

Remuneration Consultants' Group

The annual Review of the Effectiveness of the Code of Conduct

December 2019

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Dear all

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.

A review of the effectiveness of the Code has been conducted each year from 2011. The process followed in 2019 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 review 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. Last year my predecessor, Dr Martin Read, highlighted that member firms should focus on the engagement with Remuneration Committee Chairs without management present, and it is pleasing that the review shows an improvement in this important area, although there is more to be done to ensure this is conducted annually. Progress has also been made with over 97% of consultants being always clear whether they are working for the Remuneration Committee or for management, compared to 87% last year. I am also happy to report that we held an additional member’s meeting outside of the AGM at which members debated a wide range of means to further embed the Code within their respective firms. The meeting was a very useful way of sharing some best practice and we are hopeful of further engagement in this regard going forward.

The paper attached provides a summary of the review process. I would like to thank all those individuals who took the time to meet either me or a board member to share their views on the Code, and to all those who responded to the questionnaire. Finally, on behalf of the RCG’S Board and Members, I would like to thank Dr Martin Read for his ten years of service as the Group’s inaugural Chair. Through his enthusiastic and wise leadership he has made a definitive contribution to successfully establishing the RCG and the Code.

Yours sincerely,

Alan Giles

Chairman

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A. The RCG and its activities in 2019

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 three years, a review of the Code is conducted by the Board with the effectiveness of the Code reviewed annually. The next review of the Code is timetabled for 2020.

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 2019 is summarised below.

Member	24 Jan	20 Mar	11 June	29 Oct
Martin Read (Chairman – retired 31.3.19)	✓	✓		
Alan Giles (Chairman – appointed 1.04.19)		✓ ¹	✓	✓
Philippa Hird (Ind. Director)	✓	✓	✓	✓
Simon Neathercoat (Ind. Director)	✓	✓	✓	✓
Sally Cooper (Director)	✓	✓	✓	✓
Tom Gosling (Director)	✓ ²	✓	✓	✓ ²
Richard Latham (Director)	✓	✓ ³	✓	✓ ²
John Lee (Director)	✓	✓	✓	✓

¹ Present by invitation, ² By telephone, ³By telephone for part of the meeting represented by Hazel Rees

B. The Review of the Effectiveness of the Code

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 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 2019

The 2019 process was similar to the previous year and it consisted of the following components:

- a) An anonymous survey of all consultants engaged in executive pay consulting in the member firms. The survey questions and the responses can be found in Appendix 1.
- b) A questionnaire filled in by Practice Leaders of the 11 member firms which attracted a 100% response rate. The aim of this element of the review is 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 questionnaire and the responses can be found in Appendix 2.
- c) The identification of the number of FTSE 350 companies which disclosed in their DRR (i) their Remuneration Consultant, and (ii) that their Remuneration Consultant was a signatory to the Code.
- d) Focus groups to hold a wide-ranging discussion with consultants having between three and six years' experience, and a separate group for consultants with less than three years' experience.

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

- Appendix 1 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. Following the introduction of the new question for 2019 asking respondents if they worked on a FTSE350 Remco appointment, a number responded 'no' and hence did not need to complete the remainder of the questionnaire; as such our summary below is based on the other respondents who answered 'yes'.
- A summary of the responses to multiple choice questions is set out below.
 - The percentage of respondents who had read the Code increased to 96.86% from 93.58% in 2018.
 - Only one consultant was not aware of the existence of the Code (an individual with less than one year's experience).

- Over 34% of respondents received a lot of formal training (two sessions or more) which is slightly more than the 32% in 2018 and a further 58% received one session of formal training. Approximately 8% of individuals have received no formal training on the use of the Code, which is slightly less than the 10.5% in 2018. Respondents have also received informal training, with 34% receiving a lot and c.57% a little informal training. Over 60% stated that the training was effective, which is a slight increase from last year, whilst c.4% stated it was not effective.
- When asked to what extent the Code influences practices and behaviours within their firms, 49% of respondents felt that the influence was significant (a slight decrease from 2018).
- Slightly over 97% individuals said they are always clear whether they are working for the Remuneration Committee or for management (compared to 87% in 2018).
- Around 82% of respondents stated that their firm have periodic one-to-one meetings with the Remuneration Committee Chair without management present in which the RCG Code is discussed. Over 50% stated that these meetings took place at least annually and approx. 31% stated that it was less often than annually. A further 15% did not know the answer. This represents an improvement from 2018 when 65% of respondents stated that their firm has periodic one-to-one meetings with the Remuneration Committee Chair without management present.
- When asked if there are any ethical issues which arise when providing advice which are not addressed through the Code, 97% responded no (compared to 98% in 2018). Only four respondents stated that there were issues (please see Appendix 1 for details).
- 95% of individuals state that they always encourage clients to ensure pay is properly linked to the long-term performance of the business whilst c. 5% stated that it was done mostly. This response is largely aligned to last year.
- When asked if they ensured advice was suitably linked to client strategy, 99% of respondents felt it always, or mostly, was. The remaining 1% of respondents said that they were involved only in a limited aspect such as the provision of data. This is very similar to responses provided in 2018.
- When asked if they ensured that the Remuneration Committee was mindful of the pay in the wider organisation, c. 82% felt they always do (an increase from c.70% in 2018) whilst approx. 18% felt they mostly do.
- When asked if the Code needed further improvement, 97% felt it did not.

