DECEMBER 2017

EQ Boardroom Bulletin

Welcome to your bulletin of what's happening within the financial services industry that will impact our EQ Boardroom clients receiving Share Registration and Employee Share Plans Services

As we approach the end of the year, there remains no let-up in the changes and challenges within the financial services industry. Whether it is corporate governance or regulation and legislation, there has been what has seemed like a constant flow of requirements that we need to adapt to. Add to this the uncertainty resulting from first BREXIT and then the snap general election and it really feels like there has not been any time to pause and draw breath.

The festive season can usually be relied upon for some well-deserved downtime, but with MiFID II due to impact on 3 January 2018 and GDPR scheduled to land only a few months behind in May, 2018 looks set to continue in much the same vein as 2017. It is, therefore, worth considering all of the good work that businesses have been doing over the year, highlighted as usual through the various awards ceremonies during November and December.

We are particularly pleased to draw the year to a close by being recognised at the recent Shares Awards as 'Best Registrar' for 2017 and for 'Best Investor Education' (Equiniti Selftrade).

We hope you enjoy reading our final publication of 2017, as usual, if you have any comments or feedback please contact your Relationship Manager.

Articles in this edition...

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MiFID II

With an arrival date of 3 January 2018 there are still many questions being asked about the requirements of this regulation.

In order to assist our client base we have been discussing MiFID at a number of events, including ProShare, the ESOP Centre and at our own share plans and share registration conferences, as well as holding a series of individual client meetings and issuing regular updates to clarify the position and to ensure that you are prepared.

In the third version of our series of MiFID II updates we look at the new levels of information that will have to be provided to investors and employees under the new regulations.

Click here for a link to this update.

General Data Protection Regulations (GDPR)

One of our key group-wide projects during 2017 has been the GDPR change program. This has been focusing on seven work streams, each with dedicated subject matter experts and delivery leads.

Regular communication on our progress of this project will come via your Equiniti Relationship Manager. We are also planning to start our 2018 series of discussion groups by hosting a meeting early in the new year covering the key impacts and discussing topics such as the basis for processing activities, the categories of personal data held, processing data subject rights within the statutory time limits and impacts on employee and share registration processes.

Further information about this event will be distributed shortly.

If you have any suggestions for future Discussion Forums, please let us know via your Relationship Manager.

Equiniti Employee Services and Share Registration Forums

Taking place on 13 and 26 September respectively, this year's conferences provided an opportunity to hear the broad debate about corporate governance with a keen focus on executive pay, gender diversity and the gender pay gap; stakeholder and employee engagement; FinTech, blockchain, biometrics and cyber security. Other topics looked in detail at the compliance landscape, EU regulation and the impact of these on share plans.

Highlights from the Employee Service event can be found here and Share Registration here.

Corporate Reporting

A number of UK PLCs will be a significant way through completing their 2017 Annual Report. Here we provide an insight into the latest and future requirements that will have to be considered and included.

Ethnic Diversity

Sir John Parker's final report into the ethnic diversity of UK boards has been published, with the main finding being that UK boardrooms do not reflect the ethnic diversity of the UK. The report focuses on three key proposals with recommendations as to what needs to change in order to address this concern.

1. Increase the ethnic diversity of UK Boards

- FTSE 100 Boards to have at least one director of colour* by 2021; each FTSE 250 Board by 2024.
- Nomination committees of FTSE 350 companies to identify and present qualified people of colour to be considered for Board appointment when vacancies occur.
- The "Standard Voluntary Code of Conduct" used in executive gender-based FTSE 350 board recruitment should be extended to apply to minority ethnic candidates.

2. Development and succession planning.

- FTSE 350 constituents must develop mechanisms to identify, develop and promote people of colour within their organisations in order to ensure over time that there is a pipeline of Board capable candidates.
- FTSE 350 chairs and other board members should look to mentor/sponsor suitably identified individuals within their own companies to ensure their readiness to assume senior managerial or executive positions.
- Companies should encourage and support candidates drawn from diverse backgrounds to take on Board roles internally (e.g. subsidiaries) where appropriate, as well as Board and trustee roles with external organisations.

