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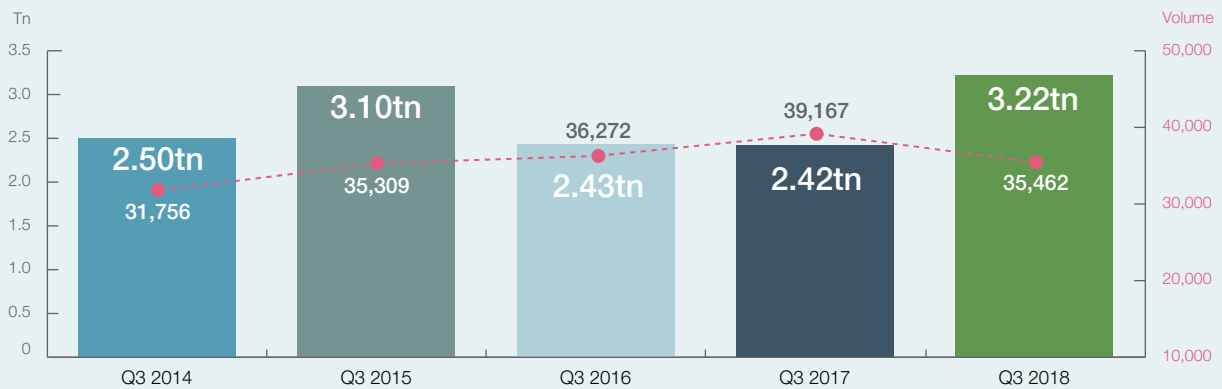
Investing in a time of perpetual change

M&A Insights: *In focus* | Q3 2018

Global M&A Q3 2018 snapshot

↑ 33% increase in deal value
Q3 2018 vs Q3 2017

↑ 134% increase in value of deals
over USD10bn Q3 2018 vs Q3 2017



REFINITIV
Data provided by Refinitiv
(formerly the Thomson Reuters Financial and Risk Business)

Note: these figures represent deals announced between 1 January 2018 and 9 October 2018.

Investment landscape blurred by U.S./EU foreign policy differences

With the U.S. and EU diverging more radically than at any time in recent history over key areas of foreign policy, M&A players contemplating deals involving sanctioned jurisdictions, notably Russia and Iran, face significant challenges understanding and complying with evolving – and increasingly inconsistent – rules and prohibitions.

It is hard to remember a time when there has been such a divergence between the U.S. and the EU on a whole range of foreign policy issues, most notably sanctions.

Growing divisions between and within the U.S. and the EU have been starkly revealed over both Iran and Russia, creating a landscape where international investors now face unprecedented uncertainty over what they can and cannot legitimately do when trading or completing deals within these two countries.

The main reasons for this divergence lie in a number of factors. Where Iran is concerned, the most obvious is President Donald Trump's ultra hard line, leading to his decision to unilaterally withdraw from the multinational Iran Nuclear deal, also known as the JCPOA, on 18 May this year. The EU and other international signatories to the deal insist that it must be allowed to continue and have vowed to keep trading with Iran.

Elsewhere, sharp divisions have emerged between President Trump and the U.S. Congress over how to deal with Russia, in the wake of allegations over Russia's interference in the U.S. Presidential elections. Mr Trump appears to be taking a far more emollient approach to President Putin than Republican lawmakers on Capitol Hill.

Meanwhile, Europe remains significantly divided over further Russian sanctions. A number of EU member states, Italy, Greece, Hungary and Austria amongst them, have made it clear they oppose any hardening of the EU sanctions imposed in 2014, over the annexation of Crimea, and Russian activity in the Ukraine.

We've seen those divisions further exposed in the wake of the alleged Russian state involvement in the Skripal poisoning in Salisbury, UK. While the EU itself and several member states joined the UK in expelling Russian diplomats, several nations have roundly rejected calls for tougher sanctions to be imposed.

