

Remuneration Consultants Group

The Board's activities in 2012 and the review of the effectiveness of the Code

December 2012

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A. The RCG and its activities in 2012

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 member firms are:

Deloitte LLP	Mercer	PriceWaterhouseCoopers
FIT Remuneration Consultants	MM&K Limited	Strategic Remuneration
Hay Group	New Bridge Street, an Aon Hewitt company	Towers Watson
Kepler Associates	Patterson Associates, a Pearl Meyer & Partners practice	

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

During the course of 2011, the Code was reviewed and an extensive consultation process carried out. As a result, several important drafting changes were made to ensure:

- Greater clarity in relation to the Consultants' engagement and for whom advice is being provided together with regular monitoring of the roles and the performance of the consultant and of any potential conflicts of interest;
- The role of the consultant in encouraging the client to consider the full implications of pay decisions and complex incentive design;
- How breaches of the Code will be dealt with; and
- How the effectiveness of the Code will be monitored and made public.

The RCG currently has eleven members; a new application for membership has been received since the evaluation exercise was carried out and awaits approval by the Board. 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 2012 is summarised below.

Member	1 Feb 2012	15 May 2012	20 Sept 2012	22 Nov 2012
Martin Read	✓	✓	✓	✓
Philippa Hird	✓	✓	✓	✓
William Claxton-Smith	✓	✓	✓	✓
Sean O'Hare	Fiona Camenzuli	✓	Philippa O'Connor	✓
Gordon Clark	✓	✓	✓	✓
Carol Arrowsmith	Apologies	✓	✓	✓
Katharine Turner	✓	✓	✓	✓

Where Member directors cannot attend, they are encouraged to send a representative of their firm.

During the year the Board has:

- Agreed a work plan for 2012;
- Updated the RCG's governance framework;

- Agreed the approach to, and overseen, the review of the effectiveness of the Code – see Section B;
- Consulted with some 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

Note that the Member firms have also met informally on three occasions during the year - 12th January, 19th March and 30th August.

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

B. 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. Additional information can be found in Appendix C.

The objective

The Board agreed last year – as part of the review of the Code itself - to carry out a review of the effectiveness of the implementation of the Code on an annual basis.

The objective was to test how well the Code was deemed to have been implemented. The evaluation process was based on self-assessment by the firms. The Board also agreed to summarise the findings of the evaluation process and make them public on the RCG web site. An important aspect of the exercise has been that the Members should - by means of the evaluation process – share good ideas that would 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.

The process

There were two main components of the self-assessment process. 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 2012 survey attracted responses from 125 individuals (equivalent to a response rate of 54% of around 230 associates in all member firms combined), up from the 55 responses in 2011. The survey questions and the responses can be found in Appendix A.

The second component was a questionnaire filled in by Practice Leaders and senior teams of the 11 member firms which attracted a 100% response rate. One questionnaire only was filled in by each member firm. The questions and responses can be found in Appendix B. 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.

The major themes that emerged from the responses to the review process are summarised below.

The main findings

1) The main themes from the anonymous survey of consultants.

The survey responses have more than doubled this year. The increase in the response rate is pleasing but it does, however, mean that comparisons of the results for both years need to be treated with care. (Appendix A shows the percentage responses for this year's and last year's survey.) The responses to questions were:

- **Question 2:** Prior to this survey, were you aware that a Code of Conduct governing the activities of remuneration consultancies existed? The vast majority of respondents were aware and 9 (7%) were not.
- **Question 3:** Have you read the Code of Conduct? A significant majority (85%) had; 15% of respondents had not.
- **Question 4:** How much training have you had on the use of the Code? Of the responses, the majority of respondents had had some form of training although 53% they had had a little. The percentage citing no training (15%) is much lower in percentage terms than in the 2011 review (33%), although in absolute terms this means 19 consultants this year and 18 last said they had had no training.

