

Legal Academy

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Introduction



Presenters



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Agenda

Introduction	8:30-8:45
ESG overview	8:45-8:55
UK TCFD	8:55-9:00
UK Audit and Corporate Governance Reform	9:00-9:05
EU CSRD	9:05-9:10
EU CSDDD	9:10-9:15
Reflections and sharing experiences	9:15-9:30

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Please rate your (personal) level of confidence in understanding the current ESG regulatory landscape that applies to your business:

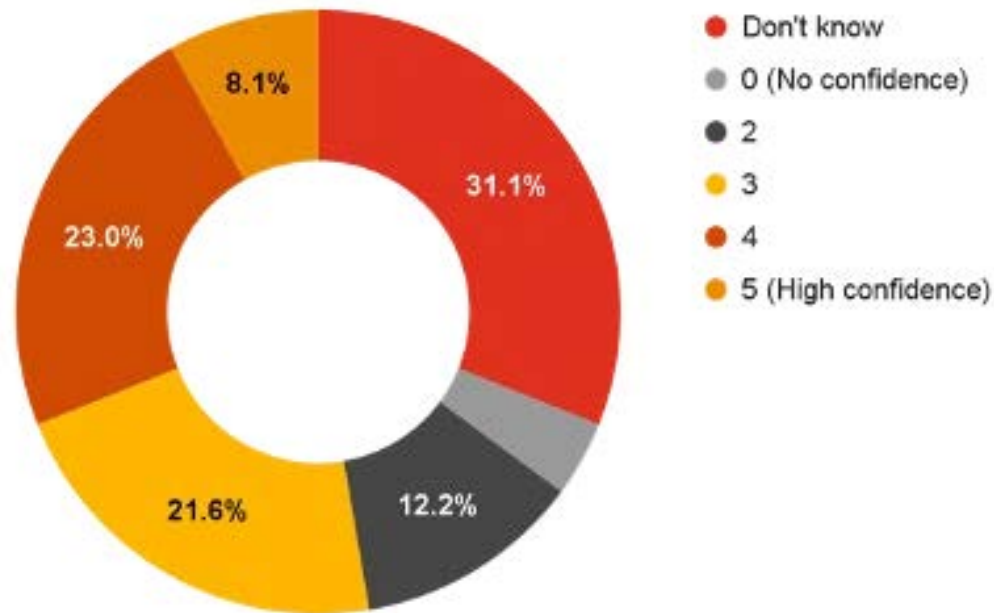
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ESG survey results

Last year, we undertook a survey aimed at the crucial issues and key actions that Legal and CoSec functions are determining as part of their critical steps in their ESG journey.

In response to the same question asked on the previous slide, the highest proportion of respondents indicated 'don't know', but those that knew appeared to have a **medium understanding** of the regulations. More respondents stating 'don't know' indicates a degree of uncertainty within this area.

Question to participants: What, in your view, is driving this lack of understanding?



Breakout rooms

- Introduce yourself (name, firm, experience)
- Discuss your level of understanding of the current ESG regulatory landscape that applies to your business



ESG Overview

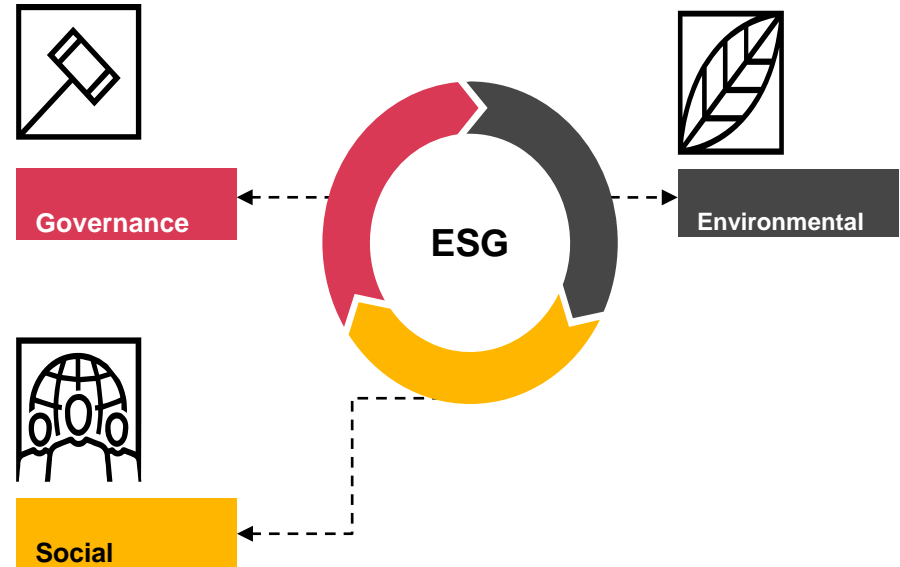


What is ESG?






