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# United Kingdom

## Summary of Current Shareowner Rights

*Percentages cited reflect information gathered by GMI Ratings about 397 companies in the United Kingdom as of 31 August 2012.*

The United Kingdom is known for having a solid corporate governance framework, strong shareowner rights, and an institutional culture of cooperation and activism. The U.K. system of business regulation is based on principles rather than rules; instead of mandating compliance with a fixed set of rules, the United Kingdom has a “comply or explain” system, whereby companies compare their practices with the Combined Code on Corporate Governance (the latest edition is from June 2010). This code gives listed companies the option of following a set of general governance principles and explaining any differences between company policies and established best practices.

Companies are given some leeway in complying with corporate governance regulations, and investors are given the tools to help encourage listed companies to adopt best practices. Boards and shareowners are encouraged to engage in dialogue on corporate governance matters. The key relationship is between publicly listed companies and their shareowners, not between the companies and the regulator. The regulatory framework in the United Kingdom encourages investor activism. For example, shareowners representing 10% of shares may call for general meetings, and shareowners may remove board members by a majority vote without cause. U.K. company law provides shareowners with comparatively extensive voting rights, and board members are subject to a majority voting standard. U.K. companies are forbidden from adopting poison pills or taking measures to thwart takeover attempts.

Issue	Current Standard or Usual Practice	Level of Practice Adoption, Exceptions to Usual Practice, and Trends (if any)
What is the average percentage of independent board members on public company boards (% independent board members)?	65%	The Combined Code on Corporate Governance recommends that boards contain a balance of independent and executive board members. Nearly all the U.K.-based companies researched for this manual comply with this recommendation.

Issue	Current Standard or Usual Practice	Level of Practice Adoption, Exceptions to Usual Practice, and Trends (if any)
What percentage of companies have fully independent audit committees?	94%	
What percentage of publicly traded companies have a controlling shareowner (e.g., family, government, majority block holder)?	7.6%	Family-controlled companies are not common in the United Kingdom. Almost none of the publicly listed companies researched for this manual have controlling shareowners.
Is voting by proxy permitted?	Yes	
Must shares be deposited or blocked from trading in order to vote?	No	
Are there share ownership limitations in this market?	No	Restrictions on share ownership are not common in the United Kingdom. Foreign shareowners are affected by restrictions on levels of ownership, however, in companies in strategic sectors, such as airlines and national defense.
Are there (other) common restrictions on the rights of shareowners to vote in person or by proxy?	No	
Do companies adhere to a majority voting standard in the election of board members?	Yes	Board members retire before the election and then may offer themselves for re-election; they are re-elected only by a majority vote.
Do companies allow for cumulative voting in the election of board members?	No	
Are shareowners able to affect a company's remuneration policy through shareowner approval (binding or non-binding) of the remuneration committee report, the proxy's Compensation Discussion and Analysis section, or something comparable?	Yes	This right is a (nonbinding) requirement in the United Kingdom.
Are shareowners able to affect remuneration policy through binding shareowner approval of specific equity-based incentive plans or something comparable?	Yes	
Are shareowners permitted to introduce dissident resolutions (binding or nonbinding) at an annual meeting?	Yes	Shareowners are allowed to introduce binding resolutions at annual meetings.

(continued)

Issue	Current Standard or Usual Practice	Level of Practice Adoption, Exceptions to Usual Practice, and Trends (if any)
Do shareowners have a right to convene a general meeting of shareowners outside the annual meeting process (e.g., an extraordinary general meeting or special meeting) if only 10% or less of the shares are represented in the group requesting the meeting?	Yes	The holders of a minimum of 10% of a company's outstanding shares may convene a general meeting.
What percentage of companies include golden shares in their capital structure?	1.0%	Not common practice in the United Kingdom
Are shareholder rights plans (poison pills) allowed in this market?	No	U.K. laws forbid targeted companies from taking measures to thwart takeover attempts.
If shareholder rights plans are in use, do they have to be approved by shareowners?	na	
Do all shareowners have the right to approve significant company transactions, such as mergers and acquisitions?	Yes	
Do companies require a supermajority vote to approve a merger?	No	
Are companies subject to a fair price provision, either under applicable law or as stated in company documents (such as the charter or bylaws)?	Yes	
Are class action suits commonly used in this market?	No	
Are derivative suits commonly used in this market?	No	

na = not applicable.

## Current Engagement Practices and Shareowner Rights Developments

The development of corporate governance in the United Kingdom has its roots in a series of corporate collapses and scandals that began in the late 1980s, including the collapse of the Bank of Credit and Commerce International, the Robert Maxwell pension fund scandal, and the financial crisis that culminated in 2008.

In response to the scandals of the 1980s, the Committee on the Financial Aspects of Corporate Governance, chaired by Sir Adrian Cadbury, was founded in 1991. In 1992, the committee issued a series of recommendations known as the Cadbury Report.

In 2003, following the Enron Corporation and WorldCom scandals in the United States, the U.K. Combined Code was updated to include corporate governance guidance on the role of non-executive board members (the Higgs Report) and the role of the audit committee (the Smith Report). Additional changes were made to the code in 2006, 2008, and 2010.

