

Remuneration Consultants' Group

The biennial review of the Code of Conduct and the annual Review of its Effectiveness and Implementation

April 2018

January 2018

To whom it may concern,

Since its formation in 2009, the aim of the Remuneration Consultants Group has been the development and stewardship of the voluntary Code of Conduct (the “Code”). The Code sets out the role of executive remuneration consultants and describes the professional standards by which they advise their clients.

In order to ensure the Code continues to achieve its aims and remains fit for purpose, the RCG regularly reviews its content and the effectiveness of its implementation. The RCG sees this as an essential part of its remit and crucial for the success of the Code.

The review of the Code during 2017 was the fourth since the Code’s inception. The process followed the approach adopted in 2015 and included a consultation with Remuneration Committee Chairs, institutional shareholders and other parties.

A review of the effectiveness of the Code has been conducted each year from 2011. The process followed in 2017 was similar to the process followed in previous years and included an anonymous survey of all consultants engaged in executive pay consulting in the member firms and a questionnaire filled in by member firm Practice Leaders. It also included an analysis of the annual reports of FTSE 350 companies regarding disclosure on Remuneration Committee advisors.

I am pleased to say that the consultation was productive, helpful and informative. It was reassuring to have confirmation that the Code is recognised as playing an important role in making clear the professional standards of remuneration consulting in the UK.

The paper attached provides a summary of the review process, details of the major themes, and outlines the specific amendments that will be made to the Code in 2018.

I would like to thank all those individuals who took the time to meet either me or another RCG independent board member to share their views on the Code, and to all those who responded to the questionnaire. The improvements to the Code could not have been achieved without this valuable input.

Yours sincerely,

Dr Martin Read CBE

Chairman

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A. The RCG and its activities in 2017

Background

The Remuneration Consultants Group ('RCG') was formed in 2009 and represents the overwhelming majority of executive remuneration consultancy firms advising UK listed companies.

The aim of the RCG is the stewardship and development of a voluntary Code of Conduct (the 'Code') which clearly sets out the role of executive remuneration consultants and the professional standards by which they advise their clients.

The inception of the Code and the RCG arose after the publication of the final recommendations of the Walker Review in November 2009. In this review, Sir David Walker advocated that it was appropriate for the executive remuneration consultancy industry to form a professional body with the oversight of a Code of Conduct. The objective was to provide greater clarity on the role of executive remuneration consultants and ensure that high professional standards are maintained.

The inaugural RCG Code was included as an annex to the final recommendations of the Walker Review in November 2009 and the RCG put a formal constitution in place shortly thereafter. Every two years, a review of the Code is conducted by the Board.

During the course of 2017, the Code was reviewed and an extensive consultation process carried out. Overall the review found that the Code remained fit for purpose and continued to fulfil a useful role in ensuring high standards of professionalism in remuneration advice. However, the Code has been updated to emphasise some areas raised in Stakeholder interviews and to ensure that The Code remains both clear and relevant. The changes are mostly seeking to clarify current wording, but also to emphasise the importance of discussions about The Code continuing throughout an engagement. In addition, as there have been a small number of unsubstantiated claims that unsolicited benchmarking may have been circulated by members of the RCG, steps have been taken to tighten the provisions in the Code relating to this aspect. Specifically, the Board has both extended the prohibition on providing unsolicited benchmarking to ensure that there was no scope for ambiguity and, separately, all member firms confirmed in writing to the Chairman that they had processes in place to prevent such activity.

In particular one change related to the expectation that member firms should meet with the Chairs of the Remuneration Committees which they advise at least annually. We consider this as fulfilling two separate purposes and potentially could be achieved through separate meetings:

- First is an opportunity for the consultant and the Committee Chair to discuss remuneration arrangements at the client without management present.
- The second is to ensure the consultant and the Committee Chair are keeping under review the obligations under the Code and are ensuring relevant protocols are being enacted to ensure compliance.

We have also taken the opportunity to strengthen the obligations on member firms to ensure that they advise their client of the likely shareholder and broader stakeholder reaction to any proposals.

Following feedback from Remuneration Committee Chairs, we have added an additional provision that members should seek to ensure that client Remuneration Committees are advised of how any pay proposals compare with pay arrangements across the company generally.

In addition, to facilitate training, the Board prepared a set of case studies for each firm to use in training.

The RCG currently has eleven members. The member firms are:

Aon Hewitt	Korn Ferry Hay Group	Pearl Meyer
Deloitte LLP	KPMG	PwC
EY LLP	Mercer	Willis Towers Watson
FIT Remuneration Consultants LLP	MM&K Limited	

The Board comprises an independent Chairman, two independent non-executive directors and four directors elected by the Members (who are executive compensation consultants working for the member firms).

The Board meets four times a year. The attendance record of the Board members in 2017 is summarised below.

Member	18 Jan	12 April	28 June	23 Oct
Martin Read (Chairman)	✓	✓	✓	✓
Philippa Hird (Ind. Director)	✓	✓	✓	✓
Simon Neathercoat (Ind. Director)	✓	✓	✓	✓
Sally Cooper (Director)	✓	✓	✓	✓
Tom Gosling (Director)	✓*	✓	✓	✓
John Lee (Director)	✓	✓	✓	✓
Hazel Rees (Director)	✓**	χ***	✓	✓

* represented by Fiona Camenzuli

**represented by Richard Belfield

***not able to dial in due to technical issues

Where Member directors cannot attend, they are encouraged to send a representative of their firm. During the year the Board:

- Created the work plan for 2017
- Reviewed the Code
- Reviewed the effectiveness of the Code
- Consulted with key stakeholders and commentators on executive pay
- Made decisions to support the running of the RCG such as the approval of the accounts and membership fees and review of public relations services and fees

A sub-committee of the Board also met informally on a number of occasions to discuss the drafting of amendments to the Code.

During the year, no complaints have been raised with any of the Member firms or referred to the Chairman.

