Computershare

REGISTRY ROUND-UP

November 2019

Welcome to your November round-up, where we bring you key dates and the latest industry highlights from the world of registry, along with a market update provided by Georgeson.

Throughout this month's newsletter we can see the theme of global action on climate change continues to be at the forefront. There is an increasing expectation that organisations will provide adequate disclosures to investors and other stakeholders and conduct effective engagement and reporting on wider environmental, social and governance-related aspects.

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Industry update

Stewardship Code

The Financial Reporting Council (FRC) has published their revised UK Stewardship Code (found here). This represents yet another strand in the program of revisions that the FRC has been making to the UK's corporate governance framework.

The focus of the revised code is on creating long-term value while also considering the needs of investors and has been drafted to directly address those issues raised within the Kingman review.

There are several key amendments to the code including:

- An extended scope, which includes asset owners (pension funds and insurance companies) and service providers, to align the approach of the entire investment community.
- A requirement for signatories to the code to report annually on stewardship and the associated outcomes. Reports will require disclosure of engagement practices, voting records and how signatories have protected and enhanced the value of their investments.
- An increased focus on signatories taking into consideration environmental (including climate change), social and governance factors into account in their investment decisions.

The new code will take effect on 1 January 2020 and, while building on the existing code, it is setting a substantially higher standard which reflects the changing expectations of investors.

Climate-related Corporate Reporting

At the same time as the publication of the new Stewardship Code with its increased focus on ESG factors including climate change, the FRC's Reporting Lab has published a report (found here) looking specifically at climate-related corporate reporting.

Unsurprisingly the report makes a clear recommendation that companies should use the Task Force on Climate-related Financial Disclosures (TCFD) framework, which is quickly becoming a global standard. The UK Government has made clear within their Green Finance Strategy that there is an expectation on all listed companies and large assets owners to make disclosures in line with the framework.

In order to help companies apply the TCFD framework, the Lab has developed a series of questions that can be asked to address areas that investors seek to understand. These questions are split between several categories, namely governance and management, business strategy, risk management and metrics/targets.

Climate Change and Green Finance

The Financial Conduct Authority (FCA) has now published their feedback (found here) following the discussion paper they released last year on the subject of climate change and green finance. As was expected, a consultation on the subject of new disclosure rules, which will be aligned to the Task Force on Climate related Financial Disclosure framework (TCFD) will be published in early 2020.

The FCA will also consider how to best ensure that regulated firms who fall outside of scope (in relation to the possible new disclosure rules) can and do enhance their climate related disclosures. In respect of regulated firms, the FCA propose working on several initiatives to promote longer-term perspectives in relation to investment decisions while also looking into the concept of greenwashing and where appropriate, taking action on the subject.

Climate Action 100+

The institutional investor lead group, Climate Action 100+, has published their first progress report (found here), which details what they claim to be significant progress on climate change initiatives among their 161 global 'focus companies'.

The group, which originally launched in December 2017, has reported that:

- 77% of companies have defined board-level responsibility for climate change
- 70% of companies have set long-term emission reduction targets
- 40% of companies have undertaken and disclosed climate scenario analysis, with 30% also having formally supported the Task Force on Climate-related Financial Disclosure framework (TCFD)

The 'focus companies' for the group are 100 organisations who are, in their view, systemically important emitters and which purportedly account for approximately 66% of global industrial emissions, together with a further 61 who have been identified as having a significant opportunity to drive the transition to clean energy or who may be exposed to climate-related financial risks which can't be captured solely by emissions data.

The report documents an overview of the activities which have been undertaken to date and provides sector-specific progress in the high emissions industries with indicators that are being used to track the organisation's performance against the group's goals.

Perceptions of Non-financial Reporting

The Department for Business, Energy and Industrial Strategy (BEIS) has published a report (found here) looking at stakeholder perceptions of non-financial reporting. This report was commissioned as part of the post-implementation review in the wake of the introduction of the EU Non-financial Reporting Directive.

The report identifies two areas of consensus from stakeholder responses:

1. That there is a general view that corporate reporting has improved since the introduction of the original 2013 regulations, especially as few respondents could remember if there was widespread reporting prior to 2013.
2. That non-financial reporting is, and will continue to be, increasingly important as investors look to become more engaged with non-financial risks.

However, it was felt by some respondents that as the pace of regulatory changes continues unabated, some companies may struggle to keep up.

