

Board Walk

Briefing for Remuneration Committees

October 2011

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Special Edition

New ABI Remuneration Principles and BIS consultation on executive remuneration

September 2011 – conference season, and with a second recession threatening and a common perception that directors of big companies are grabbing ever larger slices of a smaller cake when everyone else is suffering, fat cat pay was near the top of every agenda. On cue, the two key institutions who effectively regulate executive remuneration, the Government and the ABI, published their manifestos for a tougher regime.

First Vince Cable's department, BIS, brought out for consultation proposals for (1) the governance of remuneration and (2) improving annual reporting generally, with a big chunk on pay disclosure. BIS asked how the total remuneration of FTSE 100 CEOs could have doubled in 10 years, when share prices have been static, and put forward lots of ideas to bring 'sanity' back to directors' pay – some of which are pretty good. Answers, please, by 25th November.

Enter the ABI with their own radical new guidelines – now called Principles and Guidance (the ABI seem to understand the distinction). They managed the press well, and got good headlines for their promise to simplify the convoluted remuneration packages devised by scheming consultants, to move away from pay market ratcheting and, aided by their two musketeers, Malus and Clawback, to ensure that high reward is only paid for exceptional performance and long-term value creation. (At the same time the ABI published their first report on Board Effectiveness.)

This special edition of *Board Walk* is dedicated to summary and analysis of these important documents on remuneration and suggestions for remuneration committee action.

New ABI Remuneration Principles *Damien Knight analyses the new guidance*

The ABI published its new Principles of Remuneration on 29th September 2011. They have been presented as a radical new approach, rather than a revision of the old Guidelines, with a shift of emphasis from external benchmarking as the starting point for remuneration to strategy implementation, long term value and the economics of remuneration.

Below we list, with some commentary, the main new points remuneration committees will need to consider and act upon.

Structure of document:

- o Principles
- o Guidance
- o Additional Guidance.

Summary of changes

The ABI want remuneration committees to think about remuneration in a different way, and a lot of the document is devoted to things committees need to consider in setting remuneration, and the associated disclosure in the annual reports. Dominant is the requirement to align remuneration with long-term value creation and to ensure high pay is justified by high performance against targets which lead to this value creation – with a new emphasis on the longer term and on sound business economics. The stress is on alignment and justification – the word 'incentivise' only appears once in the document, in relation to annual bonuses.

A principles-based approach is desirable, and the new strategic emphasis is right. But it is not immediately obvious how institutional shareholders will force companies to think longer term, especially if companies do not think shareholders really mean what they say – in recent years we have seen a greater dependence on short and medium term targets. Calls for 'risk-alignment' and 'clawback' are a distraction in this; and there is a surprising omission of the previous guidance on how to value the long-term elements of the package.

The ABI has taken the opportunity at the same time to introduce some particular provisions to support the new emphasis. These include: closer scrutiny in the use of discretion; discouragement of one-off payments, especially as a retention tool; censure of the practice of tracking the pay market; and expression of a strong preference for combining absolute and relative measures in assessing performance.

The Principles ask for undue complexity to be avoided. In our view, the cause of the current complexity has been the ABI Guidelines themselves. The new principles-based approach should have presented the opportunity to cut out much of the previous detail. Some has gone, but sadly most of the old (2009) share incentive guidelines have been replicated.

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A. PRINCIPLES

New set of over-arching principles covering:

- (1) Role and responsibilities of 'shareholders' (ie institutional investors), boards and directors and remuneration committees
- (2) Remuneration policies
- (3) Remuneration structures.

