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News

Annual review of corporate reporting

In times of heightened uncertainty, businesses need to be agile, continually reassess evolving risks and ensure that these are reflected in their business strategy and disclosed in their annual report and accounts. The FRC has published its *Annual Review of Corporate Reporting 2021/2022*. The Report reviews the quality of corporate reporting by FTSE 350 companies, highlights the most frequently raised topics where improvements are needed and sets out the FRC's disclosure expectations for 2022/2023.

Financial reporting

Despite the challenging environment, the quality of FTSE 350 corporate reporting has been maintained. There were improvements in companies' reporting of judgements and estimation uncertainty, impairment of non-financial assets, alternative performance measures (APMs) and revenue.

However, scope for improvement remains in some areas of financial reporting, particularly financial instruments and deferred tax. The number of restatements prompted by the review nearly doubled in 2021/22. Many of the errors could have been picked up by robust pre-issuance reviews. Cash flow statements remain an area of considerable concern: almost twice the number of errors were found, compared with 2020/21.

Climate-related reporting

There has been a significant advance in climate-related reporting with the introduction of a Listing Rule requiring premium listed entities to provide, on a comply or explain basis, disclosures consistent with Taskforce for Climate-related Financial Disclosures (TCFD) recommendations. Larger premium listed companies more impacted by climate change had generally risen to the challenge of mandatory TCFD reporting and were mostly able to provide the disclosures 'particularly expected'. A significant number of companies referred to the impact of climate change and climate transition in their financial statements, although these disclosures were often quite generic.

Strategy reporting

Consistent with recent years, the FRC challenged fewer companies about whether their strategic reports were fair, balanced and comprehensive. However, in some cases, the financial review focused on the company's financial performance, with limited or no information on significant movements in the statement of financial position or cash flow statement.

Companies were challenged where information was omitted or lacked specific detail about matters of significance to the company, such as prior year restatements, government funding and climate-related matters.

In several cases, the annual report and accounts of large private companies did not include a statement about the company's engagement with suppliers, customers and others in a business relationship, and the effects on the principal decisions taken by the company during the year.

Alternative performance measures reporting

Companies have responded well to the investor need for improvements in the quality of APMs reporting. The most common query raised by the FRC related to reconciliations for APMs and the potential undue prominence given to these measures. In some cases, however, reconciling items did not agree with the corresponding amounts in the financial statements. Explanations or calculations for certain APMs were not provided, such as financial ratios.

Key sections of the annual report (or interim report), such as the Chair's statement and CEO's review, focused only on adjusted measures or did not discuss corresponding IFRS measures. Covid-19 related items were included as 'adjusting items' without explaining how they were identified and quantified, or how any potential future reversals would be tracked. Multi-year restructuring programmes were referred to as 'one-off' or 'non-recurring' and information covering costs to date, total expected costs and timeframes was not provided.

Expectations for 2022/23

The FRC has overall expectations for disclosure in 2022/23, including:

- unambiguous description in the strategic report of risks facing the business, their impact on strategy, business model, going concern and viability, cross-referenced to relevant detail in the reports and accounts;
- specific, balanced and well-integrated information about the impact of climate change on the company in narrative reporting, and appropriate reflection of material climate-related commitments, risks and uncertainties in the financial statements; clarity about the relationship between assumptions and sensitivities considered in any TCFD scenarios and those applied in the financial statements;
- impairment disclosures that assign values to, and explain how, key assumptions have been determined, with reference to future expectations regarding external conditions and company strategy;
- clear disclosure of significant management judgements and key assumptions underlying major sources of estimation uncertainty, including information about sensitivity of reported amounts to changes in assumptions;
- company-specific information that meets the disclosure objectives of the relevant accounting standards and not just the specific disclosure requirements; additional information should be included where needed to understand the impact of particular transactions, events or circumstances;
- clear, concise and understandable disclosure that omits immaterial information.