On the flip side there is no proposal for EU sanctions to be loosened, though some have called for this. But rather than adding clarity, this merely leaves the EU's attitude to further sanctions in something of a holding pattern.

“It is hard to remember a time when there has been such a divergence between the U.S. and the EU on a whole range of foreign policy issues, most notably sanctions.”

Navigating through fog

Against this background of unprecedented geopolitical uncertainty, financial institutions and companies contemplating M&A transactions or more straightforward ventures in sanctioned jurisdictions are finding it increasingly difficult to navigate an already complex landscape.

Iran is a clear case in point. Here the divergence between the U.S. and Europe is particularly stark where investors are concerned.

On the one hand, the U.S. has announced its decision to cease U.S. participation in the JCPOA and already begun to re-impose two sets of sanctions lifted by the JCPOA agreement. First, on 6 August 2018, the U.S. reimposed sanctions banning transactions with Iran involving U.S. dollar notes, gold and other precious metals, steel, aluminium, commercial passenger aircraft, coal and auto parts. To add insult to injury, the action on 6 August also ended imports into the U.S. of Iranian carpets and foodstuffs. The bigger impact will come on 5 November 2018, when the remainder of the principal U.S. sanctions on Iran will be imposed restricting sales of oil and petrochemical products from Iran. Violators of any of these restrictions can face secondary sanctions enforcement from the U.S. that would essentially cut them off from the U.S. markets – likely meaning no deals with U.S. persons, no travel to the U.S., no loans or financing from U.S. investors, no bank accounts in the U.S., and other limits on activities in America.

In its determination to keep the nuclear deal alive, the EU has responded by updating its so-called blocking regulation, rules drawn up in the mid-1990s to counteract U.S. sanctions on Cuba and now updated to cover Iran.

The regulations, in effect, make it illegal for EU persons and entities to comply with the re-imposed U.S. extra-territorial sanctions, putting those who need to comply with both regimes in an almost impossible position.

Though some unfairly claim the blocking regulation lacks teeth, the EU may well look for an opportunity to prove doubters wrong as the JCPOA stand off continues. There have even been suggestions that the regulations may be further strengthened.

The European Commission is also considering the creation of a special purpose vehicle to facilitate the flow of funds into and out of Iran for EU-based companies. Predictably, the Trump administration did not embrace this effort to support trade with Iran. Secretary of State Mike Pompeo called it “one of the most counterproductive measures imaginable for regional global peace and security” and threatened retaliation if it goes forward.

This impasse has clearly slowed transactions involving Iran, especially crude oil purchases. Meanwhile a number of high-profile companies have chosen to curtail operations and ventures there, including carmakers Daimler, Renault and PSA and plane maker Airbus. Both British Airways and Air France have also suspended services to Tehran, only re-launched after the JCPOA was initially agreed, arguing that they are no longer economically viable.

Inbound investment in Russia has fallen dramatically

In many ways navigating the sanctions regime as it applies to Russia is proving even trickier.

Here divisions between the U.S. and Europe have again been on glaring display over the summer, not least as relations between President Trump and the German Chancellor, Angela Merkel, have become increasingly strained.

That was particularly evident when, two days before his July summit with President Putin in Helsinki, Mr Trump used his opening remarks at the Nato summit to make an extraordinarily outspoken attack on Germany's supposed over-dependence on Russian gas.

His particular target was the proposed Nord Stream 2 natural gas pipeline running under the Baltic between Russia and Germany. The Trump administration has threatened to sanction European companies investing in the pipeline, with some commentators expecting enforcement action to be imminent.

Yet Mr Trump's own position on Russia remains extremely hard to read. Despite his apparently uncritical words following the Putin summit, he has in recent weeks signed orders for further sanctions on Russia. Clearly, notwithstanding the orders Mr Trump has signed, the real pressure for tighter sanctions is coming from Congress rather than the White House. And, given that Congress remains Republican-controlled, it seems unlikely it would initiate a major showdown with the White House, absent new material developments.

