EQUINITI

JUNE 2018

EQ BOARDROOM Bulletin

Welcome to our monthly bulletin of what's happening within the financial services industry that will impact our EQ Boardroom clients

This month we cover…

Dates for the diary

TUESDAY 11 SEPTEMBER 2018

Equiniti Employee Services Forum

Luton Hoo Hotel, Golf & Spa,
Bedfordshire, LU1 3TQ

TUESDAY 25 SEPTEMBER 2018

Share Registration Conference

The Courthouse Hotel,
London, EC1V 9LL

The first round of invitations have now been sent, so please look out for yours in your inbox, or for further details please talk to your Relationship Manager.

The FRC's 'Audit Culture Thematic Review'

The Financial Reporting Council (FRC) has continued its scrutiny of the audit process through the publication of a report into how audit firms identify and pay attention to challenges in their cultural values.

For the eight firms that have adopted the Audit Firm Governance Code, the FRC's 'Audit Culture Thematic Review' considers the actions being taken to establish, promote and embed a culture that delivers high quality audits.

The review identifies examples of good practice and also cites areas that should be considered for improvement, including:

- Giving additional prominence to audit specific behaviours and values including the fundamental principles of integrity, objectivity, independence and professional scepticism that underpin high quality audit;
- Ensuring that all audit partners and staff appreciate that a good audit is of significant societal value and helps to underpin transparency and integrity in business;
- Balancing the firms' robust processes to sanction poor quality work or behaviour with better recognition of positive contributions to high audit quality;
- Further developing root cause analysis techniques to identify the behavioural or cultural factors that contributed to good and poor quality outcomes; and
- Improving the firms' monitoring of how successful they are at embedding their desired culture.

The report is available here.

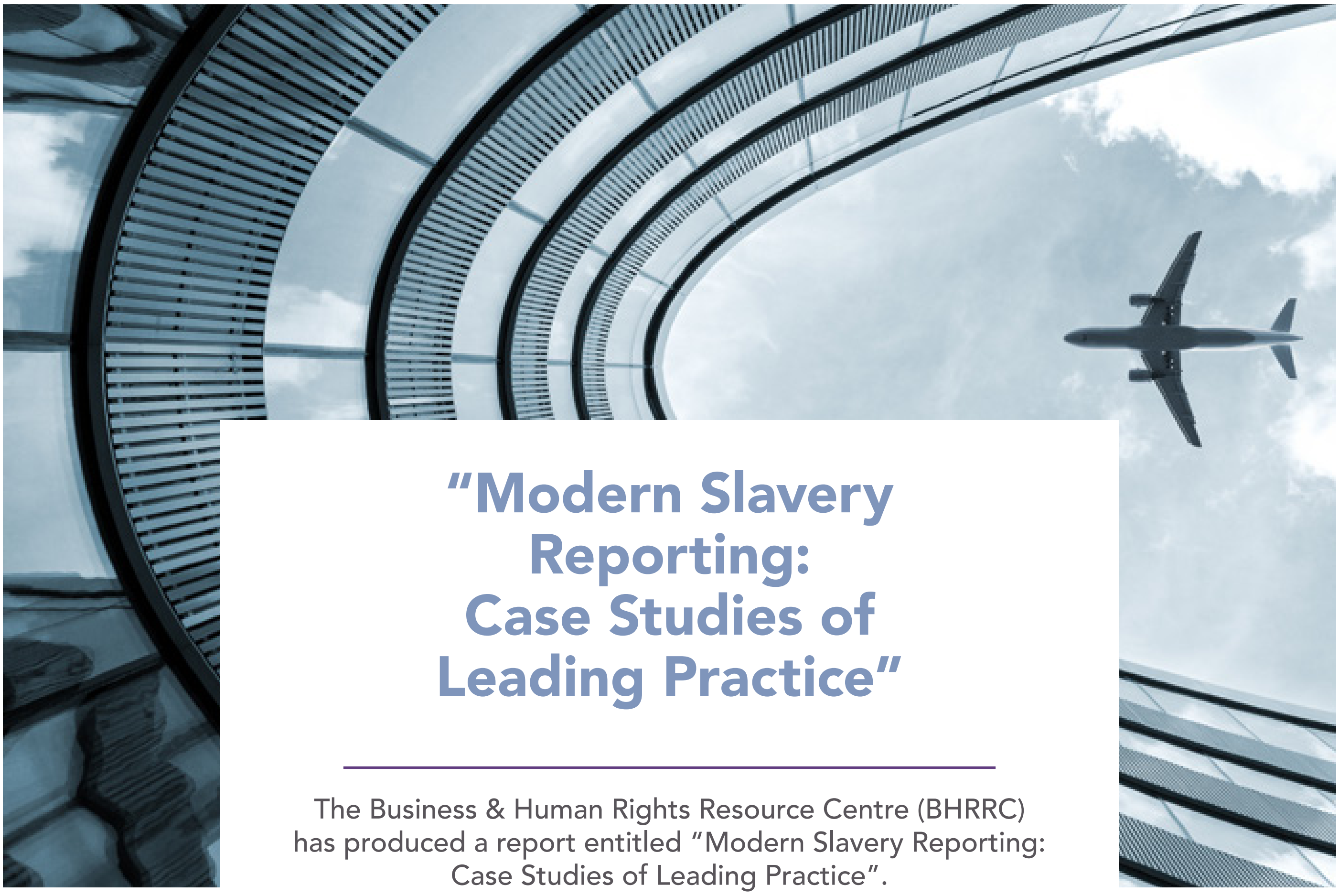
In addition the UK's six largest audit firms will come under increased scrutiny over the next few months as the FRC has announced its intention to enhance its monitoring of the work of the firms under five key headings:

- **Leadership and governance;**
- **Values and behaviours;**
- **Business models and financial soundness;**
- **Risk management and control; and**
- **Evidence on audit quality.**

The objective behind the enhanced monitoring programme is to further mitigate risks in the audit market by avoiding disruption in the provision of statutory audit services and possible instability in the financial sector. The FRC will set out its expectations of the audit firm and use the evidence it gathers to input into its supervisory programme for the firms.

A report on each firm will be published in June and summarised in the FRC's Annual Developments in Audit report in July this year.

The FRC's press release announcing the enhanced monitoring is available here.



"Modern Slavery Reporting: Case Studies of Leading Practice"

The Business & Human Rights Resource Centre (BHRRC) has produced a report entitled "Modern Slavery Reporting: Case Studies of Leading Practice".

The report provides best practice examples from modern slavery act statements published by companies and highlights gaps where companies are not performing well.

The BHRRC states that only 20% of companies meet the three minimum requirements of issuing a modern slavery statement, that is to: have the statement approved by the board of directors, signed by a director (or a designated member if the company is a partnership) with a link to the statement on the homepage of the company's website.

The review provides examples of good reporting under the six reporting areas required by the Modern Slavery Act: organisational and supply chain structure, company policies, due diligence processes, risk assessments, effectiveness of measures in place and training.

Recommendations made by the BHRRC are for companies to:

- Publish a modern slavery statement, which complies with the minimum requirements of the Modern Slavery Act and provides detailed disclosure on all six reporting areas;
- Work to ensure that their approach is in line with leading practice such as that outlined in the BHRRC's briefing;
- Regularly review and improve due diligence and risk assessments to continually improve their approach. Companies should prioritise mapping supply chains, human rights due diligence, supplier engagement, worker engagement, recruitment practices, and access to remedy.

The BHRRC report is available here.

Reporting on Payment Practices and Performance Regulations 2017

As a reminder, the Reporting on Payment Practices and Performance Regulations 2017 (the Regulations) were introduced for financial years beginning on or after 6 April 2017 so that for many companies the first year of reporting will be in 2018.

The Regulations apply to UK registered companies that meet at least two of the following criteria: i) £36m turnover ii) £18m balance sheet total iii) over 250 employees. These companies must:

- Provide (i) narrative descriptions of standard payment terms and processes; (ii) statistics on the average number of days to make payments; (iii) certain confirmations regarding supply chain payment practices;
- Ensure the information provided is approved by a named director;
- File the report within 30 days of their reporting period through the Government website available here.

The Financial Conduct Authority (FCA) Business Plan for 2018/19

The FCA has published its business plan for 2018/19 in which it states that one of its main priorities is preparing for the changes resulting from the withdrawal from the EU.

Other priority areas are:

- Companies' culture and governance to drive behaviours and produce outcomes likely to benefit consumers and markets;
- Tackling financial crime, including fraud, scams and anti-money laundering to make the UK financial services sector a hostile place for criminals and a safe place for consumers;
- Data security, resilience and outsourcing since technology plays a pivotal role in delivering financial products and services;
- Innovation, big data, technology and competition, which are driving change in markets;
- The treatment of existing customers to ensure that they do not get less attention or receive poorer outcomes than new customers;
- Long-term savings, pensions and intergenerational differences, which reflects the changing UK population and their financial needs.

