Computershare

REGISTRY ROUND-UP

April 2019

Welcome to your April 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:

The Dormant Assets Scheme: A Blueprint for Expansion

Today has seen the publication of the industry champions' report which discusses ways in which the Dormant Assets Scheme can be expanded. This report follows the Government's response to the Commissions 2017 recommendations on the expansion and the appointment of the industry champions.

Computershare together with issuers, industry bodies and other leading firms worked with the industry champion for the securities sector to investigate the expansion of the existing scheme. In the coming weeks we will be providing a more detailed analysis of the report ahead of a possible Government consultation.

The report can be found here, and should you have any questions, please contact your Client Manager.

Reform of the FRC

Following the release of the Kingman Review which recommended replacing the Financial Reporting Council (FRC) with a new independent regulator, the Department for Business, Energy and Industrial Strategy (BEIS) has issued a consultation on the reform of the FRC.

BEIS is intending to take forward the Kingman recommendations and replace the FRC with a statutory regulator called the Audit, Reporting & Governance Authority (ARGA). While creating the new regulator will require primary legislation, the FRC has in the meantime agreed to progress many of the other recommendations which includes being bound by a remit letter from the Government. This letter sets out matters that the FRC should have regard to when advancing its objectives and discharging its duties.

The consultation (found here) which closes on 11 June 2019, splits the review's recommendations into three categories:

- Those which the FRC will adopt immediately, including dialogue with investors, restructuring the regime for viability statements and expanding their reviews of corporate reporting.
- Those which can be delivered without legislation, but where a choice on how implementation is required.
- Those which require primary legislation or which have wider issues that need to be considered. These include the regulator's enforcement powers, including those against Directors.

Further consultation is planned which will look at competition within the audit market.

QCA – Corporate Governance Code

The Quoted Company Alliance (QCA) has been contacting members asking for them to inform the organisation if proxy advisors have attempted to hold the issuer accountable to the requirements of the UK Corporate Governance Code, even though the issuer is following the QCA's Code.

If you have had a similar issue, please contact the QCA using this short online form.

Executive Pay

The Business, Energy & Industrial Strategy (BEIS) parliamentary committee has published a report looking at companies linking the pay of senior executives to that of the rest of the workforce.

The report highlights that in the last decade CEO earnings within the FTSE 100 has increased to an average of £4 million per annum, compared with average workforce pay under £30,000.

It is critical of the role played by institutional investors, remuneration committees and the Financial Reporting Council. The report calls for organisations to move away from unpredictable excessive bonuses, and focus on a greater element of total remuneration being based on fixed basic salaries with deferred shares. One other recommendation of note is that the report calls for remuneration committees to have at least one employee representative.

The full report can be found here.

Payment Practices

The Chancellor's Spring Statement during March revealed that the Government is planning on requiring audit committees to review their organisation's payment practices and provide a report on them within annual accounts.

Only listed companies are required to have an audit committee (DTR 7.1) and so it is assumed that this new requirement will be restricted to them alone. However, it is not yet known whether it will be introduced via legislation or via the FRC amending the Corporate Governance Code.

Proposals are expected to be released by the Department for Business, Energy & Industrial Strategy later in the year.

Global News

Glass Lewis' Report Feedback Statement

Glass Lewis has launched a new 'Report Feedback Statement' service that will provide issuers and shareholders the opportunity to express their views on Glass Lewis' analysis of their proposals and have those views communicated to Glass Lewis' investor clients.

More information and the ability to sign up to the service can be found here, with a set of FAQs accessible here.

Online Cybersecurity toolkit

The Global Cyber Alliance (GCA) in conjunction with Mastercard has released a free cybersecurity toolkit for small businesses (found here).

This toolkit is aimed at helping small and medium sized businesses improve their cybersecurity posture and mitigate associated risks.

The kit contains six 'toolboxes':

- Know what you have
- Update your defences
- Beyond simple passwords
- Prevent phishing and viruses
- Defend against ransomware
- Protect your brand

These toolboxes include among other things, 'how to' training videos, template policies and forms and best practice guidance.

Listing, Transparency and Prospectus Rules

The Financial Conduct Authority has published Primary Market Bulletin No.22 which focuses on changes to the Listing, Transparency and Prospectus Rules in the event of a no-deal Brexit. The FCA has expressed that there are no transitional provisions and therefore expect issuers to take reasonable measures to comply with changes from exit day.

The key changes are:

- **Transparency Rules (DTR 4 - 7)**
  All issuers admitted to a UK regulated market must comply with these rules. Therefore, where the issuer's home member state is not the UK they would need to begin compliance from exit day.
- **Consolidated Accounts**
  Issuers preparing accounts will have to use International Financial Reporting Standards (IFRS) as adopted by the UK for all financial years commencing on or after exit day, in place of those adopted by the EU. However, the Treasury is looking at issuing an equivalence decision in time for exit that would allow non-UK incorporated issuers to continue using EU adopted standards.
- **Audit Committees**
  The current exemption found in DTR 7.1 where an issuer with a parent entity that is subject to DTR 7.1 or equivalent requirements under the Audit Directive within another EEA State will be removed.

AIM Rules

The London Stock Exchange has released a notice detailing the amendments to its rule books in the event of a no-deal Brexit. Principally, the changes include amendments to references of EU legislation that are being replaced by new UK law.

