

EQ BOARDROOM

Bulletin



Welcome to our monthly bulletin of what's happening within the financial services industry that impacts the share registration and employee share plans space.



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CEO, EQ BOARDROOM

As we move into the heart of proxy season, Boardroom continues momentum on what was a busy start to 2019. With over 70 seamless AGMs, and successful dividend payments amounting to over £9.5bn to date, we look forward to continually working closely with you all over a busy May.

We would also like to extend a warm welcome to National Grid whose share register was successfully transferred over Easter weekend. We're proud to have partnered with National Grid on their share registration and employee services needs and look forward to building a long term partnership with the company.

The focus for this month's bulletin is on the effectiveness of company audit, changes to reporting requirements and an update to Brexit's influence on the EU Prospectus Regulation which will impact our employee services clients.

As always, if you have any questions on the content of this month's bulletin, please contact your Relationship Manager.

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- Revised environmental reporting guidelines published by BEIS

NEWS FROM ACROSS EQUINITI

- Success at the GEO awards

DATES FOR YOUR DIARY

- TUESDAY 11 JUNE
QUARTERLY CLIENT EQUIVALENCE FORUM
For an invitation to this event, please speak to your Relationship Manager
- TUESDAY 25 JUNE
WOMEN'S COMPANY SECRETARY FORUM
For an invitation to this event, please speak to your Relationship Manager or contact qeevents@equiniti.com
- WEDNESDAY 10 JULY
FTSE 250 NETWORKING
For an invitation to this event, please speak to your Relationship Manager
- WEDNESDAY 18 SEPTEMBER
EMPLOYEE SERVICES FORUM
If you have not received a 'Save the Date' to this event, please speak to your Relationship Manager or email qeevents@equiniti.com
- MONDAY 7 OCTOBER
SHARE REGISTRATION CONFERENCE
If you have not received a 'Save the Date' to this event, please speak to your Relationship Manager or email qeevents@equiniti.com

Seismic changes proposed to the audit market

A number of reviews and inquiries into the audit industry were put into train following concerns raised after a number of high-profile company failures notably at Carillion and BHS.

These included the Kingman Report to look at audit regulation, the Brydon Review to consider audit effectiveness and the Competition and Markets Authority (CMA) review of competition in the audit market. In addition a Department for Business, Energy and Industrial Strategy (BEIS) Select Committee was tasked to consider the future of audit. The Kingman Review has already been published and this has been followed by 'The Future of Audit' report published by BEIS and the 'Statutory Audit Services Market Study' produced by the CMA.

One thing is certain – that changes will be coming to the audit market in the not too distant future.

"The Future of Audit" report published by BEIS

The BEIS report on the future of audit makes numerous recommendations including:

- The Brydon Review should consider extending the scope of audit to cover the entire Annual Report with critical areas such as corporate governance and payment practices to be subject to a robust assurance process and meaningful reporting by the auditor.
- Auditors should make a presentation at the AGM to show how they have challenged management and to raise any major issues.
- The Government should require companies to state that dividend payments will not make the company insolvent or create cash flow problems.
- There should be greater reporting on audit fees, potentially including the disclosure of audit hours, staff mix, and rate per hour.
- The CMA should revisit increasing the frequency of audit rotations, which should be reduced to seven-year non-renewable terms that can only be terminated in exceptional circumstances.
- Joint audits should be piloted in the upper reaches of the FTSE 100.
- The new regulator (the Auditing, Reporting and Governance Authority, ARGA) should inspect audit firms' software to ensure it is sound and that the audit trail cannot be tampered with.

The BEIS Future of Audit report is available from [here](#)



Brexit – Prospectus rules and employee share plans update

As a recap, the EU Prospectus Regulation (Regulation) is due to come into full force on 21 July 2019.

There have previously been concerns that if there had been a no-deal Brexit in March, the current employee share scheme exemption in the Prospectus Directive wouldn't apply to UK companies from 29 March 2019 and the extended employee share scheme exemption in the Prospectus Regulation wouldn't be available until 21 July 2019.

