Executive Remuneration: Discussion Paper.
Response form

Please send your response by: 25 Nov 2011

About You	
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I am responding on behalf of (please tick)	
	Quoted company
	Other company
	Investor or investment manager
	Business representative organisation
X	**Investor representative organisation**
	Non governmental organisation (NGO)
	Trade Union
	Lawyer or accountant
	Other (e.g. consultant or private individual)

Questions

Role of shareholders

1. Would a binding vote on remuneration improve shareholders' ability to hold companies to account on pay and performance? If so, how could this work in practice?

Yes	No
X	

Comments
It would effectively be an instruction to companies that they could not ignore. The current advisory nature of the vote on remuneration report means that companies can seek to interpret it on their own terms. For example, easyJet lost the vote on its remuneration report in 2011 but seems to have decided that this is essentially relates to a matter in the past and as such they do not need to respond to the result. **However, a binding vote on remuneration policy will only be effective if shareholders use it. The bigger issue is why so many asset managers still routinely support the large majority of remuneration policies. If this is not addressed, strengthening shareholder powers is unlikely to make a difference. If asset managers rarely use an advisory vote to challenge management, why would they use a binding vote any differently? If anything they may be less likely to vote against.** **We have attached recent voting analysis to underpin this point.**

2. Are there any further measures that could be taken to prevent payments for failure?

Yes	No
X	

Comments
PIRC believes that the Government should look at whether upfront

approval could be sought for the contractual terms for directors, what we have called the 'heads of terms'. In addition the Government could explore whether shareholder authority could be sought for the future broad distribution of profits (ie remuneration vs dividends vs reinvestment). This could have a real impact in the banking sector where remuneration is a significant cost. **Finally we would support putting the appointment of remuneration consultants to a binding shareholder approval vote, mirroring the shareholder vote on the appointment of auditors.**

3. What would be the advantages and disadvantages of requiring companies to include shareholder representatives on nominations committees?

Comments
The advantage would be that this would provide a much greater sense of accountability to shareholders in respect of director appointments. Again in practice asset managers rarely oppose director appointments, they do so even less than they oppose remuneration reports. Therefore a more direct involvement in appointment could be productive. **The obvious disadvantage would be the time commitment required. However, if this policy is seen in terms of the broader need to improve shareholder engagement (if shareholder oversight is to be relied on to ensure governance systems are effective) then this should not be seen as an onerous requirement.**

Role of remuneration committees

4. Would there be benefits of having independent remuneration committee members with a more diverse range of professional backgrounds and what would be the risks and practical implications of any such measures?

Yes	No
X	

Comments
We strongly believe that a more diverse range of background would improve remuneration committee decision-making. We believe that Cass Sunstein's work on group decision-making where views are similar provides evidence for why the current make-up of remuneration committees is dysfunctional. **The principal risk is that remuneration committee members may disagree more often. But we consider that this is a positive feature of group decision-making.**

5. Is there a need for stronger guidance on membership of remuneration committees, to prevent conflict of interest issues from arising?

Yes	No
X	
Comments	

6. Would there be benefits of requiring companies to include employee representatives on remunerations committees and what would be the risks and practical implications of any such measures?

Yes	No
X	
Comments	
We consider that this question is really a distilled version of question 4 about diversity of membership. In our view employees are likely to bring an important and different perspective to discussions about pay. In addition, given that employees are the key stakeholders in terms of creating value in the business it is logical that they should be given a say in the governance of the business. **However, if employees are represented on remuneration committees we consider that a lone representative may not be effective, due to peer group effects. It may be much harder psychologically to challenge other group members (who might be very senior executives) if the employee is on their own in opposing a given proposal. Therefore**	

ideally there should be two outside representatives.

7. What would be the costs and benefits of an employee vote on remuneration proposals?

Comments
We consider that this would be less effective than employee representation on remuneration committees.

8. Will an increase in transparency over the use of remuneration consultants help to prevent conflict of interest or is there a need for stronger guidance or regulation in this area?

Yes	No
X	
Comments	
As stated above, we would favour a shareholder vote on the appointment and re-appointment of remuneration consultants. This could be accompanied with the disclosure in the annual report and accounts of fees paid to the consultant during the year.	

Structure of remuneration

9. Could the link between pay and performance be strengthened by companies choosing more appropriate measures of performance?

Yes	No
	X
Comments	
We consider that investor pressure for 'performance linkage' has	

largely been a failure. Unless more pressure is put on the total amount of potential variable pay the result, based on recent experience, seems to be that executives get paid more. This is because whilst boards accept that a certain amount of pay should be at risk, this is compensated for by paying out huge amounts for 'success', even in moderate terms. **Secondly, looking at the problem from the other end, we are unconvinced that performance-related pay works to incentivise directors. Academic evidence suggests that performance-related pay works well when the task is simple and easily measurable, and where the subject is not already motivated to do the job. None of these prerequisites are in place with respect to directors (at least we hope that directors are sufficiently motivated to do the job). We have attached a PIRC client paper on this topic for information.**

10. Should companies be encouraged to defer a larger proportion of pay over more than three years?

Yes	No
X	
Comments	
This should lessen the risk of rewards for failure.	

11. Should companies be encouraged to reduce the frequency with which long-term incentive plans and other elements of remuneration are reviewed? What would be the benefits and challenges of doing this?

Yes	No
X	
Comments	

12. Would radically simpler models of remuneration which rely on a directors' level of share ownership to incentivise them to boost share

value, more effectively align directors with the interests of shareholders?

Yes	No
	X
Comments	
We consider that the notion of 'alignment of interests' is a misleading one. As set out above, we believe that the motivation of directors to do a good job is unlikely to be improved by further tinkering with financial incentives.	

13. Are there other ways in which remuneration - including bonuses, LTIPs, share options and pensions – could be simplified?

Yes	No
X	
Comments	
Yes. Strip reward back to salary and, at maximum, one performance-related element with a limited maximum pay-out. **In terms of pensions, directors should, where possible, be in the same scheme on the same terms as other employees. There is no reasonable justification for the current two-tier provision found in some companies.**	

14. Should all UK quoted companies be required to put in place claw-back mechanisms?

Yes	No
X	
Comments	
If this helps tackle rewards for failure it should be supported. **However it is vitally important in remuneration reform today that the focus is not principally on rewards for failure which, in truth, is now a relatively small part of the story. The much bigger issue is how**	

executives are able to extract an ever larger amount of company resources for their own benefit.

Promoting good practice

15. What is the best way of coordinating research on executive pay, highlighting emerging practice and maintaining a focus on the provision of accurate information on these issues?

Comments
Organisations like PIRC capture a large amount of data both of company practice and shareholder voting. We are very happy to share information that may be helpful. **However, it might be more practical to consider establishing an ongoing body to monitor this area. The High Pay Commission provides a potential model in our opinion.**