Blacklined versions of the changed documents are available using the following links:

- Admission and Disclosure Standards
- AIM Rules for Companies
- AIM Rules for Nominated Advisors
- International Securities Market Rulebook

SEPA

The European Payment Council has ruled in favour of the UK Payment Services Providers continuing to be able to participate in SEPA schemes following the UK's exit and in the event of a no-deal Brexit.

More information can be found in the Council's decision paper here.

Market Abuse Regulation

The Financial Conduct Authority has released Primary Market Bulletin No.21 which focuses on the Market Abuse Regulation (MAR) and the impact on it from Brexit.

The UK Government will be retaining MAR in a UK form as detailed in the European Union (Withdrawal) Act 2018. However, the FCA wanted to reiterate that in the event of a no-deal scenario they may have new regulatory obligations in relation to the following aspects:

- **Delay in disclosure of inside information**
  Even if an issuer has an obligation under EU MAR, they will also have to notify the FCA of a delay where they have financial instruments on a UK trading venue.
- **PDMR Transactions**
  All issuers with instruments on a UK trading venue will have to submit PDMR transaction reports to the FCA under UK MAR, regardless of any requirement to also send them to an EU competent authority under EU MAR.

Companies Act Changes

ICSA has released a newsletter (found here) detailing the changes that will be made to the Companies Act 2006 following a no-deal Brexit. The changes will include:

- **Regulated Markets**
  The term 'regulated market' will be amended to a 'UK regulated market or EU regulated market' in all bar two provisions, this amendment will enable a distinction between UK regulated markets such as the London Stock Exchange and an EU regulated market such as Euronext Paris. The two exceptions (s.141 and s.832) will be amended to refer only to a 'UK regulated market'.
- **Company House Filings**
  These changes will require an EEA company that has a place of business or branch in the UK to file the same information as those of any other overseas company, whereas previously they would have been exempt from some of the requirements. Additional information to be supplied from exit day will include:
    - Law under which the company is incorporated
    - Address of principal place of business or registered office
    - Amount of issued share capital

Georgeson market update

UK

Hot Button AGM Topics

The Financial Times reports that Hot-button topics this AGM season: pay, diversity and the climate.

"Early votes indicate how shareholders will take companies to task."

Executives Facing Curbs to Pension Payouts

The Week reports that Top FTSE executives facing curbs to pension payouts.

"Shareholders and MPs express anger at huge pension perks and accounting trickery to mask size of payouts."

Lying About Female and Minority Directors

The Guardian reports that Big firms lying about female and minority directors, says top business chief.

"The new chair of one of the UK's most influential business groups has accused Britain's biggest companies of lying when they say they cannot find enough female or ethnic minority directors. Charlotte Valeur, who joined the Institute of Directors (IoD) in September, said she would start calling for new laws next year to force firms to improve their diversity if FTSE 350 companies failed to make faster progress."

Old School Managers Copy Activists

The Financial Times reports about Why old-school asset managers are copying the activists.

"Wellington's intervention in Bristol-Myers M&A battle could prove a turning point."

ESG Has No Financial Benefit

The Financial Times reports that ESG has no financial benefit for infrastructure groups.

"Research into unlisted companies challenges common view that better standards can affect returns."

International

Manipulation of $74b Pharma Deal

The New York Post reports that Hedge funds manipulating $74b pharma deal.

"An activist investor is probing whether hedge funds are using a controversial stock-trading tactic to tip the vote in favour of pharma giant Bristol-Myers Squibb's $74 billion deal to buy rival Celgene, The Post has learned. Starboard Value – whose boss Jeff Smith has blasted the merger as too expensive for Bristol-Myers shareholders – has launched a books-and-records request, partly to determine whether an upcoming shareholder vote on the cash-and-stock merger could be swayed by so-called 'empty voting,' sources told The Post. Specifically, sources close to Starboard say the fund is investigating whether hedge funds including billionaire Dan Loeb's Third Point and D.E. Shaw purchased Bristol-Myers shares strictly for the sake of voting in favour of the deal."

Virtuous Investing

The Times reports about How virtuous investing may soon be the norm.

"If you believe the world's largest fund manager, it is only a matter of time before ethical investing becomes the norm. BlackRock predicts that environmental, social and governance (ESG) funds will account for 60 per cent of the global growth in exchange-traded funds (ETFs) over the next ten years, meaning a twentyfold increase in total fund assets to $250 billion (£189.8 billion)."

CEO Pay Yardstick

Fortune reports that CEO Pay May Soon Face a New, Hard-to-Manipulate Yardstick as ISS Embraces 'EVA'.

"U.S. companies - whether they like it or not - could be on the verge of adopting a super-tough, super-fair new yardstick for C-suite pay. On Wednesday, ISS, the US's leading adviser on corporate governance, announced that it's starting to measure corporate pay-for-performance plans using a metric that prevents CEOs from gaming the system by gunning short-term profits, piling on debt, or bloating up via pricey acquisitions to swell their long-term comp. ISS's stance is a potential game-changer: No tool is better suited to holding management accountable for what really drives outsized returns to investors, generating hordes of new cash from dollops of fresh capital. The metric ISS champions is economic value added, or EVA."

30% Woman on Boards

The Financial Times reports that Australian boards reach 30% woman target without quotas.

"Critics suggest their influence might be limited and percentage prove difficult to maintain."