- **Question 5:** How often is the Code discussed in client meetings? Where applicable, most said “infrequently” or “very rarely”.
- **Question 6:** Do you think behaviours in your firm have changed for the better as a result of the introduction of the Code of Conduct? The vast majority (77%) said “yes, a little” or “no, as good practice was already well established”.
- **Question 8:** In general, does your firm now have regular one-to-one meetings with client Remuneration Committee Chairman without management present? Very few respondents (2) said no. The majority (66%) said yes (annually or less so) and 33% didn’t know.
- **Question 9:** How comfortable are you in commenting on your clients’ business strategies? Most (60%) said they were “comfortable” or “very comfortable” and 13% said they were “uncomfortable”; 27% said this as not applicable.
- **Question 10:** How comfortable are you in challenging the views of management at Remuneration Committee meetings? The total percentage of respondents who were either comfortable or very comfortable was 55% and 36% said it was not applicable. Some (7%) said “it depends”.
- **Question 11:** Do you think it would benefit clients if there were a restriction on the ability of Remuneration Committee advisers to undertake other remuneration-related work for clients? The majority (70%) said “no” and 18% said “don’t know”.
- **Question 12:** Do you think it would benefit clients if there were a restriction on the ability of a firm – of which Remuneration Committees advisers form a part – to undertake any other services for clients? The majority said “no” (76%) and 18% said they don’t know.
- **Question 13:** Where you interface with clients, are you always clear for whom you are doing the work and whether it is for the Remuneration Committee or for the client’s management? A significant majority said they were always clear (84.4%) and 5.7% said they were not.
- **Question 14:** To what degree do you think the Code has had a positive effect on practices in your firm? About half (49.2%) said “for the better” and 27.5% said there were no issues to be addressed. Just over 18% had no view.
- **Question 15:** How do you think the Code and its implementation could be improved? Most skipped this question and the answers are probably to be found in the second self-assessment survey.
- **Question 16:** Do you think your firm’s approach to implementing the Code has improved over the last year? Just under 40% (38.3%) said their firm’s approach had improved for the better; 34.2% said there had been no change as the approach was already effective; 21 people (17.5%) had no view.

Consultants were invited to give additional written responses and 26 chose to do so.

Those who felt the Code has had a positive impact cited a range of things - the annual meeting with Remuneration Committee chairs, the provision of a checklist to refer to when creating documents and giving advice, greater clarity on the nature of appointments, greater focus on accountability, thoroughness and risks inherent in advice. One said that the Code can also be helpful to encourage Remuneration Committees to think about their own behaviours.

Among those who felt the Code had not changed behaviours, there seemed to be a recurring theme that good practices were already well established and the Code merely codified existing behaviours. One consultant said that colleagues in his/her firm did not believe the Code “adds any value” because robust professional practices were already well established.

Question 10 gave respondents the opportunity to elaborate on why they may or may not feel comfortable about challenging the views of management at Remuneration Committee meetings.

Most respondents felt that it was generally prudent to address any conflicts before a Remuneration Committee meeting. Consultants felt that making challenges during a meeting should be avoided where possible.

Question 15 asked how respondents felt the Code could be improved.

A recurring theme amongst the responses was the need to “educate” and engage the client on the details of the Code. One suggested even better clarification of the provisions of the Code was necessary in meetings with clients to ensure they understand all aspects fully. Another respondent suggested that an annual return to clients explaining how the Code has been followed would be effective in showing clients that the Code is important.

One respondent felt that the Code needed to be shortened as well as revamped to focus attention more on best practices among Remuneration Committee as opposed to those of the advisers.

Question 17 allowed respondents to leave any overall comments.

One respondent suggested considering the possibility of a qualification or accreditation to address concerns about the competence of the remuneration consultant. One respondent said their company was adjusting its internal Code and terms of business to match the guidelines laid out by the Code while another said that the Code served to make the role of remuneration consultants more transparent.

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

A questionnaire was sent to the leaders and senior teams of the executive remuneration practices at the 11 member firms and one submission was received from each member firm. 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.

i. Encouraging adherence to the Code

See Appendix B. However, examples of good practice that emerged include:

- a. Compliance checklists for appointments and reports;
- b. Aligning the precepts of the Code with pre-existing internal Codes; and
- c. Assigning a specialist ‘compliance’ expert.

ii. Approach to training

Different approaches to training were described. Some make training and reading the Code of Conduct a formal part of induction.

An important minority (15%) are still slipping through the training net. The techniques used the firms include:

- a. Formal or informal training at least annually;
- b. Group training sessions which train participants on the Code but also allows for discussions about case studies and potential challenging scenarios;
- c. Discussing issues relating to the Code in monthly team meetings; and
- d. Circulating the Code to employees or making it available on shared IT platforms or in one case, providing best practice guidance along with a copy of the Code and making it mandatory for consultants to sign off receipt and compliance.

