

# **Remuneration Consultants' Group**

The biennial review of the Code of Conduct and the annual review of its effectiveness and implementation

January 2016

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January 2016

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 as an essential part of the RCG's remit and the success of the Code. The review of the Code this year was the third since the Code's inception. The process followed the approach adopted in 2013 and was based on consultation with external stakeholders including Remuneration Committee Chairs, institutional shareholders and other interested parties.

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

The memorandum attached provides a summary of the review process, details the major themes, and outlines the specific amendments that will be made to the Code in 2016.

I would like to thank 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 those who responded to the questionnaire. The improvements to the Code could not have been achieved without this valuable input.

I would invite you to review the contents of this paper and, if you have any other insights, please contact me to discuss. I look forward to the next formal review process in 2017.

Yours sincerely,

Dr. Martin Read CBE  
Chairman

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## A. The RCG and its activities in 2015

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### 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') that 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 requisite 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.

During the course of 2015, the Code was reviewed and an extensive consultation process carried out. As a result, some important drafting changes were made to ensure:

- That it is highlighted that consultants should make remuneration committees aware of any material changes to proposals as a result of interactions with management;
- Wording is aligned where appropriate with the UK Corporate Governance Code
- That the role of consultants as a promoter of good practice is clarified.

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

Aon Hewitt	Korn Ferry Hay Group	Patterson Associates
Deloitte LLP	KPMG	PwC
Ernst & Young	Mercer inc. Kepler	Strategic Remuneration
FIT Remuneration Consultants	MM&K Limited	Towers Watson

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 2015 is summarised below.

<b>Member</b>	<b>3 Mar</b>	<b>6 May</b>	<b>30 Sept</b>	<b>1 Dec</b>
Martin Read (Chairman)	✓	✓	✓	✓
Philippa Hird (Ind. Director)	✓	✓	✓	✓
William Claxton-Smith (Ind. Director)	✓	✓	✓	✓
William Cohen (Director)	✓	✓	✓	✓
Gordon Clark (Director)	✓	✓	-	
Andrew Page (Director)	✓	✓	✓	✓
Richard Belfield (Director)	✓	✓	✓	✓

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 2015;
- Raised awareness of the RCG and its activities with the CIPD who provide Reward training to HR professionals and Private Equity houses who may be helping companies through the listing process;
- Reviewed the Code and its effectiveness;
- Consulted with some key stakeholders and commentators on executive pay; and
- 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 two occasions during the year – 28<sup>th</sup> April and the 29<sup>th</sup> October

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**

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### **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 2015 to invite comments intended to inform decisions on whether the Code (i) is 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 2015**

The process followed was the same as in 2013, with two main elements:

- A. A letter was sent from the RCG's Chairman to the Chairmen of the FTSE 350 remuneration committees (copying in the Chairman and Company Secretary), asking them to answer some short questions on the Code. The questions were enclosed in the letter but respondents were also able to respond through Survey Monkey (the web-based tool) - see Appendix A, part 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 by either the Chairman or one of the independent non-executive directors and asked for their thoughts on the Code - see Appendix A, part 2 for a list of meetings.

The results of this review are outlined below. The letter and attached questions attracted 26 returned responses from Remuneration Committee Chairs. The consultation resulted in input from 15 interested parties with a range of stakeholders including Remuneration Committee Chairs, ISS, the PLSA and the Investment Association, and various investors.

The major themes that emerged from the 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 adviser is a member of the RCG and is adhering to the guidelines provided in the Code. The majority of participants also agreed that the Code is helpful in establishing working relationships with their advisers.

There were a number of comments made by those who contributed to the process. Many of these comments reflected points which are already dealt with by the Code.

