

Remuneration Consultants' Group

The Board's activities in 2016 and the review of the effectiveness of the Code

December 2016

Contents

A. The RCG and its activities in 2016.....	3
B. The Review of the Effectiveness of the Code	5
Appendix A.....	112
Effectiveness of the Code – Survey of Consultants	112
Appendix B	178
Effectiveness of the Code – Questionnaire for Senior Consultants.....	178

A. The RCG and its activities in 2016

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 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.

Since then, the Code has been reviewed every second year with, since 2012, the effectiveness of the Code reviewed annually.

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

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

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

Aon Hewitt	Korn Ferry Hay Group	Patterson Associates
Deloitte LLP	KPMG	PwC
Ernst & Young	Mercer Inc. Kepler	Towers Watson
FIT Remuneration Consultants	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 2016 is summarised below.

Member	1 Mar	9 June	28 Sept	14 Dec
Martin Read (Chairman)	✓	✓	✓	✓
Philippa Hird (Ind. Director)	✓	✓	✓	✓
William Claxton-Smith (Ind. Director)	✓	✓	✓	✓
William Cohen (Director)	✓	✓	x	✓

Member	1 Mar	9 June	28 Sept	14 Dec
John Lee (Director)	✓	✓	✓	✓
Fiona Camenzuli (Director)	✓	✓	✓	✓
David Tankel (Director)	✓	✓	✓	x

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

During 2016 the Board:

- Created the work plan for 2016
- Reviewed ways to promote the Code and raised awareness of the RCG and its activities, including the following:
 - Contact with the Chartered Institute of Personnel and Development
 - An article included in the Manifest survey
 - Production of an RCG presentation for NED Academies
 - Contact with the Institute of Chartered Secretaries and Administrators
 - Addressed and responded to negative media reports regarding the work of executive remuneration consultants
- Reviewed the effectiveness of the Code
 - This year, the senior consultant survey was revised to address the Good Practice Guidelines in the Code more specifically, and the survey for all consultants was split into questions for senior consultants and questions for consultants of all grades to ensure relevance
 - This is therefore the first year we have introduced question 11 onwards to the survey for all consultants which has allowed us to capture a much more detailed level of data than in previous years
- Reviewed the date of the AGM and election process
- Selected and appointed a new NED
- Consulted with some key stakeholders and commentators on executive pay
- Made decisions to support the running of the RCG such as the approval of the accounts and membership fees and review of our PR advisors' services and fees

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

However, the Board was concerned to see the inference in the Executive Remuneration Working Group's (ERWG) paper to consultants sending bespoke unsolicited benchmark information to management of companies. This is a breach of the Code and would be a matter of concern to the RCG. We asked the ERWG and the Investment Association (IA) for details so we could investigate any alleged breach and those we contacted said they had no specific information to provide. Given the criticality of this issue, the Board has asked member firms for specific assurance that processes are in place to ensure that this element of the Code is complied with.

B. The Review of the Effectiveness of the Code

Background

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

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 which 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. We support the rigorous and self-critical approach of the industry to set higher standards for themselves given the sensitive nature of the advice which the industry provides and use this feedback in the biennial review of the Code to ensure that it remains relevant and challenging. We expect this process to continue and to include additional elements to the Code in light of feedback received.

The process for 2016

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 2016 survey attracted responses from 183 individuals (equivalent to a response rate of 90% of around 203 associates in all member firms combined). This represents an increased response rate on 2015’s 172 responses (an equivalent response rate of about 88%). The survey questions and the responses can be found in Appendix A.

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

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 which 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 decreased slightly from 95% in 2015 to 92% in 2016 and the percentage of individuals who were not aware that the Code existed increased slightly from 2% in 2015 to 4% in 2016
- 9% of individuals have received no formal training on the use of the Code. This has increased from 5% in 2015. However the percentage of respondents who received informal training increased from 94% in 2015 to 96% in 2016

