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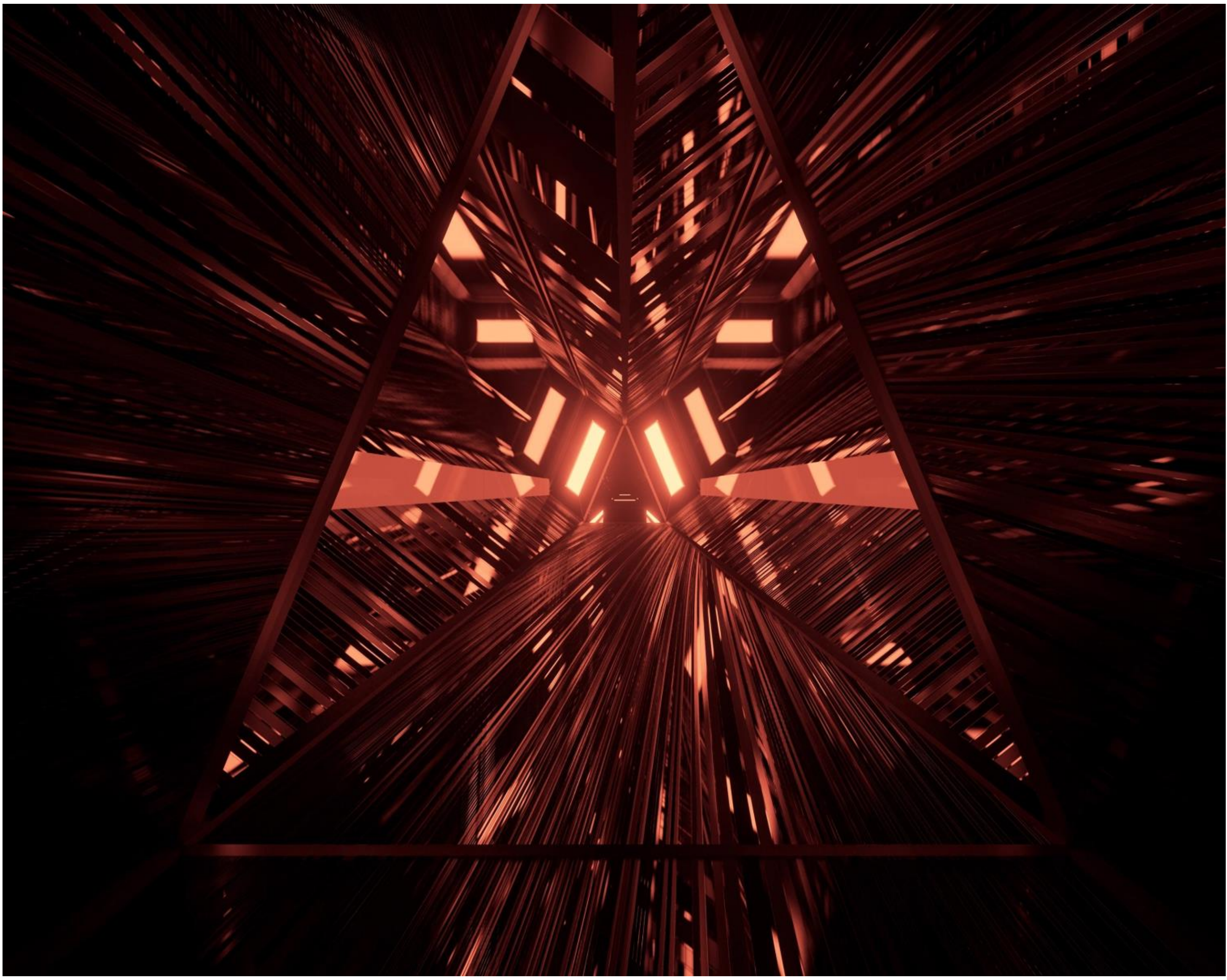
2024 AGM and reporting season: what to expect

January 2024



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INTRODUCTION

This briefing summarises key developments to be aware of when preparing for 2024 annual general meetings and compiling the narrative aspects of annual reports. It is aimed principally at UK incorporated premium listed companies. It also covers material developments for standard listed companies, AIM companies and large private companies.

CONSIDERATIONS FOR 2024 AGMs

We cover:

- Developments since the publication of the 2022 Statement of Principles and Template Resolutions by the Pre-Emption Group, as well as publication of the 2023 Share Capital Management Guidelines by the Investment Association.
- Resolutions and practice in 2023.
- Key points from various updated voting guidelines including those of the Investment Association, Institutional Shareholder Services, Glass Lewis and the Pensions and Lifetime Savings Association.

CONSIDERATIONS FOR 2024 NARRATIVE REPORTING

We cover:

- Climate-related reporting developments, in particular in relation to reporting in accordance with The Taskforce on Climate-Related Financial Disclosure (TCFD) recommendations.
- Diversity reporting pursuant to the FCA Listing Rules and Disclosure Rules and Transparency Guidance/DTRs and various voluntary initiatives.
- Remuneration reporting.
- Publications issued by the Financial Conduct Authority, Financial Reporting Council and others including reports analysing the quality of annual reporting in general and corporate governance reporting in particular.
- Progress on a variety of other developments that will affect future reporting including: government proposals for climate-related transition plans and the implementation of the International Sustainability Standards Board's standards.

We considered many of these issues at our recent AGC conference 2023. Click here to go to the event landing page where you will find the session materials, a recording of proceedings and links to other useful information.

At the end of this briefing we also set out, and link to, key documents published in 2023.

A. CONSIDERATIONS FOR 2024 AGMs

CONSIDERATIONS FOR 2024 AGMS: *What we cover*	
1.	Pre-emption disapplication resolutions.
2.	A retrospective on practice and resolutions in 2023.
3.	Updated voting guidelines: Investment Association, Glass Lewis, ISS and PLSA.

A1. PRE-EMPTION DISAPPLICATION RESOLUTIONS

PEG revised Statement of Principles on the disapplication of pre-emption rights.
By way of reminder, on 4 November 2022 the Pre-Emption Group revised its Statement of Principles on the disapplication of pre-emption rights and its template resolutions. Key changes include those in the table below:

PEG REVISED STATEMENT OF PRINCIPLES: key changes recap
Increased disapplication thresholds – up to 10 per cent of issued share capital (ISC) for general purposes plus a further 10 per cent of ISC for acquisitions and specified capital investments.
A new concept of a 'follow-on offer'.
Strengthened conditions or 'shareholder protections' relating to the use of the authorities.
A special regime for 'capital hungry' companies.