New things to consider in executive remuneration

- o Quantum of remuneration [ABI's big new emphasis, particularly its link with sustainable long-term value creation]
- o Alignment with agreed risk appetite and management [expanded from previous mention of risk. Politically necessary to mention, but we are not sure this means very much in practice for companies outside the financial services sector]
- o Cost of executive remuneration to shareholders and impact on the financial health of the business [for us, a constructive new emphasis]
- o Pay and conditions elsewhere in the group. Impact of all-employee costs on company economics (with rest of board) [the ABI seem to be concerned with the effect poor succession planning has on CEO pay]
- o Promotion of value creation through transparent alignment with strategy [an important emphasis with a great challenge to remuneration committees].

New things to do (if you don't already)

- o Ensure long-term focus to executive remuneration, including high degrees of long-term performance measurement and deferral [the challenge will be achieving a genuine long-term performance focus. Most remuneration plans have a three-year and increasingly a one-year performance timescale]
- o Use clawback mechanisms to protect against undeserved reward [a fashion picked up from banking regulation – may not have any teeth (or claws) in practice].

New things you can't do (or will need to argue)

- o Have undue complexity [it is going to be hard to comply – given all the other guidance in the ABI document!]

New things to disclose (if you don't already)

- o How executive remuneration policies align with business strategy.

B. GUIDANCE

New things to consider in executive remuneration

- o Salaries: multiplier effect of salary increases on other package elements and total pay [consider de-coupling bonus and LTI awards from salary]
- o Bonuses: incentivise performance and reward achievement in line with the agreed corporate strategy; deferring into shares to increase alignment
- o LTIs: reward the successful implementation of strategy and the creation of shareholder value over a period appropriate to the strategic objectives of the company

- o LTIs: equity-based LTIs are best for aligning interests [alignment of interest through making executives shareholders is very different from rewarding 'performance', ie a good strategy, and its successful implementation. There is no guidance on striking a new balance between these aspects of reward].

New things to do (if you don't already)

- o Package overall: gear to measured performance linked to strategy and long-term value creation
- o Set an appropriate level (quantum) of remuneration. Useful reference points:
 - Stated company policy** that links aggregate remuneration to overall corporate performance (high pay for exceptional performance is OK) [this is a re-stated philosophy which is helpful to companies in justifying executive rewards]
 - Relevant peer 'universe'** - do not just use 'median' pay [we think this misunderstands how companies determine executive remuneration opportunity nowadays – ie by looking at the personal market for each individual]
 - Remuneration policy of the company** as a whole
- o Pensions: follow general employee approach ('if possible')
- o Bonuses: link targets to KPIs in the Enhanced Business Review (can be financial and non-financial) [excellent point – MM&K research shows that few companies make a link. Paul Norris and Paul Riordan describe elsewhere in this Boardwalk how MM&K can help you improve the connection]
- o LTIs: if using comparative or absolute performance measures in isolation, the remuneration committee must satisfy itself that the result is in line with company overall performance and prospects, and shareholder experience (ie did it feel like we did well?) [a discouragement to simplifying the measures?]
- o Discretion (ie in determining incentive payments/vesting): use discretion diligently and in the interests of shareholders. [New area of guidance – the difference lies in having to disclose discretion (see below)].

New things you can't do (or will need to argue)

- o Salaries: base decisions on benchmarking alone; chase the ('perceived') market median without thinking more broadly [we don't think companies have chased the median for many years]
- o Pensions: use pension-related payments as a mechanism for increasing total remuneration [overreaction to the Goodwin case?]
- o Bonuses: use annual bonuses to reward a contribution which is at or below the level expected for being in receipt of a salary [does not mean much - the market does not price on salary alone, and it all depends on the type of business and the sensitivity of forecasts. Some companies rightly pay bonuses from the first dollar of profit]; pay bonuses to executive directors if the business has suffered an exceptional negative event (without first consulting shareholders) [this new tough line will be a major test for shareholder votes in the future].

