



Quoted Companies Alliance

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To whom it may concern,

Proposed ISS Benchmark Policy Changes for 2021

We welcome the opportunity to respond to your request for comments on your proposed benchmark policy changes for 2021.

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies in the UK. We have over 200 quoted companies as members, drawn from across the Main Market, AIM and the Aquis Exchange, as well as over 80 advisory members, including market participants, such as investors, brokers, accountants, and law firms.

There are approximately 1,250 small and mid-size quoted companies in the UK, representing 93 per cent of all quoted companies. These companies employ over 3 million people, constituting 11 per cent of private sector employment in the UK, and contribute £26.5 billion in annual taxes.

The value of small and mid-size quoted companies to the UK economy is vast, and we seek to create an environment where their potential can be fulfilled.

Overall, we are broadly supportive of the proposed benchmark policy changes for 2021. However, we have some concerns about some of the proposed changes. We outline these concerns in more detail below.

Please note that our comments are in response to the changes to the UK and Ireland Policy only.

Board Gender Diversity

The QCA welcomes the proposed change regarding board gender diversity where ISS will recommend against the chair of the nomination committee if the company is a constituent of the FTSE 350 and the board does not comprise at least 33 per cent representation of women. Similarly, we also agree with the proposed change to recommend against the chair of the nomination committee if the company is a constituent of the FTSE SmallCap, ISEQ 20, or AIM and does not have at least one woman on the board. We believe the changes reflect the important progress made in improving board gender diversity, as well as keeping in line with recent industry developments, such as the Hampton-Alexander Review.

However, and whilst improving board gender diversity is important to our members, we do not agree with the threshold at which the recommendation to vote against the chair of the nomination committee is set. That is, the £500 million market capitalisation threshold is too low and has the potential to encompass many small to mid-size quoted companies.

A recommendation to vote against the nomination committee chair, whose company does not meet the stated criteria, will be most acutely felt by small and mid-size quoted companies. Smaller quoted companies, and in particular, those at an early-stage in their growth and development, may not have the capacity to expand and diversify their board. The prevalence of founder chairs and board members is much higher in smaller quoted companies than their larger counterparts. The proposed change, therefore, would affect the composition of these companies' boards, increasing the associated costs of recruiting new board members.

Accordingly, we believe that, from the onset, the threshold should be set at £1 billion, noting that this is the level in which a number of fund managers and larger brokers classify as "small-cap". This would serve to ensure that smaller quoted companies are not scoped in. Then, once a sufficient amount of time has passed, consideration could be given to lowering the threshold.

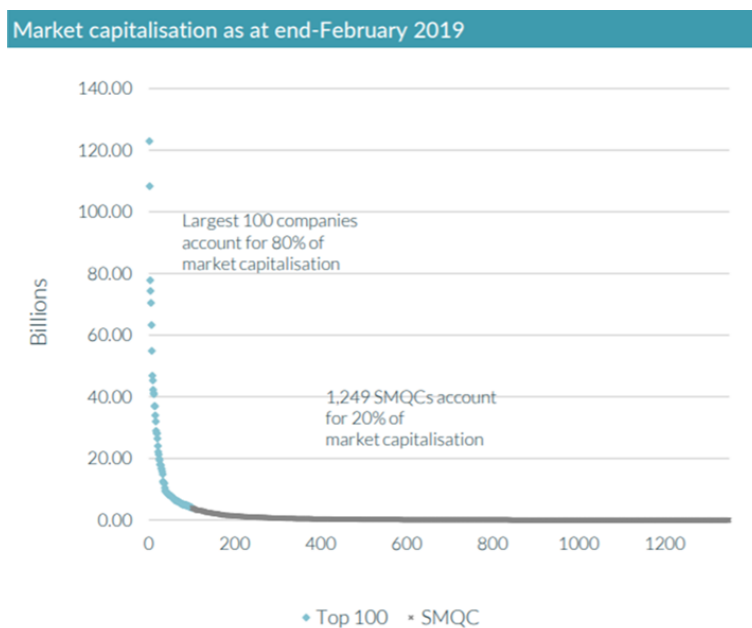
Director Elections: Material E&S Risk Oversight Failures

We are concerned by the proposed policy change in respect of director accountability and the vote against directors/the board for significant risk oversight failures relating to environmental and social concerns.

Environmental and social risks are likely to have a significant impact on companies, shareholders, stakeholders and the UK economy as a whole. The QCA and its members are mindful of this, and support actions to address both current and future environmental and social risks.

However, we believe that ISS should not adopt a one-size-fits-all approach to this recommendation, noting the disparities in size between the largest and smallest companies on the UK's public markets. Doing so would serve to ensure that smaller quoted companies are not disproportionately impacted.

This chart shows all companies quoted on London Stock Exchange's Main Market and AIM by market capitalisation. It illustrates the huge disparities in size between the largest 100 companies and the remaining 1,249 small and mid-size quoted companies (SMQCs):



Source: LSE, Hardman & Co, Quoted Companies Alliance

As a result of the above, we believe that consideration must be given to the size, complexity and available resources of smaller quoted companies. Larger companies, who typically have more resources, have the capacity to take meaningful steps to increase their resilience to climate-related risks, but this is in direct contrast to smaller companies. For this reason, we urge ISS to take into account reasonable steps taken by smaller quoted companies to reduce environmental and social risks that are likely to have an impact on future company operations given their more limited resources.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'TW', with a stylized flourish extending to the right.

Tim Ward
Chief Executive