- All individuals state that they encourage clients to ensure pay is properly linked to the long-term performance of the business most or all of the time
- 90% of individuals said they are always clear whether they are working for the Remuneration Committee or for management. This has increased from 87% in 2015. Many of the remaining respondents do not directly interface with clients but rather support colleagues who do so we do not regard this percentage as being of concern
- The percentage of respondents whose firms have regular one-to-one meetings with the Remuneration Committee Chairman without management present has increased significantly from 71% in 2015 to 92% in 2016. Informal feedback suggests this is actually closer to 100% but there is some confusion within the industry as to how formal such meetings should be and we propose exploring this aspect in 2017's review of the Code more generally

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

A questionnaire was sent to the leaders and senior teams of the executive remuneration practices at the 11 member firms and at least one submission expected 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 a variety of good practice examples of how member firms encourage awareness of and adherence to the Code, including regular communications, formal training, and reference in their marketing materials. Most firms also try to ensure clients mention RCG membership in their DRRs
- To ensure adherence to the Code from the outset of a new client relationship and avoid conflicts of interest, most firms do a high-level review before accepting client engagements/new areas of business. All firms mention their RCG membership in proposals / terms of engagement
- Nearly all firms stated that the principles of the Code were already embedded in their firm's internal code of conduct and behaviours such that, rather than drive practices and behaviours, the Code helps to reinforce best practice guidelines which are already in effect
- The Code has helped to ensure transparency between management and Remuneration Committees and prevent conflicts of interest
- Some smaller firms felt certain aspects of the Code were even more relevant to larger RCG members which formed part of a multi-line firm and, therefore, needed more robust conflict management protocols

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 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 themes from this year's focus group were:

i. Ways which member firms create awareness of the Code internally

- Aside from being asked to read the Code upon joining, most member firms have annual 'lunch and learn' or online 'e-learn' sessions which consultants must attend
- One member firm organises an annual quiz on the Code with prizes for winners

- ii. Ways which member firms keep the Code 'at the front of mind' or maintain awareness**
- Some consultants are reminded about the Code through references to it in engagement letters, proposals and directors' remuneration reports and are, therefore, constantly reminded of the Code's existence
 - Some consultants noted that more recently, some clients' Requests for Proposals ("RFPs") have specifically asked consultants to include commentary on how the member firm adheres to the Code. It was noted that this request had developed from a more general request to confirm that the firm was a member of the RCG
- iii. Use of Code to manage conflicts**
- One consultant commented that the Code was a useful tool to manage conflicts between management and the Board. Specifically, the Code can be used to remind management that the consultant is working for the Board rather than management
 - One consultant commented that the Code was also a useful tool to question client decisions especially around corporate governance. For example, questioning the role and level of interaction of the CEO with the Remuneration Committee ("RemCo")
 - Some consultants noted that recent RFPs have requested comments on how the member firm manages conflict between management and the Board. One consultant highlighted that simply informing clients that the member firm adheres to the Code is not a sufficient response
 - One consultant commented that the fundamental Code principles of transparency and objectivity encourage greater clarity on what the roles of the consultant, management and Board are from the onset which minimises the risk of conflict
- iv. Provision of remuneration data**
- All consultants recognised the need to ensure that any benchmarking data provided is complete and is not skewed or selective in the client's favour (for example, consultants should not provide upper quartile data only or an unbalanced comparator group)
- v. Accessibility of client's strategy**
- The general consensus was that consultants do not have difficulty in finding out more about the client's strategy
 - Information about the client's strategy often comes from publicly available sources such as annual reports but consultants feel comfortable to, and in practice, often question stakeholders directly if more information is required
 - The consensus was that stakeholders are generally open to providing such information and, indeed, the questions that arise when designing LTIPs (for example to determine appropriate performance metrics) triggers clients to think about or develop their strategy further
- vi. Barriers to being able to adhere to the Code**
- Timing – often the speed of the engagement and the requirement to meet tight client deadlines mean that it is difficult to spend the time to introduce new ideas or provide advice driven from the Code
 - The prevailing view was that clients often want, and only present, a summary of the advice delivered by consultants to the Board or shareholders. In relying solely on the summary, there is a risk that certain important nuances that are driven from the Code are missed altogether
- vii. How the drive for simplicity has impacted the work of consultants**
- The view was that, in keeping with emerging thinking from institutional investors and others, more clients are wanting to operate only one or two variable pay plans