With Brexit delayed, any potential issues with this 'gap period' will fall away if any no-deal Brexit takes place after 21 July 2019.

The Regulation includes a revised employee share scheme exemption intended to ensure equal access to employee share schemes to directors and employees of all companies, **whether or not the share offering company is established or listed inside of the EU.**

Inclusion of 'no equivalence decision of third country markets should be required', means that post-Brexit, UK companies will not have the expense of producing a formal prospectus when offering share plans to their EU-based employees, although certain information must still be provided, including **the number and nature of the securities and the reasons for and details of the offer or allotment.**

The CMA's Statutory audit services market study

The CMA's report makes four main recommendations:

- Audit Committees should come under greater scrutiny by the new regulator, ARGAs, and the regulator should have the power to mandate minimum standards for both the appointment and oversight of auditors.
- There should be the mandatory joint audit for most FTSE350 companies to include at least one non-Big Four firm.
- The operational split between the audit and non-audit practices of the biggest audit firms.
- A five year review of progress by the new regulator, ARGAs.

In addition a number of other ideas are set out in the CMA report that the CMA believes merit consideration including measures to improve information for shareholders, increasing the transparency of Audit Committees especially during tendering and re-considering the necessity of audit firm ownership requirements for firms to be majority owned by qualified auditors.

The CMA have made their recommendations to the Secretary of State whose task it is now to consider the recommendations from the CMA report, the Kingman Review, the Brydon Review and the BEIS Select Committee Report.

The full CMA report is available from [here](#)

Annual Economic Survey of Employee Share Ownership in European Countries

The new “Annual Economic Survey of Employee Share Ownership in European Countries” has just been released by the European Federation of Employee Share Ownership (EFES).

Amongst other findings, the survey shows that 2018 was a record year for employee share ownership in Europe, with nearly 400 billion Euros held by employees in their company. In 2018, 87.3% of all large European companies had at least one type of employee share plan, while 52.3% had “broad-based” plans for all employees.

The full survey can be found [here](#).

The EFES is an umbrella organisation of employee owners, companies and all persons, trade unions, experts, researchers, institutions looking to promote employee share ownership and participation in Europe. The survey is based on the EFES database, gathering information about employee share ownership, employee share plans and participation in all significant European listed companies and large European majority-employee-owned non-listed companies.

Reminder: Government publishes the report on the proposed expansion of the dormant assets scheme

The Government published the report from the Industry Champions on the proposed expansion of the current dormant assets commission.

The ‘blueprint’ report outlines three key recommendations. Equiniti alongside the ICSA Registrars Group have been engaged in these discussions.

Following the announcement on 4 April 2019, a consultation will follow in due course with the ability for issuers to comment on the proposed recommendations.

The latest release from the Industry Champions and the report is available [here](#)



FRC publishes list of company annual accounts that have been reviewed

The Financial Reporting Council (FRC) has published its latest list of companies whose report and accounts have been reviewed by its Corporate Reporting Review function.

The names are published once the next set of the company's annual accounts have been published. The reviews seek to ensure that the accounts of public and large private companies comply with the law and relevant reporting requirements.

The list of reviewed accounts is available from [here](#)

The FRC publishes its 2019/20 draft budget and annual plan

In its annual plan for 2019/20 the Financial Reporting Council states that it will:

- Support the transition to the new Audit, Reporting and Governance Authority (ARGA).
- Drive a step change in audit quality in the UK, using its powers to set auditing and ethical standards and monitor and enforce audit quality.
- Promote the quality and usefulness of corporate reporting through the programme of corporate reporting reviews, covering the whole annual report using expanded enforcement resources to pursue an increasing caseload.
- Promote corporate governance and investor stewardship that contribute to trust in business, including through the proposed new Stewardship Code.
- Work with Government to implement an effective regulatory framework following EU exit.

