United Kingdom

GLASS LEWIS

2026 Benchmark Policy Guidelines

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Purpose

The purpose of the Benchmark Policy proxy research and advice is to serve as a framework that facilitates shareholder voting in favour of governance structures that will drive performance and promote and maintain long-term shareholder value.

Guidelines Introduction

Corporate Governance Background

Corporate governance guidelines in the UK are based primarily on the UK Corporate Governance Code (the UK Code). The UK Code is maintained by the Financial Reporting Council (FRC) and was last updated in 2024, which applies to financial years beginning on or after January 1, 2025, with the exception of provision 29, relating to internal controls reporting, which will be effective for financial years beginning on or after January 1, 2026.

As a guideline for boards to discharge their duties to companies and their shareholders, the UK Code sets out principles and provisions of good practice in relation to board leadership, effectiveness and accountability; remuneration; and relations with shareholders. It operates on a "comply or explain" basis, whereby a thorough and meaningful explanation for a deviation from the UK Code's provisions may be provided in lieu of compliance. The most recent revisions to the UK Code have attempted to clarify what constitutes a "meaningful explanation" in lieu of compliance, encouraging non-boilerplate disclosure from board committees and board leaders in communicating their roles and processes to shareholders. Under the listing regime overseen by the Financial Conduct Authority (FCA), the UK Code applies to all companies listed in either the equity shares (commercial companies) (ECSS) or closed-ended investment company categories of the Official List, regardless of their corporate domicile.

The Benchmark Policy takes a holistic view of the operation and composition of the board and the prevailing culture at the company, rather than applying a mechanistic reading thereof. This approach is sure to be aided by the greater transparency and enhanced disclosure for which the UK Code advocates.

Best practices in the UK are also heavily influenced by the Investment Association, a trade body for the UK asset management industry. Application of the Benchmark Policy will, therefore, account for companies' application of the Investment Association's Principles of Remuneration alongside those of the UK Code. Further, the Benchmark Policy takes into account the requirements of the UK Listing Rules, as maintained by the FCA.

The Companies Act (the "Act") provides the legislative framework for regulation. The Act was last revised in 2006, with full compliance required by October 2009.

In addition, the Benchmark Policy incorporates global corporate governance best practices and is reviewed annually to ensure it remains current with market practice, regulations, governance codes, and the evolving standards of best practices for UK corporate governance.

Market and Regulatory Updates

Financial Institution Remuneration Reform

On October 15, 2025, following a consultation process, the FCA and Prudential Regulation Authority (PRA) announced reforms to the variable remuneration framework for financial institutions, which took effect on October 16, 2025. The reforms chiefly simplified and reduced extensive deferral/vesting requirements.

The "Executive Remuneration at Financial Institutions" section of these guidelines has been expanded to provide further information on these reforms.

Prospectus Rules

On July 15, 2025, the FCA announced, following consultation, new rules to implement the Public Offers and Admissions to Trading Regulations 2024. The amended rules are intended to both simplify and reduce the cost burden associated with raising capital in the UK. Amongst a number of changes, the most significant reform is an increase to the threshold at which a prospectus is required for a further issuance of shares: from 20% to 75% (100% for closed-ended investment funds).

UK Corporate Governance Code

Following a consultation launched in May 2023, the FRC published the 2024 UK Corporate Governance Code (2024 Code) on January 22, 2024. The revised 2024 Code, which continues to operate on a “comply-or-explain” basis, is now applicable to companies listed in the commercial companies and closed-ended investment funds categories following the updates to the listing segments under the FCA Listing Rules.

The 2024 Code applies to financial years beginning on or after January 1, 2025, with the exception of provision 29, which will apply to financial years beginning on or after January 1, 2026. Accordingly, the Benchmark Policy will apply the standards contained in the UK Corporate Governance Code 2024.

Summary of Changes for 2026

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. For 2026, the language in this document has been updated to clarify that these guidelines contain the views of the Benchmark Policy. The Benchmark Policy reflects broad investor opinion and widely accepted governance principles and is intended to provide clients with nuanced analysis informed by market best practice, regulation, and prevailing investor sentiment. This change better conveys Glass Lewis' role as a service provider to a diverse, global client base with a wide spectrum of viewpoints and objectives. The Benchmark Policy represents just one of Glass Lewis' policy offerings.

In addition, the following noteworthy revisions have been made to the Benchmark Policy, which are summarised below and discussed in greater detail in the relevant sections of this document.

Approach to Committee Size Recommendations

The Benchmark Policy guidelines have been updated to reflect that it will typically recommend shareholders vote against, rather than abstain from voting on, the re-election of the audit and/or remuneration committee chair where the committee is of an insufficient size.

Please refer to the "Board Committees" section of these guidelines for further information.

Gender Diversity

Given that the timeline for achieving the FTSE Women Leaders Review targets has now passed, the Benchmark Policy has been updated to reflect that it will typically recommend against the re-election of the nomination committee chair where the board does not comprise at least 40% gender diverse directors, absent any mitigating circumstances.

Please refer to the "Gender Diversity at Board Level" section of these guidelines for further information.

AIM Companies' Board Independence

In line with the 2023 QCA Corporate Governance Code, the 'AIM-Quoted Companies' section of the Benchmark Policy guidelines has been updated to clarify that AIM companies' boards should be at least half independent and include a minimum of two independent non-executive directors. Accordingly, in the event that more than half of the members are affiliated or inside directors, the Benchmark Policy will typically recommend a vote against one or more of the non-independent directors in order to satisfy this threshold.

Pay for Performance

The Benchmark Policy guidelines have been updated to add a description of Glass Lewis' new proprietary pay-for-performance model, including score ranges, the individual tests comprised in the balanced scorecard, and information on the selection of peers. Further, it has been clarified that, while the outcome of this model may impact the analysis of a company's executive remuneration practices, Benchmark Policy recommendations on the remuneration report and policy proposals will continue to result from a holistic assessment of the company’s remuneration structure, disclosure and practices as a whole, as well as other relevant external factors.

Please refer to the “Pay for Performance” section of these guidelines for further information.

Clarifying Amendments

The following clarifications of existing policies are included this year:

Key Committees

These guidelines have been updated to clarify that, for the purposes of director attendance, the Benchmark Policy generally considers key committees to be the audit, remuneration and nomination committees.

Please refer to the “Performance” section of these guidelines for further information.

Remuneration Committee Independence

The Benchmark Policy’s discussion on remuneration committee independence has been updated to clarify that the chair of the board should only serve on the remuneration committee if they were independent on appointment and continue to satisfy standard independence tests outside of their chair role.

Please refer to the “Independence” section of these guidelines for further information.

Vesting/Holding Periods

The “Vote on Remuneration Policy” section of these guidelines has been updated to clarify that market practice, as outlined in the UK Code and by the Investment Association, typically calls for combined vesting and holding periods of at least five years for long-term incentives. Further, long-term incentives should have a minimum three-year vesting/performance period. This is aligned with the extant “Incentive Plans” section of the guidelines.

Please refer to the “Vote on Remuneration Policy” section of these guidelines for further information.

A Board of Directors that Serves the Interests of Shareholders

Election of Directors

The Benchmark Policy looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. It takes the view that a board can best protect and enhance the interests of shareholders if it is sufficiently independent, has a record of positive performance, and consists of individuals with diverse backgrounds and a breadth and depth of relevant experience.

The UK Code recommends that all directors of companies listed in the ESCC and closed-ended investment fund categories stand for election annually. Annual director elections are a means of increasing director accountability to shareholders. While the vast majority of companies comply with this provision, some firms may have valid reasons to maintain a staggered electoral system in either the short- or long-term. The Benchmark Policy will not automatically recommend shareholders penalise boards that do not put all directors up for election annually; however, any firms opting to deviate from this provision should provide a clear and reasonable explanation for doing so. The Benchmark Policy may recommend against one or more directors at boards that provide unsatisfactory or inadequate explanations for such a compliance failure, as well as with those that have significant performance or governance problems that shareholders are unable to address with their votes as a result of a staggered board election process.

Where a board's explanation for non-compliance is lacking, or there are significant director-related concerns that shareholders are unable to address due to staggered director elections, the Benchmark Policy may recommend that shareholders vote against the board chair.[1] However, the Benchmark Policy will continue to approach this issue on a case-by-case basis, taking into account the company's overall governance practices.

Shareholders may elect to "withhold" their votes or "abstain" from voting on a proposal, rather than casting their votes as either "for" or "against" the measure. Whereas an "against" vote is binding, an "abstain" is not a vote in law and allows shareholders to express reservations about a proposal without unseating the director.[2]

Independence

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of a director, the Benchmark Policy will take into consideration, where appropriate, whether that director has a track record showing they are able and willing to make objective decisions. Likewise, when assessing the independence of directors, the Benchmark Policy will also consider whether a director's

[1] If the chair is not standing for election or is an executive director, the Benchmark Policy will instead recommend shareholders vote against the senior independent director.

[2] Although proposals in the UK commonly receive at least some "abstain" votes, the Benchmark Policy will typically only recommend this option to shareholders in rare circumstances, such as when insufficient information is available to provide an analysis or an "against" vote seems unjustified or inappropriate.

record on multiple boards indicates a lack of objective decision-making. Ultimately, the Benchmark Policy's determination of a director's independence is assessed with regard to applicable listing requirements and their professional history.

In the application of the Benchmark Policy, each individual on the board is reviewed, with consideration given to their relationships with the company, the company's executives and other board members. The purpose of this analysis is to determine whether pre-existing personal, familial or financial relationships (apart from director fees) are likely to impact the decisions of that board member. The existence of such relationships can make it difficult for a board member to put the concerns of shareholders above either their own interests or those of a related party.

To that end, the Benchmark Policy typically classifies directors into four categories based on the type of relationships they have with the company:[3]

> **Independent Director** — An independent director has no material financial, familial[4] or other current[5] relationships with the company,[6] its executives, its independent auditor or other board members, except for service on the board and standard fees paid for that service.
>
> In line with provision 10 of the UK Code, heightened scrutiny is applied to non-executive directors who have served on the board for more than nine years, as this length of service may affect director independence, particularly in the case of the chair of the board. In such cases, the Benchmark Policy will assess the director's independence in light of the board's overall tenure and composition, as well as any other relevant factors. Further, companies should provide an assurance as to the director's continued independence, and the necessity to continue to serve on key committees, where appropriate.
>
> **Non-executive Chair** — The Benchmark Policy will classify a chair as non-executive if they were independent upon appointment and, outside of the role of chair,[7] continue to meet the independence standards outlined above.
>
> **Affiliated Director** — An affiliated director has a material financial, familial or other relationship with the company, its independent auditor or its executives, but are not an employee of the company.[8] This may include directors whose employers have a material relationship with the company or its subsidiaries or major shareholders.

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[3] If a company does not disclose the independence status of a director, the Benchmark Policy will consider the presence of any relationships that may preclude independence, but in the absence thereof, will classify the director as a "non-executive" director of the company and treat them as independent for the purposes of the analysis.
[4] "Familial" as used herein includes a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces and nephews, including in-laws, and anyone (other than domestic employees) who shares such person's home.
[5] Employment relationships with the company within five years, or business relationships/transactions that have existed within the three years prior to our analysis, are usually considered to be "current" for the purposes of this test.
[6] "Company" includes any parent or subsidiary in a consolidated group with the company or any entity that merged with, was acquired by, or acquired the company.
[7] Provision 9 of the UK Code states that the board chair should be independent upon appointment. Thereafter, the test of independence is generally accepted as being inappropriate given the significant time commitment required of the role at many UK companies.
[8] If a company classifies one of its non-employee directors as non-independent, the Benchmark Policy will classify that director as an affiliate.

The Benchmark Policy will typically consider directors affiliated if they:

- are a non-executive chair who was not independent on appointment or has a material relationship with the company that falls into one of the categories below;
- have served as a director for more than nine years, unless their continued independence is confirmed by the board;
- have served as an employee of the company in the past five years;[9]
- are a significant shareholder or represent one (defined as holding 10% or more of the company's share capital);[10]
- have — or have had within the last three years — a material business relationship with the company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- have close family ties with any of the company's advisers, directors or senior employees;
- participate in the company's share option or performance-related pay scheme(s);
- are a member of the company's pension scheme;[11] or
- hold cross-directorships or have significant links with other directors through their involvement in other companies or bodies.

Definition of "**material**" — A material relationship is one in which the value exceeds:

- £50,000 (£25,000 for companies outside the FTSE 350), or where no amount is disclosed, for directors who personally receive remuneration for a service they have agreed to perform for the company, outside of their service as a director. This threshold also applies to directors who are the majority or principal owner of a firm that receives such payments;
- £100,000 (£50,000 for companies outside the FTSE 350), or where no amount is disclosed, for those directors employed by a professional services firm such as a law firm, investment bank or consulting firm where the firm is paid for services, but the individual is not paid directly. This limit also applies to charitable contributions to schools where a board member is a professor, or charities where a board member serves on the board or is an executive, and any commercial and real estate dealings between the company and the director or the director's firm;
- 1% of either company's consolidated gross revenue for other business relationships (e.g., where the director is an executive of a firm that provides or receives services or products to or from the company).

Inside Director — An inside director is one who simultaneously serves as a director and employee of the company. This category may include a board chair who acts or is paid as an employee of the company.

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[9] The Benchmark Policy will generally classify a non-executive director as independent where they have previously served in an interim executive role for less than one year.
[10] The UK Listing Rules define a "substantial shareholder" as "any person who is entitled to exercise, or to control the exercise of 20% or more of the votes able to be cast on all or substantially all matters at general meetings of the company." However, in accordance with generally accepted best practice, the Benchmark Policy classifies holders of 10% of a company's issued share capital as affiliates. This is because their involvement with the management of a company is fundamentally different from that of ordinary shareholders and, more importantly, they may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, potential for materially increasing or decreasing their holdings in response to company performance, personal tax issues, etc.
[11] Provision 10 of the UK Code.

Employee Representatives - An employee representative is nominated by employees and serves as a director to represent employees' interests.

Voting Recommendations on the Basis of Independence

In line with the UK Code, the Benchmark Policy generally expects that at least half the board, excluding the chair[12] and any employee representative, should be independent.[13] In the event that more than half of the members, not including the chair and any employee representative, are affiliated or inside directors, the Benchmark Policy will typically recommend shareholders vote against one or more of the non-independent directors in order to satisfy this threshold.

Committee Independence

In line with provisions 24 and 32 of the UK Code, only independent directors should serve on a company's audit and remuneration committees. A notable exception to this rule is the board chair, who may serve as a member of — but not chair — the remuneration committee, provided that they were independent upon appointment[14] and continue to have no additional factors that may compromise their independence outside of their chair role. In line with provision 17 of the UK Code, the nomination committee should be majority independent.

The Benchmark Policy will typically recommend that shareholders vote against any affiliated or inside director serving on the audit or remuneration committee. Further, where the nomination committee is not majority independent, the Benchmark Policy will typically recommend shareholders vote against one or more of the non-independent directors in order to satisfy this guideline.

Separation of the Roles of Chair and Chief Executive

The UK Code recommends that the roles of chair and chief executive should not be exercised by the same individual. The UK Code also states that a chair should be independent upon appointment, and that a former chief executive should not go on to be the chair of the same company.[15]

It can become difficult for a board to fulfil its role of overseer and policy-setter when a chief executive/chair controls the agenda and the boardroom discussion. Such control can allow a chief executive to have an entrenched position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of business operations and limitations on independent, shareholder-focused goal-setting by the board.

A chief executive should set the strategic course for the company, with the board's approval, and the board should enable the chief executive to carry out their vision for accomplishing the company's objectives. A failure to achieve the company's objectives should lead the directors to replace their chief executive with someone in whom the board has greater confidence.

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[12] When the chair is an insider or is considered an affiliate due to any reason other than their position as chair, the Benchmark Policy will include them in the count of total number of inside/affiliated directors on the board.
[13] Provision 11 of the UK Code.
[14] Provision 32 of the UK Code.
[15] Provision 9 of the UK Code.

While market best practice indicates a preference for the roles of chief executive and chair to be separated, the Benchmark Policy will not automatically recommend that shareholders vote against executives who chair the board. In line with provision 12 of the UK Code, however, the board should appoint an independent presiding or lead director (i.e., a senior independent director) with the authority to set the agenda for board meetings and lead sessions outside the presence of an executive chair. If the board has an executive chair but also has a senior independent director, the Benchmark Policy will not recommend shareholders vote against the nomination committee chair solely for this reason. In the event that the board has an executive chair but lacks a senior independent director, the Benchmark Policy will recommend that shareholders vote against the nomination committee chair.

Nevertheless, in the first year after a former executive takes up the role of chair, or of an executive chair's appointment, the Benchmark Policy will typically recommend that shareholders vote against the nomination committee chair, or senior independent director, as appropriate, if the board does not provide adequate justification for the appointment, in line with provision 9 of the UK Code.

Controlled Companies

The primary function of a board is to protect the interests of shareholders; however, when a single individual or entity owns more than 50% of the voting shares, then the interests of the majority of shareholders are effectively the interests of that entity or individual. Consequently, the Benchmark Policy does not recommend voting against boards whose composition reflects the makeup of the shareholder population. In other words, affiliates and insiders who are associated with a firm's controlling entity are not subject to the one-half independence rule that is applied to non-controlled company boards.

The independence exceptions for controlled companies are as follows:

- The board does not have to be at least one-half independent, excluding the chair. Provided the insiders and/or affiliates are connected with the controlling entity, the Benchmark Policy will accept the presence of a majority of non-independent board members, provided their representation is not disproportionate.
- The remuneration committee does not need to consist solely of independent directors. Similarly, the nomination committee is not required to be comprised of a majority of independent directors. In each of these cases, the Benchmark Policy may raise concerns if the representation of the controlling shareholder is disproportionate.
- The Benchmark Policy does not require controlled companies to have a standing nomination committee. Although it is of the view that a committee charged with the duties of searching for, selecting and nominating independent directors can be beneficial to all companies, the unique composition of a controlled company's shareholder base makes such a committee less powerful and less relevant.
- Controlled companies do not need to have an independent chair or a senior independent director. Although an independent director in a position of authority on the board is best able to ensure the proper discharge of the board's duties, controlled companies serve a unique shareholder base whose voting power ensures the protection of its interests.

