committee members

Member	Meetings attended/ eligible to attend*
Tim Breedon	11/11
Mike Ashley	11/11
Mary Anne Citrino (1 Jan 2020 – 30 Sept 2020)	7/9
Mohamed A. El-Erian (1 July 2020 onwards)	5/5
Dawn Fitzpatrick	11/11
Diane Schueneman	11/11

Note
* Brian Gilvary joined the Committee on 1 January 2021.

Committee allocation of time

%

2020: 39, 45, 9, 7

2019: 46, 39, 10, 5

- Risk profile/appetite (including capital and liquidity management)
- Key risk issues/monitoring
- Internal control/risk policies
- Other (including remuneration and governance issues)

Note
Including ad hoc meetings.

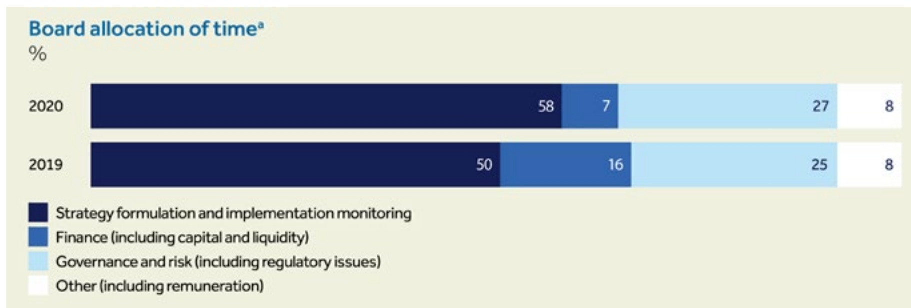


Figure 1.2
Marks and Spencer: Establishing a new ESG committee and its collaboration with the AC (2021 ARA, pp69 and73)

Establishing an ESG Committee

The Board agreed that the ESG Committee should be created, effective from 16 December 2020, to assist with the refresh of the Plan A sustainability programme in the first instance, before monitoring its ongoing execution and wider ESG initiatives and compliance with regulations.

Stakeholder considerations

In deciding to reinvigorate Plan A and establish the ESG Committee for oversight, the Board considered:

- The growing contingent of our **investors** expecting to see environmental, social and governance matters embedded within our overarching strategy.
- Our **customers**, who are becoming increasingly concerned with ESG issues, including climate change, sustainable sourcing and ethical trading, to the point where we risk losing their loyalty if we cannot demonstrate that we are addressing these concerns.
- The mounting pressure from our wider **community** including current and prospective **colleagues**, voiced through the media, to "do more" and be a better corporate citizen.
- The need to minimise our impact on the **environment** and ensure that we do not contribute any further to the climate crisis.

GOVERNANCE

ESG COMMITTEE REPORT

"Sustainability is about securing the long-term future of a business and protecting the resources we all depend on."

Tamara Ingram,
Chair of the Environmental, Social & Governance Committee

ESTABLISHMENT

I was delighted to be asked to set up the new Board Sub-Committee (the "Committee") on Environmental, Social & Governance ("ESG") matters. M&S is a very special business – with loyal customers, passionate committed colleagues and a wonderful legacy of caring service, environmental leadership and deep-rooted community values. As Chair of the Committee, I'm pleased to present our report for the year covering activities from our establishment in December 2020. These have been focused on reviewing our activity and ensuring our strategy continues to lead the way and communicates the M&S point of difference.

PLAN A

The importance of Plan A to the M&S brand and culture cannot be overstated. The programme, appropriately named Plan A "because there is no Plan B", was a ground-breaking venture in 2007, creating a fully integrated sustainability plan reflective of the M&S values of helping our colleagues, customers and communities lead happier, healthier and more fulfilling lives. It is through Plan A – our multi-year sustainability action plan – that we address the risks and opportunities that environmental and societal issues present to us as a business. It drives us to make better choices to ensure that M&S, and the precious resources and planet we rely on, are in better shape for the future.

How a business approaches social and environmental challenges is of increasing importance to all stakeholder groups. In recognition of this, the Committee has met on a monthly basis in its first six months, with an update to the Board after each meeting. The Committee has been frequently attended by members of the Executive Committee ("ExCo") and senior management. As a Committee, our role is to provide the additional rigour, support and challenge for the business as we reinvigorate our Plan A programme to uphold its leadership and keep it at the very heart of M&S' customer proposition. As part of that role, we've looked at industry benchmarking, consumer insights and future trends, discussed marketing and communications frameworks, ways to embed Plan A more deeply within the business, as well as the framework against which progress will be measured.

ESG-RELATED RISKS AND RESPONSE

In addition to overseeing the governance underlying the various projects for Plan A's reinvigoration, the Committee has supported the Audit Committee in its review of new and existing risks relating to ESG topics.

Specifically, the Committee reviewed a new "social, ethical and environmental responsibility" risk, confirming its appropriateness to the Audit Committee as a distinct risk from the "corporate compliance & responsibility" risk that previously covered a range of ethical considerations. This new risk includes a broad spectrum of issues; environmental, human rights, animal welfare and ethical standards and commitments. In identifying these issues, we acknowledge the trust that customers place in the M&S brand to source sustainably and ethically, and their ongoing concern around issues like deforestation and animal welfare. We also recognise the increased focus from regulators and investors on these issues, particularly following ongoing interest in human rights abuses in supply chains in the UK and abroad.

As well as overseeing related risks, the Committee has recognised that these changes in the external environment are current and require responsive action now, and has advised management accordingly. This wider support for management has covered advising the business ahead of signing the 'Exit the Uyghur Region' Call to Action to address human rights abuses. The Committee has also critically reviewed, and subsequently monitored progress with actions raised by, the business' co-authored Oxfam report.

COMMITTEE ROLE AND MEMBERSHIP

The Committee is responsible for ensuring that the Company has an ESG Strategy ("Plan A") that is both inspiring and differentiates M&S from its competitors, while also remaining fit for purpose. The Committee will also review the effectiveness of Plan A, including the governance arrangements for ensuring the successful delivery of the strategy and monitoring its overall performance. The full Terms of Reference for the Committee can be found at **marksandspencer.com/thecompany**.

The Committee comprises Tamara Ingram as Chair and Sapna Sood, with Archie Norman, Eoin Tonge and Nick Folland standing attendees at Committee meetings. Steve Rowe will also be a standing attendee for 2021/22. Individual meeting attendance is displayed in the table below. More information on the skills and experience of Committee members can be found on pages 62 to 64.

MEETINGS HELD IN 2020/21

	Member since	Number of meetings attended	Maximum possible meetings
Tamara Ingram	16 Dec 2020	3*	4
Sapna Sood	16 Dec 2020	4	4
By standing invite			
Archie Norman	N/A	4	4
Eoin Tonge	N/A	4	4
Nick Folland	N/A	4	4

* Tamara Ingram was not present at the meeting on 18 January due to last-minute rescheduling and time zone differences, but provided input in advance of the meeting and debriefed with members and attendees immediately following the meeting.

Annual Report & Financial Statements 2021 73

Figure 1.3
Lloyds: Evolution of purpose to reflect the role it aspires to play in Britain's recovery and identified five priority areas, each with a number of commitments with clear targets (2020 ARA, pp4-5)

Helping Britain Recover and Strategic Review 2021

The role of Chair is to help ensure that the Board and the executive team are focusing on the right issues and developing the right purpose and strategy, executing it effectively and with the right values and cultures as an organisation.

We recognise that the focus of the Group's purpose must evolve in response to the current environment and changing customer needs and expectations. Many individual and business customers have been impacted by the crisis and we have a responsibility, as the UK's largest bank, to help these customers and Help Britain Recover. This is completely aligned with our ongoing purpose of Helping Britain Prosper, and is in the best interests of all stakeholders.