- Consultants are seeing more interest from clients wanting to implement a more simplified pay plan or use restricted stock for example, but are hesitant to be the first company to make this move
- One consultant emphasised that it is important for clients to keep in mind that they should not operate pay schemes just to satisfy investor expectations. There needs to be a balance between what investors expect and what is appropriate for the client's strategy

viii. Communication with shareholders

- The view was that a key component to having effective communication between the client and shareholders is having a good Remuneration Committee chair
- While all institutional shareholders are not consistent in their preferences, there was acknowledged to be a clear trend to Remuneration Committee chairmen directly leading any shareholder consultation, drawing on support from consultants as appropriate
- However, the general view from the consultants was that companies are actually more willing to commit the time to proper engagements and that institutional shareholders and their proxies do not to have the time to adequately engage with all companies

ix. Recommendation to offer to have annual meeting with RemCo chair

- Consultants have found that these meetings have been most useful for newly appointed Remuneration Committee chairs who use it as an opportunity to find out more about the Committee's recent activities
- It was acknowledged that such meetings can be held in a variety of formats and with different levels of formality, and other members of the Committee often also attend

x. Remuneration policy in the context of the wider workforce

- The general consensus was that there has been an increased reporting to Remuneration Committees of wider workforce pay when determining executive pay (for example, gender pay gap reporting, disclosure of increases in executive pay versus wider workforce pay has brought this topic to the forefront)
- One consultant noted that they had recently been approached by a client asking for commentary on the impact of potential pay regulatory changes (for example, those driven by the new administration)
- Overall, discussions about wider workforce pay are becoming a regular occurrence

xi. Other comments

- One consultant suggested that it would be useful for the RCG to distribute to members case studies or provide examples of instances where the Code has been used in practice

4) Disclosure

Based on the Directors Remuneration Report disclosures with a year-end between 1 March 2015 and 29 February 2016:

- 99% of FTSE 100 companies are advised by a lead advisor which is a signatory to the Code, 1% of companies have a lead advisor who is not a signatory to the Code and 89% of FTSE 100 companies which are advised by a lead advisor that is signatory to the Code mention this in their Directors Remuneration Report.
- 92% of FTSE 250 companies are advised by a lead advisor which is a signatory to the Code, 8% of companies have a lead advisor who is not a signatory to the Code and 79% of FTSE 250 companies which are advised by a lead advisor that is signatory to the Code mention this in their Directors Remuneration Report.

Of the companies in the FTSE 350, 49 are investment trusts and have been excluded from the analysis above. It should be noted that a small number of companies list law firms which, typically, provide technical rather than commercial consulting advice amongst their advisors so the above statistics understate the scale of the RCG's members share of the overall market.

Recommendations from 2015 review and resulting actions in 2016

The 2015 review specifically highlighted three points for the RCG Members and the Board to act on:

1. Continue promoting the Code to interested parties where appropriate
 - *Resulting action: Throughout the year, the Board approached a number of institutional bodies and reached out to various professional networks, including the Chartered Institute of Personnel and Development and the Institute of Chartered Secretaries and Administrators. An article on the Code of Conduct was included in the Manifest survey and a presentation prepared for placement in NED Academies. In the heightened shareholder environment, the Board addressed and the Chairman responded to negative media reports regarding executive remuneration consultants. Various improvements were suggested, including proposed wording for executive remuneration consultants to include in professional email footers referencing the Code*
2. Continue to encourage members to incorporate mandatory training for all consultants
 - *Resulting action: The latest survey indicates that further work needs to be done to ensure that every consultant receives formal training at least annually. While there are encouraging examples of steps being taken by many member firms, the Board will consider, as part of next year's review of the Code itself, what further steps can be taken to further encourage improvement*
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
 - *Resulting action: While this is happening, it has become apparent that different firms have different interpretations as to what the Code requires and the Board will seek to clarify this in next year's review of the Code*

Recommendations for 2017

Overall, the Board was pleased both with the candour of respondents to the 2016 review and feels that consultants continue to find the Code relevant and helpful. The review highlighted a number of areas where the Code could become even more specific and we propose reviewing this further as part of the 2017 review of the Code itself.

