



1 November 2012

## **Opportunity for companies to test BIS' proposed remuneration reporting regulations with the investment community**

On 27 June 2012, the Secretary of State for Business issued BIS' *Consultation on revised remuneration reporting regulations* aimed at 'increasing transparency on directors' pay'. The consultation period closed on 26 September 2012 and BIS expect to issue final regulations in the Spring.

The draft regulations propose a new two part remuneration report, which 'replaces rather than adds to current reporting requirements.' Two elements of the proposals, specifically the disclosure of a 'single total figure of remuneration for each director' and 'detail on variable pay that has been awarded' were the subject of a previous Lab project report, *A single figure for remuneration* published on 21 June 2012. The BIS consultation document acknowledges that the proposals contained within the revised reporting regulations 'build on the outcomes of the Lab's project.'

At the request of BIS the Financial Reporting Lab has agreed to undertake a further short-term project to obtain views from the corporate and investment community on two specific disclosure requirements proposed in the consultation document that were not subject to testing as part of the first Lab project, namely:

- 'Scenarios for what directors will get paid for performance that is above, on and below target'; and
- 'Chart comparing company performance and CEO pay', with company performance measured using Total Shareholder Return (TSR).

The responses to BIS' most recent consultation highlighted some of the challenges of these new disclosure requirements. Companies need sufficient flexibility to report in a manner which is meaningful to their individual circumstances but the regulations must provide for some degree of consistency in reporting.

This second Lab project is an opportunity to help shape the final regulations as the output of the project will be a report including some specific recommendations that is published on the FRC's website and is made available to BIS.

**The Lab is seeking a number of listed companies to develop example formats of the disclosures proposed by BIS. The disclosures developed by the companies participating in the project will be tested with the investment community through a series of meetings facilitated by the Lab.**

The Lab's output report on this project will set out some example disclosures in these two areas and note the extent to which they were judged to be useful by the investment community as well as the issues companies experienced when preparing the disclosures. Where there is agreement on the usefulness of a particular form of disclosure, this will be noted, as will any lack of agreement or where different types of investors and analysts hold diverse opinions. The aim however will be to agree on a preferred model for disclosure which can be recommended to BIS and help to shape the final reporting regulations. In considering models for disclosure, the project will also consider how the new formats may be able to contribute to the streamlining of the remuneration report.

### **What level of involvement is required?**

Each company participating in this project will need to contribute to the development of potential disclosure formats. While participation will largely be conducted through email and conference calls, there may be a few face to face meetings. The project is expected to run over the next three months.

Once the potential disclosure formats have been developed, the Lab team will facilitate meetings with the investment community to test the disclosures and will share feedback with the participating companies. All parties involved in the project will be required to respect the confidentiality of information provided by other participants. This includes respecting the confidentiality of the names of companies and investors/analysts participating in the project until these become public (with their agreement) in the final report.

Given the sensitivity of reporting in this area, it is suggested that the involvement of each participating company is supported by the company's Remuneration Committee, particularly the Chair.

### **What is the Financial Reporting Lab?**

In October 2011, the Financial Reporting Council (FRC) launched its Financial Reporting Lab (Lab) with the aim of improving the effectiveness of corporate reporting in the UK. The Lab provides a safe environment for companies, investors and analysts to discuss innovative reporting solutions that better meet the needs of both communities.

The Lab team facilitates the testing of characteristics of corporate reporting with both companies and the investment community (investors and analysts). This is typically done through a series of meetings in which existing or proposed disclosures prepared by companies are discussed with investors and analysts to determine which aspects they find to be most useful and why.

The previous Lab report, *A single figure for remuneration* can be found at: <http://frc.org.uk/Our-Work/Codes-Standards/Financial-Reporting-Lab/Published-public-reports.aspx>

**How should companies express interest in participating?**

Companies interested in discussing participation in this project should contact the Lab team by email at [FinancialReportingLab@frc.org.uk](mailto:FinancialReportingLab@frc.org.uk), or contact Sue Harding by telephone at 020 7492 2442.