Impact on Russian investment

The impact of sanctions on inbound investment to Russia has already been significant, with inbound investment from the U.S. and the EU in overall sharp decline since the first round of sanctions were imposed in 2014.

Since 2013, U.S. M&A transactions have fallen sharply and without interruption from almost USD1bn to nothing, according to data from Refinitiv (formerly Thomson Reuters Financial and Risk business).

EU transactions have followed a less straightforward path. Standing at USD10.5bn in 2013, they fell sharply in the next two years in response to the initial targeted sanctions, but rose again in 2016 to USD12.5bn as they began to understand the scope of them and their licence to continue trading in a compliant way.

Since then, however, the path has continued downwards, with investment to date this year running at just over USD2bn.

An accent on deeper diligence

For now it's clear that potential investors in any sanctioned territory, but in Russia and Iran in particular, face new challenges and sensitivities.

That's particularly true for banks and other financial institutions doing deals and providing acquisition or joint venture financing, hedge funds, PE houses and infrastructure funds.

Having a clear understanding of the risks faced is critical.

However, companies contemplating deals are no longer only relying on careful legal and financial due diligence. They also are now forced to think hard about future law risk and the need to build in contractual protections dealing with the ever-evolving sanctions landscape, which is dotted with sanctions that typically come into force with almost no notice and immediate effect. Complicating things are the very real conflicts of laws issues posed by the new EU blocking regulations and similar legal differences. In many cases, companies are having to rely on built-in contractual protections in the event their investments are affected directly or indirectly by changes in sanctions.

Buy-side investors need to avoid surprises in the late stages of a transaction. They need to be pushing sellers for the full disclosure of activities that may be affected by sanctions now or in the future. An early sanctions assessment is essential. Any banks involved will also need comfort that an appropriate sanctions review has been undertaken and that any associated risks are low.

There are no signs that the use of sanctions as a foreign policy tool is slowing down. Quite the contrary, we are also seeing a greater willingness amongst governments to adopt a more interventionist stance in order to protect their international and domestic interests. This is revealing sharp divisions in foreign and economic policy in other areas too, most notably trade policy. It's clear too in the stricter, though not always consistent, approach both the U.S. and EU are taking to proposed investments that might impinge on national security.

In this environment, barriers to free and open trading across borders are growing and becoming harder to predict. We see no sign of that situation changing any time soon.

Since 2013, U.S. inbound investment in Russia has fallen sharply and without interruption from almost USD1bn to nothing.

Date	Russia Inbound		U.S. > Russia		Europe > Russia	
	Value (USDm)	Number of deals	Value (USDm)	Number of deals	Value (USDm)	Number of deals
2013	16,744	427	983.5	24	10,489	287
2014	3,346	376	603.2	18	2,323	252
2015	11,933	450	8.7	10	7,657	282
2016	21,653	433	0	14	12,528	285
2017	5,484	321	0	9	4,719	226
2018	5,515	139	0	1	2,035	97

REFINITIV  Data provided by Refinitiv (formerly the Thomson Reuters Financial and Risk Business)



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Core-plus infrastructure proves fertile ground for funds

As technology and the explosion in data use continue to disrupt business models, PE houses, pension funds and other specialist infrastructure investors are increasingly targeting telecom towers, networks and even data centres as attractive ‘core-plus’ assets offering stable, long-term returns.

In recent years we have seen an increasingly diverse assortment of infrastructure investors turn to the telecoms sector.

The result has been an upsurge in M&A activity targeting the full spectrum of connectivity infrastructure from cables to data centres, a trend we see accelerating in the years ahead.

The range of infrastructure funds seeking assets that offer long-term stable returns has grown significantly, as PE houses, pension funds, insurers and specialist infrastructure investors have joined the fray.

There has been a huge build-up of investment capital at a time when there is a relative dearth in traditional infrastructure targets, such as ports, airports, toll roads and energy grids.

Where connectivity assets are concerned, investors have increasingly been willing to look at a much broader range of assets beyond the traditional core categories, even if the risks associated with them are slightly higher.

