

20 November 2011

Mr Mark Jackson
Business Environment
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

Dear Mark,

THE FUTURE OF NARRATIVE REPORTING – Consultation on a new reporting framework- Response from MM&K

MM & K Limited ("MM&K") is an independent firm of remuneration consultants. We have limited our responses to those aspects of narrative reporting that link to remuneration.

We support the thrust of your suggested changes in respect of remuneration. We attach your response form as Appendix 4 to this letter.

We think the Directors' Remuneration Report Regulations are not working. Remuneration reports are hopelessly complex. It is difficult to see the wood from the trees.

1. Proposed changes for CEO pay disclosure

We propose changes to the reporting of remuneration so that the amounts paid to the CEO in each of the past five years are clearly displayed alongside a table or graph of total shareholder return (TSR) and other key performance indicators.

CEO pay should be aligned with performance. The Strategic Report should describe in both words and numbers how the company has performed. It should also give an indication of how well the company is positioned for the future and the potential risks.

We think our proposed focus on the CEO is right because:

- i. Most parties interested in remuneration focus most of their time and attention on the CEO.
- ii. If the CEO's pay level and make up is satisfactory, it is less likely that others in the company will be paid too much or incentivised in the wrong way.
- iii. It will make remuneration reports much easier to understand, and make them clearer to interested parties. We provide a one page example of how a CEO's pay could be reported, which we think is clear, transparent and readily understandable by shareholders.

It should be noted that:

- i. The relationship between pay and TSR is long-term. One needs to take care because MM&K and others (including many of our clients) advocate that TSR is not a good short-term measure of management's performance and should not be the sole determinant of incentive pay. Clearly, a company's share price should ultimately reflect both good and bad performance but there is a lag. An annual comparison of

pay and TSR is misleading and potentially dangerous, but long-term trend information would be useful. Shareholders should not be overly influenced by an annual comparison, but should focus on the long term as required by the new UK Corporate Governance Code, by the regulators and other policy makers in the context of executive pay.

- ii. Share prices are driven by many factors. In the list below, only the last two are under the control of management, e.g.
 - a. Interest rates
 - b. General economic activity and growth forecasts
 - c. Market sentiment
 - d. Sector sentiment
 - e. Market view of management capability and future strategy
 - f. Achievement of operational goals and whether management generates sustainable competitive advantage.

As a result share price can often be out of alignment with the underlying performance of the company, often for substantial periods of time.

2. Proposed table of KPIs and CEO pay disclosure

It is useful to understand how CEO pay is measured. It includes five components: salary, bonus/cash-incentive pay, equity-based pay, pension and other benefits. It is usually measured in two ways. The first is the sum of salary, bonus, pension, benefits and the expected value of share options and restricted shares. We call this *expected* pay. Expected pay measures what boards believe they awarded the CEO. This is the better measure of what a CEO is given each year. Note that the CEO does not actually walk away with this money. The second measure replaces the expected values of restricted shares/LTIPs/stock option with values actually realised. We call this *realised* pay and it measures what CEOs walk away with in the year. In the long term this is the better figure for judging if reward correlates with company performance.

Some pay is awarded in one year, but may not be received until many years later. Companies make awards of restricted shares (which may include shares with attached performance conditions, often referred to as LTIPs in the UK, and deferred bonuses in the form of shares, cash or other instruments) in, or in respect of, a particular year. These awards 'vest' at some time in the future and may be contingent on performance criteria over a 'performance period' (ordinarily of not less than three years, although there is pressure for longer performance periods).

The diagram in Appendix 1 explains these points graphically.

Therefore shareholders should be able to see the data for the performance criteria and other KPIs over the performance period alongside the CEO pay.

We advocate a table along the lines of the following table (companies may choose to report on only some of these metrics).