Each of the items referred to in the previous section remain ongoing and we encourage members to continue their efforts.

In addition:

- We noted the feedback that we need to remain vigilant that consultants always ensure that reports fully convey the view of the consultants without needing additional verbal commentary and adequately make clear which aspects of the report represent the views of management and those of the consultants. We propose to consider as part of the review of the Code whether more detailed guidance should be given in this regard, both in terms of the contents of reports and its distribution.

- We were encouraged by the suggestion that interesting case studies (suitably anonymised) be circulated across the wider membership and will ask member firms to consider if this is feasible
- The Chairman has agreed to send out an annual communication from the RCG to continue to promote the importance of the use of the Code
- The Board has asked member firms for specific assurance that processes are in place to ensure that the part of the Code that deals with consultants sending bespoke unsolicited benchmarking information to management of companies is complied with.

20 December 2016

Appendix A

Effectiveness of the Code – Survey of Consultants

Total responses: 183 (172 in 2015 survey). Statistics shown in brackets represent the 2015 survey results. It is noted that the survey for all consultants was revised this year to split questions into those for senior consultants and those for consultants of all grades to ensure relevance – new questions added this year therefore do not have 2015 responses for comparison.

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

Answer Options	Response Percentage	Response Count
a. 0-3 years	28.4% (33.1%)	52 (57)
b. 3-6 years	20.8% (18.0%)	38 (31)
c. 6-9 years	12.0% (13.4%)	22 (23)
d. 9+ years	38.8% (35.5%)	71 (61)
	answered question	183
	skipped question	0

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

Answer Options	Response Percentage	Response Count
a. Yes	96.2% (98.3%)	176 (169)
b. No	3.8% (1.7%)	7 (3)
	answered question	183
	skipped question	0

Question 3: Have you read the Code of Conduct?

Answer Options	Response Percentage	Response Count
a. Yes	91.8% (94.8%)	168 (163)
b. No	8.2% (5.2%)	15 (9)
	answered question	183
	skipped question	0

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

Answer Options	Response Percentage	Response Count
a. A lot	29.5% (34.9%)	54 (60)
b. A little	61.2% (61.0%)	112 (105)
c. None	9.3% (4.7%)	17 (8)
	answered question	183
	skipped question	0

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

Answer Options	Response Percentage	Response Count
a. A lot	35.5% (33.7%)	65 (58)
b. A little	60.1% (59.9%)	110 (103)
c. None	4.4% (6.4%)	8 (11)
	answered question	183
	skipped question	0

Question 6: How often is the Code discussed during the course of your client work?

Answer Options	Response Percentage	Response Count
a. Frequently	23.0% (33.1%)	42 (57)
b. Infrequently	53.6% (52.9%)	98 (91)
c. Very rarely	10.4% (12.2%)	19 (21)
d. Never	4.9% (2.3%)	9 (4)
e. Not applicable	8.4% (0.6%)	15 (1)
	answered question	183
	skipped question	0

Question 7: To what extent do you think the Code influences practices and behaviours in your firm?

Answer Options	Response Percentage	Response Count
a. Significantly for the better	21.3% (22.1%)	39 (38)
b. A little for the better	42.1% (55.8%)	77 (96)
c. No change and improvements still needed	0.5% (1.7%)	1 (3)
d. No issues which currently need to be addressed	27.9 % (16.9%)	51 (29)
e. No view	8.2% (4.7%)	15 (8)
	answered question	183
	skipped question	0

Question 8: When you are working for a client, are you always clear for whom you are doing the work and whether it is for the Remuneration Committee or for management?

Answer Options	Response Percentage	Response Count
a. Yes	89.6% (86.4%)	164 (146)
b. No	4.9% (5.9%)	9 (10)
c. Not applicable	5.5% (8.3%)	10 (14)
	answered question	183
	skipped question	0

Question 9: How do you think the Code and its implementation could be improved?

