JANUARY 2018

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

We would like to take this opportunity to welcome everyone back to work after the festive holiday season and to wish you a healthy and happy new year.

Whilst the break may have been welcomed there will be no respite in January from a work perspective, as many of our corporate clients will be starting to look at or will be well advanced with corporate reporting for the 2017 Annual Reports and Accounts. Those with early Annual General Meetings will also no doubt be in the advanced stages of planning and preparation for the event.

In this, our first bulletin for 2018, we look to the latest requirements from a corporate reporting perspective as well as what investors will be looking for in remuneration packages and when preparing to lodge their votes at your annual meetings. We also take a look at the benefits of share incentive plans to both you and your employees, and this month we focus on a recent BT unclaimed dividend cheques initiative.

Upcoming events...

1 Feb '18	GDPR Discussion Forum
6 Mar '18	FTSE250 Networking Group
13 Mar '18	EQuivalence Forum
5 Jun '18	FTSE250 Networking Group
12 Jun '18	EQuivalence Forum
4 Sep '18	FTSE250 Networking Group
11 Sep '18	EQuivalence Forum
4 Dec '18	FTSE250 Networking Group
11 Dec '18	EQuivalence Forum

Highlights this month...

- Corporate Governance Reporting
- Remuneration
- General Meetings and Proxy Voting
- Benefits of Share Incentive Plans
- BT's unclaimed cheques initiative

GDPR

Don't miss out on our upcoming GDPR Discussion Forum on 1st February. Contact your Relationship Manager.

EQUINITI

Corporate Governance Reporting

The front and centre of everyone's minds

Key considerations for 2018 will include the need for a fair and balanced report using understandable language, additional details regarding dividend disclosures, non-financial reporting, stakeholder engagement, development of a long-term viability statement and the continued use of Alternative Performance.

In response to the Government's Corporate Governance reform plan, The Financial Reporting Council (FRC) published their consultation on a revised code in early December.

Reducing the number of current provisions by a third, the FRC are proposing a shorter and more focused code consisting of 5 sections, 17 principles and 41 provisions.

The 5 sections focus on:

1. **Board leadership and purpose**
2. **Division of responsibilities**
3. **Board composition, succession and evaluation**
4. **Audit, risk and internal control**
5. **Remuneration**

The key focus of change is to sections A (Leadership) and B (Effectiveness) with the key themes being the emphasis of applying principles and how the governance of the Company contributes to its long-term success.

There is also a renewed focus on corporate engagement with a wider stakeholder audience, a suggestion for stronger language around culture, increased board responsibilities around succession planning and diversity disclosures, broader responsibility for the remuneration committee with regards employee pay and conditions, a reiteration regarding the independence of Chairs and NEDs as well as new mechanisms for Board's to respond to significant votes against resolutions at general meetings.

The consultation closes 28th February 2018 with the proposed new code applying to financial years commencing on or after 1 January 2019.

The Financial Reporting lab (FRL) has also published a review of risk and viability reporting. In the review they note that whilst companies have improved their reporting and investor engagement standards there is room for further improvement in that the viability statement is expected to reflect the long term strategy and sustainability of the company's business model and include its resilience to risk.

Too often the FRL finds the viability statement is treated as an extended going concern confirmation.

The Pensions and Lifetime Savings Association (PLSA) has published a report in conjunction with Lancaster University on the FTSE-100's corporate reporting practices focusing on employment models and working practices.

The report focuses on reporting on the themes of:

Composition
Who are the company's workers and on what terms are they employed. Wider debates around workplace diversity and recent controversies relating to the use of agency workers and flexible contracts have made this a subject of considerable stakeholder interest.

Stability
How stable and secure the current workforce is, and how it might change over time.

Skills and capabilities
How well-equipped the workforce is to meet the company's future skills needs. Training and investment in people are critical to future productivity.

Employee engagement and voice
How motivated is the workforce and how fulfilled in their jobs and committed to corporate goals which is a key driver of long-term performance.

General Reporting practices.

The overall conclusion of the report is that substantial variations in the quality of reporting of workforce-related issues exist between companies.

The report is available here.