Predictably, there were divergent views on the usefulness of the reports and the extent to which a company should have the autonomy to decide on the content of their report. Some respondents like the fact that the original regulations allowed the business to focus attention on their strategic purpose by enabling them to tell their 'story'. Yet there is a feeling that a lack of common metrics increases the challenge for investors in being able to compare between reports and quantify the impacts reported.

Finally, the report looks at the future of reporting. A lack of investor engagement outside of London was one of the key themes seen in responses, along with the belief that technology should be utilised to improve the situation.

ISS 2020 Voting Policies

In response to the recent publication of their global policy survey results, Institutional Shareholder Services Inc. (ISS) gave notice of a short window for comments on their proposed 2020 voting policies.

The 17 proposed policy changes (which cover Europe, the United States and Asia amongst other areas) can be found here. While many of the proposed changes for Continental Europe are similar to those identified below for the UK and Ireland, there are some exceptions including a change to ISS's policy on director terms of office and remuneration committee responsiveness to stakeholders.

The proposed changes for the UK and Ireland focus on:

- **Board gender diversity**
  While the policy is still linked to the UK Corporate Governance Code there will be a focus on any publicly listed company that has failed to appoint even a single female director to the board. It has been drafted to align with ISS's similar policies in the US and Continental Europe and is expected to impact between 10 – 15 companies within the FTSE All-Share.

- **Remuneration committee discretion**
  There are proposed amendments linking the use of discretion by remuneration committees to Environmental, Social and Governance (ESG) risks within the remuneration framework, as is similarly found in the Investment Associations Principles of Remuneration and the Pension and Lifetime Savings Association (PLSA) Corporate Governance Policy and Voting Guidelines. The policy amendments seek to ensure that committees are more transparent in how they reach their decisions and how they take into account ESG risks.

These proposed policy changes will affect shareholder meetings taking place on or after 1 February 2020.

Executive Pensions

The Investment Association (IA) has joined the growing calls for companies to set credible plans to ensure executives receive the same pension contributions as the majority of their workforce.

The IA's published guidance (found here) warns companies that they must have such plans in place by the end of 2022 or risk further shareholder dissent. They recognise that 33 of the FTSE 100 have already made significant changes by ensuring newly appointed directors make contributions in line with the workforce majority and/or reducing contributions of incumbent directors.

For those companies with year ends starting on or after 31 December 2019, the IA's Institutional Voting Information Service (IVIS) will 'Red Top' (strongest level of concern) any company which:

- Appoints a new executive director or director to a new role and whose contributions are out of line from the workforce
- Seeks to approve a new remuneration policy which hasn't explicitly stated that new director contributions will be set in line with the majority of the workforce
- Has an existing director with a contribution of 25% of salary or more and hasn't set out a credible plan to reduce the contribution level by the end of 2022.

Global News

2019 Annual Corporate Directors Survey (Society 18/10)
PwC has released their Annual Corporate Directors Survey, found here. The report seeks the views of directors from 734 public companies, hoping to reveal how board practices are evolving in response to changes in the macro environment and under societal pressures. It does this in the context of boards' efforts to remain focused on their oversight responsibilities.

Of the findings the following are noteworthy:

- **Peer perceptions**
  Nearly half of respondents said that, in their opinion, at least one of their fellow directors should be replaced. The reasons provided include:
  - a reluctance to change management (15%)
  - an overstepping of the boundaries of their oversight role (13%)
  - board interaction style negatively impacts board dynamics (13%)
  - advanced age has led to diminished performance (12%)

- **Board evaluations**
  More than 60% of respondent boards conduct annual individual director evaluations, and 72% of respondents stated that their boards make changes in response to the most recent evaluations.

- **Risk oversight**
  Boards are evidencing their increasing focus on crisis preparedness and cybersecurity by increasing involvement in management's response planning, risk mitigation tactics and use of external expertise:
  - 56% claimed they had participated in table-top crisis management scenarios, up from just 28% last year
  - 71% claimed that they had board discussions on the results of external cybersecurity evaluations, up from just 39% last year

- **ESG**
  A majority of respondents (56%) stated that in their opinion, institutional investors spent too much time focused on environmental and social issues and that directors consider ESG issues principally in the context of risk management discussions.

There is also a considerable majority (nearly 80%) of respondents who agree that proxy advisory firms should be regulated.

Pre-emption Rights and Financial Assistance

This month, the Australian High Court gave judgement in Connective Services Pty Ltd v Slea Pty Ltd. The court decided that in certain circumstances, the interaction between pre-emption provisions and s.260A(1) of the Australian Corporations Act 2001 prohibits a company from providing financial assistance to a person purchasing that company's shares.