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- o Bonuses: increase the level of bonus opportunity when introducing bonus deferral [too late for this – most FTSE 100 companies have already done so, and at the same time got round the old ABI rule about ‘performancing’ share incentives’ before the deferral period]; pay transaction-related bonuses (even if linked to future value delivery) [tougher than previous guidelines]
 - o Contracts: pay departing directors for failure. Contracts must guard against this
 - o Shareholding requirements: allow unvested share incentives to count towards requirements; treat shareholding requirements as a substitute for LTI performance ‘metrics’
 - o Discretion: increase incentive opportunity after the event and outside agreed rules; make special or one-off awards except exceptionally (eg new team in turnaround situation); increase remuneration just to retain an executive [new and reasonable boundaries to the use of discretion, which is seen by the ABI as a valuable element in pay determination. The ABI believe that effective succession planning would reduce the pay leverage of CEOs].
- New things to disclose (if you don't already)**
- o Salaries: reasons and justification for increases [reinforces a new ‘zero inflation’ view of salaries]
 - o Bonuses: explanation of measures if they are other than the reported KPIs; justification of bonus payments if business has suffered an exceptional negative event; the bonus measures and targets at start of year (if commercially sensitive, at least the main parameters, and full analysis at end of year of the extent to which the relevant targets were met in practice) [NB see the BIS proposals on this elsewhere in this Board Walk]
 - o LTIs: how non-financial measures are justified, quantifiable and linked to value creation; explain and justify changes of quantum [NB the basis of valuation is no longer mandated, and we think this will lead to much confusion]
 - o Discretion: report and justify any use of discretion by the remuneration committee when assessing outcomes, and any exceptional one-off awards.
- C. ADDITIONAL GUIDANCE AND OMISSIONS**
- The Additional Guidance largely reproduces the old Share-Based Incentive Guidelines (2009). However, there are notable omissions and areas where guidance has become less specific:
- o No longer a requirement for regular review of policies and especially LTI design [institutional investors have been complaining that plans are reviewed too often]
 - o The guidance omits the requirement to base remuneration on selection and interpretation of appropriate benchmarks [there is an important change of emphasis away from external benchmarking and towards company performance and strategy/business economics]
 - o There is now no requirement to justify salary payment at or above the median [this was meaningless since median is only relevant to the particular job benchmark chosen]
 - o The detailed requirement to explain pension potential liabilities and funding provisions have been largely removed [it is less relevant now defined contribution plans and payments in lieu are replacing defined benefits]
 - o Now no stated requirement to treat deferred share-matching like an LTIP
 - o Requirement for vesting performance to be at least three years. Vesting cannot take place before three years, but the performance period is not stipulated. Instead there is mention of a period ‘appropriate to the strategic objectives of the company’ [this may present a major challenge to remuneration committees]
 - o No longer specific encouragement for phasing of grants [now standard practice]
 - o No longer a specific statement that alignment is best achieved through using performance conditions for vesting [nevertheless performance vesting appears to be taken as a given]
 - o Measuring vesting performance against a peer group, and adjusting targets to reflect company prospects and market circumstances, are no longer mandated. Instead, performance and vesting measures should be linked to the achievement of ‘appropriately challenging financial performance which will lead to enhancement of shareholder value’. ‘Performance-driven vesting criteria can incorporate a combination of absolute and relative return targets and a linkage with shareholders returns.’ [major shareholders will continue to expect companies with good prospects to set tougher vesting standards]
 - o No longer a mention of extra explanation when option grants (or equivalent LTIP grants) are greater than 100% of salary [the limit is passé for major companies, justified by stretching conditions for the highest levels of vesting – but it is not clear how shareholders will understand the value granted without use of Expected Value – see below]
 - o Importantly, all references to Expected Value in valuing share incentive grants and total remuneration have been dropped [This was a major part of the previous guidelines]
 - o There is no longer guidance recommending the roll-up of dividends for deferred shares and LTIs
 - o The 10% dilution concession for small companies is no longer mentioned [it is not relevant to most companies covered, and in any case, other companies can exceed the 5% limit if they demonstrate exceptional performance].