Now ‘core-plus’ assets such as regional and specialist broadband networks, metro-area fibre networks, selected core fixed line and internet networks and even advanced data storage and processing centres are in the mix.

Data in the driving seat

There are a number of factors driving this change in investment patterns, but foremost is the continued exponential growth in data consumption.

That growth – spurred on by an explosion in demand for high-bandwidth, interactive and online services, delivered anywhere, any time, the development of new technologies like 5G, and the proliferation of the Internet of Things devices – is extraordinary.

A regularly cited statistic suggests that some 90% of the data in use today has been created in only the last two years – and there is no sign of that rapid expansion of consumption slowing down.

For telecom operators the technology explosion has forced a strategic rethink about how they finance and develop their businesses. Above all it has forced them to think of new ways to raise the huge amount of capital they need to fund investment in spectrum, applications, new technologies like 5G and richer and more compelling content for their subscribers.

Opportunities to achieve cost-savings through in-market consolidation have been curtailed by competition authorities reluctant to see further concentration of power in the hands of fewer operators.

Given limited scope for conventional tie-ups between operators, parcelling up commoditised infrastructure assets and divesting them in sale and leaseback arrangements offers a compelling way to de-leverage and fund ongoing investment.

Indeed, the approach increasingly is for operators to consider what they can trust others to run and deliver, selling these assets to infrastructure investors so that they can focus on the high value aspects of their business. This allows investments to be re-rated around their particular risk profile, with infrastructure investments attracting a premium from investors with a strong attraction to their predictable yield, and telecoms operators being valued for a higher risk/reward equation.

Renewed interest

Not all of this is new. The trend for telecom operators to separate out the passive parts of their networks – in particular mobile or cellular towers and masts – has been in progress for some years in a variety of markets. It is a move that has been given added impetus as operators have moved away from developing their own network infrastructure, choosing the less costly option of sharing basic infrastructure such as towers.

We’ve seen high levels of activity in terms of tower disposals in recent years. In the U.S., for instance, the majority of cellular towers have now been packaged into sale and leaseback transactions. The trend has been marked in developing economies too, most notably in Africa where until recently we have seen significant activity across the continent by towercos including IHS, Eaton and Helios, and more recently in Asia.

We are also seeing secondary sales in this market such as in Australia, where, last year a Macquarie-led consortium of infrastructure and pension fund investors paid USD1.6bn for the Crown Castle Australia business, the biggest in the country and which included 1,700 towers.

Despite this high level of activity, there is still considerable scope for consolidation. The recent USD14.6bn merger of the towers businesses of India's Indus Towers and Bharti Infratel, to create the world's second largest towerco, demonstrates ongoing levels of activity.

Elsewhere, government regulation is driving change. Both Bangladesh and the Philippines have put in place regulatory measures to require mobile operators to hive off their towers as separate businesses. And in other markets, perhaps those with a higher risk of regulatory challenge, governments can exert pressure with state financial backing for independent netco-style businesses, such as Open Fiber in Italy, Red Compartida in Mexico and regulatory conditions allowing regional broadband to be constructed throughout Europe.

From 'core' to 'core-plus'

Tower deals have set a precedent. Now other elements of this connectivity infrastructure are being seen as valid candidates for sale. Although they may have less infrastructure characteristics than towers, they are finding a ready market among funds moving from 'core' to 'core-plus' targets, including broadband, fibre, fixed-line, fibre and internet networks and data centres.

In some cases we have seen major operators contemplating deeper unbundling, after successfully completing tower disposals.

Having completed the partial sale of its Telxius towers and submarine cable business to KKR, Telefonica is now said to be contemplating a partial network spinoff.

In France, where the focus in recent years has been on expanding the national fibre network across the regions, such sell offs are less well advanced although now getting underway. Altice, the telecom giant, is said not only to be contemplating sales of stakes in its French and Portuguese towers business but also restructuring its French fibre business, run by SFR, to further hone its portfolio.