The member firms vary widely in their size and scale and this makes ‘best practice’ hard to prescribe. One suggestion might be that all consultants in the Member firms who have line management responsibility must be asked to ensure that training on the Code is delivered to all the people they manage at least once a year.

iii. Communicating the Code

The various methods used by member firms to communicate the Code externally to clients include:

- a. Asking clients to refer to the Code in their Directors' Remuneration Reports;
- b. Referring to the Code in proposals;
- c. Referring to the Code in standard terms of business or adjusting terms to be aligned with the Code;
- d. Referring to the Code in all new appointment letters; and
- e. Referring to compliance of the Code and membership to the RCG in all marketing materials and thought leadership papers.

At the request of the Board, the frequency of references in the Remuneration Reports of the FTSE 350 has been researched – based on the disclosures published in 2012 so far. Note that 22 of the FTSE 100 companies refer to the Code in their Directors' Remuneration Report (and only 25 of the FTSE mid-250 (excluding investment trusts)). It is for Remuneration Committees to decide what the Remuneration Report says but the paucity of references suggests a letter from the Chairman to the FTSE 350 excluding investment trusts, encouraging them to allude to the RCG is appropriate. (This was discussed by the Board at its meeting in May.)

iv. **Frequency of meetings with Chairs of Remuneration Committees**

The answers were not uniformly full (and one firm said this information was commercially sensitive). The vast majority, however, suggested that most firms see the Chairs of the Remuneration Committees on average once a year without others present – and some meet more frequently or less frequently. Direct engagement is taking place.

v. **Contractual arrangements**

Typical practice here is to ensure that engagement letters prepared at the outset of an assignment clarify roles and responsibilities under the Code.

vi. **Additional steps to ensure the Code is adhered to**

Steps taken by individual firms to ensure effective implementation of the Code which may prove useful for all member firms include:

- a. Discussions on sensitive issues or conflicts of interest with senior colleagues or the Chairman of the Remuneration Committee;
- b. A establishment of a three-member team with the task of effective implementation and adherence of the Code or in one case, appointment of an internal compliance officer;
- c. Providing input from the risk team to executive compensation practitioners regarding any queries about the RCG, the Code and its implications on any advice given;
- d. A ban on principal advisers of a Remuneration Committee having a wider leadership or cross-selling role;
- e. A ban on contingent fees and/or agreeing on associated fees prior to commencing work;
- f. Specific discussions with all clients about the Code; and
- g. A Code checklist used by consultants when checking any work done for clients.
- h. Establishing a specialist implementation group for the Code.

vii. **Barriers to implementation**

See Appendix B but a key theme here is that the Remuneration Committee and the adviser need to be equally active and willing to ensure that the Code is followed. Comments on the barriers included the following:

- a. A lack of interest from clients, either because they were happy with the level of professionalism from consultants prior to the Code or they were reluctant to let a 'rulebook' restrict their established practices;
- b. A lack of interest from consultants as they believe their personal and firm standards already comply with the standards of the Code. In cases where the Code differs from their own practices, it was thought that consultants would ignore the Code;
- c. Shareholders are unaware of whether or not the Code has been followed;;
- d. Though it is important for consultants to follow high standards, independence of the remuneration process is almost entirely determined by the effectiveness of the Board

and their willingness to challenge the executive which is outside the control of the consultant;

- e. In small remuneration practices, making sure the adviser to the committee is not also CRM for other services can be restrictive and impracticable. (A suggestion was made that this is replaced by a requirement to flag such situations to the Chairman of the Remuneration Committee.)
- f. It can be difficult to make Chairmen understand the importance of meeting at least annually or to engage in discussions relating purely to the Code, especially in cases where the Chairman feels that best practice was followed prior to the Code.
- g. No evidence to suggest the Code has improved relationships between clients, consultants and other stakeholders. Much more needs to be done to ensure the Code is being followed and the profile of the Code is raised.

viii. **Useful techniques to support implementation**

Several points were highlighted – see Appendix B – including annual meetings with the Chairs of Remuneration Committees, QA checklists and interactive training.

ix. **Complaints and breaches of the Code**

None were reported by any firm

x. **Other comments**

Some answers suggested that more work is needed to raise the profile of the Code and to ensure that Remuneration Committees are as 'fluent' in its precepts and principles as the advisers.