3. Transparency and disclosure of Board diversity

- A description of the Board's policy on diversity should be set out in the annual report, to include a description of the company's efforts to increase ethnic diversity within its organisation, including at Board level.
- Companies that do not meet Board composition recommendations by the relevant date should disclose in their annual report why they have not been able to achieve compliance.

The report "Beyond one by '21: a report into the ethnic diversity of boards" is available here.

* The report accepts that no noun/group of nouns would be perfectly suitable and uses the broad term "people of colour" to capture individuals with evident heritage from African, Asian, Middle Eastern and South American regions. Thus, the focus in this Report is on "non-white" directors.

Financial Reporting Council (FRC)

Annual review of Corporate Reporting

The key message from the report is that whilst the standard of corporate reporting remains generally good, the quality is not always as high as it could be, often lacking clarity on disclosure and vague in description.

Whilst alternative performance measures (APMs) were called out as being effective and the report sees improvement of narrative around risk reporting, companies are encouraged to consider developing their viability statements in two stages.

Firstly, to report on the prospects of the company taking into account its current position and principal risks, and secondly to state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

In summary, the FRC ask companies to pay particular attention to four areas of reporting:

- Properly explaining and quantifying key judgements and estimates;
- Provide a fair and balanced assessment of performance and prospects that covers both positive and negative aspects;
- Ensure the links between the financial statements and discussions of strategy, performance including Key Performance Indicators, financial position and cash flows, including the use of APMs, are clear; and
- Provide information that is company-specific and material to an understanding of the business, its performance and prospects.

In terms of future developments the FRC highlights two emerging trends:

- The importance for the long-term success of the company of engagement with employees, customers, suppliers and other stakeholders;
- The need to communicate how a company generates and preserves value.

The FRC's annual review is available here.

The FRC has also written to Audit Committee chairs ahead of the 2017/2018 annual reporting season, addressing the following topics:

New accounting standards:

- Improving on the quality of the strategic report and reporting on Brexit;
- Financial statement disclosures including statement of cash flows, dividends, critical estimates and judgements, accounting policies, business combinations and pensions
- Audit quality and effectiveness – in 2017/18 the FRC will be seeking evidence that the auditor has challenged management and reported clearly to the audit committee in several of the areas featured in this letter, including critical judgements, estimates and pensions.

The FRC's letter is available here.

Modern Slavery Act

The government has updated its guidance on reporting under the Modern Slavery Act.

The update requires companies carrying on business in the UK with a turnover of over £36 million to report annually on their website the steps taken to ensure slavery and human trafficking is not taking place in the company's business, including its supply chains.

Amendments to the guidance include:

- Statements published as soon as possible after the year end as opposed to 'as soon as reasonably practicable'.
- Amended language to encourage disclosure e.g. moving from the term 'may include' certain information to 'should aim to include' this information.
- Historic statements to be made available online.
- Smaller companies are encouraged to voluntarily publish a modern slavery statement.

The updated guidance "Transparency in supply chains: a practical guide" is available here.

General Meetings

Companies considering holding a virtual annual general meeting, should note that in its recently published policy consultation, ISS is not wholly supportive of companies holding virtual-only shareholder meetings.

ISS has published a benchmark policy consultation seeking views on its UK and European Voting Guidelines in relation to virtual/hybrid shareholder meetings.

This is in response to the recognition that whilst to date only one company held a virtual AGM in 2016 and 2017, several more have amended their articles of association to enable them to do so.

The policy proposed by ISS is to generally recommend a vote for proposals to allow for the convening of hybrid shareholder meetings, and to generally recommend a vote against proposals that allow for convening of virtual-only shareholder meetings.