See section A1 of our 2023 AGM and narrative reporting briefing here and our standalone briefing here for more detail on the revised Statement of Principles.

See section A2 below for analysis of the percentage of companies that sought the increased thresholds in 2023.

IA Share Capital Management Guidelines 2023.
In February 2023, the Investment Association (IA) revised its Share Capital Management Guidelines (SCMG). Key changes to the SCMG include:

- Companies can continue to seek annual allotment authorities of up to two thirds of ISC, but with the authority able to extend not just to rights issues (as was previously the case) but to all forms of fully pre-emptive offers.
- Changes to endorse the revised Statement of Principles and template resolutions (although also noting that the disapplication of 'lesser amounts' may be appropriate for some companies).
- Making it clear that, where a company is seeking authorities pursuant to the Pre-Emption Group's template resolutions, IA members expect the company to confirm in its notice of meeting that it will follow the shareholder protections and approach to follow-on offers as set out in the revised Statement of Principles.

The approach of IVIS.
The approach of the Institutional Voting Information Service (IVIS), the IA's voting research service, as set out in the SCMG, is to 'red top' (i.e. flag significant governance concerns) companies that seek:

- a routine disapplication of pre-emption rights **in excess of** 24 per cent of ISC; or
- a disapplication of pre-emption rights up to 24 per cent of ISC that does **not**: (i) follow the template resolutions; (ii) confirm that it will follow the shareholder protections in Part 2B of the Statement of Principles; and (iii)

confirm that it will follow the expected features of a follow-on offer as set out in paragraph 3 of Part 2B of the Statement of Principles.

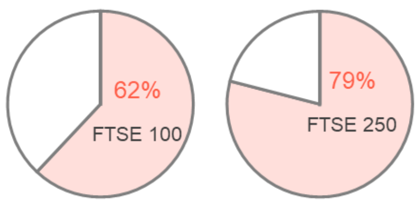
As we noted in last year's briefing, it is worth reiterating that the Statement of Principles is supported by the Pensions and Lifetime Savings Association and the Investment Association as representatives of owners and investment managers. Glass Lewis and ISS have also indicated their support.

A2. A RETROSPECTIVE ON PRACTICE AND RESOLUTIONS IN 2023

In this section, we summarise our view of market practice from the 2023 AGM season. Among other issues, we look at: additional one third allotment resolutions; pre-emption disapplication resolutions; meeting format; shareholder engagement; and say on climate resolutions. Some statistics are sourced from Practical Law's 'What's Market practice Insights and Trends report on Annual Reporting and AGMs 2023'; and others are sourced from the LexisNexis 'Market Standards Trend Report - AGM Season 2023 - investor voting and key trends'. Both publications were issued in November 2023.

Additional one third allotment resolutions.

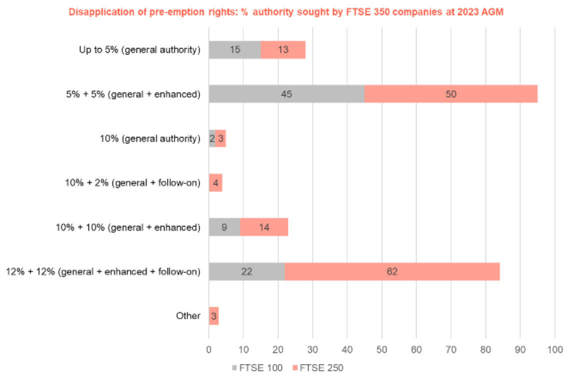
According to Practical Law, the number of companies seeking the additional one third allotment authority remains relatively unchanged at 62 per cent of FTSE 100 companies (61 per cent in 2022) and 79 per cent of FTSE 250 companies (82 per cent in 2022).



(Source: Practical Law's 2023 Insights Report)

Pre-emption disapplication resolutions.

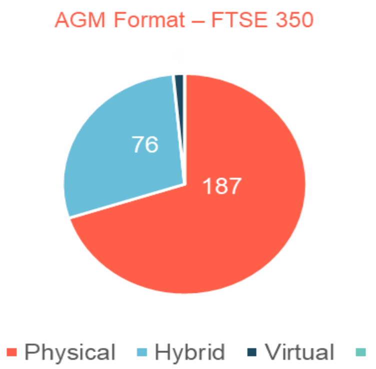
According to Practical Law, 82 per cent of FTSE 100 companies and 86 per cent of FTSE 250 companies sought the additional pre-emption disapplication, i.e .a power to disapply pre-emption rights for use in connection with an acquisition or specified capital investment in addition to a power for general purposes. Notwithstanding the enhanced levels of pre-emption disapplication that may now be sought pursuant to the 2022 Statement of Principles, in 2023 a slim majority (51 per cent) of companies sought up to 10 per cent of ISC (i.e. two resolutions of 5 per cent), whereas 49 per cent sought the enhanced levels of up to 20/24 per cent of ISC.



(Source: Practical Law's 2023 Insights Report)

Meeting format.

The return to physical meetings continued in 2023. According to LexisNexis, physical meetings were up by 28 per cent, hybrid meetings were down by 37 per cent and virtual meetings were down by 33 per cent.



(Source: LexisNexis' 2023 Market Standards Trend Report)

Engagement with shareholders.

Engagement with shareholders before and at meetings remains in focus, as we discussed in section 4 of last year's briefing when we also reviewed the FRC Good Practice Guidance for Company Meetings (July 2022).

According to Practical Law, allowing questions to be asked in advance of a meeting remains a feature although fewer companies in 2023 offered remote attendees the chance to ask questions in real time during the meeting itself.

(Source: Practical Law's 2023 Insights Report)

Disruption at AGMs.

Disruption of meetings, both outside and, for a few, inside the meeting continued in 2023. Several financial institutions and oil and gas companies were reported to have suffered disruption including Lloyds of London, Barclays plc, BP plc and Shell plc. Some water companies were reported to have been subject to protests including United Utilities plc and Pennon Group (parent company of South West Water plc). Tesco plc was also targeted.

Disruption was largely caused by environmental protest groups and, inside the meeting, took the form of repeated questions, speeches, shouting and singing. In some cases this necessitated the removal of protesters by security.

Say on climate resolutions.