	2006	2007	2008	2009	2010
CEO Pay - Total expected value of awards					
CEO Pay - Total received					
Total Shareholder Return – absolute value					
Total Shareholder Return – relative to an index eg FTSE 100, 250, All Share etc and/or comparator index or group of companies					
Share price growth (as the make up of TSR is useful to see)					
Dividends – yield as % share price					
Market Capitalisation (Note: we suggest this is included as well as TSR and share price. It is not quite the same as share price as, by issuing new shares, a company might increase market cap but reduce the price per share. Pay is correlated to size of company so this is an important piece of background)					
Net Debt					
Enterprise Value					
Turnover					
Profit (EBITDA)					
Profit margin					
Profit growth / Turnover relative to peers					
Cash flow					
ROCE					
WACC					
Debt/ EBITDA					
EPS					
P/E ratio (share price/ EPS)					
Other KPIs E.g. ARPU (average revenue per user), key strategic goals, Customer satisfaction, staff effectiveness, Health and Safety, CSR measures					
CEO Salary					
CEO Bonus					
CEO shares and options – expected value of awards made in the year					
CEO share awards and options realised – total of gains from options exercised in the year and restricted shares that vested in the year					
Pension – transfer value of increase in accrued benefits					
Benefits – taxable value of benefits received					
Average remuneration of employees					
Ratio of CEO (expected/realised) pay to average employee					

It is also important that shareholders can see the future potential payments to the CEO under a range of scenarios. Appendix 2 shows how this can be done quite simply.

If the above approach were adopted, we would favour significantly reduced remuneration reporting in the annual report, with most of the information currently in the remuneration report being merely reported on the company website. This would reduce much of the clutter in the annual report and make it clearer and easier to read. Shareholders wishing to go into the detail of remuneration could access this via the company website. Hence no transparency would be lost.

Currently there is too much data in annual reports and not enough information. The distinction between data and information is important. Our suggestions would improve the information flow to shareholders.

3. Fees paid to remuneration consultants should be disclosed

In our view, the level of fees paid to some large remuneration consultants may result in a conflict of interest. Publishing the fees paid for remuneration committee advice and separately for other services to the company (in a similar way that audit fees are disclosed) will improve the transparency. The rules adopted in Australia could be a useful template for the UK to follow (see answer to Question 26).

Chairmen and Non-Executive Directors are very strongly in favour of this proposal - 63% agree that fees for remuneration consultants be disclosed in annual reports. Only 11% disagree. The source of this data is the MM&K 2010 Chairman and Non-Executive Director Survey. 442 directors - 290 chairmen and 152 non-executive directors - contributed to the survey.

Detailed answers to your consultation questions are attached. We have only responded in relation to remuneration matters, upon which we regards ourselves as experts.

