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Changes to ISS's 2025 Voting Policy Guidelines for UK PLC AGMs

Institutional Shareholder Services (ISS) has announced updates to its UK and Ireland proxy voting guidelines that take effect from 1 February 2025, as they look to adapt to significant shifts in governance and voting expectations.

ISS is a leading proxy advisory firm that provides research, data and recommendations to institutional investors on how to vote on issues that come before shareholders during general meetings. The ISS guidelines, which can be read in full here, are a comprehensive framework that outline how the firm evaluates various proposals and governance issues. The updated guidelines reflect ISS's ongoing commitment to promote responsible corporate governance and enhance shareholder rights.

ISS guidelines have also been updated to align with the FCA's update to the UK Listing Rules, which removes the distinction between "premium" and "standard" listing categories. Consequently, all listed companies will be subject to a single 'equity shares (commercial companies)' ('ESCC') classification, with uniform governance expectations and voting policies applied, irrespective of their previous listing status. This change streamlines the process and promotes consistent governance practices across all UK-listed companies.

What are the key changes for 2025?

The key changes to the voting guidelines aim to reinforce accountability, sustainability and transparency. They can be summarised as follows:

Diversity, Equity, and Inclusion (DEI)

ISS now expects companies to report on their 'progress' towards meeting the disclosure requirements set out in the FCA Listing Rules for diversity standards, where applicable. ISS will evaluate progress towards the targets, which include having at least 40% female representation, at least one of the senior board positions (Chair, CEO, Senior Independent Director, or CFO) held by a woman, and increased ethnic diversity amongst directors. ISS clarifies that such requirements are for companies to report against diversity targets, as opposed to necessarily meeting them, although higher standards are expected of those in the FTSE 350. However, companies that fail to disclose meaningful progress on DEI initiatives may risk receiving negative vote recommendations for relevant directors or committee chairs.

Executive Remuneration

Stricter guidelines on executive pay will be introduced, focusing on implementing a stronger link between performance and remuneration. Excessive bonus payouts that do not align with long-term shareholder value will result in adverse recommendations. Additionally, in line with the updated IA's Principles of Remuneration and UK Corporate Governance Code 2024, ISS advises against using market benchmarking as the primary justification for remuneration increases. Instead, companies are expected to provide clear rationale for salary decisions "based on the talent markets they are recruiting from".

ISS recognise that each company has its own specific circumstances, and that executive remuneration should be approved on a case-by-case approach, subject to there being transparent disclosure and justification aligned with supporting shareholder interests.

Capital Requirements Directive (CRD V)

The ISS voting guideline updates also reflect a key change for UK banks and investment companies, as they are no longer subject to the previous cap on the ratio of variable to fixed remuneration.

Under the new guidelines, this cap has been removed, allowing more flexibility in structuring executive remuneration. However, the removal of the cap does not mean that executive pay is free from scrutiny. ISS still expects companies to maintain clear justifications for their remuneration practices, ensuring alignment with long-term performance and shareholder interests, while maintaining transparency and appropriate governance standards.

Updates for Smaller Companies

The updated policy has been amended to align with the revised QCA Corporate Governance Code, introducing specific expectations for smaller quoted companies, such as those listed on the FTSE Fledgling and AIM markets. The revised principles came into effect for financial years beginning on or after 1 April 2024, and therefore first disclosures against this are expected from Q2 2025.

One of the more notable changes from a voting perspective is that smaller companies are encouraged to submit their remuneration reports and policies to an advisory vote by shareholders. This means that shareholders will have the opportunity to express their views on executive pay and related policies, although the vote will be non-binding.

Next steps

Companies must act quickly to understand these changes, recognising where their current approach deviates from the new policies, and how it intends on reporting to and engaging with shareholders to avoid any negative votes at their AGM this year. If you would like to explore how we can help you and your board ahead of your AGM this year, please contact one of our directors.

david.gracie@indigogovernance.com or
bernadette.young@indigogovernance.com