Say on climate resolutions were far fewer in 2023. This may be because many activist shareholders await the publication of climate-related transition plans (see Section B for more on this). Practical Law noted just eight climate-related resolutions in 2023 (six FTSE 100 and two FTSE 250 companies), compared to 17 in 2022.

Other resolutions.

Resolutions not passed. Practical Law's 2023 Insights Report notes 23 resolutions were not passed in 2023 (compared to 17 in 2022). Of these, eight were pre-emption disapplication resolutions, eight were requisitioned resolutions, three were resolutions relating to the purchase of own shares, two were allotment authority resolutions and two were annual remuneration report resolutions.

Requisitioned resolutions. We are aware of shareholder requisitioned resolutions at five AGMs in 2023. At three companies, these were climate-related resolutions (Glencore plc, BP plc and Shell plc), at another company they were to elect new directors (Hammerson plc) and at the fifth, the resolutions related to a series of issues including pensions and the company's dividend policy. Therefore, despite the publication by the IA of its Member Guidance on 'Effective requisitioning of shareholder resolutions' (June 2023), the incidence of them remains limited.

A3. UPDATED VOTING GUIDELINES

In this section, we cover (i) IA shareholder priorities for 2023; (ii) Glass Lewis 2024 UK proxy voting guidelines and ESG guidelines; (iii) Institutional Shareholder Services proxy voting guidelines; and (iv) PLSA stakeholder and voting guidelines 2023.

IA shareholder priorities 2023.

At the time of writing, the Investment Association has **not** published its shareholder priorities for the next AGM season. We expect them to be published in February/March 2024.

We anticipate that the themes in 2024 will be similar to the past two years – i.e. climate change, diversity, audit quality and 'stakeholder voice'. When released, we will cover them in an AGC Update.

Set out in the table below are some key points from the IA's **2023** Shareholder Priorities. For more detail, see Item 2 of AGC Update, Issue 33 here.

IA SHAREHOLDER PRIORITIES IN 2023: ***Some key points***
Climate change. IVIS will continue to Amber Top commercial companies that do not make disclosures against all four pillars of the TCFD recommendations. Companies should state in their annual report that directors have considered the relevance of the risks of climate change and transition risks associated with the transition to net-zero when preparing and signing-off on company accounts.
Audit quality. IVIS will break down its questioning into three parts to enable companies to provide targeted disclosures on how: (i) the audit committee has assessed the quality of the audit; (ii) the auditor has demonstrated professional scepticism; and (iii) the auditor challenged management's assumptions where necessary.
Diversity. IVIS will: • Red Top FTSE 100 companies that have not met the Parker Review target of one director from a minority ethnic group (unchanged from its 2022 priorities) • Amber Top FTSE 250 companies that do not disclose either the ethnic diversity of their board or a credible action plan to achieve the Parker Review targets by 2024 (unchanged from its 2022 priorities). • Red Top FTSE 350 companies where women represent: 35 per cent or less of the board; or 30 per cent or less of the Executive Committee and their direct reports (increased from 33 per cent and 28 per cent respectively in the 2022 IA Priorities). • Red Top FTSE Small Cap companies where women represent: 25 per cent or less of the board; or 25 per cent or less of the Executive Committee (unchanged from its 2022 priorities).
Stakeholder engagement. For 2023, company disclosures should include the impact of increases to the cost-of-living and inflationary pressures in the economy on employees (particularly lower paid employees), consumers including vulnerable customers, and suppliers.

Glass Lewis 2024 UK proxy voting guidelines.

Proxy advisory service Glass Lewis has published its 2024 UK Proxy Voting Policy Guidelines effective for meetings from 1 January 2024. The key amendments include those set out in the next table. (See section B3 below for Glass Lewis' changes as regards remuneration and director shareholding requirements.)

GLASS LEWIS 2024 UK PROXY VOTING POLICY GUIDELINES: Some key points	
Director attendance	Glass Lewis will generally recommend voting against the re-election of directors who have failed to attend either at least 75 per cent of board meetings or an aggregate of 75 per cent of board and applicable committee meetings. However, this policy will not apply to directors who have served less than one year on a board or where the company has disclosed that there are exceptional circumstances which justify absences.
Interlocking directorships	The guidelines on interlocking board memberships (where two or more "executives" serve on the same boards) have been expanded to apply to both public and private companies. Glass Lewis will also assess other types of interlocking relationships, and multiple directors serving on the same boards at other companies will be reviewed for evidence of a pattern of poor oversight.
Director accountability for climate-related issues	Glass Lewis' guidelines on director accountability for climate-related issues will apply to FTSE 100 companies operating in industries where the Sustainability Accounting Standards Board/SASB has determined that companies' greenhouse gas emissions represent a financially material risk.
Cyber risk	The guidelines have been amended to suggest that, where a company has been materially impacted by a cyber-attack, shareholders should expect periodic updates on the company's process to resolving and remediating the impact of the attack. Glass Lewis may recommend against relevant directors if it finds the board's oversight, response or disclosures concerning cyber-security issues are insufficient, or not provided to shareholders.
Accounts and reports	Glass Lewis may recommend that shareholders vote against proposals to approve or acknowledge a company's accounts and reports where the auditor did not provide an unqualified opinion on the financial statements.
Standard listed issuers	Glass Lewis has clarified that it generally applies its policies for those listed on the standard segment of the main market of the London Stock Exchange in the same way as for AIM-quoted companies, but that ultimately it will approach such issuers on a case-by-case basis.

Glass Lewis 2024 Shareholder Proposals & ESG-Related Issues.

Glass Lewis has also published its 2024 shareholder proposals & ESG-related issues guidelines, also effective for meetings from 1 January 2024. Key changes include the following.

- **Board accountability for climate-related issues**. In 2024, Glass Lewis will apply its policy of director accountability to large-cap companies operating in industries where the SASB has determined that companies' GHG emissions represent a financially material risk. Director accountability in this context includes the need for thorough disclosures in line with the TCFD Recommendations as well as explicit and clearly defined oversight responsibilities for climate-related issues. Glass Lewis may recommend a vote against responsible directors if such disclosures are absent or significantly lacking.

- **Engagement between companies and investors**. As regards shareholder proposals, where there is compelling disclosure that either party has failed to engage in good faith, Glass Lewis may take such information into account when making recommendations on shareholder proposals. Glass Lewis also believes that companies should make a concerted effort to provide disclosure on engagement with their broader shareholder base on issues raised by such shareholder proposals.

Institutional Shareholder Services/ISS Proxy Voting Guidelines.