In September 2020, the Group launched The Big Conversation and since then we have brought together more than 900 people, including industry leaders, local politicians and expert voices in virtual sessions around the country to discuss what the pandemic has meant for them and what support they need to survive and thrive.

We have subsequently published the findings which can provide insight and direction to different stakeholder groups as we explore together how we can help to rebuild the economy. We are privileged to be able to use our comprehensive regional and national network and our sector expertise to bring together people with a diverse range of perspectives.

Although the next couple of years will be challenging, the pandemic provides a unique opportunity for banks to evidence their importance to customers and the economy and we will continue to play the important role expected of us as the UK's leading financial services provider. We will help Britain rebuild sustainably by playing our part in the country's economic recovery.

Helping Britain Recover is at the heart of Strategic Review 2021, which launched the same day as our full year results, in February 2021 and will further enhance our capabilities to create the UK's preferred financial partner for personal customers and the best bank for business. Having been heavily involved in the development of the evolution of strategy, the Board is excited about the opportunities for the Group.

Given the Group's unique position in the UK economy, as part of Strategic Review 2021, we have identified five areas where we can make a transformational societal impact and which are also deeply integrated into the strategic development of our business: Help rebuild households' financial health and wellbeing, Support businesses to recover, adapt and grow, Expand availability of affordable and quality homes, Accelerate the transition to a low carbon economy and Build an inclusive society and organisation.

These five priorities for 2021 consist of a number of commitments in areas where we can make the biggest difference, create value for our customers and, given they will enable us to build a sustainable and inclusive business, will also benefit shareholders. Further detail on our purpose and the areas of focus are provided on pages 38 and 39.

STRATEGIC REVIEW 2021: BUILDING THE UK'S PREFERRED FINANCIAL PARTNER

Lloyds Banking Group is a customer focused, sustainable, efficient and low risk UK financial services leader with a clear purpose of **Helping Britain Prosper**.

Given the pandemic and our unique position at the heart of the UK economy, our priority for the next phase of our strategy is to focus on **Helping Britain Recover**.

Strategic Review 2021 is focused on delivering co-ordinated growth opportunities across our core business areas to create the UK's preferred financial partner for personal customers and the best bank for business. The strategy is supported by further investment in four specific capabilities: a modernised technology architecture, integrated payments, creating a data-driven organisation and reimagined ways of working

Helping Britain Recover: We have identified five priority areas, based on where we feel we can make the most difference

Help rebuild households' financial health and wellbeing

- We will have over 6,500 colleagues trained to support customers to build their financial resilience
- We will expand our existing 'Mental Health Accessible' accreditation for Lloyds Bank across Halifax and Bank of Scotland
- We will partner with independent debt advice organisations to ensure customers have access to practical support

Support businesses to recover, adapt and grow

- We will develop appropriate recovery plans for our customers, supported by 1,100 business specialists
- We will support at least 75,000 UK businesses to start up in 2021
- We will help at least 185,000 small businesses boost their digital capability

Expand availability of affordable and quality homes

- We will provide £10 billion of lending to first-time-buyers and lead a national conversation on access to the housing market
- We will provide £1.5 billion of new funding support, incl. £500 million in ESG-linked funding, in support of the social housing sector
- We will assess the energy retrofit requirements of over 200,000 homes in the social housing sector

Accelerate the transition to a low carbon economy

- We will expand the funding available under our green finance initiatives from £3 billion to £5 billion
- We will ensure our own operations are net zero by 2030
- We will become the first major pensions and insurance provider to target halving the carbon footprint of all our investments by 2030
- We will introduce a flagship fossil fuel-free fund to support green growth

Build an inclusive society and organisation

- We will set new aspirations for 50 per cent women, 3 per cent Black and 13 per cent Black, Asian and Minority Ethnic colleagues in senior roles by 2025
- We will maintain our £25.5 million contribution to foundations in 2021
- We will support regional regeneration, including launching the 'Regional Housing Growth Initiative'
- We will support financial inclusion by providing banking to potentially excluded groups of people

Figure 1.4
GSK: Trust as one of three long-term priorities, with three of the ten operating KPIs tracking progress against it. GSK's Corporate Responsibility Committee oversees how the company is addressing the evolving views and expectations of its stakeholders (2020 ARA, pp11 and 33)

Trust

Trust is one of our three long-term priorities and is crucial to our purpose, enabling us to add value for our shareholders and society.

Progress

- Committed to ambitious new environmental sustainability goals: net zero impact on climate and net positive impact on nature by 2030
- Strong performance against our ESG benchmarks
- Licensed our TB candidate vaccine to the Bill and Melinda Gates Medical Research Institute for continued development
- Partnered to launch the $1 billion AMR Action Fund aiming to bring two to four novel antibiotics to patients by 2030
- FDA and EMA approved an age-appropriate formulation of *Tivicay*, for children living with HIV weighing at least 3kg and from four weeks of age
- Set new aspirational targets for gender and for race and ethnicity, to improve representation at VP level and above, and introduced mandatory inclusion and diversity training for all employees
- Formed partnerships to better prepare for future pandemics and ensure access to future COVID-19 treatments and vaccines. Including through the Trinity Challenge, our industry commitment with the Bill and Melinda Gates Foundation and our engagement with the COVAX facility
- Record response (85%) to our employee survey, with engagement score of 84% (up 6%)

Our Trust priority focuses on a broad range of ESG aspects and supports our ability to create value for society and shareholders. Stakeholders, particularly investors, are increasingly focused on how companies manage ESG factors from both a value creation and a risk management perspective (see Risk Management from page 43). Strong Trust and ESG performance ensures we remain attractive to investors, helps recruit and retain talent, mitigates risk and builds trust with those stakeholders who influence our operating environment (see Stakeholder engagement on page 16).

We have 13 Trust commitments in the ESG areas where GSK can make the biggest difference. In 2018, when we set these commitments, we worked with an independent third party to conduct a materiality assessment to identify the ESG issues most relevant to our stakeholders and to our business. The commitments help us respond to challenges and opportunities within our industry and broader society (see pages 12 to 15) and contribute to many of the UN Sustainable Development Goals (SDGs), especially Goal 3: to ensure healthy lives and promote wellbeing for all, at all ages.

Our Corporate Responsibility (CR) Committee oversees our progress against our commitments and how the company is addressing the evolving views and expectations of our broad range of stakeholders. GSK's Corporate Executive Team and senior management also oversee implementation of our Trust commitments and report regularly to the CR Committee (see pages 90 and 102).

External benchmarking

- **DJSI:** Ranked 2nd in the pharmaceuticals industry group for the 2020 Dow Jones Sustainability Index
- **ATMI:** Ranked 1st in the 2021 Access to Medicine Index
- **FTSE4Good:** Member of the FTSE4Good Index since 2004
- **CDP:** Scored A in CDP Water and B in CDP Carbon, and named CDP Supplier Engagement Leader
- **Sustainalytics:** Leading position in Sustainalytics
- **MSCI:** AA rating
- **Vigeo Eiris:** Ranked 1st in the pharmaceuticals sector

Our approach to reporting

In this Trust section, we report progress against our 13 commitments. Online, we publish more detailed information on our contribution to the SDGs, an ESG performance summary and our UN Global Compact Communication on Progress, Global Reporting Initiative index, Sustainability Accounting Standards Board index and assurance statements.