## Summary of key themes from interviews and questionnaires

- The importance of managing conflicts of interest was raised frequently by participants.
- A few respondents felt that the annual meeting between the Senior Consultant and the Remuneration Committee Chair should be promoted more, and it should be highlighted in the Code that this is a private meeting.
- A small number of participants suggested that in order to aid transparency, the Remuneration Committee should be made aware of material changes to proposals made by consultants as a result of interaction with management, including where necessary the rationale for such changes.
- A number of participants suggested that the language of the Code should be updated to reflect changes to the UK Corporate Governance Code; where 'attract, retain and motivate' is no longer used.
- A few participants suggested that given the numerous changes in the corporate governance landscape in the last two years, the wording of the Code should be reviewed to ensure it is suggesting that consultants have a role in promoting good practice to their Remuneration Committees.

## Survey questionnaire responses

The 26 survey responses from Remuneration Committee Chairs are summarised below:

- **Question 1:** Have you read the Code of Conduct and/or been briefed on it? *All of the respondents indicated they had read the Code and/or been briefed on it.*
- **Question 2:** Overall, are you happy that your remuneration consultant gives you independent and objective advice? *All respondents agreed that they are happy their remuneration consultant gives independent and objective advice.*
- **Question 3:** What have you found most helpful about the Code? *The most popular response was reassurance from the fact that the adviser is a member of the RCG and adheres to the Code (20 responses). The second most popular response was that they find the disclosures of other work being done for the company including adviser's own protocols to ensure independence and objectivity (9 responses). A number of respondents also indicated that they find that the Code provides the basis for a conversation with the adviser to agree protocols (6 responses).*
- **Question 4:** Are you comfortable and clear that your advisers are able to stand up to management on an issue as and when necessary? *All but two respondents indicated they were comfortable that advisers were able to stand up to management as and when necessary. Those who were not comfortable had relatively new advisers and had not encountered a situation where advisers had had to stand up to management.*

- **Question 5:** Do your remuneration advisers participate in discussions relating to the business strategy of the company? *A large number of respondents (12) indicated that their advisers do not take part in discussions relating to business strategy. A further ten indicated that advisers are involved in some discussions “only when directly related to compensation” and two stated that “they are briefed on strategy”. Two respondents indicated that advisers do consistently participate in discussions relating to business strategy.*
- **Question 6.** Overall, is the Code helpful in establishing working practices with your advisers? If the Code is not helpful, please say why. *The majority of respondents (23) agreed that the Code was helpful in this way. Of the three respondents who felt it was not helpful, one responded that they did not feel the Code provided enough specific guidance on establishing working practices. Another felt that the Code was not relevant and had not been discussed with their consultants. A third stated that they do not use the Code in this way – contracts with their advisers clearly set out expected working practices and KPIs.*
- **Question 7:** How could the Code be improved? What other comments have you on the Code? *Many respondents indicated that they are happy with the Code and feel it works well in its current form. Only three respondents added some examples. One suggested more practical guidance around real or perceived conflicts of interest would be beneficial. That respondent also suggested updating the code to reflect the revised UK Corporate Governance Code principles. Two suggested the RCG should promote the Code through industry events to raise its profile to ensure Remuneration Committees understand the benefits of engaging advisers that are a signatory of the Code.*

Detailed analyses of the responses for all questions are provided in Appendix A

### **Changes as a result of the 2015 review**

Since the 2013 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. This survey and the interview process confirm that these efforts have led to a higher degree of knowledge of the existence of the Code and there is general agreement among Remuneration Committee Chairs that the Code is helpful in establishing working practices and ensuring the provision of independent and objective advice on executive remuneration.

Some small drafting changes are suggested to:

- Highlight that consultants should make remuneration committees aware of any material changes to proposals as a result of interactions with management.
- Align wording where appropriate with UK Corporate Governance Code
- Clarify the role of consultants to promote good practice

## C. The Review of the Effectiveness of the Code

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### 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.

### The process for 2015

There were three 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 2015 survey attracted responses from 172 individuals (equivalent to a response rate of 88% of around 196 associates in all member firms combined). In 2014 163 responses were received (an equivalent response rate of about 88%). The survey questions and the responses can be found in Appendix B.

