EQ MARCH 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

I hope everyone managed to stay safe as we experienced a deluge of storms and flooding in the last few weeks as well as the continuing threat of the spread of coronavirus. There has been high drama with the shakedown of the Cabinet Reshuffle which is still reverberating although it will be a few more weeks until clear positions start to emerge. However, we will be closely watching developments, including the Budget on 11 March.

In other news, we are delighted to welcome three new clients to Equiniti, Hastings Group Holdings plc, who transferred their share register, recently floated Calisen plc and Rentokil who joined us as a share plan client. We very much look forward to working in partnership with you.

We held our Women's Company Secretary Circle at The Shard last month where our guests had the opportunity to network with their peers and our 2020 AGM Season Forecast was launched, more details on this below.

Staying with the theme of the forthcoming proxy season, in this month's bulletin, we focus on voting guidelines, shareholder priorities, board diversity and making sure you are ready for your 2020 AGM. We also share recommendations for 'super-charging' your employee plans to encourage take-up and take a look at the consultation to expand the Dormant Assets Scheme.

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:

- Board diversity in the spotlight
- Shareholder Priorities for 2020 - The Investment Association
- BlackRock 2020 Voting Guidelines
- Updated model Terms of Reference published
- FRC requirement for companies to disclose Coronavirus risk
- Esop Centre under new management
- HMRC Update on EMI State Aid post 31 January 2020

NEWS FROM ACROSS EQUINITI:

- Are you ready for the 2020 AGM Season?
- Expanding the Dormant Assets Scheme – Consultation now open
- 'Super-charging' Sharesave and SIP
- A Post-Election Guide to Corporate Transactions & Employee Share Plans

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

The Parker Review has published its latest report into ethnic diversity on UK Boards. The Parker Review published in 2017 recommended that FTSE 100 boards have at least one non-white director by 2021 and on FTSE 250 boards by 2024. The findings in the review include research from the Financial Reporting Council. Key highlights are:

- On FTSE 350 boards there are 172 directors of colour which equates to 7.5% of FTSE 350 directors where ethnicity is known
- Eight companies account for nearly 25% of the non-white directors on FTSE 250 boards
- The quality of reporting by companies on diversity has improved overall being referenced in board evaluations and including reports on initiatives aimed at increasing ethnic representation. However, 52% of FTSE 250 companies fail to mention ethnicity in their board diversity policy, and most of the FTSE 350 do not set measurable ethnicity targets
- Only 14% of FTSE 100 companies set measurable objectives for board ethnic diversity while for FTSE 250 companies the figure is 2%. Even where objectives have been set, no FTSE 350 companies report progress against them
- Considerable progress is still required and the seven recommendations from the 2017 Parker Review remain key actions

The update report also includes best practice case studies and a Directors' Resource Toolkit.

The Parker Review update is available here

The most recent Hampton-Alexander Review into women in senior positions in FTSE 350 companies has also been published by the government. The key findings of the report are:

Women on Boards

- In the FTSE 100, 32.4% of board seats are now held by women, up from 30.2% in 2018 and so the target has been met ahead of time
- The FTSE 250 has progressed well increasing the number of women on boards to 29.6%, up from 24.9% in 2018. Just under half of the FTSE 250 (111 boards) already meet or exceed the 33% target

Women on the Executive Committee and Direct Reports

- Reasonable progress is reported in the FTSE 100 with the number of women in Combined Executive Committee and Direct Reports increasing from 27% to 28.6%
- The appointment rate has remained low in the FTSE 100 at 36% and as a result, many companies are far from the 33% target
- The number of women in Combined Executive Committee and Direct Reports in the FTSE 250 increased from 24.9% to 27.9%
- In both the FTSE 100 and FTSE 250 unless the appointment rate of women increases in this category to near 50% this year it is unlikely that they will meet the 33% target by the end of 2020

The 4th Hampton-Alexander Report is available here

Shareholder Priorities for 2020 - The Investment Association

The Investment Association (IA) has published a document "Shareholder Priorities for 2020" setting out shareholder expectations in four key areas and the approach that the IA's Institutional Voting Information Service (IVIS) will take when assessing company performance in these areas. The priority areas are climate change, audit quality, stakeholder engagement and employee voice, and diversity.

Climate change

Investors expect companies to proactively identify and manage climate-related risks and the IA supports reporting in line with the Task Force for Climate-related Disclosures recommendations by 2022.

Audit quality

Investors expect a well-planned and resourced audit team capable of providing a quality audit and bringing attention and scrutiny to a company's financial statements.

