

ESG & s172 statements - examples

DECISION:	STRATEGY TO COMPLY WITH THE NEW LABOUR LEGISLATION IN MEXICO, WHICH REGULATES THE SUBCONTRACTING OF WORKS AND SERVICES										
CONTEXT	<p>Mexico recently enacted legislation to regulate the subcontracting of workers. The spirit of this new law aims to preserve workers' rights and ensure the compliance of contractors with their labour and social security obligations. Key aspects of the reform:</p> <ul style="list-style-type: none"> • The reform expressly prohibits subcontracting personnel, with the exception of subcontracting specialised services/works if these are not included within the core business (corporate purpose) of the companies contracting the services, and provided that the subcontractor is duly registered as a provider of specialised services with the Ministry of Labour and Social Welfare in Mexico; • The reform also considers as specialised services those shared between entities of the same corporate group (insourcing) as long as these activities are not included in the core business (corporate purpose) of the beneficiary receiving the services; • The Income Tax Law and the Value Added Tax Law prohibit the deduction of taxes on expenses paid related to subcontractors that are not in compliance with the reform; • The companies contracting the services/works will be jointly and severally liable for any breach in the contractors' obligations under the labour, social security and/or tax laws; and • Using deceptive practices to simulate the provision of specialised services or subcontracting personnel will constitute tax fraud and be subject to criminal penalties. 										
DECISION MAKING PROCESS	<p>In response to the reform, the Executive Committee presented a strategy, supported by the opinion of external advisors, to absorb certain contractor personnel. To further mitigate this risk, the Company decided to implement stringent controls to ensure that contractors fully comply with their tax and labour obligations.</p> <p>The Board decided to approach these stakeholder issues with a focus on:</p> <ul style="list-style-type: none"> • Compliance with the new regulatory standards; • The retention of those members of the qualified workforce who are essential to our business model and the delivery of our strategy; and • Ensuring that workers' rights are respected. 										
STAKEHOLDER CONSIDERATIONS	<table border="0"> <tr> <td>Employees</td> <td> <ul style="list-style-type: none"> • Recruitment and onboarding of qualified contractors' workforces to ensure business continuity • Job stability for the contractors' workforces at risk </td> </tr> <tr> <td>Unions</td> <td> <ul style="list-style-type: none"> • Collaboration on the assimilation of qualified contractors' workers </td> </tr> <tr> <td>Community</td> <td> <ul style="list-style-type: none"> • Minimise the impact on local employment and procurement </td> </tr> <tr> <td>Government and regulators</td> <td> <ul style="list-style-type: none"> • Compliance with the new labour legislation, preserving workers' rights and strengthening contractors' compliance with tax payments </td> </tr> <tr> <td>Contractors & Suppliers</td> <td> <ul style="list-style-type: none"> • Collaboration to implement enhanced controls to ensure compliance with their tax and labour obligations </td> </tr> </table>	Employees	<ul style="list-style-type: none"> • Recruitment and onboarding of qualified contractors' workforces to ensure business continuity • Job stability for the contractors' workforces at risk 	Unions	<ul style="list-style-type: none"> • Collaboration on the assimilation of qualified contractors' workers 	Community	<ul style="list-style-type: none"> • Minimise the impact on local employment and procurement 	Government and regulators	<ul style="list-style-type: none"> • Compliance with the new labour legislation, preserving workers' rights and strengthening contractors' compliance with tax payments 	Contractors & Suppliers	<ul style="list-style-type: none"> • Collaboration to implement enhanced controls to ensure compliance with their tax and labour obligations
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STRATEGIC ACTIONS SUPPORTED BY THE BOARD	<p>The Strategic Actions supported by the Board were:</p> <ul style="list-style-type: none"> • Implement the strategy proposed by management to comply with the new labour and tax obligations; and • Appoint a Special Board Committee to comprehensively evaluate the strategy and make all the necessary decisions on behalf of the Board. <p>The Strategic Actions supported by the Special Board Committee were:</p> <ul style="list-style-type: none"> • Merger of concession companies with operating companies; • Modification of the corporate purpose contained in the by-laws of the operating, technical and services subsidiaries; • Contracting specialised services and works whenever necessary, from companies registered with the Ministry of Labour and Social Welfare in Mexico; • Extending job offers to qualified contractors' personnel who have been working on non-specialised services; • Adjustment of insourcing arrangements; and • In certain cases, re-allocating personnel within Group companies. 										
IMPACT OF THESE ACTIONS ON THE LONG-TERM SUCCESS OF THE COMPANY	<p>The strategy to comply with the new labour legislation in Mexico has enabled Fresnillo to comply with the legislative reform, including the retention of qualified contractors' workers essential to our business model, and also to support the delivery of our strategy. Extending job offers to the qualified workforce has also mitigated the negative impacts of the reform on our people and local communities.</p>										
OUTCOME	<p>In July 2021, the Board discussed and supported the Strategy. The Special Committee made the key decisions in August 2021, for implementation by management.</p>										

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KEY DECISIONS TAKEN DURING 2021

1. Approval of a new environmental, social and governance (ESG) strategy which set goals for 2030 in relation to safety performance, CO₂e emissions, water usage, employee engagement and diversity and inclusion.

