

UK & Ireland Policy - Audit and Remuneration Committee Composition for Smaller Companies

Background and Overview

The ISS UK & Ireland policy for companies which are members of the FTSE All Share or FTSE Fledgling Indices recommends that the audit and remuneration committees should be fully independent, and ISS will normally recommend voting against non-independent non-executives who are members of such committees.

For other companies – e.g. those listed on AIM - the ISS UK & Ireland policy recommends that the audit and remuneration committees should comprise a majority of independent non-executive directors, and ISS will recommend voting against non-independent non-executives who are members of such committees when the committee composition is not in line with this recommendation.

The Quoted Companies Alliance (QCA) Corporate Governance Code for Small and Mid-Size Quoted Companies is an important code of best practice for smaller listed companies, aimed at smaller Main Market companies, and those on AIM and the ICAP Securities and Derivatives Exchange (ISDX). This Code recommends that the audit and remuneration committees should be fully independent.

Key Changes Under Consideration

The change under consideration is that ISS' voting guidelines for audit and remuneration committee composition at AIM companies should reflect the QCA position, namely that these committees should comprise independent non-executive directors only. ISS will recommend voting against non-independent non-executives being members of such committees.

Intent and Impact

Based on a recent review, if this policy had been in place at the start of the 2016 AGM season, it would have resulted in an additional 15% of non-independent directors who are members of the audit and/or remuneration committee receiving a negative vote recommendation from ISS. Under the current policy approach, these directors received FOR recommendations. It is recognised that this is a significant increase in the proportion of negative recommendations and, hence, it is proposed to transition the policy change over two years. This means that this policy change would take effect for the 2018 AGM season onwards.

Request for Comment

- Do you agree that audit committees at smaller companies should comprise independent non-executive directors only?
- Do you agree that remuneration committees at smaller companies should comprise independent non-executive directors only?
- Do you agree that it is appropriate to transition this policy change over two years, i.e. with implementation from February 2018?