

Insights

IA SHAREHOLDER PRIORITIES FOR 2021

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SUMMARY

The Investment Association (IA) has published its Shareholder Priorities for 2021 setting out investor expectations on (i) climate change (ii) audit quality (iii) stakeholder engagement and (iv) diversity. This year there is a greater focus on accounting for climate-related matters, COVID-specific stakeholder engagement and a focus on companies' plans to meet the Parker Review targets for ethnic diversity.

Climate change

In 2020 the IA called on all listed companies to explain in their annual report what impact climate change would have on their business and how they were managing risks and pursuing opportunities, in line with the four pillars of the Task Force on Climate-related Financial Disclosures (governance, risk management, strategy, and metrics and targets) (TCFD). There has been an increase in the number of FTSE 100 companies reporting against some aspects of TCFD but the IA believes further improvements are needed.

IVIS Approach:* IVIS will, for the first time, **amber top** the ESG report of all companies in a high-risk sector (Financials, Energy, Transportation, Materials and Buildings and Agriculture, Food and Forest Products) that do not address all four pillars of TCFD.

IA members also expect companies to reflect climate-related matters in their annual reports. Directors should provide a statement that they have considered the relevance of the risk of climate change and transition risks associated with achieving the goals of the Paris Agreement when preparing and signing off the accounts.

Audit quality

In 2020, 94% of companies failed to provide evidence of how they assessed the quality of the audit and only 22% of FTSE 100 companies demonstrated how the audit committee had challenged management's judgement.

IVIS Approach: This year IVIS will continue to ask the same questions on whether the audit committee has demonstrated how it has assessed the quality of the audit and how it has challenged management's judgements. If IVIS does not see an improvement in 2021, it will introduce a colour top approach next year.

Stakeholder Engagement

The report notes that companies took a variety of approaches to workforce engagement when reporting in 2020 and generally identified key stakeholders and how companies had engaged with them during the year.

IVIS Approach: In light of COVID, the IA notes that investors will expect companies to make quality disclosures outlining the approach taken to engaging, communicating and supporting the company's stakeholders during the disruption caused by the pandemic. Importantly this should include how the Board reflected the views of their stakeholders in key decision making.

Diversity

There has been further improvement in gender diversity in contrast to ethnic diversity which has showed little progress.

IVIS Approach: IVIS will introduce a colour top approach for ethnic diversity and will continue to colour top companies which fall short on gender diversity, as follows:

- **Amber Top** any FTSE 350 company that does not disclose either the ethnic diversity of their board or the credible action plan it has in place to achieve the Parker Review targets.

FTSE 350 Companies

- **Red Top** Corporate Governance Report of companies that have female representation of 30% or less on their Board.
- **Red Top** Corporate Governance Report of companies that have female representation of 25% or less in their Executive Committee and its direct reports.

FTSE SmallCap Companies

- **Amber Top** Corporate Governance Report of companies that have female representation of 30% or less on their Board.
- **Amber Top** Corporate Governance Report of companies that have female representation of 25% or less in their Executive Committee and its direct reports.

*The Institutional Voting Information Service (IVIS) provides independent analysis on companies listed in the FTSE All-Share and FTSE Fledgling Indices.

IA Shareholder Priorities for 2021

RELATED CAPABILITIES

- M&A & Corporate Finance
- Securities & Corporate Governance

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