C. Recommendations

The results of the review highlight some points for the RCG Members and the Board to act on. The recommendations are as follows:

1. All Member firms should be asked to require their consultants in executive pay to read the Code as part of their induction and at least annually thereafter and seek training from their line managers;
2. Some form of mandatory training and/or guidance should be required on at least an annual basis and Members firms should (where applicable) make their line managers responsible for this;
3. Each Member firm should revise their approach to encouraging their clients to refer to the RCG in the Directors' Remuneration Report;
4. The Chairman of the RCG should write to the Chairs of the Remuneration Committees of the FTSE 350 (with a cc to Chairs of the Board and Company Secretaries) to encourage them to review the Board's approach to ensuring compliance with the Code and to refer to the RCG, and whether their remuneration advisers are members, in the Directors' Remuneration Report.

December 2012

RCG Code of Conduct Consultation – Survey of Consultants

Total responses: 125 (55 in 2011 survey). Statistics shown in brackets represent the 2011 survey results.

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

Answer Options	Response Percentage	Response Count
a. 0-3 years	32.8% (25%)	41 (14)
b. 3-6 years	22.4% (16%)	28 (9)
c. 6-9 years	12.8% (13%)	16 (7)
d. 9+ years	32.0% (45%)	40 (25)
	<i>answered question</i>	125
	<i>skipped question</i>	0

Question 2: 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	92.8% (96%)	116 (53)
b. No	7.2% (4%)	9 (2)
	<i>answered question</i>	125
	<i>skipped question</i>	0

Question 3: Have you read the Code of Conduct?

Answer Options	Response Percentage	Response Count
a. Yes	85.6% (93%)	107 (51)
b. No	15.2% (7%)	19 (4)
	<i>answered question</i>	125
	<i>skipped question</i>	0

Question 4: How much training have you had on the use of the Code?

Answer Options	Response Percentage	Response Count
a. A lot	30.4% (15%)	38 (8)
b. A little	56.8% (53%)	71 (29)
c. None	15.2% (33%)	19 (18)
	<i>answered question</i>	125
	<i>skipped question</i>	0

Question 5: How often is the Code discussed in client meetings?

Answer Options	Response Percentage	Response Count
a. Frequently	8.0% (11%)	10 (6)
b. Infrequently	33.6% (42%)	42 (23)
c. Very rarely	31.2% (29%)	39 (16)
d. Never	8.8% (11%)	11 (6)
e. Not applicable	20.8% (9%)	26 (5)
	<i>answered question</i>	125
	<i>skipped question</i>	0

Question 6: Do you think behaviours in your firm have changed for the better as a result of the introduction of the Code of Conduct?

Answer Options	Response Percentage	Response Count
a. Yes - a lot	1.6% (2%)	2 (1)
b. Yes - a little	27.2% (29%)	34 (16)
c. No - as good practice already well established	50.4%	63
d. No	5.6% (51%)	7 (28)
e. Don't know	16.8% (18%)	21 (10)
	answered question	125
	skipped question	0

NB: answer c was not an option in the previous survey.

Question 7: If you think that behaviours in your firm have changed for the better as a result of the Code of Conduct, please state how you think they have changed? Conversely, if you think that behaviours have not changed, please explain why you think this is the case and if this is a problem?

Answer Options	Answer Options	Response Count
		26
	answered question	26
	skipped question	99

Question 8: In general, does your firm now have regular one-to-one meetings with client Remuneration Committee Chairman without management present?

Answer Options	Response Percentage	Response Count
a. Yes - at least annually	55.7% (62%)	68 (34)
b. Yes - less often than annually	9.8% (13%)	12 (7)
c. No	1.6% (4%)	2 (2)
d. Don't know	32.8% (24%)	40 (13)
	answered question	122
	skipped question	3

Question 9: How comfortable are you in commenting on your clients' business strategies?

Answer Options	Response Percentage	Response Count
a. Very comfortable	20.5% (35%)	25 (19)
b. Comfortable	39.3% (35%)	48 (19)
c. Uncomfortable	13.1% (7%)	16 (4)
d. Not applicable	27.0% (22%)	33 (12)
	answered question	122
	skipped question	3

Question 10: How comfortable are you in challenging the views of management at Remuneration Committee meetings?