For the full Report go to: https://bit.ly/3NHDfhW

News

Board role in addressing volatility

As companies continue to deal with volatility and a knot of recessionary pressures, the board's evolving role is more important than ever, according to a recent report published by BDO. The *2022 BDO Fall Board Pulse Survey* polled 247 public company directors about their top priorities and challenges. Five key areas were highlighted:

1. driving growth remains the top priority for boards;
2. supply chain challenges continue to threaten economic and operational success;
3. boards are adjusting strategies to address inflation and rising interest rates;
4. talent acquisition and retention still pose a significant risk; and
5. as boards focus on ESG considerations, assignment of responsibility varies.

Driving growth

Addressing the needs of a broad range of stakeholders whilst also supporting growth requires alignment and clear communication between the board and management. Sixty-two per cent of those surveyed say their top strategic priority for the next 12 months is driving organic and inorganic growth. Achieving that goal calls for a proactive approach, due to volatility and persistent challenges, and a disciplined focus on strategic priorities. Businesses that thrive are typically those with both strong management teams and boards that provide keen oversight and insist on accountability.

Barriers to success

Whilst all businesses face a range of risks, those risks can vary in order of priority. Twenty-eight per cent of directors see supply chain issues as the biggest challenge to their economic and operational success in 2022, ahead of both inflation and recruitment. Other significant challenges to economic and operational success were cited as: another wave of Covid-19 cases; interest rate increases; and competition.

Twenty-three per cent of directors say supply chain disruption is their single greatest business risk for the next 12 months, just behind talent acquisition and retention and recessionary declines in product/service demand. There are a number of steps businesses can take to mitigate supply chain issues, including diversifying suppliers, refining demand forecasts, automating processes and leveraging technology for greater end-to-end visibility. However, although leveraging technology may be a key component of overcoming challenges, only 11% of board directors say expanding technological advancement is their primary strategic priority in the coming year.

Adjusting strategies

It is particularly important for boards and management to align priorities, key objectives and execution of strategy. Inflation and rising interest rates have hampered businesses for months. To overcome these obstacles, companies are deploying a range of strategies, including: increasing liquidity; adjusting compensation packages; rethinking M&A strategies; looking for additional capital; reducing capital expenditure; deferring investments; and rethinking products and services launches.

Recruitment and retention

Recruitment and retention remain a significant focus for boards: Twenty-five per cent of directors indicate their greatest business risk for the next 12 months is talent acquisition and retention. Offering competitive compensation is a critical part of those efforts. In fact, 72% say their company has adjusted compensation packages to help attract and retain talent. However, 24% say their company has adjusted the compensation strategy in light of high inflation and rising interest rates. There are other factors that attract and retain talent beyond compensation. Fifty-six per cent of directors say their company is re-imagining strategies for hybrid and remote working and 38% are enhancing employee benefits. As competition for talent continues to pose a threat to businesses, boards and compensation committees are taking a more active oversight role in human capital matters.

Assigning ESG responsibilities

As companies seek to mitigate ESG risks and uphold ESG commitments, board oversight has evolved to address it, but assigning responsibility within the board varies widely. The Report indicates that various board committees are being charged with ESG oversight:

- nomination and governance committee (57%);
- audit committee (35%);
- compensation committee (22%); and
- risk committee (12%).

Only 13% of boards have created a dedicated ESG committee. Some respondents also noted that ESG is an area where responsibilities extend across multiple committees or even across the entire board.

Looking ahead

As companies deal with a range of macro-economic and organisational challenges, board oversight has taken on even greater importance. Directors are meeting these challenges proactively. Boards are working with management to adjust strategies and priorities, whether on growth goals, supply chain issues, recessionary pressures, compensation or ESG. Companies that clarify key business objectives, that are held accountable by their boards and that report, and engage with stakeholders, on their progress in a timely manner, will be well-positioned to weather volatility and build competitive advantage.

For the full Report go to: https://bit.ly/3UpgH7B

International

CEO outlook

Chief executive officers (CEOs) have confidence in their companies' resilience and are relatively optimistic about growth prospects, according to a recent report. The *KPMG 2022 CEO Outlook* draws on the perspectives of 1,325 global CEOs across 11 markets to provide insight into their three-year outlook on the business and economic landscape. Four key themes have emerged: economic outlook; technology; talent; and ESG.

