

**Consultation on the proposed Revisions to the UK Corporate Governance Code
and initial consultation on the future direction of the UK Stewardship Code:
Financial Reporting Council, February 2018**

Response from PIRC Limited

1. Remuneration

- Discouraging bad practices: the UK CG Code should seek to discourage bad practices, and in doing so should say what bad practice constitutes, e.g. in our view this would include LTIPs. On culture: perhaps think about this in the context of contracts. Thus an update review of the specific remuneration regulations would be helpful.
- New disclosure requirements for gender breakdown, the gender pay gap, below board female composition of the workforce and leading managerial roles, is desirable. In addition a critical review of CEOs salaries and gender would also be desirable. Cf the PIRC Annual Corporate Governance Review 2017, attached.
- Internal pay equity: in PIRC's view, a company's remuneration committee should have a holistic approach and be looking at pay and rewards across the company, (as recommended by the Hutton Review on Public Sector Pay), and there should be clear instruction on operating the pay ratios.
- Disclosure of Performance Conditions and remuneration requires more common format design to help de-mystify complexity in remuneration reports.
- Composition of Rem Committees: PIRC is of the view that employee representatives (at least two) should be participants in company remuneration committees.

2. Code Monitoring

- PIRC believes that the level of maturity of the UK Codes now requires independent monitoring with accountability to Parliament, via a standing committee (Business?). Practitioner led, with board representation, asset owner and manager input, proxy voting provider representation, employee (TUC); and professional interests (eg company law specialist). With an independent chair, and appropriate resourcing, such monitoring will give greater recognition of the value of codes in the eyes of market participants.

3. Requirements to consult shareholders

- With opposition votes on pay policy, we think the ‘trigger’ point for shareholder consultation should be 10% not 20%, on remuneration report, and director election votes.
- The requirement to meet shareholders for engagement purposes following such an oppose/abstain vote, should be reduced to three months, but we suggest that there should be an annual stakeholder engagement meeting with information and dialogue offered to all stakeholders and investors. This would save company and stakeholder/shareholder resources and would be a valuable conduit for company thinking ahead of the formal annual meeting timetable. On engagement, PIRC believes that collaborative meetings by companies with their largest shareholders, including a range of board committee chairs, are also an effective form of dialogue that should be encouraged.

4. Board Level Employee Representation (BLER)

- PIRC is committed to board level employee representation. In our view employees are the most significant stakeholder after shareholders. In particular we are in favour of employee representation in the composition of remuneration committees. We believe that the 3 fudges offered by the Government will satisfy no one. The Government should mount a major consultation exercise on BLER during 2018/19, ready to implement reform during 2020.

5. Board Director Skills Matrix

- PIRC believes that company disclosures on board competencies would be enhanced by requiring all boards of listed companies to publish a director skills matrix similar to some US companies. This would be required for disclosure in the annual report and for new board appointments.
- PIRC believes that Heads of Terms for director contracts (with an initial and three-yearly continuing approval vote of shareholders), would help embed a new culture of ‘accountable behaviours’ in the boardroom. This would clearly indicate to shareholders and other stakeholders a set of expectations of behaviour from directors, alert prospective directors of what will be required of them, and help manage expectations of pay and conditions for executive appointments.
- Open advertising processes are essential for Executive posts and all board vacancies. Disclosure of board level evaluation outcomes on a comply-or-exchange basis should be encouraged in the UK CG code forthwith.
- Annual elections should now be required across all All Share companies.

6. Stewardship

- There should be a common share-voting disclosure framework by asset managers which is currently lacking and in some cases abused (CF Stewardship Code compliance).
- Pooled fund split voting: this remains an abuse of shareholders' fiduciary rights. Asset managers must be required to facilitate it and such a requirement should be considered for legislation, although as an interim measure, the FRC could put a disclosure and comply-or-explain requirement on split voting in the Stewardship Code.

7. Miscellaneous: Whistleblowing

- PIRC predicts that there will be a massive upsurge of sexual harassment whistleblowing reporting, for all genders, across corporate UK. The governance process for this should be clear, transparent and accountable. It needs stronger enforcement within the company at all levels and an independent audit trail.
- We'd also suggest looking at the role of company lawyers here, and also extending whistleblowing for financial fraud.