You can view the FCA's full Business Plan here.

The Quoted Companies Alliance Corporate Governance Code

On 25 April 2018 the Quoted Companies Alliance (QCA) published its new edition of the QCA Corporate Governance Code (QCA Code).

The QCA see the revision of the QCA code as "timely and relevant given the London Stock Exchange has announced a change in the listing rules requiring all AIM companies to apply and implement a recognised corporate governance code from September 2018."

The QCA Code is particularly tailored for small and mid-size quoted companies in the UK and may also be of use for large private companies wishing to improve their corporate governance arrangements.

The previous 12 principles have been consolidated into 10 with the QCA Code restructured so that each principle is accompanied by the recommended application and relevant disclosure in the annual report and/or on the company's website. A section of the QCA code also covers roles and responsibilities of the board, chair, senior independent director, non-executive directors, executive directors, the audit, remuneration and nomination committees, the company secretary and shareholders.

Other key changes include:

- The addition of a description of the typical composure of a board, its workings and challenges faced regarding directors' independence;
- The addition of a new principle requiring companies to promote a corporate culture that is based on sound ethical values and behaviours;
- The publication of a separate document, the Corporate Governance Files, which includes sections removed from the existing QCA Code on board effectiveness and the appendices.

In order to claim that the Code has been adopted, the QCA states that the company must apply the ten principles and publish certain related disclosures together with an explanation by the chair of the company as to how the company applies the QCA Code in a corporate governance statement.

The new QCA Code is available to members free and by subscription for non-members here.

General Data Protection Regulation (GDPR) and Legitimate Interests Assessments

In the run up to 25 May 2018, GDPR continued to be an important topic and one particular area of activity related to the issuance of Privacy Notices and those needed for Equiniti Boardroom products.

The set of Privacy Notices where Equiniti Limited, Equiniti Financial Services Limited and Equiniti Share Plan Trustees Limited are Data Controllers are available through Equiniti's Privacy Centre which can be accessed here.

Privacy Notices include information about the lawful basis for processing data. Legitimate interests is one of the six lawful bases and in principle applies to any type of processing for any reasonable purpose. Because it could apply in a wide range of circumstances, it puts the onus on Data Controllers to balance their legitimate interests and the necessity of processing the personal data against the interests, rights and freedoms of the individual taking into account the particular circumstances. The Information Commissioners Office's (ICO) guidance on 'What is the 'legitimate interests' basis?' can be found here.

Data Controllers need to assess whether legitimate interests apply. The ICO refers to this as a 'legitimate interests assessment' or LIA (although this terminology does not itself appear in the GDPR). A LIA is a type of light-touch risk assessment based on the specific circumstances of the processing.

In relation to shareholders, identifying and providing information about products and services that may be of interest to them is likely to be covered under the principle of legitimate interests. An example of this is providing a Shareholder Dealing Programme. In this instance, either the corporate, as Data Controller, and/or Equiniti Financial Services Limited as Data Controller where there is a Corporate Sponsored Nominee, will need to complete a LIA.

In the context of employee share plans, legitimate interests may be used as the basis for processing eligibility data in order to invite employees to join a share plan. It may be applicable, for example, when a company sends Equiniti data so we can manage and process Sharesave and Share Incentive Plan (SIP) invitations. If this is the case, the corporate as Data Controller will need to complete a LIA.

There's no defined process and the LIA doesn't have to take any particular form, although you can use the ICO's template if you find it helpful. Further information and the template can be found here.

We have completed a similar LIA template for processing our own evergreen SIP eligibility data and .can help with with completing LIAs for other shareholder and employee services. Your relationship team can discuss this process further with you.

Enterprise Management Incentive (EMI) Share Schemes

HMRC's April employment related securities (ERS) bulletin provided information that EU State Aid approval for EMI schemes expired on 6 April 2018 and the Government had applied to the European Commission for fresh approval.

Under the scheme, employees of small and medium sized enterprises (SMEs) benefit from reductions from income tax and/or national insurance contributions, when exercising their share options whilst the employer (i.e. SMEs that are listed companies and would therefore be subject to national insurance contributions when the share options are exercised), benefit from reductions from such contributions.

The aim of the scheme is to allow SMEs to recruit and retain employees, and thus enable their growth, without unduly distorting competition.

The prolongation of the measure is deemed necessary to help UK SMEs attract and retain talented and skilled personnel. It contains a number of safeguards, such as a cap on the value of the share options that can be subject to the tax advantage both at the employee and employer level, ensuring that potential distortions to competition are limited.