Economic outlook

CEOs are prepared for current geopolitical and economic challenges while still foreseeing long-term global growth. Eighty-six per cent anticipate a recession over the next 12 months, 58% expecting it to be mild and short. Seventy-three per cent believe that a recession will disrupt anticipated growth, however three quarters have already taken precautionary steps and have plans in place. Despite these concerns, there is confidence in longer-term global economic growth and their own companies' growth prospects over the next three years. Geopolitical uncertainties are likely to continue to impact strategies, with 81% of CEOs adjusting, or planning to adjust, their risk management procedures.

Technology

CEOs are directing digital investment to areas of their business that drive growth, particularly partnerships and preparedness. While current uncertainty is driving CEOs to continue to prioritise digital transformation, 40% of businesses have paused their digital transformation strategies and another 37% plan to do so in the next six months. Longer-term, more than a quarter believe that advancing digitalisation and business connectivity is also vital to achieving growth objectives over the next three years. Seventy-four per cent also agree that their organisation's digital and ESG strategic investments are inextricably linked.

Cyber security has dropped out of the top five risks to growth over the past year, only 6% of CEOs naming it as their top risk. However, the cyber environment is evolving quickly and 77% see information security as a strategic function and a potential source of competitive advantage. Geopolitical uncertainty is also raising concerns of corporate cyber attacks, according to 73% of CEOs, though 24% recognise that they are under-prepared.

Talent

CEOs are changing how they support and attract talent and are focusing their efforts on their people and experimenting with ways of working. The employee value proposition to attract and retain the necessary talent is tied as the top operational priority to achieving three-year growth objectives. In the short term, 39% of CEOs have already implemented a recruitment freeze and 46% are considering downsizing their workforce over the next six months. However, the three-year view is more optimistic with only 9% expecting a further reduced headcount.

'Seventeen per cent of CEOs indicated that their top challenge in communicating ESG performance to stakeholders was stakeholder scepticism around greenwashing.'

The percentage of C-suite executives who believe that having the right talent and skills is key to achieving goals is increasing. Twenty-two per cent say a lack of skills and expertise is hindering the implementation of solutions.

ESG

Global CEOs recognise the importance of ESG initiatives to their businesses, especially in improving financial performance and driving growth. However, as economic uncertainty continues, they are balancing the need to build resilient and transparent ESG plans with the possibility of having to pause or reconsider their approaches in the next six months. Thirty-four per cent have already done so.

CEOs increasingly see reporting and transparency as important to their ESG goals, including insight into their broader supply chain. Global businesses are also seeing major focus on the social aspect of ESG. Sixty-nine per cent of senior executives noted greater demand from stakeholders for increased reporting and transparency on ESG. Sixty-eight per cent believe progress on inclusion, diversity and equity (IDE) has been too slow and 73% believe scrutiny of IDE performance will continue to increase over the next three years.

Seventeen per cent of CEOs indicated that their top challenge in communicating ESG performance to stakeholders was stakeholder scepticism around greenwashing. Thirty-eight per cent of CEOs say their organisations struggle to articulate a compelling ESG story. Seventy-two per cent also believe that stakeholder scrutiny of ESG issues will continue to accelerate.

Risks

Emerging and disruptive technology is cited as the top risk to business growth over the next three years. CEOs have also identified other areas as top risks to growth: reputation, regulatory and operational issues and climate change. Reputational risk, such as a misalignment with customer or public sentiment, is raising more concern among CEOs. In response to geopolitical challenges, 51% of businesses have stopped working with Russia and 34% plan to do so over the next six months.

For the full Report go to: https://bit.ly/3G6WeQW

Global News

Broadening disclosure

Investors are seeking disclosures that cover more aspects of diversity, culture and climate commitments, according to the Chartered Governance Institute UK and Ireland (CGI). Key themes were identified in the stewardship reports of the largest 20 institutional investors, by Luminous. CGI then applied each theme to the largest 40 companies by market capitalisation in the FTSE 250.