B. The Review of the Code

The objective

On publication of the Code in November 2009, the RCG committed to undertake a review during 2011 and once every two years thereafter. As part of this commitment, the consultation process was launched in 2017 to invite comments to inform decisions on whether the Code is (i) achieving its aims, (ii) remains fit for purpose in its current form and (iii) can be improved to help better achieve its goals.

The process in 2017

The process followed had two main elements:

- A. A letter was sent from the RCG's Chairman to the Chairs of FTSE 350 Remuneration Committees, Company Chairmen and HR specialists asking them to answer some short questions on the Code. The questions were enclosed with the letter but respondents were also able to respond through Survey Monkey (the web-based tool) – see Appendix 1.
- B. A consultation process was held with a selection of Remuneration Committee Chairs on the boards of large and small companies, as well as institutional shareholders and other interested parties who were interviewed either by the Chairman or one of the independent non-executive directors and asked for their thoughts on the Code.

The results of this review are outlined below. The letter and the attached questions attracted 65 responses from Remuneration Committee Chairs (42%), HR specialists (38%), Company Chairmen (11%) and Company Secretaries (11%). A significant number of respondents represented FTSE 100 organisations (43%). A number of respondents held a number of roles and our analysis related to their principal role.

The major themes that emerged from this review and the responses to the consultation process are summarised below. The RCG expresses its thanks to all those individuals who took the time and trouble to participate in the consultation.

The major themes

Overall, it was felt that the Code works well in its current form and very few changes were suggested. Respondents found the Code most helpful in providing reassurance that their advisor is a member of the RCG and is adhering to the guidelines provided in the Code. Respondents also found it reassuring that they were being advised of other types of work being done by the firm for the company and on the advisor's own protocols to ensure independence and objectivity. The majority of participants agreed that the Code is helpful in establishing working practices with their advisor.

There were a number of comments made by those who contributed to the process. Most of these were supportive of the Code and its aims. Some suggestions for improvement were made such as:

- Extending the Code to make reference to Remuneration Committees taking account of wider workforce pay and conditions when setting executive pay.
- Making the Code more visible.

- Expanding the Code on factors that consultants should take into account to ensure advice given is independent and tailored to the specific needs of individual companies.

Review of the Code - main consultation survey for Remuneration Committee Chairs and Other Stakeholders.

Summary of survey questionnaire responses

The 65 responses from participants (up significantly from our 2015 review which had 26 responses) are summarised below:

Question 1: Prior to this survey, were you aware that a Code of Conduct governing the activities of remuneration consultants existed? 81% of participants were aware of the Code prior to the survey.

Question 2: Have you read and are comfortable with the Code of Conduct and/or been briefed on it? 78% had read and/or had been briefed on the Code.

Question 3: Overall, are you happy that your remuneration consultant provides you with independent and objective advice? All but one respondent was happy that they had been provided with independent and objective advice.

Question 4: The Code sets out the role of executive remuneration consultants and the professional standards by which they advise their clients, whether their clients are Remuneration Committees or the executive management of the company. What have you found most helpful about the Code? The most popular response was reassurance from the fact that their advisor is a member of the RCG and adheres to the Code. The second most popular response was being advised of other types of work being done by the firm for the company and on the advisor's own protocols to ensure independence and objectivity. A number of respondents felt that the Code provides the basis for a conversation with the advisor to agree protocols.

Question 5: Are you comfortable and clear that your advisors are able to stand up to management on an issue as and when necessary? Have you experienced this in the past? The overwhelming majority of respondents (91%) felt that their advisors were able to stand up to management where necessary.

Question 6: Which considerations does your remuneration advisor ensure the Committee is mindful of when assessing executive remuneration? The most popular response was the likely shareholder reaction. In addition, a large majority of respondents felt that advisors ensured Committees were aware of the company's legal and regulatory obligations including the Corporate Governance Code and the relationship between executive pay and strategy. Over half of the respondents felt that the advisor ensured that the Committee was aware of the motivational impact on management and the inflationary impact of benchmarking and the need to choose appropriate benchmarks. Less than half of respondents felt that the advisor made the Committee aware of the impact on talent management and succession and the wider pay arrangements at the company. We have amended the Code to highlight this expectation.

Question 7: What particular areas would you highlight where you see pressure placed on the independence of the advisor? Most respondents were not aware of any pressure being placed on independence. Where the question was answered affirmatively, comments related to ensuring protocols were in place to manage independence and we encourage Remuneration Committee Chairs to commit the time annually to meet to ensure that protocols remain relevant and robust.

Question 8: Overall, is the Code helpful in establishing working practices with your advisors? The overwhelming majority of respondents felt it was.

Question 9: The Code prohibits the sending of unsolicited benchmarking to clients and non-clients (i.e. reports which have been modified in some way to refer to the recipient company but not generic surveys such as a FTSE100 or pharmaceutical survey which has not been modified for that company in any way – bespoke benchmarking as part of a response to an RFP constitutes solicited rather than unsolicited benchmarking). Have you received any unsolicited benchmarking from a member of the RCG? The overwhelming majority confirmed that they were not aware of any instances. We have reworded this section of the Code to reiterate the importance of member firms not doing this and seeking to remove any ambiguity as to what is prohibited.

Question 10: Does the Code cover all areas in which your remuneration advisor provides advice on? 100% of respondents felt that it did.

Question 11: How could the Code be improved? Do you have any other comments regarding the Code? Most respondents indicated that they were happy with the Code and feel it works well in its current form. Only five respondents suggested improvements. All were considered as part of the review.

Changes as a result of the 2017 review

Since the 2015 review, the RCG has made further efforts to inform Remuneration Committee Chairs and the wider Remuneration Committee environment (including shareholders and investors) about the existence and purpose of the Code. The higher response rate suggests that this has been largely successful although the Board was disappointed that approximately 20% of those responding indicated that they had not previously read or been advised on the Code and we would encourage both member firms and Remuneration Committee Chairs to ensure that annual meetings on the Code are held.