The rumoured sale of Eurofiber, the Dutch fibre optic network firm owned and grown through bolt-on acquisitions by Antin Infrastructure Partners since 2015, is also being closely watched by the market, with speculation that the business could be sold for a significant sum, achieving a value of some EUR1.5bn.

Data centres were traditionally seen as relatively standard infrastructure investments, with basic facilities contracted on a long-term basis and partly indexed as a real estate investment.

But some have begun to move up the value chain, providing more sophisticated storage and computing services as part of the migration to cloud computing. While that increases the risk, the almost certain continued sharp growth in demand for data storage and processing adds long-term security of the sort that infrastructure funds require to meet their investment criteria.

Investors are using a variety of approaches to develop data storage businesses, but buy and build remains a common one. There are also many options for positioning a data business. Some are choosing to do this by taking a sector approach, for instance, serving banks; others are targeting particular market segments, for example focusing on small and medium sized companies.

Meanwhile the so-called 'hyperscalers' of the industry, such as Amazon, Google and Microsoft, are continuing to build their cloud businesses through bolt-on acquisitions in specialist areas.

Longevity

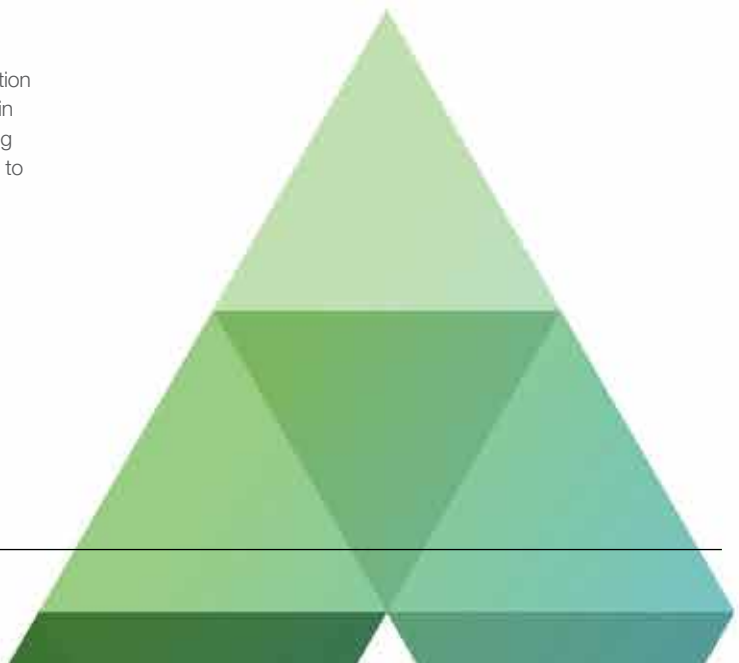
This substantial and continual growth up to now suggests activity in this area is likely to continue growing with increasing levels of M&A activity, much of it at a significant value.

To some extent, M&A activities will be in the form of new carve-out deals. But we are also continuing to see infrastructure investors growing significant businesses through buy and build strategies and successfully trading them on to other funds or investment consortia.

And in the short and medium-term, telecom operators are likely to continue owning the infrastructure essential for the development of new generations of technology, like 5G. Investment by infrastructure funds, at this early stage of development of the 5G market, would be mainly speculative. But as those technologies mature, further spinoffs are likely as the need to raise fresh capital to fund follow-on technologies once again becomes intense.

However, this is not an area of investment without its risks – particularly on a regulatory and political level. Investors must be alert to the fact that any regulated industry can be subject to sudden change. Connectivity infrastructure is obviously critical in the information age, and scrutiny of it from a national security perspective is increasingly political.

The key for connectivity providers contemplating carving out-infrastructure is to understand that pension funds and other specialist infrastructure investors have particular requirements for returns and risk. By understanding those requirements and structuring deals sensitively, operators can expect funds to pay a significant premium to secure control of these important assets.