Yours sincerely,

Cliff Weight
Director

Attachments

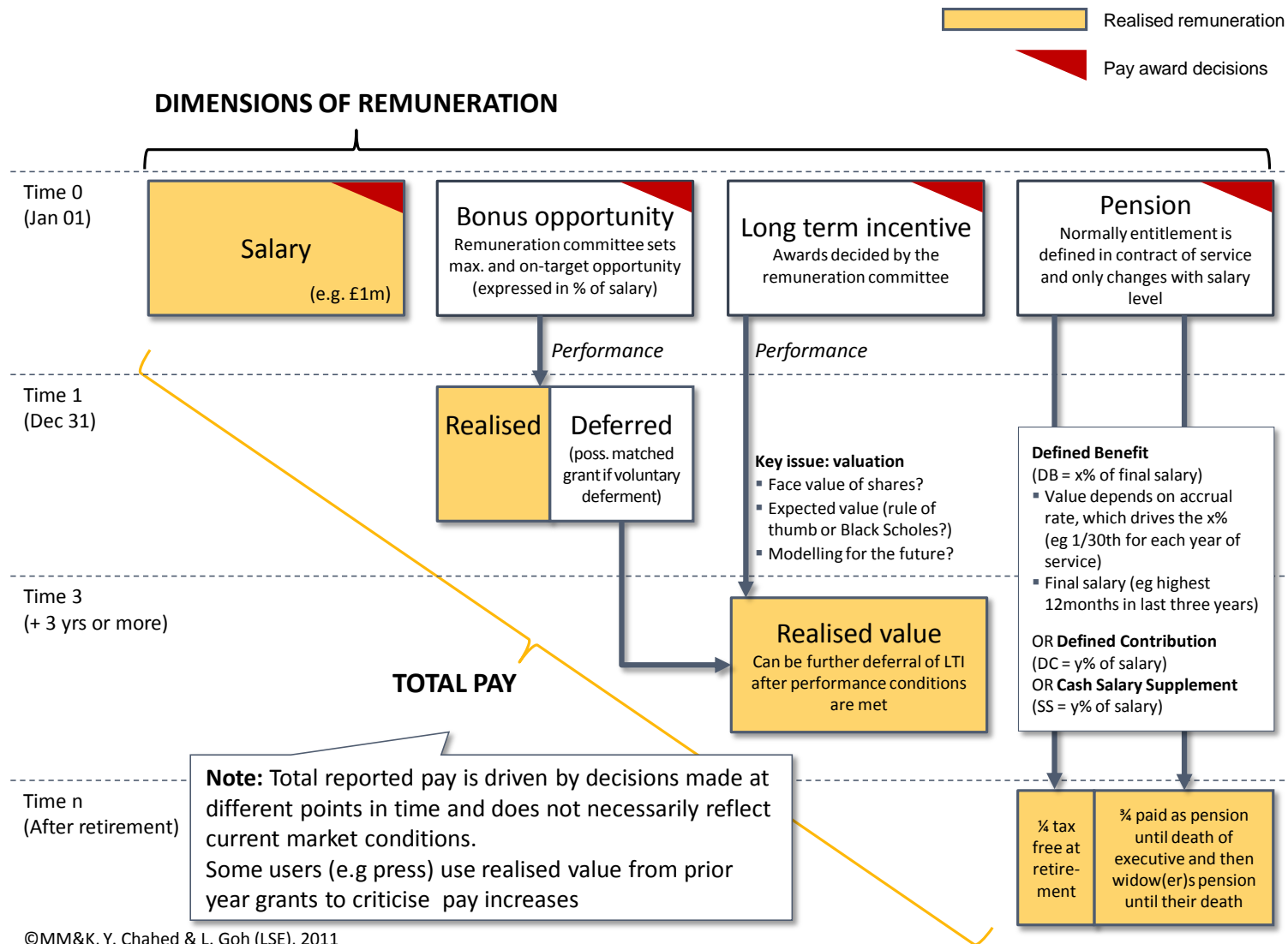
Appendix 1 Dimensions of Remuneration

Appendix 2 Example of 1 page summary of CEO pay

Appendix 3 About MM&K

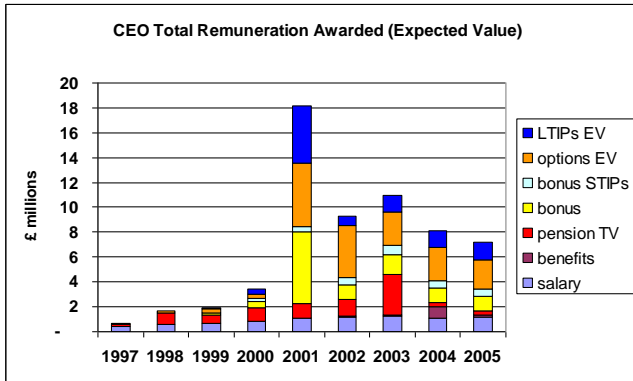
Appendix 4 Consultation response form

Appendix 1 Dimensions of Remuneration



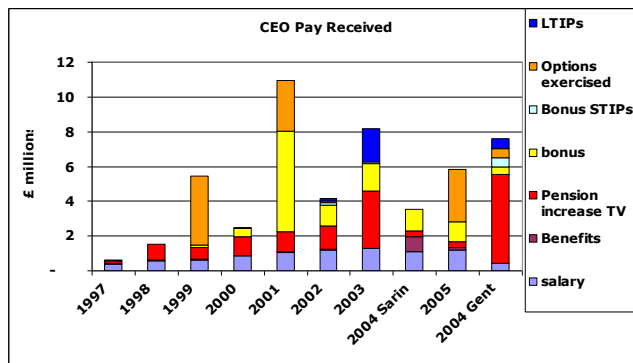
Appendix 2 - Chief Executive Pay Simplified (“clear, transparent and readily understandable”) - An example using Vodafone data up to 31st March 2005.

The estimated value of awards made by the remuneration committee in each year since 1997:



Notes: Arun Sarun appointed as chief executive in 2004. Sir Christopher Gent was chief executive prior to 2004. Mannesmann acquisition in 2001.