Answer Options	Response Count
	93 (33)

Respondents suggested the following:

- *Provide examples or case studies of the practical application/impact of the Code, in particular where there are conflicts of interest;*

- Provide more formal training for consultants (in particular more junior members), e.g. online, refresher courses, training sessions, or by having collective training sessions for all Member firms
- Raise external awareness of the Code with the public, media and investors, e.g. through events, publications, interviews, advertising, e.g. to address the false perception that consultants are responsible for complexity and executive pay inflation
- Raise awareness of the Code with RemCo Chairman, NEDs and Chairmen
- Shorten the Code and simplify the language to make it more digestible
- Prepare a simple factsheet summarising the key principles of the Code
- Provide regular updates from the RCG to serve as a regular reminder of the Code
- Hold regular training sessions for consultants of all member firms to discuss the Code and how to use it more effectively
- Make the Code of Conduct mandatory, including mandatory online training
- Renew the Code more regularly to ensure it remains relevant and takes into account hot topics
- Reference the Code in all engagement letters and proposals

Question 10: Do you have any other comments on the Code?

Answer Options	Response Count
	37 (22)

One respondent noted that the ERWG highlighted rumours of Code breaches (through marketing to CEOs about their pay) and suggested that the RCG should act on this if the rumours are true. Others were complimentary about the impact of the Code and that it acts as a useful framework of principles / values. Whilst a member firm's own set of values might mean its consultants adhere to the principles set out in the Code, it is important to have a set of externally set standards for the industry.

ADDITIONAL QUESTIONS FOR CONSULTANTS WITH 6+ YEARS EXPERIENCE

Question 11: In general, does your firm have regular one-to-one meetings with client Remuneration Committee chairmen without management present?

Answer Options	Response Percentage	Response Count
a. Yes - at least annually	84.6% (59.8%)	77 (101)
b. Yes - less often than annually	7.7% (11.2%)	7 (19)
c. No	1.1% (3.6%)	1 (6)
d. Don't know	6.6% (27.8%)	6 (47)
	answered question	91
	skipped question	0

Question 12 : How comfortable are you in challenging the views of management at Remuneration Committee meetings?

Answer Options	Response Percentage	Response Count
a. Very comfortable	53.8% (33.7%)	49 (57)
b. Comfortable	34.1% (31.4%)	31 (53)
c. Uncomfortable	0% (0.6%)	0 (1)
d. Not applicable	6.6% (33.1%)	6 (56)
e. It depends (please say more)	5.5% (1.8%)	5 (4)
	answered question	91
	skipped question	0

Question 13: Do you encourage your clients to ensure that pay is properly linked to the long-term performance of the business?

Answer Options	Response Percentage	Response Count
a. Always	94.5% (-)	86 (-)
b. Mostly	5.5% (-)	5 (-)
c. Sometimes	0% (-)	x (-)
d. No	0% (-)	x (-)
	answered question	91
	skipped question	0

Question 14: Do you encourage your clients to consider fully the implications of complex design both on the motivation of executives and on the transparency of arrangements to shareholders and other stakeholders?

Answer Options	Response Percentage	Response Count
a. Always	93.4% (-)	85 (-)
b. Mostly	6.6% (-)	6 (-)
c. Sometimes	0% (-)	0 (-)
d. No	0% (-)	0 (-)
	answered question	91
	skipped question	0

Question 15: Where you are advising the Remuneration Committee, do you make the Remuneration Committee aware of the likely views of shareholders on your client's executive remuneration?

Answer Options	Response Percentage	Response Count
a. Always	96.7% (-)	88 (-)
b. Mostly	2.2% (-)	2 (-)
c. Sometimes	1.1% (-)	1 (-)
d. No	0% (-)	0 (-)
	answered question	91
	skipped question	0

Question 16: Do you ensure that your reports are clear on the types of companies comprised within the comparator group(s) used and the rationale for their selection and summarise the methodology used to value different elements of the remuneration package?

Answer Options	Response Percentage	Response Count
-----------------------	----------------------------	-----------------------

a. Always	93.4% (-)	85 (-)
b. Mostly	6.6% (-)	6 (-)
c. Sometimes	0% (-)	0 (-)
d. No	0% (-)	0 (-)
	answered question	91
	skipped question	0

Question 17: Do you ensure that your reports clarify where information is provided by management or from other consulting firms?

