



Preparing for AGMs in 2023

By [Paul Johnston](#)

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Overview

As we move into “AGM season” in 2023, we consider some of the key areas for boards to be thinking about as they plan for their next round of shareholder meetings.

Trends for 2023

AGMs remain a critical part of a company’s corporate governance infrastructure. They allow shareholders to have a direct say on the decisions being implemented by the board and provide an opportunity for dialogue between boards and shareholders.

2022 represented a return to pre-COVID norms in terms of the conduct of the AGM. Shareholders were once again largely invited to attend in person, with no widespread restrictions on public attendance. Many of the themes emerging from 2022 AGMS were largely evolutionary from previous years rather than revolutionary, and we expect this

to remain the case in 2023. We reported last year that executive remuneration and, increasingly, ESG considerations were at the forefront of investors’ minds, and these are likely to be issues that dominate AGMs in 2023. We consider each of these in turn.

• Remuneration

Firstly, it is important to emphasise that the **vast majority of remuneration-related resolutions continue to pass.** In 2022, only five remuneration report resolutions at FTSE All-Share companies failed to pass, with all remuneration policy resolutions (‘say on pay’ resolutions) put to shareholders at such companies passing.

However, prevailing trends on the scrutiny and challenge that investors are exerting on boards in respect of executive pay have continued to be seen in 2022, with dissent on remuneration reports (those attracting more

than 10% opposition) rising to 19%, an increase of 18.5% year-on-year. Shareholder opposition is still most prevalently exerted when pay schemes are seen to be out of line with generally accepted market practice (for premium listed companies in particular, there is a real onus for executive remuneration to be in line with provisions in the UK Corporate Governance Code) or when the experiences of senior management are viewed as being out of line with the rest of the workforce and wider stakeholders.

In the current environment, with austerity and recession in view, **it may be reasonable to expect in 2023 to see investors increasingly challenging any remuneration reports and policies that are seen to be out-of-step.** We are also advising Remuneration Committees to carefully **consider whether and how to apply any discretion available to them under executive pay schemes.**

Environmental, Social and Governance (ESG)

Historically, shareholder votes on director re-elections would have been influenced by issues such as length of tenure and overboarding.

While these issues still remain important, we think that shareholders continue to exert further pressure on **boardroom diversity** - for example, does the board meet or exceed regulatory or industry norms in terms of its composition – and that shareholders want to see whether the board has a **clear and cogent approach toward addressing the ESG agenda.** We think that these issues will become increasingly influential when it comes to director re-appointments.

Lack of progress on boardroom diversity, whether that be in respect of gender or ethnic diversity, will often translate into votes against board or Nomination Committee Chairs. We would expect this to be a pressure primarily felt by FTSE-350 listed companies but every board should be attuned to institutional investors' views on diversity and be sure that they respond accordingly.

Similarly, there are few direct ESG-related reporting requirements that listed companies are currently mandated to comply with, although this picture is changing with the recent introduction of mandatory TCFD reporting requirements for certain listed companies. We expect shareholder interest to continue to grow in areas such as carbon emissions and net zero strategies in particular, and we also expect to see investors take more strident positions on these issues in the next few years. We saw a number of resolutions in 2022, including at Sainsbury's and Unilever's respective 2022 AGMs, on issues such as adoption of the UK living wage for all staff and ensuring healthier foods in supply chains. Boards should be prepared to demonstrate how they are factoring ESG-related considerations into their governance structures and decision making.

We strongly emphasise the need for all boards to be alert to potentially contentious issues and they are encouraged to proactively engage with their largest shareholders on any such issues. **By identifying these early, the business can develop a strategy to manage any potential impact.**

Other significant changes

Pre-Emption Rights Guidelines. In 2022, the Pre-Emption Group (**PEG**) announced changes to their Statement of Principles, the first such changes since 2015. The Statement of Principles provides guidance for companies with shares admitted to the Premium List, although companies whose shares are admitted to the Standard List and AIM companies are also encouraged to adopt these Principles.

In their revised guidance, the PEG has raised its threshold for non-pre-emptive share issuances from 10 per cent to 20 per cent of a company's issued share capital, provided that part of such authority in excess of 10% will be limited to use in connection with an acquisition or specified capital investment. This '10+10' approach represents a move from the previous '5+5' recommendation.

It is expected that proxy voting agencies and investor bodies will adopt these new guidelines on pre-emption rights as the new baseline and we should expect to see many resolutions going to AGMs in 2023 with this revised approach in mind.

Contact us

If you would like assistance with your next AGM or advice on shareholder engagement more generally, please get in touch with us using the details [here](#).

ONE Advisory's Corporate Governance, Compliance and Company Secretarial team's expertise and knowledge of best practice in small and mid-cap growth companies can ensure that your board receives the advice and support needed to facilitate good corporate governance.

Format of the AGM

The temporary flexibility introduced into law in 2020 saw the majority of UK listed companies holding either partly or wholly virtual AGMs and this trend largely continued into 2021.

As noted earlier in this article, we have seen a shift in 2022 amongst our client base back toward 'in person' general meetings; companies should note that there remain some legal uncertainties associated with holding virtual shareholder meetings, as well as potential cost implications. We also remind clients that are looking at holding general meetings on a hybrid or virtual basis to ensure that their articles of association allow for such a format.

Many investor bodies, including proxy voting agencies, broadly support the use of technology in facilitating shareholder attendance and participation at AGMs, including the use of broadcasting technology to allow shareholders to hear proceedings remotely, and for questions to the Board to be submitted either in advance or through such broadcasts. We have supported a number of clients in putting such arrangements into place across the course of 2022. We expect this to continue as we move into 2023.