Stakeholder engagement and employee voice

Investors are keen to better understand how directors are fulfilling their duties and taking account of the views of the company's material stakeholders. IVIS will seek to establish whether the Board has identified material stakeholders and how the company has engaged with them.

Diversity

IVIS will red top any FTSE 350 company with:

- women representing 20% or less of the Board
- one or less women on the Board (unless the 1/3 target is achieved)
- women representing 20% or less of the Executive Committees and their direct reports

IVIS will also review whether a company has disclosed the percentage of its Board that comes from an ethnic minority background.

The IA's Shareholder Priorities for 2020 is available here

BlackRock 2020 Voting Guidelines

The global investment manager BlackRock has published its 2020 voting guidelines. Key items of note are that BlackRock:

- will not support the election of directors whose names and biographical details have not been disclosed sufficiently in advance of the AGM
- expect Boards to take into consideration the full range of diversity including gender, ethnicity, age, area of expertise, geographic location. Companies are encouraged to have at least two women on their boards. BlackRock may vote against nomination committee member where they believe board diversity is lacking
- will consider voting against a director's (re)election where they consider they have insufficient capacity. The considerations that BlackRock take into account in terms of a director's other commitments are set out in the guidelines
- may vote against the election of remuneration committee members where:
  - there is a misalignment between remuneration outcomes and company performance;
  - A company has not demonstrated connection between strategy and long term shareholder value creation and incentive plan design;
  - Remuneration is excessive relative to peers without appropriate explanation;
  - There is an overreliance on discretion and extraordinary pay decisions to reward executives;
  - Company disclosure is insufficient to undertake proper analysis;
  - There is a lack of responsiveness to significant investor concern on remuneration issues.
- would like to see companies disclosure climate-related risks in line with the Task Force for Climate-related Disclosures recommendations

The BlackRock guidelines are available here

Updated model Terms of Reference published

The Chartered Governance Institute (CGI) has updated its guidance notes and model terms of reference for Audit, Remuneration and Nomination Committees. The terms of reference have been updated to take into account the 2018 UK Corporate Governance Code and the FRC's Board Effectiveness Guidance.

The terms of reference are available from the CGI's website here

FRC requirement for companies to disclose Coronavirus risk

The Financial Reporting Council (FRC) has issued guidance on the disclosure of risks arising from the spread of Coronavirus. Companies are required to disclose their principal risks and the FRC is asking companies to consider how the Coronavirus may affect their businesses particularly if they trade with China. Risks may arise for example from production delays and staff shortages. If Coronavirus continues to spread companies operating in other areas may also have to consider the risks that they face.

The FRC's guidance is available here

Esop Centre under new management

At the beginning of 2020, the management of the Employee Share Ownership Centre transferred to Z/Yen Group Limited whose executive chairman is Professor Michael Mainelli, Alderman and Sheriff of the City of London. Professor Mainelli chairs Long Finance and the Financial Services Club. He will be delivering the keynote speech at the Centre's annual symposium being held at Linklaters in London on Thursday 26 March.

Graham Bull and Jennifer Rudman from Equiniti will also be speaking about how to ensure all-employee share plans continue to be relevant going forward.

Further information about the event can be found here

HMRC Update on EMI State Aid post 31 January 2020

In their February ERS Bulletin, HMRC confirmed that the EU Commission's decision on the EMI Scheme will continue to apply until at least the end of the transition period.

HMRC will provide more information, when known, in respect of what the new domestic regime will be following the end of the transition period.

The Bulletin can be found here

News from across Equiniti

Are you ready for the 2020 AGM Season?

The ever-changing corporate landscape is making the AGM season a more uncertain time. In 2020, we are expecting more developments with challenges coming from increasingly assertive investors and proxy advisers whose expectations are likely to be higher than the new codes and standards. We also predict much discussion about sustainability thanks to the Section 172 Statement requirement in the UK, and diversity thanks to the Boardroom Accountability Project 3.0 in the US.

Our 2020 AGM Season Forecast is now available to help you prepare and the key themes we focus on in this report are:

- Regulatory Impacts What new and updated regulation do you need to be aware of and how can you prepare?
- Executive Compensation What are the proxy advisor and investor trends to be aware of when developing your remuneration policy?
- Environmental, Social and Governance Issues Why is sustainability continuing to grow in importance and what are the opportunities and risks?
- Board Accountability Where are shareholders and proxy firms likely to place pressure on boards?
- Shareholder Activism What can 2019 tell us about how likely a shareholder spring is in 2020, and how can you prevent activism at your own AGM?

You can find our full 2020 AGM Season Forecast Report here

Expanding the Dormant Assets Scheme – Consultation now open

The government has released its long-awaited consultation on the sector working group's proposals to expand the Dormant Assets Scheme across multiple asset types within the financial services industry.

