



## ISS

### 2017 Proxy Voting Guidelines for UK and Ireland

22<sup>nd</sup> November 2016

Institutional Shareholder Services (ISS) has issued updates to its worldwide proxy voting guidelines, effective for meetings on or after 1 February 2017. This includes updates to the UK proxy voting guidelines. The key changes to the UK guidelines are as follows:

#### Remuneration Policy

In order to reflect the recommendations of the Executive Remuneration Working Group, the guidelines on remuneration policy and new/amended LTIPs have been amended to make direct reference to companies that seek to implement pay structures which sit outside of the typical UK model. When forming a view on alternative arrangements, ISS will pay particular attention to:

1. How far the proposals are consistent with the good practice principles set out in the guidelines
2. The linkage between the proposals and the company's strategic objectives
3. Whether or not the proposals have an appropriate long-term focus
4. The extent to which the proposals help simplify executive pay
5. The impact on the overall level of potential pay. Any proposal which provides for a greater level of certainty of reward should be accompanied by a material reduction in the overall size of awards

The guidelines have also been amended to state that in cases where a serious breach of good practice is identified, ISS may issue a negative voting recommendation against the chair of the remuneration committee (or another member of the committee if appropriate). This applies to both the remuneration policy and the remuneration report.

#### Remuneration Report

ISS recommendations on the remuneration report will now take into account the outcomes from the European Pay for Performance (P4P) model. The European P4P measures alignment between pay and performance over a sustained period, using the following metrics:

- The degree of alignment between the company's annualised TSR rank and the CEO's annualised total pay rank within a peer group, each measured over a three-year period

- The multiple of the CEO's total pay relative to the peer group median
- The alignment between the trend in CEO pay and company TSR over the prior five fiscal years

ISS has previously announced that the European P4P model will now apply to all main market FTSE listed companies. Companies have until 9<sup>th</sup> December 2016 to submit their suggested peer group, which can only consist of European comparators, ahead of the 2017 AGM season. Peer groups which are submitted to ISS, or disclosed publicly, will inform the peer group construction process. However, peer groups used in the P4P model are at the discretion of ISS and may not match the peer group used by the company.

ISS have also amended the guidelines in order to clarify that in termination scenarios, appropriate pro-rating should be applied to outstanding share awards.

### Other changes to UK proxy voting guidelines

#### Clarification of Overboarding Definition

The guidelines now state that ISS recommend a vote against directors who appear to hold an excessive number of board roles at publicly-listed companies. The definition of overboarding has now been clarified as follows:

- Directors who hold more than five non-chair non-executive director positions
- A non-executive chairman whom in addition to this role, holds (i) more than three non-chair non-executive positions, (ii) more than one other non-executive chair position and one non-chair non-executive director position, or (iii) any executive position
- Executive directors holding (i) more than two non-chair non-executive director positions, (ii) any other executive positions, or (iii) any non-executive chair position.

The guidelines also state that a stricter view may be taken where directors serve on the boards of more complex companies, companies in highly regulated sectors or directors who chair a number of key committees. ISS also clarifies that a vote against in this situation would not be applied to a director within a company where he/she serves as CEO or chair but will be applied to his/her additional seats on other boards.

#### Board and committee composition – smaller companies

ISS have announced that from September 2018, the guidelines for AIM companies on board and committee composition will also apply to listed companies which are not a member of the FTSE All Share or FTSE Fledgling indices. The audit and remuneration committees should include independent non-executive directors only, and half the members of the nomination committee need to be independent. These changes bring the guidelines in line with the QCA Code.

**Full details of ISS 2017 proxy voting guideline updates can be found [here](#).**

#### Deloitte view

Following the updated Investment Association Principles published on 31 October, we welcome the flexibility now also provided in the ISS guidelines for companies to operate alternative remuneration structures.

Companies may want to seize the opportunity to input into the peer group used in the P4P analysis, especially given that ISS has indicated that it may have a greater impact on voting recommendations.

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