Review of the Code - main consultation survey for Remuneration Committee Chairs and Other Stakeholders

Survey questionnaire responses

Total responses: 65

Question 1: In what capacity are you completing this survey? (tick all that apply)

Answer Options	Response Percentage	Response Count
a. Remuneration Committee Chair	41.54%	27
b. Remuneration Committee member (at a company where not also committee chairman)	9.23%	6
c. Company Chairman	10.77%	7
d. Executive Director	0%	0
e. HR/Reward	38.46%	25
f. Academic	0	0
g. Other	20%	13
	answered question	65
	skipped question	0

Question 2: Which type of organisations do you represent? (tick all that apply)

Answer Options	Response Percentage	Response Count
a. FTSE100	43.08%	28
b. FTSE250	35.38%	23
c. Other UK Main list	15.38%	10
d. AIM	7.69%	5
e. Non-UK listed Company	3.08%	2
f. Private Company	4.62%	3
g. Other organisation	6.15%	4
	answered question	65
	skipped question	0

Question 3: Prior to this survey, were you aware that a Code of Conduct governing the activities of remuneration consultants existed?

Answer Options	Response Percentage	Response Count
a. Yes	81.25%	52
b. No	18.75%	12
	answered question	64
	skipped question	1

Question 4: Have you read and are comfortable with the Code of Conduct and/or been briefed on it?

Answer Options	Response Percentage	Response Count
a. Read and/or briefed and comfortable	58.46%	38
b. Read and/or briefed	20%	13
c. No	21.54%	14
	answered question	65
	skipped question	0

Question 5: Overall, are you happy that your remuneration consultant provides you with independent and objective advice?

Answer Options	Response Percentage	Response Count
a. Yes	98.44%	63
b. No	1.56%	1
	answered question	64
	skipped question	1

Question 6: The Code sets out the role of executive remuneration consultants and the professional standards by which they advise their clients, whether their clients are Remuneration Committees or the executive management of the company. What have you found most helpful about the Code? (Tick all that apply.)

Answer Options	Response Percentage	Response Count
a. It provides the basis for a conversation with the advisor to agree protocols.	25.40%	16
b. I take reassurance from the fact that our advisor is a member of the RCG and adheres to the Code.	82.54%	52
c. Being advised of other types of work being done by the firm for the company and on the advisor's own protocols to ensure independence and objectivity.	30.16%	19
d. Other	9.52%	6
	answered question	63
	skipped question	2

Question 7: Are you comfortable and clear that your advisors are able to stand up to management on an issue as and when necessary? Have you experienced this in the past?

Answer Options	Response Percentage	Response Count
a. Yes	90.77%	59
b. No	9.23%	6
	answered question	65
	skipped question	0

Question 8: Which of the following considerations does your remuneration advisor ensure the Committee is mindful of when assessing executive remuneration? (tick all that apply)

Answer Options	Response Percentage	Response Count
a. The relationship between executive pay and strategy	79.37%	50
b. The relationship between executive pay and the company's specific culture	49.21%	31
c. Likely shareholder reaction	93.65%	59
d. Impact on talent management and succession	46.03%	29
e. The wider pay arrangements at the company	49.21%	31
f. The motivational impact on management	60.32%	28
g. The inflationary impact of benchmarking and the need to choose appropriate benchmarks	60.32%	28
h. The company's legal and regulatory obligations including the Corporate Governance Code	85.71%	54
	answered question	63
	skipped question	2

Question 9: What particular areas would you highlight where you see pressure placed on the independence of the advisor?

answered question	38
skipped question	27

Responses: generally focused on the need for strength of character from the consultant to stand up to management where necessary and testified that they felt their consultant did so. Some highlighted the need to ensure that the consultant continues to report directly to the committee and highlighted the value of meetings without management present.

Question 10: Overall, is the Code helpful in establishing working practices with your advisors? If the Code is not helpful, please say why.

answered question	27
skipped question	38

Responses: Most affirmed that the Code was helpful, a small number suggested it was more neutral. No feedback was negative. Some suggested that the Remuneration Committee members should be more proactively reminded of the existence of the Code from time to time.

Question 11: The Code prohibits the sending of unsolicited benchmarking to clients and non-clients (i.e. reports which have been modified in some way to refer to the recipient company but not generic surveys such as a FTSE100 or pharmaceutical survey which has not been modified for that company in any way – bespoke benchmarking as part of a response to an RFP constitutes solicited rather than unsolicited benchmarking). Have you received any unsolicited benchmarking from a member of the RCG?

Answer Options	Response Percentage	Response Count
a. Yes	4.69%	3
b. No	95.31%	61
	answered question	64

skipped question **1**

Question 12: Does the Code cover all areas in which your remuneration advisor provides advice on?

Answer Options	Response Percentage	Response Count
a. Yes	100%	58
b. No	0%	0
	<i>answered question</i>	58
	<i>skipped question</i>	7

VOLUNTARY CODE OF CONDUCT IN RELATION TO EXECUTIVE REMUNERATION CONSULTING IN THE UNITED KINGDOM (December 2017)

Preamble

Executive remuneration consultants are business advisors who provide a professional and independent service to companies, and in particular remuneration committees, by providing information, analysis and advice on the structure and levels of remuneration for senior executives. In providing this service, the role of consultants is to assist decision makers within the governance structure of the company to make the most informed and appropriate decisions possible having due regard to the organisation's strategy, financial situation and appropriate decisions possible having due regard to the organisation's strategy, financial situation, pay philosophy and culture; the Board's statutory duties (including those set out in the Corporate Governance Code and its duties to wider stakeholders); and the views of all relevant stakeholders.

This Code clarifies the scope and conduct of the executive remuneration consultants' role and recognises that all substantive executive remuneration decisions are made by the appropriate governance bodies in the company, primarily Remuneration Committees and their Chairs.

Background, Purpose and Scope

This Code of Conduct sets out the role of executive remuneration consultants, the manner in which they conduct business and the standards of behaviour expected of them.

