FEBRUARY 2020

EQBOARDROOM 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

It's hard to believe we are already one month into 2020 and the UK has now officially withdrawn from the EU. As negotiations and decisions are made by Johnson and his Ministerial team over the coming months, we will be closely monitoring these to understand whether there is any impact to our services and will keep you updated accordingly.

At this time of year, many of our clients will be busy preparing their Annual Report. Whilst we don't have a crystal ball of what the forthcoming Proxy Season will bring, we do expect some of the themes to be around regulatory impacts, executive compensation, ESG issues, and shareholder activism and hopefully, you will find some of our articles this month helpful as you prepare for your AGM. You can also find lots of useful information on our AGM website here

We will also be announcing an exciting new initiative in the next few day to support our Boardroom clients, so look out for this.

In this month's Bulletin, we share a few updates from the FRC including guidance for audit committees and annual review of compliance with the UK Corporate Governance Code with its comments on early adoption by FTSE 100 companies of the 2018 Code.

We also take a look at the European Securities and Markets Authority report into undue short-term pressure on corporations covering topics such as executive remuneration, environmental, social and governance disclosures, fair value reporting, and institutional investor engagement together with its recommendations.

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

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- Tell HMRC about your employment related securities schemes

NEWS FROM ACROSS EQUINITI

- Ten Hot Topics for Company Secretaries in 2020
- Corporate Governance Principles: identification, application and revision
- Use Employee Engagement Reporting to kick-start People Experience

DATES FOR YOUR DIARY

- WEDNESDAY 8 APRIL
  EQUIVALENCE FORUM
  Join like-minded professionals and hear the latest updates and industry news impacting Company Secretaries. If you would like to attend, please contact your Relationship Manager or email eqevents@equiniti.com

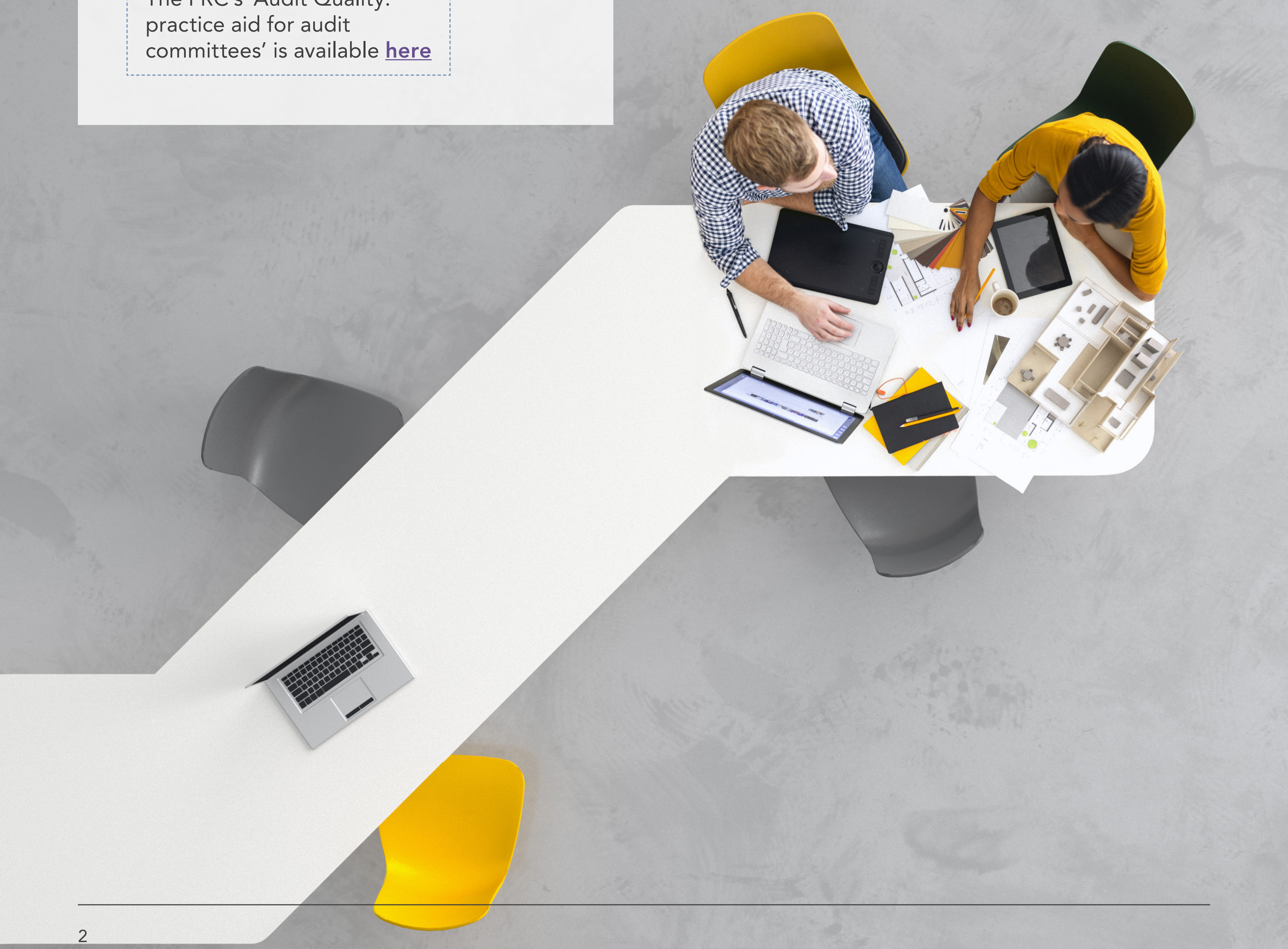
  If you would like to attend this Forum by webinar, please register here