ESG: ESG is no longer confined to a dedicated ESG section of the annual report but is increasingly integrated into all key parts. In particular, the rising awareness of climate-related risk is reflected in the strong representation of ESG in risk management, where climate change is now a principal risk. Moreover, ESG is frequently linked to executive remuneration, either directly through KPIs or indirectly by including non-financial performance metrics in LTIPs, bonuses or executive scorecards.

Human capital: Most companies explain their approach to human capital, including board engagement with the workforce, and monitor satisfaction. The narrative is typically framed around the commitment to an inclusive and rewarding culture. This is evidenced by the number of companies that report initiatives to promote diversity and talent development. However, a lack of metrics and targets makes the success of these initiatives difficult to assess. Company priorities appear to be talent retention and maintaining existing levels of productivity as they transition to hybrid working.

Diversity: Lack of measurability is particularly evident when it comes to increasing diversity in the workforce. Only a minority of companies have set targets and, while many have employee-related KPIs, this is not the case for diversity-related KPIs. Moreover, diversity is skewed towards gender. Almost half of companies do not mention ethnic diversity in the workforce, only three companies disclose their ethnicity pay gap, and most companies do not disclose age diversity. However, most companies have set targets for increasing diversity at board level or at least aspire to include diversity in succession planning.

Culture: The majority of companies consider their values and culture important enough to explain them in their annual report. They also view them as closely linked, typically describing their values as shaping or underpinning their culture and even their code of conduct, if they have one. However, only a minority monitor culture using external metrics and almost two-thirds do not disclose their metrics at all.

Barriers to senior leadership

The FRC has published a report, *Navigating barriers to senior leadership for people from minority ethnic groups in the FTSE 100 and FTSE 250*, that looks at challenges minority ethnic individuals might experience in progressing to FTSE 100 and FTSE 250 boards. It also looks at how companies are reporting on initiatives. Challenges include being overlooked for promotion, overt and covert racism, and having to demonstrate higher standards of performance compared with colleagues from majority backgrounds, to progress or have the same development opportunities.

While there are still significant challenges to be addressed, the need for change has been taken seriously by senior managers, executive leaders, board Chairs and executive search consultants. Many FTSE 350 companies reported using data collection activities to start, refresh or continue their diversity initiatives. However, companies tended to group diversity initiatives in their annual report, often not clearly linking them to specific diversity objectives.

Across the FTSE 350 initiatives linked to governance, such as setting up a steering committee or task force, were some of the most frequently-reported actions. However, these were sometimes targeted at broader diversity strands, rather than having a unique focus on ethnicity.

Companies reported on the use of targeted programmes to support development and leadership capabilities of high potential individuals from under-represented groups. However, there was limited reporting on design and content of targeted race and/or ethnicity programmes and programmes rarely had explicit outcomes relating to company diversity objectives.

Few companies presented their race action plans in any depth. Better quality reporting stated both broad objectives and specific actions, as well as parameters for implementing change. Reporting on appointments, beyond oversight of diversity and inclusion, was limited.

There were many examples of companies publicly reporting their targets, pay gaps or performance metrics as evidence of actions they have taken. However, limited examples were found of reporting initiatives that would help companies to meet their objectives.

Board level initiatives were primarily focused on recruitment, succession planning, talent mapping, working with external search consultants and board level targets for race and/or ethnicity. The only initiative reported that had demonstrable impact was the intentional recruitment of individuals from minority

Feature

Non-exec pay

Fiona Hathorn considers why share-pay for non-execs is at odds with the quality of governance.

Whilst we often look at a board as a single entity, the truth is that individual members who comprise it determine its quality to a large degree. High-quality, motivated non-execs are a key component. We are all motivated in different ways, and whilst it is best practice when recruiting anyone today to understand motivations, I see very few boards doing quality board performance evaluations to get to the bottom of what motivates their board members.

The question of incentivising non-execs with share options has been raised afresh in recent weeks with me, with many suggesting non-execs need 'skin in the game' via shares. Which begs the question – why would a non-exec pay that extra bit of attention, or give that extra time, if they have 'skin in the game'? And why would shareholders have more confidence in them, if they had some capital tied to the business' fortunes, over and above the personal risk that all non-execs have should things go wrong?