In December 2023, ISS published its Benchmark Policy Changes for 2024, with no material changes being made. The revised policies will be applied for shareholder meetings taking place on or after 1 February 2024, except where otherwise noted for later implementation. (See section 5 of our 2023 AGM and narrative reporting briefing here for the substantive changes implemented by ISS to its guidelines last year.)

PLSA stakeholder and voting guidelines 2023.

At the time of writing, the Pensions and Lifetime Savings Association (PLSA) has **not** published its stakeholder and voting guidelines for 2024. These are usually published in February/March of each year. When published, we will cover them in an AGC Update.

The PLSA's current guidelines were published in March 2023. They are designed to help pension fund trustees, investment managers and other institutional investors decide how to exercise their votes at annual general meetings. They tackle issues including board leadership, audit, risk and internal control, remuneration, climate change and workforce. They also contain an appendix summarising all of the PLSA's voting recommendations. In the next table are the three main themes that the PLSA has identified as having particular relevance for 2023.

PLSA GUIDELINES 2023: *Key themes*
Cost of living crisis and executive pay: Remuneration structures and incentives for executive directors should cascade down to, and allow all employees to share in, the success of the business. Shareholders should vote against remuneration policies which are inconsistent with the PLSA's standards.
Climate change and the environment: Companies should reference TCFD in their annual reports and the PLSA expects to see evidence of credible transition plans. Investors should consider voting against an annual report if a company's operations are highly carbon intensive and there has been no disclosure of the climate-related assumptions which underlie financial calculations, or where those assumptions are not consistent with the Paris Agreement.
Workforce issues and impact of operations on society: The guidelines include a new section on the workforce, highlighting: that mental health should be at the heart of companies' workforce concerns; that companies should take steps to ensure that modern slavery is not taking place within their business or supply chains; the importance of workforce disclosures; and the need to progress towards ethnicity targets for 2024.

B. CONSIDERATIONS FOR 2024 NARRATIVE REPORTING

We cover the developments listed in the table below as being particularly relevant for the 2023 annual reports of those with 31 December year ends.

There are a number of other developments that will affect future narrative reporting, not least the FRC consultation on its revisions to the UK Corporate Governance Code (although now severely curtailed) and also the revised Quoted Companies Alliance (QCA) Code published in November 2023 and effective for financial years beginning on or after 1 April 2024. At the end of this briefing, at section B5, we note where in our AGC Updates more information can be found on these and other future reporting developments.

CONSIDERATIONS FOR 2024 NARRATIVE REPORTING: *What we cover*
1. TCFD reporting and related developments
2. Diversity reporting
3. Remuneration reporting
4. The FRC's annual reviews and other publications
5. Other future reporting developments

B1. TCFD REPORTING AND RELATED DEVELOPMENTS

In this section we: (i) review TCFD reporting; (ii) note progress on reporting standards issued by the International Sustainability Standards Board (ISSB); and (iii) cover developments on transition plans (TPs).

TCFD reporting.

Recap. By way of reminder, TCFD reporting is now required by all premium and standard listed companies on a partial 'comply or explain' basis pursuant to the FCA's Listing Rules. Also, mandatory TCFD-aligned reporting, broadly in line with TCFD recommendations and recommended disclosures, is required of certain large 'traded' and AIM companies; and large and high turnover private companies and LLPs, pursuant to the Companies Act 2006.

Our 2022 AGM and narrative reporting briefing here contains more detail on the Listing Rules requirements, and our 2023 AGM and narrative briefing here contains more detail on the Companies Act 2006 requirements.

Lessons from 2023. Supervision of TCFD reporting is undertaken by both the FCA and the FRC. In 2023, the FRC issued a climate-related thematic review, and subsequently, as part of its annual review of corporate reporting, it further considered environment and TCFD disclosures. Set out below are the key findings of each review.

FRC thematic review of climate-related metrics and targets. In July 2023, the FRC issued a thematic review of the climate-related metrics and targets disclosed by 20 premium and standard listed companies. Those reviewed operated in four sectors (materials and buildings, energy, banks, and asset managers) covered by TCFD sector-specific supplemental guidance included in the TCFD 'Implementing the Recommendations' document (the 'TCFD Annex').

The FRC considered four overarching questions:

- Has climate-related metrics and targets reporting improved since last year?
- Are companies adequately disclosing their plans for transitioning to a lower carbon economy, including interim milestones and progress?
- Are companies using consistent and comparable metrics?
- Are companies explaining how their targets have affected the financial statements?

The review sets out the FRC's cross-sector and sector-specific observations and its expectations of companies' future reporting. It also identifies areas of better reporting practice as well as opportunities for improvement. The table below sets out the main areas in need of improvement.

The review also states that greenwashing continues to be an area of concern and one that is likely to intensify. The FRC recommends that key messages on metrics and targets are not obscured by the volume of reporting and companies should not place undue emphasis on less material areas of their business that are 'greener'. The FRC also recommends that companies consider if the use of terms such as 'sustainable' or 'carbon positive' could imply a greater level of environmental benefit has been achieved than is really the case. For more information on greenwashing risk, see our briefing - 'Greenwatch: Issue 2: enforcement action and new laws against greenwashing' here.

FRC THEMATIC REVIEW OF CLIMATE-RELATED METRICS AND TARGETS: *Main areas for improvement*	
1.	The definition and reporting of company-specific metrics and targets, beyond headline 'net zero' statements.
2.	Linkage between companies' climate-related metrics and targets and the risks and opportunities to which they relate.
3.	The explanation of year-on-year movements in metrics and performance against targets.
4.	Transparency about internal carbon prices, where used by companies to incentivise emission reduction.
5.	Better linkage between climate-related targets reported in TCFD disclosures and ESG targets disclosed in the Directors' Remuneration Report.
6.	Explanations of how climate targets affect financial statements.

FRC annual review of corporate reporting – environment and climate-related aspects. In November 2023, the FRC issued its annual review of corporate reporting. As well as summarising the thematic review discussed above, it also summarised findings from its routine reviews as regards both TCFD and climate disclosures in financial statements.

The FRC wrote to 75 companies about their TCFD reporting. In a small number of cases it raised substantive queries and sought specific undertakings from companies to improve the clarity of their statement of consistency with the TCFD framework. The FRC states that, in the second year of reporting against the TCFD framework, it is more likely to enter into substantive correspondence with a company which does not meet the expectations set in both its 2022 and 2023 thematic reports, especially when climate change is significant for the company and it does not provide the TCFD recommended disclosures that are 'particularly expected' by the Listing Rules. The FRC also notes that it will continue to work closely with the FCA.