Recent news from Brussels confirms that the European Commission has provided this approval. The text from the Commission news summary is below.

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Commission approves prolongation of UK Enterprise Management Incentive scheme

On 15 May, the European Commission approved under EU state aid rules the extension of the UK Enterprise Management Incentive scheme, which reduces the taxation of employee share options for small and medium sized enterprises (SMEs). Under the scheme, SMEs that are listed companies and their employees will benefit from reductions in income tax and/or national insurance contributions, when exercising their share options. The aim is to allow SMEs to recruit and retain employees – a key factor in companies' growth – without unduly distorting competition in the single market. This Commission decision applies only as long as the UK remains a member state. The decision is without prejudice to any provisions in the withdrawal agreement currently negotiated between the UK and the EU.

A further HMRC ERS bulletin update will be provided in due course.

ProShare annual survey results released

ProShare has published its annual SAYE and SIP survey which provides comprehensive industry figures for the whole of 2017 using data from plan administrators. It was released at a ProShare event held on 24 May 2018, where the key findings were presented by Gabbi Stopp with panel discussions led by Jennifer Rudman, Equiniti and Elena Petrou, Aviva.

The annual survey, which has been running for over 12 years, provides detailed data and analysis and a valuable source of information for benchmarking. The current survey asked principal administrators to complete over 250 questions, which this year included information covering 838 company plans.

The big change to this year's survey was the inclusion of information about take-up and savings broken down by male/female. Gabbi Stopp, Executive Director, ProShare said, "2018 saw the 100th anniversary of the start of female suffrage, and the first round of Gender Pay Gap reporting for employers with 250 or more UK employees. It therefore felt entirely appropriate to introduce some gender-related survey questions on employee eligibility, participation in and contributions to SAYE and SIP."

The survey showed that the average value of SIP shareholdings in 2017 for women was £6,006, whereas for men the average value was £7,460. Gabbi continued, "It is important to shine a light upon these downstream effects, including lower pension contributions, if we are to understand the full impact of the gender pay gap and put in place the most effective countermeasures."

Copies of the 2017 ProShare SIP & SAYE Survey are available free of charge to ProShare members and non-members can purchase a copy by contacting ProShare.

> "It was a real honour to be part of the results launch in May and join in with the wide-ranging discussions that took place. The SAYE and SIP survey includes comprehensive share plan figures and comparisons that are referenced by many of our clients and useful when considering features for new plans."
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> JENNIFER RUDMAN, STRATEGIC DEVELOPMENT MANAGER, EMPLOYEE SHARE PLANS

Equiniti Group run a hybrid AGM

On the 3rd May, the third Annual General Meeting for Equiniti Group plc was held in central London, following the release of a trading statement on the London Stock Exchange at 07:00. The meeting was organised by the Group Secretariat with support from our AGM team, led by Lisa Graham. All Equiniti Group plc Board of directors were in attendance with the exception of new Non-executive Director Alison Burns.

The AGM took the form of a 'hybrid meeting' which, in addition to allowing shareholders to attend in person, enabled them to vote and participate in the Q&A session using our AGM app. Questions included progress towards the dematerialisation of share certificates, capital expenditure, the performance of the pensions business and our plans for further international expansion.

> "Running a hybrid AGM is an important step forward for the industry and we are delighted to be leading the way in this area. Shareholders complimented our approach, which allows people with less access to the London venue the opportunity to participate, whilst still allowing people to meet the Board in person."
>
> KATHY CONG, COMPANY SECRETARY

Equiniti welcomes Boudicca Proxy Limited to the Group

Equiniti Group plc announced at the beginning of May that it had completed the acquisition of Boudicca Proxy Limited ("Boudicca").

Boudicca is a specialist shareholder engagement company providing expertise in the areas of

- Progressive proxy solicitation;
- Shareholder communications;
- Corporate governance advisory;
- Share ownership analysis;
- Global equity market intelligence.

The acquisition provides our clients with an expanded range of EQ Boardroom services that enables them to maximise shareholder relationships, gain unique insight into their shareholder base and secure support at key events and in unforeseen situations.

The transaction continues Equiniti's growth strategy to acquire complementary capabilities of value to existing clients.

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We are delighted to announce the acquisition of Boudicca, a business which enhances our governance services and will help our clients engage with their shareholders. The focus on shareholder engagement and proxy is an emerging market theme and provides a meaningful opportunity to support our extensive client base and beyond. This further demonstrates the progress we are making in broadening our capabilities."

GUY WAKELEY, CEO, EQUINITI