In considering my answer, I am highly fortunate to have our Women on Boards Directors' Circle, a community of highly experienced non-execs, to call on for a broader perspective. Whilst unsurprisingly viewpoints vary on many topics, on the question of increased share options for non-execs the collective view was very much towards the negative. In fact, one member went so far as to consider it 'a dangerous and retrograde step' – and I am inclined to agree.

Looking back over the past decade, since we established Women on Boards in the UK, I have seen the governance trends inexorably move towards a greater focus on ESG and increased consideration of the importance of diversity of thought. So, I fear that remuneration of non-execs in shares work against both these trends as not all non-execs can afford to buy shares and or accept their pay via share options. Requiring non-execs to invest presupposes that those eligible for the role have independent financial means to invest, or to accept a nil or reduced cash payment.

The value in allying non-execs' interests with shareholder interests suggests that what shareholders want and what is good for the company long-term are one and the same. In situations of insolvency, directors' first duty is to the creditors not shareholders (including potentially themselves). In successful companies, increasing ESG requirements are – rightly in my view – pushing the board's perspective to long-term sustainability, which can at times be at odds with short- or even medium-term shareholder return.

Of course, there are many nuances to this. Safeguards, such as fixed terms of non-exec shareholdings and maximum percentages of share remuneration, can and do limit the worst excesses in territories where non-exec share remuneration is the 'norm'. Yet, even with these limitations, I fear share remuneration for non-execs locks in a narrow shareholder primacy model of governance which is increasingly outdated.

The start-ups sector is the one area in the UK where non-exec equity is increasingly standard practice. I do consider there to be a good reason for this – both in demonstration of confidence in the future success of the firm which is absolutely critical at early-stage and the simple fact that most start-ups cannot afford to pay non-execs a fair allowance. Plus, as one member reflected on her experience of a start-up insolvency, the share-holdings did not create a conflict for the board members in large part, as they were virtually worthless at that point.

Yet, in most cases, I'm delighted to say that gone are the days boards were playgrounds for retired, wealthy financiers. Of course, those from this background have significant value to offer boards but there is by now a well-established body of research to show a range of perspectives around the board table is important. This speaks to demographic diversity, in terms of gender or ethnicity for example, but also diversity in background and professional experience. Those from the public or non-profit sectors, mid-career professionals or simply retirees who have not amassed significant sums also have plenty to offer the right board. They do, however, require reasonable remuneration for their time. Enabling people from all backgrounds to compete for board seats means offering a fair pay.

Finally, if the question we are trying to answer is 'how do we ensure non-exec motivation?' I consider that looking at remuneration is looking in the wrong direction entirely. Whilst a fair level of pay is important, most portfolio non-execs are getting a considerably lower income than that they could command in an executive role. In speaking to our members we actively match with roles through our Bespoke Non-Executive Search Service, my team find that remuneration tends to be a footnote, not a focus, of the conversation. Instead, our most qualified candidates want to know if their contributions will be respected, if the culture is one they will enjoy and if they will ultimately be able to make an impact which resonates with their personal values.

Putting these factors in place is key to retaining motivated, quality non-execs. As for finding them? I would always recommend an open, robust and competitive process which includes these factors in candidate assessment from the outset.

Fiona Hathorn is CEO and co-founder of Women on Boards UK

Feature

Board effectiveness reviews

Chris Stamp and **Ian White** look at maximising the value of external board effectiveness reviews.

Board effectiveness reviews are now the norm for boards wanting to enhance their governance and operation. However, they are a big commitment in both terms of time and money. How do you maximise the value from your review? And how do you choose the right reviewer for you especially with so many possible providers? This was something discussed at a webinar run jointly by *Governance* and the Board Effectiveness Guild www.boardeffectivenessguild.co.uk

The webinar considered the following aspects of reviews:

- Getting the planning and scoping right.
- Choosing the best approach.
- Asking the right questions in the right way.
- Developing a good action plan.

This article considers the first two of these while next month the final two will be discussed.