ESG stands for environmental, social, and governance.

It refers to a breadth of non-financial factors (many of which have demonstrable financial impact) that companies are increasingly incorporating into their decision making.



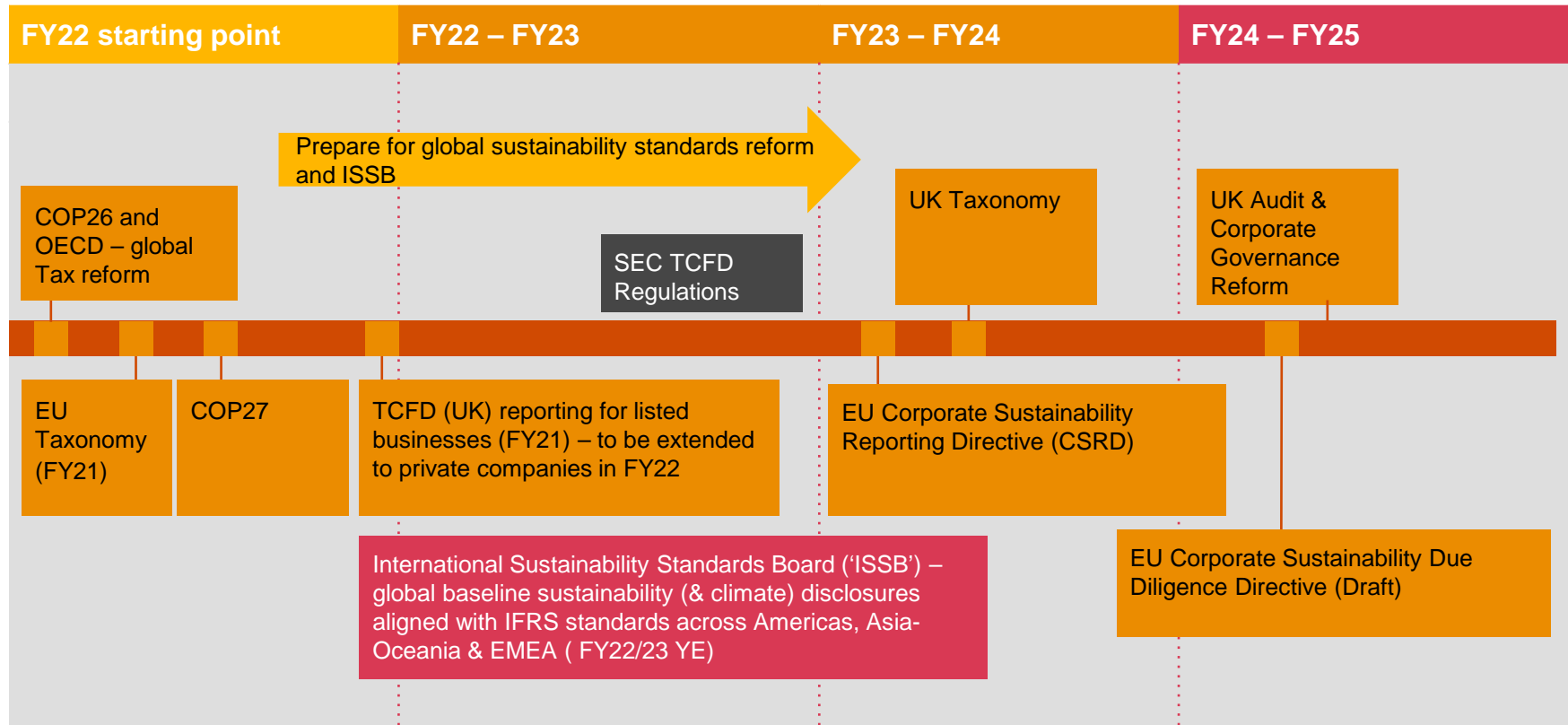
Three Pillars of ESG

ESG brings to mind environmental issues like climate change and resource scarcity. These form an important element of ESG, but the term means much more. It also covers social and governance issues.