The review provides statistics on FRC correspondence with companies in respect of TCFD disclosures in the financial statements in the hope this information will guide companies as to which areas may need more attention in preparing future annual reports and accounts. The main reasons for the FRC contacting companies in relation to their TCFD disclosures are summarised in the below table, with substantive queries being raised in relation to points 2, 3 and 5.

FRC ANNUAL REVIEW OF CORPORATE REPORTING: *TCFD reporting - main causes of concern*
1. Compliance statements being unclear or inconsistent.
2. No compliance statement provided.
3. Unclear timelines for future disclosures.
4. No reason given for setting out disclosures in a separate document, rather than in the annual report.
5. Scope 3 emissions missing.

As regards climate change in the financial statements, the FRC also raised issues relating to a variety of IFRS standards, making more substantive enquiries in relation to IAS 36 'Impairment of Assets' than any other standard. In doing so it queried whether climate risks discussed in narrative reporting had been appropriately incorporated into impairment testing. It also obtained agreement from companies to increase disclosure about climate-related assumptions.

ISSB standards.

Recap. As mentioned in last year's briefing, the ISSB was created to deliver a comprehensive global baseline of sustainability-related disclosure standards to inform investors and others about companies' sustainability-related risks and opportunities, with the expectation being that the ISSB would ultimately replace the TCFD. In its October 2023 Annual Progress Report, the Financial Stability Board (FSB), which created the TCFD, confirmed that the TCFD's work was complete and that it had requested the ISSB (rather than the TCFD) to report in 2024 on progress in relation to climate-related financial disclosures.

Developments in 2023. In June 2023, the ISSB published its first two Sustainability Disclosure Standards (SDSs).

ISSB SDSs: *S1 and S2*
IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information S1 requires companies to disclose material information about all sustainability-related risks and opportunities that could affect their cash flows, access to finance or cost of capital over the short, medium or long term. It covers a wide range of environmental risks and opportunities such as greenhouse gas emissions, water pollution and waste.
IFRS S2 Climate-related Disclosures S2 requires companies to disclose information about climate-related risks and opportunities that could affect their cash flows, access to finance or cost of capital over the short, medium or long term. It incorporates and augments the TCFD's recommendations.

Related guidance on how companies can comply with both standards can be found at Appendix B to each Standard.

As regards timing, the ISSB states that IFRS S1 and S2 are effective for reporting periods beginning on or after 1 January 2024. This means that the first financial reports to use them will be published in 2025. Earlier use of the standards is allowed so long as both standards are used together and the company discloses that it is using them. For more detail, see AGC Issue 38.

Implementation of UK SDS. It is for individual jurisdictions to mandate use of the ISSB SDSs and by which companies and the timeframe over which this might take place.

In August 2023, the Department of Business and Trade (DBT) announced that the Secretary of State for Business and Trade will consider the endorsement of the ISSB SDSs so as to create UK Sustainability Disclosure Standards (UK SDS) by July 2024. The DBT indicated that the UK SDS will only divert from the global baseline if absolutely necessary for UK specific matters. Decisions to require disclosure will be taken independently by the UK government for UK registered companies and limited liability partnerships, and by the FCA for UK listed companies.

To assist with the assessment and endorsement of IFRS S1 and IFRS S2, and implementation of resulting UK SDS, the government has established two committees: (i) the UK Sustainability Disclosure Technical Advisory Committee (TAC); and (ii) the UK Sustainability Disclosure Policy and Implementation Committee. The TAC's call for evidence on IFRS S1 and S2 closed on 11 October 2023. It sought views on whether application of these standards in a UK context would result in disclosures that are understandable, relevant, reliable and comparable for investors. It also considered whether the disclosures required by IFRS S1 and S2 are technically feasible to prepare in a UK context and whether they could be prepared in a timely way alongside general purpose financial reports.

In October 2023, the government launched a further call for evidence seeking views on the costs, benefits and practicalities of reporting Scope 3 greenhouse gas emissions and the current Streamlined Energy and Carbon Reporting framework. The responses will help inform the government's decision on whether and how to adopt IFRS S1 and IFRS S2 to create UK SDS.

As stated above, the FCA will decide whether and how the Standards will apply to UK listed companies. In August 2023, the FCA issued Primary Market Bulletin 45 and set out its position on both ISSB standards and TPs as further elaborated below.

FCA: *ISSB Standards and TPs - next steps and timing*
The FCA expects to consult on updating its TCFD-aligned disclosure rules for listed companies to refer to the UK-endorsed ISSB standards in early 2024.
At the same time, the FCA will consult on guidance that will set out its expectations for listed companies' TP disclosures. The FCA considers that the Transition Plan Taskforce's (TPT's) Disclosure Framework will provide additional clarity on what a credible TP should cover, helping issuers to report more effectively on the TP-related aspects of IFRS S2.
The FCA also expects to consult on moving from the current 'comply or explain' compliance basis to mandatory SDS disclosures for listed issuers.
The FCA aims to finalise its policy position by the end of 2024 and bring new requirements into force for accounting periods beginning on or after 1 January 2025.

Transition plans

Recap. By way of reminder, a climate-related TP is an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy. The FCA Listing Rules already include a certain amount of guidance on TPs.

As we noted in last year's briefing, the TPT was set up in 2022 with the aim of developing the 'gold standard' for high quality TPs, considered key to delivering corporate net zero targets and the global transition to a decarbonised and climate-resilient economy.

Developments in 2023. In October 2023 the TPT finalised and launched its Disclosure Framework and Implementation Guidance, and called for companies to start their TPs now using the TPT's best practice resources.

TPT Disclosure Framework. The Disclosure Framework is designed to be consistent with and build on the ISSB SDSs discussed above. IFRS S2 includes provisions relating to transition planning and the TPT Framework provides disclosure recommendations to be of assistance in this regard.

The Disclosure Framework's overall aim is to help organisations set out a credible and robust TP as part of annual reporting on forward business strategy.

"Transition plans should take a strategic and rounded approach which explains how an organisation will meet climate targets, manage climate-related risks, and contribute to the economy-wide climate transition. Transition planning is an iterative process and companies should get started now."

(*Source: TPT Disclosure Framework, October 2023*).

