



## **Dunelm Group plc**

### **Response to the Financial Reporting Council's Consultation on Directors' Remuneration dated October 2013**

This paper sets out the response of the Board of Dunelm Group plc to the consultation paper issued by the Financial Reporting Council (FRC) in October 2013 in relation to Directors' Remuneration.

#### **Context**

Dunelm Group plc has been listed on the London Stock Exchange since late 2006. It began with a free float of 33% which has subsequently increased to 45%. Whilst there have been short-term fluctuations, the underlying trend of the share price has been upwards, from 170p at flotation to around 875p now. The institutional investor base has been very consistent, and the top 20 external investors who currently hold 34% of the shares are generally long-term holders with whom we have had a relationship since 2006.

In common with many companies in the FTSE 250, Dunelm has a small Board, currently comprising a non-executive Chairman, three Executive Directors and four independent Non-Executive Directors.

The Chairman and two of our independent Non-Executive Directors are executive Directors of other listed companies.

The Chairman is a member of the Remuneration Committee and the Nominations Committee. Our independent Non-Executive Directors are members of the Audit and Risk, Remuneration and Nominations Committees.

Our remuneration policy has remained broadly consistent since the Company's flotation, and has been supported by our shareholders, through votes at the AGM and the formal and informal contacts with them.

Our response to the consultation should be read in this context.

#### **Remuneration Committee Membership**

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

#### **Comment:**

We do not consider that the Code needs to be amended in this way, for the following reasons:

- Non-executive directors who hold an executive directorship with another listed company are of significant value to the Board. They have current experience of both strategic and of

operational issues which are common to many businesses, giving them an excellent perspective from which they can challenge and advise the executive team.

If these individuals are not able to sit on the Remuneration Committee, smaller Boards such as our own will have to choose to either have a small committee, which does not contain the minimum three members required by the Corporate Governance Code, or to restrict the number of its non-executive directors who hold executive positions elsewhere. Alternatively they would have to appoint additional non-executive directors who do not also have executive positions, making their Board unwieldy and increasing cost.

Either of these alternatives could have an adverse effect on the overall effectiveness of the Board.

- We do not consider that a change to the Code is necessary to avoid a perceived conflict of interest, in that these individuals have “*a personal interest in maintaining the status quo in pay setting culture and pay levels*”.
  - A non-executive director who has an executive position in another company is unlikely to hold that executive role in the data set that would be used to determine his or her own remuneration – it is impossible to imagine a company employing an executive director from a competitor company as a non-executive director;
  - Directors of a company will be aware that they have a legal duty to act in the best interests of the company, ahead of their own personal interests.
  - Remuneration Committee members will also be familiar with the provisions of the Code which set out how remuneration is to be determined, including the requirement to judge positioning against other companies, but to use this with caution.
  - There is already a provision in the Code which prevents a non-executive director from being a Remuneration Committee member if he or she has cross directorships or significant links to other directors through involvement in other companies or bodies.
  - Committee members know that they will be publicly held to account if they are seen to sanction excess or reward for failure. Quite apart from their legal responsibilities and their own ethical standards, they therefore have a strong personal interest in ensuring that their decisions are fair and justifiable.

These provisions are sufficient to safeguard against any perceived conflict.

- Non-executive Directors holding an executive director position elsewhere have direct experience of remuneration structures within their own company. They are therefore in a good position to assess positioning of executive remuneration structures in the light of the specific circumstances of the company and the size and complexity of roles. This supplements advice from remuneration consultants who can in general only look at industry and sector averages.
- The data set out in paragraph 13 of the consultation paper does not show any correlation between shareholder dissent and the presence of non-executive directors on the Remuneration Committee who hold executive positions elsewhere. On the contrary, in the case of FTSE250 companies, dissent in these companies was higher in only 3 out of the 10 years surveyed.
- From 1 October 2013, companies will have to put forward a policy for shareholder approval at least every three years and to operate within that policy. There will continue to be an annual vote on application of the policy with additional disclosure and consultation requirements if there is a significant vote against. Shareholders will therefore have stronger tools with which they can hold Remuneration Committees to account, both publicly and through private channels. Further restrictions on committee membership are not necessary in addition to these.

### **Extended clawback provisions**

We support clawback provisions generally and have introduced them in respect of variable pay in cases of misconduct and mis-statement. In principle we consider that proposed new provisions could be used to recover amounts already paid, although we are not sure how effective this might be in practice.

We do not support changes to the Code to specify exactly when clawback might apply, as every company will have different circumstances. We consider that this should form part of the Company's remuneration policy that is subject to the approval of shareholders.

### **Vote against the Remuneration Resolutions**

We support the introduction of a "specified percentage" for determining when a vote against a remuneration resolution at AGM should result in further discussions with shareholders, provided that the percentage is no less than the 20% specified by the GC100 and Investor Working Group guidance. We also support deadlines and standard means of reporting back, provided that timescales are reasonable and take into account the time required to conduct a meaningful dialogue with shareholders in private.

If you have any questions relating to the above, please contact us via the Company Secretary, Dawn Durrant, in the first instance on 01162 644356.

**Geoff Cooper**

**Chairman**

18 November 2013

**Marion Sears**

**Remuneration Committee Chair**

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