The Benchmark Policy does not make independence exceptions for audit committee membership at controlled companies, as these committees should consist solely of independent directors. Regardless of a company's shareholder structure, the interests of all shareholders must be protected by ensuring the integrity and accuracy of the company's financial statements.

Significant Shareholders

Where an individual or entity holds between 10-50% of a company's voting power, but the company is not "controlled" and there is not a "majority" owner, the Benchmark Policy applies an approach that takes into account the proportional representation of a significant shareholder on the board and its committees (excluding the audit committee) based on the individual or entity's percentage of ownership. However, in the case of a significant, but non-controlling, shareholder, the Benchmark Policy generally applies heightened scrutiny to the overall board structure and, where applicable, compliance with the Listing Rules, to ensure that minority shareholder rights are protected. For companies in the ESCC category with a 30% or larger shareholder, the Listing Rules stipulate that independent director elections be subject to approval by shareholders as a whole, and separately by all shareholders, excluding the controlling shareholder.

Control-Enhancing Mechanisms

Where a group of shareholders, acting in concert, have entered into an agreement to control a company and its board or cooperate on significant strategic issues, the Benchmark Policy will consider the shareholder group a single entity for the purposes of identifying the company's shareholder structure and recommended thresholds for independence.

Performance

The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. The Benchmark Policy looks at the performance of these individuals as directors and executives of the company and of other companies where they have served.

A director's past conduct is often indicative of future conduct and performance. Directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred often serve on the boards of companies with similar problems.

Voting Recommendations on the Basis of Performance and Experience

Investors may reasonably object to directors who have a track record of poor performance in fulfilling their responsibilities to shareholders at any company where they have held a non-executive or executive position. The Benchmark Policy will typically recommend against the election of directors who have held key roles on boards or as executives at companies with a track record of:

- poor audit or accounting-related practices;
- poor nomination practices;
- poor remuneration practices;
- poor risk management practices; or
- other indicators of poor performance, mismanagement or actions against the interests of shareholders, such as failing to take reasonable steps to address significant and reasonable shareholder concerns.

Similarly, the Benchmark Policy will consider the backgrounds of key committee members to ensure that they have the required skills and diverse backgrounds to make informed and well-reasoned judgments about the subject matter for which the committee is responsible.

UK boards typically have audit, remuneration and nomination committees, although other types of committees, such as risk, governance and sustainability committees, are also common. The Benchmark Policy holds the chair or the relevant committee members accountable to the performance standards outlined below.

In addition, the Benchmark Policy may recommend that shareholders vote against some or all directors in the event a company's performance consistently lags its peers and the board has not taken reasonable steps to address the poor performance.

Director Attendance Levels

Where a company does not provide an acceptable explanation for poor attendance, the Benchmark Policy will typically recommend shareholders vote against directors who fail to attend either: at least 75% of the board meetings; or 75% of the aggregate of board and key committee meetings.[16]

Board Evaluation and Refreshment

Many investors support routine director evaluation, including independent external reviews,[17] and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. The board should evaluate the need for changes to board composition based on an analysis of skills and experience necessary for the company, as well as the results of the director evaluations. When necessary, shareholders can address concerns regarding proper board composition through director elections.

A director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. However, in certain circumstances, a lack of refreshment may contribute to inadequate board responsiveness to poor company performance.

Some shareholders support term limits as a way to force change in such circumstances. However, term limits may restrict experienced and potentially valuable board members from service through an arbitrary means; as such, the Benchmark Policy is generally sceptical of term limits, which should not be required to ensure board refreshment when a board has effective evaluations processes.

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[16] For the purpose of the Benchmark Policy, 'key committees' are generally considered to be audit, remuneration and nomination committees; however, may include other committees material to a board's approach to governance. An exception to this policy will typically apply to directors that have served on the board for less than one full year. The Benchmark Policy will also generally not recommend shareholders vote against directors when the company discloses that the director missed the meetings due to serious illness or other extenuating circumstances.

[17] At least every three years for FTSE 350 companies in line with provision 21 of the UK Code.

Director Tenure

The Benchmark Policy does not recommend shareholders vote against any non-executive director on the basis of their lengthy tenure alone. However, the Benchmark Policy may recommend against certain long-tenured directors when lack of board refreshment may have contributed to poor financial performance, lax risk oversight, misaligned remuneration practices, insufficient responsiveness to shareholders, a reduction of shareholder rights, or other concerns. In conducting this analysis, the Benchmark Policy will consider lengthy average board tenure over nine years, evidence of planned or recent board refreshment, and other concerns with the board's independence or structure.

Nonetheless, reflecting provision 19 of the UK Code, the Benchmark Policy may recommend against the chair of the nomination committee where the tenure of the chair of the board exceeds nine years and a defined succession plan and definitive timeline for retirement has not been disclosed, absent a compelling rationale for the extension of the chair's term.

Board Committees

The Role of a Committee Chair

Given their assigned leadership role and additional powers and responsibilities, a designated committee chair is generally considered to maintain primary responsibility for the actions of their respective committee. As such, many of the committee-specific Benchmark Policy voting recommendations are against the applicable committee chair rather than the entire committee (depending on the seriousness of the issue). In cases where the committee chair is not up for election and where substantial or multiple concerns have been identified, the Benchmark Policy will generally recommend voting against a long-serving committee member that is up for election, on a case-by-case basis.

In accordance with prevailing market practice, companies should provide clear disclosure of which director is charged with overseeing each committee. In cases where the Benchmark Policy would ordinarily recommend voting against a committee chair, but the chair is not specified, the following general rules are applied:

- If there is no committee chair, the Benchmark Policy will recommend voting against the longest-serving committee member or, if the longest-serving committee member cannot be determined, the longest-serving board member on the committee (i.e., in either case, the "senior director"); and
- If there is no committee chair, but multiple senior directors serving on the committee, the Benchmark Policy will recommend voting against both (or all) such senior directors.

Audit Committee Performance

Audit committees play an integral role in overseeing the financial reporting process because "while all directors have a duty to act in the interests of the company, the audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control."[18] However, it is important to note that the audit committee: (i) does not prepare financial statements; (ii) is not responsible for making the key judgments and assumptions that affect financial statements; and (iii) does not audit the financial results. Rather, the audit committee monitors and oversees the processes and procedures performed by management and the auditors.

For an audit committee to function effectively, it should be independent and objective. In addition, each member should have a good understanding of the objectives and priorities of the organisation and of their role as an audit committee member.[19] Companies should clearly outline the skills and experience of the members of the audit committee, and shareholders may reasonably be wary of audit committees that lack expertise in finance and accounting or in any other equivalent or similar areas of expertise.

Under the UK Code, the audit committee is required to report on the process by which it has assessed the effectiveness of the external audit, and any significant issues that were considered in relation to the financial statements. If non-audit services are provided by the external auditor, the committee should explain how the auditor's objectivity and independence are safeguarded.

In addition, only the audit committee (rather than management) should manage the appointment of an external auditor and be responsible for negotiating and agreeing audit fees. Further, the audit committee is responsible for tendering audit work not less than every ten years.[20]

The Benchmark Policy will generally assess audit committees based on the decisions they make with respect to their monitoring role, and the level of disclosure provided to shareholders. Companies should provide shareholders with reasonable assurance that financial statements are materially free from errors through: (i) the quality and integrity of the statements and earnings reports; (ii) the completeness of disclosures necessary for investors to make informed decisions; and (iii) the effectiveness of the company's internal controls. The independence of the external auditors and the results of their work provide useful information by which to assess the audit committee.

When evaluating the decisions and actions of the audit committee, the Benchmark Policy typically defers to the judgement of its members; however, the Benchmark Policy typically recommends voting against the following members under these circumstances:

- The audit committee chair when non-audit fees are greater than audit and audit-related fees paid to the auditor for more than one year in a row (in which case the Benchmark Policy will also recommend against the authority to appoint the auditor and set its fees). For the purposes of this test, the Benchmark Policy considers audit-related fees to be those that are pursuant to legislation or for the audit of pension schemes. Further, the Benchmark Policy is mindful of fees for one-time corporate finance transactions and due diligence work related to IPOs, mergers, acquisitions or disposals, and it may grant one-time exceptions when these fees make up a significant portion of the year's non-audit work.
- The audit committee chair if the auditor's selection has not been put up for shareholder approval to fulfil its duty to shareholders.

[18] Guidance on Audit Committees. Financial Reporting Council. April 2016.
[19] "Good practice principles for Audit and Risk Assurance Committees". HM Treasury's Audit and risk assurance committee handbook. March 2016.
[20] Competition & Markets Authority Statutory Audit Services for Large Companies Market Investigation Order 2014.

- The audit committee chair when the company fails to disclose the fees paid to the auditor or a breakdown thereof (in which case the Benchmark Policy will also recommend against the authority to set the auditor's fees).
- The audit committee chair if the committee does not have at least one member who has a demonstrable financial background sufficient to understand the financial issues unique to public companies, likely to be demonstrated through recent and relevant accounting or auditing experience.[21]
- The audit committee chair if the committee has failed to tender the audit work in the past ten years and has failed to disclose a sufficient rationale for not having done so.
- The audit committee chair if the committee has failed to hold a minimum of three meeting during the year under review.[22]
- All members of an audit committee that re-appointed an auditor that is no longer considered to be independent for reasons unrelated to fee proportions.
- All members of an audit committee who served during a time when accounting fraud occurred in the company.
- All members of an audit committee who served during a time when the company failed to report or to have its auditors report material weaknesses in internal controls.
- All members of an audit committee who served during a time when financial statements had to be restated due to negligence or fraud.
- All members of an audit committee if the company repeatedly fails to file its financial reports in a timely fashion.
- All members of an audit committee if the company's non-audit fees included fees for tax services for senior executives of the company, or if such fees involved services related to corporate tax avoidance or tax shelter schemes.

In line with provision 24 of the UK Code, a committee with responsibilities as crucial as those of the audit committee requires a minimum of three members — or two for Main Market non-FTSE 350 companies (smaller companies) – to adequately perform its functions. The Benchmark Policy will generally recommend shareholders vote against the re-election of the audit committee chair if the committee has fewer than the recommended number of members.

Remuneration Committee Performance

Remuneration committees have a critical role in determining the remuneration of executives. They are responsible for implementing policies that are aligned with strategy and agreed risk appetite, reward success fairly and avoid paying more than is necessary.

The remuneration process begins with employment agreements, including the establishment of terms relating to base salary, pension contributions, service contracts and severance arrangements. When establishing the terms of an employment agreement, it is important that such provisions reflect both the size of the company and current market practice. The remuneration committee is also generally responsible for approving variable, performance-based remuneration, including annual cash bonuses and awards granted under long-term equity-based incentive plans. Overall remuneration levels should be reflective of the company's size, relevant peer

[21] Provision 24 of the UK Code; DTR 7.1.1A of the FCA's Disclosure Guidance and Transparency Rules.
[22] Guidance on Audit Committees. The Financial Reporting Council. April 2016.

group and recent performance. Furthermore, the remuneration committee should keep wider workforce remuneration and the company's culture under review when setting the executive remuneration policy.[23]

If a company's remuneration levels and practices significantly diverge from best practice and do not appear to reflect performance, investors may reasonably expect the remuneration committee to provide a thorough and convincing explanation for such a divergence.

In evaluating a remuneration committee's performance, the Benchmark Policy also considers the overall structure and transparency of a company's remuneration practices, as disclosed in the remuneration report.

When assessing the decisions and actions of the remuneration committee, the Benchmark Policy typically defers to the judgement of committee members; however, the Benchmark Policy may recommend voting against the following committee members under these circumstances:

- The chair and/or all members of the remuneration committee if executive pay is excessive relative to the financial performance of the company.
- The chair and/or all members of the remuneration committee (who served during the relevant time period) if the board entered into excessive employment contracts and/or severance agreements with senior executives.
- The chair and/or all members of the remuneration committee if performance goals for incentive-based pay were inappropriately changed or lowered after an executive failed to meet the original goals or success became unlikely, or if performance-based remuneration was paid despite a failure to achieve the goals. At a minimum, investors may reasonably expect the board to provide a thorough and convincing explanation for the lowering or removal of any performance condition.
- The chair and/or all members of the remuneration committee if excessive employee perquisites and benefits were allowed.
- The chair of the remuneration committee when there are substantial concerns with the remuneration policy presented for shareholder approval and/or the pay practices outlined in the remuneration report. The Benchmark Policy may recommend votes against the re-election of all remuneration committee members when a company's policies and practices are particularly egregious -- especially in cases where these concerns have existed over multiple years.
- The chair and/or all members of the remuneration committee if the pay policies described in the remuneration report are highly divergent from best practices or are otherwise not aligned with the interests of shareholders.
- The chair and/or all members of the remuneration committee when the committee failed to address shareholder concerns following majority shareholder rejection of the say-on-pay proposal in the previous year; and/or the say-on-pay proposal was approved but there was a significant shareholder vote (i.e., greater than 20% of votes cast) against the proposal in the prior year, and there is no evidence that the board responded accordingly to the vote including actively engaging with shareholders on this issue.
- The chair and/or all members of the remuneration committee when the remuneration report fails to disclose the relationship, if one exists, between the company's remuneration policy and the company's performance.

[23] Provision 33 of the UK Code.

The remuneration committee performs a key service to the company, and, in line with provision 32 of the UK Code, market expectations are such that its workload cannot be satisfactorily performed by fewer than three members — two for smaller companies. The Benchmark Policy will generally recommend shareholders vote against the re-election of the remuneration committee chair when this committee has fewer than the recommended number of members.

Please see "The Link Between Pay and Performance" for additional information regarding Benchmark Policy standards for analysing executive remuneration in the UK.

Nomination Committee Performance

Nomination committees are responsible for ensuring that the board contains the right balance of skills, experience, independence and knowledge to effectively oversee the company on shareholders' behalf. This process includes managing the terms and disclosure of board appointments, both in initial recruitment and on an ongoing basis, with an emphasis on progressive refreshment. When that balance does not reflect UK Code recommendations, the committee should disclose and justify those deviations. The committee should also set out the board's policy on diversity, with specific reference to gender and ethnicity, including details of any internal objectives and progress against them.

The committee should meet all applicable disclosure requirements, and to take responsibility for board appointments and re-appointments. The Benchmark Policy will typically recommend shareholders vote against the following nomination committee members under these circumstances:

- The committee chair when the roles of the chief executive and chair have not been split and a senior independent director has not been appointed.[24]
- All members of the nomination committee when the committee nominated or re-nominated an individual who has a significant conflict of interest, or whose past actions demonstrated a lack of integrity or inability to represent shareholder interest.
- The nomination committee chair if the board has not conducted an external evaluation of its effectiveness within the past three years, absent mitigating factors.
- The nomination committee chair if the committee did not meet during the year but should have (i.e., new directors were nominated).
- The nomination committee chair and/or all members of the nomination committee when the board consists of more than 20 directors
- The nomination committee chair if a non-executive director has served for more than nine years but is not standing for annual re-election and there are governance concerns at the company.
- The nomination committee chair when the tenure of the chair of the board exceeds nine years and a defined succession plan and definitive timeline for retirement has not been disclosed, absent mitigating factors.
- The nomination committee chair if the company has failed to promote board diversity in line with prevailing best practice recommendations (see "Diversity" section below)

[24] Provision 12 of the UK Code states that the board should appoint one of the independent non-executive directors to be the senior independent director.

Additionally, the Benchmark Policy will typically recommend shareholders abstain from voting on the re-election of the nomination committee chair when the board has fewer than five members (four for smaller companies).

Other Considerations

In addition to the key characteristics analysed in evaluating board members, as discussed above, the Benchmark Policy considers several other issues in making voting recommendations.

External Commitments

Directors should have the necessary time to fulfil their duties to shareholders. An overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis.

The Benchmark Policy will generally recommend that shareholders oppose the election of a director who:

- Serves as an executive officer[25] of any public company while serving on more than one additional public company boards. An executive officer should not take on more than one non-executive directorship in a FTSE 100 company or other significant appointment;[26] or
- Serves as a non-executive director on more than five public company boards.

While non-executive board chair positions at North American companies are counted as one position, the Benchmark Policy generally counts non-executive board chair positions at UK and European companies as two board seats given the increased time commitment associated with these roles. Accordingly, the Benchmark Policy generally considers an executive officer of a public company who also serves as a non-executive chair of another UK or European company to have a potentially excessive level of commitments.

Policy Application

As executive directors will presumably devote their attention to the company where they serve as an executive, the Benchmark Policy will generally not recommend that shareholders vote against the election of a potentially overcommitted director at the company where they serve in an executive function. Similarly, the Benchmark Policy will generally not recommend that shareholders vote against the election of a potentially overcommitted director at a company where they hold the board chair position, except where the director:

- Serves as an executive officer of another public company; or
- Holds board chair positions at three or more public companies; or
- Is being proposed for initial election as board chair at the company.

When determining whether a director's service on an excessive number of boards may limit the ability of the director to devote sufficient time to board duties, the Benchmark Policy may consider relevant factors such as the size, location, and scope of operation of the other companies where the director serves on the board, as well as the nature of the role (including committee memberships) that the director holds at these companies,

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[25] This policy applies to directors that serve in the top executive team of a publicly listed company (i.e., executive committee, management board, etc.).

[26] Provision 15 of the UK Code.

whether the director serves as an executive or non-executive director of any large privately-held companies, and the director's attendance record at all companies.