The Disclosure Framework centres around three principles: ambition, action and accountability. Below these sit five overarching disclosure elements: foundations; implementation strategy; engagement strategy; metrics and targets; and governance. Within these elements are sub-elements requiring disclosures covering 19 issues such as strategic ambition (i.e. a company's objective and priorities to respond to and contribute to the transition), financial metrics and targets, GHG metrics and targets, board oversight and reporting, and incentives and remuneration.

TPT Implementation Guidance. The Implementation Guidance covers a variety of areas including: guidance on the transition planning cycle (how to start or continue a transition planning journey); guidance on each TPT sub-element (explaining why each is included and additional disclosure considerations), and examples; and guidance on legal considerations relevant to the TPT Framework.

The TPT is also consulting on high-level sector specific guidance covering decarbonisation metrics and targets for 40 sectors, as well as draft deep-dive guidance for seven sectors: asset managers, asset owners, banks, electric utilities and power generators, those in food and beverage, metals and mining, and oil and gas.

For more detail on the TPT Disclosure Framework and Implementation Guidance, see our client briefing here.

B2. DIVERSITY REPORTING

In this section, we look at: (i) diversity reporting pursuant to the Listing Rules and the Disclosure Rules and Transparency Guidance (DTRs); (ii) developments relating to FTSE Women Leaders Initiative; and (iii) developments relating to the Parker Review of the ethnic diversity of UK boards.

Diversity reporting pursuant to the Listing Rules and DTRs.

Recap. For reporting periods beginning on or after 1 April 2022, the Listing Rules require UK and overseas premium and standard listed companies with listed equity (excluding open-ended investment companies and shell companies) to report in their annual reports on a 'comply or explain' basis against the diversity targets in the table below.

FCA LISTING RULES: ***Key diversity targets and related issues***
At least 40 per cent of the board should be women.
At least one senior board position (chair, CEO, CFO or SID) should be a woman.
At least one member of the board should be from a [non-white] minority ethnic background.
If any target is not met, the reasons for that must be given.

The rules require disclosure of, amongst other things, the reference date used and board changes that have occurred between the reference date and the date on which the annual report is approved and which have affected the company's ability to meet one or more of the targets.

The rules also require mandatory disclosure of data relating to the gender and racial make-up of the board and the most senior tier of executive management using standardised templates.

Effective for the same period, amended DTRs require enhanced disclosures on board diversity policies, namely that they should also describe how they apply to the board's key committees relative to an enhanced list of potentially relevant diversity considerations (with ethnicity, sexual orientation, disability and socio-economic background having been added).

In-scope companies with a 31 December 2023 year end will be making these disclosures on a mandatory basis for the first time this year.

Developments in and lessons from 2023. In Primary Market Bulletin 44 (March 2023), the FCA focussed on diversity and inclusion on boards and within executive management teams in the context of these new requirements. PMB 44 therefore acted as a reminder of the rules, guidance and all the FCA's expectations, including by setting out the steps a company might take to prepare for making the relevant disclosures. It also set out the FCA's supervisory strategy for monitoring and enforcing compliance with the new rules, which is summarised in the below table.

FCA AND DIVERSITY REPORTING: ***Supervisory approach***	
Periodic reviews that may lead to enforcement action	The FCA will conduct periodic reviews of annual financial reports to determine whether listed companies are meeting their diversity disclosure requirements under the new Listing Rules and amended DTRs. If disclosures do not appear to meet the requirements, it may ask a company to take corrective action, for instance enhancing their disclosures in subsequent annual financial reports.
When the FCA may require a subsequent announcement	If a listed company fails to disclose diversity-related information or to provide a clear explanation in their annual financial report as required, the FCA may request that the company publishes this information via a Regulatory Information Service, as soon as possible.
Sanctions	Any non-compliance will be viewed seriously and may lead to deployment of the full suite of the FCA's powers, including sanctions, where appropriate.
Areas of concern and best practice examples	The FCA aims to identify areas of concern and disseminate examples of good practice through its periodic review work. Over time, it will also assess whether there has been material improvement in both the completeness of diversity-related reporting and whether the targets have been met or exceeded.

For the FRC's view on diversity reporting pursuant to the Code, see section B4 below.

Diversity reporting and FTSE Women Leaders.

In February 2023, FTSE Women Leaders Review, the independent, voluntary and business-led initiative supported by government, published its second report on the gender balance of the boards of the largest UK companies.

Although the Review's targets have now been largely encompassed within the FCA's Listing Rules requirements, the Review remains an influential initiative as well as having points of difference. In particular, the Review has extended its scope beyond FTSE 350 companies to include the largest 50 private companies in the UK by sales.

By way of reminder, the Review's four recommendations are set out in the next table.

FTSE WOMEN LEADERS: *Four recommendations*
1. FTSE 350 boards and leadership teams should comprise 40 per cent women by the end of 2025.
2. FTSE 350 companies should have at least one woman in the Chair or Senior Independent Director role and/or one woman in the CEO or Finance Director role by the end of 2025.
3. Key stakeholders should continue to set best-practice guidelines or use alternative mechanisms to encourage any FTSE 350 board that has not yet achieved the 33 per cent target for 2020 to do so. FTSE 350 Boards below 33 per cent women should look to the underrepresented gender when considering additional appointments.
4. The scope of the recommendations now extends beyond FTSE 350 companies to include the largest 50 private companies in the UK by sales.

Diversity reporting and the Parker Review.

In March 2023, the Parker Review Committee published its 2023 update on the ethnic diversity of UK business. As well as reporting on the achievement of its then current targets (see AGC Update, Issue 34 for more on this aspect), it also set some new targets including those set out below.

PARKER REVIEW: *New targets*
1. **Each FTSE 350 company is asked to set a percentage target, by December 2023, for senior management positions that will be occupied by ethnic minority executives in December 2027**. For this purpose, senior management are members of the Executive Committee and senior managers who report directly to them. FTSE 350 companies are encouraged to describe in their annual reports the management development plans they have in place to help create a diverse and inclusive pipeline of talent.
2. **50 of the UK's largest private companies** (as defined by the FTSE Women Leaders Review) will be asked to provide ethnic diversity data from December 2023. Such companies should have at least one ethnic minority director on the main board by December 2027. These private companies will also be asked to set a target for the percentage of ethnic minority executives within their senior management teams.
3. Companies should seek to encourage as many of their employees as possible to self-declare their ethnicity to enable data to drive decision-making.

