Clifford Chance

BRIEFING

Preparing your 2025 Annual Report
Key considerations

12 December 2025

The Government is promising that *'far-reaching reform'* to modernise corporate reporting and reduce the burden on businesses is on the horizon. However, the timing for that reform remains uncertain. In the interim, the 2025 annual report will mark the first year of reporting for many companies against the updated principles and provisions of the 2024 UK Corporate Governance Code (save for Provision 29 which we discuss in more detail below).

Both the updated 2024 UKCG Code and the themes coming out of the FRC's review of the most recent round of corporate governance reporting, encourage an enhanced focus on risk management and internal controls, a greater emphasis on outcomes-based reporting, and a more concise approach to reporting.

Against that backdrop, here are five key considerations for this year's reporting cycle, together with an annex setting the scene for what's on the horizon across the UK and EU.

Five things to consider

1. Responding to new 2024 UKCG Code requirements
2. Focus on outcomes and effectiveness
3. Spotlight on preparing for Provision 29 (effectiveness of internal controls)
4. Concise reporting: focus on material and decision-useful information
5. Remuneration reporting

Please look out for our guidance on preparing for your 2026 AGM, which we will publish in January 2026.

Responding to new 2024 UK Corporate Governance Code requirements

For many companies, the 2025 annual report will mark the first year of reporting on how they have applied the Principles of the 2024 UK Corporate Governance Code (**UKCG Code**) and complied with its Provisions (or explained why they have not done so).

By way of a reminder, key changes include:

- an obligation to establish and maintain an effective risk management and internal control framework (amended Principle O);
- a new Principle C encouraging more outcomes-based reporting and clearer explanations of any non-compliance with the Code;
- an expanded requirement for the board to assess and monitor culture to include how the desired culture has been embedded;
- the removal of references to specific diversity characteristics in favour of consideration of diversity more widely;
- the consolidation of guidance for audit committees when dealing with the external audit/auditor in the Audit Committees and the External Audit Minimum Standard; and
- enhanced reporting on directors' malus and clawback provisions.

To accompany the 2024 UKCG Code, the FRC also published updated guidance. Whilst this contains new elements reflecting the changes made to the 2024 UKCG Code (discussed further below), much of the rest is not "new" and largely consolidates and condenses previously published FRC guidance.

"The Code welcomes divergence from individual provisions where this better reflects a company's specific circumstances and governance needs. In such cases, it is important that companies provide clear and specific explanations that set out the rationale for the departure and describe the alternative governance arrangements in place."

FRC Annual Review of Corporate Governance Reporting (November 2025)

Clear explanations of non-compliance with UKCG Code

When launching the 2024 UKCG Code, the FRC was keen to emphasise the flexibility of the UKCG Code and its 'comply or explain' nature, addressing criticisms that it had become 'comply or else'. New Principle C was added to improve the quality of explanations of non-compliance, an area of reporting that the FRC has for many years identified as being relatively weak.

In its Annual Review of Corporate Governance Reporting published in November 2025 (**Review of CG Reporting**), the FRC noted that some explanations '*remain relatively narrow in scope and lack clarity*' whilst '*others reflect high levels of transparency*'. The FRC encourages companies to be transparent and to provide their stakeholders with a clear understanding of the company's approach to governance and the safeguards in place. In particular, the FRC encourages companies to consider the following points when crafting the explanation:

- whether the chosen approach is clearly articulated and appropriately justified;
- the duration and nature of the departure (e.g. temporary versus long-term);
- how the explanation demonstrates continued alignment with the principles of the Code; and
- the clarity and usefulness of the explanation for stakeholders.

Helpful links

- FRC's Annual Review of Corporate Governance Reporting (November 2025)
- UK Corporate Governance Code (2024)

Focus on outcomes and effectiveness

The need for more outcomes-based reporting has been a consistent message from the FRC for many years. This is now reflected in new Principle C of the 2024 UKCG Code which provides that, when reporting on their governance activity, companies should focus on board decisions and their outcomes in the context of the company's strategy and objectives. This overarching Principle is supplemented in a number of specific areas, notably in the explanation of how culture has been embedded and in relation to the effectiveness of internal controls (both of which are discussed in more detail below).

Encouragingly, the FRC noted in its Review of CG Reporting that companies are generally moving towards more outcomes-based reporting, focusing less on the inclusion of lengthy policies and more on describing that actions taken during the year and the impact those actions have had. To help companies move towards more outcomes-based reporting, the FRC's guidance on the 2024 UKCG Code sets out some key questions for boards (see box below).