Answer Options	Response Percentage	Response Count
a. Always	87.9% (-)	80 (-)
b. Mostly	12.1% (-)	11 (-)
c. Sometimes	0% (-)	0 (-)
d. No	0% (-)	0 (-)
	answered question	91
	skipped question	0

Question 18: Do you ensure that you are clear in your report what is your firm's opinion and what is management's opinion?

Answer Options	Response Percentage	Response Count
a. Always	86.8% (-)	79 (-)
b. Mostly	13.2% (-)	12 (-)
c. Sometimes	0% (-)	0 (-)
d. No	0% (-)	0 (-)
	answered question	91
	skipped question	0

Question 19: Do you ensure that your written advice is capable of being read and understood by the Remuneration Committee without your presence?

Answer Options	Response Percentage	Response Count
a. Always	86.8% (-)	79 (-)
b. Mostly	12.1% (-)	11 (-)
c. Sometimes	0% (-)	0 (-)
d. No	1.1% (-)	1 (-)
	answered question	91
	skipped question	0

Question 20: Do you ensure that you do not send bespoke pay benchmarking reports to clients or non-clients on an unsolicited basis?

Answer Options	Response Percentage	Response Count
a. Always	97.8% (-)	89 (-)
b. Mostly	2.2% (-)	2 (-)

c. Sometimes	0% (-)	0 (-)
d. No	0% (-)	0 (-)
	<i>answered question</i>	91
	<i>skipped question</i>	0

Question 21: Are you clear that reasonable steps have been taken to ensure that potential conflicts of interest are appropriately managed in accordance with Paragraph 11 of the Code?

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

Appendix B

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. It is noted that the survey for Senior Consultants was revised this year to address the Good Practice Guidelines in the Code more specifically, so some questions do not have 2015 responses for comparison

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

To ensure awareness, nearly all firms have formal training for all team members, including both new joiners and experienced hires. These courses are mandatory and conducted annually. Other methods to raise awareness include marketing materials and regular circulation of RCG matters.

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

Responses focussed on two key areas; (1) most firms state that they review and discuss any new proposals and opportunities to ensure there is no risk of conflict of interest, and (2) most firms ensure there is a clear distinction between communications to management and to RemCo. Ensuring strict security and confidentiality of all client information were also highlighted as regular actions.

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

All firms addressed this point in the previous question, highlighting their high-level review before accepting new pieces of work.

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 / terms of engagement. There is also a push from firms to ensure clients state that their advisor is a member of the RCG in their DRR.

5. *External adherence – How do you ensure that the tenets of the Code are embedded from the start of any new executive remuneration engagement with a client?*

Responses to this question were mostly answered previously; firms include principles of the Code in their engagement letters to ensure it is implemented immediately from appointment. Discussions of the Code at meetings and reminders sent to committee Chairs are further methods used.

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

All firms felt that their own code of conduct and firm behaviours already cover principles of the Code, so the Code only serves as further reinforcement of guidelines that are already in place. However, many feel the Code is a useful reminder of good practice.

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

Responses were varied. Some individuals commented that there were barriers to adherence to the Code, including a lack of awareness of the Code amongst clients, and that the Code can be too subjective or otherwise imprecise in some parts.

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?*

The vast majority of firms have not introduced any changes in the last two years – this is mainly due to firms feeling that many aspects of the Code are already implemented in their Company's code of conduct, or that there have been no issues that have warranted change. Some firms introduced mandatory training on the Code where it did not exist previously

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

Responses to this category were broadly similar. Nearly all firms stated that it is now almost a given for clients to expect RCG membership and ultimately compliance with the Code, with most addressing this in their RFPs.

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

There were few examples of where the Code has resolved a client situation. Where it has helped is in ensuring complete transparency between management and RemCos and preventing conflicts of interest.

11. *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 that their internal risk/compliance functions do not assess compliance with the Code as the Code is already incorporated into the firms' own code of conduct. Compliance with the Code is therefore managed locally by consultants.

12. *Do you have any other comments on the Code?*

Few additional comments were provided. There was a suggestion that the UK Corporate Governance Code should require compulsory annual one-to-one meetings with RemCo Chairs. Some smaller firms felt certain aspects of the Code were even more relevant to larger RCG members which formed part of a multi-line firm and, therefore, needed more robust conflict management protocols