B3. REMUNERATION REPORTING

In this section we note key remuneration aspects of Glass Lewis's Benchmark Policy Guidelines for 2024. The IA's Principles of Remuneration for 2024 have **not** yet been published. We understand they are due out in the next few weeks and will cover them in an AGC Update at that time.

Glass Lewis 2024 Voting Guidelines. Glass Lewis has introduced some new concepts into its voting guidelines for remuneration for 2024 in respect of LTIP performance conditions. It discourages any variation to performance conditions after grant of an award. Its expectation is that performance share awards should have at least two metrics and that one of these should involve use of a comparator group. Glass Lewis also notes its preference for financial over non-financial performance metrics for LTIPs.

In respect of performance measures related to ESG factors, Glass Lewis emphasises that these must be sufficiently stretching. It notes that certain social measures are an expectation (e.g. ethical behaviour or compliance with policies) and therefore such conditions are not testing enough to be stretching performance measures for an LTIP or bonus award.

Glass Lewis is supportive of so-called "restricted share awards" – i.e. share awards without performance conditions attached. However, it notes that where such awards are granted, these should have a 50 per cent reduction to the previous grant value for LTIP awards from prior years, a vesting and holding period of at least five years and a performance underpin which provides remuneration committees with a broad discretion to lapse awards where either company or individual performance does not justify pay-outs.

Finally, Glass Lewis has included a recommendation that executive directors should have share ownership requirements (as already recommended in the IA Principles of Remuneration). It notes that these shareholding requirements should not only apply for the duration of the executives' tenure, but also for two years post-termination.

QCA Corporate Governance Code. AIM companies should also be mindful of the revised Quoted Companies Alliance (QCA) Code of Corporate Governance and, in particular its expectations as regards remuneration. The revised QCA Code applies to reporting periods beginning on or after 1 April 2024. See the table at section B5 of this briefing for a link to our client briefing on the revised QCA Code.

B4. FRC VIEWS ON CORPORATE REPORTING

We now look at a variety of FRC publications relating to corporate reporting including: (i) priority sectors and areas of focus; (ii) the annual review of corporate reporting; (iii) the annual review of corporate governance reporting; and (iv) audit committee reporting.

FRC priority sectors and areas of focus. In December 2023, the FRC announced its priority sectors for corporate reporting reviews and audit quality inspections for 2024/25, as set out in the table below:

FRC: *Priority sectors 2024/25*
Construction and materials
Food producers
Gas, water and multi-utilities
Industrial metals and mining
Retail

Being in a priority sector is only one risk factor amongst many which the FRC takes account of when making selections for monitoring. Companies and audits not in a priority sector may still be selected for review, particularly those in financial services.

At the same time, the FRC also announced the areas of focus to which its programme of corporate reporting reviews and audit quality inspections will pay particular attention, as set out in the next table.

FRC: *Areas of focus 2024/25*
Risks related to the current economic environment (for example: going concern; impairment; recoverability; and recognition of tax asset/liabilities)
Climate-related risks including TCFD disclosures
Implementation of IFRS 17 – insurance contracts
Cash flow statements

FRC annual review of corporate reporting 2022/23.

In October 2023, the FRC published its Annual Review of Corporate Reporting which contains the findings from the FRC's monitoring activities, together with its expectations for the coming reporting season. Overall, the FRC felt that the general quality of corporate reporting across FTSE 350 companies had been maintained, which it felt was a positive outcome in the context of a 'challenging trading and reporting environment'.

As regards financial reporting, the most frequently raised areas in need of improvement included impairments, and judgments and estimates. The FRC also continued to identify a significant number of issues with cash flow statements.

As regards narrative reporting, the most common aspects of the Companies Act 2006 on which the FRC asked questions of companies were the requirement for the strategic report to be 'fair, balanced and comprehensive', and compliance with distributable profits requirements when paying dividends and repurchasing shares. The table below contains examples of specific instances where the FRC challenged companies.

FRC 2023 REVIEW OF CORPORATE REPORTING: *Strategic reporting and other Companies Act 2006 matters*	
1.	Failure to discuss material issues and developments in strategic reports which were apparent on the face of the accounts.
2.	Failure to include a section 172 statement.
3.	Declaring dividends and undertaking share repurchases not supported by last audited accounts.
4.	Failure to follow through on the rectification of unlawful dividends.
5.	Failure to explain why an investment in a subsidiary did not lead to the preparation of consolidated accounts.

The Annual Review of Corporate Reporting also now includes the FRC's key disclosure expectations for 2023/2024 (this used to be published separately). The next table sets out some key points.

FRC 2023 REVIEW OF CORPORATE REPORTING: ***Key disclosure expectations for 2023/2024***
Carefully consider how current economic conditions may impact financial and narrative reporting, in particular high inflation, rising interest rates and other uncertainties.
Explain in narrative reporting the risks and changes in the business environment and their impact on the company's position, performance and prospects.
Consider the effect of uncertainty (such as climate change, labour market constraints, changes in consumer demand etc.) and high inflation on the recognition and measurement of assets and liabilities, and related disclosures in financial statements. This should include review of whether assumptions and 'reasonably possible' ranges for sensitivity disclosures remain appropriate.
Ensure disclosures about uncertainty are sufficient to meet the relevant requirements and for users to understand the positions taken in the financial statements.
Give a clear description in the strategic report of risks facing the business, their impact on strategy, business model, going concern and viability, cross-referenced to relevant detail elsewhere.
Provide transparent disclosure as to the nature and extent of material risks arising from financial instruments, including changes in investing, financing and hedging arrangements.
Provide a clear statement of consistency with TCFD which explains, unambiguously, whether management considers they have given sufficient information to comply with the framework in the current year. The FRC may challenge companies which have not disclosed information that the FCA 'particularly expects' to be provided. Companies must, in any case, comply with the new mandatory requirements for disclosure of certain TCFD-aligned information, where applicable.
Perform a sufficient critical review of the annual report and accounts. This includes: - taking a step back to consider whether the report as a whole is clear, concise and understandable, omits immaterial information and whether additional information, beyond the requirements of specific standards, is required to understand particular transactions, events or circumstances; and - conducting a robust pre-issuance review to consider issues commonly challenged by the FRC, including internal consistency, whether accounting policies address all significant transactions and presentational matters, such as cash flow and current/non-current classification.

FRC annual review of corporate governance reporting 2023.

In November 2023, the FRC issued its Annual Review of Corporate Governance Reporting. The review considers the reporting of 100 premium listed companies, comprising a mixture of FTSE 100, FTSE 250 and Small Caps. The next table contains a brief summary of some of the key messages.