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. All 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 improve awareness of and encourage adherence to the Code; including annual communications, the Code being embedded in recruitment processes and other regular training for staff on the Code.

- In general firms do not feel there are any significant barriers to adhering to the Code and it is viewed largely as a foundation to enable good judgment. There were no major changes in the responses from the survey carried out in 2018.

3) Disclosure

Based on the latest Directors' Remuneration Report disclosures:

- Of the 95 FTSE 100 companies that disclose a named Remuneration Committee advisor, all are signatories to the RCG Code and 93% disclose that the advisor is a signatory to the Code (2018 – 93%).
- Of the 168 FTSE 250 companies that disclose a named Remuneration Committee advisor, 98% have a lead advisor that is a signatory to the RCG Code and 92% disclose that the advisor is a signatory to the Code. (2018 – 88%).

Notes:

Investment trusts have been excluded from the analysis.

4) Focus groups

Each Member firm was invited to nominate one attendee for each focus group this year. Separate focus groups were run for consultants with less than 3 years of experience and those with between 3-6 years of experience. The purpose of this was to collect data on the effectiveness of the Code from client-facing staff and to look at the Code from a forward looking angle, in contrast to the backward looking surveys. The key topics discussed during this year's focus groups were:

- The role of benchmarking in executive compensation advice
- The impact of the Code on our thinking and the process of developing executive compensation advice
- How executive compensation consultants manage any conflicts, and differentiate between who they work for (i.e. management or RemCo)
- If the Code can be more widely applied (i.e. to other firms or adjacent forms of advice)
- General thoughts on the effectiveness of the Code

5) Recommendations for the future

As always, the review does bring to the fore certain aspects which should form the core of the work of the RCG in future years. This year, the three key areas we would highlight as being critical for further focus and work would be:

- Consider mechanisms to improve further the way the Code is embedded in each member firm's activities;
- Ensure the Code is discussed with Remuneration Committee Chairs at least annually; and
- Remind the Remuneration Committee that they should be mindful of pay in the wider organisation when making their decisions.

Effectiveness of the Code – Survey of Consultants

Statistics shown in brackets represent the 2018 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: In your current role do you work on a FTSE 350 RemCo appointment or deliver other services directly to a FTSE 350 RemCo? (*new for 2019*)

We have not provided the answers to this question, for reasons of commercial sensitivity.

Question 2: Which member firm do you work for?

We have not provided the answers to this question, for reasons of commercial sensitivity.

Question 3: How many years of executive pay consulting experience do you have?

Answer Options	Response Percentage (%)
a. Less than 1 year (<i>new option for 2018</i>)	6.29 (11.70)
b. 1-3 years	19.50 (18.49)
c. 3-6 years	23.90 (24.15)
d. 6-9 years	16.98 (12.45)
e. 9+ years	33.33 (33.21)

Question 4: Do you personally provide advice to and attend Remuneration Committee meetings?

Answer Options	Response Percentage (%)
a. Yes	57.23 (44.45)
b. No	42.77 (54.55)

Question 5: Prior to this survey, were you aware that a Code of Conduct governing the activities of remuneration consultancies existed?

Answer Options	Response Percentage (%)
a. Yes	99.37 (99.62)
b. No	0.63 (0.38)

Question 6: Have you read the Code of Conduct?

Answer Options	Response Percentage (%)
a. Yes	96.86 (93.58)
b. No	3.14 (6.42)

Question 7: How much *formal* training (e.g. induction, webcasts, lunch and learns) have you had on the use of the Code in the last 12 months?

Answer Options	Response Percentage (%)
a. A lot (two sessions per annum)	34.59 (31.70)
b. A little (only one session)	57.23 (57.74)
c. None	8.18 (10.57)

Question 8: 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 (%)
a. A lot	34.59 (27.92)
b. A little	57.86 (60.00)
c. None	7.55 (12.08)

Question 9: Do you think the training you received was effective?

Answer Options	Response Percentage (%)
a. Very effective	62.89 (59.62)
b. Quite effective but could be improved	32.70 (36.23)
c. Not effective	4.40 (4.15)

Question 10: How often is the Code discussed during the course of your client work?

