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Dear Catherine,

RESPONSE TO CONSULTATION ON DIRECTORS' REMUNERATION – POSSIBLE AMENDMENTS TO THE UK CORPORATE GOVERNANCE CODE

We are pleased to have the opportunity to provide comments on the above consultation and our answers to the questions you have posed are enclosed.

Please do not hesitate to contact me, (Tel: 020 8047 4505 or Email:paul.d.money@gsk.com) should you wish to discuss any aspect our response in greater detail.

Yours faithfully

Paul Money
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1. Extended clawback provisions

Although we introduced a clawback mechanism back in 2009 for annual bonuses and long term incentive plans, and a number of other FTSE 100 companies have done likewise, we do not believe that there should be an extension/ imposition of a clawback requirement beyond the financial services sector. It should be up to individual companies to determine whether as part of its approach to risk management, it is suitable to introduce clawback and/ or malus as a component of its executive compensation arrangements.

1.1 Is the current Code requirement sufficient, or should the Code include a "comply or explain" presumption that companies have provisions to recover and/or withhold variable pay?

Yes it is and it should be up individual companies to explain their arrangements around clawback and/or malus.

1.2 Should the Code adopt the terminology used in the Regulations and refer to "recovery of sums paid" and "withholding of sums to be paid"?

This does not strike us a crucial amendment to make to the Code, although it would be helpful to have consistent terminology with the Regulations. Maybe this could be conveniently adopted as a housekeeping change as part of wider changes that may be made to the Code next year as a result of the FRC's separate consultation on Risk Management, Going Concern and Internal Control.

1.3 Should the Code specify the circumstances under which payments could be recovered and/or withheld? If so, what should these be?

It would be very difficult to capture and specify the wide-range of circumstances under which payments could be recovered and/or withheld. Therefore, there appears little practical benefit in making changes to the Code in this area. However, we believe that it would be helpful for some guidance to be developed and issued in this area.

1.4 Are there practical and/or legal considerations that would restrict the ability of companies to apply clawback arrangements in some circumstances?

Yes, there probably are some circumstances either practically or legally where companies would be fettered in their ability to exercise clawback. From a practical perspective, the easiest difficulty that comes to mind relates to pursuing an employee who has previously left the organisation. In a global entity, there will be territories where employees are located and to whom the organisation would wish to include within their clawback arrangements, whose local laws and regulations will not recognise the concept of clawback.

2. Remuneration committee membership

The FRC state in their introduction to this consultation that they are committed to ensuring that any changes to the Code are supported by strong evidence demonstrating the need for changes. We consider that the tables of statistics in paragraphs 12 and 13 demonstrate that the perception of a conflict of interest, described by the Government in respect of remuneration committee members who are executives in other FTSE 350 companies having a personal interest in maintaining the status quo on pay, is not backed up by the evidence.

2.1 Are changes to the Code required to deter the appointment of executive directors to the remuneration committees of other listed companies?

From the perspective of GlaxoSmithKline plc, none of the Company's Executive Directors is currently a serving Non-Executive Director of another UK listed company, and none of our Remuneration Committee members is a serving Executive Director of another UK listed company. The table in paragraph 12 confirms that this pattern is broadly true of the FTSE 350. We are not aware of any instances in the FTSE 100 of the reciprocal appointment of one executive director to the remuneration committee of another.

Whilst we are aware of the public sentiment towards executive remuneration, we do not believe that the relatively uncommon practice of executive directors serving on other companies' remuneration committees is a contributory factor to the perceived executive pay excesses, and hence do not consider that the measure proposed is necessary or proportionate.

All effective boards of directors take an interest in ensuring they have the most appropriate balance of skills, diversity and experience to discharge their mandate. Increasingly, companies are recruiting non-executive directors from a broader base of executives, professionals and academics. In practice, as the talent pool for non-executives expands, this will inevitably mean that serving executives will be increasingly less likely to serve on another company's remuneration committee. The likelihood of a cross-over remains small in any event, as the Code seeks to restrict serving executives from sitting on more than one other company's board (Code provision B.3.3).

However, it is worth noting that the FRC's own guidance on board effectiveness suggests that executive directors are likely to be able to broaden their understanding of their board responsibilities if they take up a non-executive director position on another board (para.1.12). It could therefore be argued that by serving on the remuneration committee of another company, an executive might gain new perspectives on the complexities or sensitivities of his or her own remuneration.

3. Votes against the remuneration report

3.1 Is an explicit requirement in the Code to report to the market in circumstances where a company fails to obtain at least a substantial majority in support of a resolution on remuneration needed in addition to what is already set out in the Regulations, the guidance and the Code?

We think that it is neither necessary nor desirable to introduce such an explicit requirement.

If yes, should the Code:

- **set criteria for determining what constitutes a „significant percentage";**
- **specify a time period within which companies should report on discussions with shareholders; and/or**
- **specify the means by which companies should report to the market and, if so, by what method?**

Are there any practical difficulties for companies in identifying and/or engaging with shareholders that voted against the remuneration resolution/s?

Yes there are. There needs to be a reliance on major shareholders engaging consistently and directly with companies on their concerns or intentions in a timely fashion before casting their votes. However, a number of investors either do not engage at all with the companies they invest in, so that the companies may never know the reasons why they voted against remuneration resolution or they only communicate their reasons in the weeks and months following the AGM. Therefore, it would be a challenging exercise to set a time period within which companies would be obliged to report to the market.

4. Other possible changes

4.1 Is the Code compatible with the Regulations? Are there any overlapping provisions in the Code that are now redundant and could be removed?

We note that there are certain provisions that are contained in both the Code and the Regulations and are happy that they stay in both.

4.2 Should the Code continue to address these three broad areas? If so, do any of them need to be revised in the light of developments in market practice?

Having reviewed the three areas in the consultation document we believe that there is insufficient evidence to justify amendments to the Code in these areas.