

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, 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.