Answer Options	Response Percentage (%)
a. Frequently	27.67 (23.40)
b. Infrequently	62.26 (63.39)
c. Not at all	10.06 (11.32)

Question 11: To what extent do you think the Code influences practices and behaviours in your firm?

Answer Options	Response Percentage (%)
a. Significantly (Significantly for the better)	49.06 (51.32)
b. A little (A little for the better)	40.88 (35.09)
c. Not at all (No change and improvements still needed)	1.89 (1.51)
d. No view	8.18 (12.08)

Question 12: 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 (%)
a. Yes	97.48 (87.17)
b. No	2.52 (4.53)

Question 13: Are there any ethical issues which arise in providing executive remuneration advice which are not addressed through the Code?

Answer Options	Response Percentage (%)
a. Yes	2.61(0.77)
b. No	97.39 (98.46)
c. If yes, please state (<i>new option for 2018</i>)	See below
d. Not applicable	(0.77)

Responses included: increasing validity of benchmarking data, conflicts of interest and consultants being in a position where board's decision is sold to the shareholders even if it is not the view of the consultants

Question 14:

Do you think the Code needs further improvement?

Answer Options	Response Percentage (%)
a. Yes	1.95 (3.11)
b. No	96.75 (94.94)
c. If so, please state	1.30 (1.95)

One respondent stated greater guidance could be provided to give consultants a toolkit/ compass to deal with situations where they are expected to 'sell' the Board's decision to its shareholders even if it is not the consultant's own view or advice

Question 15: Do you have any other comments on the Code?

Answer Options	Response Count
	17 (34)

Respondents' comments were positive and showed an appreciation for the guidance it provides. One respondent stated that their firm currently has higher ethical standards and hence they operate at these levels, whilst one other respondent commented that the code could be made shorter and more impactful.

ADDITIONAL QUESTIONS FOR CONSULTANTS WITH 6+ YEARS' EXPERIENCE
(Consultants with 6+ years' experience, some 40% of the total)

Question 16: In general, does your firm have periodic one-to-one meetings with client Remuneration Committee Chairs without management present in which the RCG Code of Conduct is discussed?

Answer Options	Response Percentage (%)
a. Yes - at least annually	51.90 (50.42)
b. Yes - less often than annually	31.65 (15.13)
c. No	1.27 (8.40)
d. Don't know	15.10 (26.05)

Question 17: How comfortable are you in challenging the views of management at Remuneration Committee meetings (when circumstances call for it)?

Answer Options	Response Percentage (%)
a. Very comfortable	56.96 (52.94)
b. Comfortable	34.18 (29.41)
c. Uncomfortable	0.00 (0.00)
d. Not applicable	6.33 (15.97)
e. It depends (please say more)	2.53 (1.68)

Question 18: Do you encourage your clients to ensure that pay is properly linked to the long-term performance of the business?

Answer Options	Response Percentage (%)
a. Always	94.94 (91.60)
b. Mostly	5.06 (7.56)
c. Sometimes	0 (0.84)
d. No	0 (0.00)

Question 19: 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 (%)
a. Always	96.20 (92.44)
b. Mostly	3.80 (7.56)
c. Sometimes	0 (0.88)
d. No	0 (0.00)

Question 20: 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 (%)
a. Always	98.73 (95.8)
b. Mostly	1.27 (4.2)
c. No	0.00 (0.00)

Question 21: When advising a company on its remuneration arrangements generally, do you ensure that your advice is suitably linked to the client's strategy?

Answer Options	Response Percentage (%)
a. Always	94.94 (88.14)
b. Mostly	3.80 (6.78)
c. No	0 (0)
d. I am only involved in a limited aspect such as the provision of data	1.27 (5.08)

Question 22: When advising a Remuneration Committee, do you ensure it is mindful of pay in the wider organisation?

Answer Options	Response Percentage (%)
a. Always	82.28 (69.83)
b. Mostly	17.72 (26.72)
c. Sometimes	0.00 (3.45)
c. No	0.00 (0.00)

Question 23: 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 (%)
a. Always	96.20 (92.44)
b. Mostly	3.80 (6.72)
c. No	0.00 (0.84)

Question 24: Do you ensure that your reports clarify where information is provided by management or from other consulting firms?

Answer Options	Response Percentage (%)
a. Always	92.41 (89.08)
b. Mostly	7.59 (10.92)
c. Sometimes	0 (1.77)
d. No	0 (0)

Question 25: 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 (%)
a. Always	93.67 (91.6)
b. Mostly	6.33 (8.40)
d. No	0 (0)

Question 26: 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 (%)
a. Always	93.67 (89.08)
b. Mostly	6.33 (10.92)
c. No	0.00 (0.00)

Question 27: Unsolicited benchmarking means sending out 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).

The Code prohibits sending of unsolicited benchmarking to clients and non-clients. Have you been involved in sending unsolicited benchmarking in the last 12 months?