Remuneration

Focus on disclosure

Remuneration will continue to be an area of focus with companies now required to report more details as investors demand more transparency on the levels of reward, whilst new reporting requirements will result in the gender pay gap and CEO vs. average employee pay ratio disclosures.

The Investment Association (IA) review of their principles of remuneration resulted in suggested changes to relocation benefits, which are to be disclosed at the time of appointment, in place for a limited time and fully detailed in the Remuneration Report. Annual bonus targets must also be disclosed within twelve months of the payment with bonuses greater than 100% of salary deferred.

> **"The IA also voiced their opinion on long-term incentive plans (LTIPs) through publication of their members' attitudes to specific examples of schemes, which includes an emphasis on the levels of remuneration, harmonises executive and general employee pension contribution rates and supports structures where clear consideration is given to the Company in question and not where the structure is being changed because the old one didn't pay out.**

Institutional Shareholder Services (ISS) has also stated their policy on LTIPs, suggesting a 25 percent threshold vesting may be considered inappropriate if LTIP grants represent large multiples of salary and that when analysing LTIP award vesting levels, other issues will also be taken into account, such as how challenging the threshold targets are, the positioning of salaries, and remuneration levels in general.

General Meetings and Proxy Voting

2018 season

As we look forward to the 2018 AGM season these are the key things that we feel companies should be aware of.

The ISS has published its Proxy Voting Guidelines for 2018 in which they make a number of key statements.

> **"They announced a new policy regarding virtual meetings whereby they will generally recommend voting "for" proposals that allow for the convening of "hybrid" (both physical and electronic/on-line) shareholder meetings, but will generally recommend "against" proposals for virtual-only shareholder meetings, with no physical meeting.**

They have also simplified their wording around overboarding in respect of the appointment/ reappointment of the Chairman. For chairmen, negative recommendations would first be applied towards non-executive positions held but the chair position itself would be targeted where they are being elected as chairman for the first time or, when in aggregate their chair positions are three or more in number, or if the chairman holds an outside executive position:

Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates. Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded.

The new policy also clarifies that audit and remuneration committees should be comprised only of independent directors' in-line with UK Corporate Governance Code.

ISS generally supports share issuance authorities with or without pre-emptive rights when the authorities are in line with the Investment Association's Share Capital Management Guidelines and the Pre-Emption Group Statement of Principles.

Share Incentive Plans

Great for you, great for your employees

All employee UK Share Incentive Plans (SIP) and SAYE plans (Sharesave) encourage employees to save money direct from their salary providing both an easy way to invest in their employing company as well as valuable tax benefits. In a forthcoming series of two articles we'll take a detailed look at the key benefits of all employee share plans.

Partnership Shares are a key component of SIPs and provide employees and the employing company with both tax and National Insurance (NI) savings. This provides companies with 13.8% NI savings on SIP contributions made by their employees from gross pay. National statistics provided by HMRC really demonstrate the level of financial benefits you and your employees can enjoy with an estimated annual SIP cost to the Exchequer being an impressive £290 million.

In our first article in this series, we take a detailed look at financial and non-financial benefits of SIPs. Further information is detailed in Equiniti's article here.

Focus...

BT unclaimed cheques initiative

Equiniti and BT teams collaborated to create an innovative approach to a long standing governance issue faced by many of Equiniti's Corporate Clients.

For some years BT has been notifying shareholders that they have unclaimed monies, but unfortunately a significant number of holders have not claimed their payments or cashed their cheques over the years. Reducing outstanding unclaimed funds and re-uniting shareholders with the monies owed is part of good governance.

By carefully analysing the register and cheque cashing activity history, we were able to identify active shareholders who were likely to cash their payments. Their old, uncashed cheques were cancelled and reissued directly with recent dividend cheque payments, removing the need for these shareholders to make contact with us. This allowed us to identify the target population and minimise fraud risk. There were 15,000 shareholders with unclaimed cheques valuing nearly £600,000, that were in scope.

The next challenge was to maximise the volume of the payment being cashed. We worked within the dividend timetable to ensure the additional cheque was enclosed with the mailing, as this was likely to increase the cashing success rate by the shareholder.

This approach has been proven very successful, with 95% of reissued cheques being cashed since the dividend posting.