

This quarter’s broader governance activities seem to have focused on the UK market rather than further afield. There are four significant debates going on at the moment: narrative reporting, remuneration and the binding vote, capping bankers’ bonuses and audit reports. These discussions are relevant to both the UK and a more global audience because regulation is not static. The developments may influence regulatory changes in other regions. A summary of the material facts follows.

Narrative reporting

This work is part of the UK Government’s wider agenda to improve the transparency and corporate governance of UK listed companies. It will affect all reports produced in relation to financial years ending on or after 30 September 2013. The most significant change is the introduction of a Strategic Report. This will apply to all companies and replace the previous Business Review. The report should articulate corporate strategy including principle risks and challenges facing the company, and link this through to the financial statements and remuneration of company directors. Other factors required to be discussed include information on greenhouse gas emissions, human rights, and gender diversity throughout the company. It will be interesting to see what these reports look like; the challenge will be for the companies to produce something that adds colour and perspective and doesn’t add pages of information that provides little additional insight.

Remuneration and the binding vote

In 2012, the UK government introduced proposals that would give shareholders a binding vote on a company’s remuneration policy and require companies to communicate clearly how their remuneration policies are being implemented. In doing so, the government recognised that these proposals needed to be supplemented by best practice guidance. The guidance was published in September 2013. It is a long document but, from our perspective, three recommendations add information to what we currently receive:

- How each component of the remuneration package supports the short and long-term strategic objectives of the company;
- The remuneration policy must include a statement of how pay and employment conditions of employees generally were taken into account when setting the remuneration policy;
- The binding vote should be triennial.

We look forward to seeing how companies and investors respond to the opportunity provided by a binding vote. The hope is that remuneration policies should stand the test of time, clearly align executive reward with the strategy of the company for the long term, and therefore remove the need for any amendment on an annual or biennial basis. Future quarterly voting reports will inform you of how active we are when it comes to voting for or against these policies.



Capping bankers' bonuses

New EU rules to limit bank bonuses were given a final seal of approval earlier this year. There will be a limit on bonuses of no more than the amount of the employee's salary. The one-to-one ratio can be doubled with the approval of a supermajority (66% or 75% depending on what is stipulated in the company's articles of association) of shareholders. The rules will not be applied until January 2014 and so they will not affect bonus payments until early 2015. As we have holdings in European banks in some of the portfolios we manage for clients with which the investment managers and Corporate Governance Team engage throughout the year, the approach of banks to complying with the new rules will be on meeting agendas.

Audit reform

There are several projects underway that may have an impact on the relationships that companies have with their auditor and the information that is presented in the auditor's report as part of the Annual Report and Accounts.

The Competition Commission has had a consultation looking at the frequency with which companies put the audit out to tender. And, separately, the Financial Reporting Lab, an initiative of the UK Financial Reporting Council which aims to improve the effectiveness of corporate reporting in the UK, is currently looking at audit committee reports with a view to making them more informative and useful to investors. Again, the recommendations are yet to be finalised, but the goals of both initiatives are to make the audit process and audit report more informative and useful to investors.

The goal of all this change and development is to improve transparency, insight, align executives and shareholders, and ultimately to help us make better investment decisions on your behalf. This will only happen if the quality of the reporting is good, and if the people writing the reports look to provide colour and context without allowing the reports to become excessively long or incorporate provisos and standard wording. The next two years might see Annual Reports develop into more interesting thought provoking documents, or they may increase in length by 20 or 30 pages. All these topics will feature in future meetings with executives and non-executives and we will endeavour to keep you up-to-date with progress made by regulators and corporates. We will be promoting transparency and insight.

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Company	Engagement Report
Inditex	Following a meeting with management in May, our engagement with Inditex continues. We have spoken to the Head of Corporate Responsibility and expect to follow up the discussion about the company's supply chain with wider sector engagement. Our focus will be on the broader industry response to the increased number of factory fires being reported. This project is ongoing.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	3	Companies	None	Companies	None
Resolutions	35	Resolutions	None	Resolutions	None

Recent attention in the UK has focused on reporting, remuneration, bankers' bonuses and audit reports

These developments may influence regulatory changes in other regions

Company Engagement

Engagement Type	Company
Corporate Social Responsibility	Inditex
Executive Remuneration	ARM Holdings

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Votes Cast in Favour

Companies	Voting Rationale
Burberry, HDFC, Inditex	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.