(The question amended for clarity in 2018. No answers are provided for 2017 as the question was phrased differently and asked whether respondents ensured that unsolicited benchmarking was never sent. As a result, the answer options were different so it would be difficult to make comparisons).

Answer Options	Response Percentage (%)
a. Yes	0 (NA)
b. No	100 (NA)

Question 28: 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

- a. Yes
- b. No

**Response
Percentage (%)**

100% (100%)
0 (0)

Effectiveness of the Code – Questionnaire for Senior Consultants

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

1. *Internal communication – List the actions that you take within your firm to ensure **awareness** of the Code?*

Most of the responses stated that they ensure the awareness of the Code via team training for their reward/remuneration consulting employees and for new staff. This training is typically held annually and led by senior members of staff, who are available to discuss any questions.

A few firms stated that they conduct a survey or test which the staff are required to pass to ensure that they have reviewed the Code. One stated it formed part of required reading material for new recruits.

2. *Internal adherence – List the actions that you take within your firm to ensure effective **adherence** to, and **implementation** of, the Code?*

Most responses mentioned that they communicate annually with the remuneration committees to ensure that the Code is implemented effectively. Responses included that the Code is discussed with clients and documentation is also kept confidential through electronic/physical security. One firm stated a project feedback system is in place which involves questions on the Code.

3. *Conflicts – If not covered in question 2, specify what steps you take to manage conflicts?*

Most of the responses stated that in the case of managing conflicts they will introduce an independent team/management who will act in the required manner to deal with conflicts that may arise.

Other responses mentioned that they respect client confidentiality and also do not engage in accounts where personal relationships may be present and that each project is handled on a standalone basis.

4. *External communication – Explain the ways in which you communicate to clients your firm's obligations under the Code?*

Responses were very similar. All firms stated that they mention their RCG membership in proposals / pitches and engagement letters with clients and potential clients

5. *Unsolicited benchmarking means sending out 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).
The Code prohibits sending of unsolicited benchmarking to clients and non-clients. What steps do you take to ensure that such unsolicited benchmarking is never sent?*

Most firms stated that their staff are informed that unsolicited benchmarking is unacceptable under the Code. This is usually stressed in initial training.

6. *Impact – In practice, to what extent do you think the Code influences practices and behaviours in your firm?*

All firms felt that there is an appreciation of the usefulness of the Code and how it is ingrained in their own methods of business. It is also helpful with explaining to new joiners core values and acts as a guideline on best approach to working with companies.

7. *Challenges – Do any barriers exist to the effective implementation of the Code?*

No real challenges faced with implementing the Code as it operates well and is consistent with the way work is delivered in respective companies.

One company expressed that the RCG is regarded as a ‘License to Operate and not a ‘Thought Leader’

8. *Recent improvements – What changes has your firm made (if any) in the last two years to ensure and/or increase adherence to the Code? For example, what arrangements do you have in place to ensure that Remuneration Committee Chairs are met with periodically?*

Some responses highlighted that they have made improvements through their training programmes and on-going communications which include discussions around the Code.

Other responses stated that they have introduced a register to ensure invites have been sent to meetings.

A few stated that no changes have been made to their approach.

9. *Feedback – Do you generally find that clients and Remuneration Committee Chairs are interested and/or ask questions about your compliance with the Code?*

Most responses stated “no”, as they find that clients are not heavily concerned about the Code and there is a general assumption from the clients that there is awareness of the RCG and the Code already.

10. *Feedback – Have you received any feedback about the Code from clients and Remuneration Committee Chairs? If you have received any feedback, what was it?*

Responses were largely covered in the previous questions as minimal feedback is received.

Some firms stated that the Code is usually seen as a positive due to the improved clarity across the market on which remuneration advisers are currently working with specific companies. Also stated that senior Remco chairs find the Code has improved the position compared to the last 10-15 years.

11. *Practical example – Could you describe any instances when the Code has helped resolve a situation on a client?*

Some responses stated that the Code has come to good use when working with committees and management reach a conclusion for the company on difficult issues, whilst taking into consideration the professional standards set out in the Code.

A few firms stated that they have referred to the Code when working with CEOs who have requested for management to be present or where they have asked to see their own pay data.

12. *Compliance – Does the risk and compliance function at your firm assess compliance with the Code during their quality assurance processes (e.g. file reviews etc.)?*

Responses were broadly similar. The majority of firms stated “No”, and that there is no formal file review process or separate department to oversee this (due to the firm being small or not being regulated in the UK).

Few responses stated “Yes”, as they regularly contact their internal risk team who monitor compliance of the Code to ensure they are in line with their global framework.

13. Do you have any other comments on the Code?

One comment was made on whether there should be further interaction with investors/stakeholder on the Code of conduct to increase awareness of their role when appointed as independent advisors.