Environmental 				Social 				Governance 	
Climate change	Natural capital	Pollution and waste	Environmental opportunities	Human capital	Product liability	Stakeholder opposition	Social opportunities	Corporate governance	Corporate behavior
Carbon emissions and carbon tax	Water stress	Toxic emissions and waste	Clean tech	Labor management	Product safety and quality	Controversial sourcing	Access to communication	Board	Business ethics
Product carbon footprint	Biodiversity and land use	Packaging material and waste	Green building	Health and safety	Chemical safety	Community relations	Access to finance	Pay	Tax transparency reporting
Financing environmental impact	Raw material sourcing	Electronic waste	Renewable Energy	Human capital development	Consumer financial protection		Access to health care	Ownership	Data privacy and ethics
Climate change vulnerability		Waste taxes, plastic taxes,	Tax and cash incentives and subsidies	Supply chain labor standards	Privacy and data security		Opportunities in nutrition and health	Accounting	
				Social benefits and pension payments	Responsible investment		Access to education	Legal capabilities	
				Equal pay	Insuring health & demographic risk				

Source: [MSCI ESG Ratings Key Issue Framework](#)

ESG Regulatory Horizon



Taskforce for climate-related financial disclosures (TCFD)



TCFD

The TCFD aims to improve the availability of information on how companies are managing climate-related risks and opportunities

Core elements of recommended climate-related financial disclosures



Governance

The organisation's governance around climate-related risks and opportunities



Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning



Risk management

The process used by the organisation to identify, assess, and manage climate-related risks



Metrics and targets

The metrics and targets used to assess and manage relevant climate-risks and opportunities

Mandatory TCFD disclosure

Disclosure in-line with TCFD will become mandatory for most of the UK economy by 2025

Premium listed Companies

For periods beginning 1 January 2021, companies with a UK premium listing will be required to report against the TCFD reporting framework.

Standard listed companies

For periods beginning 1 January 2022, the UK Government has mandated that all listed UK companies report against the TCFD reporting framework.

UK-registered companies

For periods beginning 6 April 2022, the UK Government has mandated that all large UK-registered companies report against the TCFD reporting framework (subject to ongoing

Reporting roadmap

2021 reporting periods

FCA: Premium Listed companies ('comply or explain' basis)

DWP: Occupational pension schemes >£5bn (for periods from 1 October 2021)

PRA: Banks and insurers (in-line with SS3/19)

2023 reporting periods

FCA: Smaller asset managers, life insurers and FCA-regulated pension funds

2022 reporting periods

FCA: All listed companies

FCA: Large asset managers, life insurers and FCA-regulated pension funds

BEIS: All large (£500m+ revenue) UK companies

DWP: Occupational pension schemes >£1bn

2024 reporting periods

DWP: Remaining occupational pension schemes

UK Audit and Corporate Governance Reform



UK Audit and Corporate Governance Reform

A broad-ranging package

- Holistic reform
- Stretches across the whole UK system for:
 - corporate reporting
 - governance
 - auditing

Timescale

- The timescale for reform is not yet established
- It's expected to stretch over a number of years
- Minimum lead times will be considered

Implementation

- Will be through a variety of mechanisms
- Primary and secondary legislation
- Existing measures such as the UK Corporate Governance Code

The key reforms

- 1 Boards to provide an explicit statement on the effectiveness of **internal control systems** (financial, operational and compliance), and a basis for the directors' assessment.
- 2 An **Audit and Assurance Policy, Resilience Statement**, directors' disclosures over the prevention and detection of **fraud** and **capital maintenance** disclosures.
- 3 **Increased accountability of directors** and minimum standards for **audit committees** on audit tendering and monitoring of audit quality.
- 4 **Managed shared audits** for the FTSE 350 implemented on a phased basis with ARGAs able to determine exemptions.

