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ISS
2015 Proxy Voting Guidelines for UK and Ireland

January 2015

Institutional Shareholder Services (ISS) has issued 2015 proxy voting guidelines for the UK and Ireland. This is the first year that ISS has operated a standalone policy following the ending of the formal agreement between ISS and the National Association of Pension Funds (NAPF) in 2014. However, ISS will continue to reflect the policy and voting guidelines from the NAPF and the approach to be taken during the 2015 AGM season will not differ materially from that applied in 2014.

The policy applies to all companies listed in the UK and Ireland and will also be applied to companies incorporated elsewhere such as the Isle of Man, Jersey and Guernsey and which are either listed in the UK, or on the Channel Islands Securities Exchange.

The voting guidance covers all aspects of corporate governance and the standard items on the agenda of the annual general meeting. We have focused in this newsflash on the guidance in relation to the voting on the remuneration policy and the annual remuneration report.

Voting guidance on remuneration

The guidelines are aligned with the five remuneration principles developed by the NAPF and other leading pension fund investors, and also take into account the Investment Management Association (IMA) Principles of Remuneration and the guidance on remuneration reporting produced by the GC100 and Investor Group and the UK Corporate Governance Code.

The voting recommendation will reflect the severity of the issues – a small number of minor issues may result in an overall recommendation to vote ‘For’ whereas one serious issue may result in an ‘Against’ recommendation.

Main areas of focus

- The alignment of pay and long term strategy – companies should use the statement by the chairman of the remuneration committee to explain this alignment.

- The remuneration committee should examine the behaviours promoted by the remuneration design.
- Performance targets should be aligned with company strategy, future direction and the creation of shareholder value. Disproportionate risk taking should not be promoted or rewarded.
- Targets should be challenging but realistic.
- Where non-financial objectives are used the majority of any payout should be linked to the financial performance.
- Pay should not be excessive and increases should be in line with the general increases across the company. Benchmarking is discouraged and should only be used infrequently (at no more than three to five year intervals).
- One off pay awards are typically not supported.
- Simpler remuneration structures are encouraged and arrangements should be clearly disclosed. However, bringing the policy into line with good market practice should not be used as justification for an increase in overall remuneration.
- Companies should only seek approval to operate outside the remuneration policy in genuinely exceptional circumstances.
- Implementing tax efficient mechanisms should not lead to increased costs to the company.
- Engagement with shareholders should be in the form of a meaningful dialogue and not a statement of changes already agreed.

Remuneration policy

The guidance includes a summary of good market practice in relation to all aspects of remuneration policy. This is based on IMA, NAPF and GC100 guidance and ISS will assess the policy in the context of these practices.

Main areas of focus

- Fixed remuneration – there should be an appropriate approach to the fixed elements of the remuneration package. The maximum participation in relation to benefits and pension should be stated and should not be uncapped.
- Variable remuneration - awards should be capped and the quantum reasonable in relation to peers. ISS typically will not support uncapped bonuses and long term awards. Increases to maximum award levels should be explained. Companies are encouraged to consider performance periods longer than three years and compulsory post-vesting holding periods.
- Vesting for threshold performance – ISS typically expect this to be no more than 25% of the maximum award.
- Linking of performance conditions with strategy.
- Dividends - these may be paid retrospectively on shares vesting and in relation to the duration of the performance period but not on any part of the award lapsing. ISS oppose the crediting of dividends on undelivered shares or options after the end of the performance period or beyond a compulsory post-vesting holding period.

- Shareholding requirements - for executive directors these should be a minimum of 200% of salary.
- Change of control, good leaver and clawback provisions – should be in line with good practice.
- Notice periods should be no more than twelve months and termination payments should be linked to fixed pay only.
- Non-executive directors should not be entitled to performance related remuneration.
- There should be an appropriate approach to recruitment - particularly in relation to buy-outs and the capping of any additional awards. The potential to offer sign-on payments or awards should not be open-ended.
- The level of discretion the committee is able to apply - ISS will vote against any policy which allows open ended changes.

Remuneration report

Main areas of focus

- Increases in fixed or variable remuneration, either in the year under review or the forthcoming year – these should not be excessive and will need to be well explained.
- In relation to long term plans, ISS focus on both the awards made in the year and those vesting/lapsing in the year.
- The payouts from annual and long term plans should reflect performance. ISS will focus on the disclosure of the extent to which performance targets have been met. Bonus targets should be disclosed retrospectively.
- Performance periods and the degree of stretch in the targets. The lowering of targets should be supported by a reduction in the size of the award.
- The level of disclosure in relation to bonus and long term targets.
- Exit payments and arrangements for new appointments. ISS do not generally support special awards to new joiners.
- ISS will not typically support ‘one-off’ and transaction-related bonuses.
- Any exercise of discretion – a clear explanation of the reasons should be provided and these should be justified by the financial results and underlying performance.
- Increases to non-executive fees – will be assessed in relation to pay increases to executive directors and the broader workforce.
- ISS supports the dilution limits recommended by the IMA.

Approval of a new or amended LTIP

Main areas of focus

- Alignment with strategy.
- Level of proposed awards – these should be capped and any increase from previous award levels should be well explained.
- Level of vesting at threshold – normally not expected to be higher than 25%.
- Provisions in relation to change of control, good leaver and malus/clawback.

- Dilution – the plan should be operated within the dilution limits of the company's share plans.

Remuneration in the banking sector

The guidelines note that the ratio between variable and fixed remuneration for certain key bank staff is limited to 1:1 unless shareholders approve a higher ratio (up to maximum of 2:1). Where companies seek approval for a higher ratio ISS will consider this on a case by case basis.

The full guidelines can be found at:

http://www.issgovernance.com/file/policy/2015ukandirelandproxyvotingguidelines.pdf

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