It is concerned primarily with the way in which remuneration consultants ("Consultants"), whether they be firms or individual practitioners, provide advice to UK listed companies on executive remuneration matters. For the purpose of this Code, these are matters which are recommended by the UK Corporate Governance Code to fall within the terms of reference of a company's Remuneration Committee. By definition, they include all elements of executive directors' remuneration but those terms of reference may cover a much wider population and pay and conditions of the wider workforce.

It is recognised that, in the area of executive remuneration, there is the potential for real or perceived conflicts of interest in that:

- executive directors may have personal interests which the Remuneration Committee may consider out of line with the broader interests of stakeholders or the company as a whole;
- where advice is provided by Consultants to both the Remuneration Committee and management – whether in the area of executive remuneration or in other areas – it might be considered as being compromised (by the Consultant's own commercial interests or the potentially different interests or perspectives of those to whom the Consultant is providing advice).

This Code sets out ways in which these potential and/or perceived conflicts of interest can be minimised and thereby fosters shareholder and Remuneration Committee confidence in the integrity and objectivity of Consultants.

In this connection it is important to clarify the role that executive remuneration consultants fulfil. Their role is to provide advice and information which they believe to be appropriate and in the best interests of the company. Their input should fully take into account good practice and promote the UK Corporate Governance Code principle that pay should be designed to promote the long-term success of the company.

The purpose of their input is to support robust and informed decision making by the company on remuneration matters. This is the case regardless of whether these are decisions of the Remuneration Committee or executive directors. Under the UK's unitary board structure, both share a common duty to promote the success of the company.

As far as the scope of this Code is concerned:

- it should be recognised that client companies and their Board committees will have their own governance Codes and processes to assess quality and minimise conflicts;
- this is a voluntary Code of conduct and statement of good practice. All firms which are signatories to the Code are expected to build it into their terms of business with clients and ensure that they and their consultants adhere to those terms.

The Code was first published in 2009 and has been reviewed biennially thereafter.

As with the UK Corporate Governance Code, the principles and processes set out in this Code are intended to apply to work carried out for UK premium listed companies and, particularly, the FTSE 350. It is recognised that other organisations (for example AIM, larger unlisted companies and mutuals) may have different governance structures which means that not every aspect of this Code may be relevant. However, it is expected that the same values will be applicable when work is conducted for other organisations which are either not fully listed or do not have a primary listing in the UK.

The authors of this Code recognise that other professional advisors may give advice to Remuneration Committees from time to time (such as solicitors, executive search consultants and actuaries). The Code is not primarily concerned with firms acting in that capacity.

While the primary focus of the Code is on the provision of advice to Remuneration Committees, the fundamental principles of the Code should equally apply to Consultants advising on executive remuneration but not formally appointed by the Remuneration Committee (e.g. where advice is provided to the company's management rather than the Committee).

Compliance

To ensure that all individual consultants within a firm comply with the Code, each firm will provide training and professional development for all consultants which ensures that they are competent to consult within the framework of this Code.

The lead consultant at each member firm will write to the Chairman of the RCG annually confirming his or her firm's compliance with this requirement.

Each year the RCG will carry out a formal review of the effectiveness of the Code. This will be presented and discussed at the RCG's AGM and a summary of the findings will be published on the RCG's website. In carrying out the annual review the RCG will undertake a confidential survey of the individual consultants in the member firms and assess any comments and complaints that have been brought to its attention during the year.

Where any person believes that a Consultant has breached the Code, they should report this to the member firm concerned. If they feel that the response is unsatisfactory, a complaint may be made to the Chairman of the RCG who would then raise it at an appropriate level with the relevant firm. If the Board of the RCG is not satisfied with the response it receives from the firm, it may judge the firm to be in breach of the Code and where, in the opinion of the Board, the firm has failed to meet the standards of behaviour which it is reasonable to expect under the Code and has failed to make appropriate remediation, it may determine that membership of the RCG should terminate.

Fundamental Principles

Executive remuneration consultants, like other business professionals, should comply with the fundamental principles of transparency, integrity, objectivity, competence, due care and confidentiality. They should also ensure that, whether or not part of a larger consulting group providing a wider range of services, their internal governance structures promote the provision of objective and independent advice. This Code is designed to be complementary to such governance structures and any other Codes relating to the professional bodies of which individual Consultants may be members.

The rest of this Code expands upon these fundamental principles and contains in the Appendix good practice guidelines on the ways in which these principles should apply.

Transparency

The role of Consultants is not to make decisions for their clients but to assist them in making fully informed decisions. To that end, all substantive advice should be clear and transparent with relevant and appropriate data presented objectively.

Where the Consultant is formally appointed to advise the Remuneration Committee, there should be a clear commitment for the Consultant to make available to the Chair of that Committee an agreed set of disclosures at the outset of the engagement and then annually thereafter. This will include information on the scope and cost of work provided by the Consultant's firm to the company in addition to work provided to the Remuneration Committee. It will also include information on the internal protocols to remove any potential conflicts of interest.

Integrity

Consultants should be straightforward and honest in all professional and business relationships. This implies a duty to deal with matters fairly and openly.

Objectivity

Consultants should not allow conflict of interest or influence of others to override professional or business judgements and should ensure that they provide the best and most appropriate advice to the client as possible. A key to managing such conflicts is to ensure clarity in identifying to whom the Consultant is providing advice, establishing the role expected of the Consultant and agreeing the processes and protocols to be followed.

Where the Consultant is appointed as principal advisor to the Remuneration Committee, the Consultant should have direct access to the Remuneration Committee chairman during the course of the engagement.

When the Consultant is appointed as a principal advisor to the Remuneration Committee, it is important to agree with the Chair of that committee and record, at the outset of the engagement, supporting protocols in order to safeguard objectivity. These are likely to cover the lines of communication between the consultant and executive management at the client company ("Client").

The Consultant should also be mindful of the potential conflict arising from other client relationships and draw these to the attention of the Remuneration Committee Chair as appropriate.

In addition, to manage potential conflicts of interest effectively:

- Consultants will not accept fees contingent on the introduction of new remuneration arrangements or the remuneration package (s) agreed for executives
- Consultants will not adopt the role of their firm's client relationship manager for the provision of non-related services on accounts where they are the principal executive remuneration consultant.