The financial crisis in recent years caused regulators and investors to reassess the role of institutional investors in the governance of U.K. listed companies. The review of corporate governance in U.K. banks and other financial institutions conducted by Sir David Walker (the Walker Review) was launched in February 2009. In November of 2009, the final recommendations of the Walker Review were published. As a result of the Walker Review, in July 2010, the U.K. Stewardship Code was published, and it sets out best practice for institutional shareholders when engaging with listed companies. Major investment committees have also published guidelines and policy statements on the responsibilities and duties of institutional shareholders.

The U.K. Corporate Governance Code contains main principles, supporting principles, and code provisions. Under the listing rules, the “comply or explain” approach remains the standard. Companies are required to produce a statement in their annual reports that explains how they have applied the main principles of the U.K. Corporate Governance Code.

The most recent version of the Combined Code, now called the U.K. Corporate Governance Code, was issued in June 2010. Major changes to the code include the following:

- The board should be responsible for determining the nature and extent of the significant risks it is willing to take.
- Performance-related pay should be aligned with the long-term interests of the company and take into account the risk associated with that compensation.
- All directors of FTSE 350 companies should stand for re-election every year.
- The code lists new principles on the composition and selection of the board, including the need to appoint members on the basis of merit and with due regard for the benefits of diversity.
- A board chairman should hold regular reviews of each director’s performance, and FTSE 350 companies should have effective board performance reviews at least every three years.

Since the early 1990s, activist investors have become a strong presence in the United Kingdom, and shareowner engagement is now quite common. The Combined Code encourages communication with shareowners and states that the boards of publicly listed companies have a responsibility to ensure that a satisfactory dialogue with shareowners takes place.

The United Kingdom has implemented a set of corporate laws and corporate governance recommendations that encourage investor activism. Although class action shareowner lawsuits are not allowed in the United Kingdom and derivative lawsuits are not common, shareowners have a number of tools to use to prod underperforming companies into action.

Institutional investors, in particular, are able to exert a high degree of influence. Regulations allow shareowners representing at least 10% of shares to call general meetings. Board members may be removed without cause by a majority vote. Pension funds, hedge funds, and private equity funds have had success using these actions, or the threat of these actions, to push managers to implement new strategies or make personnel changes and help turn around underperforming companies.

Investor activism is not impeded by the presence of poison pills, and controlling shareowners are not common. Majority independent boards are relatively common in the United Kingdom.

## Legal and Regulatory Framework

The United Kingdom has a strong legal tradition and a corporate law code that includes numerous investor-friendly provisions. In recent years, activist investors have successfully agitated for corporate change in terms of strategy, structure, and management.

In 2012, the U.K. government announced that it would enact legislation to give shareholders a binding vote on executive pay; votes are currently of an advisory nature. Such legislation is expected to be introduced in 2013. Votes will require an ordinary resolution to pass. The binding vote will be held annually unless companies choose to leave their remuneration policy unchanged. Once a policy is approved, companies will not be able to make payments outside its scope without re-approval. The government hopes this change will encourage companies to devise long-term pay policies.

At annual general meetings, the statutory rule is majority voting; to be elected, each board member up for election must receive a majority (excluding abstentions) of the “yes” votes cast. Majority voting standards allow shareowners to vote against candidates and make it easier for activist investors to launch campaigns to unseat underperforming board members.

The holders of 10% or more of a company's outstanding shares may call a general meeting. Rules in the United Kingdom also allow shareowners the right to unseat an incumbent board member with or without cause by a simple majority vote.

Although shareowners in the United Kingdom have the right to call general meetings or vote to alter a company's bylaws or charter, a substantial amount of shareowner activism takes place behind closed doors rather than in a public forum. Helped by a supportive regulatory framework and the presence of a number of proactive funds, U.S.-style investor activism has become increasingly popular in the United Kingdom. Institutional investors, such as pension funds and private equity firms, have earned a reputation for successfully engaging the senior executives of publicly listed companies in private meetings, including cooperative action. Cooperation between institutional investors has also been achieved through groups such as the Association of British Insurers and the National Association of Pension Funds.

Investor activism is further encouraged by the facts that few U.K. companies have controlling shareowners and all U.K. companies are prohibited from adopting poison pills. In fact, the U.K. City Code on Takeovers and Mergers prohibits target boards from initiating any action that might frustrate a takeover bid. Existing regulations are designed so that all proposed mergers and takeover attempts are put to a shareowner vote as quickly as possible.

For a few companies in select industries, shares are subject to restrictions on foreign ownership or golden shares have been issued to prevent outsiders from taking control. Foreign shareowners are affected by restrictions on levels of ownership in companies in the airline and national defense industries and in companies that are symbols of national prestige, such as Rolls-Royce.

## Key organizations with information relevant to shareowner rights in the United Kingdom include the following:

Financial Services Authority ([www.fsa.gov.uk](http://www.fsa.gov.uk))

Financial Reporting Council ([www.frc.org.uk](http://www.frc.org.uk))

Association of British Insurers ([www.abi.org.uk](http://www.abi.org.uk))

National Association of Pension Funds ([www.napf.co.uk](http://www.napf.co.uk))

U.K. Shareholders' Association ([www.uksa.org.uk](http://www.uksa.org.uk))

Hermes U.K. Focus Funds ([www.hermes.co.uk](http://www.hermes.co.uk))

U.K. Corporate Governance Code (<http://frc.org.uk/getattachment/b0832de2-5c94-48c0-b771-ebb249fe1fec/The-UK-Corporate-Governance-Code.aspx>)

U.K. Stewardship Code (<http://frc.org.uk/FRC-Documents/FRC/The-UK-Stewardship-Code.aspx>)