UK/Ireland Policy and European Policy[1]– Virtual/Hybrid Shareholder Meeting Proposals

Background and Overview

In the UK market, companies are permitted to use remote means of communication to facilitate the participation of shareholders at general meetings. In some cases, companies employ technological means via the Internet to allow such participation as a supplement to the physical meeting (a “hybrid” meeting). In other cases, however, companies could decide to hold a "virtual-only" meeting that supplants the physical meeting. Unlike some other global markets, UK companies must seek shareholder approval to amend their articles of association to allow them to hold hybrid or virtual-only shareholder meetings.

Currently, the practice of holding virtual shareholder meetings is rare in the UK: one company held virtual meetings in 2016 and 2017. However, a growing number of companies have sought shareholder approval for article amendments that allow for the possibility of hybrid or virtual shareholder meetings in the future.

In continental Europe, the practice of holding virtual or hybrid shareholder meetings has not been observed. However, it is thought that the practice could emerge at some point if UK and US-based companies continue to adopt it.

Key Changes under Consideration

ISS proposes to add a new policy to the UK/Ireland and European Voting Guidelines on virtual/hybrid shareholder meetings. Under the proposed policy, ISS will generally recommend FOR proposals that allow for the convening of hybrid shareholder meetings, and will generally recommend AGAINST proposals that allow for the convening of virtual-only shareholder meetings.

The term "virtual-only shareholder meeting" refers to a meeting of shareholders that is held exclusively through the use of online technology without a corresponding physical, in-person meeting. The term “hybrid shareholder meeting” refers to an in-person, or physical, meeting in which shareholders are permitted to participate online.

Intent and Impact

The intent of the policy is to align the UK/Ireland and European Voting Guidelines with emerging investor views on virtual shareholder meetings. While many investors recognize the potential benefits of enabling participation at shareholder meetings via electronic means, some raise concerns about moves to completely eliminate physical shareholder meetings, arguing that virtual meetings may hinder meaningful exchanges between management and shareholders and enable management to avoid uncomfortable questions. In the 2018 ISS Governance Principles Survey, investor respondents were largely supportive of so-called "hybrid” meetings, where companies employ technological means to allow for virtual participation as a supplement to the physical shareholder meeting. Investor respondents were less supportive of virtual-only meetings however, with a majority indicating that

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[1] ISS' European Policy applies to companies incorporated in the following territories: Austria, Belgium, Bulgaria, Croatia, the Czech Republic, Cyprus, Denmark, Estonia, the Faroe Islands, Finland, France, Germany, Greece, Greenland, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Spain, Slovakia, Slovenia, Sweden, and Switzerland.

virtual-only meetings merited support if they provided the same shareholder rights as a physical meeting.

Request for Comment

While we appreciate any comments on this topic, ISS is specifically seeking feedback on the following:

- Some investors have indicated that they would be willing to support the practice of "virtual-only" shareholder meetings if they provide the same shareholder rights as a physical meeting. If your organization supports this view: what rationale or assurances would be required in order for your organization to support changes to the articles of association allowing for "virtual-only" shareholder meetings?
- Should ISS provide additional disclosure or alter its voting policies in markets (such as the US) where shareholder approval is not required for companies to switch to virtual-only meetings?