Competence and Due Care

The principle of competence and due care means that clients are entitled to have confidence in a Consultant's work and imposes an obligation on Consultants to maintain their knowledge at an appropriate level and carry out their work in a careful, thorough and timely manner.

Confidentiality

Consultants should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose.

Good Practice Guidelines

These guidelines are provided to illustrate how the Code principles may be followed.

General

1. The role of Consultants is to ensure that clients are appropriately informed on remuneration matters. In fulfilling this role, consultants should encourage Clients to:
 - ensure that pay is properly linked to the long-term performance of the business;
 - consider the full implications of their decisions. This should include but not be limited to helping Clients reach a rounded and balanced view and to be sensitive to the potentially inflationary impact of market data.
2. Consultants should encourage Clients to consider fully the implications of complex design both on the motivation of executives and on the transparency of arrangements to shareholders and other stakeholders.
3. Consultants should make the Remuneration Committee aware of the likely reaction to a company's proposed remuneration arrangements of shareholders and other key stakeholders.
4. Where appropriate, Consultants should seek to help Remuneration Committees to take into account talent and succession planning when making decisions on pay.

Transparency

5. Reports prepared by Consultants should explain the context in which advice is provided and, when advising on potentially significant changes in policy, they should comment on how any proposals compare with good practice and published guidance.
6. Selection of an appropriate comparator group for benchmarking purposes requires careful judgment. Any report should be clear on the types of companies comprised within the comparator group(s) used and the rationale for their selection and summarise the methodology used to value different elements of the remuneration package. It should also include commentary as to the Consultant's view regarding the appropriateness of the comparator group selected and any weaknesses of the data (both in terms of the comprehensiveness and the inclusion of potentially larger and/or more complex companies).
7. Reports and other written documents should identify the sources of information used.
8. It should be made clear where the Consultant is relying on information provided by management or elsewhere. Where the Consultant contributes to a joint report with management, it should be clear in the report what the Consultant's opinion is and what management's opinion is. Where there has been significant management input to proposals outside the Remuneration Committee, this should be made clear in the report.
9. Consultants should be careful to ensure that written advice is capable of being read and understood by the Remuneration Committee without the consultant being present.

10. All appointments should be governed by an engagement letter between the Consultant and the Client which makes clear to whom the Consultant is providing advice, i.e., whether to the Remuneration Committee or the executive management of the company or otherwise.

11. There should be a clear understanding of the role the Consultant is expected to play when appointed to advise the Remuneration Committee and, specifically, whether the role is to be a principal advisor to the Remuneration Committee on a range of remuneration-related issues (as opposed to providing data or advice on an ad hoc basis or just on specific topics).

12. In order to be aware of and mitigate any potential conflicts of interest, when the Consultant is appointed as a principal advisor to the Remuneration Committee, the Committee Chair should agree with the Consultant a set of disclosures at the outset of the engagement and annually thereafter. The precise nature and frequency of the information to be provided should be agreed by the Consultant with the Chair of the Remuneration Committee. Information should be available on:

- the areas on which the Consultant is engaged to advise the Remuneration Committee and any areas where it has been agreed that the Consultant should not provide advice;
- the scope and cost of work provided by the Consultant's firm to the company, or senior executives of the company, in addition to work performed directly for the Remuneration Committee. The Consultant should report on an annual basis the approximate split of the value of the work done for the Remuneration Committee and for executive management to the Remuneration Committee;
- at least at a high level, of all the work that the Consultant's firm carries out for the Company;
- the safeguards in place to ensure that information provided by the client company are kept confidential and separate both from information of other clients and from other departments within the Consultant's wider firm;
- the Consultant's Code regarding ownership of, and dealing in, the shares of client companies;
- the way in which the personal remuneration of the principal Consultants engaged in advising on executive remuneration issues is affected, if at all, by the cross-selling of non-related services;
- the process for maintaining quality assurance, ensuring that work covered by this Code is kept independent of any other services provided by the Consultant's firm and for dealing with complaints.

13. Consultants should encourage their Clients to include in their Directors' Remuneration Report a statement of whether they are using Consultants who are members of the RCG.

Integrity

14. When they are appointed as principal advisors to the Remuneration Committee, Consultants should alert the Chair of the Remuneration Committee when they become aware that their advice is being presented in the context of reports, communications or other information where they believe that the information is false or misleading or omits or obscures required information where such omission or obscurity could be misleading.

15. In relation to shareholders' engagement, the Remuneration Committee is responsible for explaining the Company's pay arrangements to shareholders and its chairman would normally be the principal point of contact for shareholders. Where Consultants are involved in this process, their primary responsibility should be to assist in the communication process, to set out the Remuneration

Committee's proposals to shareholders and to represent fully to the Remuneration Committee all the views expressed to the Consultant in their capacity as agent for the Committee.

16. Consultants should market their services to both current and prospective clients in a responsible way and should maintain the professional standards set out in this Code in their marketing activities. In particular, bespoke pay benchmarking reports should not be sent to clients or non-clients on an unsolicited basis (although firms may send their general published surveys, including industry surveys, which do not specifically identify pay at a targeted company).