The draft budget and plan is available from [here](#)

BEIS publishes its latest report into executive remuneration

The Department for Business, Energy and Industrial Strategy (BEIS) has published a report as part of the Government's review of corporate governance and following the report into gender pay gap reporting in 2018.

The report notes that whilst there has been some improvements since reforms were introduced in 2014 there still continue to be examples of excessive rewards. The report makes several recommendations including:

- Supporting the introduction of a new, more empowered and proactive regulator (ARGA) to replace the Financial Reporting Council.
- BEIS welcomes the revised UK Corporate Governance Code and new reporting requirements but believes strengthened guidance by ARGA and monitoring of s172 statements are needed.
- Companies should be required to appoint at least one employee representative to the remuneration committee.
- Pay ratio reporting requirements should be extended to all employers with over 250 employees.
- There should be a significant reduction in the maximum pay that may be earned and more certainty in executive pay. Remuneration committees should set, publish and explain an absolute cap on total remuneration.
- ARGA should engage with investors to develop guidelines on bonuses to ensure they reward only exceptional performance rather than being an element of annual salary.
- Remuneration committees should engage early and meaningfully with major investors on executive pay and should ensure these activities are properly explained in remuneration reports.

The report is available from [here](#)

Changes to remuneration reporting requirements

The Shareholder Rights Directive II requires certain provisions on directors' remuneration to be transposed into national law by 10 June 2019.

Most of these remuneration reporting requirements already apply in the UK. However, further changes will be introduced by the draft Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 published on 9 April 2019.

The changes include:

- Widening of the scope of the framework for reporting to include unquoted traded companies.
- Some additions to the details to be set out in the remuneration policy.
- The remuneration report to include the split of fixed and variable remuneration awarded to each director, changes to the exercise price and date for the exercise of shares or options, comparison of the annual change in directors' remuneration to that of company employees and of the company's performance over a 5 year period.
- Remuneration or loss of office payments that are not consistent with the approved policy are only to be made if an amendment to the policy authorising the payments has been approved by shareholders.

If approved, the regulations will come into force on 10 June 2019.

The draft regulations are available from [here](#)

Revised environmental reporting guidelines published by BEIS

The Department for Business, Enterprise and Industrial Strategy (BEIS) has published updates to its environmental reporting guidelines.

The guidance includes changes which take effect from 1 April 2019 that require all UK quoted companies to report on their global energy use in addition to greenhouse gas emissions in their Directors' Report. There are also requirements for large unquoted companies and LLPs.

The update includes steps companies can take when considering environmental impacts, which KPIs to report and help in order to ensure compliance with the legal obligations that come into force on 1 April 2019. The update also outlines additional voluntary information that is likely to be useful to organisations and a wide range of stakeholders.

The updated guidelines are available [here](#)



News from across Equiniti

Success at the GEO awards

The 18th annual GEO Awards were held in April in Amsterdam. **Equiniti's Director of Employee Services Phil Ainsley**, alongside **Strategic Development Manager and Chartered Governance Professional Jen Rudman**, celebrated with award winning clients at the Annual GEO Conference in Amsterdam.

Congratulations to Ascential, easyJet and Abcam.

Ascential won Best Plan Communication Award (Under 5,000 Employees), the judges applauded Ascential for their unique communications strategy to their majority audience and the ease in which participants could access information.

easyJet won Best Plan Effectiveness (Between 5,000 and 75,000 Employees), impressing the judges with their generous plans and their dedication to delivering the best employee experience across geographies, generations and demographic diversity.

Abcam took the Most Innovative and Creative Plan Design Award (Under 5,000 Employees). Judges agreed that Abcam demonstrated a powerful and generous commitment to meaningful employee share ownership that reflected their inclusive company culture.

Finally, congratulations to Equiniti's Phil Ainsley who was appointed as a **GEO Fellow**. A recognition only bestowed upon distinguished senior-level members of global equity, GEO Fellows are chosen for their high level of experience, knowledge and professional performance, and for their positive impact on the global share ownership community.