Updated practice aid for Audit Committees

The Financial Reporting Council (FRC) has published an updated practice guide on audit quality to help audit committees to assess audit quality. The guide covers:

- An overview of the audit tender process to ensure that an auditor is appointed who can provide a high-quality audit.
- How to assess an audit including gathering evidence.
- Four key elements of the assessment:
  - Mindset and culture
  - Skills, character, and knowledge
  - Quality control
  - Judgement
- Transparency and audit committee reporting.

The FRC's 'Audit Quality: practice aid for audit committees' is available here



FRC's annual review of compliance with the UK Corporate Governance Code published

The Financial Reporting Council (FRC) has published its annual review of compliance with the UK Corporate Governance Code (Code). The report assesses the quality of reporting against the 2016 Code and comments on early adoption by FTSE 100 companies of the 2018 Code.

The review highlights that:

- Of the 288 companies reviewed, 73% claim full compliance with the 2016 Code and 95% report that they were complying with all, or all but one or two, of its Provisions. These figures are consistent with last year as was the overall standard of reporting.
- The FRC also found as in previous years that many companies concentrate on achieving compliance with the Provisions but give little insight into governance policies and practices or areas identified for improvement.
- The FRC stress that demonstrating actions taken and how these link to strategy is much more valuable than a tick box approach.
- In terms of early adoption of the 2018 Code, the FRC found that the quality of reporting was mixed. Corporate culture and workforce engagement were the two new areas most frequently discussed.
- The FRC believe that too many companies are using slogans or marketing lines to define the company's purpose.
- Reporting on diversity under the 2018 Code can be improved as this is currently limited. Good reporting in this area sets out plans to meet diversity targets, not just gender targets, and understands the reasons why diversity is important to the business.
- Many companies reported that workforce engagement was carried out using surveys, however, the FRC would like to see companies demonstrating that the engagement methods used are effective in raising issues with the board and how this affects decision making.

The report is available here

Insight into best practice reporting on the workforce produced by the FRC

The FRC's Financial Reporting Lab has published a review into company reporting on workforce-related issues setting out investors' expectations against current reporting. The report highlights that investors are seeking more insight into:

- How boards assess the topic of the workforce including what information they are given and who they consider the workforce to be.
- How the workforce contributes to the success of the business model, whether it is considered a strategic asset and how it is invested in.
- The risk and opportunities relating to the workforce and how the company is responding to these.
- How the company measures the impact of the contribution of the workforce including financially relevant metrics and how it takes into account workforce views.

