

2 minutes on...

Rebuilding trust in executive pay: The UK Executive Remuneration Working Group's recommendations



July 2016

Off the back of extensive consultation with investors, asset owners and employees, the Executive Remuneration Working Group recently issued a Final Report outlining ten recommendations aimed at rebuilding trust in executive remuneration structures in the UK.

Who are the Executive Remuneration Working Group?

- In September 2015, the Investor Association - the trade body representing UK investment managers - set up the Executive Remuneration Working Group with the intention to address the public concerns that executive pay is too high, too easy to earn and too complicated.
- On 26 July 2016, the Executive Remuneration Working Group issued a report proposing 10 recommendations aimed at rebuilding trust in executive pay structures in the UK, following extensive consultation with investors, asset owners and company employees. The 10 recommendations are intended to help simplify executive pay, provide greater transparency, and deliver better shareholder, company and executive alignment on pay.

Recommendations¹

1. Greater flexibility afforded to remuneration committees (RemCo) to choose a remuneration structure which best aligns to the company's strategy and business needs.
2. Non-Executive Directors should serve on the RemCo for at least one year before taking over the chairmanship of the committee.
3. Boards should ensure the company chairman and whole board are appropriately engaged in the remuneration setting process. This will ensure that the board as a whole agrees with the decisions of the RemCo.

4. The RemCo must exercise independent judgement rather than being overly reliant on their remuneration consultants, particularly during shareholder engagement. The RemCo should regularly put their remuneration advice out to tender to ensure independent advice is maintained.
5. Shareholder engagement should focus on the strategic rationale for remuneration structures and involve both investment and governance perspectives. Shareholders should clearly express to companies their views on and their level of support for proposals.
6. Companies should focus their engagement on the material issues for consultation, and the consultation process should be aimed at understanding investors' views rather than the expectation of investor support.
7. The RemCo should disclose the process for setting bonus targets and retrospectively disclose the performance range.
8. Companies should clearly disclose the use of discretion, with the RemCo articulating the impact discretion has had on remuneration outcomes.
9. The board should explain why the chosen maximum remuneration level is appropriate for the company using both external and internal relativities (eg ratio between the CEO's pay and that of the median employee).
10. The RemCo and consultants should guard against the potential inflationary impact of market data on their remuneration decisions.

1. The Investment Association, Executive Remuneration Working Group - Final Report <http://www.theinvestmentassociation.org/media-centre/press-releases/2016/executive-remuneration-working-group-issues-ten-recommendations-to-rebuild-trust-in-pay.html>

PwC's perspectives on Australian practice

- We concur with the Working Group's primary recommendation on the need to move away from a one-size-fits-all approach that has dominated the executive pay landscape in the UK and Australia in recent years.
- Whilst proxy advisor guidelines are less prescriptive here in Australia, the fear of a 'no vote' has also led to the emergence of a benchmark model. Convergence of practice around a single model of executive pay has meant that remuneration practices can't possibly support industry specific challenges, or company specific strategy or operating models.
- We are aware that a similar discourse is occurring in the Australian market - albeit in a less formal fashion - in boardrooms; between RemCo Chairs and proxy advisors; and between ourselves and our clients. Even the academics are getting involved. And whilst the way forward is not yet clear, the need for change is.
- And although trust in executive pay does not appear to be quite as broken in the Australian market, as compared to the UK and the US, nor does it seem to have become so politicised, these guidelines provide a great platform to support the ongoing debate in the Australian market.
- We should all be asking:
 - Can we simplify our remuneration structures?
 - How can we customise our remuneration practices to support our specific needs?
 - Are we consulting with external stakeholders frequently enough, at the right times, and on the right topics?
 - Can we enhance our remuneration related disclosures?

How can PwC help?

To have a deeper discussion about these issues, please contact:

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