The Benchmark Policy will typically not recommend against a potentially overcommitted director if the company provides a commitment that the director will sufficiently reduce their commitment level prior to the next annual general meeting or otherwise presents a compelling rationale for the director's continued service on the board. Such rationale should allow shareholders to evaluate the scope of the director's other commitments as well as their contributions to the board, including specialised knowledge of the company's industry, strategy or key markets, the diversity of skills, perspective and background they provide, and other relevant factors. In addition, the Benchmark Policy will typically not recommend shareholders vote against a director who serves on an excessive number of boards within a consolidated group of companies in related industries, or a director that represents a firm whose sole purpose is to manage a portfolio of investments that include the company. In these cases, it is incumbent on companies to proactively address potential shareholder concerns regarding a director's overall commitment level.

Conflicts of Interest

Irrespective of the overall presence of independent directors on the board, a board should be free of people who have identifiable and substantial conflicts of interest. Given the broad pool of director talent and the limited number of directors on any board, shareholders may reasonably expect a board composed of members who lack any personal conflicts to representing their interests on the board. Accordingly, the Benchmark Policy generally recommends shareholders vote against the following types of affiliated or inside directors:

- A director, or a director who has an immediate family member, currently providing material professional services to the company.[27] These services may include legal, consulting, or financial services. A director who receives remuneration from the company will have to make unnecessarily complicated decisions that may pit their interests against those of the shareholders they serve. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of its directors.
    - The Benchmark Policy will consider the specific nature of the professional services relationship between the company and a director, the independence profile of the board and its key committees, and the conflict mitigation procedures in place when making voting recommendations on this basis. Given their compromised independence, directors who may face a potential conflict of interest should refrain from serving on any key board committees. Specifically, where a director has a material business relationship with a company that falls under the normal course of business, the Benchmark Policy will generally not recommend that shareholders vote against the director on that basis alone, provided that the company has adequately disclosed the relationship and mitigated the potential for serious conflicts of interest.
- A director, or a director who has an immediate family member, who engages in material commercial, real estate or other similar deals, including perquisite-type grants from the company amounting to more than £50,000. Directors who receive these sorts of payments from the company may have to make unnecessarily complicated decisions that pit their interests against shareholders.

[27] See definition of "material" under Independence.

- Directors who maintain "interlocking" board memberships. Top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[28] Such relationships are of particular concern where executives cross-serve on each other's remuneration committees.

The Benchmark Policy will also recommend that shareholders hold the relevant senior director with oversight of related party transactions (whether a board committee, ad hoc committee, or the board as a whole, depending on the board's internal procedures) accountable for particularly egregious transactions concluded between the company and an executive director that may pose a potential risk to shareholders' interests.

Board Responsiveness

Where 20% or more of shareholders vote contrary to the recommendation of management, the board should, as outlined in the UK Code and depending on the issue, demonstrate some level of responsiveness to address the shareholder concerns. These include instances when 20% or more of shareholders: (i) abstain from (or vote against) a director nominee; (ii) vote against a management-sponsored proposal; or (iii) vote for a shareholder proposal when the board has not recommended doing so.

Companies should, in line with provision 4 of the UK Code, explain, at the time of announcing the relevant voting results, what actions they intend to take to consult shareholders on the opposition received; and provide an update on the views received from shareholders and the actions taken in response to such views. An update should be provided no later than six months after the meeting and then a final summary should be provided in the annual report.

While the 20% threshold alone will not automatically generate a negative vote recommendation under the Benchmark Policy on a future proposal (e.g., to recommend against a director nominee, against a remuneration proposal, etc.), it will be a contributing factor in recommending a vote in opposition to management in the event that the board did not respond appropriately. Further, the Benchmark Policy may, where appropriate, recommend against chairs and members of the relevant committees where the response to shareholder concerns has fallen below a qualitative threshold.

As a general framework, the Benchmark Policy's evaluation of board responsiveness involves a review of publicly available disclosures released following the date of the company's last annual meeting up to the publication date of the most current Proxy Paper. Depending on the specific issue, the Benchmark Policy's focus typically includes, but is not limited to, the following:

- At the board level, any changes in directorships, committee memberships, disclosure of related party transactions, meeting attendance, or other responsibilities.
- Any revisions made to the company's articles of incorporation, bylaws or other governance documents.

[28] The Benchmark Policy does not apply a look-back period for this situation. The interlock policy applies to both public and private companies. On a case-by-case basis, the Benchmark Policy evaluates other types of interlocking relationships, such as interlocks with close family members of executives or within group companies. Further, the Benchmark Policy will review multiple board interlocks among non-insiders (i.e., multiple directors serving on the same boards at other companies) for evidence of a pattern of poor oversight.

- Any press or news releases indicating changes in, or the adoption of, new company policies, business practices or special reports.
- Any modifications made to the design, structure and/or implementation of the company's remuneration practices; or
- Any modifications made to the company's capital management powers such as share issuance authorities or buyback programmes.

The Benchmark Policy analysis will include a case-by-case assessment of the specific elements of board responsiveness that were examined along with an explanation of how that assessment impacted the Benchmark Policy's vote recommendations.

Proxy Voting Results

Many investors expect companies to broadly and publicly disclose the vote results from general meetings in a timely manner.[29] Access to detailed vote results from general meetings is important for shareholders in conducting their stewardship duties. Specifically, the disclosure of vote results assists shareholders in gaining a better understanding of the outcome of general meetings, establishing engagement priorities, and tracking companies' responses to material shareholder dissent on any of the agenda items. The non-disclosure of vote results can serve to disenfranchise shareholders, particularly at companies with a multi-class share structure or a controlling shareholder.

Accordingly, the Benchmark Policy will raise a concern in its board analysis at companies that did not disclose vote results from their previous annual meeting. While the Companies Act does not require companies to disclose a detailed record of proxy voting results unless a poll has been demanded, nearly all companies in the FTSE 350 Index currently provide full breakdowns of their voting results following their annual meetings. As such, for FTSE 350 companies, the Benchmark Policy will generally recommend that shareholders hold the board chair responsible where a detailed record of the proxy voting results from the last annual meeting has not been disclosed. The vast majority of management resolutions in the UK are approved by shareholders; however, opposition is not uncommon and generally indicates an issue that may require board attention and/or action.

Adequate disclosure of vote results is particularly relevant in the UK as shareholders frequently utilise their right to "withhold" or "abstain" from certain proposals as a way to voice dissent, albeit in a non-binding fashion. Such votes, although often quite substantial, are not counted in the final tally of votes, and resolutions may be passed despite high levels of shareholder abstentions.

Board Size

While there is no consensus on a universally applicable optimum board size, many investors believe that, absent compelling circumstances, a board should comprise no fewer than five directors and should not be excessively large.[30] Absent compelling explanation, the Benchmark Policy will generally recommend a vote against the nominating committee chair if a board has more than 20 directors; and abstaining from voting on the election of the nomination committee chair where a board has fewer than five directors.

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[29] CII Policies on Corporate Governance, 4.4.

[30] CII Policies on Corporate Governance, 2.11.

Human Capital Management & Diversity

Diversity in organisations and the boards that lead them is widely recognised as a positive force for driving corporate performance. Research indicates that diverse and inclusive companies with robust human capital management policies yield superior returns, are more innovative than their peers, and outperform in attracting and retaining talent.[31] A diverse board may also benefit companies and their shareholders by providing a broader and more representative range of perspectives and insights, which enhances board dynamics and can help boards to overcome groupthink.[32]

Gender Diversity at Board Level

All main market boards are required to report on a 'comply or explain' basis against certain gender diversity targets as follows: [33]

- At least 40% of the board are women (including those self-identifying as women);
- At least one of the senior board positions (chair, CEO, senior independent director or CFO) is a woman (including those self-identifying as a woman).

The FTSE Women Leaders Review, which pre-dates these Listing Rules targets, sets a deadline of the end of 2025 for FTSE 350 companies to achieve 40% gender diversity on boards.

The Benchmark Policy will generally recommend that shareholders do not support the re-election of the chair of the nomination committee (or equivalent), where:

- FTSE 350 boards are not composed of at least 40% gender diverse directors;
- Boards of main market companies outside of the FTSE 350 do not include at least two gender diverse directors;[34] and
- Boards of AIM-quoted companies do not include at least one gender diverse director.[35]

The Benchmark Policy will consider the board's disclosure on diversity and/or mitigating circumstances, including:

- Where a board consists of four or fewer directors;
- Where a company discloses a credible plan to address the gender imbalance on the board within a near-term and defined timeframe (e.g., by the time of the next annual meeting or scheduled board election);
- Where a company otherwise demonstrates its commitment to diversity through an exceptionally diverse board[36] or through the composition of, or disclosed succession plans for, its executive committee; and/or

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[31] See: Credit Suisse (2019) CS Gender 3000 in 2019; Boston Consulting Group (2017) The Mix That Matters - Innovation Through Diversity; Deloitte (2017) Unleashing the power of inclusion: Attracting and engaging the evolving workforce.
[32] CII Policies on Corporate Governance, 2.8b; ICGN Global Principles, 3.2.
[33] 9.8.6R(9), UK Listing Rules, The Financial Conduct Authority.
[34] Prevailing practice in the UK indicates that main market boards are moving towards gender diversity in line with the Listing Rules targets. The majority of main market boards have now moved past a 'one-and-done' approach to diversity.
[35] The QCA Code states boards should reflect on their diversity, with specific consideration made toward gender. The significant majority of AIM-quoted companies now include at least one gender diverse director on the board.
[36] Principle J of the UK Code states that board appointment and succession plans should promote diversity, inclusion and equal opportunity.

- In other exceptional and company-specific cases (e.g., recent uplisting, unexpected director resignation etc.).

The Benchmark Policy will continue to consider progress towards best practice prevalent in the market, and may recommend against the nomination committee chair in cases where a board has made insufficient progress and has not disclosed any cogent explanation or plan to address the issue.

Diversity of Ethnicity and National Origin at Board Level

Many investors believe that the composition of a board should be representative of a company's workforce, the jurisdictions in which it principally conducts its business activities, and its other key stakeholders.[37] Many UK companies include diversity of ethnicity and national origin as attributes in their composition profiles, define targets for diversity of ethnicity and national origin, and disclose information on the ethnic and national backgrounds of directors and board nominees.

In particular, FTSE 350 companies should provide meaningful disclosure regarding their performance against the Parker Review targets[38] that FTSE 100 companies and FTSE 250 companies should include at least one director from an ethnic minority group by the end of 2021 and 2024, respectively. The Benchmark Policy will take into consideration instances where FTSE 350 companies have failed to provide meaningful disclosure in this regard, and will generally recommend that shareholders vote against the re-election of the chair of the nomination committee at FTSE 350 boards that have failed to appoint one director of an ethnic minority group and have failed to provide clear and compelling disclosure for why they have been unable to do so.

Further, all main market boards with a reporting period starting on or after April 1, 2022, should report, on a 'comply or explain' basis, against a target of at least one member of the board being from a minority ethnic background.[39]

In egregious cases where a board has failed to address legitimate shareholder concerns regarding the diversity of ethnicity and national origin at board level, the Benchmark Policy may also recommend that shareholders vote against the re-election of the chair of the nomination committee.

Diversity of Skills and Experience at Board Level

Many investors expect companies to disclose sufficient information to allow a meaningful assessment of a board's skills and competencies. The Benchmark Policy analysis of election proposals at FTSE 350 companies (excluding investment companies) includes an explicit assessment of skills disclosure.

If a board has failed to address material concerns regarding the mix of skills and experience of the non-executive element of the board, the Benchmark Policy may recommend a vote against the chair of the nomination committee. In the case of a by-election where it is unclear how the election of the candidate will address a substantial skills gap, the Benchmark Policy may recommend a vote against the new nominee to the board.

[37] CII Policies on Corporate Governance, 2.8b; ICGN Global Principles, 3.2.
[38] Report into the Ethnic Diversity of UK Boards. The Parker Review Committee. October 2017.
[39] 9.8.6R(9), UK Listing Rules, The Financial Conduct Authority.

In egregious cases where the disclosure of a FTSE 350 company does not allow for a meaningful assessment of the key skills and experience of incumbent directors and nominees to a board, the Benchmark Policy may recommend a vote against the chair of the nomination committee.

Workforce Diversity and Inclusivity Measures

Many investors hold that human capital management is an area of material importance to companies and should be incorporated into the board's risk oversight responsibilities.[40] Maintaining a diverse and engaged workforce can help mitigate risks related to low worker productivity, employee turnover, and lawsuits based on discrimination or harassment.

Given the importance of this issue, the Benchmark Policy expects companies to provide shareholders with adequate information to be able to assess the oversight afforded to this critical aspect of their operations, and the mitigation of any attendant risks. Examples of disclosure in this regard include information on a company's workforce diversity policies, data on the diversity of underrepresented groups in management positions and in the wider workforce, measures to increase the representation of underrepresented groups, as well as other relevant policies and performance on hiring, retention, and equal treatment (e.g., measures to attract and retain staff from underrepresented groups, gender pay gap data, etc.).

In egregious cases where boards have failed to respond to legitimate concerns regarding a company's policies, practices and disclosure, the Benchmark Policy may recommend voting against the chair of the committee tasked with oversight of the company's governance practices or, where such a committee has not been established, the chair of the board.

Human Capital Management Oversight

Effective board oversight of human capital management issues is not limited to a company's policies and disclosure on workforce diversity and inclusivity measures; rather, boards should be considered broadly accountable for direct oversight of workplace issues at large, which includes labour practices, employee health and safety, and employee engagement, diversity, and inclusion.[41]

The UK Code recommends that boards establish a mechanism for engaging the workforce in board discussions and decision-making.[42] Specifically, boards are recommended to i) allow for the appointment of an employee representative to the board; ii) establish a formal workforce advisory panel; iii) designate a non-executive director to represent the views of the workforce; or iv) establish an alternative arrangement. In addition to disclosing the chosen method, shareholders may reasonably expect that FTSE 350 companies should also provide meaningful disclosure on an annual basis regarding the implementation of their workforce engagement mechanism. Examples in this regard could include disclosure of the number of meetings and topics of discussion on the workforce advisory panel, activities of the designated NED in the past year, details of any employee engagement metrics or surveys used, and/or the means for reviewing complaints regardless of the chosen engagement mechanism.

In egregious cases where a board has failed to respond to legitimate concerns with a company's employee engagement or broader human capital management practices, the Benchmark Policy may recommend

[40] CII Policies on Corporate Governance, 2.7; ICGN Global Principles, 1.1e and 6.2.
[41] SASB Universe of Sustainability Issues.
[42] Provision 5 of the UK Code.

shareholders vote against, as applicable, the NED designated to represent the views of the workforce, the chair of the committee tasked with oversight of the company's governance practices or the chair of the board, as applicable.

Board-Level Risk Management Oversight

The Benchmark Policy evaluates the risk management function of a public company board on a strictly case-by-case basis. Sound risk management, while necessary at all companies, is particularly important at financial firms which inherently maintain significant exposure to financial risk. Financial firms should have a chief risk officer and/or a risk committee reporting directly to the board and a dedicated risk committee or a committee of the board charged with risk oversight.[43] Moreover, many non-financial firms maintain strategies which involve a high level of exposure to financial risk. Similarly, since many non-financial firms have complex hedging or trading strategies, those firms should also have a chief risk officer and a risk committee.[44]

When analysing the risk management practices of public companies, the Benchmark Policy will take note of any significant losses or write-downs on financial assets and/or structured transactions. In cases where a company has disclosed a sizable loss or write down, and where the company's board-level risk committee may have contributed to the loss through poor oversight, the Benchmark Policy may recommend that shareholders vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (via a dedicated committee or otherwise),[45] the Benchmark Policy may recommend a vote against the board chair on that basis. However, the Benchmark Policy will generally not recommend voting against a combined chair/CEO or executive chair, except in egregious cases.

Board Oversight of Environmental and Social Issues

Insufficient oversight of material environmental and social issues can present direct legal, financial, regulatory and reputational risks that could serve to harm shareholder interests. Therefore, shareholders generally benefit when such issues are carefully monitored and managed by companies, and when companies have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalising on related opportunities to the best extent possible.

To that end, the Benchmark Policy looks to companies to ensure that boards maintain clear oversight of material risks to their operations, including those that are environmental and social in nature. These risks could include, but are not limited to, matters related to climate change, human capital management, diversity, stakeholder relations, and health, safety & environment. Given the importance of the board's role in overseeing

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[43] Basel Committee on Banking Supervision guidelines on corporate governance principles for banks; FCA Handbook, MIFIDPRU 7.3.1R; PRA Rulebook: Risk Control Rule 3.1

[44] *Ibid.*

[45] A committee responsible for risk management could be a dedicated risk committee, the audit committee, or the finance committee, depending on a given company's board structure and method of disclosure. At some companies, the entire board is charged with risk management.

environmental and social risks, this responsibility should be formally designated and codified in the appropriate committee charters or other governing documents.

While it is important that material environmental and social issues are overseen at the board level and that shareholders are afforded meaningful disclosure of these oversight responsibilities, the Benchmark Policy is of the view that companies should determine the best structure for this oversight. This oversight can be effectively conducted by specific directors, the entire board, a separate committee, or combined with the responsibilities of a key committee.

The Benchmark Policy will generally recommend voting against the governance committee chair (or equivalent)[46] of FTSE 100 companies that fail to provide explicit disclosure concerning the board's role in overseeing material environmental and social issues. Additionally, the Benchmark Policy analysis will note a concern when boards of FTSE 250 companies have failed to provide explicit disclosure in this regard.

Board Accountability for Environmental and Social Performance

The Benchmark Policy carefully monitors companies' performance with respect to environmental and social issues, including those related to climate and human capital management. In situations where a company has not properly managed or mitigated material environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, the Benchmark Policy may recommend that shareholders vote against the members of the board who are responsible for oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, the Benchmark Policy may recommend that shareholders vote against members of the audit committee. In making these determinations, the Benchmark Policy will carefully review the situation, its effect on shareholder value, as well as any corrective action or other response made by the company.