For further information contact damien.knight@mm-k.com

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New ABI Principles – what should remuneration committees be reviewing?

Paul Norris and Paul Riordan suggest four areas of possible review

1. Review of governance structure and compliance with ABI Principles

The ABI Principles lay down a new standard for the design, management and governance of executive pay. Remuneration committees will want to ensure they comply, and should instigate a review of current arrangements. But whilst the concepts are generally clear, the detailed standards are open to a lot of interpretation.

MM&K has a detailed framework for analysing your existing governance structures and pay mechanisms in the context of the new Principles and can help your committee carry out a review and, where appropriate, make recommendations to ensure compliance (addressing issues such as recruitment and retention of top talent and alignment of stakeholders).

2. Pay economics review

The new Principles have shifted to an economic emphasis of policy and structure design, both for executives and employees in general. Increasingly shareholders are keen to understand the relationship between pay costs and performance. You need to be able to answer questions such as:

- What proportion of profits or revenue goes to pay?
- What is the trend in this ratio?
- How does this compare with peer companies?
- How does revenue or profit per employee or at a functional level compare with peer companies?
- What are the ratios of 'revenue generators' to support staff?

MM&K has methods to identify relevant peer groups, assist you to collect the necessary information and present comparator data to enable you to evaluate your investment in people and pay relative to the market and in the context of performance of your company.

3. Linking variable pay to KPIs

The new Principles require companies to align incentive targets with strategic objectives and long-term value creation. The published KPIs are supposed to provide shareholders with the criteria to assess how the company is progressing towards its

strategic objectives, and shareholders expect annual bonus targets to fit with the KPIs. In our experience they sometimes bear no relation to the KPIs.

Remuneration committees will need to satisfy themselves that bonus targets and KPIs form part of a coherent picture of company performance management, and that the structure and operation of bonus plans contribute to the achievement of strategically-aligned performance.

MM&K can work with you to identify a fit-for-purpose methodology to link bonus amounts to KPIs and mechanisms to allocate them across divisions and to individuals in a manner that is transparent and linked to a range of relevant performance targets (corporate, team and individual).

4. Long-term incentive plan review

Institutional shareholders have been complaining that long-term incentive plans have become increasingly complex in terms of their multiplicity, their design, the performance measures applied and the need to achieve compliance with tax, company law and good governance principles. (The BIS consultation has some ideas for radically simplifying the approach.)

Nothing short of a fundamental review of its philosophy of long-term incentives by the remuneration committee is going to address this problem. Although it is fairly certain that copying general practice is not going to come up with the right answer, nevertheless, committees need the reassurance of understanding fully what other companies are doing, and where the leading edge is.

Background research

MM&K undertakes studies to identify what mechanisms are employed across different sectors, what the trends are, the most popular performance measures and the level of employee participation (senior executive, all employees etc).

Link to strategy

Following on from such studies we can work with you to design or modify your long-term incentive structures in the context of:

- Linkage to strategy and value creation
- Alignment of interest
- Recruitment and retention of key talent
- Business economics
- Dilution
- Tax efficiency
- Fit with culture and values of your business

For further information contact:
paul.riordan@mm-k.com or **paul.norris@mm-k.com**

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New ABI Remuneration Principles: promising start, but fails to impress

Cliff Weight offers a feisty critique of the new ABI document

The ABI certainly deserve 10 out of 10 for the PR they got for their new Remuneration Principles, and the changes headlined looked promising. I liked:

- the overarching principles
- the pleas for simplicity "Undue complexity should be avoided"
- the new focus on quantum "Quantum of remuneration is a matter of concern to shareholders".

But, as a former maths schoolmaster, I was reminded of many school reports: "he starts well, but fails to concentrate on detail and does not deliver to his potential."