Reporting on purpose, values and embedding the desired culture

Principle B continues to require the board to establish the company's purpose, values and strategy, and to ensure that these and its culture are aligned. In relation to culture, this is supplemented by amended Provision 2 which requires the board to consider how the desired culture has been embedded. In its Review of CG Reporting, the FRC was critical of the quality of reporting in this area, noting that many companies continued to provide only high-level statements, with insufficient detail as to how the board has assessed and monitored culture, and where necessary, acted to ensure alignment in practice. The FRC has called for more granular disclosures, to illustrate the board's active oversight and the mechanisms by which culture is embedded and reinforced across the company. Descriptions of corporate values or purpose are not seen as being sufficient or meaningful for investors; the FRC wants to see evidence of board engagement, challenge, and follow-through.

Outcomes-based reporting: key questions for boards

Objectives:

- What are the objectives most relevant to the strategic aims of the company?
- Which issues are key to stakeholders?

Decisions:

- What decisions have been taken in order to achieve these objectives?
- Is the alignment between the company's strategy and decisions taken clearly explained?

Actions:

- What actions have been taken in order to achieve these objectives?
- What policies and procedures have the board implemented subsequently or are planning to implement?
- What are the milestones that the board expects to achieve in working towards those objectives and what progress has been made already?

Impacts:

- What impact have these actions had or are expected to have on stakeholders and the company?
- Have the actions had the intended impact? If not, how might the board review its actions to achieve the desired objective?

Source: Guidance to the Corporate Governance Code 2024

Spotlight on preparing for Provision 29 (effectiveness of internal controls)

For financial years starting on or after 1 January 2026, amended Provision 29 represents a shift in the way boards are expected to oversee and report on risk management and internal controls. While the expectations of the 2018 Code have been retained (i.e. that the board monitors and reviews the effectiveness of the company's risk management and internal control framework), the board will need to provide a clear declaration of the effectiveness of all material controls in the annual report covering financial, operational, reporting, and compliance controls. The FRC considers that this extends to material controls even where such controls are not designed to manage or mitigate principal risks. Boards will also be required to include a description of any material controls which have not operated effectively as at the balance sheet date and the actions taken or proposed to be taken to improve them.

Whilst there is no general expectation that companies and boards will report "early" on this, clearly companies will need to ensure that they have relevant procedures in place now so that they can report appropriately in respect of the next financial year.

And the big question that many companies are asking is what will these declarations and related disclosures look like? Will boards simply confirm that their material controls are effective, or will they use the 'comply or explain' nature of the 2024 UKCG Code to provide some additional context.

The FRC has indicated that it expects no more than one to two pages of disclosure. Whilst the number of material controls will vary greatly company to company, the FRC anticipates that this will typically fall between 30 to 50 (although it may be higher for financial institutions or regulated entities). There is no expectation however, that all such controls be listed in the annual report, nor is there an expectation that every principal risk is mapped to a corresponding material control – there will be some principal risks where this is simply not possible, such as geopolitical risks.

Provision 29 requires the declaration only to be given *as at the balance sheet date*. However, if a failure of a material control occurred during the reporting year, became public, and has since been rectified, it is likely that companies would report on this and, where appropriate, explain the actions that were taken to address and remedy the issue. This would however be more a question of transparency than any regulatory requirement. Companies would not need to report on material control failures where such failures were never in the public domain and have been subsequently remedied ahead of the balance sheet date.

The FRC has also emphasised that the declaration is not an attestation and the form of the declaration may take whatever form companies think appropriate – there is no explicit requirement that the 'declaration' contains the word 'declaration', nor must it sit under a heading labelled as such (although that may often be the case in practice).

In its Review of CG Reporting, one of the FRC's areas of focus was to consider the extent to which companies are preparing for the implementation of new Provision 29. The FRC noted that more than half of companies referred to the new provision in their current reporting, with many providing further information on how they are preparing. Whilst some companies are enhancing their internal audit and assurance functions, others are reviewing the expertise and remit of their Audit (and

Risk) Committees (by e.g. updating terms of reference) to ensure readiness for the upcoming declaration. The FRC has emphasised that there is no requirement or expectation of any independent external assurance.