For more information on how the Benchmark Policy evaluates environmental and social issues, please see the "Overall Approach to ESG" section of these guidelines as well as the comprehensive *Benchmark Policy Guidelines for Shareholder Proposals & ESG-Related Issues,* available at www.glasslewis.com/voting-policies-current/.

Board Accountability for Climate-Related Issues

Given the exceptionally broad impacts of a changing climate on companies, the economy, and society in general, climate risk can present a material risk for companies in all industries. Accordingly, it is important that boards consider and evaluate their operational resilience under lower-carbon scenarios. While all companies maintain exposure to climate-related risks, additional consideration should be given to, and disclosure should be provided by, those companies whose own GHG emissions represent a financially material risk. For companies with this increased risk exposure, the Benchmark Policy evaluates whether companies are providing clear and comprehensive disclosure regarding these risks, including how they are being mitigated and overseen. Such information is crucial to allow investors to understand the company's management of this issue as well as the potential impact of a lower carbon future on the company's operations.

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[46] For example, the chair of a committee with additional accountability for governance oversight, or board chair or senior independent director.

In line with this view, the Benchmark Policy will carefully examine the climate-related disclosures provided by FTSE 100 companies with material exposure to climate risk stemming from their own operations,[47] as well as companies where their emissions, climate impacts, or stakeholder scrutiny thereof, represent an outsized, financially material risk, in order to assess whether they have produced disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), IFRS S2 Climate-related Disclosures, or other equivalent climate reporting framework. The Benchmark Policy will also assess whether these companies have disclosed explicit and clearly defined board-level oversight responsibilities for climate-related issues. In instances where either (or both) of these disclosures are found to be absent or significantly lacking, the Benchmark Policy may recommend voting against the chair of the committee (or board) charged with oversight of climate-related issues, or if no committee has been charged with such oversight, the chair of the governance committee. Further, the Benchmark Policy may extend this recommendation on this basis to additional members of the responsible committee in cases where the committee chair is not standing for election due to a classified board, or based on other factors, including the company's size, industry and its overall governance profile. In instances where appropriate directors are not standing for election, the Benchmark Policy may, instead, recommend shareholders vote against other matters that are up for a vote, such as the ratification of board acts, or the accounts and reports proposal.

Board Oversight of Technology

Cyber Risk Oversight

Companies and consumers are exposed to a growing risk of cyber-attacks. These attacks can result in customer or employee data breaches, harm to a company's reputation, significant fines or penalties, and interruption to a company's operations. Further, in some instances, cyber breaches can result in national security concerns, such as those impacting companies operating as utilities, defence contractors, and energy companies.

In response to these issues, regulators have increasingly been focused on ensuring companies are providing appropriate and timely disclosures and protections to stakeholders that could have been adversely impacted by a breach in a company's cyber infrastructure.

Given the regulatory focus on, and the potential adverse outcomes from, cyber-related issues, many investors view cyber risk as material for all companies. Accordingly, it is critical that companies evaluate and mitigate these risks to the greatest extent possible.[48] With that view, all issuers are encouraged to provide clear disclosure concerning the role of the board in overseeing issues related to cybersecurity, including how they are ensuring directors are fully versed on this rapidly evolving and dynamic issue. Such disclosure can help shareholders understand the seriousness with which companies take this issue.

In the absence of material cyber incidents, the Benchmark Policy will generally not make voting recommendations on the basis of a company's oversight or disclosure concerning cyber-related issues. However,

[47] This policy will generally apply to companies in the following SASB-defined industries: agricultural products, air freight & logistics, airlines, chemicals, construction materials, containers & packaging, cruise lines, electric utilities & power generators, food retailers & distributors, health care distributors, iron & steel producers, marine transportation, meat, poultry & dairy, metals & mining, non-alcoholic beverages, oil & gas, pulp & paper products, rail transportation, road transportation, semiconductors, waste management.

[48] CII Policies on Corporate Governance, 2.7; ICGN Global Principles, 6.2.

in instances where cyber-attacks have caused significant harm to shareholders, the board's oversight of cybersecurity as well as the company's response and disclosures will be closely evaluated.

Moreover, in instances where a company has been materially impacted by a cyber-attack, it is reasonable for shareholders to expect periodic updates communicating the company's ongoing progress towards resolving and remediating the impact of the cyber-attack. Such updates should include (but are not necessarily limited to) details such as when the company has fully restored its information systems, when the company has returned to normal operations, what resources the company is providing for affected stakeholders, and any other potentially relevant information, until the company considers the impact of the cyber-attack to be fully remediated. These disclosures should focus on the company's response to address the impacts to affected stakeholders and should not reveal specific and/or technical details that could impede the company's response or remediation of the incident or that could assist threat actors.

In such instances, the Benchmark Policy may recommend against appropriate directors if the board's oversight, response or disclosure concerning cybersecurity-related issues is insufficient or has not been provided to shareholders.

Board Oversight of Artificial Intelligence

In recent years, companies have rapidly begun to develop and adopt uses for artificial intelligence (AI) technologies throughout various aspects of their operations. Deployed and overseen effectively, AI technologies have the potential to make companies' operations and systems more efficient and productive. However, as the use of these technologies has grown, so have the potential risks associated with companies' development and use of AI. Given these potential risks, boards should be cognizant of, and take steps to mitigate exposure to, any material risks that could arise from their use or development of AI.

Companies that use or develop AI technologies should consider adopting strong internal frameworks that include ethical considerations and ensure they have provided a sufficient level of oversight of AI. As such, boards may seek to ensure effective oversight and address skills gaps by engaging in continued board education and/or appointing directors with AI expertise. With that view, all companies that develop or employ the use of AI in their operations should provide clear disclosure concerning the role of the board in overseeing issues related to AI, including how companies are ensuring directors are fully versed on this rapidly evolving and dynamic issue. Such disclosure can help shareholders understand the seriousness with which companies take this issue.

While it is important that these issues are overseen at the board level and that shareholders are afforded meaningful disclosure of these oversight responsibilities, clear investor preferences are yet to be established on the best structure for this oversight. Oversight may be effectively conducted by specific directors, the entire board, a separate committee, or combined with the responsibilities of a key committee.

In the absence of material incidents related to a company's use or management of AI-related issues, the Benchmark Policy will generally not make voting recommendations on the basis of a company's oversight of, or disclosure concerning, AI-related issues. However, in instances where there is evidence that insufficient oversight and/or management of AI technologies has resulted in material harm to shareholders, the Benchmark Policy will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of AI-related risks. It will also closely evaluate the board's response to, and management of, this issue as well as any associated disclosures and may recommend against appropriate directors if the board's oversight, response or disclosure concerning AI-related issues is found to be insufficient.

Investment Company Boards

Investment companies pool investors' money and invest in the shares of a wider range of companies than most people could practically invest in by themselves. Investment companies include investment trusts, non-UK investment companies, Real Estate Investment Trusts (REITs)[49] and Venture Capital Trusts (VCTs). Generally, investment companies delegate the task of investing to a professional fund manager. Investment companies often have no executive directors or employees, and do not have customers in the traditional sense, only shareholders.

UK-incorporated investment companies are generally members of the Association of Investment Companies (AIC). AIC members may report against the AIC Code of Corporate Governance (AIC Code),[50] which is endorsed by the FRC, to meet obligations under the UK Code. AIC members which elect to report against the AIC Code are not required to report on certain issues in the UK Code that are not addressed in the AIC Code. Given the different structure of investment companies relative to other publicly traded companies, the Benchmark Policy applies a different set of corporate governance standards.[51]

The following is a summary of our significant policy differences for investment companies:

- Unlike the chair of an operating company, the chair of an investment company is still considered independent following appointment. Provided the chair is independent, a senior independent director is not required. However, the Benchmark Policy will recommend voting against a chair who is employed by, or represents, the investment manager.
- Boards may have a minimum of four directors, rather than five.
- Boards need not maintain standing remuneration or nomination committees. However, the board's nomination process should be led by its independent directors and outlined in the annual report.
- The chair of an investment company should not serve on the boards of other investment companies that are managed by the same investment manager. However, when they are, the Benchmark Policy will generally recommend shareholders vote against the chair. While other non-executive directors may serve on boards that are managed by the same manager, these directors will be classified as "affiliated".
- The Benchmark Policy may make exceptions to the policies outlined in the "External Commitments" section of these guidelines for directors who serve on the boards of multiple investment companies, given the more limited scope of a non-executive role on the board of an investment company, compared with a company that maintains operations. Many shareholders may, nevertheless, expect the board to provide context to shareholders regarding the nature of the roles held by a director who maintains more than five board positions at publicly listed companies.

[49] The Benchmark Policy generally does not consider internally managed REITs as investment companies for corporate governance purposes, as they often function much like any other operating company.
[50] https://www.theaic.co.uk/aic-code-of-corporate-governance
[51] The Benchmark Policy approach to investment companies is primarily based on the AIC Code.

For additional exceptions related to share issuance authorities for investment companies, please refer to the "Capital Management" section of these guidelines.

Transparency and Integrity in Financial Reporting

Accounts and Reports

In the UK, companies must submit their annual financial statements, director reports and independent auditor's reports to shareholders for approval at the AGM. Shareholder approval of such a proposal does not discharge the board or management, and these types of resolutions are usually limited to an acknowledgement of receipt of the annual report. The Benchmark Policy will typically recommend shareholders vote for these proposals, except when there are concerns about the integrity of the financial statements/reports, or in cases where a company's auditor has not provided an unqualified opinion on the financial statements.[52]

In rare instances, the Benchmark Policy may recommend that shareholders vote against this proposal if there are serious governance failings (e.g., none of the board members are independent) that shareholders are unable to address through normal channels, such as the election of directors. Also in rare instances, the Benchmark Policy may recommend that shareholders reject an annual report if the company has serious recurring problems negatively affecting shareholder value that the board has not adequately addressed.

Should the audited financial statements, auditor's report and/or annual report not be available at the time of writing of the Proxy Paper report, the Benchmark Policy will recommend that shareholders abstain from voting on this proposal, as a lack of sufficient corporate information can prevent shareholders from making informed decisions.

Appointment of Auditor and Authority to Set Fees

The auditor's role as gatekeeper is crucial in ensuring the integrity and transparency of the financial information necessary for protecting shareholder value. Shareholders rely on auditors to ask tough questions and provide a thorough analysis of the company's books. Auditors must ensure that the information ultimately provided to shareholders is accurate, fair and a reasonable representation of the company's financial position. The only way shareholders can make rational investment decisions is if the market is provided with accurate information about the fiscal health of the company.

Shareholders should demand the services of objective and well-qualified auditors at every company in which they hold an interest. Similar to directors, auditors should be free from conflicts of interest and should

[52] The Benchmark Policy will consider the reasoning provided by the statutory auditor as well as any relevant public disclosure from the company. In cases where the auditor has included an emphasis of matter or raised concerns regarding the going concern basis of a company in its report on the financial statements, the Benchmark Policy will generally not recommend a vote against the proposal unless there are other legitimate concerns regarding the integrity of the financial statements and reports.

assiduously avoid situations that require them to make choices between their own interests and those of the shareholders they serve.

As entrenchment can erode the independence and effectiveness of the audit firm, the audit committee should ensure that audit work is tendered at least every ten years and that the auditor is rotated at least every twenty years.[53] In addition, the audit committee, rather than management, should serve as the auditor's point of contact.

Auditor Voting Recommendations

The Benchmark Policy generally supports management's recommendation regarding the selection of an auditor, and the Benchmark Policy will typically recommend granting the board the authority to fix auditor fees, unless the independence of a returning auditor or the integrity of the audit has been compromised.

The reasons the Benchmark Policy will recommend that shareholders vote against the board's authority to appoint the auditor and/or set the auditor's fees include:

- When non-audit fees are greater than audit and audit-related fees paid to the auditor.
- When the company has demonstrated aggressive accounting policies, evidenced by restatements or other financial reporting problems.
- When the company has poor disclosure or a lack of transparency in its financial statements.
- Where the auditor limited its liability through its contract with the company.
- When there have been recent material restatements or late filings by the company and the auditor bears some responsibility for the restatement or late filing (e.g., a restatement due to a reporting error).[54]
- When the company has, without a suitable explanation, failed to put its independent audit work to a tender within the past ten years. In addition, the Benchmark Policy may recommend against the audit committee chair for a continued failure in this regard and/or in the event that there are additional concerns as to the auditor's independence.
- When there are other relationships or issues of concern with the auditor that might suggest a conflict between the interests of the auditor and those of shareholders.
- When the auditor performs prohibited services, such as tax-shelter work, tax services for top executives or contingent-fee work, such as a fee based on the percentage of economic benefit to the company.

The Benchmark Policy may grant one-time exceptions when fees for one-time corporate finance transactions and due diligence work related to mergers, acquisitions or disposals make up a significant portion of the year's non-audit work. While a company's independent auditor should not provide a significant amount of services unrelated to the audit, given the auditor's intimate knowledge of the companies that they audit and the importance of these types of transactions, shareholders may reasonably consider their assistance in these matters to be acceptable, provided their provision of such services does not persist.

[53] Competition & Markets Authority's Audit Services Order 2014.

[54] An auditor is not required to perform an audit of interim financial statements and accordingly, in general, the Benchmark Policy will not recommend shareholders oppose auditor-related proposals based on a restatement of interim financial statements, unless the nature of the misstatement is clear from a reading of the incorrect financial statements.

The Link Between Pay and Performance

Market expectations are such that an executive's remuneration should be linked directly with the performance of the company. Remuneration arrangements should provide for a mix of performance-based short- and long-term incentives, in addition to base salary. Comprehensive, timely and transparent disclosure of executive pay is critical to allow shareholders to evaluate the extent to which pay is aligned with company performance.

The Benchmark Policy reviews executive remuneration on both a qualitative basis and quantitative basis. The guidelines in this section reflect best practice generally, with specific regard to the UK. The Investment Association serves as one of the primary drivers of remuneration best practice in the UK.

Remuneration Voting

In the UK, investors are provided with multiple platforms to demonstrate approval or register concerns regarding executive remuneration packages. From 2003, UK companies listed on the Main Market of the LSE have been required to prepare a directors' remuneration report and present it for shareholder approval on a non-binding, advisory basis annually.

Following the introduction of the Enterprise and Regulatory Reform Act 2012, listed UK-incorporated companies have also been required to submit their remuneration policy to a binding shareholder vote at least every three years, or when the board otherwise wishes to amend the policy. In conjunction, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 introduced new reporting requirements for the directors' remuneration report, including a structural split between the Policy and Implementation Report to reflect the new voting structure.

In the forward-looking remuneration policy proposal, shareholders are voting on the overarching framework that governs executive remuneration. This includes the maximum amount payable under each component, the basis of performance measurement, where applicable, and its connection to overall strategy. It should also explain the company's remuneration philosophy and all applicable policies relating to recruitment, service contracts and exit payments. No payments can be made outside of the approved policy without shareholder approval.

The Implementation Report sets out how the policy was implemented over the past fiscal year, and how it will be implemented in the current year. It is put to an annual, non-binding, advisory shareholder vote that provides shareholders with an opportunity to weigh in on remuneration decisions during the past year, as well as ongoing structural issues. If the proposal does not receive majority approval in a year in which the remuneration policy was not put to vote, the company is required to submit its Policy Report to a binding vote at the next AGM.

The Benchmark Policy provides a nuanced approach to executive remuneration; all factors are reviewed, including structural features, the presence of effective best practice policies, disclosure quality and trajectory-related factors. Further, the Benchmark Policy reviews executive remuneration on both a qualitative and quantitative basis, recognising that each company must be examined in the context of its industry, size, financial condition, its historic pay-for-performance practices, ownership structure and any other relevant internal or external factors. The Benchmark Policy reviews significant changes or modifications, and associated rationale, made to a company's remuneration structure or award levels, including base salaries, on a case-by-case basis.

Except for particularly egregious pay decisions and practices, no one factor would ordinarily lead to a negative recommendation without a review of the company's rationale and/or the influence of such decisions or practices on other aspects of the pay programme.

Vote on Remuneration Policy

Investors generally expect that remuneration policies should provide clear disclosure of an appropriate framework for managing executive remuneration.[55] While this framework will vary for each company, it should generally provide an explicit link to the company's strategy, setting appropriate quantum limits along with structural safeguards to prevent excessive or inappropriate payments -- particularly any reward where there is misalignment between outcomes and the wider stakeholder experience. Remuneration policies should also provide sufficient flexibility to allow boards to manage matters of recruitment, severance, and professional development as they arise to avoid the necessity of seeking shareholder approval for policy amendments or special payments outside the policy.

For most companies, a remuneration policy that complies with best practice should:

- Emphasise incentive pay in the form of equity, weighted towards a total vesting and holding period of five or more years and a performance/vesting period of at least three years[56];
- Incentivise executives based on goals that are aligned with strategy while avoiding overly complex structures or those that may encourage excessive risk-taking;
- Set reasonable and transparent award limits, expressed as a multiple of base salary;
- Limit the application of discretion to clearly defined circumstances;
- Include structural safeguards and risk mitigating features such as clawback/malus provisions, deferral, post-vesting holding periods (typically two years), in-post and post-employment shareholding requirements (please refer to the "Shareholding Requirements" section below);
- Expressly comply with the Investment Association's recommendations regarding equity-related dilution;
- Disclose a clear approach to recruitment, including reasonable award limits and delivery structures that align the interests of incoming executives with those of shareholders;
- Disclose all relevant details of executive service contracts, limiting notice period entitlements to salary and benefits over 12 months or less, subject to mitigation; and
- Comply with all disclosure requirements set out by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013.