The second component was a questionnaire filled in by Practice Leaders and senior teams of the 12 member firms which attracted a 100% response rate. 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 third component was a focus group which could be attended by one member of staff from each member firm. A summary of the debate can be found below.

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 at member firms.

Appendix A provides detailed results and shows the percentage responses for this year’s and last year’s survey. 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 2014 to 95% in 2015. However the percentage of individuals who were not aware that the Code existed increased very slightly from two to three individuals (1.2% of respondents in 2014 to 1.7% in 2015).
- 5% of individuals have received no formal training on the use of the Code. This has decreased from 8% in 2014.

- The percentage of respondents who were “very comfortable” or “comfortable” about their clients’ strategy and the impact that it has on the clients’ remuneration framework is broadly consistent from 2014, decreasing slightly from 86.9% in 2014 to 86.0% in 2015.
- 87% of individuals said they are always clear whether they are working for the Remuneration Committee or for management. This has decreased from 90% in 2014. Many of the remaining respondents do not interface with clients.

## **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 12 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. The following key themes were identified:

- There are 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) Outcomes from the focus group**

Each Member firm was invited to nominate one attendee for the focus group this year. The purpose of this was to collect anecdotal data on the effectiveness of the Code and to look at the Code from a forward looking angle, in contrast to the backward looking surveys.

### **i. Effectiveness of the Code**

There was consensus amongst the group that the Code formalised good practice that was already present at many of the member firms. For those who work in Audit firms, the company values cover the same core principles of Code so it is seen as a secondary reference point. However, internal processes may still have been influenced by the Code. Focus group members from smaller firms felt they used the Code perhaps more than the bigger firms. One consultant pointed out that the Code is voluntary meaning it doesn’t carry the same ‘weight’ as professional obligations that many consultants have through accountancy or legal professional accreditations.

All members agreed that the Code acted as a useful guide for both consultants and clients. One consultant mentioned that some of their clients look for annual confirmation that they abide by the Code. Additionally, another mentioned that some clients use the Code to guide how they use their remuneration consultants.

### **ii. Awareness of the Code**

It was felt that awareness of the Code among organisations has increased over the last few years. One consultant said that their firm sent out a letter of independence which had the Code attached at the back to all clients. Some felt that the majority of FTSE 350 RemCo chairs have read it. Others felt that the majority are aware, but only the minority are likely to have actually read it.

There was a consensus that Heads of Reward and HR professionals were unlikely to be aware of the Code unless they have been remuneration consultants previously.

**iii. Involvement in strategy**

Many consultants agreed that learning about a client's strategy is the most interesting aspect of the job, and that analysis of strategy in the context of remuneration happens in the vast majority of circumstances. The job is made more difficult when the client's strategy isn't visible and sometimes this stalls projects. With smaller clients it is an education piece on why strategy is important.

**iv. Using the Code to deal with conflicts of interest**

The group agreed that it will always be a part of the role as a remuneration consultant to deal with the relationship between Remuneration Committee and management. Selection of benchmarking peer groups and incentive design, especially with target setting, were identified as potential areas of conflict.

One individual pointed out that the RemCos they work with often have pre and post-meetings excluding management which helped to bring out any issues associated with management. It was agreed that the annual meeting with the RemCo chair can also help to deal with conflicts, but prevalence is not high. One consultancy makes a formal annual mailing to all RemCo chairs inviting them to take part in a meeting.

It was felt by many that their organisations had clear processes for dealing with conflicts, while others felt that that they were dealt with on a case by case basis. Some focus group members had turned to the Code for guidance on dealing with conflicts.

**v. Other ways to engage with interested parties on the Code**

It was suggested that reaching out to the Financial Times and their NED networking group could be a good way of increasing the awareness of the code.