In particular, the FRC noted that in its review of 2024 reporting:

- 43 companies stated that their systems were adequate or effective;
- 33 companies stated that no weaknesses were identified;
- 16 companies stated that their systems are effective and that no weakness was identified; and
- 40 companies did not report on the outcome.

The FRC highlighted that examples of good reporting in respect of Provision 29 might include information regarding:

- who carried out the review, the units and individuals consulted with, and what information was provided to the board;
- descriptions of which material controls were considered and how the information on such controls was sourced; and
- a description of any internal or external assurance received (noting that external assurance is not mandatory).

Looking ahead, the FRC has indicated it may publish a thematic review of reporting under Provision 29 and may, if it considers appropriate, publish a 'mythbuster' to dispel common misconceptions as the reporting evolves.

Helpful links

- FRC's Annual Review of Corporate Reporting

Concise reporting: focus on material and decision-useful information

In the FRC's separate Annual Review of Corporate Reporting published in September 2025 (**Review of Corporate Reporting**), the FRC encouraged companies to take a step back and consider whether the annual report and accounts as a whole:

- is clear, concise and understandable;
- includes **all** material and relevant information, where it is necessary for users' understanding; and
- includes **only** material and relevant information, noting that good quality reporting does not necessarily require a greater volume of disclosure.

"Avoid generic statements that offer little or no insight, such as: "People are central to our success." While well-intentioned, these phrases are often repeated across companies and do not reflect tangible actions or outcomes"

Financial Reporting Council, Annual Review of Corporate Governance Reporting (November 2025)

In a similar vein, a key theme emerging from the FRC's Review of CG Reporting is its encouragement that narrative reporting should not be included merely for narrative's sake. The FRC has repeatedly cautioned against lengthy, unfocused, or boilerplate disclosures that do not provide genuine insight into the board's oversight or the outcomes achieved. The FRC wants to see concise, outcome-driven reporting which clearly articulates what was done, why it was done, and what was achieved. In particular, the FRC has suggested:

- focusing on board actions and outcomes, cutting down reporting on matters without involvement from the board;
- avoiding narrative without purpose, considering whether the information is necessary and whether any group of readers would find it useful;
- eliminating boilerplate language and avoiding generic statements (see quote from the FRC to the left);

- avoiding duplication by consolidating related content or using appropriate cross-referencing; and
- minimising regulatory repetition (e.g. rather than repeating the UKCG Code Principles, companies should focus on demonstrating how the Principles are applied in practice).

Helpful links

- FRC: Artificial intelligence and corporate reporting: how does it measure up? (January 2019)
- FRC: AI in audit: illustrative example and documentation guidance (June 2025)

With the use of artificial intelligence (**AI**) growing steadily, the FRC is alive to the fact that AI may well be used to draft annual reports. However, a key question for the FRC is what level of oversight is being implemented and whether key stakeholders, such as the board, are aware of its use. Looking ahead, the FRC has indicated it may investigate the extent to which companies are using AI to draft their annual reports.

Remuneration reporting

Helpful links

- Investment Association Letter to Remuneration Committee Chairs
- IA Principles of Remuneration (2024)
- ISS EMEA Benchmark Policy Changes for 2026

In recognition of the drive to make the UK an attractive place to work and operate a business, last year saw a shift in approach by investor bodies to reviewing and approving executive pay packages. The Investment Association (**IA**) updated its Principles of Remuneration in Autumn 2024 to provide for more nuance and flexibility, with ISS and Glass Lewis endorsing this approach shortly thereafter. Further details on proxy adviser guidelines and guidance on preparing for the 2026 AGM season will follow in our AGM update in the New Year.

For any company considering its approach to executive remuneration or its director remuneration policy for 2026, the key take aways from 2025 are:

Remuneration disclosures have improved but could be better.

- In its letter to remuneration committee chairs (the **IA Letter**), the IA asked companies to avoid "boilerplate and generic justifications," for example “competitiveness against peers” or the need to “attract and retain talent” without providing any further supporting information.
- If a company wants to introduce bespoke pay arrangements, it must be able to provide a clear and specific rationale, that links to the company’s strategy and unique circumstances.
- In its Review of CG Reporting, the FRC was keen to clarify that the UKCG Code does not require a certain level of quantum or pay structure but instead asks companies to focus on the process and governance of setting pay. This focus on wanting better transparency and accountability in pay governance and pay reporting aligns with the expectations of investors and should guide companies when considering their 2026 reporting.
- For 2026 remuneration policies and reports, companies should challenge themselves to move away from repeating the 2025 approach and consider what will help investors assess the policy or report.