How the decision was taken: The strategy was developed by comparing the ESG areas that investors are focused on and how these are aligned with Morgan's business to determine five priority areas. The Board of Directors had oversight of the process to develop the strategy and reviews progress at each Board meeting.

How stakeholder interests were taken into account:

- Workforce – A cross-section of employees were asked for their views on the most important ESG issues to the business and this assessment was taken into account by the Board when selecting the main objectives of the ESG strategy and the key issues to focus on and improve;
- Customers – Our ESG performance is increasingly important to our customers who view us as partners who share the same values and approach to conducting business responsibly. This safeguards our customers' reputation and ensures that we remain a reliable party in their supply chain for the long term. Consequently, our customers expect us to be able to demonstrate ESG performance and plans for improvement;
- Suppliers – Our suppliers depend on our success and support the steps we take to maximise efficiency and remain competitive;
- Community – There is a widespread expectation that large corporates behave responsibly, minimise the use of resources and take steps towards a more sustainable future;
- Investors – The integration of ESG into our long-term business strategy responds to demands from investors for companies to manage the environmental impact, take care of their people and the communities in which they operate and behave responsibly, with a view to ensuring their long-term success.

Impact of the decision: ESG targets for 2030 and aspirational goals for 2050 are set out on page 9 and in the Sustainability and Responsibility section.



Poll question 2: How prepared are you for your next climate-related disclosures?

- Already made TCFD disclosures; we will be updating them
- 1st year of making TCFD disclosures; we feel confident in being able to make them
- 1st year of making TCFD disclosures; areas of non-compliance already identified
- Voluntarily making climate-related disclosures this year
- We will be caught by the BEIS climate-related financial disclosures this year (April 2023 + year ends) and have not made any previously
- No plans or requirements to incorporate climate-related disclosures this year

Financial Reporting Council (FRC) and Financial Conduct Authority (FCA) release findings into climate-related financial disclosures

Both the FRC and FCA note that there has been a step-change in TCFD reporting this year so there is a positive high-level message in their findings. However, both also agree that there is more to be done in year two. The reports place particular emphasis on the need for the TCFD's 'all sector guidance' (or '[Annex](#)') to be considered when assessing consistency with the framework, the expectation that every company will be able to report on seven of the TCFD's eleven recommended disclosures, and that there should be better connectivity between front and back half disclosures.



Review of TCFD-aligned disclosures by premium listed commercial companies

CRR Thematic review of TCFD disclosures and climate in the financial statements

Five themes for companies

1 Materiality

Clearly articulate how materiality has been considered in the context of disclosures when preparing the TCFD 'statement of compliance'.

(The FRC may challenge companies' claim of consistency where it is not clear that all relevant and material elements of disclosures (inc. the all sector guidance) have been addressed.)

2 Connectivity between TCFD and financial statement disclosures

Ensure that the following are addressed:

Balance between narrative reporting and disclosure in financial statements.

Assumptions and sensitivities in scenario analysis and those applied in the financial statements.

How commitments and strategies are reflected in financial statements.

Whether the growth of a business and progress against opportunities is appropriately reflected in segmental reporting.

Matters which may have an adverse impact on asset values and useful lives reflected in the financial statements.

3 Granularity and specificity

Improve the specificity and granularity of disclosures as processes to manage climate-related risks and opportunities become more fully embedded into governance and management structures; so that the link to financial planning becomes clearer and more quantified.

4 Balance

Balance the discussion of climate-related risks and opportunities, and consider linking the description of climate-related opportunities to any technological dependencies.

5 Links with other narrative disclosures

Consider the inter-linkage of TCFD disclosures with other narrative disclosures in the annual report.

FCA review of TCFD-aligned disclosures by premium listed commercial companies

Key areas of emphasis

Listing Rule expectations	All sector guidance	Financial impact
<p>Every company is expected to be able to report in line with the pillars and recommended disclosures of the TCFD framework: governance; risk management; and points a) and b) in strategy.</p> <p>So it is not appropriate to use the comply or explain option to omit any of the seven recommended disclosures that relate to these.</p> <p>If organisations fall short, then they must explain why and set out how they plan to address the shortfall along with timeline.</p>	<p>Companies are expected to apply the 'all sector guidance' issued with the TCFD's main report (updated in 2021 and known as 'the <u>Annex</u>') in the same way as the eleven recommended disclosures.</p> <p>The Listing Rules Guidance states that it should be "taken into account" in a company's assessment of consistency with the TCFD framework.</p>	<p>Better 'connectivity' is expected between the front and back half of the annual report, with fewer instances of significant disclosure in the front half but little or nothing in the accounts going forward.</p>
<p>Remember: both the FRC and FCA emphasise that the TCFD framework requires a robust assessment of risks and opportunities as a starting point to form the basis for judgements about the materiality of aspects of the framework in each company's circumstances.</p>		

FRC cyber risk report



- Range of factors in external environment are driving greater focus in this area
- Report suggests being clear on:
 - How digital security and strategy are important to the company's current and future business model, strategy and environment;
 - The governance structures, culture and processes the company has in place to support digital security and strategy;
 - The key digital security and strategy risks and opportunities the company is facing both now and in the future;
 - The impact of internal and external events and the actions and activities that respond to these.
- Consider a case study!