REGISTRY ROUND-UP

August 2019

Welcome to your August 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

- Director's Remuneration Reporting
- Shareholder Voting Research and Analysis
- CMA Audit Recommendations
- Prospectus Regulation Q&As
- Cranfield's Female FTSE Report
- Modern Slavery Act
- Small and Mid-Cap Sentiment Index
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- Aggressive US Strategies Force EU Change
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Computershare

Director’s Remuneration Reporting

The GC100 has published an update to their Directors’ Remuneration Reporting Guidance, which is available here.
It has been updated to take account of the recently published government regulations that sought to implement aspects of the amended Shareholder Rights Directive (SRD II).
The notable changes include:

› **Percentage change in remuneration**
A discussion on the implication of the extension to disclose the percentage change in the CEOs remuneration each year. Disclosure is now required in relation to remuneration for all directors.

› **Conflicts of interest**
There is a consideration of the measures that can be taken to avoid or manage conflicts in relation to determining, reviewing and implementing remuneration policies subject to the new reporting requirements.

› **CEO**
A discussion is included around the enhanced reporting regulations for CEO and Deputy CEOs. It refers to the FAQS published by the Department for Business, Energy and Industrial Strategy, previously covered in our July newsletter.

Shareholder Voting Research and Analysis

The Best Practice Principles Group have released their new edition of principles for shareholder voting research and analysis. The updated edition of the principles follows a lengthy review process that began in April 2017. The review looked at areas of the principles including their implementation and content, scope for improvement and greater transparency, and their ability to be applied in all markets where voting research and analysis is provided.

The principles have also been updated with the requirements of the amended Shareholder Rights Directive in mind. They have retained their ‘comply or explain’ approach to allow a broader range of organisations to adopt them as necessary. However, for those organisations that are signatories to the Group and will be governed by a newly created oversight committee, a new ratification process will be introduced.

Notwithstanding the use of proxy advisor services, the principles make clear that fiduciary duty and ultimate voting decisions remain the obligation of investors. There are two notable elements to the principles/guidance;

› **Principle 1 – Service quality**
Signatories should disclose the extent to which issuers have had an opportunity to verify, review or comment on the information used in research reports, analysis or guidance.
Signatories should also notify their clients of any verified factual errors or material revisions without delay, and alerts should explain reasons for revisions in a transparent manner.

› **Principle 3 – Communications policy**
Makes clear that investors are always responsible for, and entitled to, exercise their own judgment when determining how to vote.
Signatories should have a policy for dialogue with issuers, shareholder proponents and other stakeholders, and the policy should cover, but not be limited to, if and how issuers are provided with the ability to review research reports or data used to reach decisions found in research reports prior to their publication.
Signatories, which include ISS and Glass Lewis, are required to publish an annual statement on their compliance with the principles on their website and via the Group’s site. The statement must provide a

meaningful description on how they apply the principles and related guidance, disclose any required specific information and explain, if necessary, why principles haven't been applied or information not disclosed. The revised principles can be found here.

CMA Audit Recommendations

The Department of Business, Energy and Industrial Strategy (BEIS) have released a consultation concerning the recommendations made by the Competition and Markets Authority (CMA) as part of their study into the statutory audit services market.

Within the CMA's final report were a range of recommendations designed to increase the effectiveness of audit committees across FTSE 350 companies, increase resilience within the market and choice of audit providers, and to address concerns regarding audit quality.

The government has expressed that they are generally supportive, and are seeking views on several of the recommendations including:

- **Non-audit services**
  It was proposed by the CMA that an operational split should be introduced between audit and non-audit practices offered by the biggest firms within the UK.

- **Audit committee**
  It was recommended that audit committees should be closely regulated by the new Audit, Reporting and Governance Authority (ARGA). In particular, the Authority should be able to set minimum standards for appointment and oversight of auditors and, where appropriate, take remedial action.

- **Market resilience**
  Various measures have been suggested to potentially mitigate the failure of a Big Four firm, which includes an increased level of monitoring by ARGA.

- **Joint audits**
  CMA proposed introducing joint audits for FTSE 350 firms, with one firm being outside of the Big Four. The consultation considers practical issues such as increased costs, auditor liability, implementation timings and peer reviews.

Other measures proposed by CMA include increased transparency of audit committees in relation to tenders and reducing the maximum periods allowed between auditor tenders/rotations.

The consultation located here is open until 13 September 2019.

Prospectus Regulation Q&As

ESMA have published an updated set of Q&As in relation to the Prospectus Regulation, including 25 new items. This guidance includes information on transitional areas as the regulation is introduced and addresses a number of cross border questions.

The guidance is broken down into several key areas including:

- Grandfathering & Implementation
- Public Offers
- Financial Information

The updated Q&A can be found here.

Cranfield's Female FTSE Report

Cranfield University have published their annual edition of the Female FTSE Board Report (found here).

The report has found that in the last 12 months the percentage of women on FTSE 100 boards has increased by 3%, putting female representation on current boards at 32%. This means that the 2020 Hampton-Alexander target of 33% is well within sight. However, despite female non-executive directors being at a record level of 38.9%, the level of executive directors remains remarkably low, standing at only 10.9%.

Most concerning is the report's finding that female directors have shorter tenures than their male counterparts and are less likely to be promoted to either Senior Independent roles or into the role of Chair. Other areas of concern highlighted by the report are a lack of women from BAME backgrounds or from outside the corporate mainstream, and that the average age of female directors is below that of male directors.

