

Catherine Woods  
Financial Reporting Council  
Fifth Floor  
Aldwych House  
71-91 Aldwych  
London WC2B 4HN

9 December 2013

Dear Ms Woods,

**Directors' Remuneration – Consultation Document**

We welcome the opportunity to respond to the FRC's consultation document on potential changes to the UK Corporate Governance Code regarding Directors' remuneration.

By way of background, Universities Superannuation Scheme (USS) is one of the largest pension funds in the UK, with assets of approximately £40 billion. As an institutional investor that takes seriously its fiduciary obligations, USS aims to be an active, engaged and responsible owner of the companies and assets in which it invests. We devote substantial resources to implementing an active approach towards stewardship which includes engagement with companies on remuneration schemes and analysing pay plans.

**Overview**

We acknowledge that the FRC are responding to a request from government to consult on whether to amend the UK Corporate Governance Code to address a number of potential issues relating to executive remuneration. Nevertheless, we do not believe it is the right time to consider revising the Code so soon after the new legislation has been enacted. Our view is that it would be preferable to wait for at least one voting season to see how companies and investors have responded to the new regulation and what amendments, if any, need to be made to the Code to enhance remuneration practices and disclosure. In addition, the GC100 and Investor Group in which USS participated have recently produced Guidance on Directors' Remuneration relating to the recent legislation. We think it is important that the Guidance is allowed time to be utilised and bed in before consideration is given to make further changes to the Code. Finally, as the Code will be reviewed in its entirety in 2014, it seems appropriate to wait until next year for any review to take place.

## Specific comments

**Extended Clawback Provisions:** we do not believe it is appropriate for the Code to specify the circumstances under which payments could be recovered as this could be restrictive in terms of the issues covered. We also believe that the current wording in the Code is sufficient and it is more important for the board and the remuneration committee to take ownership of and be accountable to their shareholders for the policy and its outcomes.

**Remuneration Committee Membership:** we do not believe it is appropriate to restrict membership of remuneration committees by excluding serving executive directors from sitting on this committee. USS expects independent directors (and hence members of board committees) to be selected on the basis of their experience and skill-sets and ability to undertake their role objectively and effectively. The analysis provided in your consultation document also suggests that there is no correlation between the levels of shareholder dissent and the presence of serving executive directors sitting on the remuneration committee.

We would however welcome the FRC considering in the 2014 Code review whether the information provided to shareholders on director biographies, skill-sets and backgrounds should be strengthened.

**Votes against the Remuneration Resolutions:** we do not support an explicit requirement in the Code to report to the market in circumstances when a company fails to obtain at least a substantial majority in support of a remuneration resolution. Our view is that there is already sufficient reference to the need for companies to engage with shareholders, following significant shareholder dissent, in the Regulations and GC100 and Investor Group Guidance. We also believe that any encouragement for companies to consult with shareholders following a significant vote should be applied in all circumstances and not just in cases relating to remuneration.

I hope that you find our perspective on these issues useful as you consider the responses to the consultation document and deliberate over the proposed way forward. Please feel free to contact me should you require any additional information.

Yours sincerely,



**Dr. Daniel Summerfield**  
Co-Head of Responsible Investment  
USS Investment Management Ltd  
dsummerfield@uss.co.uk  
+44 (0)20 7972 6398