The term 'virtual-only' is used to refer to a meeting that is held only through the use of online technology without a corresponding physical meeting. ISS is seeking feedback on their proposals.

The ISS policy consultation is available here.

Register of Shareholder Discontent

The Investment Association was tasked by the Government as part of response to the Green Paper on Corporate Governance Reforms to create a Public Register of shareholder votes.

The Public Register specifically captures those companies who received 20% or more against any resolution or withdrew a resolution at an AGM or

General Meeting. The launch of the Public Register will take place in Q4 this year and will be updated on an ongoing basis.

The register will contain information on the resolution in question, the result of the shareholder vote, and a link to the AGM results announcement (including any statement made under E.2.2 of the UK Corporate Governance Code). It will also contain a link to any further statement the company has made on the actions taken since the vote.

The Investment Association (IA) has now written to FTSE All-Share companies who will appear on the register giving them an opportunity to provide an explanation on how they have addressed shareholders' concerns since the vote and before the Public Register will become public.

The IA's press release is available here.

Payment practices

The Department for Business, Energy and Industrial Strategy (BEIS) has updated its guidance on payment practices regulations.

The requirement for large UK companies to report on their payment practices came into force on 6 April 2017 applying to financial years on or after that date.

BEIS first published its guidance on the payment practices regime in January 2017 and has now published updated guidance which is available here.

Dividends

The London Stock Exchange (LSE) 2018 dividend procedure timetable

The LSE's dividend procedure timetable sets out the requirements relating to the timing of announcements, record dates, ex-dividend dates and payments for dividends in 2018.

Listed companies and those with securities quoted on AIM should comply with this timetable when declaring and paying dividends to shareholders.

The dividend procedure timetable is available here.

Individual allowances

2018/2019 tax year changes will see a reduction in the Dividend Allowance from £5,000 to £2,000.

The Financial Reporting Council (FRC) publishes findings on dividend reporting

The Financial Reporting Lab has published an implementation study following the second year of reporting since the Lab's suggestions on dividend reporting was published.

The report covers:

1. A summary of the findings from the 'Disclosure of dividends – policy and practice' report and highlights from the previous implementation study;
2. How practice has improved based on the Lab's review of dividend disclosures in 2016 annual reports;
3. Some examples of developing practice; and
4. Opportunities to take things further.

The main findings were:

- 132 companies have now implemented some of the disclosure recommendations from the dividends report.
- The most noticeable change has been the inclusion of reference to distributable profits or distributable reserves with 58% of the FTSE 100 making some level of disclosure.
- This level of change has not been seen in the FTSE 250 with, for example, only 30% of companies making some disclosure on distributable profits / reserves.
- Some companies (across the FTSE 350) have improved disclosure of the risks to dividend or the factors that were considered in setting the dividend policy.
- Some companies (across the FTSE 350) have enhanced descriptions of what the stated dividend policy means in practice, although further improvements could be made in this area.

The report is available here.

Share Plans

Autumn budget 2017

The current SAYE (Sharesave) savings prospectus includes terms that cover the effect of postponing contributions.

If participants miss seven monthly contributions, they are deemed to have given notice and savings can be repaid. This is a key principle in Sharesave administration with automatic processes in place to record missed contributions, send missed contribution letters and reminders, repay savings and lapse options when seven contributions have been missed, as well as having an impact on other processes such as calculating savings headroom at launch.

The Autumn Budget 2017 papers announced a change to this principle with the following information:

> **'Save-As-You-Earn Pause**
>
> **The government will allow employees on maternity and parental leave to take a pause of up to 12 months from saving into their Save-As-You-Earn employee share scheme.**
>
> **Employees can currently pause saving for 6 months. This increase is to allow employees on maternity and parental leave to continue saving into the scheme.**
>
> **The change will have effect on and after 6 April 2018. HMRC guidance will set out the changes.'**

We have set up a working group to look into how this change will be implemented and work in practice. We have a number of questions that we would like clarified and will be in contact with HMRC regarding the guidance they will be providing.