Establishing ARGAs is key to the successful implementation of many of these proposals

EU Corporate Sustainability Reporting Directive (CSRD)



CSRD



Thresholds

- Complex thresholds aimed at larger EU-based companies
- Will impact non-EU parent companies with EU-based subsidiaries



Reporting approach

- There are a number of different reporting approaches for businesses to consider
- Businesses will need to look to the ESRS and EU Taxonomy



Wide ranging disclosures

- Required reporting disclosures are wide ranging covering Governance, Social and Environmental areas

Key points:

1. EU driven sustainability legislation
2. Will have a phased implementation
3. Local EU member states still to transpose CSRD to local laws
4. Key for businesses to understand their corporate structure to assess exposure

EU Corporate Sustainability Due Diligence Directive (CSDDDD)



CSDDD

What is the EU CSDDD

CSDDD is proposed legislation that would impose a corporate due diligence duty on in-scope large companies operating in Europe to help ensure that they contribute to sustainable development and the sustainable transition of economies.

The due diligence measures would require the identification, prevention and mitigation of human rights and environmental impacts connected with companies' own operations, as well as in relation to their subsidiaries and value chains.

Why does it matter?

The CSDD imposes duties on directors to take into account the consequences of their decisions on human rights, climate change and the environment.

Non-compliant companies could be subject to sanctions and civil liability, imposed by designated supervisory authorities operating throughout the EU.



To what extent do you consider it important to engage with local subsidiaries when it comes to ESG reporting?

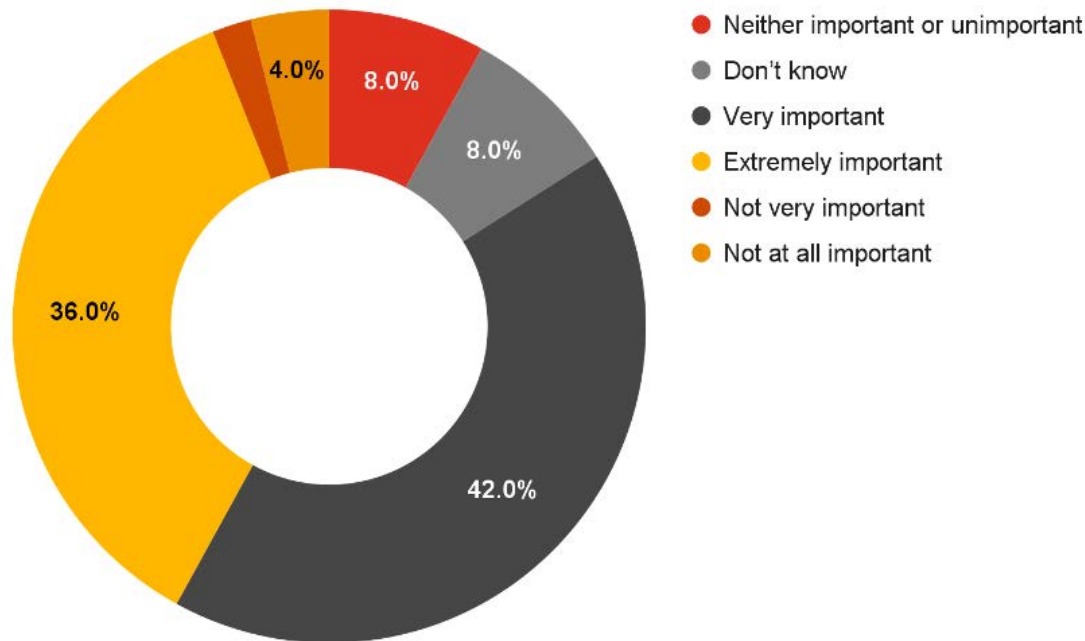
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ESG survey results

30% of respondents felt that it is 'extremely important', and 42% indicated that it is 'very important' to engage with local subsidiaries when it comes to ESG reporting.

Subsidiary governance roles are emerging and, in the face of ESG regulations that will require reporting at the subsidiary level (for example, CSRD and CSDDD as just discussed) - it is therefore becoming increasingly important. Respondents' results validate the increasing importance of subsidiary governance and the role it should play in supporting good governance. What is interesting, however, is that while respondents' felt that it was very important to engage with local subsidiaries, the majority did not actually know whether this was happening in practice.

This outlines the need for companies to have structured engagement and feedback systems with overseas subsidiaries.



Key takeaways



What next?

1

Engage within your legal team to understand their awareness of ESG reporting and regulatory developments

2

Understand what ESG regulation your organisation already reports on

3

Connect with your internal stakeholders who should be aware of ESG reporting and regulatory developments

Reflections and sharing experiences





Does your (personal) level of confidence in understanding the ESG regulations now differ to what you selected at the start of the presentation?

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Your feedback
matters



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