It was agreed that it would be good to have professional training and informal meetings for junior consultants. One of the focus group attendees was previously a solicitor, and gave the example of the Share Plan Lawyers Organisation – a professional network and technical training group. This would help consultants get exposed to different circumstances and build their networks.

#### **4) Disclosure**

Based on the Directors Remuneration Report disclosures published in 2015 so far:

- 95% of FTSE 100 companies named a member of the RCG as their advisers, 3% had no disclosed advisers and 2% had an adviser who is not a signatory of the code
- 93% of FTSE 250 companies named a member of the RCG as their advisers, 6% had no disclosed advisers and 1% had an adviser who is not a signatory of the code
- Across the FTSE 350, 85% of companies where the lead adviser is a signatory to the Code disclose this.

Of the companies in the FTSE 350, 45 are investment trusts and have been excluded from the analysis above.

#### **Recommendations for 2015**

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

3. Remuneration consultants should be encouraged to ensure that they do hold an annual meeting with the RemCo chair to discuss the code and processes and procedures

**September 2015**

## Appendix A

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### 1) Summary of the main consultation survey for the review of the Code

Total responses: 26

**Question 1:** Have you read the Code of Conduct and/or been briefed on it?

Answer	Number
Yes	26
No	0

**Question 2:** Overall, are you happy that your remuneration consultant gives you independent and objective advice?

Answer	Number
Yes	26
No	0
N/A	0

**Question 3:** What have you found most helpful about the Code? (Tick all that apply)

Answer	Number
It provides the basis for a conversation with the adviser to agree work process and the approach to supporting the Remuneration Committee.	6
I take reassurance from the fact that our adviser is a member of the RCG and adheres to the Code.	20
The disclosures of other work being done for the company and on the adviser's own methods to ensure independence and objectivity.	9
Other (please describe)	3

If the Code is not helpful, please say why.

One respondent noted "conflicts between discussions with management and the RemCo; and papers remain difficult to understand without advisers present."

**Question 4:** Are you comfortable and clear that your advisers are able to stand up to management on an issue as and when necessary?

Answer	Number
Yes	24
No	0
N/A	2

**Question 5:** Do your remuneration advisers participate in discussions relating to the business strategy of the company?

Answer	Number
Yes	2
No	12
Other	12

**Question 6:** Overall, is the code helpful in establishing working practices with your advisers?

Answer	Number
Yes	23
No	2
N/A	1

**Question 7.** If the Code is not helpful, please say why.

- It gives very little specific guidance
- The Code is helpful inasmuch as it sets out a clear set of principles to which our adviser operates, although it is difficult to judge how this would differ in the absence of the Code.
- We would expect these disciplines to be in place in any event
- I haven't used the code to establish working practices - contracts with the advisers set out KPIs

**Question 8.** How could the Code be improved? What other comments have you on the Code?

- Perhaps some examples could be added to provide more practical guidance, for example, how the Code might assist in avoiding real or perceived conflicts of interest. The profile of the Code could also be enhanced through greater promotion at industry events. Also, could the FRC be approached with a view to expanding the UK Corporate Governance Code provision D.2.1 to state whether or not any appointed advisers are signatories to the Remuneration Consultants Group Code of Conduct? A minor comment is that the RCG Code of Conduct still refers to the UK Corporate Governance Code principle that pay should be sufficient to 'attract, retain and motivate' but this wording was removed in the latest version of the Corporate Governance Code published in September 2014.
- There has been a lot of change over the past few years, so a period of relative stability would be helpful.
- It works well as it currently operates.
- No improvements obvious
- It is quite adequate.
- A useful self-regulatory regime which follows set up arrangements under the UK Governance Code and is therefore consistent.
- It's helpful to know that behind the scenes you are working to improve standards.
- Don't overestimate the importance of Rem Consultants. They are as much the problem as the cure.