Trust	2020	2019	2018
Employee feedback – employee engagement scores from our global employee survey	**84%**	78%	78%
Supply service level – percentage of orders delivered on-time, in-full	**n/r**	n/r	n/r
Corporate reputation – reputation index among stakeholders and informed public measured globally and in top 13 markets	**n/r**	n/r	n/r

Figure 1.5
IAG: Sustainability governance structure highlighting new elements introduced during the year (2020, pp48-49)

How IAG activities support priority UN SDGs:

Goal	Description	See these subsections	2020 highlight/s
5	Gender equality	Workforce overview Inclusion and diversity	45% women on the IAG Board and 30% across IAG senior executives
7	Affordable and clean energy	Climate change Sustainable aviation fuels	Secured planning permission for Europe's first waste-to-jet fuel plant and invested in an alcohol-to-jet fuel plant in the USA
8	Decent work and economic growth	Workforce overview	Provided a range of internal and external resources to support employee wellbeing and COVID-19 safety
13	Climate action	Stakeholder engagement Climate change	Instrumental in driving coalitions at national, regional and global levels to set aviation climate strategies in line with a 1.5 degrees Celsius (1.5°C) ambition

Sustainability governance structure

A.2. Sustainability governance

GRI 102-46, 102-48

The IAG Board provides oversight and direction for sustainability programmes, and the IAG Management Committee provides the key forum for reviewing and challenging these programmes and setting their strategic direction.

Sustainability programmes across all operating companies and support functions are coordinated at Group level. IAG's sustainability strategy sets out the ambition and the wider context of these programmes. This strategy covers Group policies and objectives, governance structure, risk management, strategy and targets on material issues, sustainability performance indicators, and communications and stakeholder engagement plans. Each individual operating company within the Group has a distinct sustainability programme that is aligned with the Group strategy.

Group-wide policies relevant to sustainability include the Code of Conduct, Supplier Code of Conduct, and specific policies on Sustainability, Modern Slavery, Anti-Corruption and Bribery, Equal Opportunities, and Selection and Diversity. All of these have been approved by the Board of Directors. IAG will review the suite of sustainability-related policies in 2021 and update the sustainability section of the IAG website to reflect any changes.

In 2020, IAG strengthened its sustainability governance. A Sustainability Steering Group, comprised of representatives from each operating company, was established and meets quarterly to provide oversight of our environmental and social initiatives and reporting. A SAF Steering Group and People Working Group were established to report into this steering group. The IAG Sustainability Network held monthly calls rather than bi-annual meetings and representation was expanded to all operating companies.

In 2021 a Safety, Environment and Corporate Responsibility Board sub-committee will provide dedicated oversight of the Group's sustainability programme and a link between operating company management committees and the IAG Board. The 2021 governance structure is shown on the previous page and will enhance the rigour and oversight applied to sustainability initiatives and the level of feedback and challenge received.

Individual operating companies also continue to strengthen their environmental assessment and management. In 2020, British Airways and Vueling achieved Stage 1 certification for the IATA Environmental Assessment (IEnvA)[1] management system in 2020 and have begun working towards Stage 2. Aer Lingus and Iberia are working towards Stage 1 certification in 2021. To date, 12 airlines worldwide have achieved IEnvA Stage 1 certification.

Reporting standards

The full contents of this sustainability report are included in the IAG Non-Financial Information Statement, which is third-party verified to limited assurance and in line with ISAE3000[2] (Revised) standards.

IAG aligns sustainability reporting with current and emerging disclosure standards to ensure the Group discloses relevant and meaningful data on sustainability performance.

This includes compliance with obligations under EU Directive 2014/95/EU on non-financial reporting and its transposition in the UK and Spain, and the 2018 UK Streamlined Energy and Carbon Reporting (SECR) regulation. IAG voluntarily aligns reporting with the Task Force on Climate-related Financial Disclosures (TCFD) guidance, the Sustainability Accounting Standards Board (SASB), and the IATA Airlines Reporting Handbook. IAG supported IATA and the GRI to develop the IATA handbook.

This report has been prepared in reference to GRI standards. Criteria for choosing specific GRI standards are based on compliance with Spanish Law 11/2018 and material issues. In cases where alignment was not possible, other standards aligned to airline industry guidance or internal frameworks were used. These are described in relevant sections.

A table showing alignment with external frameworks and GRI standards is included at the end of this sustainability section.

Data governance

Unless otherwise stated, the scope of environment performance data includes all IAG airlines, subsidiaries and cargo operations over which IAG has operational control. This scope is consistent with environment-related policies and KPIs. LEVEL (except jet fuel data), IAG Loyalty and IAG GBS functions are not in scope for environmental reporting as the environmental impacts of these business units are not material, but are in scope of policies and KPIs.

Unless otherwise stated, workforce and supply chain data include all IAG operating companies and support functions that are wholly or majority-owned.

Scope 1 emissions data related to intra-European flights is subject to further verification for compliance with the EU Emissions Trading Scheme (EU ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). British Airways emissions data is typically verified again, to reasonable assurance standards, within six months of the year end.

In cases where full year data was not available, estimates have been applied based on business forecasts and data from prior months. Internal governance is in place to ensure that any estimations made are robust.

Any restatements are indicated next to relevant metrics with reasons provided.

Figure 1.6
National Grid: Governance of climate related risks and opportunities – responsibilities delegated across five board committees supported by three management committees (2020/21 ARA, p61)

Governance of climate-related risks and opportunities

The Board's oversight

The Board of Directors is responsible for the oversight of climate-related risks and opportunities impacting the Group. They in turn delegate some elements of their responsibility to their various sub-committees, as set out in the diagram below:

Board of Directors: There has been an increased focus on climate-related matters at the Board level as the landscape continues to evolve with further regulatory developments and changes in stakeholder expectations. Board members presented alongside management at environment, social and governance (ESG) investor presentations during the year, including an ESG virtual seminar event in October 2020 and a follow-up session on the future of gas in January 2021. The expertise of the Board on ESG-related matters continues to be enhanced through regular interactions with management, regulators and government bodies on matters such as our net zero strategy. The Board will also be actively involved in COP26 taking place in Glasgow in November, for which National Grid is a principal partner. In addition, the Board was involved in the following discussions relevant to climate change:

- reviewed and approved the climate change principal risk as part of the annual risk review and challenge process. This risk is now owned by Justine Campbell, the Group General Counsel & Company Secretary and a member of the Group Executive Committee, having first been elevated to a principal risk in Autumn 2019;
- RIIO-2 Final Determinations which reflect our investment proposition for supporting the UK energy transition;
- quarterly reviews of performance on our environmental sustainability metrics and targets; and
- approved the acquisition of WPD to achieve a scale position in electricity distribution in the UK, which is expected to see a high level of asset growth as a result of the energy transition.

The **Audit Committee** remains responsible for reviewing and approving the content of our TCFD disclosures. The Audit Committee considered papers in March and May 2021 on the financial reporting and disclosure considerations in respect of climate change. The Audit Committee also oversees the development of the assurance model for our RBR and recommends to the Board the approval of the disclosures in our first RBR.

The **Finance Committee** is responsible for overseeing our financing strategy, including the issuance of our first Green Bonds in National Grid Electricity Transmission and Niagara Mohawk Power Corporation (NMPC). The Finance Committee also considers the financial impact of environmental factors on our credit metrics and relevant considerations with regards to debt investors.

The **Safety, Environment and Health Committee** (SEH Committee) is responsible for assessing the Group environmental sustainability strategy and performance, as well as how the Company adapts its business strategy considering potential climate change risks and opportunities. The SEH Committee monitors our environmental sustainability performance quarterly and approves updates to our environmental sustainability strategy and targets annually.

The **Remuneration Committee** is responsible for determining our remuneration policy, including how ESG factors are considered in the policy, and how they are taken into consideration in determining the final incentive pay decisions. For further detail on how such factors feature in executive remuneration, please refer to the Directors' Remuneration Report on pages 92 – 113.

