

**Introduction**

On 29 June 2014 the formal relationship<sup>1</sup> between the National Association of Pension Funds (NAPF) and Institutional Shareholders Services (ISS) came to an end<sup>2</sup>. Therefore for 2015 ISS have introduced a standalone policy for the United Kingdom and Ireland, which was published today<sup>3</sup> and comes into effect for general meetings on or after 1 February 2015.

ISS have announced that it is their intention to continue to reflect the NAPF's Corporate Governance Policy & Voting Guidelines<sup>4</sup> (updated as of December 2014) in their UK and Ireland standard benchmark policy in order to "continue to align with what both parties consider to be best practice. It is important to emphasise that this policy is not intended to result in a materially different approach during the 2015 AGM season than was applied in 2014. However, an additional discussion of investors' expectations with regard to good practice has been included where we feel this would be helpful."

This brief memo outlines the structure of ISS's new UK & Ireland policy document and highlights a few issues that may be of interest.

**Document Structure**

Sections 1 to 5 of the document cover the standard items that are commonly proposed at UK and Irish general meetings:

- Accept Financial Statements and Statutory Reports
- Amendments to the Articles of Association
- Approve Final Dividend
- Appointment of External Auditors
- Authorise Board to Fix Remuneration of Auditors
- Director Elections
- Board and committee composition
- Combined Chairman and CEO
- Election of a Former CEO as Chairman
- Contested Director Elections
- Remuneration Policy
- Remuneration Report
- Approval of a new or amended LTIP
- Authorise Issue of Equity with and without Pre-emptive Rights
- Authorise Market Purchase of Ordinary Shares
- Mergers and Acquisitions
- Related-Party Transactions
- Mandatory Takeover Bid Waivers
- Reincorporation Proposals
- Authorise the Company to Call a General Meeting with Two Weeks' Notice
- Authorise EU Political Donations and Expenditure
- Shareholder Proposals (ESG)

Section 6 covers the specificities of smaller companies and section 7 covers investment companies.

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<sup>1</sup> The NAPF began to offer AGM voting recommendations through its Voting Issues Service (VIS) in 2000. In 2003 the NAPF entered into a joint venture with ISS, which was named Research, Recommendations and Electronic Voting (RREV). The joint venture was bought out by ISS in 2006, at which time ISS and NAPF entered into a licensing agreement which ensured that the NAPF's corporate governance policy would remain the sole basis used by RREV in its voting recommendations on UK companies. This licensing agreement expired on 29 June 2014 and was not extended.

<sup>2</sup> [http://www.napf.co.uk/PressCentre/Press\\_releases/0340-NAPF-and-Institutional-Shareholder-Services-Announce-End-of-Corporate-Governance-Services.aspx](http://www.napf.co.uk/PressCentre/Press_releases/0340-NAPF-and-Institutional-Shareholder-Services-Announce-End-of-Corporate-Governance-Services.aspx)

<sup>3</sup> <http://www.issgovernance.com/file/policy/2015ukandirelandproxyvotingguidelines.pdf>

<sup>4</sup> [http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0418\\_NAPF\\_corporate\\_governance\\_policy\\_voting\\_guidelines\\_2014\\_2015.aspx](http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0418_NAPF_corporate_governance_policy_voting_guidelines_2014_2015.aspx)

### Issues of Note

The ISS UK and Ireland 2015 Proxy Voting Guidelines do not appear to introduce significant changes compared to the ISS approach in 2014. Nonetheless, we list below a number of issues that may be considered worthy of note.

**Audit:** The recently updated NAPF Corporate Governance Policy & Voting Guidelines introduced a new policy, stating<sup>5</sup> that “where the tenure of the external auditor extends beyond ten years and there has not been a recent tender process and no plans to put the audit service out to tender are disclosed, shareholders should consider voting against the re-election of the audit committee Chair.” This update is reflected in the ISS guidelines.

**Balance of independence:** In line with their current approach, ISS will support the election of non-independent directors as long as the overall board and committee composition is in line with the UK Corporate Governance Code requirements. For FTSE 350 companies this means that at least half the board (excluding the chairman) should comprise independent directors. Furthermore, the audit committee should comprise at least three independent directors. The remuneration committee should comprise at least three independent directors and can include the chairman of the board if he or she was independent on appointment (but the chairman of the board cannot chair the committee). Finally, a majority of the nomination committee should be independent.

**Director tenure:** The UK Corporate Governance Code lists<sup>6</sup> a director tenure of over nine years as having a potential to affect independence. ISS, in line with the NAPF, take a somewhat more lenient approach and will only consider a non-executive director to be non-independent due to tenure if their service was concurrent with an executive director over nine years. When this is not the case, ISS will consider that independence has been impaired only after 15 years (while the NAPF does not specify).

**Remuneration:** In past years ISS have supplemented the NAPF Corporate Governance Policy with a UK Remuneration Guidance document<sup>7</sup>. Their new UK and Ireland 2015 Proxy Voting Guidelines now include a thorough section on remuneration-related resolutions. They state that in addition to relying on the NAPF policy, their guidelines are also informed by the IMA Principles of Remuneration<sup>8</sup>, the GC100 and Investor Group Directors’ Remuneration Reporting Guidance<sup>9</sup> and the UK Corporate Governance Code.

To find out more please contact:

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<sup>5</sup> Ibid., provision F.5.

<sup>6</sup> See provision B.1.1 here: <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf>.

<sup>7</sup> See here for the latest version, published in November 2012:

[http://www.issgovernance.com/file/2014\\_Policies/ISS2013UKRemunerationGuidance.pdf](http://www.issgovernance.com/file/2014_Policies/ISS2013UKRemunerationGuidance.pdf).

<sup>8</sup> <https://www.ivis.co.uk/media/10277/Principles-of-Remuneration-2014.pdf>

<sup>9</sup> <http://uk.practicallaw.com/6-540-9731>