

# 2018 AGM season outlook

KPMG Board Leadership Centre



While some were forecasting fireworks, the 2017 AGM season turned out to be far less contentious than might have been expected given the fierceness of debate earlier in the year around executive remuneration matters, both amongst both the investor community and wider general public.

In the end, just two FTSE 350 Remuneration Reports were rejected by shareholders, those of Pearson and Crest Nicholson, and all remuneration policy resolutions were passed by shareholders. Detailed report [here](#).

Whilst this might suggest an air of 'business as usual' on remuneration matters, it is also apparent that companies have in general been listening to shareholders, in part because of the greater dialogue required over the course of the year with the binding vote on remuneration policy required by a majority of companies. This increased shareholder dialogue led in some cases to modifications to remuneration plans, which in turn helped companies to achieve a greater level of shareholder support.

So with all thoughts now turning to the 2018 AGM season, will this be the year that we see fireworks? Well, if they are to mitigate them, we believe there are five key themes that boards will be considering as part of the AGM planning process.

- Firstly, **remuneration** will undoubtedly continue to be a key focus of investor attention, not least because of ongoing public and government pressure. Any RemCo that uses discretion in an upward direction as regards pay is likely to find itself in a difficult situation, regardless of the justification. To this end, the Investment Association, in its updated Principles of Remuneration, highlighted that its members expected to see pay restraint from FTSE 350 companies.
- However, the **disclosure of pay ratios** by companies, for which the government is expected to legislate in the coming months, will also add to the remuneration debate. The Investment Association highlights that its members now expect companies to disclose the pay ratios between the CEO and median or average employee as well as between the CEO and the Executive team. This pay ratio reporting comes on top of the gender pay gap disclosures, where there is a 4 April 2018 deadline.

- **Board composition** will also continue to be a focus, in the wake of the Hampton-Alexander target of 33% women on FTSE 350 boards by 2020. The need for a healthy pipeline of potential candidates for the board is further challenged by the Parker Review, which called for each FTSE 100 Board to have at least one director from an ethnic minority background by 2021 and for each FTSE 250 Board to do the same by 2024.
- The **disclosure by institutions of their voting records**, as required by the Stewardship Code, has shone a light on some very different voting patterns. For example, Aviva Investors disclosed that it voted against almost half of the FTSE 350 Remuneration Report resolutions in 2017, and one third of the Remuneration Policy resolutions. In contrast, BlackRock's voting record revealed that it was far more supportive of companies, with BlackRock voting in favour on more than 90% of the remuneration related AGM resolutions at FTSE 350 companies last year. The shape of a company's share register therefore plays an important part on the overall vote outcome.
- Finally, the **revised UK Corporate Governance Code**, upon which the FRC is currently consulting, raises the issue of director independence. The current proposal on the table is that board tenure of more than nine years, including the chair, would make a director automatically non-independent, a stance that could mean that a substantial number of companies becoming non-Code compliant overnight. This compares to the current position which only requires that directors are independent on appointment. Such a change has the potential to upset the independent/non-independent balance of many UK boards, and could prompt a number of boardroom shake-ups. As the FRC looks to finalise the revised Code in the summer,

For any enquiries please contact:



**Colin Watts**

Director

KPMG Makinson Cowell

[colin.watts@makinson.cowell.co.uk](mailto:colin.watts@makinson.cowell.co.uk)

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