The **Nominations Committee** is responsible for Board appointments and succession planning. In 2019, the Nominations Committee approved the appointments of Jonathan Silver, whose previous experience included leading the US Federal government's clean energy investment fund and Earl Shipp, who brings significant experience in safety, environmental and sustainability from his executive career.

A **TCFD steering group** comprised of representatives from Group Financial Reporting, Safety, Health and Sustainability, Corporate Strategy and Investor Relations oversees progress against the TCFD recommendations and the publication of our annual disclosure, and reports to the Chief Financial Officer. In addition, a new **Responsible Business steering group**, chaired by the Interim Group Corporate Affairs Director, has been set up to provide oversight of the integration of responsible business into National Grid, including the development of ESG targets and future ESG strategy. The steering group also provides oversight over ESG-related external reporting, including TCFD disclosures and is comprised of the Interim Group Corporate Affairs Director, Chief Financial Officer, Group General Counsel & Company Secretary and the Chief People and Culture Officer. Standing attendees include the Head of Responsible Business, Head of Safety, Sustainability, Health and Environment and the Group Financial Controller.

A **Green Financing Committee** chaired by the Group Treasurer, provides governance over our Green Financing Programme. In December 2020, the Green Financing Committee approved the publication of our first Green Financing Report, which provided an analysis of how we utilised the proceeds from our portfolio of Green Bonds and their environmental impact.

Figure 1.7
Balfour Beatty: Business integrity programme and business integrity reports received by directors twice a year (2020 ARA, pp52-53)

Ensuring integrity within the business

We work with the utmost integrity to ensure we are making the right choices.

Our Business Integrity programme

Balfour Beatty's values and behaviours define its culture and the way the Group works. The Business Integrity programme makes "Doing the Right Thing" the responsibility of all employees, to ensure Balfour Beatty operates with the upmost integrity, makes the right choices and is "Trusted".

The Business Integrity programme (the programme) is well established, implementing a framework of policies and standards to ensure the Company's commitment to working with integrity and assurance, but policies and rules are just one part of the programme.

The Code of Conduct (the Code) also requires employees and those who work within the supply chain to follow the principles and spirit of the Code and to always do what is right.

The Code covers many topics from anti-bribery, corruption and fraud to bullying, harassment and discrimination and is available to all employees online at: www.balfourbeattycodeofconduct.com and in printed form. This is supported by the Suppliers Code of Conduct: www.balfourbeatty.com/codeofconductsuppliers which sets out Balfour Beatty's commitment to work with companies whose standards are consistent with its own and these standards are reflected in the contractual terms required of its supply chain.

Governance

Business Integrity reports are presented to the Board of Directors twice a year with issues considered higher risk reported directly to the Executive Committee and the Board as necessary. The Board retains ownership of the Business Integrity programme which is delivered through the Business Integrity and Security function, compliance officers and senior leadership across all business units.

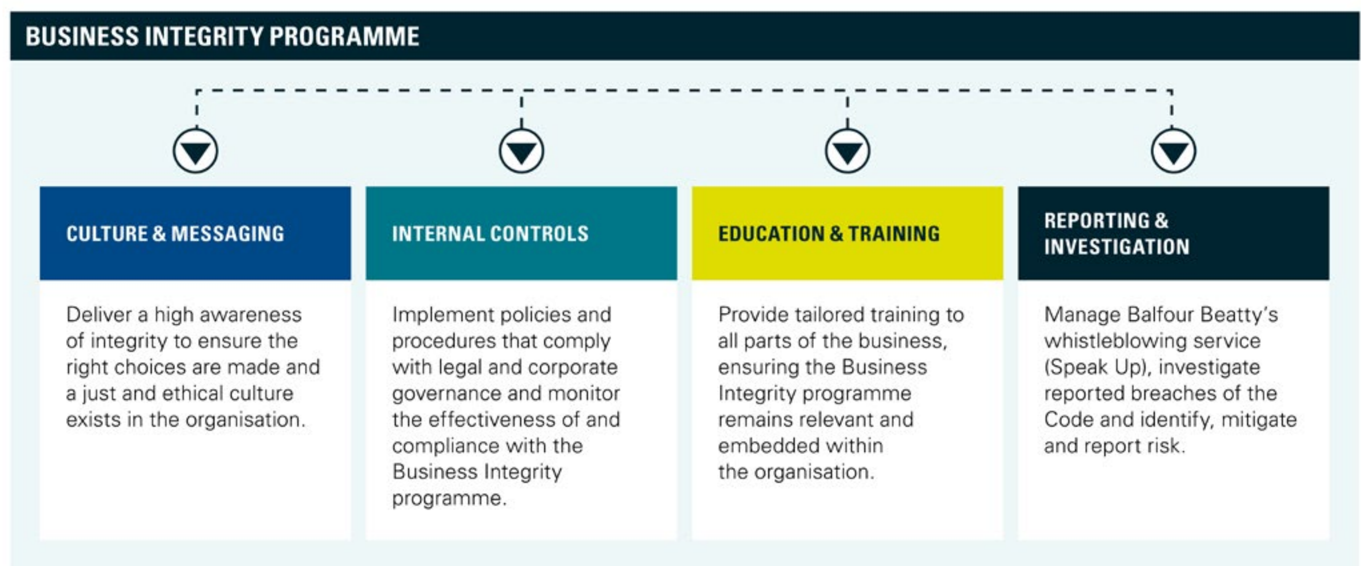


Figure 1.8
National Grid (**Code of Ethics**, p9) and Lloyds Banking Group (**Code of conduct**, p8): Frameworks for ethical decision making

Quick test

Is it fair and honest?
(no intention to deceive or mislead)

Is it within the spirit of our Values, policies or Code of Ethics?

Is it in the best interests of the Company?

Does it avoid creating a sense of obligation?

Can I justify it to my manager, co-workers, friends and my family?

Would I feel comfortable reading about it in the press?

Is it lawful?

If we can answer 'yes' to all these questions, we are on the right track. However, if we answer 'no' to any of these questions, we should all seek advice using the avenues available and described in the 'Who should I contact?' section.

Doing the right thing continued

Making the right decision

This is a useful decision-making tool. We encourage colleagues to work through the questions on this page to help them decide to do the right thing when they are in doubt.

Ask yourself:

Is it legal?

No? Talk to your line manager immediately.

Yes? Our standards often go beyond what's legal.

Does it go against any of our policies or procedures?

Yes? Talk to your line manager or a subject matter expert.

No? Then proceed.

Does it support our Values?

No? It's probably not something that will enhance our reputation and may even damage it. If you want to be sure, ask your line manager.

Yes? Then proceed.

Are you happy to justify taking this action to your colleagues, managers, and family?

No? If it would be hard to justify and would make you embarrassed or uncomfortable, then it's probably not the right thing to do.

Yes? Then proceed.

Does it set a good example to other colleagues or people you know?

No? Think about the consequences of colleagues or other people you know doing this. If it is not right for them, it's probably not right for you.

Yes? Then proceed.

Would you be happy if other people knew about the action you have taken?

No? This probably puts our reputation at risk, so don't do it and talk to your line manager.

Yes? It's probably okay to do this, but you can always ask someone else for advice.