The actual amount of hard cash received, plus gains on options exercised and performance shares and STIPs vesting in the year, plus the increase in the transfer value of accrued pension/DC contributions.

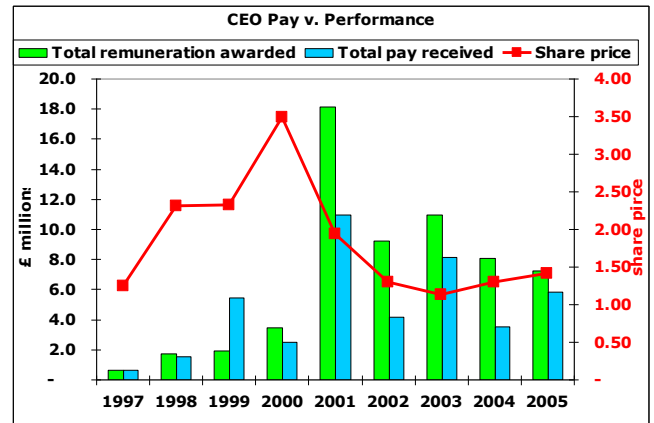


Wealth Accumulated to date (£ million)

Pension total value of accrued benefit	0.7
Shares owned	8.2
Options - unexercised gains	3.1
Subtotal	12.0
Performance shares invested (max)	5.4
STIPs invested (max)	1.4
"Total" (max)	18.8

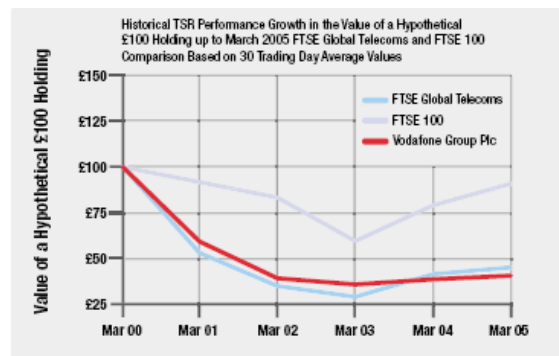
Performance shares and STIPs are unlikely to pay out at the maximum. However, the remuneration report gives [may give] a projection of the estimated payout on the basis of performance to date.

The link to performance of pay awarded and realised is shown in the next two graphs.

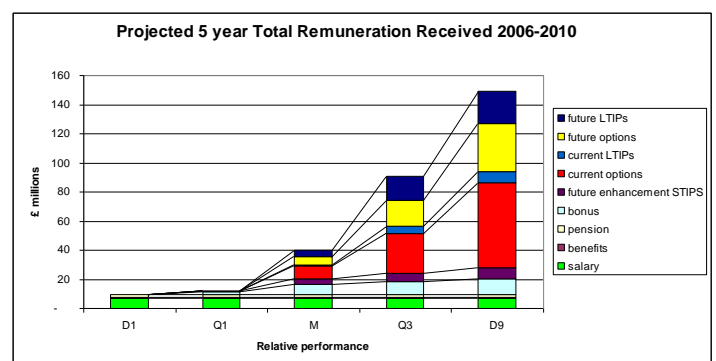


[Companies may wish to include a history of other relevant measures here]

Performance Perspective



Future Potential earnings in next 5 years:



Assumes salary increases at 5% p.a., bonus payout at max for D9, 50% of target at median and nil at D1, standard assumptions re share price growth, TSR and vesting of performance conditions.

Appendix 3 - About MM&K

MM&K is a leading independent consultancy specialising in the planning, design and implementation of executive pay and reward strategies.

Founded in 1973, MM&K focuses on directors' and senior executive remuneration, but we have added other services to support our clients' needs through the acquisitions of Independent Remuneration Solutions and The Share Option Centre and the launch of higher talent, our specialist recruiter of HR professionals. MM&K is owned by its employees and directors.

Our consultants' expertise areas include HR, share schemes, law, accountancy, tax, corporate governance, business management and statistics. Our multi-disciplinary approach to remuneration is always tailored to individual client requirements.

MM & K Limited is owned by its employees and directors.

MM & K Limited is authorised and regulated by the Financial Services Authority.

