

Incentives Bulletin

January 2019

Welcome to the January edition of our Incentives Bulletin, updating you on the latest developments in remuneration and share schemes. This month, we look at **BlackRock's annual letter to CEOs**; the **BEIS Committee hearing on executive pay and government response to its gender pay gap report**; and we consider some **draft regulations laid in preparation of Brexit**. We conclude with a **timeline of key dates** in employee incentives coming up in the near future.

BlackRock's letter to CEOs

Summary: The CEO of BlackRock, Larry Fink, published his annual letter to the companies in which BlackRock invests on 17 January. He emphasised the importance of corporate social responsibility in response to turbulent times in global politics and the resulting uncertainty in markets. This follows last year's letter which focussed on the crucial role of a company's purpose to its success.

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More detailed analysis/commentary:

The key points made in the letter are as follows:

- Companies should step in where traditional political leadership is failing in a divided world. Corporate leadership plays a vital role in public life, for example in assisting workers in navigating retirement.
- Millennials value businesses which help society and make employment decisions on the basis of this. Attracting and retaining the best talent requires companies to engage with their wider responsibilities.
- BlackRock's priorities in 2019 for the companies they work with are: governance, including approach to board diversity; corporate strategy and capital allocation; compensation that promotes long-termism; environmental risks and opportunities and human capital management.

BEIS Committee hearing on executive pay and government response to BEIS report on the gender pay gap

Summary: On 22 January, in a Commons Select Committee hearing on ‘Corporate Governance: delivering on fair pay’ the Department for Business, Energy & Industrial Strategy (“BEIS”) Committee questioned the Business Minister Kelly Tolhurst, the Financial Reporting Council, the TUC and various shareholder representatives on executive pay and actions being taken to curb excessive boardroom pay awards.

The hearing was part of the broader inquiry into fair pay, to examine the simplification of structures around executive pay and reporting and the role of other stakeholders such as shareholders and remuneration committees in curbing excessive pay.

In connection with this, on 17 January, the BEIS committee published the government’s response to its report on the gender pay gap of August 2018 (which was summarised in the August 2018 edition of this bulletin).

We will continue to monitor the government’s progress in this area and any legislative proposals will be detailed in further issues of this bulletin.

More detailed analysis/commentary: Rachel Reeves MP, who chairs the committee stated that:

"Unjustified corporate rewards erode public trust in business...Excessive rewards for a few means less investment in the business. Executive rewards should only flow when genuine long-term value is delivered for the company...We want to explore the effectiveness of policies and actions at curbing excessive executive rewards, how companies should respond to shareholder concerns about pay packages, and what the Government is doing to ensure businesses deliver on fair pay."

In its response to the BEIS committee report on the gender pay gap, the government set out its position on several key issues as follows:

- The government confirmed that the introduction of mandatory reporting is only one aspect of the government’s efforts to address the gender pay gap.
- The report also states that in the first year of mandatory gender pay gap reporting, over 10,000 employers reported their data, with 100% of employers identified as being required to report having now done so.
- The government agrees with BEIS’s recommendation to gather views of employers and other key stakeholders to help contribute to the government’s guidance to ensure it is as clear as possible.
- The government recognised BEIS’s concerns relating to the proliferation of different reporting requirements and the burden this places on business and explained that it is partnering with several government departments to align requirements ‘as much as possible’. The government stressed that it is keen to balance the transparency of data with the flexibility of employers.

Draft regulations to amend and revoke provisions relating to the official listing of securities

Summary: Draft Official Listing of Securities, Prospectus and Transparency (Amendment etc.) (EU Exit) Regulations 2019 were laid before parliament on 21 January, which amend and revoke the provisions of UK

legislation and EU legislation relating to the official listing of securities and prospectus and transparency requirements, in order to deal with issues which arise from the UK leaving the EU.

More detailed analysis/commentary: The Regulations are made under the European Union (Withdrawal) Act 2018 to address deficiencies in retained EU law that arise from the UK leaving the EU, specifically in relation to the existing Directive (EC) No 71/2003 (the Prospectus Directive), Directive (EC) No 109/2004 (the Transparency Directive), Directive (EC) No 34/2001 (the Consolidated Admissions and Reporting Directive), and related EU legislation.

The regulations do not intend to make any policy changes, rather to reflect the UK’s new position outside the EU, for example by requiring all prospectuses for securities to be offered to the public or admitted to trading on a UK regulated market to be approved by the FCA, rather than allowing prospectuses approved by another EEA regulator to be passported in for use in the UK as is currently the case.

Horizon scanning

What key dates and developments in employee incentives should be on your radar?

29 th March 2019	European Union (Withdrawal) Act 2018 to take effect
4 th April 2019	Gender pay gap reporting deadline
6 th April 2019	Extension of holding period to qualify for entrepreneurs’ relief extended to two years from disposals made on or after this date
April 2019	Annual updates to employment rates and limits



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Dated January 2019