JANUARY 2020

EQ BOARDROOM
Bulletin

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

PAUL MATTHEWS
CEO, EQ BOARDROOM

I 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.

I am sure you will now be turning your attention as to what 2020 might bring. Undoubtedly, with the Conservatives increasing their majority in the recent election, Brexit will be on most people's minds.

However, as the AGM season is creeping up, we will be sharing lots of tips and best practices with you over the coming weeks to help you achieve a smooth proxy season. It was great to see so many clients attend our Remuneration Policy Renewal Webinar last month but if you missed it, don't worry as we have it available on demand.

I hope those who came along to our drinks reception at the Tower of London last month enjoyed the evening as much as we did. Being able to have a private viewing of the Crown Jewels by one of the Tower's Beefeaters was an incredible experience.

In this month's Bulletin, we share Brydon's Independent Review Report which has been published into the quality and effectiveness of audit and we look at corporate governance within AIM companies conducted by the Quoted Companies Alliance (QCA). There is an update on the Dormant Assets Scheme and how M&S is using data insight created by us to help them predict trends in their workforce. We also celebrate the success at the ProShare Awards in December where many of our clients were Winners and Highly Commended, congratulations to you all.

We've much to do in 2020 and look forward to another year of working with you, our respected clients.

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

ARTICLES IN THIS EDITION COVER:

NEWS FROM ACROSS EQUINITI

DATES FOR YOUR DIARY

- WEDNESDAY 22 JANUARY
  Small Listed Companies Interest Group - Shareholder Activism in Small Listed Companies
  This event is being run in conjunction with The Chartered Governance Institute and the Small Listed Companies Interest Group for AIM and Small Cap companies. If you would like to attend, please register here

- WEDNESDAY 8 APRIL
  EQUIVALENCE FORUM
  Join like-minded professionals and hear the latest updates and industry news impacting Company Secretaries. Invites will be issued nearer the time for this event which will be held as usual at our Broadgate Tower office and also by webinar.

Independent Review Report published into the Quality and Effectiveness of Audit

Following an initial call for evidence and taking into account all of the comments received Sir Donald Brydon has submitted a Report of the Quality and Effectiveness of Audit to the secretary of state making 64 recommendations aiming to deliver a more robust and transparent audit framework in the UK. The recommendations are wide-ranging and if adopted in full will bring sweeping changes to the industry through a redefinition of audit (enshrined in company law) along with the establishment of a new corporate auditing profession.

In addition, audit would be extended to areas beyond financial statements such as cyber security and environmental measures, make changes to the language of the opinions given through improved clarity, communication and transparency to all aspects of audit, all of which will aid and hopefully encourage greater engagement of stakeholders with the process.

Under the recommendations, shareholders will be given a formal opportunity to propose any matters they wish to be covered in the audit and whilst Audit Committees would retain the decision-making rights they would be obliged to explain their reasoning were they to reject such a request. A new Corporate Audit and Assurance Policy would also be put to an advisory 3 year rolling shareholder vote and Auditors and companies would be required to answer relevant questions at General Meetings.

The recommendations also propose a Resilience Statement to replace the existing Going Concern and Viability Statements as well as a package of measures around fraud detection and prevention including new obligations to acknowledge external signals of concern, the extension of audit to new areas including Alternative Performance Measures and the increased use of technology. Directors would also be required to publish their statement of principal risks and uncertainties before determining the scope of each year's audit and actively seek shareholder and other views on the appropriate emphases.

The report also puts a big onus on ARGA (Audit, Reporting and Governance Authority) who would be instrumental in the delivery of a new profession of corporate auditing, establishing the necessary professional body, including a new and specific auditor qualification, education and training to encompass today's auditors and others with appropriate education and authorisation. ARGA would be the statutory supervisory body for that profession whereby a new descriptive role is defined as "corporate auditor". In addition, together with auditors and the Plain English Campaign, they would be required to produce an appropriately concise guide to audit, explaining clearly what the different elements of an audit report mean and what, just as importantly, they do not mean.

One key deliberate omission from the recommendations is the need for corporate companies to appoint multiple auditors. The report has taken into account the many comments received with regard to this suggestion and has sensibly not adopted the concept. Instead, the report depicts a need to appoint specialists in certain areas of audit, such as ESG, which may not be found at one single audit firm.

