

## IA Shareholder Priorities and IVIS approach for 2022

IVIS will monitor companies with year-ends starting on or after 31 December 2021 against the following approach:

### Responding to Climate Change

#### 2022 Expectations

The need for immediate action on climate change is clear, the International Panel on Climate change has found that without strong, rapid, and sustained emission reductions in the next decade, global temperatures will exceed 2050 targets with catastrophic impacts on the planet, people, and the economy. This will have a significant impact on companies and their value. Investors therefore need companies to produce and disclose the transition plans that they have in place to meet the goals of the Paris Agreement and how they will become net zero.

IA members expect companies to take immediate action. Climate change and the transition to net zero is not an issue which can be left for future management teams or Boards; investors wish to see the actions the current leadership will be taking. We welcome the UK Government's announcement to mandate listed companies to prepare transition plans. In October 2021, TCFD issued guidance recommending that companies operating in jurisdictions, with a net zero commitment produce transition plans. This guidance has been incorporated into the Listing Rules. The IA supports this guidance and encourages companies to publish transition plans ahead of the Government making them mandatory. Investors also expect to see progress on the setting of robust targets to achieve net zero, with a clear preference for these targets to be aligned with robust methodologies such as the Science Based Target initiative.

#### 2022 Colour Top Approach

- In 2022 IVIS will Amber top all commercial companies that do not make disclosures against all four pillars of TCFD.

### Accounting for Climate Change

#### 2022 Expectations

Investors continue to expect directors to affirm that the financial impact of climate-related matters have been incorporated into the company's accounts (see 2021 shareholder priorities). They should provide a statement in the Annual Report that the directors have considered the relevance of the risks of climate change and transition risks associated with achieving the goals of the Paris Agreement when preparing and signing off the company's accounts.



In addition, we expect the company's auditors to consider the risks of climate change when conducting their assessment of the accounts and IVIS will monitor whether auditors have highlighted climate change-related risks in their Key Audit Matters.

## **Audit Quality**

### **2022 Expectations**

The IA continues to expect companies to meet the 2021 shareholder expectations and demonstrate how they have judged the quality of the audit they have received. IVIS will continue to monitor whether the Audit Committee has demonstrated how it has assessed the quality of the audit and how it has challenged management's judgements.

## **Diversity**

### **2022 Expectations**

The FCA has recently consulted on changes to the Listing Rules to incorporate additional diversity reporting and diversity targets on a comply or explain basis. The FCA's targets are aligned with the recently announced targets from the FTSE Women Leaders Review. The IA supports these changes to the Listing Rules and the FTSE Women Leaders Review recommendations. We expect companies to articulate to investors the approach that they are taking to meet the new targets. Ahead of the FCA's targets and disclosures formally being incorporated into the Listing Rules we encourage all companies to disclose against the new reporting template and to set out how they expect to meet the new Listing Rule and FTSE Women Leaders Review targets over time.

### **2022 Colour Top Approach**

Ethnic Diversity:

- Red top FTSE 100 companies that have not met the Parker Review target of one director from a minority ethnic group.
- 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.

Gender Diversity:

- Red top FTSE 350 companies where women represent:
  - 33.0% or less of the Board
  - 28.0% or less of the Executive Committee and their direct reports
- Red top FTSE Small Cap companies where women represent:
  - 25.0% or less of the Board.
  - 25.0% or less of the Executive Committee

## **Stakeholder Engagement**

### **2022 Expectations**

Investors continue to expect companies and their boards to:

- Identify and disclose their material stakeholders;
- Decide on the most appropriate mechanism to engage with those stakeholders;
- Clearly articulate how their views have both informed and impacted their decision making; and



- Report back to shareholders and stakeholders on the engagement, the views heard and how they have impacted on board decision making.

In the current environment, investors expect these disclosures to include the impact of increases to the cost of living and inflationary pressures in the economy on consumers and suppliers.

We welcome the leadership shown by Remuneration Committees and executives in responding to the pandemic. Most companies have proceeded with sensitivity to the wider shareholder and stakeholder experience, ensuring that remuneration outcomes were linked not just to the outcomes of the performance metrics but taking into account the wider experience of the company's major stakeholders. Shareholders have welcomed the effort that Remuneration Committee Chairs have taken to consider and disclose how their committee has taken into account the wider stakeholder experience.

The pandemic has significantly impacted companies and their stakeholders. COVID will be a common issue which all companies will have had to address in 2021. Investors will expect companies to make quality disclosures outlining the approach taken to engaging, communicating, and supporting the company's stakeholders during the disruption caused by the pandemic. Importantly this should include how the Board reflected the views of their stakeholders in key decision making.

As set out in our letter to Remuneration Committee Chairs in November 2021, consideration of the wider stakeholder experience when determining executive remuneration outcomes by Remuneration Committees will continue to be a critical investor expectation as the effects of the pandemic and its aftermath are felt.