"If a remuneration committee is pursuing changes to the company's executive remuneration structure or levels, investors expect better quality rationales which focus on: providing specific information on why a particular approach or outcome is chosen; why it is right for the individual company's strategy and unique circumstances; and how these changes will impact upon the future success of the business"

Investment Association Letter to Remuneration Committee Chairs (November 2025)

There is still some reluctance from investors where companies propose new arrangements that are different from market norms.

- This is confirmed by the IA Letter, which explained that its members "remain cautious" about hybrid plans.
- Additionally, although its principles allow for bonus deferral levels to be reduced where shareholding guidelines are met, the IA confirmed that bonus deferral is still a key investor expectation and should not be abolished entirely.
- As a positive note, the IA has ended its register publicly naming companies where there was a vote of 20% or more against a resolution. As a result, there may be less focus on reaching an 80% approval rate, although the UKCG Code still requires disclosure (and subsequent commentary) where 20% or more of votes have been cast against a board-recommended resolution.

There are unlikely to be material changes to investor body and related guidance on executive pay this year.

- The IA has confirmed it will not be updating its Principles of Remuneration this year.
- Glass Lewis published minor clarifications with regard to its policy recommendations on the remuneration report and separately included details of its new proprietary pay-for-performance model.
- ISS published only very minor updates to its benchmarking guidance.
- The FRC has updated the UKCG Code Guidance to expand the provisions relating to paying NED fees in shares. The IA Letter also confirmed that a portion of director fees could be paid in shares purchased at market rates. However, in our view, this is unlikely to result in a material change to NED pay structures.

Looking ahead: UK

UK endorsement of ISSB Sustainability Disclosure Standards and changes to climate/TCFD listing rules

In June 2025, the government launched a consultation on the exposure drafts of the UK versions of IFRS S1 and IFRS S2 (i.e. UK SRS S1 and UK SRS S2) together with a consultation on transition plan requirements and setting up a register of sustainability assurance providers. Those consultations are now closed. At the time of publishing the consultations, the government announced that it was expecting to publish the final versions of UK SRS S1 and UK SRS S2 for voluntary use in autumn 2025 (with publication in 2026 now appearing to be more likely).

Regarding climate transition plans, the government sought views on implementation options. Following recent developments in the EU (see below), our view is that the government is unlikely to impose a new obligation on large UK companies to have a Paris-aligned climate transition plan and that a "comply or explain" regime is more likely.

Following endorsement of the UK SRS, the FCA is expected to consult on amending the UK Listing Rules to move from TCFD to UK SRS as well as on strengthening expectations for transition plan disclosures.

Audit and Corporate Governance Reforms

In September 2025, the government provided an update on its planned Audit Reform and Corporate Governance Bill, saying that the FRC will be 'revamped' into a modern regulator called the Corporate Reporting Authority (**CRA**) (not the Audit, Reporting and Governance Authority, ARGA – as previously planned). The update also set out the main benefits of the Bill as follows:

- 'Holding company directors to account for serious failures of their existing corporate reporting duties, such as ensuring that accounts are true and fair' and 'A new regime of civil regulatory sanctions will allow the CRA to act in the public interest';
- The extension of the definition of Public Interest Entity (PIE), to include companies and LLPs with both 1,000 or more employees and a turnover of £1 billion or more (increased from the previous 750:750 threshold); and
- Measures to address poor functioning of the audit market, particularly for the largest listed companies (although the previous government's proposals for managed shared audit have been dropped, as have the market share cap proposals).

The government is intending to include further details in a consultation document which, having been further delayed, is now expected to be published in 2026.

Non-Financial Reporting Review / Modernisation of Corporate Reporting Review

In 2023, the government launched a review of the UK's non-financial reporting framework. Since then, a number of steps have been taken to simplify corporate reporting. These include:

- increasing company size thresholds by c.50%; and
- removing some requirements from the directors' report and directors' remuneration reporting.

On 21 October 2025, HM Treasury published an update setting out the government's progress on regulatory reform and announced a package of specific corporate reporting reforms to be actioned *as swiftly as possible*, including:

- exempting most medium-sized private companies from producing a strategic report as part of the annual report;
- exempting wholly-owned subsidiaries from producing a strategic report if they are covered by the reporting of a UK parent; and
- removing the requirement for a directors' report, with some provisions to be removed entirely and others (such as Streamlined Energy and Carbon Reporting (SECR)) relocated elsewhere in the annual report.