Directors' remuneration lies at the heart of the debate on effective corporate governance. It is the issue, above all others, in which directors face a conflict of interest. Central is the highly complex problem of how to make executive directors think and behave like owners of the business. However honest they may be, self-interest may make them behave in ways that maximise their power, personal rewards and wealth, and such behaviour may not be in the best interests of the shareholders.

Solving the principal-agent problem requires great wisdom and honesty. The ABI new stance on quantum and simplicity is a helpful starting point.

The ABI have managed to get caught between a purely principles-based approach and the old rules-based approach. The guidance and additional guidance repeat the error of the previous ABI guidelines, which were overly-prescriptive, but full of let-outs. This led to a cottage industry for remuneration consultants and drove the current, unhelpful, complexity. If you are going for detailed guidance, it needs to be comprehensive, it also needs examples with numbers.

There is recognition of the principal-agent problem in these sentences: "Levels of pay that do not reflect corporate performance undermine the ability to reward success and represent excess rent extractions", and "Executives and shareholders can have divergent interests...remuneration structures should seek to address this". But the devil is in the detail, and that is where the guidance fails.

Woolly rather than precise

There are just 3 numbers in the new ABI document of eight pages. The annual LTI limit of 100% salary has been dropped: there is no longer a mention of extra explanation being required when option grants (or equivalent LTIP grants) are greater than one times salary.

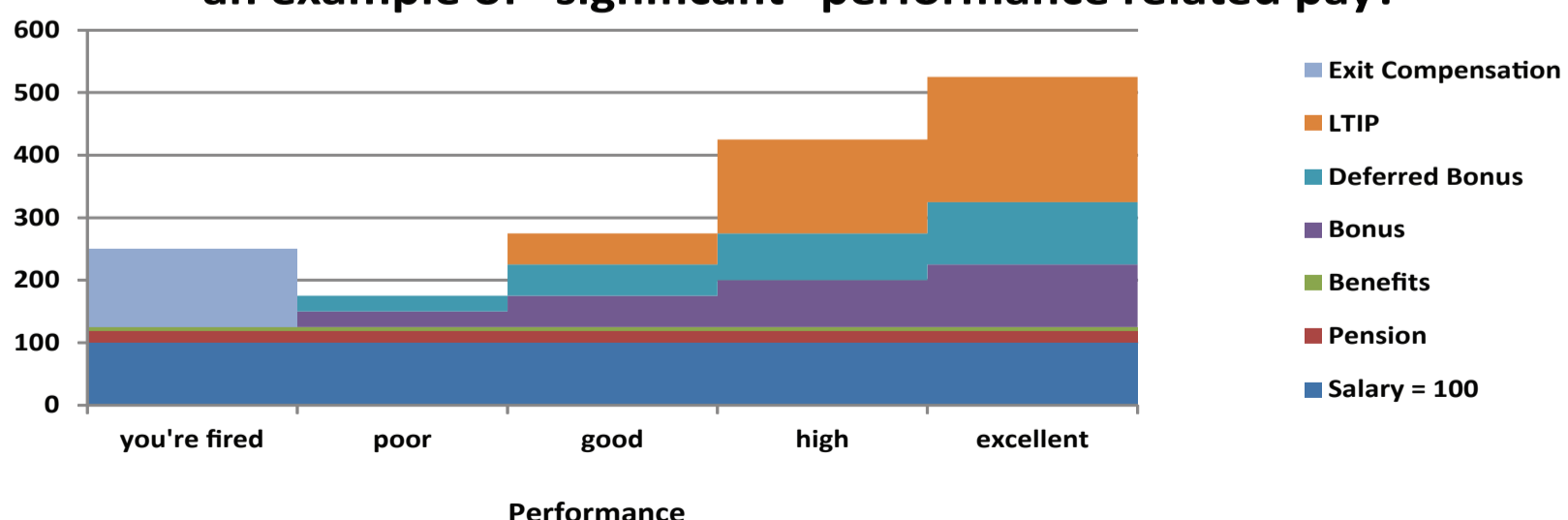
In place of precise numbers, the ABI prefers fuzzy statements like

- **significant** shareholdings
- **high level** of personal shareholding
- **careful balance** of fixed and variable pay
- **high degree** of deferral
- **high** pay for **exceptional** performance (which promotes the questions of what is high and is exceptional more than high?)
- threshold vesting amounts **should not be significant**
- **genuinely challenging**
- this may be exceeded where vesting is dependent on the achievement of **significantly more stretching** performance criteria.