The court has decided that s.260A(1) doesn't abrogate the power of the company to enforce its constitution. However, when taken together with another section of the Act (s.1324(1B)) it has an effect that if a company wishes to bring proceedings to enforce pre-emptive rights in its constitution for the benefit of some members but at the expense of the company, then the company is liable to be stopped from providing such financial assistance unless it is approved by members or the court so as not to prejudice the interests of the company or its members or the company's ability to pay its creditors.

Canadian Boards Gender Diversity

The Canadian Securities Administrators has released data on boards' gender diversity (found here) based on disclosures made in line with government regulations.

641 issuers with year ends between 31 December 2018 and 31 March 2019 have reported that overall positions held by women have increased by 6% since 2015.

Other identified trends include:
- 73% of issuers had at least one female board member, up from 43% in 2015
- A third of vacant positions were filled by women
- 5% of issuers had female chairs

Australian Governance Guidelines

The Australian Council of Superannuation Investors (ACSI) has published their 2019 Governance Guidelines (found here). The guidelines have been designed to sharpen the focus of governance following the findings of the Banking and Financial Services Royal Commission.

The guidelines are used to assess the practices of the ASX 300 and assist in voting recommendations for the organisation's members which include 39 large institutional investors.

Georgeson market update

Annual Corporate Governance Review

Georgeson has presented the 2019 Annual Corporate Governance Review.

"The 2019 report provides a comprehensive review of relevant corporate governance issues including: shareholder proposals on governance issues, shareholder proposals on environmental and social issues, director elections, say-on-pay proposals, CEO pay ratio disclosure, mergers and acquisitions, and activism.".

International

Clear victory in shareholder showdown

CNN reports that Meyer Burger chairman declares "clear victory" in showdown with rebel shareholders.

"Meyer Burger investors voted two-to-one against expanding the board to include Sentis Capital, the biggest shareholder of the troubled solar equipment maker. Speaking minutes after the decision, Chairman Remo Lütolf said the outcome was a 'clear victory' and sends a strong signal to Sentis, the investment arm of Russian billionaire Pyotr Kondrashev."

Women in the boardroom

Deloitte's Global Center for Corporate Governance released the 6th edition of its Women in the Boardroom report.

The report details "the latest statistics on global boardroom diversity, exploring efforts of 66 countries to increase gender diversity in boardrooms and features insights on the political, social, and legislative trends behind the numbers. Highlights include: 1) Women hold 16.9 percent of board seats worldwide, a 1.9 percent increase from our previous edition; 2) Women hold only 5.3 percent of board chair positions and 4.4 percent of CEO roles globally; and, 3) Women hold 12.7 percent of CFO roles globally – nearly three times that of CEO positions."

Tougher disclosure on activist investors

Reuters reports that French lawmakers urge tougher disclosure on activist investors.

"France should step up disclosure requirements when activist investors and short-sellers take big positions in French companies, lawmakers said on Wednesday. France has not been spared growing interest in Europe from activist funds, which generally build stakes in companies they feel are underperforming and then push to force change. Finance Minister Bruno Le Maire told Reuters in April he was preparing measures to prevent activist funds from destabilising French companies after several high-profile campaigns."

UK

30% females on FTSE 350 boards achieved

The 30% Club has announced that FTSE 350 hits 30% women on boards for the first time in 450 years.

"The FTSE 350 can now demonstrate a third of board positions filled by women for the first time since the London Stock Exchange was established in 1571. The latest figure is from the 30% Club, the global campaign with presence in 14 countries that encourages greater representation of women on boards, and shows the number now stands at 30%, with 903 female directorships held by women out of 3008 positions in total (data source: BoardEx, 30 September 2019). This is in stark contrast to female representation on boards when the 30% Club was founded, by Dame Helena Morrissey, in 2010. Then, only 12.5% of FTSE 100 boards and 9.5% of FTSE 350 boards were female."

Founder lashes out after pulled vote

The Daily Telegraph reports that Hargreaves founder lashes out at bosses after pulled vote.

"The founder of Hargreaves Lansdown has accused the firm of failing in its duty to shareholders amid a row about political donations. Peter Hargreaves fell out with the investment platform last week over a planned shareholder vote on making donations to political parties. The 73-year-old billionaire made it clear he would use his 32pc stake to oppose the motion, so Hargreaves Lansdown cancelled the ballot at the last minute before its annual meeting."