In addition to the change to the Dividend Allowance from £5,000 to £2,000 which will have implications for some SIP participants, the other change to be aware of for the 2018/2019 tax year is an individual's Capital Gains Tax annual exemption will increase from £11,300 to £11,700. SIP and Sharesave documentation should be reviewed and updated if needed.

Do you remember…

In 2012 it was announced that seven-year Sharesave savings arrangements would no longer be available from July 2013. Why are we thinking about this now? Five-year schemes entered into prior to this change, gave participants a choice to extend their savings contract for a further two years. The last few remaining schemes launched with this choice will reach maturity next year, at which point the extension choice will be removed from our maturity processes.

Section 431 elections post-vesting

During the summer, Equiniti, together with Linklaters LLP hosted a discussion group on the changing use of section 431 elections where there are post-vesting holding periods. Generally, if a share plan includes a holding period after awards vest, participants should complete a tax election (called "a section 431" election), on or before vesting. This is to avoid the possibility of an income tax charge arising at the end of the holding period. This follows confirmation earlier in the year from HMRC of their view.

The session shared information about the requirements and provided an opportunity to discuss some of the practical implications of using section 431 elections, when and how they should be signed and the impacts of not completing them on or before vesting. Whilst this subject is covered in HMRC's Employment Related Securities Manual, companies may wish to discuss this with their share plans adviser. If you would like a copy of the discussion slides, please contact your Relationship Manager.

HMRC updates

1. Update on online annual share plan returns

In September, HMRC issued Employment Related Securities Bulletin No 25. This addressed some issues with newly registered tax advantaged share schemes, including common errors in scheme documents. Other subjects covered include: newly registered schemes; scheme types; how many schemes can be registered, incorrect registration; and incorrect annual return submission.

2. Employee share scheme statistics

Also in September, the government issued tax-advantaged share scheme statistics showing figures to the tax year ending April 2016. Key findings show that the total value of shares and options awarded was around £4.3 billion with Income Tax and National Insurance relief at £880 million.

Detailed Share Incentive Plan data shows an estimated cost to the Exchequer of National Insurance relief of £120 million and over the period from 2003 to 2014, the average cost of this relief was estimated at £124.5 million per tax year.

Both employees and employers benefit from National Insurance relief and we've estimated that our SIP clients receive Employer National Insurance savings in the region of £15 million per tax year.

Further information about the financial and non-financial benefits of offering a SIP to employees will be detailed in a forthcoming Equiniti article.

If you would like an estimate for the National Insurance savings that your company could realise through implementing a SIP, please contact your Relationship Manager.

Board behaviours

The Investment Association and ICSA have published a guide "The Stakeholder Voice in Board Decision Making" to help company boards to consider the interests of key stakeholders when taking strategic decisions.

The guidance sets out 10 core principles and gives examples of how companies have addressed identifying and engaging with their key stakeholders.

The guidance is available here.

Dormant Assets Commission

You will recall that in 2016, the government committed to a shared society with business and the financial sector to help address social issues.

This resulted in the establishment of an independent DAC who were tasked to conduct a feasibility review to expand the existing scheme beyond banks and building societies.

Following an initial consultation and responses the DAC issued a series of recommendations:

- Registrars and depositaries to identify value of unclaimed assets
- Include dividends, corporate action proceeds, dormant shareholdings
- Government to identify potential obstacles
- Articles to facilitate provision of dormant assets to good causes

Throughout Autumn 2017, the DAC has conducted roundtable meetings with industry stakeholders to feedback on their recommendations and to identify the next steps:

- Government response to roundtable discussions issued H1 2018
- Industry to lead on feasibility, desirability, practical implementation of expansion

We will be looking to host a client forum in Q1 2018 to enable our customers to discuss the recommendations and determine a suitable response.

Seasons greetings and a prosperous 2018 to all.
We look forward to bringing you more about the regulatory considerations that matter to you in 2018.