

# United Kingdom

## Summary of Current Shareowner Rights

*Percentages cited reflect information gathered by GMI about 382 companies in the United Kingdom as of 15 May 2008.*

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 principles rather than rules based; 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 (latest edition, June 2008). 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 the 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 percent 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)?	60%	The Combined Code on Corporate Governance recommends that boards contain a balance of independent and executive board members. Nearly all of the U.K.-based companies researched for this manual comply with this recommendation.
What percentage of companies report significant related-party transactions (1% of revenue or more) within the last three years?	5.5%	High levels of related-party transactions are not common in the United Kingdom.
What percentage of publicly traded companies have a controlling shareowner (e.g., family, government, majority block holder)?	7.1%	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	

Issue	Current Standard or Usual Practice	Level of Practice Adoption, Exceptions to Usual Practice, and Trends (if any)
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 reelection; they are reelected 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 nonbinding) of the remuneration committee report, the proxy's Compensation Discussion and Analysis section, or otherwise?	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 otherwise?	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.
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?	0.8%	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	

## 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 in the late 1980s and early 1990s, including the collapse of the Bank of Credit and Commerce International and the Robert Maxwell pension fund scandal.

In response to the scandals of the previous decade, 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 nonexecutive board members (the Higgs Report) and the role of the audit committee (the Smith Report). Additional changes were made to the code in 2006 and 2008.

Since the early 1990s, activist investors have come to have 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 encourages investor activism. Although class action shareowner lawsuits are not allowed in the United Kingdom and derivative lawsuits are not common, shareowners are provided with 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 percent 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 at 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, which is in line with the recommendations of the Combined Code.

## 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.

At annual general meetings, the statutory rule is majority voting; that is, 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 percent 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 airlines and national defense 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))

Centre for Corporate Governance (at the London Business School)

([www.london.edu/facultyandresearch/researchactivities/centreforcorporategovernance.html](http://www.london.edu/facultyandresearch/researchactivities/centreforcorporategovernance.html))

Higgs Report (Guidance on the role of the audit committee)

([www.frc.org.uk/documents/pagemanager/frc/Suggestions%20for%20good%20practice%20from%20the%20Higgs%20Report%20June%202006.pdf](http://www.frc.org.uk/documents/pagemanager/frc/Suggestions%20for%20good%20practice%20from%20the%20Higgs%20Report%20June%202006.pdf))

Smith Report (Guidance on director remuneration)

([www.frc.org.uk/documents/pagemanager/frc/Smith%20Report%202005.pdf](http://www.frc.org.uk/documents/pagemanager/frc/Smith%20Report%202005.pdf))

Combined Code on Corporate Governance (June 2008)

([www.frc.org.uk/documents/pagemanager/frc/Combined\\_Code\\_June\\_2008/Combined%20Code%20Web%20Optimized%20June%202008\(2\).pdf](http://www.frc.org.uk/documents/pagemanager/frc/Combined_Code_June_2008/Combined%20Code%20Web%20Optimized%20June%202008(2).pdf))