Objectivity

17. When the Consultant is appointed as a principal Remuneration Committee advisor, there are a number of protocols and processes which should be established from the outset to ensure that the Consultant is able to provide best advice in a manner which meets the Remuneration Committee's requirements. These include:

- agreeing a process to ensure that the Consultant has sufficient information to provide advice in context (which may be achieved by providing for the Consultant to receive copies of all or most Remuneration Committee papers and minutes, not just those relating to matters upon which he or she is specifically being asked for advice);
- advising the Remuneration Committee that it is expected that the Consultant would meet periodically privately with the Remuneration Committee Chair and/ or the Remuneration Committee as a whole, in order to review remuneration issues and any implications of business strategy development and market change, and to clarify appropriate arrangements for this company;
- clarify the extent to which the Consultant should have access to and/ or provide advice to management (whether on remuneration matters or more generally and the protocols in place to avoid any conflicts from arising);
- confirmation of the process by which any information and recommendations relating to the Chief Executive Officer and other executives are to be communicated to the Remuneration Committee and the manner and extent to which such information and recommendations should also be communicated to executive management;
- agreement on the flow of papers and, in particular, whether draft papers may be sent to management to check facts and understanding of context prior to being sent to the Remuneration Committee Chair. In the absence of confirmation to the contrary, Consultants should not provide directly to an individual benchmark data relating to his or her own package;
- agreement of an annual review of the Consultant's performance and of roles and responsibilities. This should be led by the Chair of the Remuneration Committee but may be initiated by the Consultant. The review of performance should also include an assessment of the extent to which there is a potential conflict of interest which may be perceived to affect the independence and objectivity of the advice provided, where, for example, the Consultant's firm provides other services to the Company or the work provided by the Consultant accounts for a significant proportion of the firm's total revenue.

18. When the Consultant is appointed as a principal Remuneration Committee advisor, management should be made aware that, as advisor to the Remuneration Committee, it would be expected that the Consultant should have direct access to the Committee Chair.

19. These protocols should be reviewed annually to ensure that any perceived or real conflicts of interest are dealt with. The Consultants and the Remuneration Committee Chairman should also discuss whether and how the procedures and protocols in place should be described in the Directors'

Remuneration Report. The Consultant (or another member of his or her firm) should offer to discuss the protocols with the Remuneration Committee Chairman at least annually.

Competence and Due Care

20. The right for Clients to have confidence in a Consultant's work means that if work which a Consultant considers necessary is precluded by cost or time constraints, then they should either decline to act or qualify the advice.

21. Where a Consultant is aware of any limitations in their advice, they should make their Client aware of such limitation.

C. The Review of the Effectiveness of the Code

Background

The Remuneration Consultants Group (“RCG”) was formed in 2009 and represents the overwhelming majority of executive remuneration consultancy firms advising UK listed companies.

The objective

In 2011, as part of the review of the Code, the Board agreed to carry out an annual Review of the Effectiveness of its Implementation. The evaluation process was based on information provided by the firms, and the Board agreed to summarise the findings of the evaluation process and make them public on the RCG website. An important aspect of this exercise has been that the Members share good ideas that will improve the effectiveness of the implementation of the Code, as well as sharing experiences on barriers to effective implementation and how these might be overcome. This evaluation has been undertaken every year from 2011.

The process for 2017

There were two main components of the Code effectiveness assessment. The first component was an anonymous survey of all employees engaged in executive pay consulting in the Member firms. A similar survey was run last year. The 2017 survey attracted responses from 236 individuals (Respondents completed the survey electronically but confirmation was given from each firm that there was 100% completion). In 2016, 182 responses were received (an equivalent response rate of about 90%). The survey questions and the responses can be found in Appendix 3.

The second component was a questionnaire filled in by Practice Leaders of the 11 member firms which attracted 100% response rate (91% last year). The aim of this has been to discover and share examples of helpful practice which may be useful across all member firms and to identify areas for improvement for better implementation of the Code.

1) The main themes from the anonymous survey of consultants at member firms

Appendix 3 provides detailed results and shows the percentage responses for this year’s and last year’s survey. The survey covered consultants at all levels of experience and seniority, which may have impacted responses to some of the questions. For 2018 process, we are looking into a different way of presenting data that takes into account respondents’ experience.

A summary of the responses to multiple choice questions is set out below.

- The percentage of respondents who had read the Code increased from 92% in 2016 to 95% in 2017 and the percentage of individuals who were not aware that the Code existed decreased from 4% in 2015 to 1% in 2017.
- 9% of individuals have received no formal training on the use of the Code which is the same as 2016. However, 31% have received “a lot” of informal training; 60% had received “a little” and 9% had received no informal training. When this was discussed by the Board, it became apparent that the survey was undertaken immediately after a number of new graduates had joined which may explain the level of people not having received training.

We encourage members to ensure this is included as part of the formal induction process but, in future years, will ensure that the data captures this.

- Almost all individuals state that they encourage clients to ensure pay is properly linked to the long-term performance of the business most or all of the time with less than 1% stating this was not the case. This is similar to the responses in 2016.
- When asked to what extent the Code influences practices and behaviours within their firms there was a considerable increase in respondents feeling that the influence was significant at 51% in 2017 compared to 22% in 2016. However, the answer options were slightly different in 2017 which might have influenced answers (for full details see Appendix 3).
- 91% of individuals said they are always clear whether they are working for the Remuneration Committee or for management. This is a very slight increase from 90% in 2016. 6% of respondents do not interface with clients.
- The percentage of respondents whose firms have regular one-to-one meetings with the Remuneration Committee Chair without management present has decreased slightly from 92% in 2016 to 88% in 2017.

A number of new questions were posed in 2017, for instance:

- When asked if they personally attended and provided advice to Remuneration Committees, the respondents were evenly split between 50% - yes and 50% - no
- When asked if there are any ethical issues which arise when providing advice which are not addressed through the Code 98% felt there were not. Only 5 respondents felt there were (see detail in Appendix 3)
- When asked if the Code needed further improvement, 93% felt it did not
- When asked if they ensured advice was suitably linked to client strategy, the majority (96%) felt it always, or mostly, was
- When asked if they ensured that the Remuneration Committee was mindful of the pay in the wider organisation, 62% felt they always do, 34% felt they mostly do and 2% felt they sometimes do or did not respectively

2) The main themes from the questionnaire sent to senior consultants

A questionnaire was sent to the leaders of the executive remuneration practices at the 11 member firms and at least one submission was expected from each firm. Eleven firms responded. All questions asked for a written response to help the RCG better understand how the Code's provisions have been implemented by member firms and to gain insights into practices which might be helpful to other member firms. In addition, the RCG hoped to identify any barriers and problems practice leaders may have faced when implementing the Code. The following key themes were identified:

- There are a variety of good practice examples of how member firms encourage adherence to the Code; including annual communications, regular training for staff on the Code and partner discussion on client matters.