When a company's executive remuneration policy deviates from these guidelines, a clear and compelling rationale for why the proposed structure or practice is appropriate for the company should be provided. Key issues typically considered when analysing remuneration policies under the Benchmark Policy, and in particular when weighing a recommendation to vote against these proposals, are as follows:

[55] CII Policies on Corporate Governance, 5.3; ICGN Global Principles, 5.5.

[56] Provision 36 of the UK Code recommends combined vesting/holding periods of five years. while the IA's Principles of Remuneration also outline expected market practice of a minimum three-year performance/vesting period.

- The policy allows for high pay (as compared to the company's peers) that is not subject to relevant and challenging performance targets over the period and when such pay has not been merited by outstanding company performance over the period;
- Increases in quantum (fixed pay or variable opportunity), absent a sufficient rationale;
- The terms of an equity-based scheme are not appropriate (see "Incentive Plans" for more information);
- The overall remuneration structure or the balance between short- and long-term incentive plans are not appropriate or in shareholders' best interests;
- There is an overreliance on remuneration benchmarks;
- The policy does not include structural safeguards and risk mitigating features, such as clawback/malus provisions, bonus deferral, post-vesting holding periods, and in-post and post-employment shareholding requirements;
- Service contracts provide for notice periods of longer than 12 months. For recruitment purposes only, longer contracts may be approved if they revert to one year or less after the initial term expires;
- Service contracts provide for the enhancement of employment terms or remuneration rights in excess of 12 months in the event of a change of control;
- The policy does not reflect appropriate share-based dilution limits;
- The incentive structure relies on, or allows an excessive level of, committee discretion without appropriate justification;
- Pension contribution rates are not aligned with the wider workforce or any element of variable pay is pensionable;
- Where substantial changes that mark a worsening of the policy's overall structure have been proposed and have not been adequately explained or justified;
- Non-executive directors are eligible for cash and/or equity awards on similar terms as those granted to executives; and
- Material shareholder dissent on the company's remuneration practices is not sufficiently addressed.[57]

Further, if the company has failed to sufficiently disclose the terms of its policy, the Benchmark Policy may recommend that shareholders vote against the proposal solely on this basis.

In the application of the Benchmark Policy, changes to companies' remuneration policies are closely reviewed to determine whether the changes will benefit shareholders and, therefore, whether shareholders should support the proposals. Where a proposed policy represents a significant improvement over the existing policy, the Benchmark Policy may recommend voting for the proposal, even when the proposed policy contains some deficiencies.

Vote on Remuneration Report

The advisory implementation vote provides shareholders with an important opportunity to support or oppose remuneration policies and practices. As such, the Benchmark Policy voting recommendations may reflect ongoing structural concerns as well as remuneration decisions and outcomes during the past fiscal year. The Benchmark Policy is, therefore, primarily concerned with the board's implementation and administration of the company's remuneration policy during the year under review. The advisory implementation vote also provides

[57] See "Board Responsiveness" section of these guidelines.

shareholders with an important opportunity to support or oppose remuneration policies and practices more generally. Accordingly, the Benchmark Policy vote recommendations may also reflect ongoing concerns with a company's remuneration structure and practices that are not explicitly limited to the year under review.

In assessing implementation during the year under review, particular attention is paid to the alignment between performance and pay outcomes, and the committee's level of disclosure regarding any application of discretion. In cases where remuneration practices or disclosure are in significant need of reform, the Benchmark Policy will typically recommend that shareholders vote against the remuneration report proposal. Generally, such instances include evidence of a pattern of poor pay-for-performance practices, unclear or questionable disclosure regarding the overall remuneration structure (e.g., limited information regarding benchmarking processes, limited rationale for bonus performance metrics and targets, etc.), questionable adjustments to certain aspects of policy implementation and/or outcomes (e.g., limited rationale for significant changes to performance targets or metrics, the payout of guaranteed bonuses or sizeable retention grants, etc.) and/or other egregious remuneration practices.

While not an exhaustive list, the following are indications of problematic pay practices or remuneration committee decisions that may result in a Benchmark Policy recommendation to vote against the remuneration report proposal:

- Remuneration outcomes that are not correlated with overall company performance or the stakeholder experience, or are high compared to a company's peers;
- Significant increases in base salary or variable incentive opportunity, absent a compelling rationale;
- Egregious or excessive bonuses, equity awards, or severance payments;
- Guaranteed bonuses;
- Performance targets that are not sufficiently challenging and/or providing for unreasonably high potential payouts, do not align with business strategy over the long-term, or are well below actual past performance, previous targets, or strategic targets provided in guidance to shareholders, absent a compelling rationale for lowering the target;
- Lowered performance targets without justification;
- Lack of disclosure regarding performance metrics and targets;
- Discretionary payments that fall outside of short- and long-term incentive plans;
- Inappropriate use of committee discretion;
- Equity awards being granted to non-executive directors on similar terms as those granted to executive directors; and
- Material shareholder dissent on the company's remuneration practices is not sufficiently addressed.[58]

Accountability of the Remuneration Committee

In cases where there are substantial concerns with the performance of the remuneration committee, the Benchmark Policy may recommend that shareholders vote against the re-election of the chair and/or other members of the committee. For example, the Benchmark Policy may recommend against the re-election of the committee chair where there are substantial concerns with the remuneration policy presented for shareholder approval and/or the pay practices outlined in the remuneration report, or against the re-election of all members

[58] See the "Board Responsiveness" section of these guidelines.

for particularly egregious remuneration practices -- particularly where these are ongoing. Such instances may include cases in which a company maintains egregious remuneration practices that have existed over multiple years without any apparent steps to address the issues. In addition, the Benchmark Policy may recommend voting against the entire committee based on the practices or actions of its members, such as approving large one-off payments, the inappropriate use of discretion in determining variable remuneration, and/or sustained poor pay-for-performance practices.

Please refer to the "Remuneration Committee Performance" section of these guidelines for further information.

Pay for Performance

An integral part of a well-structured remuneration package is a successful link between pay and performance. Glass Lewis's proprietary pay-for-performance model, which serves as the Benchmark Policy's primary quantitative analysis, was developed to better evaluate the link between pay and performance. Generally, remuneration and performance are measured against a peer group of appropriate companies that may overlap, to a certain extent, with a company's self-disclosed peers. This quantitative analysis provides a consistent framework and historical context to determine how well companies link executive remuneration to relative performance. Glass Lewis's methodology takes a scorecard-based approach in evaluating pay-and-performance alignment. Final alignment scores are determined by the weighted sum of up to five tests, each with their own severity rating. Overall scores and ratings range as follows:

- Severe Concern: 0 to 20 points
- High Concern: 21 to 40 points
- Medium Concern: 41 to 60 points
- Low Concern: 61 to 80 points
- Negligible Concern: 81 to 100 points

The individual tests are as follows:

- Total vested CEO pay vs. TSR:
- Total vested CEO pay vs. financial performance;
- CEO STI payouts (in relation to maximum opportunity) vs. TSR;
- CEO LTI payouts (in relation to maximum opportunity) vs. TSR;
    - Alternative test for STI and LTI payout: Total vested CEO pay vs. company size measures as multiple of median;
- Qualitative downward modifier.

Separately, a specific comparison between the company's executive pay and its peers' executive pay levels may be discussed in the analysis of the remuneration report proposals for additional insight into the score. Likewise, a specific comparison between the company's performance and its peers' performance may be reflected in the analysis for further context.

Companies that demonstrate a weaker link (an overall rating of "Severe Concern" or "High Concern") are more likely to receive a negative recommendation under the benchmark policy; however, other qualitative factors are considered in developing recommendations as each company is reviewed on a case-by-case basis. These additional factors include, but are not limited to, the consideration of competitors based in other regions (and, therefore, excluded from the peer group utilised by the model), overall incentive structure, trajectory of the programme and disclosed future changes, the operational, economic and business context for the year in review, reasonable payout levels, or the presence of compelling disclosure explaining any deviation from best practice. These factors may provide sufficient rationale for the Benchmark Policy to recommend in favour of a proposal, even there is an identified disconnect between pay and performance.

In determining the peer groups used in our pay-for-performance scores, a proprietary methodology is utilised that considers both market and industry peers. Each component is considered on a weighted basis and is subject to size-based ranking and screening. Peers for companies based in the UK are derived from a pool composed of large- and mid-cap companies based in the largest European markets[59] and the UK. Since the peer group used is based on an independent, proprietary technique, it will often differ from the one used by the company which, in turn, may affect the resulting analyses. While the independent, rigorous methodology used provides a valuable perspective on the company's remuneration programme, the company's self-selected peer group may also be presented in the Proxy Paper for comparative purposes and for supplemental analyses.

Disclosure

Clear, concise and comprehensive disclosure of the company's remuneration structure and practices is essential for shareholders to make an informed assessment. The level of explanatory disclosure provided by the remuneration committee is particularly important in relation to one-off exceptional issues (including recruitment), areas where the policy or practices deviate from best practice, or any application of discretion. In the case of recruitment grants, the committee should provide an explanation of the award's necessity, and the methodology used in determining the size and structure of the award.

To facilitate an assessment of all payments and incentive awards, and their relationship to performance and strategy, the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 provide for a uniform set of disclosures.

Individual pay is calculated as a "single total figure", comprising salary, pension and benefits, as well as any other applicable awards or payments. Incentive awards are reported in the final year of the performance period. As such, bonuses reflect awards in respect of, not paid in, the past fiscal year. However, long-term awards typically reflect the ultimate vested value of awards granted three to five years previously, based on performance against targets and calculated using current share price for equity grants.

The terms of the incentive structure, including an explanation of how performance targets are determined, and the actual metrics and specific targets utilised where appropriate, should be disclosed and put in the context of the company's business strategy.

In addition, the regulations require that the Implementation Report disclose:

- Directors' shareholdings, including a breakdown of directly held shares and shares under award, including those that have yet to vest;

[59] Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland.

- A comparison of company performance and CEO pay for up to ten years preceding the current fiscal year, based on the single total figure;
- A comparison of the remuneration paid to all employees relative to shareholder distributions and any other uses of profit or cash flow deemed relevant by the directors;
- Any other individuals or organisations that assisted the remuneration committee, including amounts paid in respect of consulting work; and
- Voting results for all remuneration proposals at the prior general meeting.

Further, the disclosure of pay ratios between the CEO and median or average UK-based employee may be useful in contextualising the levels of executive remuneration both within a business and within industries. As such, many investors view the disclosure of such pay ratios as good governance practice, even where not required by the Companies (Miscellaneous Reporting) Regulations 2018,[60] especially when accompanied by a description of the methodology for their calculation. However, while the pay ratio has the potential to provide additional insight when assessing a company's pay practices, the Benchmark Policy will not base voting recommendations solely on these ratios.

Engagement and Company Responsiveness

Engagement between the remuneration committee and shareholders can provide a constructive forum for dialogue, and, in some cases, allow companies to explain or address points of contention before they come to a vote. In addition, where practicable, boards should keep shareholders engaged with the remuneration process through regular dialogue and preemptive consultation, particularly in relation to any one-off exceptional issues, or before making any material strategic remuneration decisions to the remuneration policy and/or its implementation.

Market expectations are such that the committee should be responsive to shareholder concerns regarding remuneration, particularly when remuneration proposals encounter significant opposition. Shareholder voting on remuneration proposals during the prior year should be disclosed in the Implementation Report, along with an explanation of any significant opposition and the board's response to such opposition, in accordance with the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. In the event of significant opposition to remuneration proposals, the responsiveness of the committee to shareholder concerns will be assessed by the Benchmark Policy on a case-by-case basis.

In line with the Investment Association's Principles of Remuneration (the IA's Principles)[61], it is reasonable for shareholders to expect companies to provide enhanced disclosure surrounding the consultation process, including the number of shareholders that were consulted, the main feedback received from shareholders and how the company has responded to it.

[60] UK-incorporated and quoted (excluding AIM) companies with more than 250 employees.

[61] Principles of Remuneration. The Investment Association. October 2024.

Fixed Remuneration

Salary

In line with the IA's Principles, any proposed salary increase should be justified and appropriate when compared to increases awarded to the wider workforce. Where an exceptional increase is sought, including where a newly appointed executive is recruited at a higher salary than their predecessor, the remuneration committee's rationale should be fully disclosed.

Pensions

Pension provisions for executive directors, both those newly appointed and incumbent executives, should be aligned with those available to the majority of the wider workforce, in line with provision 39 of the UK Code and the IA's Principles. Where executive pension contribution rates exceed those applying to the majority of the workforce, the Benchmark Policy will generally recommend shareholders vote against the relevant remuneration proposal, as applicable, absent a cogent rationale.

Incentive Plans

Two primary concerns regarding a company's remuneration policy are the level of alignment between the interests of executives and long-term shareholders, and the potential for unmerited pay. For most companies, incentive-based pay, with an appropriate structure and safeguards, provides a means of addressing both issues.

Short-Term Incentives – Structure and Duration

A short-term bonus or incentive (STI) should be demonstrably tied to performance that supports a company's strategy. As STIs usually reflect performance over a single year, the Benchmark Policy supports the practice of deferring a specific portion of annual bonus payouts into equity for multiple years, which can offset the initial short-term focus and discourage unnecessary risk-taking. In the UK, short-term incentives are generally delivered in a mix of cash and deferred shares; however, where the remuneration policy otherwise provides adequate long-term alignment and executive shareholding guidelines have been met, a reduction in the level of bonus deferral may be considered appropriate, provided awards remain subject to clawback and malus provisions.

Long-Term Incentives – Structure and Duration

When long-term incentive programmes are used appropriately, they can provide a vehicle for linking an executive's pay to company performance, thereby aligning their interests with those of shareholders. Market expectations are such that incentives tied to long-term performance and holding restrictions provide the strongest alignment with the interests of long-term shareholders. In accordance with prevailing market practice, a significant proportion of incentive payouts should be delivered in equity to promote alignment with shareholder interests during and after the performance period. Long-term incentives typically make up the largest component of the incentive opportunity in the UK and are generally delivered in full-value performance shares.

In line with the IA's principles, the majority of an executive's incentive opportunity should generally be subject to a vesting/performance period of at least three years. Further, in line with the provision 38 of the UK Code, awards should be subject to an extended vesting/holding period, whereby awards are only released at least five years after they were granted.

In addition, there are other elements that are common to most well-structured long-term incentive (LTI) plans. These include:

- No re-testing or lowering of performance conditions after grant;
- Two or more performance metrics – measuring a company's performance with multiple metrics serves to provide a more complete picture of the company's performance than a single metric, and multiple metrics are less easily manipulated;
- At least one relative performance metric that compares the company's performance to a relevant peer group or index;
- Performance metrics that cannot be easily manipulated by management;
- Stretching targets that incentivise executives to strive for outstanding performance; and
- Individual limits expressed as a percentage of base salary.

Restricted Share Plans

In July 2016, the Investment Association's Executive Remuneration Working Group opened the door to restricted share awards (RSAs). Regardless of the specifics of a particular incentive plan, the Working Group affirmed that pay-setting should be carried out within a clear and simple structure that calls for alignment with shareholders' interest, recognition of company performance, and the implementation of a long-term strategy that is consistent with the approach taken for other employees.

The Benchmark Policy will assess all restricted share plans on a case-by-case basis; however, in line with IA's Principles, the following features are commonly considered best practice:

- A significant reduction (typically 50%) in maximum opportunity to reflect the lower risk profile relative to the previous performance-based plan;
- Restricted share awards that are subject to an appropriate underpin; and
- A long-term strategic alignment.

Further, restricted share plans are assessed in the context of other market best practice features, such as a total vesting and post-vesting holding period of at least five years[62] and accompanied by shareholding requirements.

Hybrid Plans

The UK market has seen public companies move towards the adoption of 'hybrid plans', which refer to long-term incentive schemes that are typically a combination of performance shares and restricted shares.

[62] Annual vesting of shares is not generally regarded as best market practice.

The Benchmark Policy assesses all hybrid plans on a case-by-case basis, taking into account the specific rationale for the selected incentive structure; however, in line with IA's Principles, the following features are commonly considered best practice:

- A rationale as to why a hybrid model is preferred over a single structure;
- A reduction in maximum opportunity compared to the previous LTIP, with an explanation on the methodology used to determine the discount rate; and
- A total vesting and post-vesting holding period of at least five years.

Further, where competition for talent in the U.S. or internationally is cited as part of the rationale for introducing a hybrid plan, the Benchmark Policy expects companies to disclose their consideration of relevant peers.

Combined Incentive Plans

The Benchmark Policy classifies as combined incentive plans (occasionally described as omnibus plans) any incentive schemes where performance is assessed for the full grant in an initial short-term period (typically one year) immediately following the grant, after which a portion of the award is paid out and the remaining portion is deferred, subject to time-vesting restrictions or other performance criteria.

Shareholders may reasonably question a company's decision to move from a traditional incentive structure, consisting of a short- and long-term incentive plan, to a structure consisting of a single incentive scheme, as this generally leads to a reduction of the portion of variable pay linked to long-term performance. Specifically, the shift to a combined incentive plan typically entails the removal of long-term performance conditions, with the deferred portion of the award effectively becoming a guaranteed payment once the initial performance period has ended.

For this reason, the Benchmark Policy will generally recommend that shareholders vote against a remuneration policy that includes a combined incentive plan, unless:

- The plan has a minimum vesting period of three years;[63]
- At least part of the award is allocated in equity or equity-based instruments, subject to time-vesting restrictions;
- Quantitative underpin/gateway conditions are in place for the deferred portion of the award; and
- The company has provided a strategic rationale for the plan.

Where a company is amending its incentive structure to adopt a combined incentive plan while removing existing variable incentive plans, many investors expect a substantial reduction in the total target and maximum award opportunity, appropriately reflecting the reduction in the risk profile of the plan.[64]

[63] Many investors expect the inclusion of an additional post-vesting holding period (of typically 1-2 years).