Figure 1.9
Smith+Nephew: Preparing for the new normal in the workplace – employee engagement and board committee oversight (2020 ARA, pp13, 31 and 99)

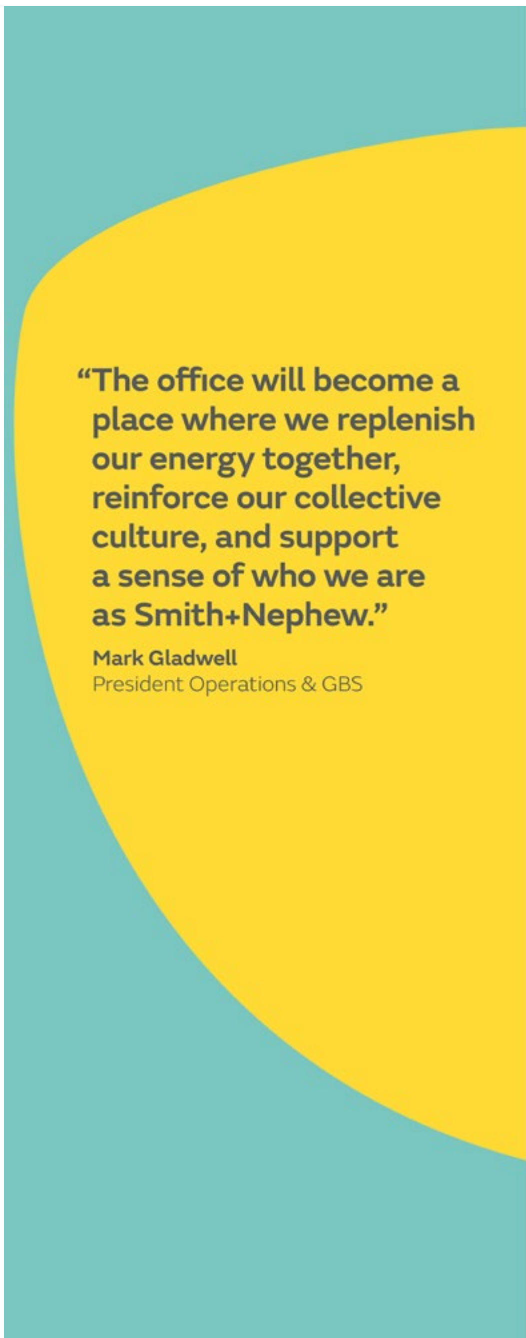
New Normal – Workplace Unlimited
In August, we launched the Workplace Unlimited survey to better understand what flexibility meant to our teams. More than 7,000 employees responded, and from the feedback it was clear that most employees wanted the opportunity for increased flexibility, in some fashion.

With executive sponsorship by our Chief HR Officer Elga Lohler, and President Operations & GBS Mark Gladwell, a project team of more than 50 colleagues set out to further understand employee needs regarding workspace solutions and practices, and to design a new model based on a common Group-wide set of global flexibility principles. Through them we will provide as much flexibility as possible in the future.

7,000+
employees responded to our Workplace Unlimited survey, making it clear that most employees wanted the opportunity for increased flexibility

Compliance & Culture Committee report

During the year it became clear that the impact of COVID-19 would result in a 'new normal' across our markets and in workplaces worldwide. A specific programme was initiated to determine what this would mean for Smith+Nephew, and the Committee was provided updates on this regularly. This work included requesting feedback from employees on new working practices. The Committee was pleased that 7,000 employees responded to this request.



Workplace Unlimited

At Smith+Nephew we have chosen to take this opportunity to re-think where and how work happens, understand employees' aspirations, and be agile in the development of principles that will work for all.

We believe our global flexibility mindset will bring significant and impactful benefits, including greater trust, increased productivity and employee engagement.

At the heart of Workplace Unlimited is a commitment to meet the needs of employees – be they mobile workers who need to work from offices occasionally, teams who frequently need to meet to collaborate, specialists requiring access to specific equipment or employees who have on-site positions such as in manufacturing.

These needs are captured in four personas – external mobile, neighbourhood, hybrid and non-mobile.

External mobile
Employees who are road or remote-based with a schedule aligned to customer needs, such as our sales force.

Hybrid
Employees who require flexible workspace to collaborate with others such as members of our Regulatory Affairs team.

Neighbourhood
Employees who use offices to collaborate and require dedicated area with specific assets, such as R&D engineers.

Non-mobile
Employees who have an onsite position, with some flexibility options around time, such as manufacturing operators.

Figure 1.10
Coats: Presents six sustainability KPIs in addition to two non-financial KPIs (recordable accident rate and employee engagement score) (2020 ARA, pp15 and 16)

KEY PERFORMANCE INDICATORS

Approach in 2020

MONITORING PERFORMANCE TO MEASURE THE GROUP'S PROGRESS TODAY AND ONGOING PERFORMANCE TOMORROW

During 2020 we continued to monitor our performance and progress using the consistent range of key performance indicators used in the prior year, each of which is a non-GAAP measure. For further details of how these financial Alternative Performance Measures are reconciled to the nearest corresponding statutory measure, see note 37 on page 176.

KPI	Definition	Why we measure this	Performance (% Year-on-year)	2020 commentary
Revenue growth[1] Linked to our strategic goal 1	Annual organic growth in sales at like-for-like exchange rates.	Measures the ability of the Company to grow sales by operating in selected geographies and segments and offering differentiated, cost competitive products and services.	**2020 – (19%)** **2019 – 1%** **2018 – 3%**	Significant impact on volumes due to Covid across both A&F and PM. Improving trend in H2.
Adjusted operating profit growth[2] Linked to our strategic goal 1 2	Annual organic growth in operating profit, adjusted for exceptional and acquisition related items, at like-for-like exchange rates.	Measures the underlying profitability progression of the Company.	**2020 – (43%)** **2019 – 6%** **2018 – 23%**	Covid volume impact underpinned by quick and decisive action on cost base (e.g. discretionary trend).
Adjusted earnings per share growth Linked to our strategic goal 2	Annual growth in reported EPS from continuing activities, excluding exceptional and acquisition related items.	Measures the underlying progression of the returns generated for shareholders.	**2020 – (65%)** **2019 – 1%** **2018 – 21%**	Lower adjusted operating profits and higher underlying effective tax rate.
Adjusted free cash flow[4] Linked to our strategic goal 2	Cash generated from continuing activities less capital expenditure, interest, tax, dividends to minority interests and other items, and excluding exceptional and discontinued items, acquisitions, and UK pension recovery payments.	Measures the Company's underlying cash generation that is available to service shareholder dividends, pension obligations and acquisitions.	**2020 – 28** **2019 – 107** **2018 – 96** All figures are in $(m)	Lower adjusted profits mitigated by tight cost control in all areas of the business.
Return on capital employed (ROCE) Linked to our strategic goal 2 3	Pre-exceptional operating profit from continuing operations for the year divided by capital employed (property, plant and equipment plus net working capital) at year end.	Measures the ability of the Company's assets to deliver returns.	**2020 – 22** **2019 – 42** **2018 – 43**	Lower adjusted operating profits alongside well controlled asset base.
Recordable accident rate (RAR) Linked to our strategic goal 2	Number of work-related injuries and illnesses per 100 Full Time Employees (FTEs) per year that are considered recordable by the US Occupational Safety and Health Administration (OSHA).	Measures the performance of the Company in delivering a safe and healthy working environment for employees.	**2020 – 0.59** **2019 – 0.50** **2018 – 0.62** Work related injuries per 100 FTEs 2018 figure restated for delayed impact incidents	Broadly in line with previous years, however challenges were faced in H2 as a result of factories reopening and the subsequent ramping up of production in Q4.

KEY PERFORMANCE INDICATORS CONTINUED

KPI	Definition	Why we measure this	Performance (% Year-on-year)	2020 commentary
Employee engagement score Linked to our strategic goal 2 3	Set a number global surveys using the Glint platform.	Measures the Company's performance in delivering an effective and efficient workplace culture and how proud and willing people are to work towards achieving common goals.	**2020 N/A** **2019 N/A** **2018 83%**	Whilst it remains a KPI, we moved to a 'continuous listening' model in 2019. These pulse surveys were evermore critical during 2020 given the upheaval caused by Covid.