## 2) Major stakeholders consulted

Aberdeen Asset Management	Paul Lee
The British Land Company (RemCo Chair)	Lord Turnbull
Cobham / Costain (RemCo Chair)	Alison Wood
Partnership Assurance Group (RemCo Chair)	Dr Richard Ward
Essentra (Company Secretary and General Counsel)	Jon Green
Fidelity Investment	Trelawny Williams
FirstGroup / Mothercare (RemCo Chair)	Imelda Walsh
FRC	Jennifer Walmsley and David Styles
The Investment Association	Andrew Ninian
ISS	Daniel Jarman and Ian Greenwood
Legal & General Investment Managers (LGIM)	Angeli Benham
M&G Investment Management Ltd	Huw Jones
The Pensions and Lifetime Savings Association (PLSA)	Will Pomroy
Ricardo (Non Executive Director)	Peter Gilchrist
Shire (RemCo Chair)	Anne Minto

## Appendix B

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### 1) Effectiveness of the Code – Survey of Consultants

Total responses: 172 (163 in 2014 survey). Statistics shown in brackets represent the 2014 survey results.

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

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. 0-3 years	33.1%	57
b. 3-6 years	18.0%	31
c. 6-9 years	13.4%	23
d. 9+ years	35.5%	61
	<b><i>answered question</i></b>	<b>172</b>
	<b><i>skipped question</i></b>	<b>0</b>

Question 2: Prior to this survey, were you aware that a Code of Conduct governing the activities of remuneration consultancies existed?

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. Yes	98.3% (98.3%)	169 (161)
b. No	1.7% (1.2%)	3 (2)
	<b><i>answered question</i></b>	<b>172</b>
	<b><i>skipped question</i></b>	<b>0</b>

Question 3: Have you read the Code of Conduct?

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. Yes	94.8% (92.0%)	163 (150)
b. No	5.2% (8.0%)	9 (13)
	<b><i>answered question</i></b>	<b>172</b>
	<b><i>skipped question</i></b>	<b>0</b>

Question 4: How much *formal* training (e.g. induction, webcasts, lunch and learns) have you had on the use of the Code?

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. A lot	34.9% (31.9%)	60 (52)
b. A little	61.0% (55.8%)	105 (91)
c. None	4.7% (12.3%)	8 (20)
	<b><i>answered question</i></b>	<b>172</b>
	<b><i>skipped question</i></b>	<b>0</b>

Question 5: How much *informal* training (e.g. discussions with other consultants, references in work) have you had on the use of the Code?

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. A lot	33.7% (31.9%)	58 (52)
b. A little	59.9% (61.3%)	103 (100)
c. None	6.4% (6.7%)	11 (11)
	<b>answered question</b>	<b>172</b>
	<b>skipped question</b>	<b>0</b>

Question 6: How often is the Code discussed in your work?

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. Frequently	33.1% (40.5%)	57 (66)
b. Infrequently	52.9% (47.2%)	91 (77)
c. Very rarely	12.2% (8.6%)	21 (14)
d. Never	2.3% (2.5%)	4 (4)
e. Not applicable	0.6% (1.2%)	1 (1)
	<b>answered question</b>	<b>172</b>
	<b>skipped question</b>	<b>0</b>

Question 7: Does your quality assurance (QA) process take the Code into account?

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. A lot	58.7% (60.1%)	101 (98)
b. A little	36.0% (36.8%)	62 (60)
c. None	6.4% (3.1%)	11 (5)
	<b>answered question</b>	<b>172</b>
	<b>skipped question</b>	<b>0</b>

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

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. Significantly for the better	22.1% (23.9%)	38 (39)
b. A little for the better	55.8% (45.4%)	96 (74)
c. No change and improvements still needed	1.7% (1.8%)	3 (3)
d. No issues which needed to be addressed	16.9% (22.1%)	29 (36)
e. No view	4.7% (6.7%)	8 (11)
	<b>answered question</b>	<b>172</b>
	<b>skipped question</b>	<b>0</b>

Question 9: In general, does your firm now have regular one-to-one meetings with client Remuneration Committee chairmen without management present?