Getting the planning and scoping right

The first matter is to decide what type of review you want. Given that you will be committing quite a considerable amount of time and money on any review, it is worth ensuring you are going to get some real value out of the process. So it is best to avoid a box ticking exercise just so that you can confirm in your Report and Accounts that you have undertaken the exercise. We often hear requests for a 'light touch review' but this is a false economy (and often what is really being asked for is a 'cheap' exercise in terms of cost) – you usually get what you pay for and a really good board reviewer won't want to engage in this type of activity. Make sure you have a review you can use and implement. You wouldn't appoint a 'light touch' non-exec (or at least we hope you wouldn't!) and the same principle applies here.

Second, most review proposals will include a range of components – questionnaires, interviews, observations, and paper reviews to name but a few. You may not want or require all of these but of all the stages, the one-to-one interview (preferably face-to-face but also virtual) is the most important. Indeed this is something recognised by the FRC:

'Questionnaire-based external evaluations are unlikely to get underneath the dynamics in the boardroom.'[1]

So while some components may be optional, it is essential in our view to include interviews, both of board members and regular attendees and perhaps some stakeholders. We would also suggest that the observations of the boards and committees are a critical part of an effective review. This is the opportunity for the reviewer to see how the board gels and operates together – how the Chair conducts the meeting.

Third, look at a range of providers – perhaps a long list of six whittled down to three or four providers to interview. While the reviewer needs to be objective and independent, you want someone who has the credibility and gravitas to enter the boardroom and work with the board and executives on what is, after all, a very important project. Recommendations from other board members do, of course, carry a lot of weight but it is important not to narrow the field too much as well as to ensure you take references about the preferred provider.

Finally, once you have selected a reviewer, the next thing to do is to scope the review. The importance of doing this properly cannot be overemphasised. It is a bit like the contracting stage in coaching: it may take some time and a few attempts to finalise this (and you may have to revisit along the way) but without doing this well, the whole process runs the risk of not working effectively. In addition, in regulated sectors the regulator may well want to see the scope. Skilful scoping means that there is a clear understanding and agreement of the objectives of the review; clarity on who is leading and who are the contact points; regular reporting on progress and defined and agreed timelines. The latter is important: Board Effectiveness Reviews work best over a three or four months' time period: less than this makes the process rushed (and it is difficult to arrange diaries); longer and there is a risk of losing momentum. It may be worth sending the scope to all board members to ensure that they are fully aware of the process too.

Choosing the best approach

The objectives of a review and the methodologies often benefit from being considered in tandem with each other when scoping out an externally-facilitated review. The different methodologies used by board reviewers provide different options for gaining perspectives on the board or committee being reviewed and therefore it is worth considering which approach or combination of approaches are most appropriate for the proposed review given the scope and objectives.

As the FRC quote above indicates, there are natural advantages inherent in interviews which make them a valuable tool for externally-facilitated board evaluations. However, it is useful to recognise the advantages of the different approaches that may be on offer and considering how useful they might be given the objectives of the review in question. It is rare for a board review to just use one approach, there are usually combinations of one or more methods which can add different dimensions and slants to the review which together shed a more powerful light on the board in question just as the combination of different lights is better for illuminating a stage than a single spotlight.

Feature

The advantages of the four most common methodologies used in board reviews can be summarised as follows:

- *Interviews:* As the FRC notes, interviews allow the reviewer to 'get underneath the dynamics of the boardroom'. They are a useful mechanism for exploring the issues in detail and immediately responding to significant comments and observations with follow-up questions. They are time-consuming for the reviewer (both in preparation and in conducting the interviews) and demand more engagement from the interviewees although this can be facilitated by well-structured interview questions and an engaging interview style.

- *Questionnaires* by contrast are quick and relatively easy to complete and they are useful in facilitating quantitative analysis where that is an important objective of the review. However, questionnaires make it easier for participants to avoid or skirt over uncomfortable topics. They also limit the scope for the thought processes underpinning negative feedback to be explored and understood.

- *Board or committee observation* allows the meeting dynamics to be reviewed first-hand and can be a useful for validating or further illuminating traits identified through interviews or questionnaires. There is a danger that board members may behave differently with an observer in the meeting although where this might be a danger, experience suggests that boards soon default to usual behaviours fairly quickly enabling the board observer to gain a 'true view' of the dynamics of the board in question.