[64] Market best practice indicates a preference for the reduction in total award opportunity to be proportional to the reduction in the risk profile of the pay package, e.g., if the previous three-year long-term incentive plan represented half of the total target-level variable pay opportunity and this plan is now solely based on a one-year performance assessment (and malus), then the total target-level variable pay opportunity under the new combined plan will be reduced by at least one-third. However, reductions will be assessed on a case-by-case basis and account for disclosure detailing the determination process of the new total variable pay opportunity.

Performance Measures

Performance measures should be carefully selected to relate to the specific business/industry in which the company operates and, especially, the key value drivers of the company's business.

Metrics may be financial and non-financial; however, there should be a strong emphasis on overall financial performance. Given their more demonstrable link to shareholder value, market practice indicates a preference for the majority of the performance assessment to be based on financial measures. The remuneration report should provide a clear explanation for the performance measures selected and how they are calibrated in the context of the company's strategy.

Where the financial metrics used to determine payouts have been adjusted, such as to exclude exceptional items or other costs, the report should disclose how the calculation differs from reported accounting figures, and a rationale for these adjustments, including the use of the adjusted financials by industry peers and financial analysts.

Short-Term Incentive Measures

An STI should be demonstrably tied to performance that supports a company's strategy.

Market best practice indicates a preference for STIs that encompass a mix of corporate and individual performance measures, including internal financial measures such as net profit after tax, EPS growth and divisional profitability as well as non-financial factors such as those related to employee turnover, safety, environmental issues, and customer satisfaction. However, since performance metrics vary depending on company, industry and strategy, among other factors, metrics tied to the company's business drivers are generally considered acceptable.

Long-Term Incentive Measures

Market best practice indicates a preference for measuring a company's performance using multiple metrics, as this provides a more complete picture of performance; reliance on a single metric may narrow management focus and be more susceptible to manipulation. Many investors expect that at least one metric should compare the company's performance to a relevant peer group or index. When utilised for relative measurements, external benchmarks should be disclosed and transparent. Internal benchmarks should also be disclosed and transparent, unless a cogent case for confidentiality has been fully explained.

Linking Executive Pay to Environmental and Social Criteria

Explicit environmental and/or social (E&S) criteria in executive incentive plans, when used appropriately, can serve to provide both executives and shareholders a clear line of sight into a company's ESG strategy, ambitions, and targets. The incorporation of material E&S risks and opportunities in companies' long-term strategic planning is widely supported; however, market expectations are such that the inclusion of E&S metrics in remuneration plans should be predicated on each company's unique circumstances. In order to establish a meaningful link between pay and performance, companies must consider factors including their industry, size, risk profile, maturity, performance, financial condition, and any other relevant internal or external factors.

When a company is introducing E&S criteria into executive incentive plans, it is important that shareholders are provided with sufficient disclosure to allow them to understand how these criteria align with its strategy. Additionally, there may be situations where certain E&S performance criteria are reasonably viewed as prerequisites for executive performance, as opposed to behaviours and conditions that need to be incentivised. For example, shareholders may interrogate the use of metrics that award executives for ethical behaviour or compliance with policies and regulations. Many investors expect that companies should provide shareholders with disclosures that clearly lay out the rationale for selecting specific E&S metrics, the target-setting process, and corresponding payout opportunities. Further, particularly in the case of qualitative metrics, shareholders should be provided with a clear understanding of the basis on which the criteria will be assessed. Where quantitative targets have been set, shareholders are generally best served when these are disclosed on an ex-ante basis, or the board should outline why it believes it is unable to do so. In addition, shareholders of UK companies that have not included explicit E&S indicators in their incentive plans may benefit from additional disclosure on how the company's executive pay strategy is otherwise aligned with its sustainability strategy.

While market expectations are such that companies should generally set long-term targets for their environmental and social ambitions, not all remuneration schemes lend themselves to the inclusion of E&S metrics. Market practice indicates that companies should retain flexibility in not only choosing to incorporate E&S metrics in their remuneration plans, but also in the placement of these metrics. For example, some companies may resolve that including E&S criteria in the annual bonus may help to incentivise the achievement of short-term milestones and allow for more manoeuvrability in strategic adjustments to long-term goals. Other companies may determine that their long-term sustainability targets are best achieved by incentivising executives through metrics included in their long-term incentive plans.

Target Setting and Disclosure

Targets should be disclosed or, if performance is assessed on a discretionary basis, an explanation of the overall methodology and specific rationale for individual allocations should be provided. Some measures may involve commercially sensitive information, in which case an explanation of how performance compared to target should be provided in support of any payouts, and the actual targets and performance should be disclosed retrospectively. In accordance with prevailing market practice in the UK, companies should provide an indication of when the targets will be disclosed in the future; however, a cogent rationale may be provided for the absence of such an indication.

The Benchmark Policy typically defers to the board in setting the appropriate measures for incentivising executives; however, where the financial metrics used to determine payouts have been adjusted, such as to exclude exceptional items or other costs, the report should disclose how the calculation differs from reported accounting figures, and a rationale for these adjustments should be provided. Further, in the event that performance under such adjusted measures differs significantly from their reported accounting counterparts, the Benchmark Policy will closely scrutinise any payouts driven by plans incorporating those measures.

In line with UK market practice, and as discussed in the IA's Principles, the receipt of equity awards by key executives normally requires the achievement of at least median performance against a selected benchmark, unless a cogent case for lesser performance has been fully explained. The Benchmark Policy will closely scrutinise plans that allow for more than 25% of an award to vest for threshold performance.

Limits

Market expectations are such that incentive programmes should feature clear and transparent award limits, expressed as a multiple of base salary per employee. In addition, payouts should be reasonable relative to company performance, and total remuneration should be broadly in line with amounts paid by the company's peers.

Discretion

Remuneration committees should retain a reasonable level of discretion in order to ensure that pay outcomes are justified and linked to company and individual performance, and that the implementation of the remuneration policy remains appropriate, including with reference to performance metrics and specific targets. The scope of potential discretionary powers, and any exercise of such discretion made during the year, should be clearly disclosed and justified.

Market best practice indicates a preference for the remuneration committee to exercise discretion over incentive pay outcomes to account for material events that would otherwise be excluded from performance outcomes. For instance, major litigation settlement charges may be removed from non-IFRS results before the determination of formulaic incentive payouts, or health and safety failures may not be reflected in performance results where companies do not expressly include health and safety metrics in incentive plans; such events may nevertheless be consequential to corporate performance results, impact the shareholder experience, and, in some cases, present material risks. Conversely, certain events may adversely impact formulaic payout results despite being outside executives' control.

Market expectations are such that companies should provide thorough discussion of how such events were considered in the committee's decisions to exercise discretion or refrain from applying discretion over incentive pay outcomes. The inclusion of this disclosure may be helpful when the Benchmark Policy evaluates concerns regarding the exercise or absence of committee discretion.

Remuneration Relative to Stakeholder Experience

Market best practice indicates that remuneration outcomes should remain appropriate to a company's specific situation and the experiences of its shareholders and employees, even where formulaic targets have been met. More specifically, remuneration committees are generally expected to consider exercising downward discretion where:

- A company has suffered an exceptional negative event that has had a material negative impact on shareholder value;[65] or
- A company's decisions regarding working conditions have had a material negative impact on employees.[66]

In cases of substantial misalignment between executive pay outcomes and the experience of shareholders or employees in the past fiscal year, the Benchmark Policy may recommend that shareholders vote against a company's remuneration report solely on this basis.

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[65] For example, many investors expect a remuneration committee to consider reducing an annual bonus payout and/or the size of an LTI grant following a significant decline in share price. Further, market expectations are such that downward adjustments should be made to the outcomes of awards linked to share price performance where windfall gains have been received.

[66] For example, many investors expect substantial workforce layoffs, furloughs, short-time working arrangements, salary freezes etc. to be reflected in executives' remuneration outcomes.

Furthermore, market expectations are such that forward-looking decisions regarding executive remuneration should also take into account a company's shareholders and employees. For example, the Benchmark Policy may identify concerns if there is evidence that executive fixed pay and/or total opportunity increases are substantially outpacing employee salary increases.

Shareholding Requirements

The alignment between shareholder interests and those of executives represents an important assurance for disinterested shareholders that executives are acting in their best long-term interests. In addition to a post-vesting holding period, companies should facilitate this relationship through the adoption and maintenance of minimum executive share ownership requirements that apply for the duration of the executive's tenure, and for a specific period post-employment (typically two years).[67]

Such requirements should be set as a number of shares that is equal to a pre-defined multiple of base salary, to be accumulated by executives over a limited number of years from the date of their first appointment. To ensure transparency and effective alignment of interests, unvested share awards should only count towards the executive's shareholding requirement if vesting is not subject to any further performance conditions.

Additionally, additional post-vesting and/or in-post and post-employment holding requirements may be beneficial in further aligning executives' interests with those of shareholders.

Recovery Provisions (Clawback and Malus)

In line with provision 37 of the UK Code, all incentive schemes should allow for awards to be recovered or withheld in clearly defined circumstances, such as misstatement or misconduct. It should be clearly disclosed whether these provisions allow for the recovery of paid awards ("clawbacks") or are limited to withholding or adjusting outstanding/deferred awards ("malus").

In line with provision 38 of the UK Code, the remuneration report should include a description of its malus and clawback provisions, including:

- the circumstances in which malus and clawback provisions could be used;
- a description of the period for malus and clawback and why the selected period is best suited to the company; and
- whether the provisions were used in the last reporting period, with a clear explanation of the reason if applicable.

Dilution

Limits on the permissible amount of dilution to shareholders should be included in all executive and employee equity participation or incentive plans. Such a limit provides a measure of protection for the shareholders against excessive dilution.

[67] Provision 36 of the UK Code.

In line with the best practice limits reflected in the IA's Principle, plans of companies with established businesses should limit dilution from any grant or series of grants, together with grants already made under all executive and employee plans, to 10% of total issued share capital in any 10-year period. In the case of developing companies, higher limits may be reasonable, although a compelling rationale should be provided to shareholders before the plan is introduced.[68]

Remuneration Relative to Ownership Structure

Market practice indicates that differences in the ownership structures of listed firms can affect the incentive structure for executives. In accordance with prevailing market expectations, boards should account for the natural alignment between shareholders' and an executive's interests whenever the executive directly or indirectly owns a significant portion of the company's shares. Conversely, companies with a more dispersed ownership structure should demonstrate a more precise and linear pay-performance link.

In particular, where an executive owns or directly controls more than 10%-20%[69] of a company's shares or voting rights, shareholders may question the participation of the individual in equity incentive schemes, absent a cogent rationale. In general, however, shareholders may be sceptical of any large grant, either in equity instruments or cash, that would allow the executive to further consolidate their ownership level. In such cases, the board should implement anti-dilutive safeguards and disclose the terms thereof.

Similarly, where a company is controlled and managed by a family, the use of equity incentives for representatives of the family may generally be viewed as inappropriate, unless safeguards are in place to protect against further entrenchment of the controlling shareholders' stake. When such grants are made or proposed, the Benchmark Policy will consider the individual stake of the family representative that is awarded equity incentives and the overall size of the grant.

Finally, where a large award is granted to an executive with a significant shareholding, the Benchmark Policy will assess the appropriateness of the vesting terms and conditions of such award. Factors that may mitigate concerns when assessing such grants (or remuneration policies allowing for them) include: challenging targets attached to an adequately diverse performance metric set; disclosure of feedback from shareholders on this specific topic; a clause stipulating that the major shareholder will not vote or will abstain from voting[70] on the relevant proposal; or a commitment that shareholder dissent expressed on the proposal will be taken into account.

Remuneration Relative to Peers

The Benchmark Policy's analysis of remuneration policies examines a company's remuneration disclosure and structure as compared to peer practices, based on relevant stock market indices, market capitalisation, industry and/or liquidity.

[68] The IA's Principles suggest recently listed high growth companies may, in particular, seek such higher limits.
[69] Depending on overall ownership structure, growth stage, and available liquidity of the company.
[70] Depending on voting rules on the validity of abstain votes and on quorum in the market or for the specific company.

When assessing the level of granted and realised executive pay, the composition of the company's own benchmark, where disclosed, will be considered, in addition to local and regional industry peers. The Benchmark Policy expects companies to provide disclosure concerning individual peers selected by their remuneration committees when setting executive pay levels, as well as the criteria utilised in the selection process. For instance, the inclusion of U.S.-based peers should be accompanied by disclosure detailing what elements of the company's business or of the individual executive's situation (or any other relevant circumstance) motivated the inclusion of such peers in the chosen proportion.[71]

Some companies may benchmark – or be expected to benchmark – their executive remuneration system and/or the total remuneration opportunity under the system against multiple markets due to unique individual circumstances, such as multiple stock exchange listings, the geographical distribution of the company's operations, sales or employees, or clear industry-specific pressures in terms of talent attraction and retention.

Market expectations are such that companies should provide supporting disclosure to clarify the board's decision-making process behind the implementation or non-implementation of elements that deviate from prevailing market practice in the main country of reference.[72]

Further, the disclosure of pay ratios between the CEO and median or average employee may be useful in contextualising levels of executive remuneration both within a business and within industries.

Executive Remuneration at Financial Institutions

Following the 2007-2008 global financial crisis, UK and European regulators directed significant attention to the reform of remuneration policies at financial institutions in order to mitigate risk to relevant stakeholders.

In line with the approach advocated by UK and European regulatory authorities, remuneration structures at financial institutions often require unique consideration due to the heightened potential for shareholder value to be put at risk by poorly designed incentive programmes. As such, financial institutions should provide more robust justifications for any deviations from key best practice recommendations.

Regulatory Background

The European Union introduced directives amending the existing Capital Requirements Directive in 2010 (CRD III), 2013 (CRD IV), 2019 (CRD V) and 2024 (CRD VI) in order to harmonise the supervision of remuneration practices at financial institutions across the EU. Each CRD was transposed into UK law through a combination of secondary legislation and PRA and FCA policy. These measures form the background to the UK's current framework for regulating remuneration in the financial sector.

Among the most notable provisions relating to executive variable remuneration were:

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[71] The IA's letter to remuneration chairs published in November 2025 outlines specific disclosure elements in relation to benchmarking exercises, focusing on the identity and appropriateness of peers.

[72] Elements in relation to which local best practices may substantially diverge typically include, but are not limited to, the presence and disclosure of performance conditions on long-term awards, the size of salaries or long-term award grants, and the implementation of safeguards such as recovery provisions or shareholding requirements.

- A cap on variable pay, which could not exceed 100% of fixed remuneration, or 200%, with shareholder approval (the so-called "bonus cap");
- A deferral requirement, under which at least 40% of variable remuneration (and 60% of the full amount of any bonus above £660,000) be deferred for at least seven years;
- A pay-mix requirement, whereby both the upfront and deferred portions were required to be split equally between cash and equity or derivative instrument;
- Deferred variable remuneration that could not vest before the third anniversary from the grant date; and
- Variable remuneration delivered in shares (both upfront or deferred) that is subject to a one-year post-vesting holding period

For more information, please refer to the *Benchmark Policy Guidelines for Continental Europe*, available at www.glasslewis.com/voting-policies-current/.

The PRA and FCA also maintain a number of remuneration codes outlining remuneration requirements. The codes are intended "to ensure that firms have risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose them to excessive risk", principally by ensuring that a significant proportion of pay for material risk takers, including executives, is at-risk and that issuers have the capability to adjust payout levels.[73]

Recent Developments

Removal of Bonus Cap

Effective October 31, 2023, the FCA and PRA have abolished the bonus cap. Since the bonus cap did not limit total remuneration, one of its effects was to exert upward pressure on fixed remuneration levels, while reducing the share of remuneration at risk.

Since the abolition of the bonus cap, a number of financial institutions have removed variable pay caps and sought to rebalance pay packages with higher incentive opportunities and lower fixed pay. Market expectations are such that, in general, any increase in variable incentive opportunity should typically be accompanied by an appropriate reduction in fixed pay and a compelling strategic rationale.

Reforms to Variable Remuneration Rules

On October 15, 2025, the FCA and PRA announced reforms to the variable remuneration framework for financial institutions, which took effect the following day. The main changes affecting executive variable remuneration include:

- Standardisation of deferral periods: All variable remuneration is now subject to a four-year deferral period;
- Updated deferral thresholds: A 60% deferral now applies only to variable remuneration amounts exceeding £660,000, while the portion up to £660,000 is subject to a 40% deferral requirement;

[73] AIFM Remuneration Code, MIFIDPRU Remuneration Code, Dual-regulated firms Remuneration Code and UCITS Remuneration Code can each be found in the Senior Management Arrangements, Systems and Controls Sourcebook of the FCA's handbook, while the PRA's CRR Remuneration Code can be found in its Rulebook.

- Greater flexibility in award composition: Companies have greater discretion in determining the mix of cash and equity instruments, allowing a higher proportion of variable remuneration to be paid in cash upfront; and
- Vesting schedule: Deferred awards may now vest on a pro-rata basis starting from the first year of the award; and
- Post-vesting holding periods: Holding periods are no longer required for any deferred variable remuneration paid in shares.

The above changes may be applied to the current performance year and/or to remuneration that has been awarded in previous years but has not yet vested.

While the updated rules allow for greater flexibility regarding deferral and vesting schedules, executive variable remuneration remains guided by the UK Code, which continues to recommend a total vesting/holding period of at least five years from grant. Shareholders may reasonably expect a clear rationale for any changes to the remuneration policy or implementation thereof, particularly in cases where approval of an updated policy may be required.

Remuneration at AIM-Quoted Companies

Companies trading on London's Alternative Investment Market (AIM) are exempt from the Enterprise and Regulatory Reform Bill. As such, they are not required to hold binding or advisory votes on executive pay. Many AIM companies, nonetheless, submit their remuneration report to shareholders voluntarily, including a smaller number that have complied with the voting requirements of the Regulatory Reform Bill by providing shareholders with a voice on a forward-looking remuneration policy, albeit on an advisory basis.