The introduction to the document promises that it will set out members' views on the manner in which remuneration should be determined and structured – but how can we understand members' views without precise guidance and examples? This woolliness provides wriggle room for companies to negotiate with the ABI and claim that their plans are OK.

A picture sometimes tells a thousand words. Would not something like this be helpful?

Pay versus Performance - an example of "significant" performance related pay?



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1 Bengal Court, Birchin Lane, London, EC3V 9DD
T 020 7283 7200 F 020 7283 4119 E info@mm-k.com
www.mm-k.com

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The Good, the Bad and the Ugly

I see four good lines of attack in the principles and guidance, but in each case the lack of detail or example means the goal will not be achieved.

GOOD	BAD
Focus on quantum	<ul style="list-style-type: none"> No mention of how to measure total remuneration. To add up the total remuneration you have to be able to ascribe value to each part of the remuneration package – but how? No mention of expected value of LTIPs and options (which was a major requirement of the previous guidelines) The recommended measure of LTIP and option awards is face value of shares in the award, which by itself is inadequate No mention of how and when to ascribe value to vested options and LTIP awards which are in the form of nil price options No distinction in amounts received from equity-based incentives, where part of the gain arises after the vesting date "A stated policy that links aggregate remuneration to overall corporate performance". However there is no definition of aggregate remuneration. The ABI cannot mean the net present value of bonuses paid and LTI awards made in the year, as it has given no guidance on how to value LTI awards other than by face value. If it means LTIs that pay out in the year then this could reflect on decisions made by the rem com several years before.
Plea to do away with undue complexity	<ul style="list-style-type: none"> No pictures No examples Many rules follow in the Additional Guidance. This level of detail will inevitably encourage companies to continue with a tick box approach to designing remuneration plans and the current level of complexity.
Focus on share ownership	<ul style="list-style-type: none"> No guidance on share retention policy (net of sales to pay taxes) from shares delivered via equity based incentive plans No guidance on what is meant by "build up significant shareholdings", ie what quantum and over what time? No guidance on sale of shares, eg phased over 5 years, not until 2 years after exec has left the firm A pre-occupation with avoiding reward for failure or windfalls which emphasises long-term performance measures but provides no real guidance on what measures are preferable.
Reference to excess rent	<ul style="list-style-type: none"> No mention of the ways in which the CEO can influence his/her own remuneration and the need to control the power of the CEO.

The document does not cross reference to the UK Corporate Governance Code (in contrast the NAPF guidelines do this quite well).

The need to beta test new products

Microsoft issue their software updates in beta testing format. I cannot help thinking following that approach would have been a better long term strategy, rather than going for the short term hit of great PR.

So despite the promising headlines, these new guidelines are not generally helpful to companies. They are also far too long. However because of the status of the ABI, all quoted companies will have to review the guidelines and whether they are compliant. I predict another version will be developed and issued next year, which will create a further burden on remuneration committees and divert them from their core task.

But the ABI has spotted one way to control the quantum of CEO pay. Although it is barely mentioned in the Remuneration Principles, the ABI's separate report on Board Effectiveness says that the remuneration committee needs to work with the nominations committee to ensure good succession planning. If there are two or three credible internal candidates to replace the CEO, the CEO has less potential to negotiate high pay.

For further information contact:

cliff.weight@mm-k.com

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BIS consultations on executive remuneration and narrative reporting.