The full report including the 64 recommendations can be found here **here**

Corporate Governance and AIM companies

The Quoted Companies Alliance (QCA) is a membership organisation that supports the interests of small to mid-size quoted companies. It has recently published the results of a survey of AIM companies into their views on the requirement for AIM companies to adopt a corporate governance code. This became a requirement for AIM companies under AIM Rule 26 in September 2018. 189 of the 900+ companies on AIM responded to the survey.

Key findings include:

- 89% of companies follow the QCA Corporate Governance Code (QCA Code) and 6% the UK Corporate Governance Code (UK Code).
- 68% of AIM companies were already following a governance code when the requirement came into place.
- Most companies made a detailed assessment of options when choosing a code. This was followed by recommendations of their Nominated Advisor.
- Responsibility for implementing a code lies mainly with the Chair for those who follow the QCA Code and the Company Secretary for those who follow the UK Code.
- 81% of companies found the process manageable with just 2% saying it was excessive.
- 42% of companies said that the QCA Code helped to formalise processes and boards to consider new points of view.
- 40% of companies said that one of the main changes adopting a code had brought was the release of more information to the market – particularly on board evaluations, strategy and business model.
- 30% of companies have considered succession planning and board diversity as a result of adopting the QCA Code.

The QCA report is available here

The QCA has also published its 7th Annual AIM Good Governance Review. The review focuses on the changes to AIM Rule 26 together with AIM company corporate governance disclosures citing best practice examples.

The QCA analysed governance disclosures in five areas:

1. The Strategic Report

100% of companies surveyed explained the company's business model and strategy however few did so without using boilerplate statements.

2. Stakeholder engagement

In 2018, less than 60% of companies explained how the company obtains feedback from stakeholders. In 2019 this has improved slightly with 66% providing effective explanations.

3. Board dynamics

84% of the companies surveyed identified the directors who are considered to be independent, or explained grounds to question the independence of a director. In the 2018 survey this result was 58%.

4. Board expertise

Only 46% (26% in 2018) of companies described the relevant experience, skills and personal qualities of each director. Only 16% described or explained where the board or any committee has sought external advice on a significant matter (8% in 2018).

5. Succession planning

In 2018 only 20% of companies provided details of how they approached succession planning. In 2019 this figure improved to 48%.

The review also includes feedback from fund managers on their views of what they would like to see in AIM company narrative reports.

The QCA's review is available here

Financial Reporting Council's corporate reporting and audit quality review priorities

The Financial Reporting Council (FRC) has published its corporate reporting and audit quality review priorities for 2020/21. As well as routine reviews of corporate reporting, thematic reviews will be carried out on:

- IFRS 16 (lease transactions and cash flows relating to leases) which came into effect for financial years beginning on or after 1 January 2019.
- Cash flows and liquidity disclosures.
- IFRS 15 (revenue from contracts with customers).
- The effects of the decision to leave the EU on companies' disclosures in the annual report.

Audit quality monitoring by the FRC will focus on:

- Going concern and the viability statement.
- The 'Other Information' in the Annual Report.
- Long-term contracts.
- The impairment of non-financial assets.
- Fraud risk.
- Application of new accounting standards (IFRS 15 & 16).

Those sectors considered to be high risk will be targeted when reviewing annual reports and audit quality. These sectors are financial services, retail, construction and materials and manufacturing.

Further information is available here

Guidance for Risk Committees

The Risk Coalition launched its risk guidance initiative in 2018 to meet the need for best practice guidance for board risk committees in the financial services sector. The Risk Coalition has now published the results of its work in a document entitled 'Raising the Bar'. Part A of the guidance sets out what can be expected of an established board risk committee and outlines key principles. Part B focuses on the role and responsibilities of the Chief Risk Office and second-line risk function.

Whilst the guidance is principally for companies in the financial services sectors, companies in other sectors may find the guidance useful in ensuring risk practices are on a sound footing.

The Risk Coalition's 'Raising the Bar' report is available here

FRC announces changes to its Ethical Standard and Auditing Standards

The Financial Reporting Council (FRC) has announced major changes to its Ethical Standard and revised Auditing Standards. This is in response to concerns about audit quality and failings in cases of corporate collapse in the last few years. By introducing the amendments the FRC hopes to strengthen auditor independence and ban conflicts of interest. The two major changes introduced are:

- Auditors are banned from providing recruitment and remuneration services or making management decisions.
- Auditors of public interest entities (which include listed companies) will now only be able to provide non-audit services that are closely linked to the audit itself or are required by law or regulation.