Paying for Performance
The incentive plans used to reward the Directors and our senior managers include Performance Measures linked to our Key Performance Indicators. For more detail see the Directors' Remuneration Report on pages 79–95.

SUSTAINABILITY KEY PERFORMANCE INDICATORS

KPI	Definition	Why we measure this	Performance	2020 commentary
Water Intensity Target of 40% reduction by 2022	Litres of water used per kilo of finished production.	Water is a precious and often scarce resource.	**2020 – 78** **2019 – 83** **2018 – 83** Litres per kilo of production	We achieved a 6% reduction in 2020
Energy Intensity Target of a 7% reduction by 2022	kWh of energy used per kilo of finished production.	Energy is a significant cost to us.	**2020 – 8.9** **2019 – 9.2** **2018 – 9.2** kWh per kilo of production	We achieved a 3% reduction in 2020
Effluent quality Target is for 100% by 2022	Percentage of effluent that is compliant to ZDHC Foundational standards for effluent and sludge.	We need to make sure that water we use is returned to the environment in a good state.	**2020 – 74%** **2019 – 34%** % effluent that is compliant with standards (note that in 2018 sludge was not in the standards)	74% of our effluent was ZDHC compliant by 2020
Employment certification Target is for 80% by 2022	Percentage of employees in Coats units that have a Great Place to Work (GPTW) or equivalent certification.	Employee engagement is critical to our operations.	**2020 – 6%** **2019 – 19%** % of global employees covered by a GPTW certificate	We could not make progress in 2020, but will recover momentum in 2021.
Waste % Target is to reduce waste % by 25% by 2022	Percentage of materials used by Coats that are classified as waste at some point in our processes.	Waste generates lost value.	**2020 – 14%** **2019 – 16%** **2018 – 15%** Waste as a percentage of materials used	We have made good progress towards our 2022 target.
Sales of recycled material Target is for 100% by 2024	Percentage of premium product sales that are made with recycled material.	Recycled materials are more resource efficient.	**2020 – 13%** **2019 – 2%** **2018 – 0%** % of premium product sales made with recycled material	We are making good progress towards our 2024 target.

1. Revenue growth excludes contribution from acquisitions made during the period.

2. Adjusted operating profit growth excludes contribution from acquisitions made during the period.

Figure 1.11
RDI Reit: Skills matrix combined with tenure and demographic diversity and reference to monitoring of appointments against overboarding guidelines (2020 ARA, pp101-102)

Planning

Michael Farrow's departure will result in the following vacancies:

- Independent Non-executive Director;
- Senior Independent Director;
- chair of the Remuneration Committee;
- member of the Audit and Risk Committee; and
- member of the Nominations Committee.

When considering succession planning for the Board, the Nominations Committee will seek to appoint Directors with the right skill set, who can make a positive and diverse contribution, in order to maintain Board effectiveness. The Nominations Committee will commence the process by reviewing the current skills of directors, the skills required for the future and the diversity of members. Knowledge of European property markets, once an important requirement will no longer be needed once the German portfolio has been sold. Current Code requirements stipulate that all Remuneration Committee chairs must have served on a remuneration committee for at least twelve months and Michael's replacement will therefore need to be a person with at least that experience. In order to meet the diversity target of 33 per cent of women on the Board by the end of 2020, the Committee will continue to review gender representation. The objective of having a person of colour on the Board by 2024 will also be considered when refreshing the Board.

Current skills and diversity of the Board are summarised below.

Overboarding

External appointments of our Directors are monitored against the guidelines on overboarding published by the Institutional Shareholder Services.

As such, the Company is aware that Mr Tipper is classified as being overboarded, and there are shareholder concerns regarding his ability to devote sufficient time to the Company. The Board regards Mr Tipper as an exceptional Chairman who attended all scheduled Board and committee meetings during the year. He played an active role during the COVID-19 period and was heavily involved in all material and strategic discussions during the past twelve months. RDI therefore has no concerns regarding his ability to devote sufficient time to the Company.

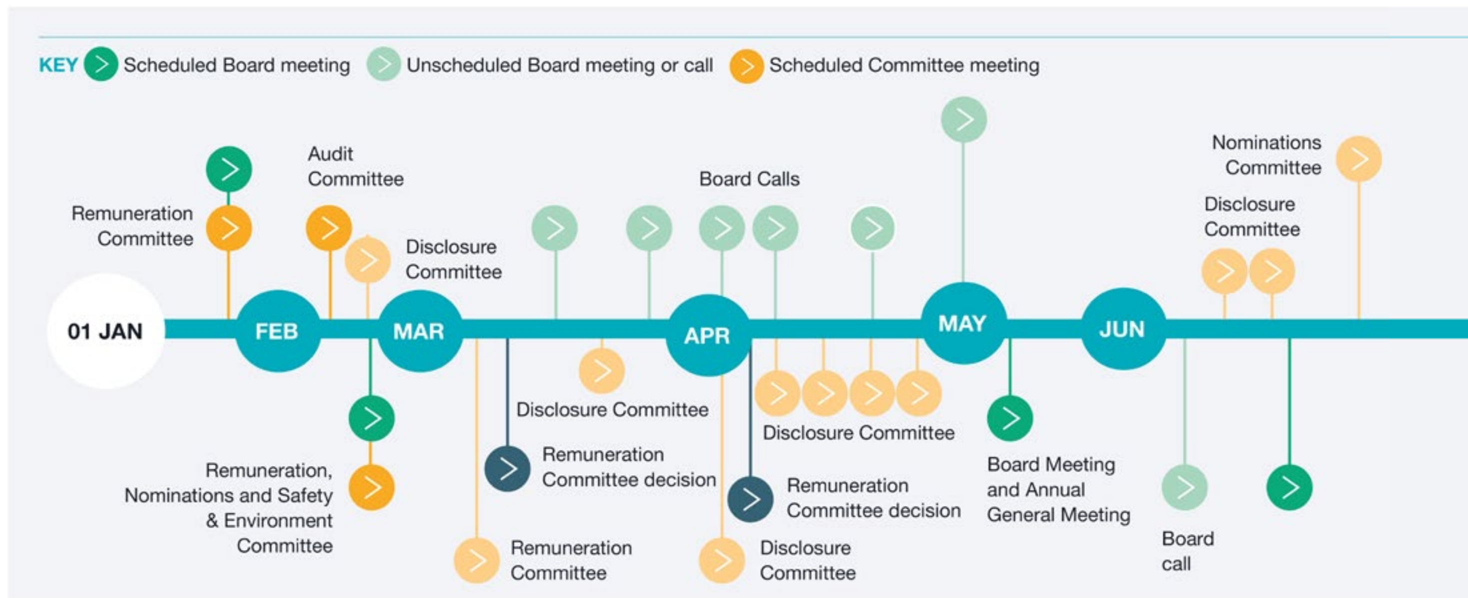
Independent NEDs	Tenure	Due to step down	Experience	12 months on RemCo	Diversity (33% female by FY20)	(A person of colour by FY24)	Age	Qualifications
Gavin Tipper	9 years	January 2022	F U S	✔			55	MBA, CA, BCom, BAcc
Michael Farrow	9 years	January 2021	P F U E	✔			66	FCIS MSc (Corp Gov)
Sue Ford	7 years	December 2022	P F U	✔	✔		60	ACA, BSc (Hons)
Liz Peace	3 years	November 2026	P U	✔	✔		67	BA (Hons) History
Non-independent								
Matthew Parrott	—	n/a	P F				34	BA Business Economics
Mike Watters	7 years	n/a	P F U S E				61	MBA, BSC Eng. (Civil)
Donald Grant	5 years	n/a	F U				46	CA (NZ)

P Property F Finance U UK listed companies S SA listed companies E European property markets

Figure 1.12
National Express: Board meeting timeline, including unscheduled meetings (2020 ARA, pp62, 63 and 74)

Board leadership and company purpose
Board activity in 2020

The Board and its Committees met considerably more often in 2020 to conduct both their ordinary business and significant additional business occasioned by the Covid-19 pandemic. The timeline below illustrates this and the table below details the nature of both the ordinary and Covid-related business discharged at the Board meetings.



