

REGISTRY ROUND-UP

January 2019



Welcome to your January round-up. We are bringing you highlights from the registry world, key dates for you to be aware of, all current and relevant industry updates and a market update provided by Georgeson.

This month we will cover:

Industry update

- > Boardroom Behaviour and the QCA Code
- > Private Company Corporate Governance
- > Directors' Remuneration Reporting
- > The Kingman Review
- > Investment Association – Repeat Offenders
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Industry update

Boardroom Behaviour and the QCA Code

The Quoted Companies Alliance (QCA) has released a joint paper with the Non-Executive Directors' (NEDs) Association based on the QCA/YouGov small and mid-cap sentiment index.

The bi-annual sentiment index offered the opportunity to ask questions related to NEDs and board effectiveness.

Respondents have expressed a desire that NEDs play a bigger role in the long-term vision and planning of an organisation. The results also show a 10% increase (from 44% in 2015 up to 54% in 2017) in respondents wanting to see NEDs contributing more to improving corporate governance within the organisation.

Other findings include:

- > the feeling that NEDs lack sector-specific experience has seen a 5% increase from responses to the same question in 2015 (from 15% up to 20% in 2017).
- > there is a clear disparity between how Advisors view NEDs and how companies view them, especially in connection with their ability to provide an independent and critical voice.

The report can be accessed [here](#).

Private Company Corporate Governance

As part of the Government's response to their green paper on Corporate Governance, they sought to strengthen the governance framework of the UK's largest private companies.

The Financial Reporting Council was tasked with taking this work forward and in doing so appointed James Wates CBE to lead the project. The Wates Corporate Governance Principles for Large Private Companies were issued in June for consultation.

The majority of subsequently suggested amendments centred on the supporting guidance as it was felt to be too discursive, and should be more specific on how the principles might be applied and what good practice would look like.

The code applies to companies which satisfy either or both of the following conditions:

- > More than 2,000 employees
- > A turnover of more than £200 million, and a balance sheet of more than £2 billion

The code is constructed around six principles:

- > Purpose and Leadership
- > Board Composition
- > Director Responsibilities
- > Opportunity and Risk
- > Remuneration
- > Stakeholder Relationships and Engagement

The final code can be found [here](#). The code which operates an 'apply or explain' model affects reporting for financial years which started on or after 1 January 2019, so the expectation is that the industry will start to see reporting against the code in 2020.

Directors' Remuneration Reporting

An updated version of the GC100 and Investor Group's guidance on directors' remuneration reporting has been published and can be accessed [here](#).

The guidance addresses key elements of remuneration reporting requirements and has been updated in response to the Companies (Miscellaneous Reporting) Regulations 2018. The amendments include:

- > the exercise of discretion in the award of directors' remuneration
- > considerations surrounding share price appreciation
- > reporting of pay ratios

The Kingman Review

The Kingman Review into the Financial Reporting Council (FRC) published its final report, with the principal recommendation being the replacement of the FRC with a new regulator.

The new regulator (provisionally called the Audit, Reporting and Governance Authority) is recommended to have a strategic objective "to protect the interests of users of financial information and the wider public interest by setting high standards of statutory audit, corporate reporting and corporate governance, and by holding to account the companies and professional advisers responsible for meeting those standards".

While the review recognises that the FRC has been an effective custodian of the Corporate Governance Code, it has a different view on the Stewardship Code finding that while it is well intentioned it is not effective in practice.

The report can be found [here](#), and a letter from Sir John Kingman can be found [here](#).

Investment Association – Repeat Offenders

The Investment Association (IA) has written to 32 companies in the FTSE All-Share index who have appeared on their public register for the last two years.

The letter expresses the organisation's concern that these companies have appeared on the register for the exact same resolution for two years running, which suggests that they did not respond sufficiently to investor views.

The IA has now launched a repeat offenders list as part of the public register, which identifies those organisations that fall foul of dissent on the same resolution year-on-year.

The IA's letter can be found [here](#).

Global News

European Gender Diversity Index

European Women on Boards and Ethics & Boards have published the first European Gender Diversity Index (found [here](#)).

The Index, which highlights best practices of European companies in terms of gender diversity, has been established to measure the evolution of gender diversity at the top of the European corporate world. The report looks at the 200 largest companies on the Stoxx Europe 600, which covers nine countries as at 31 July 2018.



Georgeson market update

UK

Auditors Face Sweeping Crackdown

The Daily Telegraph reports that [Auditors face sweeping crackdown as review calls for accounting watchdog to be replaced](#)

"Auditors face a battle on several fronts after regulators set out a wave of proposals aimed at boosting competition, tackling conflicts of interest and tightening oversight of the sector in the wake of a number of high-profile failures. The Competition & Markets Authority (CMA) stopped short of calling for a full-scale break-up of the accounting giants' auditing and consulting arms, but said they should be split into separate operating businesses with distinct management, accounts and remuneration. It also called for members of the FTSE 350 to have their books looked at by more than one auditor, one of which would have to be from outside the 'Big Four' of Deloitte, EY, KPMG and PwC. A separate Government-commissioned review, by Legal & General's chairman Sir John Kingman, called for an end to self-regulation and for the Financial Reporting Council to be folded into a new watchdog with a wider remit that would answer to Parliament."

Investor Pressure Leads to Leading Emission Targets

Reuters reports that [Shell is to set sector-leading emissions targets after investor pressure](#)

"Royal Dutch Shell caved in to growing investor pressure over climate change on Monday, setting out plans to introduce industry-leading carbon emissions targets linked to executive pay. Rivals BP and Total have already set short-term targets on reducing carbon dioxide emissions, but these are limited to their own operations. Shell's targets, which will be introduced in 2020, will be more extensive with inclusion of the so-called Scope 3 emissions from the burning of fuels sold to millions of customers around the world, the company said."

International

2019 Proxy Voting Guidelines and Corporate Governance Principles

Ethos has published its [2019 Proxy Voting Guidelines and Corporate Governance Principles](#)

"To reflect the international good practice of publishing a sustainability report and the growing interest of investors in extra-financial information, Ethos expects companies to publish in or in parallel with their annual report relevant extra-financial information. The expected level of transparency depends on the size of the company and the challenges it faces, as well as the standards applied in the country of activity. Ethos could consider, if necessary, to recommend against the approval of the annual report. With regard to the approval of executive compensation (binding votes), Ethos has noted that certain compensation packages requested for the Board of Directors or the Executive Board could in practice be exceeded. This is particularly the case in prospective pay votes. A minority of companies calculate the value of the equity component of compensation at a discount or do not take into account the potential future leverage effects of certain long-term compensation plans. The guidelines now provide that in such cases, Ethos may recommend that the remuneration package be rejected, particularly when the differences between potential remuneration and the remuneration requested are high."

Proxy Firms Remain on Radar

Bloomberg reports that [Proxy Firms Remains on Congress' Radar as SEC Weighs Action](#)

"Legislative efforts to rein in proxy advisory firms' influence over executive pay and other corporate ballot items will continue into next Congress as regulators consider their own action."

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