- Some boards are particularly keen to understand how they compare to other boards and *quantitative analysis* is useful in this connection. Whilst this approach provides objective data for boards to compare themselves to others, such data will not necessarily focus on the key issues or the root causes. Further qualitative analysis will therefore be required.

Whichever approach or approaches are adopted, using different methodologies for an externally-facilitated review compared to previous internally-facilitated reviews will greatly enhance the incremental value of the externally-facilitated review because of the different perspectives that they bring.

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Chris Stamp is a governance professional, board evaluator and business adviser with a strong understanding of corporate governance in UK listed companies built up over more than 30 years. In 2002, he set-up Prism Cosec, a leading company secretarial practice which was acquired by Equiniti Group in 2012. He now provides governance advice and board evaluation services to listed companies.

They are both founder members of The Board Effectiveness Guild, a group of experienced and independent board evaluators who have come together to enhance the value of board effectiveness reviews by sharing best practice with each other and contributing to the wider debate on excellence in corporate governance. Find out more at https://www.ceradas.co.uk/

1. Guidance on Board Effectiveness (2018) Paragraph 112

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Feature

Virtual/hybrid AGMS

Fiona Chalmers reports on research into the 2022 AGM season which shows that the share of AGMs held as hybrid has almost tripled but the format remains uncommon.

Fully-virtual shareholder meetings have largely retained their popularity globally among clients during the 2022 AGM season despite the relaxation of restrictions on meeting in person in some jurisdictions, Computershare has revealed.

During the 2022 AGM season, 28.3% of AGMs held around the world by clients of the global issuer services provider have been organised virtually, compared to 30.9% in the 2021 season, Computershare said.

Nevertheless, in-person meetings remain the most common among Computershare clients, representing around two-thirds of total meetings held in both the 2021 (67.7%) and 2022 (68.3%) AGM seasons.

Computershare said the figures were drawn from meetings held by clients in six areas: the US, Hong Kong, Canada, Continental Europe, Australia and New Zealand as well as the UK, Channel Islands and Ireland.

Hybrid AGMs – which allow shareholders to attend in person or virtually – experienced the biggest proportional change, moving from 1.3% to 3.4% of all meetings held globally.

However, the vast majority of this change was experienced in Hong Kong, where the proportion of AGMs held as hybrids moved from 0.1% to 5.7%, largely as a result of ongoing pandemic-related restrictions.

‘Two years ago, Computershare helped issuers around the world pivot towards hosting virtual annual meetings to comply with temporary pandemic-related regulations and safeguard the health and safety of shareholders and stakeholders,’ said Naz Sarkar, Global CEO of Computershare Issuer Services.

‘Today, our data suggest that companies in countries where Covid restrictions were lifted within the first quarter of the year, such as in the US and Continental Europe, have favoured in-person meetings during 2022.’

‘Virtual and hybrid meetings were more common among Computershare clients in regions where Covid-related restrictions were lifted later in the year – including UCIA, Canada, Hong Kong, Australia and New Zealand.’

‘Notably, we also observed a rising trend of virtual-only meetings amongst recently listed issuers.’

‘Virtual, as well as hybrid meetings, can contribute to the reduction of greenhouse gas emissions, which may become a measurable disclosure for a company’s Net Zero pledge.’

The US
The US experienced a stronger resurgence of in-person meetings than many other jurisdictions, with the proportion held in a traditional format increasing by 7%, the proportion held fully virtually decreasing by 5.2% and hybrids stopping among Computershare clients completely.

‘In the US, Computershare issuers pivoted back to in-person meetings, especially when the business could take advantage of an opportunity to showcase its consumer goods or high-cost equipment, such as farming equipment or truck manufacturers,’ said Ann Bowering, CEO of Computershare Issuer Services in US.

‘The ability to show physical products allows issuers to give shareholders specific insight into the company’s strategic direction.’

Canada
Canada broadly moved in the opposite direction, however, seeing a 6.1% decrease in the proportion of meetings held in person. The market also saw the greatest increase in the proportion held virtually (5.7%) and a 0.4% increase in those that were held as hybrids.