The review goes on to make recommendations on what companies should report on including the effect of company culture, employee retention, and how the workforce is being incentivised. In order to improve reporting in this area, the Lab has produced a series of questions for companies to ask and sets out best practice examples from company annual reports.

The Lab's report is available here

Report published into undue short-term pressure on companies in securities markets

The European Securities and Markets Authority (ESMA) has published a report into undue short-term pressure on corporations in securities markets, following the consultation it published in June 2019. The report considers topics such as executive remuneration, environmental, social and governance disclosures, fair value reporting, and institutional investor engagement. The report makes several recommendations including on:

- the disclosure of Environmental, Social and Governance factors for example by:
  - amending the Non-Financial Reporting Directive (NFRD);
  - promoting a single set of international ESG disclosure standards;
  - requiring the inclusion of non-financial statements in annual financial reports; and
- institutional investor engagement such as:
  - having a potential shareholder vote on the non-financial statement; and
  - monitoring the application of the Shareholder Rights Directive.

The European Council will consider the report and decide whether legislation is necessary to address the report's recommendations.

The ESMA report is available here

Changes announced to the MAR regime for companies in Small and Medium-sized growth markets

To assist with the administrative burden for companies on Small and Medium-sized (SME) growth markets, the Market Abuse Regulation has been amended with the changes to take effect from 1 January 2021. AIM is defined as an SME growth market and therefore these changes will apply to companies trading on AIM. The main amendments are:

- Where an AIM company has delayed disclosure of inside information in order to protect the company's interests and where the delay is not likely to mislead the public, the company will still need to notify the competent authority of the delay but will only need to provide explanation of the reasons for delay upon request rather than at the same time as the notification.
- Currently, AIM companies must announce transactions carried out by persons discharging managerial responsibilities (PDMRs) within three business days after the transaction. However, the same deadline applies to PDMRs notifying the transaction to the company and therefore it can be challenging for companies to comply with the market notification by the deadline. Therefore, companies will be allowed to disclose transactions within two business days of the receipt of the transaction from the PDMR.
- In future AIM companies will only need to maintain a list of persons who, in the normal exercise of their duties, have regular access to inside information, such as directors, those on the executive committee and in-house counsel. However, Member States will be able to require full insider lists to be maintained.

The amending EU Regulation is available here

Tell HMRC about your employment related securities schemes

Gifts and awards of shares in companies, often known as employment related securities (ERS) are commonly used by employers to reward, retain or provide incentives to employees. They can be tax advantaged or non-tax advantaged.

Last month, HMRC updated its online page summary about when and how to tell HMRC about new ERS schemes, or schemes that have ceased. The change relates to their guidance on how and when companies receive the scheme reference number.

The update is available here

News from across Equiniti

Ten Hot Topics for Company Secretaries in 2020

Prism Cosec take a look at ten key items that company secretaries need to be aware of as we enter 2020. Some of these are issues which have been developing over the past twelve to eighteen months. The 2018 UK Corporate Governance Code has added its support to areas where Government and investors have been voicing concerns with new Code provisions that came into force from 1 January 2019. It will be interesting to see how compliance with these new provisions develops throughout the year.

Read the full briefing here

Corporate Governance Principles: identification, application and revision

Whatever the sector or industry, there is an expectation for companies to have a robust corporate governance framework in place, to reassure and demonstrate that the business is operating effectively.

Sheryl Cuisia, Managing Director and Founder of Boudicca Proxy shares her experience of how strong corporate governance forms the basis of all good business practices and looks at the 5 overarching principles that should underpin a corporate governance framework.

Read the full article featured in Financier Worldwide here

Use Employee Engagement Reporting to kick-start People Experience

Mandatory employee engagement reporting is here. It's time for employers to evidence that they are listening and acting upon employee views. Evidencing that employee insight is driving your employee benefit programme represents the perfect inroad. Done properly, it could even provide the foundation for People Experience, writes Andrew Woolnough, Director of HR Solutions at Equiniti.

People experience often gets shifted down the corporate to-do list due to conflicting priorities, tight budgets and scant resources. Being one of the most important business issues of our time, surely it should be the guiding principle where your people are concerned.

Read Andrew's full article here