Damien Knight summarises the new consultations

On 19th September Vince Cable's department, BIS, issued two separate consultations that affect executive remuneration in listed companies. From a remuneration committee viewpoint they are part of the same set of proposals, but they have been split because the reporting consultation covers other aspects of company annual reports, besides remuneration reporting. The deadline for responses to both is 25th November.

Before the documents were issued, MM&K met officials from BIS to give our views and provide evidence and the documents quote extensively from our materials and particularly from the Manifest/MM&K Executive Director Total Remuneration Survey. We will be submitting a response to the consultations.

Consultation on Narrative Reporting - remuneration questions to respond to

- o Put key remuneration information in the new company Strategic Report? Which of the current disclosure requirements could be omitted from this?
- o Disclose a single total remuneration figure for each director? How should it be calculated?
- o Disclose pay of highest paid executives below the board? Which? How otherwise improve shareholder oversight at that level?
- o Explain how remuneration awarded relates to performance in the relevant financial year and to the company's strategic objectives?
- o Show performance and CEO total remuneration for the past five years? What measures of performance?
- o Explain how the coming year's targets relate to published strategic objectives?
- o Provide estimates of total future remuneration if individual executives exceed, meet or do not meet their performance criteria?
- o Disclose bonus targets at the start of the year? Should companies be permitted to delay the publication of commercially sensitive targets for up to two years?
- o Disclose the ratio between the CEO's pay and the workforce average? Method of calculation?
- o Disclose the past year's spend on directors' remuneration as a proportion of profit?
- o Disclose the amount of fees paid by companies to remuneration consultants? Anything else about the procedure for setting directors' remuneration?
- o Align company law and the Listing Rules' remuneration disclosure requirements?
- o Would reporting under IFRS provide an appropriate basis for disclosure of remuneration in the preceding financial year if required on both an aggregate and individual basis?

Consultation on Executive Remuneration - questions to respond to

- o Binding vote on remuneration at AGM? How could this work?
- o Any further measures to prevent payments for failure?
- o Include shareholder representatives on nominations committees [to improve remuneration committee selection]?
- o Independent remuneration committee members with a more diverse range of professional backgrounds? Risks and practical implications?
- o Stronger guidance on membership of remuneration committees to prevent conflicts of interest arising?
- o Include employee representatives on remuneration committees? Risks and practical implications?
- o Employee vote on remuneration proposals?
- o More disclosure on the use of remuneration consultants? Is there a need for regulation on the use?
- o Could the link between pay and performance be strengthened by companies choosing more appropriate measures of performance?
- o Defer a larger proportion of pay over more than three years?
- o Reduce the frequency with which long-term incentive plans and other elements of remuneration are reviewed? Benefits and challenges of this?
- o Would radically simpler models of remuneration which rely on a director's level of share ownership to incentivise them to boost share value more effectively align directors with the interests of shareholders?
- o Other ways in which remuneration could be simplified?
- o Should all UK quoted companies be required to put in place clawback mechanisms?
- o What is the best way of coordinating research on executive pay, highlighting emerging practice and maintaining a focus on the provision of accurate information of these issues?

MM&K's View

There are some good proposals here and some which play to the political gallery. We welcome, and will support, most of the disclosure proposals. Widening reporting to, say, the six highest executives plus any executive directors not in the six could give a better picture of remuneration than the current one.

An aggregate total remuneration figure for each executive would be helpful – but unfortunately there really needs to be two 1) the total granted (with expected values of share incentive grants) and (2) the total eventually realised including vested LTIPs and exercised options.

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The latter is the figure that should correlate with company performance, but it would be too late for shareholders to do anything about awards by the time the picture emerges. IFRS does not in itself provide the answer to either figure.

One-year and five-year reports comparing remuneration to company performance would be useful to shareholders, as would disclosed bonus criteria and future earnings projections in different performance scenarios. The performance measures should not be mandated, although we believe companies should measure five-year performance against a range of (consistent) measures.