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. Yes - at least annually	59.8% (64.0%)	101 (103)
b. Yes - less often than annually	11.2% (8.1%)	19 (13)
c. No	3.6% (0.6%)	6 (1)
d. Don't know	27.8% (27.3%)	47 (44)
	<b>answered question</b>	<b>169</b>
	<b>skipped question</b>	<b>3</b>

Question 10: How knowledgeable are you on your client’s strategy and the impact that has on its remuneration framework?

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. Very comfortable	47.9%(45.5%)	81 (73)
b. Comfortable	37.9% (41.3%)	64 (66)
c. Uncomfortable	4.1% (1.3%)	7 (2)
d. Not applicable	10.1% (11.9%)	17 (19)
	<b>answered question</b>	<b>169</b>
	<b>skipped question</b>	<b>3</b>

Question 11: How comfortable are you in challenging the views of management at Remuneration Committee meetings?

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. Very comfortable	33.7% (28.2%)	57 (46)
b. Comfortable	31.4% 32.5%	53 (53)
c. Uncomfortable	0.6% (1.2%)	1 (1)
d. Not applicable	33.1% (35.6%)	56 (58)
e. It depends (please say more)	1.8% (2.5%)	4 (4)
	<b>answered question</b>	<b>169</b>
	<b>skipped question</b>	<b>3</b>

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?

<b>Answer Options</b>	<b>Response Percentage</b>	<b>Response Count</b>
a. Yes	86.4% (90.0%)	146 (144)
b. No	5.9% (1.9%)	10 (3)
c. Do not interface with clients	8.3% (8.1%)	14 (13)
	<b>answered question</b>	<b>169</b>
	<b>skipped question</b>	<b>3</b>

Question 13: How do you think the Code and its implementation could be improved?

<b>Answer Options</b>	<b>Response Count</b>
	33

Respondents suggested the following:

- *Form a networking group to discuss issues relevant to remuneration and educate more junior members of the profession;*
- *Incorporate into the Code an obligation to meet the Remuneration Committee Chair as part of the formal contracting process;*
- *Shorten the Code and simplify the language;*
- *Encourage more engagement from Remuneration Committee Chairs;*
- *Raise awareness of the Code and the RCG in the media and civil service;*

- *Improve efficiency and consistency of training for consultants by setting up online training produced by the RCG, or by having collective training sessions for all Member firms*
- *Include a series of case studies as the Code is a little abstract;*
- *Consider a more international application or a section on two-board structured companies due to global interest - overseas colleagues are asking about it. These suggestions will be carefully discussed and considered by the Board at the next Board meeting.*

Question 14: Do you have any other comments?

**Answer Options**

**Response  
Count**

22

*One respondent noted that the contents of the Code should be implicit in consultants' activities and behaviour, and that they hoped in time the Code will be part of the 'DNA' of junior colleagues being brought up through the business. Another felt that remuneration practices were generally behaving ethically and promoting best practice prior to the Code, and hence the Code had not led to major improvements. One respondent raised concerns about Audit firms having executive compensation practices, pointing out that the US had addressed this issue. Another asked if the RCG had visibly improved the external perception of remuneration consultants, and if there was any evidence of this.*

### VOLUNTARY CODE OF CONDUCT IN RELATION TO EXECUTIVE REMUNERATION CONSULTING IN THE UNITED KINGDOM

(December 2015)

#### **Preamble**

Executive remuneration consultants are business advisers who provide a valuable 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; the Board's statutory duties; and the views of institutional investors and other stakeholders.

This Code clarifies the scope and conduct of the executive remuneration consultants' role, while recognising 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.

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 shareholders 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 may 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 take fully 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 executive remuneration advice is almost always provided to companies and that client companies 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 and all Consultants are expected to build it into their terms of business with clients;

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 companies) 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 advisers 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. This consideration should equally apply to Consultants advising on executive remuneration but not formally appointed by the Remuneration Committee.