The QCA Corporate Governance Code, last updated in October 2023 (and effective for financial years beginning April 1, 2024), also includes principle 9, which is dedicated to remuneration. Under this principle, in addition to recommending that companies put their remuneration report to shareholder vote at each AGM, companies are encouraged to put forth forward-looking remuneration policy proposals for shareholder approval. Further, it stipulates that any employee share scheme and long-term incentive plan approvals or amendments should be voted on by shareholders.

The Benchmark Policy will assess AIM company remuneration proposals in a manner similar to main market public companies, particularly with regard to the alignment between executive and shareholder interests, pay for performance and protections against unmerited pay. However, the remuneration structure, and level of disclosure, may be less developed at AIM-traded issuers than at larger, more established firms.

Where an AIM company does not provide shareholders with a say on pay (on a retrospective or prospective basis), and egregious remuneration practices are identified, the Benchmark Policy may recommend shareholders vote against the remuneration committee chair.

Save As You Earn Plans

Many companies listed on the LSE provide a way for all employees to acquire ordinary shares at a discount via salary sacrifice Save As You Earn (SAYE) plans. Government regulations typically limit the discount of shares to

20% of their recent market price. Broad-based equity programmes that encourage employees to invest in their company can promote the alignment of employees' interests with those of shareholders. Further, these companies are bound by certain statutory limitations in terms of the amount of shares that are able to be granted pursuant to any company share plan, as well as a monthly contribution limit in order to acquire shares. Given their regulatory basis and alignment of employee and shareholder interests, SAYE schemes are widely supported in the market.

Remuneration of Non-Executive Directors

Non-executive directors should receive appropriate remuneration for the time and effort they spend serving on the board and its committees. The quantum of non-executive fees should be broadly comparable to a company's country and industry peers, take into account the time commitment required for a director to satisfactorily discharge their duties to shareholders, and be reasonable in order to retain and attract qualified individuals. At the same time, excessive fees represent a financial cost to the company and could threaten to compromise the objectivity and independence of non-executive directors.

The UK Code states that non-executive director remuneration should not include share options.[74] Not only does the board lose objectivity when it allows non-executive directors to participate in such schemes, but individual directors locked in by longer-term grants could be inhibited from expressing dissenting views and, in extreme cases, from taking the ultimate step of resigning. Any non-executive director fees delivered in equity should be granted on a nil-cost basis, free of any performance criteria or time-based restrictions on exercise to ensure that directors hold these shares on the same basis as the shareholders they represent.

In certain circumstances, such as with options granted in connection with an IPO, or at a company in the development phase that has limited cash resources, granting options to non-executives may be a reasonable method of remuneration, provided that there are no performance conditions linked to these awards. In most cases, however, the Benchmark Policy will classify as affiliated any non-executive director who has received share options, or shares subject to any vesting restrictions, more than one year after the company's flotation.

Retirement Benefits for Non-Executive Directors

The Benchmark Policy recommends shareholders vote against proposals to grant retirement benefits to non-executive directors. Such extended payments can impair the objectivity and independence of these board members. Instead, directors should receive adequate remuneration for their board service through annual fees.

[74] Provision 34 of the UK Code.

Governance Structure and the Shareholder Franchise

Shareholders' Right to Call a Meeting

Although rarely exercised, the Act gives minority shareholders of UK companies the power to call a general meeting and require written resolutions to be circulated, along with a written statement about the meeting's subject matter. The minimum ownership threshold required to call a meeting is 5% of the company's total voting rights, although to prevent the abuse of this power, there are some limits on the types of resolution that may be circulated in this way.

Notice Period for a General Meeting

Section 307A of the Act allows for the shortening of a company's general meeting notice period from 21 to 14 days, subject to annual shareholder approval of a special resolution granting such an authority. This authority, which is routinely sought at UK AGMs, is contingent upon a company having adequate electronic voting and communication provisions in place.

Assuming that such an authority, once granted, has not previously been abused, the Benchmark Policy will generally recommend that shareholders vote for a board's authority to set general meeting notice periods at 14 days as long as the company proves an assurance that the authority would not be used as a matter of routine, but only when merited. Shareholders may reasonably expect that such an authority would only be utilised where there is an exceptional need for urgency and is to the advantage of shareholders as a whole.

Where this authority is utilised, a company should outline its reasons for the need to call a general meeting at short notice. As such, the Benchmark Policy may recommend that shareholders vote against any resolution proposed at a shorter notice meeting if the use of the shorter notice period has not been adequately justified or it appears that shareholders need more time to consider their voting decision due to the complexity of the matters proposed.

Virtual Shareholder Meetings

In order to hold a virtual shareholder meeting, UK companies must first propose and receive shareholder approval for changes to their statutes.[75]

[75] In response to the spread of COVID-19, the UK Government included temporary measures in the Corporate Insolvency and Governance Act to allow for companies without the relevant provisions in their statutes to hold fully or partially virtual meetings. These measures applied retrospectively from March 26, 2020, to March 30, 2021, and have not been renewed.

Many investors believe that virtual meeting technology can be a useful complement to a traditional, in-person shareholder meeting by expanding the participation of shareholders who are unable to attend a shareholder meeting in person (i.e., a "hybrid meeting"). However, virtual-only shareholder meetings can curb the ability of a company's shareholders to participate in the meeting and meaningfully communicate with company management and directors. As such, many investors also believe that companies that elect to hold virtual shareholder meetings should aim to replicate in-person shareholder meetings to the best extent possible and ensure shareholder rights are appropriately safeguarded.[76]

Meeting Format and Convocation

Where companies are convening a meeting at which in-person attendance of shareholders is limited, the Benchmark Policy sets the expectation that companies set and disclose clear procedures at the time of convocation regarding:

- When, where, and how shareholders will have an opportunity to ask questions related to the subjects normally discussed at the annual meeting, including a timeline for submitting questions, types of appropriate questions, and rules for how questions and comments will be recognised and disclosed to shareholders;
- Where there are restrictions on the ability of shareholders to question the board during the meeting – the manner in which appropriate questions received during the meeting will be addressed by the board; this should include a commitment that questions which meet the board's guidelines are answered in a format that is accessible by all shareholders, such as on the company's AGM or investor relations website;
- The procedures and requirements to participate in the meeting and access the meeting platform; and
- The technical support that is available to shareholders prior to and during the meeting.

In egregious cases where adequate disclosure of the aforementioned provisions has not been provided to shareholders at the time of convocation, the Benchmark Policy may recommend that shareholders hold the chair of the governance committee (or equivalent) or the board chair accountable.

Further, companies should actively engage with their shareholders on the topic of shareholder meeting format. In egregious cases where a board has failed to address legitimate, publicly disclosed shareholder concerns regarding the manner in which the company is holding its shareholder meetings, the Benchmark Policy may recommend that shareholders vote against the re-election of accountable directors, or other matters up for a shareholder vote, as appropriate.

When assessing the above, the Benchmark Policy will consider emerging laws, best practice, and disclosure standards for shareholder meetings.

Amendments to Articles

UK companies are required to seek prior shareholder approval and amend their statutes in order to hold a meeting with a virtual element or to allow for directors and executives to attend general meetings virtually.

[76] CII Policies on Corporate Governance, 4.1; ICGN Global Principles, 10.2.

The following is a summary of common proposed amendments and the conditions under which the Benchmark Policy generally recommends that shareholders support such amendments:

Amendments to Allow for Virtual-only Meetings

As discussed above, virtual-only meetings can lead to a reduction in shareholder rights unless clear procedures regarding the ability of shareholders to participate in the meeting are disclosed at the time of convocation. As such, at a minimum, the Benchmark Policy sets the expectation that, if companies propose amending their statutes to allow for virtual-only meetings, they include the following commitments in the proposed amendments or in the supporting documents:

- The procedure and requirements to participate in a virtual-only meeting will be disclosed at the time of convocation; and
- There will be a formal process in place for shareholders to submit questions to the board, which will be answered in a format that is accessible to all shareholders.

The Benchmark Policy will generally recommend that shareholders support amendments that allow for virtual shareholder meetings only in exceptional circumstances, provided that the proposed amendments include a commitment to publicly disclose the exceptional circumstance that warrants holding the meeting in a virtual format as part of the meeting notice.

Amendments to Allow for Hybrid Meetings

The Benchmark Policy will generally support proposed amendments that allow companies to hold hybrid meetings. Nevertheless, shareholders could benefit from the inclusion of commitments regarding the participation of virtual attendees, as outlined above.

Amendments to Allow for Virtual Attendance of Directors and Executives

Under normal circumstances, the virtual attendance of directors and top executives at traditional in-person or hybrid general meetings may serve to reduce accountability to shareholders and risks perpetuating the perception that companies are utilising technology to avoid uncomfortable conversations. Many investors expect all directors to attend general meetings, absent extraordinary circumstances.[77]

As such, the Benchmark Policy will generally recommend that shareholders oppose amendments to statutes that would allow for the virtual participation of directors and executives in general shareholder meetings unless:

- Virtual participation of directors and executives is explicitly limited to virtual-only meetings; or
- Where the amendment would also allow for the virtual participation of directors and executives in traditional or hybrid meetings, this is only permissible in exceptional circumstances and subject to prior approval by the board or meeting chair.

[77] CII Policies on Corporate Governance, 4.7.

Voting Structure

Multi-Class Share Structures

In line with CII's Policies on Corporate Governance, ICGN's Global Governance Principles and broad investor sentiment, each share of a company's common stock should have one vote, companies should not have share classes with unequal voting rights, and certain shareholders should not have power or control disproportionate to their economic interests. Allowing one vote per share generally operates as a safeguard for common shareholders by ensuring that those who hold a significant minority of shares are able to weigh in on issues set forth by the board.

Furthermore, many investors agree that the economic stake of each shareholder should match their voting power and that no small group of shareholders, family or otherwise, should have voting rights different from those of other shareholders. On matters of governance and shareholder rights, shareholders should have the power to speak and the opportunity to effect change. That power should not be concentrated in the hands of a few for reasons other than economic stake.

Adoption of a Multi-Class Share Structure

In the case that a board adopts a multi-class share structure, where the share class with superior rights is unlisted, in connection with an IPO, spin-off, or direct listing within the past year, the Benchmark Policy will generally recommend voting against the chair of the governance committee (or equivalent) or a representative of the major shareholder up for election if the board: (i) did not also commit to submitting the multi-class structure to a shareholder vote at the company's first shareholder meeting following the IPO; or (ii) did not provide for a reasonable sunset of the multi-class structure (generally seven years[78] or less). In cases where there are no board elections at the first general meeting following the listing, the Benchmark Policy may, instead, recommend that shareholders vote against another relevant proposal on the agenda (e.g. ratification of board acts).

Companies with an Existing Multi-Class Share Structure

Absent additional concerns, the Benchmark Policy will not recommend shareholder action on the basis of the existence of an established multi-class share structure alone. Nevertheless, where evidence exists that a company with a multi-class share structure, where the share class with superior rights is unlisted, is unresponsive to the concerns of minority shareholders, the Benchmark Policy may recommend that shareholders vote against the re-election of the governance committee chair (or equivalent). This would include cases where a company with a multi-class share structure maintains poor governance practices relative to peers, or fails to respond to significant dissent from minority shareholders.[79]

[78] Since the 2024 updates to the UK Listing Rules, there is no longer a mandatory sunset clause for multi-class share structures in the UK. However, pre-IPO investors and shareholders that are legal persons may only hold enhanced voting rights for a maximum of 10 years from the date of admission. Principle 9.1 of the ICGN Global Principles continues to call for sunset clauses.

[79] See the "Board Responsiveness" section of these guidelines.

Proposals to Unwind Multi-Class Share Structures

Because many investors believe that companies should have share capital structures that protect the interests of non-controlling shareholders as well as any controlling entity, the Benchmark Policy typically recommends that shareholders vote in favour of proposals to eliminate multi-class share structures. As part of its review of proposals to unwind multi-class share structures, the Benchmark Policy will analyse the impact on all equity holders of any financial compensation being offered to holders of shares with superior rights.

Reporting Contributions and Political Spending

UK companies will sometimes seek shareholder approval to authorise the board, in accordance with sections 366 and 367 of the Act, to make political donations or incur political expenditures up to a disclosed monetary limit. These authorities are typically set forth as a precautionary measure to ensure a company does not inadvertently breach part 14 of the Act, which requires shareholder approval of political spending in excess of £5,000 in any 12-month period. Companies seeking this authority will generally provide an assurance that they have not used this authority in the previous fiscal year and do not intend to use it in the subsequent fiscal year. On that basis, and absent any indication of abuse of this authority, the Benchmark Policy typically recommends shareholders approve these proposals.

Amendments to the Articles of Association

The Benchmark Policy evaluates proposed amendments to a company's articles of association on a case-by-case basis. Many investors are opposed to the practice of bundling several amendments under a single proposal because it prevents them from judging each amendment on its own merit.[80] In such cases, each proposed change is analysed on an individual basis and the Benchmark Policy will recommend voting for the proposal only when, on balance, it is assessed that the amendments are in the best interests of shareholders. Material concerns with a single proposed amendment may lead the Benchmark Policy to recommend that shareholders oppose all proposed amendments if they are bundled into a single proposal.

Shareholder Proposals

The Benchmark Policy looks for governance structures that protect shareholders, support effective ESG oversight and reporting, and encourage director accountability. Accordingly, it places a significant emphasis on promoting transparency, robust governance structures and companies' responsiveness to and engagement with shareholders. As such it generally supports proposals that encourage transparency in how companies are mitigating material ESG risks, including those related to climate change, human capital management, and stakeholder relations.

To that end, the Benchmark Policy evaluates all shareholder proposals on a case-by-case basis with a view to protecting long-term shareholder value. While it is generally supportive of those that promote board

[80] CII Policies on Corporate Governance, 3.8.

accountability, shareholder rights, and transparency, it considers all proposals in the context of a company's unique operations and risk profile.

For a detailed review of the Glass Lewis benchmark policies concerning compensation, environmental, social, and governance shareholder proposals, please refer to *Benchmark Policy Guidelines for Shareholder Proposals & ESG-Related Issues*, available at www.glasslewis.com/voting-policies-current/.

Capital Management

General Authority to Issue Shares with Preemptive Rights

The vast majority of UK companies seek annual shareholder approval of the authority to issue shares with and without preemptive rights. In either case, companies typically do not anticipate using this authority but, rather, place it on their ballots in order to provide the board with the flexibility to issue shares over the course of the coming fiscal year if needed.

In accordance with the IA's Share Capital Management Guidelines, the Benchmark Policy will support the authority to issue shares with preemptive rights when the requested amount is less than or equal to one-third of issued ordinary share capital.[81] However, the Benchmark Policy will generally not recommend voting against any authority with an expiry in excess of 15 months, as most companies continue to renew this authority on an annual basis.

Best practice in the UK, as prescribed by the IA and the Pre-Emption Group, has traditionally limited the authority to issue shares with preemptive rights to one-third of issued ordinary share capital.

Following difficulties in raising capital, particularly post the 2008 financial downturn, the Investment Association's predecessor increased its ceiling on allotments to two-thirds of issued share capital, provided that the additional third applies only to a fully preemptive rights issue. In response to the recommendations of the UK Secondary Capital Review,[82] the Investment Association subsequently updated its guidance in February 2023 to extend the authority to all fully preemptive offers and not only to fully preemptive rights issues.

The authority to issue shares on a preemptive basis is generally considered beneficial to investors, as it provides the company with the flexibility to finance operations and business opportunities; however, significant authorities may grant directors a dangerously high level of control over a company's share capital, possibly to the detriment of shareholders. Moreover, the Companies Act 2006 allows issuers to abolish the concept of an authorised share capital, which the majority of UK issuers have taken advantage of. As such, shareholders may be concerned that these authorities leave them with very little control over capital management.

In light of such concerns, the Benchmark Policy will generally recommend voting against any authority allowing the board to issue shares representing more than one-third of issued share capital if such number of shares in excess of one-third is not specifically designated for fully preemptive offers. In most other cases (i.e., one-third is designated for issuance with preemptive rights generally and one-third is designated for issuance in connection with fully preemptive offers), market expectations are such that these authorities are standard and considered to be in the best interests of shareholders.

[81] Share Capital Management Guidelines. The Investment Association. February 2023.
[82] UK Secondary Capital Raising Review. July 2022.

General Authority to Issue Shares Without Preemptive Rights

With regards to the authority to issue shares without preemptive rights, proposals to suspend preemptive rights for a maximum of 10% of the issued ordinary share capital of the company for up to 15 months are generally viewed as non-contentious and routine, in line with the recommendations of the Pre-Emption Group.[83]

Authorities requesting up to 20% of current issued share capital are standard in the market when the board provides an assurance that the portion of the authority in excess of 10% of the company's issued share capital will be limited to use in connection with an acquisition or specified capital investment, in line with the recommendations of the Pre-Emption Group.

Moreover, the Benchmark Policy is generally supportive of proposals where an additional 2% of current issued share capital is requested for the purposes of follow-on issuances, as defined by the Pre-Emption Group, under either, or both, of the 10% limits.

In line with the Pre-Emption Group's guidance, where a company is issuing shares non-preemptively, they should:

- Provide sufficient background to and reasons for the issuance, including the use of proceeds;
- Insofar as is possible, undertake a consultation with major shareholders prior to the issuance;
- As far as practicable, make the issue on a soft preemptive basis;
- Consider the involvement, through the issuance or a follow-on issue, of investors not allocated shares as part of a soft redemptive process;
- Involve company management in the allocation process; and
- Make a post-transaction report in line with Pre-emption Group guidance.

Where a company completes significant issuances and fails to adhere to the above best practice, the Benchmark Policy may recommend against subsequent general authorities to issue shares non-preemptively.