Board and Committee meeting attendance

The Board and its Committees conduct their business in scheduled meetings during the year. As illustrated on pages 62 and 63, a number of additional formal and informal Board and Committee meetings were convened during 2020 to enable the Board and its Committees to consider and take timely decisions in response to the Covid-19 pandemic. The table below sets out attendance by Directors at the formal Board and Committee meetings held in 2020 (noting that there was full attendance by all Directors and Committee members at all informal meetings and calls held during the year):

Attendance at meetings	Board	Nominations Committee	Audit Committee	Remuneration Committee	Safety & Environment Committee
Total formal meetings in 2020	13	8	3	6	3

From March 2020, in view of UK government mandates to 'stay at home' and related restrictions on travel and people gatherings and in the interests of health, safety and efficiency, all Board and Committee meetings were held via conference call or video conference.

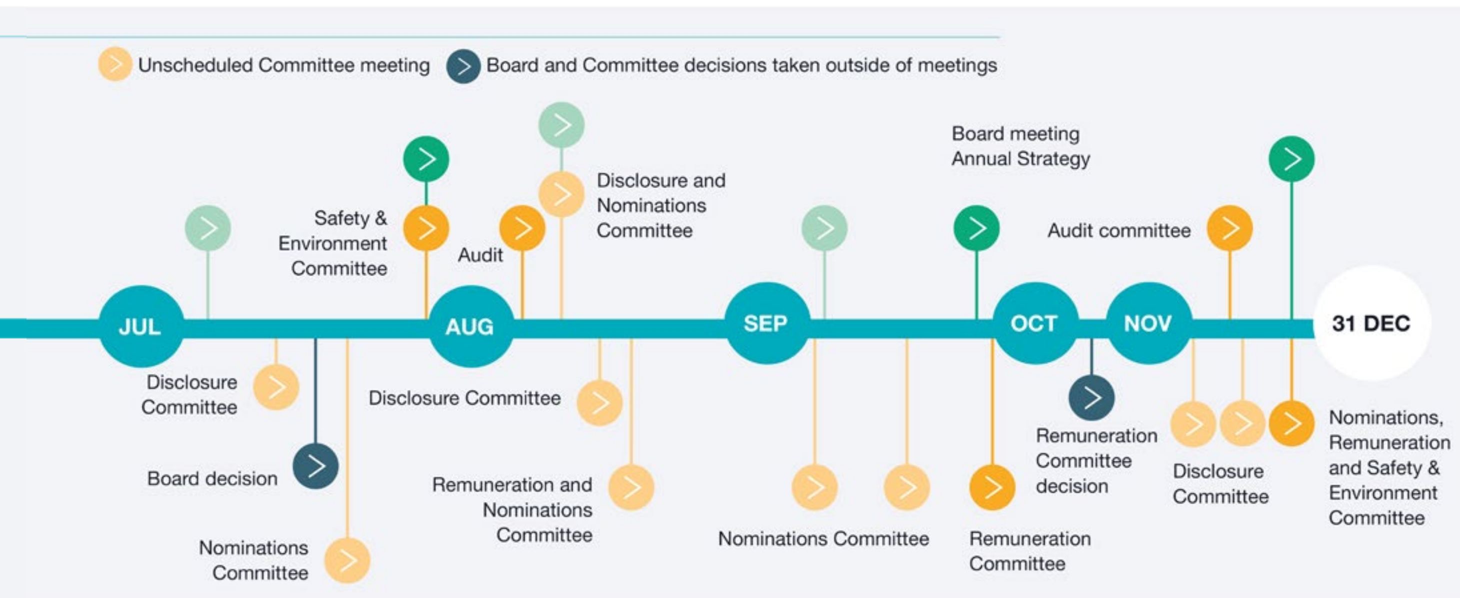


Figure 1.13
Kingfisher: Transparency regarding attendance at unscheduled board meetings (2020 ARA, p58)