‘We saw a distinct growth in virtual meetings in the Canadian market this year, which may indicate a preference for how AGMs are hosted in future years, but it’s too soon to tell for sure,’ said Irfan Motiwala, CEO of Computershare Issuer Services in Canada.

‘More companies are beginning to recognise the value of virtual AGMs as they enable a much broader shareholder engagement opportunity regardless of where they are based.’

Australia and New Zealand
Amongst the markets, the second highest increase in the proportion of meetings held virtually (2.8%) and as hybrids (2.5%) took place in Australia and New Zealand, where the AGM season is ongoing.

Virtual meetings have accounted for 45.3% of Computershare’s 2022 client meetings and hybrid accounted for 6.3%.

Nearly half (48.4%) of Computershare client meetings in Australia and New Zealand have been held in person: a 5.3% proportional decrease from 2021.

‘With the strict border controls and extended lockdowns during the Covid pandemic in Australia and New Zealand, companies quickly pivoted to a virtual AGM format with strong shareholder

Feature

‘The pre-pandemic trend of allowing pre-submitted questions has continued, and we’re also seeing shareholders submitting higher volumes of proxy instructions online, which we expect to continue into 2023 and beyond.’

participation, such as lodging proxy votes,’ said Marnie Reid, CEO of Computershare Issuer Services in Australia and New Zealand.

‘Since restrictions have lifted, some companies have elected to return to in-person meetings, but experienced lower attendance than meetings before the pandemic.’

‘A significant majority of companies are electing to conduct a hybrid meeting format to encourage broader participation.’

The UK, Ireland and the Channel Islands

There was a further move towards hybrid and virtual meetings in the UK, Ireland and the Channel Islands, with the proportion being held in person decreasing by 4.0%.

The percentage held as hybrids across the three jurisdictions experienced the largest increase outside of Hong Kong (2.9%), with the proportion held virtually also seeing an increase (1.1%).

‘In the UK market, we saw a notable increase in companies adding an element of electronic engagement into their events,’ said Mark Cleland, CEO of Computershare Issuer Services in the UK, Ireland, the Channel Islands and South Africa.

‘The pre-pandemic trend of allowing pre-submitted questions has continued, and we’re also seeing shareholders submitting higher volumes of proxy instructions online, which we expect to continue into 2023 and beyond.’

‘UK companies that want to switch permanently to online environments are finding ways of showing the long-term engagement benefits of online meetings to senior executives to effect cultural change inside organisations.’

Hong Kong

Hong Kong experienced the second-highest decrease in the proportion of AGMs held in person (-7.0%) as well as a 1.4% increase in those held virtually.

Nevertheless, with 92.9% of its meetings being held in person, Hong Kong remains the jurisdiction with the highest proportion of Computershare client AGMs being held in a traditional format.

The jurisdiction also experienced the largest increase in the percentage of AGMs being held as a hybrid – although from a very low original position (0.1% to 5.7%).

‘We are pleased that many issuers made use of our virtual and hybrid meeting solutions this year, while others took the “wait and see” approach,’ said Richard Houng, CEO of Computershare Issuer Services in Asia.

‘Significantly, more clients chose to combine the benefits of both online and traditional, in-person meetings by running hybrid meetings, and their popularity may continue to grow in Hong Kong as they become seen as the “new norm”.’

Continental Europe

Continental European countries witnessed the largest increase (18.6%) in the proportion of meetings held in person, with the largest difference between 2021 and 2022 (25.2% to 43.8%, respectively).

Despite this change, the proportion of meetings held in person by Computershare’s CE clients remained lower than anywhere outside of Australia and New Zealand (43%).

‘We saw smaller companies in Continental Europe move to physical meetings, while “large cap” companies typically stayed fully virtual or brought in a virtual element, especially those with an international board,’ said Kirsten van Rooijen, CEO of Computershare Issuer Services in Continental Europe.

‘A number of companies still opted for virtual meetings, both as a result of emergency legislation remaining in place and the fact that they were able to reach their international shareholder base more easily.’

Fiona Chalmers is Global CEO of Computershare Issuer Services.

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