

The UK Government consults on Corporate Governance Reform: What Next?

An excellent analysis from the City law-firm, Cleary Gottlieb, on the Green Paper presented by the British Prime Minister, Theresa May's government. The consultation document sets forth the proposed reform of aspects in corporate governance that may later be put into law.

The analysis of the prestigious law-firm provides a summary of the key points in the Green Paper's approach and how it might alter corporate governance in the United Kingdom. It focuses on i) executive remuneration and incentives, ii) the engagement of employees and other stakeholders in corporate decision making, and iii) the general improvement in governance standards for large companies in the private sector.

Regarding pay, it requires greater transparency and detailed information on executive pay, which must be put to a binding vote by shareholders at the general meeting with greater frequency, requiring qualified majorities for approval, or establishing maximum pay thresholds.

It also seeks to establish measures involving shareholders more in decisions on remuneration policy. It proposes shareholders and employees be consulted on the policy, and requires directors sitting on the remuneration committee to have specific expertise in the matters within its scope.

The Paper suggests that long-term incentive plans last for more than the three years established under the current code, proposing five-year plans and requiring beneficiaries of share schemes hold their shares until they reach two times their gross salary.

The Green Paper proposes measures to ensure that companies listen to the voice of their employees, suppliers, customers, pension beneficiaries and other parties with a stake in the companies' performance. It announces plans to include consumers and shareholders in board-level decisions by creating stakeholder advisory committees, charging independent directors with the representation of the most significant stakeholders and expanding the content of the reporting models.

Another aspect refers to information requirements, which will depend on the size of the companies rather than on their legal status as "public, private or listed".

The consultation period ended on 17th February. In Progreso, we will be monitoring future developments stemming from this Green Paper.