

CBI response to FRC consultation on Directors' Remuneration

5th December 2013

- 1) The CBI welcomes the opportunity to respond to the FRC's consultation on Directors' Remuneration. Throughout the debate on executive pay the CBI has recognised the importance of the recent reforms, with the overall goal of ensuring that shareholders have the right amount of information and powers to hold boards to account.
- 2) In the UK, new narrative reporting regulations, which require companies to produce a Directors' Remuneration Report, play an important part in this.
- 3) We start from the principle that remuneration must be squarely linked to performance at executive level. High pay is only ever justified by outstanding performance. High rewards for mediocre performance are unacceptable. Failure should never be rewarded.
- 4) Business is fully behind steps to improve communication between shareholders and companies and we believe that this is best achieved through increased transparency and shareholder empowerment. Corporate governance is the right framework to address this, but crucially, reforms must respect the roles of shareholders and boards.

On extended clawback provisions

- 5) We support the concept of clawbacks and agree that companies should examine the practicalities of greater use of such measures to reduce or withhold performance-linked reward where business performance is not sustained in the longer term.
- 6) The number of public companies with clawback provisions in their incentive schemes has been increasing and this is a welcome trend. Shareholder groups are increasingly pressing for more widespread adoption of deferred remuneration and clawback provisions. There is increasing interest in the use of deferred bonuses to provide additional long-term incentives, a development the CBI supports.
- 7) In terms of the wording of the Code, we would welcome consistency with phrases used in the Regulations.
- 8) With these developments in mind, we believe that the current Code requirement is sufficient in this respect and would be opposed to including a "comply or explain" presumption that companies have provisions to recover and/or withhold variable pay.
- 9) We do not believe that there is a need to specify the circumstances under which payments could be recovered and/or withheld. Circumstances are likely to differ substantially across



Lara Thomassen | Policy Adviser - Corporate Governance
DL: 0207 395 8040 E: lara.thomassen@cbi.org.uk

CBI Centre Point 103 New Oxford Street London WC1A 1DU
T: +44 (0)20 7379 7400 F: +44 (0)20 7240 1578 W: www.cbi.org.uk
Director-General: John Cridland CBE President: Sir Michael Rake

Registered No: RC000139 (England and Wales) Registered Office: CBI Centre Point 103 New Oxford Street London WC1A 1DU

companies as well as over time and will be heavily context-dependent, so we believe that it should be left to companies to determine this as part of setting their pay policies and subsequent implementation. Votes on policy and implementation already allow shareholders to express their approval or objection.

On significant votes against the remuneration report

- 10) We believe that shareholders should approve the company's overall remuneration policy and then hold boards to account for the implementation of that policy. If these roles become blurred, shareholders could end up micro-managing pay, which is not what they want to have to do, or are most effective at doing.
- 11) The CBI does not believe that legislation can properly reflect the differently composed shareholder bases and specific circumstances for every company, making it impossible to set an absolute trigger for when additional dialogue on executive remuneration should take place. Therefore, we do not believe that the FRC should set criteria for determining what constitutes a 'significant' percentage.
- 12) Instead, we believe that the UK Corporate Governance Code should be updated to reflect current good practice for shareholder engagement. We propose a new, supporting provision on remuneration that reads: "When, in the opinion of the Board, a significant minority of shareholders have opposed the remuneration report at the AGM, companies should explain their stance and engage with shareholders to understand the reasons behind the vote result."
- 13) We believe this would be the best way to promote on-going shareholder engagement with companies to ensure that remuneration policies properly reflect shareholder priorities. Addressing low levels of support in this way will benefit both shareholders and the company.

On remuneration committee membership

- 14) Business has not identified any issues related to remuneration committee membership and does not believe that changes to the Code to deter the appointment of executive directors to the remuneration committees of other listed companies are necessary.