- In general firms do not feel there are any significant barriers to adhering to the Code. There were no major changes in the responses from the survey carried out in 2014.

3) Disclosure

Based on the Directors' Remuneration Report disclosures published in 2017 so far:

- Of the 94 FTSE 100 companies that disclose a named Remuneration Committee advisor, all have a lead advisor that is a signatory to the RCG Code of Conduct and 94% of them disclose that the advisor is a signatory to the Code.
- Of the 189 FTSE 250 companies that disclose a named Remuneration Committee advisor, 99% have a lead advisor that is a signatory to the RCG Code of Conduct and 88 % of them disclose that the advisor is a signatory to the Code.

Recommendations for 2018

The results of this year's review highlight some points for the RCG Members to act on. The recommendations are as follows:

1. Continue promoting the Code to interested parties where appropriate
2. Continue to encourage members to incorporate mandatory training for all consultants .To facilitate this, the Board prepared a set of case studies for each firm to use in training.

Effectiveness of the Code – Survey of Consultants

Total responses: 236 (182 in 2016 survey). Statistics shown in brackets represent the 2016 survey results. It is noted that the survey for all consultants split questions into those for senior consultants and those for consultants of all grades to ensure relevance.

Question 1: How many years of executive pay consulting experience do you have?

Answer Options	Response Percentage	Response Count
a. 0-3 years	32.63% (28%)	77 (51)
b. 3-6 years	17.8% (20.9%)	42 (38)
c. 6-9 years	10.59% (12.1%)	25 (22)
d. 9+ years	39.98% (39%)	92 (71)
	answered question	236
	skipped question	0

Question 2: Do you personally attend and provide advice to Remuneration Committees? (New Question for 2017)

Answer Options	Response Percentage	Response Count
a. Yes	50.22% (N/A)	116 (N/A)
b. No	49.78% (N/A)	115 (N/A)
	answered question	231
	skipped question	5

Question 3: Prior to this survey, were you aware that a Code of Conduct governing the activities of remuneration consultancies existed?

Answer Options	Response Percentage	Response Count
a. Yes	98.73% (96.2%)	233 (176)
b. No	1.27% (3.8%)	3 (7)
	answered question	236
	skipped question	0

Question 4: Have you read the Code of Conduct?

Answer Options	Response Percentage	Response Count
a. Yes	95.34% (91.8%)	225 (168)
b. No	4.66% (8.2%)	11 (15)
	answered question	236
	skipped question	0

Question 5: How much *formal* training (e.g. induction, webcasts, lunch and learns) have you had on the use of the Code?

Answer Options	Response Percentage	Response Count
a. A lot	20.34% (29.7%)	48 (54)
b. A little	61.02% (61.2%)	144(112)
c. Less than 1 session pa (new option for 2017)	9.32% (N/A)	22 (N/A)
c. None	9.32% (9.3%)	22 (17)
	answered question	236
	skipped question	0

Question 6: How much *informal* training (e.g. discussions with other consultants, references in work) have you had on the use of the Code?

Answer Options	Response Percentage	Response Count
a. A lot	31.36% (35.7%)	74 (65)
b. A little	59.75% (60.1%)	141 (110)
c. None	8.9% (4.4%)	21 (8)
	answered question	236
	skipped question	0

Question 7: How often is the Code discussed during the course of your client work?

Answer Options	Response Percentage	Response Count
a. Frequently	23.73% (23%)	56 (42)
b. Infrequently	47.88% (53.8%)	113 (98)
c. Very rarely	17.80% (10.4%)	42 (19)
d. Never	2.54% (4.9%)	6 (9)
e. Not applicable	8.05% (8.4%)	19 (15)
	answered question	214
	skipped question	0

Question 8: To what extent do you think the Code influences practices and behaviours in your firm?

Answer Options (options changed slightly in 2017, 2016 options in brackets)	Response Percentage	Response Count
a. Significantly (Significantly for the better)	51.69% (21.4%)	122 (39)
b. A little (A little for the better)	37.29% (42.1%)	88 (77)
c. Not at all (No change and improvements still needed)	2.54% (0.5%)	6 (1)
d. No view	8.47% (8.2%)	20 (15)
	answered question	236
	skipped question	0

Question 9: When you are working for a client, are you always clear for whom you are doing the work and whether it is for the Remuneration Committee or for management?

Answer Options	Response Percentage	Response Count
a. Yes	90.68% (89.6%)	214 (164)
b. No	2.97% (4.9%)	7 (9)
c. Not applicable	6.36% (5.5%)	15 (10)
	answered question	236
	skipped question	0

Question 10: Are there any ethical issues which arise in providing executive remuneration advice which are not addressed through the Code? (New for 2017)

Answer Options	Response Percentage	Response Count
a. Yes	2.20% (N/A)	5 (N/A)
b. No	97.80% (N/A)	222 (N/A)
	answered question	227
	skipped question	9

Respondents made suggestions of a substantive nature such as benchmarking methodologies. The only ethical point raised was that it is a challenge to the independence of advisors when their advice leads to management recommending that the consultant is dismissed.

Question 11: Do you think the Code needs further improvement? (New for 2017)

Answer Options	Response Percentage	Response Count
a. Yes	3.49% (N/A)	8(N/A)
b. No	93.45% (N/A)	214 (N/A)
c. If so, please state	3.06% (N/A)	7 (N/A)
	answered question	229
	skipped question	7

Respondents suggested some redrafting to the Code to improve clarity and encouraging Remuneration Committees to invest time in ensuring that appropriate protocols are in place.

Question 12: Do you have any other comments on the Code?

Answer Options	Response Count
	37 (37)

Respondents' comments were positive and encouraged continuing initiatives to promote compliance.

ADDITIONAL QUESTIONS FOR CONSULTANTS WITH 6+ YEARS' EXPERIENCE

(113 consultants with 6+ years' experience and 123 consultants with less experience)

Question 13: In general, does your firm have regular one-to-one meetings with client Remuneration Committee Chair without management present?