The FRC highlights that the amendments are the result of an extensive consultation process and build on changes made in 2016. These changes saw fee income from non-audit services provided to companies fall by 8%.

The revised standards apply to audits carried out on or after 15 December 2019 and are available here

Update from the Financial Reporting Lab

The Financial Reporting Lab has published its Q4 2019 newsletter. Content includes:

- updates on climate change and workforce reporting projects;
- a call for participants to join its project on business models, strategy and the longer-term and
- a call for participants for its project on the digital future.

The newsletter is available here

News from across Equiniti

Did you miss our Preparing for a successful Remuneration Policy Renewal Webinar?

If you did miss the live webinar last month, then don't worry as we recorded this and have made it available to you on demand. We know that many of our clients will be facing a challenging time this year seeking approval of their remuneration policy.

Listen to Adam Rose, Head of Corporate Governance and Industry Research and Karoline Herms, Senior Corporate Governance Consultant from Boudicca talking about the trends we are likely to see in the upcoming proxy season with their tips on how to prepare for a successful renewal, along with their answers to client questions raised during the live webinar.

Listen to the webinar here

Lost Property and Data Analysis...more from our flagship client conferences

Following our Employee Services Forum and Share Registration Conference held towards the end of last year, we have written a series of articles covering some of the main themes and hot topics discussed at the events.

This month, we look at how powerful BI data insight supplied by Equiniti have helped M&S turn data into value and enabled them to understand the needs of their workforce.

Read the article here

We also have an update on the Dormant Assets Scheme which includes colourful analogies involving lost clothing and a dungeon and how it's proving to be a win-win initiative.

Read the article here

ProShare Awards 2019

The annual ProShare Awards took place in December shining a spotlight on those individuals, teams and companies whose hard work, dedication, and inspiration are recognised and celebrated.

To be a winner, the Judges were looking for "stand out entries where companies showed real passion and innovation and weren't afraid to challenge the status quo".

Many congratulations to all our clients that stood out and we are very proud to call ourselves your partner and look forward to working with you this coming year and for many years to come.

- **abcam** – Winner of Best New Share Plan

  The Judges were impressed by abcam's creativity and willingness to look beyond the strictures of UK tax-advantaged models to deliver a consistent and inclusive plan that met their specific corporate objectives and reflected their values of being dedicated, audacious and agile.

- **abcam** – Winner of Best Overall Performance in Fostering Employee Share Ownership (501-5000 employees)

  The Judges lauded the abcam board's commitment to employee share ownership, as evidenced by their exceptionally generous and unprecedented 10:1 match.

> "Truly a case of putting your money where your mouth is."

- **Derwent London** – Winner of Most Effective Communication of an Employee Share Plan (up to 500 employees)

  Derwent London's inclusive and multi-channel approach resulted in 71% take-up and an average £182 per month saving – a fantastic result for a company that has never operated Sharesave before.

  Find out how Derwent London achieved this by reading the full case study in the following article.

- **M&S** – Winner of Best Employee Share Plan Outcome following a Major Corporate Change

  Being the largest online rights issue ever in the UK, the Judges were impressed with the sheer scale of M&S' achievement, in particular, their determination to involve employees in a way that was easy and seamless for them to make their decisions and transact online. As their nomination said:

> "This isn't just an award entry – this is an M&S entry..."

A historic transaction and an achievement to be immensely proud of.

Congratulations also to our clients where their share plans were Highly Commended by the Judges including:

- **TheWorks.co.uk** – Best New Share Plan
- **Taylor Wimpey** - Most Effective Communication of an Employee Share Plan (5,001 - 50,000 employees)
- **DWF** - Best Employee Share Plan Outcome following a Major Corporate Change

Derwent London - Building the foundations for Sharesave success

ProShare Award Winners and Equiniti client, Derwent London, has a loyal and motivated workforce where the culture is very strong, but the CoSec team felt that the low share ownership levels didn't reflect the high levels of staff retention. We were thrilled that Derwent London chose to partner with Equiniti to launch its successful Sharesave where participation levels reached 71%.

Read the case study here