## **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 Consultants may be members. Consultants should also offer to brief the Remuneration Committee Chair on the operation of the agreed processes and protocols to minimise or eliminate conflicts of interest.

Where a Remuneration Committee, company or member firm believes that a Consultant has systematically or materially breached the Code, they should report this to the member firm concerned. If the response is unsatisfactory, the Chairman of the RCG will be available for consultation. In accordance with the RCG's Articles of Association, membership of the RCG terminates where a member or one or more of its remuneration consultants has failed to meet the standards of behaviour which, in the opinion of the Board it is reasonable to expect.

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.

## **Management of Conflicts to Ensure Objectivity**

Consultants should not allow conflict of interest or influence of others to override professional or business judgements and must 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.

When the Consultant is appointed as a principal adviser to the Remuneration Committee, it is important to agree with the Chair of the Remuneration Committee and record, at the outset of the engagement, supporting protocols in order to safeguard objectivity. These are likely to cover information provision and the basis for contact with 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.

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

## **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.

To ensure that all individual consultants within a firm comply with the Code, each firm:

- should have a general Code of business conduct which is provided to employees advising in this area;
- should provide training and professional development for all consultants which ensures that they are competent to consult within the framework of this Code.

## **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.

## **Monitoring the effectiveness of the Code**

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.

## **Good Practice Guidelines**

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

### **General**

1. Consultants should encourage Clients to ensure that pay is properly linked to the long-term performance of the business. Consultants should also encourage Clients to 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. Where appropriate, Consultants should seek to help Remuneration Committees to take into account talent and succession planning when making decisions on pay.
4. Consultants should make the Remuneration Committee aware of the likely views of shareholders on the Client's executive remuneration with a specific emphasis on major shareholders where appropriate.

### **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.
7. Reports and other written documents should identify the sources of information used. It should be made clear where the Consultant is relying on information provided by management or from other consulting firms. Where the Consultant contributes to a joint report with management, it should be clear in the report what is the Consultant's opinion and what is management's opinion. Where there has been significant management input to proposals outside the Remuneration Committee, this should be flagged to the Chair.
8. Recognising that internal advice or other Consultants' (e.g. advisers to management) advice may be presented by others to the Remuneration Committee and relied on by it, Consultants should be particularly careful to ensure that their written advice is capable of being read and understood by the Remuneration Committee without the adviser present.

9. All appointments should be governed by an engagement letter between the Consultant and the Client and should make clear to whom the Consultant is providing advice, i.e., whether to the Remuneration Committee, CEO or the executive management of the company or otherwise.
10. 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 adviser 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).
11. In order to be aware of and mitigate any potential conflicts of interest, when the Consultant is appointed as principal adviser 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 normally 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;
  - The Remuneration Committee should have oversight of all the work that the Consultant 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;
12. 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**

13. When they are appointed as principal advisers 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.
14. In relation to shareholders' engagement, the Remuneration Committee is responsible for explaining the Company's pay arrangements to shareholders. Where Consultants are involved in this process, their primary responsibility should be to support 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.
15. Consultants should only market their services to both current and prospective clients in a responsible way. Bespoke pay benchmarking reports require Remuneration Committee input into the selection of comparator groups and should not be sent to clients or non-clients on an unsolicited basis.

## **Objectivity**

16. When the Consultant is appointed as principal Remuneration Committee adviser, 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);
  - an agreement that the Consultant meets privately at least annually with the Remuneration Committee Chair in order to review remuneration issues and any implications of business strategy development and market change;
  - clarity on the extent to which the Consultant should have access to and/ or provide advice to management;
  - 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;
- 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.

### **Competence and Due Care**

17. 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 must either decline to act or qualify the advice.
18. Where a Consultant is aware of any limitations in their advice, they should make their Client aware of such limitation.