Answer Options	Response Percentage	Response Count
a. Yes - at least annually	75.22% (84.6%)	85 (77)
b. Yes - less often than annually	12.39% (7.7%)	14 (7)
c. No	2.65% (1.1%)	311(1)
d. Don't know	9.73% (6.6%)	11 (6)
	answered question	113
	skipped question	123

Question 14: How comfortable are you in challenging the views of management at Remuneration Committee meetings (when circumstances call for it)?

Answer Options	Response Percentage	Response Count
a. Very comfortable	55.75% (53.8%)	63 (49)
b. Comfortable	30.97% (34.1%)	35(31)
c. Uncomfortable	1.77% (0%)	2 (0)
d. Not applicable	9.73% (6.6%)	11 (6)
e. It depends (please say more)	1.77% (5.5%)	2 (4)
	answered question	113
	skipped question	123

Question 15: Do you encourage your clients to ensure that pay is properly linked to the long-term performance of the business?

Answer Options	Response Percentage	Response Count
a. Always	91.15% (94.5%)	103 (86)
b. Mostly	7.96% (5.5%)	9 (5)
c. Sometimes	0% (0%)	0 (0)
d. No	0.88% (0%)	1 (0)
	answered question	113
	skipped question	123

Question 16: Do you encourage your clients to consider fully the implications of complex design both on the motivation of executives and on the transparency of arrangements to shareholders and other stakeholders?

Answer Options	Response Percentage	Response Count
a. Always	92.92% (93.4%)	105 (85)
b. Mostly	4.42% (6.6%)	5 (6)
c. Sometimes	0.88% (0%)	1 (0)
d. No	1.77% (0%)	2 (0)
	answered question	113
	skipped question	123

Question 17: Where you are advising the Remuneration Committee, do you make the Remuneration Committee aware of the likely views of shareholders on your client's executive remuneration?

Answer Options	Response Percentage	Response Count
a. Always	94.69% (96.7%)	107 (88)
b. Mostly	3.54% (2.2%)	4 (2)
c. Sometimes	0% (1.1%)	0 (1)
d. No	1.77% (0%)	2 (0)
	answered question	113
	skipped question	123

Question 18: When advising a company on its remuneration arrangements generally, do you ensure that your advice is suitably linked to the client's strategy? (New for 2017)

Answer Options	Response Percentage	Response Count
a. Always	87.39% (N/A)	97 (N/A)
b. Mostly	8.11% (N/A)	9 (N/A)
c. Sometimes	0% (N/A)	0 (N/A)
d. No	0% (N/A)	0 (N/A)
e. I am only involved in a limited aspect such as the provision of data	3.6% (N/A)	4(N/A)
f. Not applicable	0.90% (N/A)	1 (N/A)
	answered question	111
	skipped question	125

Question 19: When advising a Remuneration Committee, do you ensure it is mindful of pay in the wider organisation? (New for 2017)

Answer Options	Response Percentage	Response Count
a. Always	62.50% (N/A)	70 (N/A)
b. Mostly	33.93% (N/A)	38(N/A)
c. Sometimes	1.79% (N/A)	2 (N/A)
d. No	1.79% (N/A)	2 (N/A)
	answered question	112
	skipped question	124

Question 20: Do you ensure that your reports are clear on the types of companies comprised within the comparator group(s) used and the rationale for their selection and summarise the methodology used to value different elements of the remuneration package?

Answer Options	Response Percentage	Response Count
a. Always	91.15% (93.4%)	103 (85)
b. Mostly	8.85% (6.6%)	10 (6)
c. Sometimes	0% (0%)	0 (0)
d. No	0% (0%)	0 (0)

answered question 113
skipped question 123

Question 21: Do you ensure that your reports clarify where information is provided by management or from other consulting firms?

Answer Options	Response Percentage	Response Count
a. Always	90.27% (87.9%)	102 (80)
b. Mostly	7.96% (12.1%)	9 (11)
c. Sometimes	1.77% (0%)	2 (0)
d. No	0% (0%)	0 (0)
	answered question	113
	skipped question	123

Question 22: Do you ensure that you are clear in your report what is your firm's opinion and what is management's opinion?

Answer Options	Response Percentage	Response Count
a. Always	88.50% (86.8%)	100 (79)
b. Mostly	9.73% (13.2%)	11(12)
c. Sometimes	1.77% (0%)	2 (0)
d. No	0% (0%)	0 (0)
	answered question	113
	skipped question	123

Question 23: Do you ensure that your written advice is capable of being read and understood by the Remuneration Committee without your presence?

Answer Options	Response Percentage	Response Count
a. Always	90.27% (86.8)	102 (79)
b. Mostly	8.85% (12.1%)	10 (11)
c. Sometimes	0% (0%)	0 (0)
d. No	0.88% (1.1%)	1 (1)
	answered question	113
	skipped question	123

Question 24: The Code prohibits the sending of unsolicited benchmarking to clients and non-clients (i.e. reports which have been modified in some way to refer to the recipient company but not generic surveys such as a FTSE100 or pharmaceutical survey which has not been modified for that company in any way – bespoke benchmarking as part of a response to an RFP constitutes solicited rather than unsolicited benchmarking). Do you ensure that such unsolicited benchmarking is never sent? (Question expanded for clarity in 2017)

Answer Options	Response Percentage	Response Count
a. Always	99.12% (97.8%)	112 (89)
b. Mostly	0% (2.2%)	0 (2)
c. Sometimes	0.88% (-0%)	1 (0)

d. No	0% (0%)	0 (0)
	<i>answered question</i>	113
	<i>skipped question</i>	123

Question 25: Are you clear that reasonable steps have been taken to ensure that potential conflicts of interest are appropriately managed in accordance with Paragraph 11 of the Code?

Answer Options	Response Percentage	Response Count
a. Yes	100% (100%)	113 (91)
b. No	0% (-)	0 (-)
	<i>answered question</i>	113
	<i>skipped question</i>	123