In March 2017, the independent Commission on Dormant Assets reported to the government on the potential to expand the existing scheme (Banks and Building Societies) to include a wider range of asset classes (Insurance and Pensions; Investment and Wealth Management; Securities). The government confirmed its support for the scheme expansion and called upon the industry to help devise how this might work in practice. Four senior industry champions took on the challenge, and through their various working parties, submitted their report in April 2019. The key principles of the existing scheme formed the basis of the Champions report, recommending that all industries adopt them. These were:

- Reunification: For all participants in the scheme, the first priority is to attempt to trace and reunite people with their assets
- Full restitution: Asset owners are able, at any point, to reclaim the amount that would have been due to them had a transfer to the scheme not occurred, in full
- Voluntary: The scheme would remain voluntary for participants

The voluntary and reunification principles reflect existing practice within the securities industry, whilst the concept of full restitution upon reclaim is something that would be a key differentiator from existing asset forfeiture programmes. This was highlighted in the securities industry champions report as something that would have made this programme a real game-changer. The government (whilst welcoming the ambition), considers that mandating full repatriation does not reflect the diverse current market practice with regard share forfeiture reclaims, and believes it is for companies (through participation) to make full repatriation the new market standard.

As a registrar, while we support the concept, ultimately this scheme impacts you as issuers and your investors. As such, we urge you to respond to the 17 questions contained within the consultation, along with any other thoughts you may have. Should you wish to discuss any aspect of the consultation, please speak directly with your Relationship Manager.

You can find the Consultation here

Champions report can be found here

Original commission report can be found here

'Super-charging' Sharesave and SIP

In February, the Social Market Foundation (SMF) issued a new report analysing the scope to promote wider employee share ownership in the UK. The report, sponsored by the Investment Association, looks at the importance of share ownership, referencing new data from a survey commissioned as part of the research. The report contains a set of recommendations that could encourage take-up of all-employee plans.

With this year being the 40th anniversary since the launch of Sharesave (SAYE) as well as the 20th anniversary for Share Incentive Plans (SIPs), there has been renewed focus on how to keep both tax-advantaged plans relevant so they can continue to provide value and benefit for millions of employees in the years to come. Equiniti has been involved in industry round table discussions on this topic and supports a number of the recommendations being put forward.

ProShare's February newsletter shared their policy paper, 'Super-charging share ownership', whilst the February edition of The ESOP Centre's monthly newspad publication detailed suggestions compiled by the Centre and submitted to the Chancellor.

Proposals include:

- Widening entitlement to participate in these plans, by reviewing legislation to enable more of the workforce to be eligible
- Extending rules around when leavers can be treated as 'good' leavers and so benefit from their participation in the plans
- For Sharesave, introducing a 'look-back' feature for determining the option price, so more plans provide gains at maturity

One that has universal support

- For SIP, to receive the full income tax and NICs advantages, participants will normally have to keep their shares in the plan for at least five years. The recommendation is to reduce the period from five years to three years

Equiniti fully supports the above proposals and we echo the comments made by Peter Swabey, Director of ProShare:

'We particularly agree with the SMF report's recommendation that the government reduces the time employees have to be part of a Share Incentive Plan. Employees have to wait five years before they can realise the full benefits of their scheme without incurring tax liabilities for withdrawing early. Our research shows one in four do not join because they are put off by this length of commitment. This is especially true of younger employees starting out in their career who simply do not imagine they might be with the same employer for five years.'

The SMF report discusses establishing a common minimum expectation for employee ownership across larger firms. Graham Bull, Managing Director, All Employee Services, EQ Boardroom comments 'Encouraging a culture where companies want to provide broad-based plans, and being able to offer 'super-charged' plans that employees feel excited about joining, will be a great step to ensuring they continue to be relevant for the next 20 years. We look forward to seeing if any of these key proposals are addressed in the 2020 budget.'

The SMF report can be found here

ProShare's February Newsletter can be found here

Esop Centre's newspad can be found here

A Post-Election Guide to Corporate Transactions & Employee Share Plans

The future for UK plc presents many challenges but the decisive Conservative victory in December's General Election does at least provide a little more certainty to how that future may shape up. As a result, we're likely to see an uplift in the pace of corporation transactions in 2020. The advice from the experts is to prepare by carefully considering every aspect of the corporate entity – including the place of employee share plans (ESPs).

Julian Macedo, Managing Director of The Deal Team and Matthew Findley, Partner for Employee Benefits and Executive Compensation at Norton Rose Fulbright share their thoughts here