Answer Options	Response Percentage	Response Count
a. Very comfortable	14.8% (29%)	18 (16)
b. Comfortable	40.2% (31%)	49 (17)
c. Uncomfortable	3.3% (5%)	4 (3)
d. Not applicable	36.1% (35%)	44 (19)
e. It depends (please say more)	6.6%	8
It depends...		8
	answered question	122
	skipped question	3

NB: Answer e was not an option in the previous survey.

Question 11: Do you think it would benefit clients if there were a restriction on the ability of Remuneration Committee advisers to undertake other remuneration- related work for clients?

Answer Options	Response Percentage	Response Count
a. Yes	13.1% (13%)	16 (7)
b. No	70.5% (83%)	86 (44)
c. Don't know	18.0% (4%)	22 (2)
	answered question	122
	skipped question	3

Question 12: Do you think it would benefit clients if there were a restriction on the ability of a firm - of which Remuneration Committees advisers form a part - to undertake any other services for clients?

Answer Options	Response Percentage	Response Count
a. Yes	15.6% (27%)	19 (15)
b. No	76.2% (67%)	93 (37)
c. Not applicable	9.0% (5%)	11 (3)
	answered question	122
	skipped question	3

Question 13: Where you interface with clients, are you always clear for whom you are doing the work and whether it is for the Remuneration Committee or for the client's management?

Answer Options	Response Percentage	Response Count
a. Yes	84.4% (87%)	103 (48)
b. No	5.7% (11%)	7 (6)
c. Not applicable	9.8% (2%)	12 (1)
	answered question	122
	skipped question	3

Question 14: To what degree do you think the Code has had a positive effect on practices in your firm?

Answer Options	Response Percentage	Response Count
a. Significantly for the better	1.7% (0%)	2 (0)
b. For the better	49.2% (55%)	59 (30)
c. No change and improvements still needed	4.2% (5%)	5 (3)
d. No issues which needed to be addressed	27.5% (25%)	33 (14)
e. No view	18.3% (15%)	22 (8)
	<i>answered question</i>	120
	<i>skipped question</i>	5

Question 15: How do you think the Code and its implementation could be improved?

Answer Options	Response Count
	20
<i>answered question</i>	20
<i>skipped question</i>	105

Question 16: Do you think your firm's approach to implementing the Code has improved over the last year?

Answer Options	Response Percentage	Response Count
a. Significantly for the better	4.2%	5
b. For the better	38.3%	46
c. No change and improvements still needed	8.3%	10
d. No change as already effective	34.2%	41
e. No view	17.5%	21
	<i>answered question</i>	120
	<i>skipped question</i>	5

Question 17: Do you have any other comments?

Answer Options	Response Count
	8
<i>answered question</i>	8
<i>skipped question</i>	117

RCG Code of Conduct Consultation – Questionnaire for Senior Consultants

Question 1: List the actions that you take within your firm to ensure the effective adherence to and implementation of the Code of Conduct.

- Checklist regarding the Code to use when checking work done for clients.
- Referring to and/or discussing Code processes with the Chairman of the RemCo.
- Some companies have adopted formal training, at least annually, while some others have implemented informal training.
- Internal discussions about issues relating to the Code.
- Modification of internal code of practice and terms of business to be more in line with the Code.
- Annual central review of compliance and processes relating to the Code.
- Systems to ensure client confidentiality.
- A dedicated team to ensure effective implementation of the Code and its adherence or in one case, an internal compliance officer appointed.
- Comprehensive peer review of any advice or deliverables provided to clients.
- A ban on contingent fees.

Question 2: Describe the approach to training that you provide in your firm on the Code of Conduct.

- At the very least, the Code is available to all employees.
- Annual training sessions on the Code have been adopted by some firms, whilst others have chosen to discuss any matters relating to the Code in monthly meetings. Group training sessions which allow for discussion of case studies and recent activities relating to the Code.
- Training on the Code has been included in the induction training at some firms.
- Not all firms state that all consultants must read the Code; some firms enforce this rule for client facing consultants, whilst others go further and state that all consultants must understand all aspects of the Code. One firm provides best practice guidance along with copies of the Code and requires consultants to sign off receipt and compliance.

Question 3: Explain the ways in which you communicate the Code of Conduct within your firm, externally, to clients and to employees.

- Most firms communicate the Code to clients using one or more of the following methods:
 - Referring to the Code in proposals.
 - Including references to the Code in standard terms and sending copies of the Code to clients.
 - Simply informing clients that they are signatories and members of the RCG, usually on the company website.