Different assets, different risks

As funds target a broader range of connectivity infrastructure assets, they are showing a willingness to shoulder greater levels of risk. Overall though, their aim is to replicate the profile of traditional infrastructure assets – quasi-monopolistic businesses, with limited concentration of credit risk, offering predictable long-term demand and contracted revenue streams.

Mobile and cellular towers – shared towers offer the chance to serve a larger number of wholesale customers at a lower per unit cost than non-shared towers, providing a buffer against price reductions and consumer churn. Master lease agreements are indexed and tend to run for long initial terms, usually in excess of ten years.

Core telecom networks – are not yet as popular an investment because of potential tensions between the telecom and infrastructure operator over control and management of the asset. Deals that have been done, however, demonstrate that these too deliver similar long-term, indexed revenues but credit concentration risk is high.

Regional and specialist broadband networks – are built by specialist operators in answer to the need to replace old copper networks with broadband cable and fibre. Although they do not offer long-term contracted revenue, demand tends to be predictable given the growing demand for high speed data from consumers and SMEs.

Metro networks – attracting fresh capital, these networks may not offer protracted contracted revenues, but demand does tend to be long-term, credit risk is diversified and installation cost and access agreements act as an important barrier to entry for competing operators.

Data centres – which were traditionally rated as core infrastructure assets with real estate-like indexation are now moving up into the core-plus asset category by providing storage and advanced computing services as part of the migration to cloud computing. Risk tends to be diversified, with multiple customers and the ability to replace ex-customers. In addition, the forecast for continued growth in data consumption offers investors a fairly safe guarantee of certainty.

“There has been an upsurge in M&A activity targeting the full spectrum of connectivity infrastructure from cables to data centres, a trend we see accelerating in the years ahead.”



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Pay attention! Governments have remuneration in their sights

More and more governments are forcing companies to report on gender and executive pay gaps. Organisations operating or participating in transactions across borders need to respond positively to this growing international call for better governance and greater transparency.

Pay fairness is a growing concern for governments across the world, with an increasing number forcing medium-sized and large companies to report on and tackle pay gaps between men and women and between senior executives and the rest of the workforce.

The UK became the latest country to introduce mandatory gender pay gap reporting when it published what is said to be the biggest ever national survey of pay inequalities in the workplace in April.

Publishing an annual gender pay gap survey was promised in the 2010 Equality Act, giving organisations with more than 250 employees eight years to prepare. But the headlines following the release of the first survey in April made for very uncomfortable reading for private and public sector organisations alike.

The findings were not unexpected, but the numbers were still stark. Women, the survey found, were being paid less than men in eight out of ten organisations, on average by 9.8%. This was compounded by the fact that there are still too few women in senior positions in many organisations.

Companies from across the corporate landscape featured in the news coverage that followed, with construction, finance and insurance revealed as being among the sectors with the highest pay gap. This is not altogether surprising given these tend to male-dominated industries. However, big names from the world of fashion, high-street retailing, the airline sector and the media were up there too. The BBC has faced a particularly torrid time defending itself against unfair pay differentials between its top male and female stars and journalists.

A growing trend across borders

While the UK is the latest country to require companies to report publicly on compensation practices, it is by no means the first. Indeed, a growing trend for mandatory reporting is sweeping across a growing number of jurisdictions, particularly in Europe, the U.S. and Australia.

Organisations operating or planning to carry out transactions across borders need to be aware of this shift in policy and public expectations. They must take the time to understand the different legal and regulatory approaches being adopted by different countries and be ready to respond both to the new reporting requirements and the call for greater fairness and transparency.

Legislation and regulation in most jurisdictions focus on two common pay gaps – the one between men and women, and the one between senior executives and the average pay of their employees.

On gender pay, for instance, we've seen a tougher line in Germany, where mandatory reporting will be required later this year, and in Belgium, where longstanding equality reporting provisions have been hardened in the last six years, as has been the case in Australia. Iceland has set itself a target of completely closing the gender pay gap by 2022, moving harder and faster than most to tackle the issue.