'Capital Hungry' Companies

In accordance with prevailing market practice, shareholder dilution should be limited. However, certain companies, such as those trading on the AIM or in a development phase, may need to raise larger amounts of capital more frequently (Capital Hungry Companies) and, as such, may justifiably request authorities of more than 10% of issued shares. In these instances, if the proposal seeks to allow for issuances of more than 10% (or 20% where the additional amount is limited in use as aforementioned), companies should provide a thorough explanation to shareholders. In the application of the Benchmark Policy, the factors considered when assessing such a request include:

- The company's short-term need for funding;
- Whether the company has reasonably considered other funding options;
- The company's past actions; and

[83] Disapplying Pre-emption Rights — A Statement of Principles. Pre-emption Group. November 2022.

- The expected overall dilutive effect on shareholders.

In accordance with prevailing market practice, where a cogent rationale is provided, Capital Hungry Companies may reasonably extend the authority duration beyond 15 months.

Where a company seeks admission to the Official List and considers itself to be ‘capital hungry’, this should be disclosed in the IPO prospectus, in line with the Pre-Emption Group guidelines.

Investment Companies

Investment companies are afforded an additional exception to the Benchmark Policy guidelines for share issuance authorities. Given that the shares of investment companies generally trade at a discount to their net asset value (NAV), share issuances have the potential to result in substantial and immediate economic dilution for existing shareholders.

While closed-ended investment companies are prohibited from issuing shares below NAV regardless of their domicile, such restrictions do not apply to investment companies included in other listing categories. Accordingly, in cases in which investment companies that are not listed in the closed-ended category are seeking an authority to allot shares without preemptive rights in excess of the standard limits outlined in the general authority to issue shares without preemptive rights section above, market expectations are such that the board should confirm that shares would only be issued at or above the prevailing NAV per share. Although investors may be concerned with significant voting dilution, any share issuances at or above NAV would not result in economic dilution to existing shareholders, and they would carry the added benefits of enhanced liquidity and costs, such as management fees, spread over a greater number of shares. As such, the Benchmark Policy generally considers such authorities to be in shareholders’ best interests, and it will recommend shareholders approve share issuance authorities without preemptive rights in excess of the limits outlined above, so long as shares will be issued at or above NAV.

Specific Authorities to Issue Shares

While not as common as general authorities, companies may also seek shareholder approval of a direct issuance of shares for a specific purpose such as financing a merger, acquisition or expansion, or otherwise refinancing a company.

In the application of the Benchmark Policy, when a company seeks shareholder approval of a specific plan to issue shares, the plan will be assessed on a case-by-case basis to weigh the merits of the proposed issuance against the dilutive effect to shareholders. When assessing these issuances, the following factors will be considered:

- the total number of shares to be issued and the dilutive impact on shareholders;
- the issuance price and discount/premium relative to the prevailing share price; and
- the intended uses of proceeds from the issuance in the context of the company’s financial position and business strategy.

Authority to Repurchase Shares

A company may want to repurchase its own shares for a variety of reasons. A repurchase plan is often used to increase the company's share price or EPS, distribute excess cash to shareholders, or provide shares for equity-based remuneration plans for employees. In addition, a company might repurchase shares in order to offset the dilution of earnings caused by the exercise of share options.

The Benchmark Policy will recommend voting in favour of a proposal to repurchase shares when the plan includes the following provisions: (i) a maximum number of shares which may be purchased (limited to 15% of a company's issued share capital in line with the requirements of Chapter 9.6 of the Listing Rules); and (ii) a maximum price which does not exceed the higher of (a) 5% above the average market value of the company's shares for the five business days before the purchase is made; and/or (b) the higher of the price of the last independent trade and the highest current independent bid on the market where the purchase is carried out (also in line with the requirements of Chapter 9.6 of the Listing Rules).

Many investors view proposals asking for an authority to make off-market share repurchases to be a problematic governance practice. The Benchmark Policy will typically recommend shareholders vote against proposals asking for the authority to make off-market purchases (or contingent purchase contracts) that do not specify the maximum price for repurchases, as companies would then be authorised to make purchases at a large premium. Additionally, such purchases are outside the jurisdiction of the Listing Authority, and companies may be making off-market purchases without requesting any specific authority from shareholders. Nonetheless, the Benchmark Policy will assess such off-market authorities on a case-by-case basis.

City Code on Takeovers and Mergers

Companies sometimes seek shareholder approval to waive Rule 9 of the City Code on Takeovers and Mergers (the "City Code"), which requires an all-cash offer be made by any party acquiring more than a 30% stake in a company. The requirement is also extended to any party currently carrying between 30% and 50% of the share capital to make a takeover offer when this stake is increased.[84] The City Code was instituted to ensure that all shareholders are treated fairly and not denied an opportunity to decide the merits of a takeover opportunity. Offers must be made in cash or be accompanied by a cash alternative at not less than the highest price paid by the offeror during the 12 months prior to the offer.

In the application of the Benchmark Policy, Rule 9 waivers are assessed on a case-by-case basis to determine the short- and long-term effect on current shareholders. Companies often put this proposal on a ballot when they are pursuing a repurchase programme or a capital restructuring that would indirectly increase a significant shareholder's stake. While investors typically find this proposal non-contentious, the Benchmark Policy will closely examine any measure that could potentially allow for a "creeping acquisition" through the increase in a significant shareholder's interest from below 50% to near or above 50% of the anticipated outstanding share capital following a repurchase, restructuring, or the exercise of vested awards.

[84] The Takeover Code. The Panel on Takeovers and Mergers. July 2021.

Allocation of Profits/Dividends

In line with prevailing market expectations, the Benchmark Policy generally recommends supporting a company's determination regarding the payment of dividends (or nonpayment thereof). However, the Benchmark Policy will apply particular scrutiny in instances that a company's dividend payout ratio, based on consolidated earnings, has decreased to an exceptionally low level (as compared with historic practice), or where a company has eliminated dividend payments altogether without explanation. Dividend payouts that are consistently excessively high relative to peers (i.e., a payout ratio over 100%) where not justified by outperformance and without satisfactory explanation will also be scrutinised. The Benchmark Policy will recommend supporting uncovered dividends when such payouts appear justified and will not negatively impact the financial health of the company in the long-term.

The board is generally in the best position to determine whether a company has sufficient resources to distribute a dividend or if the company would be better served by forgoing a dividend to conserve resources for future opportunities or needs. As such, the Benchmark Policy will only recommend that shareholders refrain from supporting dividend proposals in exceptional cases.

By law, real estate investment trusts (REITs) are required to return 90% of the profits of the business arising in the relevant accounting period to shareholders in the form of a dividend. Given that REIT dividend payouts are monitored by law, the Benchmark Policy will not hold these companies to the standard dividend payout ratio outlined above.

Dividend Reinvestment (or Scrip Dividend) Plans

In line with market expectations, the Benchmark Policy generally supports plans that provide shareholders with the choice of receiving dividends in shares instead of cash. Scrip dividends allow the company to retain cash that it would otherwise distribute as a normal dividend. For shareholders, a dividend reinvestment plan offers a less expensive way to acquire additional shares without paying brokers' commissions or taxes.

Non-ESCC Companies

AIM-Quoted Companies

As an adjunct to the Main Market of the LSE, the AIM allows smaller companies from a wide range of industries and countries to raise capital while remaining subject to public regulation. Over 600 companies are currently trading on the AIM. While some of these companies will continue to trade on the AIM for some time, many will eventually 'graduate' to the Main Market upon reaching adequate size and productivity.

Companies quoted on the AIM are required to comply or explain against a recognised corporate governance code — namely the UK Code or the less stringent QCA Code. In line with the updated QCA Code, at least half the board should be independent. Additionally, AIM companies' boards should contain at least two independent non-executive directors. In the event that more than half of the members are affiliated or inside directors, the Benchmark Policy will typically recommend that shareholders vote against one or more of the non-independent directors in order to satisfy this threshold. With regard to committee composition, under the Benchmark Policy, the guidelines that pertain to smaller main market companies, as outlined above, are also applied to AIM companies.

Under the UK Code, the chair is not considered strictly independent after appointment. The QCA Code, however, does not include such restrictions and many AIM companies continue to consider their chairs independent. Market expectations are such that deviation from the UK Code in this regard may be justified due to the small size of many AIM trading boards and the relatively low level of responsibilities and remuneration associated with this role compared to chairs of larger companies. The Benchmark Policy will assess this issue on a case-by-case basis, considering the board's determination, the remuneration provided to the chair, and any other relationships that may compromise the chair's independence. Where the chair of an AIM company to be independent, they will be included in the independence count.

Companies trading on the junior exchange generally provide poorer disclosure and apply less stringent corporate governance practices; however, there has been a push for tighter regulation and improved practices in this section of the market by investor groups in the UK.

Other Main Market Companies

The London Stock Exchange has multiple listing categories under the Main Market, with the majority of operational companies included in the equity shares (commercial companies) or 'ESCC' category. Companies previously included in the market's less onerous standard listing had the option to move to the transition category, which largely emulates the requirements of a standard listing. Further, non-UK incorporated companies with a primary listing on another market may list their shares in the UK in the international secondary listing category. Unlike ESCC companies, companies in the transition and international secondary listing categories are exempt from the recommendations of the UK Code; however, they are required to comply with the regulations of the UK's FCA. Listing requirements are stipulated in the FCA Handbook, which, among other things, provides guidance on related-party transactions, capital requirements, shareholder notification rules and reporting deadlines. Unlike the UK Code, which operates on a "comply or explain" premise, the listing rules are strictly binding.

Nevertheless, companies in these listing categories should adhere to the UK Code to the maximum extent possible and thoroughly explain any significant deviations. When considering board and committee composition, the Benchmark Policy will generally apply the same standards as for AIM-traded companies. However, in light of the varied market capitalisation and complexity of standard listed companies, the Benchmark Policy will approach this issue on a case-by-case basis.

Offshore Companies (Guernsey, Jersey, the Isle of Man)

Some companies listed on the LSE are incorporated outside the UK for tax or general business purposes. Specifically, companies incorporated in Guernsey, Jersey, the Isle of Man and other offshore markets (collectively, offshore companies) have historically been subject to neither the provisions of the UK Code nor UK Companies Law. Under the current listing regime, offshore companies may be included in the ESCC category; however, they may also have the option of being included in the transition or international secondary listing categories.

As with AIM companies, non-ESCC offshore companies tend to have weaker disclosure and corporate governance practices than ESCC companies. Nonetheless, market expectations are such that non-ESCC offshore companies should adhere to the UK Code to the maximum extent possible and thoroughly explain any significant deviations. Additionally, while offshore companies are generally not required to submit a remuneration report for shareholder approval, they sometimes do so, which many investors view as a good governance practice.

Reincorporation

In recent years, several companies have reincorporated from the UK to offshore or overseas jurisdictions while retaining a UK listing. In shifting away from the jurisdiction of the UK Companies Act, the following significant changes for investors may apply: (i) shareholders do not retain statutory pre-emption rights in the case of new issuances; (ii) directors do not need shareholder approval to issue and allot shares; (iii) companies are not required to disclose significant beneficial owners of the company's shares; (iv) there is no maximum limit in the law regarding political donations; and (v) the appointment of more than one corporate representative in respect of a single shareholding is prohibited.

In many cases, such companies provide assurances that they will voluntarily comply with the provisions of the UK Code. Further, companies often state that the reincorporation will not change the company's adherence to best practices in corporate governance and shareholder rights, and many enshrine key elements of UK law into their articles. However, ESCC companies are required to comply with the UK Code, regardless of domicile.

Although some investors may view the fact that companies reincorporating offshore or overseas will be subject to somewhat more relaxed corporate governance standards as a potential concern, the Benchmark Policy will generally recommend voting in favour of such a proposal when management provides the key assurances outlined above. Further, the UK Listing Authority's two-tiered listing regime (see the "Introduction" section of these guidelines) mitigates some of these concerns. However, if the terms of a reincorporation fail to provide assurances regarding the maintenance of adequate governance standards, the Benchmark Policy may recommend shareholders vote against such a proposal in order to preserve vital safeguards of shareholder rights.

Special Purpose Acquisition Companies

Special Purpose Acquisition Companies (SPACs), also known as "blank check companies," are publicly traded entities with no commercial operations and are formed specifically to pool funds in order to complete a merger or acquisition within a set time frame. In general, the acquisition target of a SPAC is either not yet identified or otherwise not explicitly disclosed to the public even when the founders of the SPAC may have at least one target in mind. Consequently, IPO investors often do not know what company they will ultimately be investing in.

SPACs are therefore very different from typical operating companies. Shareholders do not have the same expectations associated with an ordinary publicly traded company and executive officers of a SPAC typically do not continue in employment roles with an acquired company.

SPACs are included in the Equity Shares (Shell Companies) listing category on the Main Market, the rules of which reflect the unique nature of SPACs.

Extension of Business Combination Deadline

Governing documents of SPACs typically provide for the return of IPO proceeds to common shareholders if no qualifying business combination is consummated before a certain date. Because the time frames for the consummation of such transactions are relatively short, SPACs will sometimes hold special shareholder meetings at which shareholders are asked to extend the business combination deadline. In such cases, an acquisition target will typically have been identified, but additional time is required to allow management of the SPAC to finalize the terms of the deal.

The Benchmark Policy generally views management and the board as being in the best position to determine when the extension of a business combination deadline is needed. As such, it generally supports reasonable extension requests.

SPAC Board Independence

The board of directors of a SPAC's acquisition target is, in many cases, already established prior to the business combination. In some cases, however, the board's composition may change in connection with the business combination, including the potential addition of individuals who served in management roles with the SPAC. The role of a SPAC executive is unlike that of a typical operating company executive. Because the SPAC's only business is identifying and executing an acquisition deal, the interests of a former SPAC executive are also different.

The Benchmark Policy does not automatically consider a former SPAC executive to be affiliated with the acquired operating entity when their only position on the board of the combined entity is that of an otherwise independent director. Absent any evidence of an employment relationship or continuing material financial interest in the combined entity, the Benchmark Policy will, therefore, consider such directors to be independent.

Director Commitments of SPAC Executives

The primary role of executive officers at SPACs is generally identifying acquisition targets for the SPAC and consummating a business combination. Given the nature of these executive roles and the limited business operations of SPACs, when a director's only executive role is at a SPAC, the higher limit for company directorships under the Benchmark Policy will generally be applied. As a result, the Benchmark Policy generally recommends that shareholders vote against a director who serves in an executive role only at a SPAC while serving on more than five public company boards.

Overall Approach to Environmental, Social & Governance Issues

The Benchmark Policy evaluates all environmental and social issues through the lens of long-term shareholder value. Shareholders are best served when companies consider material environmental and social factors in all aspects of their operations and when they are provided with disclosures that allow them to understand how these factors are being considered and how attendant risks are being mitigated. Governance is a critical factor in how companies manage environmental and social risks and opportunities and the Benchmark Policy is of the view that a well-governed company will be generally managing these issues better than one without a governance structure that promotes board independence and accountability.

Part of the board's role is to ensure that management conducts a complete risk analysis of company operations, including those that have financially material environmental and social implications. Companies can face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight thereof. Therefore, in cases where the board or management has neglected to take action on a pressing issue that could negatively impact shareholder value, the Benchmark Policy expects companies to take necessary actions in order to effect changes that will safeguard shareholders' financial interests.

Given the importance of the role of the board in executing a sustainable business strategy that allows for the realization of environmental and social opportunities and the mitigation of related risks, relating to environmental risks and opportunities, the Benchmark Policy looks for governance structures that protect shareholders and promote director accountability. When management and the board have displayed disregard for environmental or social risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental and social risks that threaten shareholder value, the Benchmark Policy will consider holding directors accountable. In such instances, it will generally recommend against responsible members of the board that are specifically charged with oversight of the issue in question.

When evaluating environmental and social factors that may be relevant to a given company, the Benchmark Policy does so in the context of the financial materiality of the issue to the company's operations. Companies in all industries face risks associated with environmental and social issues. However, these risks manifest themselves differently at each company as a result of its operations, workforce, structure, and geography, among other factors. Accordingly, the Benchmark Policy places a significant emphasis on the financial implications of a company's actions with regard to impacts on its stakeholders and the environment.

When evaluating environmental and social issues, the Benchmark Policy examines companies':

Direct environmental and social risk — Companies should evaluate financial exposure to direct environmental risks associated with their operations. Examples of direct environmental risks include those associated with oil or gas spills, contamination, hazardous leakages, explosions, or reduced water or air quality, among others. Social risks may include non-inclusive employment policies, inadequate human rights policies, or issues that adversely affect the company's stakeholders. Further, firms should consider their exposure to risks emanating from a broad range of issues, over which they may have no or only limited control, such as insurance companies being affected by increased storm severity and frequency resulting from climate change.

Risk due to legislation and regulation — Companies should evaluate their exposure to changes or potential changes in regulation that affect current and planned operations. Regulation should be carefully monitored in all jurisdictions in which the company operates. The Benchmark Policy looks closely at relevant and proposed legislation and evaluates whether the company has responded proactively.

Legal and reputational risk — Failure to take action on important environmental or social issues may carry the risk of inciting negative publicity and potentially costly litigation. While the effect of high-profile campaigns on shareholder value may not be directly measurable, it is prudent for companies to carefully evaluate the potential impacts of the public perception of their impacts on stakeholders and the environment. When considering investigations and lawsuits, the Benchmark Policy is mindful that such matters may involve unadjudicated allegations or other charges that have not been resolved. The Benchmark Policy will not assume the truth of such allegations or charges or that the law has been violated. Instead, it focuses more broadly on whether, under the particular facts and circumstances presented, the nature and number of such concerns, lawsuits or investigations reflects on the risk profile of the company or suggests that appropriate risk mitigation measures may be warranted.

Governance risk — Inadequate oversight of environmental and social issues carries significant risks to companies. When leadership is ineffective or fails to thoroughly consider potential risks, such risks are likely unmitigated and could thus present substantial risks to the company, ultimately leading to loss of shareholder value.

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