"We are pleased to see clear progress made by some companies in providing transparent and insightful disclosures. However, more work is needed across the board to meet stakeholder expectations through clear reporting that provides genuine insights into governance outcomes and actions."

(*Source: FRC Press Release - Strides made in corporate governance reporting but more work needed to meet stakeholder expectations, 16 November 2023*)

FRC ANNUAL REVIEW OF CORPORATE GOVERNANCE REPORTING: *Key messages*	
Departures from the Code	Although companies are being more transparent in reporting departures from the Code, explanations sometimes lack clarity, and few companies report to a consistently high standard across their annual report.
Boilerplate reporting	There is still too much unconvincing boilerplate reporting which fails to meet stakeholder expectations. Simply stating the timeline for achieving compliance with a Code Provision is not enough, companies also need to say why their alternative arrangements delivered benefits to the company and its shareholders. Genuine insights, rather than repetition of generic language, are essential for description of the application of the Code's Principles and the spirit of 'comply or explain'.
Reporting on risk and internal controls	As regards assessing risk and the quality of internal controls, there has been little year-on-year improvement in the quality of reporting. Some companies report very well but the majority do not, and fail to demonstrate sufficiently robust systems, governance and that oversight is operating effectively.
Workforce engagement	The focus on workforce engagement is commendable – the best reporters show the beneficial impacts arising when companies broaden their engagement to include culture, purpose and values.
Stakeholder engagement	Companies should reflect on the feedback received from stakeholder engagement and its impact on board decisions. Engagement is important, but only where it leads to high quality outcomes.
Governance outcomes	All companies should pursue a goal of strong, clear and informative reporting of governance outcomes, and the actions that this drives.
Focus on practice	Good governance goes beyond box-ticking to embed the right behaviours and culture. Companies should focus on disclosing actual practices rather than just policies and procedures to demonstrate that a company is well-governed and sustainable, and able to deliver investment, growth and competitiveness.
Diversity reporting	More can be done by companies to ensure that there is a link between company and diversity strategy. Companies need to define their business strategy clearly and link this to their diversity objectives.

FRC minimum standard as regards audit committees and external audit.

In May 2023, the FRC published 'Audit Committees and the External Audit: Minimum Standard'. This Standard is applicable to audit committees of companies with a premium listing and which are included within the FTSE 350 index.

The Standard is currently voluntary and will remain so until primary legislation is passed to make it mandatory (which will also likely create the FRC's successor body - the Audit, Reporting and Governance Authority/ ARGA, which is not expected to take place during the next session of Parliament). Nevertheless, the FRC encourages companies within scope to begin to apply the Standard as soon as they are able.

The Standard covers the following areas: scope and authority of the audit committee; its responsibilities; audit tendering; oversight of audit and auditors; and reporting. As regards reporting, many reporting expectations repeat Provision 26 of the UK Corporate Governance Code. However, there are some additional requirements, namely for the annual report to include:

- An explanation of the application of a company's accounting policies.
- Where shareholders have requested that certain matters be covered in an audit and that request has been rejected, an explanation of the reasons why.
- Where a regulatory inspection of the quality of a company's audit has taken place, information about the findings of that review, together with any remedial action the auditor is taking in the light of these findings.

While the Standard does not prescribe where the below disclosures are made, it expects that:

- If a tender process has taken place within the year, the audit committee should explain the criteria used to make the selection and the process followed.
- The audit committee should report on the activities it has undertaken to meet the requirements of the Standard.

B5. FUTURE REPORTING DEVELOPMENTS

There are a number of further developments that will affect future narrative reporting, not least the FRC consultation on its revisions to the UK Corporate Governance Code (although now severely curtailed) and also the revised QCA Code published in November 2023 and effective for financial years beginning on or after 1 April 2024. In the table below, we note where in our AGC Updates more information can be found.

FUTURE REPORTING DEVELOPMENTS: ***Where more information can be found***	
• Audit reform put on pause and Governance Code changes significantly scaled back	AGC Update, Issue 43
• New QCA Code	AGC Update Issue 44 and client briefing here
• Government proposals for payment practices reporting	AGC Update, Issue 42
• FRC to strengthen auditor reporting requirements	AGC Update, Issue 43
• Government launches non-financial reporting information review	AGC Update, Issue 37

APPENDIX – KEY PUBLICATIONS

This table contains a non-exhaustive list of publications (with links), which may be useful during the 2024 AGM and reporting season and more generally.

Title	Date
The Department for Business and Trade	
DBT press release – Burdensome legislation withdrawn in latest move to cut red tape for businesses	10/23
Web-page on UK Sustainability Standards (including TAC Call for Evidence and guidance on UK SDS)	8/23
Financial Conduct Authority	
Primary Market Bulletin 45 (focuses on sustainability and climate related issues)	8/23
Primary Market Bulletin 44 (focuses on diversity and inclusion on company boards and executive management)	3/23
Financial Reporting Council and FR Lab	
Areas of supervisory focus for 2024/2025	12/23
Annual Review of Corporate Governance Reporting	11/23
Policy Update on revisions to the UK Corporate Governance Code	11/23
Annual Review of Corporate Reporting	10/23
Thematic review of climate-related metrics and targets	7/23
Corporate Governance Code consultation (updated by Policy Update above)	5/23
Audit committees and the external audit: minimum standard	5/23
Investment Association	
Effective requisitioning of shareholder resolutions	6/23
Share Capital Management Guidelines	3/23
IA Shareholder Priorities and IVIS approach for 2023	2/23
Voting guidelines	
ISS 2024 EMEA Benchmark Policy Changes (including for the UK)	12/23
Glass Lewis 2024 Benchmark Policy Guidelines – UK	11/23
Glass Lewis 2024 Shareholder Proposals & ESG-Related Issues	11/23
PLSA Stewardship and Voting Guidelines 2023	3/23

Title	Date
Diversity reports	
FTSE Women Leaders Review: Achieving Gender Balance	2/23
Improving the Ethnic Diversity of UK Business: an update report from the Parker Review	3/23
ISSB, UK SDS and related	
ISSB issues inaugural global sustainability disclosure standards	6/23
Web-page on UK Sustainability Standards (including TAC Call for Evidence and guidance on UK SDS)	8/23
Transition Plan Taskforce Disclosure Framework and Implementation Guidance	10/23
2023 TCFD Status Report	10/23
Miscellaneous	
LSE Dividend Procedures Timetable 2024	7/23