In the U.S., several states and cities have also placed a restriction on job candidates being asked about their compensation history in an effort to protect key workers, particularly women and minorities, from further salary discrimination. Furthermore, with U.S.-headquartered organisations having to report in other jurisdictions in which they operate, companies in the U.S. are facing calls for action from their U.S. workforce to voluntarily publish U.S. pay data when they are doing it for, say, their UK colleagues. Simply relying on the argument that there is no obligation to report in the U.S. doesn't set the right employee relations tone. In addition, on 30 October 2018, California passed a law that will require publicly listed companies with headquarters in the state to have at least one woman on their board of directors by the end of 2019.

Meanwhile, the growing disparity between executive remuneration and the pay of average employees is the focus of an increasing body of already introduced or pending legislation.

For instance, the EU's Amended Shareholder Rights Directive will, from mid-2019, give shareholders the right to approve forward-looking executive remuneration, with companies forced to stick to approved policy with limited room for opt out. While such approval is already common for large companies in the UK, the measures, it is said, will affect more than 8,000 listed companies with a combined market value in excess of USD8tn.

In the U.S., most public companies have been obliged to report on the ratio between the pay of the CEO and their median employee for some years, through regulations introduced under the post-financial crisis Dodd-Frank Act of 2010. Recent surveys have revealed that the median CEO pay ratio currently stands at 140:1, while the average ratio is at a staggering 241:1 (source: Equilar survey).

The executive pay gap is also being targeted in Belgium, the Netherlands and the UK. The introduction of mandatory CEO pay ratio reporting, in line with the U.S. model, is also being mooted by the Australian government.

“There is an increasing trend for mandatory reporting on compensation practices across a growing number of jurisdictions, particularly in Europe, the U.S. and Australia.”

National responses to the issue differ subtly from country to country – and, in the U.S. in some cases, from state to state. But one common thread links them all. Very few governments or regulators are yet using significant enforcement measures against companies failing to report or failing to improve performance.

For now the common approach is to use public reporting – in effect naming and shaming – as a way to bring about change.

Penalties are available to regulators under some regimes including in the UK. In the UK failure to report or filing suspect numbers does constitute an unlawful act. As such it empowers the Equality and Human Rights Commission (EHRC) to investigate the company in question or issue an unlawful act notice – although, with limited resources, this is not yet a path the EHRC has taken. Tougher penalties will also apply under pending legislation in France. The penalties under U.S. state laws on disclosing past compensation history vary widely but as an example, in New York, the City Commission on Human Rights could impose a civil penalty of up to USD125,000 for an unintentional violation and up to USD250,000 if the violation is wilful and malicious.

It remains to be seen if governments will arm themselves with greater enforcement powers should progress prove too slow.

Managing the risk

The lack of enforcement action should not, however, be a cause for complacency. Failure to rise to demands for greater transparency carries a wide range of risks.

Reporting bad numbers may expose a company to hostile coverage in the mainstream media, facing a rolling social media campaign, or being compared unfavourably with competitors on employer-rating sites.

While the absence of penalties may be a comfort to a U.S. company with a big executive pay gap, it is unlikely to feel sanguine about appearing on the front page of major news papers, particularly if competitors have a noticeably better story to tell.

Poor publicity of this sort can hit a company's share price, cause a loss of trust among key clients and customers, and will almost certainly compromise its ability to attract and retain the talented people it needs to prosper.

The risk of individual or class action litigation may also increasingly be a real one. In the UK, for instance, we could see more equal pay claims if there is little sign of progress when companies file updated figures annually.

This is also an issue increasingly on the radar of shareholders, particularly the growing number of responsible investment funds favouring companies with a strong record on environmental, social and governance (ESG) issues. With a growing number of academic studies suggesting that responsible businesses also tend to perform better financially in the long-term, such shareholders are likely to get more vocal on this issue.

Taking the initiative

As pay fairness and other ethical issues around good corporate citizenship rise higher up the governance agenda for boards, we're noticing a significant change in the conversations we are having with clients, particularly those with large international workforces.