- Asking clients to refer to the Code in their directors' remuneration report.
- Internally, firms use both informal and formal training sessions to communicate the Code. Some firms have made reading and understanding the Code mandatory for all practitioners.
- Internal discussions about the membership of the RCG and responsibilities held as consultants during training, inductions and internal networking.
- Circulating important information to all practitioners such as the amendments made to the Code following the December review.

Question 4: How many Remuneration Committees does your firm advise and how many meetings with the Chairman of each have taken place over the last 12 – 18 months?

- Firms, for the most part, met with the Remuneration Committee Chairman at least once in the year.
- Some met up to 3 times in the year.
- Some firms mentioned the reluctance some Chairmen had to meeting.

Question 5: What contractual arrangements (if any) and processes on engagement have you established to ensure that the tenets of the Code of Conduct are embedded from the outset of an appointment with a client to advise on executive remuneration.

- Citation of the Code in appointment letters or discussing the Code with the Remuneration Committee Chairman when agreeing ways of working.
- One firm sends a letter to the Remuneration Committee Chairman which outlines membership to the RCG and any obligations the firm has as a result of the Code.
- One firm has adjusted their standard contract terms to be better aligned with the Code.
- Cross-reference to the Code in terms of business.
- Engagement letters clarify who we are working for, scope and fees prior to commencing a client relationship and any work.

Question 6: What other steps do you take in your firm to ensure that the Code is adhered to?

- Discussion, either internally with senior colleagues or externally with the Remuneration Committee Chairman, regarding sensitive issues.
- One firm has a special Code implementation group within the firm to ensure adherence and implementation. Another has formed a dedicated team to answer queries relating to the Code while also receiving input from the risk team to discuss compliance and independence issues.

Question 7: What barriers are there to the effective implementation of the Code?

- Lack of interest in the Code:
 - From a client's perspective - they are happy with current practices and professionalism so they do not want a "rulebook" to restrict the way they operate.
 - From a consultant's perspective - they believe they already comply with the Code by virtue of their personal and firm standards. In cases where the Code differs from their own practice, consultants may ignore it.

- Ultimately, independence of the remuneration process is determined by the effectiveness of the Board which is something consultants do not control. One firm states, “there must be a client desire for the Code to be effectively implemented”.
- Shareholders do not know whether the Code has been followed.

Question 8: What practices in your firm to ensure the effectiveness of the Code have been most useful?

- Specific discussions about the Code, either among senior colleagues or with Chairmen.
- Annual meetings with the Chairman.
- A quality assurance checklist to make sure the Code has been adhered to in any work done for clients.
- Compulsory training for practitioners. Interactive training in which discussions about case studies and potential scenarios have proved useful.
- Linking the importance of independence issues in executive compensation to wider firm values and ways of working.

Question 9: Have you received any complaints about breaches (or potential breaches) of the Code? (If yes, how have you dealt with these?)

- None

Question 10: Please highlight any other comments.

- Ensuring the same individual is not the adviser to the committee as well as CRM for other services is restrictive and impractical, especially in smaller firms.
- Getting the Chairman to understand the importance of meeting at least once a year can be difficult.
- Remuneration Committee Chairman should be involved in a similar Code to emphasise the importance of procedures and practices.
- No evidence to suggest membership of the RCG and the Code has improved relations between clients, consultants and other stakeholders. The Code does not appear to relieve the concern from a public perspective. More needs to be done to ensure the Code is followed and the profile of the Code is raised.

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 development and stewardship of a voluntary Code of Conduct (the "Code") that clearly sets out the role of executive remuneration consultants and the professional standards by which they advise their clients – their clients being, for the most part, Remuneration Committees.

The need for the executive remuneration consultancy industry to form a professional body with oversight of a code of conduct was voiced by Sir David Walker early in his review of the corporate governance of banks and other financial institutions. The establishment and role of the RCG was recognised and welcomed by Sir David in his final recommendations¹, where he stated that: *"...Remuneration consultants should put in place a formal constitution for the professional group that has now been formed, with provision: for independent oversight and review of the remuneration consultants' code"*.

The inaugural RCG Code was included as an annex to the final recommendations of the Walker Review in November 2009 and, as recommended, the RCG shortly afterwards put in place a formal constitution. Provision for independent oversight and review of the Code has been achieved through a commitment to employing an independent Chairman and two further independent members. All three independent RCG members are now in situ.

¹ http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/walker_review_261109.pdf