There is some value in disclosing executive pay for the year as a percentage of profits, although that would not pick up share incentive awards which vest some years later. But we think publishing a ratio between the CEO's and an employee average pay is a purely political idea which is only good for fuelling the media. A ratio comparison between companies is meaningless, even within an industry, as the organisation model and amount of in-house production varies so much. Tracking the ratio within one company over time might carry more meaning but, paradoxically, the ratio should go up when a company is performing well because of the relative higher performance gearing of executive pay.

An employee representative (presumably usually a union representative) on the remuneration committee is another idea prompted by politics. It is hard to imagine he or she could have any real impact. If the Continental model is anything to go by there will be a shadow remuneration committee meeting before the main meeting to rehearse the main arguments. Likewise, mandatory shareholder votes or employee votes on remuneration proposals are political ideas that could never work in practice – they would make the directors' position untenable.

Drawing remuneration committees from a wider pool is desirable and it will be interesting to see if a workable proposal can be formulated. As long ago as 1998, the Hampel Committee suggested that listed company boards could be strengthened by bringing in some people with more diverse backgrounds. Not much has changed in the 13 years since.

BIS has clearly been listening to institutional investors who have been complaining for some time that remuneration plans change too often and packages are too complex. As Cliff Weight points out in his commentary on the new ABI Remuneration Principles, these faults were inherent in the old ABI guidelines and the complexity has been carried over into the Principles, despite a plea for simplicity.

We would love to believe that companies will be encouraged to move to a radically simpler model of remuneration which relies on genuine long-term share ownership to align executives' interests – MM&K has been advocating this for a long time. However, the new ABI Principles stress the need to have vesting conditions based on combinations of absolute and relative performance and long-term measures linked to the company strategy, so we do not see much chance of simpler schemes. And we imagine three-year vesting will remain the norm.

Clawback mechanisms will be the dog that never barks and, like risk alignment of remuneration, are a political fashion spreading from financial services regulation. Except in the case of fraud (for which there are existing remedies) companies in most other industries cannot record and have audited significant profits which later turn out to be illusory.

So, clawback is best applied to deferred remuneration when later years' profits drop off – a nice way of making bonuses symmetrical – but we do not believe companies will ever implement this. Falling prices of deferred shares is about as far as this will go. Properly designed long-term incentives do not need claw-back mechanisms.

Finally, MM&K supports the full disclosure of fees paid to consultants, for remuneration committee work, advising the company on remuneration and for non-remuneration work by the same firm. There is a major potential for conflict of interest. Oh, and please no new government department to collect remuneration research!

For further information contact damien.knight@mm-k.com

Executive remuneration growth much lower Manifest/MM&K survey - latest year increases - CEO Median

	FTSE 100	FTSE 250	Small cap/AIM
Remuneration awarded			
Salary	2%	2%	2%
Bonus	13%	7%	1%
LTI grants (expected value)	4%	4%	0%
Total awarded	14%	16%	9%
Remuneration realised			
Salary	2%	2%	2%
Bonus	13%	7%	1%
LTI vested/exercised in year	14%	See note*	See note*
Total realised	16%	14%	9%

* For these companies the 2010 median LTI realised was zero so it is not possible to show a percentage increase. The scale of LTI increase can be inferred from the total realised figure. The oddly high total awarded figures are a statistical effect).

The bonus increases are mainly due to improved company performance. There have been some increases in bonus maxima in the FTSE 100 on the introduction of deferred bonus plans.

The September 2011 Manifest/MM&K Executive Director Total Remuneration Survey covers 665 companies, and is the most up-to-date picture of reported remuneration practice. Copies £500 from emma.jarvis@mm-k.com

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1 Bengal Court, Birchin Lane, London, EC3V 9DD
T 020 7283 7200 F 020 7283 4119 E info@mm-k.com
www.mm-k.com