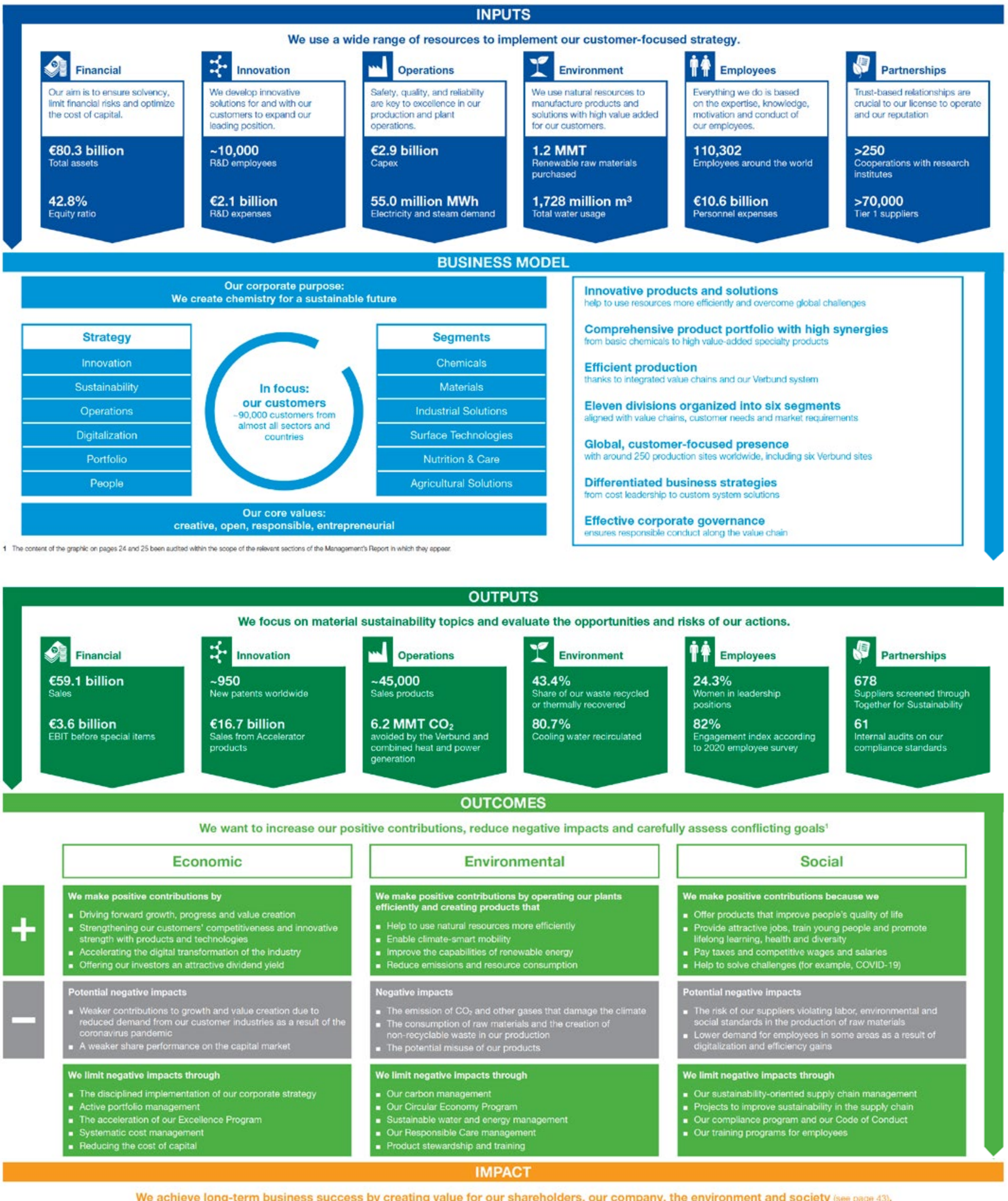
Board attendance

The table below shows the directors' attendance at Board and Committee meetings during the year. In addition to its normal schedule of meetings, the Board met 20 times, in light of the exceptional circumstances including those arising from the Covid-19 pandemic. Directors who are unable to attend scheduled meetings due to competing engagements or unforeseen circumstances are encouraged to input offline and, ideally, ahead of the meeting. More detail regarding information flows to the directors ahead of Board and Committee meetings can be found in the Corporate Governance Statement on our website. Details of how we have improved the information flows during the year together with our action plan for further development can be found on page 61, as part of our Board evaluation process.

Current directors	Scheduled Board	Additional Board	Nomination	Audit	Remuneration	Responsible Business
Andrew Cosslett	11/11	20/20	4/4	–	8/8	–
Claudia Arney[1]	11/11	17/20	4/4	–	8/8	–
Bernard Bot	11/11	20/20	–	–	–	–
Catherine Bradley[2]	3/3	2/2	1/1	1/1	1/2	–
Tony Buffin[3]	2/2	2/2	1/1	1/1	–	–
Jeff Carr[4]	11/11	17/20	3/4	6/6	8/8	–
Thierry Garnier	11/11	20/20	–	–	–	2/2
Sophie Gasperment[5]	11/11	18/20	3/4	–	–	2/2
Rakhi Goss-Custard[6]	11/11	19/20	4/4	6/6	8/8	2/2
Former directors who served during 2020/21						
Mark Seligman[7]	11/11	19/20	3/4	6/6	7/8	–

Figure 1.04
Measuring social impact – BASF case study

BASF (2020 ARA, pp 24-25) includes a business model disclosure based on the **Integrated Reporting framework** which encourages the disclosure of inputs, business activities, outputs and outcomes:



The outcomes are classified as economic, environmental and social — with both positive and negative contributions being discussed along with actions undertaken to limit negative impacts. In the following pages (2020 ARA, pp 43-44) BASF explains how it identifies material sustainability topics, applies the Value to Society approach to measure BASF's impacts and how these impacts contribute to SDGs.

In its **Value-to-Society method paper**, BASF provides further detail on how these impact categories are selected based on a combination of materiality for the business, availability of reliable data, and suitable methods as well as practicability and feasibility of calculation. BASF's contributions are considered both to and beyond gross domestic product:

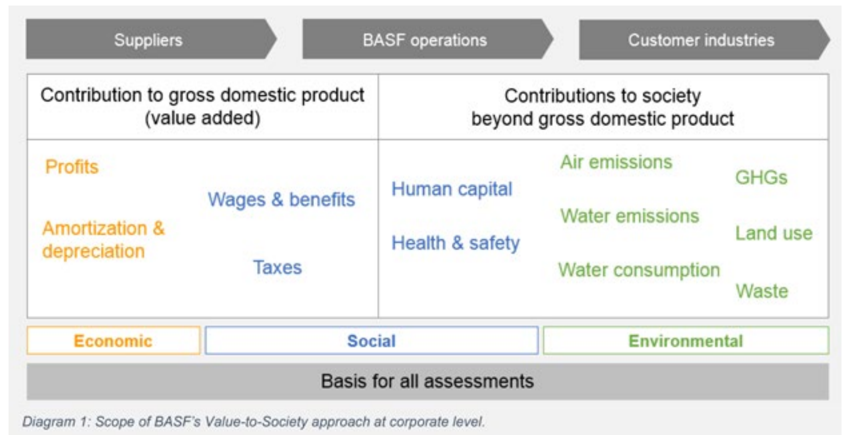


Diagram 1: Scope of BASF's Value-to-Society approach at corporate level.

BASF's Value-to-Society approach quantifies the impacts of its business activities and values the associated external effects on society:

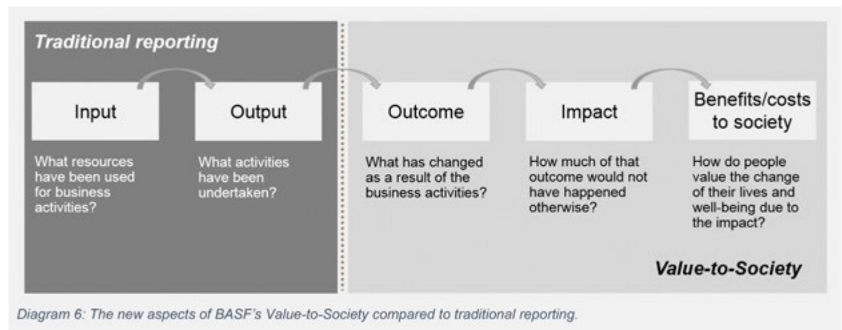


Diagram 6: The new aspects of BASF's Value-to-Society compared to traditional reporting.

BASF provides additional detail on each of the impact pathways (methods to identify the outcomes, impacts and impact values associated with a given business activity) for each of the key areas. Using 'Human Capital' — one of the 'beyond domestic product' categories from within social outcomes, BASF includes the following illustration:

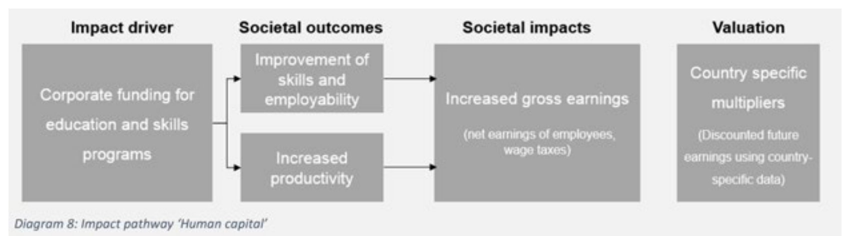


Diagram 8: Impact pathway 'Human capital'

In order to quantify and value the benefits to society provided by human capital, corporate development programs and funding of education are taken into account. Improved experience and skills lead to higher wages — by a wage increase either at an individual's current or future employers. The projected future additional earnings of trained employees after leaving BASF are considered to benefit society through higher purchase power of employees and higher wage taxes. These benefits are projected into the future using country-specific wage growth rates and discounted to their value today. BASF training data and staff leaving rates are used for quantification. The other parts of BASF's value chain are not covered due to a lack of available data.

Authors

Mala Shah-Coulon

Associate Partner, Head of Corporate Governance
mshahcoulon@uk.ey.com
+44 (0)20 7951 0355

Maria Kępa

Director, Assurance
mkepa@uk.ey.com
+44 (0)7795 645183

We thank Beatriz Diego, Samantha Chew, Bidushee Biswas, Lucy Godshall, Isabel Beita, Emma Price, Rebecca Farmer, Loree Gourley and Peter Scoffham for all their help in producing this report.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organisation, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organisation, please visit ey.com.

© 2021 EYGM Limited.
All Rights Reserved.

EYSCORE 008105-21-UK

Artwork by JDJ Creative Ltd.

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

ey.com