Whilst the progress is impressive, a recent update from the Hampton-Alexander Review has suggested that some of the UK's top organisations are taking a 'one and done' approach by appointing a 'token woman' to their boards. The full Hampton-Alexander update can be found here.

Modern Slavery Act

Following the completion of the independent review of the Modern Slavery Act 2015 (found here), the government has published their response (found here) and a consultation on the proposed changes to the statement on transparency in supply chains (s.54 of the Act).

The review contained a few recommendations aimed at strengthening and enhancing the effectiveness of the Act, including s.54 which required commercial organisations within scope to publish a statement detailing the steps they have taken to ensure that slavery and human trafficking aren't taking place in either their business or supply chain. In the government's response they have expressed that they will be taking forward the following recommendations:

- **Contents of statements**
  The review recommended that statements should be required to discuss all areas currently listed in the Act. It also recommended that additional guidance be provided on information that is anticipated to be contained within the statements.
  The Government is consulting on how best to implement the recommendations and has committed to providing new guidance in 2020 which will include a template of information expected to be provided by organisations.

- **Reporting deadline**
  The introduction of a single reporting deadline for all organisations has been proposed so as to aid comparisons and facilitate better engagement.

- **Online registry**
  The government has agreed to take forward the recommendation to establish an online registry of statements, and it proposes to amend the Act to allow the publication of statements through an online registry, as well as via the organisation's website.

- **Enforcement**
  It has been recommended that additional sanctions for non-compliance be established which could include warnings, fines and director disqualifications. The government has opted to consult on the introduction of fines but will not take forward the recommendation to designate board members with the responsibility to produce a statement.
  The consultation can be found here and is due to close on the 17 September.

Small and Mid-Cap Sentiment Index

The Quoted Companies Alliance in conjunction with YouGov have published the results from the Small & Mid-Cap Sentiment Index (found here).

The results show that, while companies remain generally positive about their own organisation's prospects, sentiment overall is at the lowest level seen since 2012. Unsurprisingly, many respondents have cited Brexit and the general political uncertainty as the reason for a neutral response regarding the economic outlook.

Most respondents (76%) expect to increase employment opportunities within their organisation, and only 37% (down 10% from the last six months) anticipate raising capital in the near to long term.

Share Buybacks

BEIS have published a report they commissioned in early 2018, following the corporate governance green paper consultation. It looks at share repurchases, executive pay and investment, whether the use of buybacks are aiding senior executives in meeting performance targets, and whether they reduce investment.

The published report considers the motivations behind, and impact of, repurchases. It looks at the impact they have on meeting earnings per share (EPS) targets found in executive remuneration packages, whether they inflate the value of share awards and whether there is any evidence to support views that they have negative impacts on investments, growth and productivity of companies.

The authors of the report have found that there is no evidence to support the consultation responses which stated that buybacks were being used systematically to reach EPS targets artificially or force out investment. However, there was some evidence of links between EPS conditions in a Long-Term Incentive Plan (LTIP) and investment, which indicates that, where EPS conditions exist, lower investment can be seen.
The report can be read here.

Global News

The voice of the active asset manager

SquareWell Partners have published a report following their recent survey of active asset managers based around the globe and representing $10.4 trillion assets under management. The purpose of the survey was to elicit views on approach, engagement dynamics, strategic considerations and governance sensitivities related to activism.
The report has identified that:

- 87% of respondents saw activism to be a useful market force, with most supporting board related (governance) activism.
- Investors would be more likely to support activists seeking to improve a company’s corporate governance practices.
- Most investors are focused on a company’s capital allocation decisions and collective board experience relative to other governance attributes.
- Most asset managers have no formal policy or approach to assessing activist situations, and most rely on sector analysis/broker reports and proxy advice.

The full report can be downloaded from SquareWell’s Insight page here.

Georgeson market update

International

US aggressive strategies force change in Europe

CNBC report that US activist investors' aggressive strategies are starting to force change in Europe

"Wall Street's top activist investors are taking on an increasing prominence in Europe, with over $82 billion of capital now invested by shareholders publicly trying to force change in companies. Activist investors are individuals or groups that purchase substantial amounts of shares of a public company in an attempt to obtain seats on the board and change how it operates. Whilst the likes of hedge fund executives Bill Ackman, Carl Icahn and Paul Singer have long been household names on Wall Street, European corporations are now feeling the pressure from the expansion of stateside activist players."

2019 Dutch AGM Season Evaluation

Eumedion have published their 2019 Dutch AGM Season Evaluation.

"Shareholders of Dutch listed companies are increasingly voting against board proposals. Poorly substantiated proposals for exorbitant executive pay packages, and proposals that lead to a "carte blanche" for the board to issue new shares have led to shareholder rebellion. This is one of the main findings in today's released Eumedion analysis of the 2019 AGM season."

UK

Pershing Square Holdings gets own activist

Bloomberg reports that Ackman's London-Listed Pershing Square Gets Its Own Activist

"Bill Ackman's publicly traded Pershing Square Holdings Ltd. has an activist of its own. Asset Value Investors Ltd., or AVI, which owns a 3% stake in the London-listed firm, is pushing back against Pershing Square Holdings' decision to issue $400 million of 20-year debt without consulting shareholders."

Taken to task over pay

The Financial Times reports that big asset managers take boards to task over pay.

"UK funds more aggressive than US counterparts over remuneration at FTSE 350 companies. […] His research also found that big holders of UK stocks were relying less on proxy advisers such as Institutional Shareholder Services and Glass Lewis."

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