



UK Executive Pay & Governance

New ISS Proxy Voting Guidelines for 2018 AGMs

November 2017

On 16 November 2017 ISS announced [details](#) (click for link) of the changes it intends to apply to its UK & Ireland voting guidelines for 2018. **The changes are limited and so for most companies, there is no immediate action required.**

The full updated guidelines will be published later this year and will apply to AGMs held on or after 1 February 2018.

Executive Remuneration

From a pay perspective, the **key takeaway is that ISS will be focusing more on threshold vesting levels for LTIPs.** The updated guidelines refer to 25% as the maximum typically accepted for threshold vesting. However, **“as much as 25% may be considered inappropriate if LTIP grants represent large multiples of salary.”** The guidelines go on to say that “other issues will be taken into account such as how challenging the threshold targets are, and the positioning of salaries and remuneration levels in general.”

ISS explains that this change is intended to provide appropriate flexibility when assessing remuneration resolutions.

Other Changes

- ISS is clarifying the wording of its policy on **“overboarding,”** among other things making it clear that it may oppose the election or re-election of a board chairman who holds three or more chair roles.
- Minor wording changes are also being applied to the guidelines on audit and remuneration committee composition (although there are no new voting implications).
- ISS may now recommend votes against general authorities to disapply pre-emption rights at companies which have used “cashbox” structures

to issue new shares above the authority approved at the previous year’s AGM. Cashbox mechanisms are a way in which companies have traditionally been able to raise cash by issuing shares outside of the conventional framework of investor pre-emption guidelines.

- ISS has confirmed that it will not recommend support for amendments to articles of association which permit companies to hold “virtual-only” shareholder meetings (e.g. AGMs which are held online with no physical meeting).

Our View

- The issue of threshold vesting levels in LTIPs has been important for some investors for a number of years so it is perhaps not surprising that ISS is increasing the focus on this area. There may be some frustration that ISS does not specify the LTIP grant size for which a 25% threshold vesting level is considered too high.
- Our expectation is that ISS will primarily consider recommending votes against resolutions where LTIP levels are very high compared to the market in general. This will typically be an issue for FTSE 100 companies (and possibly some in the FTSE 250) where grant levels are 300% of salary or higher, and may be a particular concern if performance targets are being reduced and/or ISS has raised issues with remuneration in 2017. Companies with lower levels of award should not be unduly concerned at this stage, although we will keep a close eye on how ISS applies this new guideline and will issue further updates as required.
- In contrast to the revised Principles of Remuneration recently issued by the Investment



Association, ISS has not made any updates to its guidelines on the acceptability of alternative pay models such as restricted shares. This in part reflects the ongoing lack of a consensus among ISS clients on this issue. Companies who are considering a new model should continue to tread carefully and ensure ISS and major investors are fully engaged in the process.

- The absence of material policy changes on remuneration means that monitoring what ISS does in practice remains critical. The application of the voting guidelines does change over time and companies should expect ISS to continue to get tougher on issues such as annual bonus target disclosure (see our [briefing note](#) issued on 6 November for further details; the note also covers the updated IA Principles). In addition, where a number of minor issues have been raised by ISS for multiple years but no improvements noted, there is a risk that it may move its stance to an “against” recommendation. We encourage companies to review the ISS report on their 2017 AGM as a matter of course when planning for 2018.

Want to know more?

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