The government is also going to broaden its review of non-financial reporting to include financial reporting, remuneration reporting, governance reporting and consideration of how reporting can be modernised for the digital age. The NFR review will now be known as the Modernisation of Corporate Reporting Review and the broader consultation is expected to be published next year.

Looking ahead: EU

In January 2025, the EU Commission published its Competitiveness Compass containing its vision to make the EU's economy more prosperous and competitive, building on the recommendations of the Draghi report.

In February 2025, the Commission published the first of a series of Simplification Omnibus packages (Omnibus I), which is *inter alia* intended to streamline the Corporate Sustainability Reporting Directive (**CSRD**), the Corporate Sustainability Due Diligence Directive (**CSDDD**) and the EU Taxonomy Regulation.

The Omnibus I proposals were split into two. The first, so-called 'stop-the-clock' Directive, which had widespread support and simply delayed reporting and due diligence requirements, came into force on 17 April 2025. EU Member States have until 31 December 2025 to transpose the directive into national law. However, we expect that EU/EEA Member States that have not yet implemented the CSRD will wait until the substantive changes to CSRD come into force, and implement CSRD (as amended) at that point.

The second Directive containing substantive changes to *inter alia* the CSRD and CSDDD has been the subject of much controversy and debate. On 9 December 2025, the European Parliament and the Council reached a (political) agreement on the proposed substantive changes to the CSRD and the CSDDD, particularly regarding an increase to the scoping thresholds:

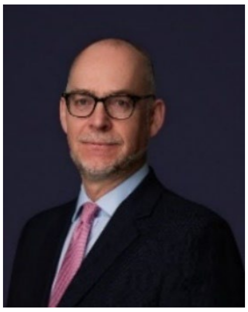
- **CSRD**: 1,000 employees and €450 million net turnover;
- **CSDDD**:
  - EU/EEA companies: 5,000 employees and €1.5 billion global net turnover.
  - Non-EU/EEA companies: €1.5 billion net turnover generated in the EU.

The obligation to adopt and implement a climate transition plan, which was previously included in the CSDDD, has been withdrawn. The same applies for the EU Member States' obligation to establish a harmonised EU-wide civil liability system.

The agreed text must now be officially adopted by the European Parliament and the Council which is expected to happen by mid-December and is considered a mere formality.

Separately, and to provide some relief to "wave one" reporters, i.e. such companies that are already in scope of the CSRD for FYs starting on or after 1 January 2024, the EU made a 'Quick Fix Regulation' containing amendments to the first set of European Sustainability Reporting Standards (**ESRS**) which apply retrospectively to FYs starting on or after 1 January 2025. These amendments include allowing wave one reporters to omit information on the anticipated financial effects of certain sustainability risks for FYs 2025 and 2026, and extending certain phase-in provisions that originally applied to wave one reporters with less than 750 employees, to those with more than 750 employees.

The Omnibus I package also included proposals to significantly simplify the ESRS. Revised ESRS were submitted to the EU Commission on 3 December 2025, which introduce substantial flexibility, reliefs and phasing-in, as well as reducing the mandatory datapoints by 61%. The revised ESRS will now be reviewed and potentially further amended by the EU Commission followed by a 4-week consultation period. The revised ESRS will then be officially adopted by the EU Commission. The European Parliament and the Council then have up to 4 months to object to the revisions. If no objection is raised, the revised ESRS will likely enter into force in Q2 2026 and will apply to sustainability reports for FYs starting on or after 1 January 2026.



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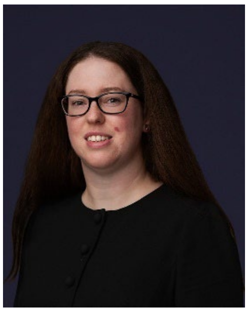

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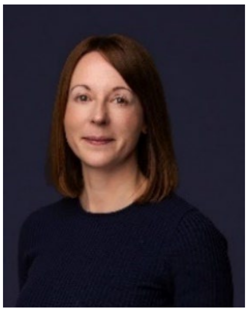

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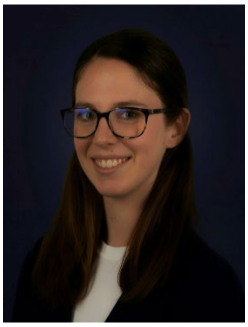

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