They continue to seek detailed guidance on how employment laws across different jurisdictions might impact their operations and what liabilities they may face for any non-compliance.

Increasingly, boards are also looking to have a broader discussion with us around values, seeking our help in deciding what attributes they need to demonstrate to attract and retain the talent they need and how to create the right governance structures that will allow them to identify and quickly mitigate risk.

In some cases, this is precipitated by broader transparency measures, as in the UK, where from 2019 onwards, large companies must adopt, or adapt, systems to improve dialogue with their workforce – an obligation underpinned by a duty to report annually on the action taken and its impact on decision-making.

Increasingly, boards recognise the need for greater openness in order to remain competitive in the market place to retain talent and customers.

By taking ownership of the issue from an early stage, they can build their own good governance agenda, strengthen their brands and operate more effectively, and more equitably, both in their home markets and across borders.

“Increasingly, boards are seeking our help in deciding what attributes they need to demonstrate to attract and retain the talent they need and how to create the right governance structures that will allow them to identify and quickly mitigate risk.”

Pay reporting – key developments around the world

EU – From June 2019, the Amended Shareholder Rights Directive will give shareholders the right to approve forward-looking executive remuneration, with companies forced to stick to approved policy with limited opt out. The measures will affect more than 8,000 listed companies with a combined market value in excess of USD8tn.

U.S. – Since 2015 most public companies have been required to report on CEO pay ratios – a stipulation brought in under the 2010 Dodd-Frank Act. Meanwhile, nine states (including New York and California) and eight localities now place restrictions on asking potential employees about their salary history to try to limit gender and minority pay discrimination.

Germany – The Pay Transparency Act came into force in July 2017 outlining a series of principles designed to tackle the gender pay gap with separate measures for companies employing more than 200 people and larger organisations with more than 500 workers. The first pay reports from bigger companies are due this autumn.

Belgium – Listed companies face a long list of remuneration reporting requirements, including detailed information on executive pay. For over 30 years, companies have been required to prepare a general report on gender equality each year. Since 2012 they have been forced to provide a detailed breakdown on how men and women are compensated, employed and tasked.

France – Legislation taking effect no later than 1 January 2019 for companies with more than 250 employees, and no later than 1 January 2020 for companies with 50 to 250 employees, will require companies to report annually on the gender pay gap (measured against certain indicators to be announced) and on action taken to correct it. Companies must negotiate corrective measures with trade unions, during gender equality negotiations to be conducted every four years, or implement measures unilaterally in a decision to be filed with the labour authorities, and after consulting their social and economic

committee. Failure to comply, or to address any gap, within a three-year period could result in a financial penalty up to 1% of the company's total wage bill (in the year preceding the end of the three-year period), in addition to separate penalties that apply for having no collective agreement on gender equality.

The Netherlands – New legislation will oblige companies with more than 100 employees to report to works councils annually on executive and employee pay differentials.

Iceland – In pledging to close the gender pay gap completely by 2022, Iceland has taken the issue further than most, insisting since the beginning of this year that companies employing more than 25 people must submit themselves to external audit to prove they are paying men and women equally.

Australia – Since 2012, companies with more than 100 employees have been required to report on the gender pay gap, while those employing more than 500 people must have a formal strategy for dealing with gender pay issues. Requirements are even stronger in the banking sector. The Government is also considering making CEO ratio reports mandatory.

UK – With the second year of gender pay gap reporting underway, the reporting regime will be further bolstered when companies with more than 250 employees must disclose (for performance years starting on or after 1 January 2019) how directors have engaged with employees, had regard to employee interests in decisions affecting them, and the systems in place to facilitate this. The rules do not prescribe how this should be done, leaving companies valuable flexibility, either to adapt existing structures or communication methods to comply, or to design the structures that work for them. Separately, quoted companies with more than 250 UK employees will be expected to report annually on their CEO workforce pay ratio.



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