Who We Are

Paul Norris, Chief Executive

Masters graduate in Law and Barrister. Paul started his career with MWP Incentives Limited, and then spent a period in merchant banking before joining the buy-in team that created MM & K in 1985. He advises a number of remuneration committees on business-linked remuneration strategies and is experienced in the design and implementation of cash and share based incentive plans.

Nigel Mills, Director

PPE graduate and chartered accountant. Nigel joined MM & K in 1985 having spent 6 years at Price Waterhouse after graduating from Oxford. He is an authority on executive and all employee cash and equity based incentive schemes for public and private companies. He also leads the Private Equity business of MM & K and is an expert on carried interest and co-investment plans for Private Equity houses.

Cliff Weight, Director

Graduate in Mathematics and Statistics from Cambridge. Cliff has over 20 years' experience as a remuneration consultant. He was a Director of Independent Remuneration Solutions, who merged with MM & K in November 2006. He specialises in advising companies on executive directors' remuneration, annual and long term incentives and non-executive directors' fees. He is a regular speaker at conferences and is co-author of Tottel's Corporate Governance Handbook, for which he wrote the chapters on directors' remuneration.

Damien Knight, Executive Compensation Director

Graduate in Physics from Oxford. After a period in construction management, Damien has followed a career in human resources and remuneration consulting, spanning 30 years. Damien was a director of the Hay group where he worked for over 20 years and most recently Damien was a Senior Consultant with Watson Wyatt. For the past 20 years he has specialised in executive remuneration and has advised the remuneration committees and management of a wide range of companies in the UK and elsewhere in Europe, including several FTSE 100 and other major corporations.

The future of narrative reporting: consulting on a new reporting framework. Response form

Please send your response by: 25 Nov 2011

About You	
Name: Cliff Weight	Organisation (if applicable): MM&K Limited
Email: Cliff.weight@mm-k.com	Address:

I am responding on behalf of (please tick)	
	Quoted company
	Other company
	Investor or investment manager
	Business representative organisation
	Investor representative organisation
	Non governmental organisation (NGO)
	Trade Union
	Lawyer or accountant
<input checked="" type="checkbox"/> (remuneration consultant)	Other (e.g. consultant or private individual)

Questions

Please note that MM & K Limited ("MM&K) is an independent firm of remuneration consultants. We have limited our responses to those aspects of narrative reporting that link to remuneration. We have not responded to those questions where others are better qualified than us.

Question 1

Do you agree in principle with restructuring the current reporting framework into a Strategic Report and an Annual Directors' Statement?

Yes	No
✓	
Comments	
We agree in principle	

Question 2

Do you agree that the Strategic Report should include information on:

- company performance
- principal risks and uncertainties
- key performance indicators
- key financial information (similar to that currently required for the Summary Financial Statements)

and for quoted companies should include:

- strategy
- business model
- environmental and social information,
- key information on executive remuneration and its link to performance?

Yes	No
✓	
Comments	

No comments on questions 3 and 4

Question 5

Do you agree that the Annual Directors' Statement for quoted companies should include:

- disclosures required, regardless of materiality, by the Companies Act, the Listing Rules etc.
- the Corporate Governance Statement
- the Directors Remuneration Report
- financial information (for example, post-balance sheet events etc)
- information provided voluntarily by companies (for example, additional environmental and social disclosures)?

Yes	No
Yes in respect of the Directors Remuneration Report. We are not experts in the other matters in this consultation.	
Comments	
Yes in respect of the Directors Remuneration Report. We are not experts in the other matters in this consultation.	

Question 6

Do you agree that companies should be able to include material in the Annual Directors' Report (for example information on policies and procedures) by cross reference to information published elsewhere (for example on the company's website)?

Yes	No
✓	
Comments	
As much information as possible should be in XBRL format. This will make it easier for users to find things quickly.	

Question 7

If companies are able to include material in the Annual Directors' Statement by cross reference (question 6), do you agree that they should make an annual statement confirming it has reviewed that information and noting any significant changes?

Yes	No
✓	
Comments	
This will remove much clutter (whilst it will still be available by cross referencing).	
It will make it easier to see the changes.	

Question 8

Do you agree that the Annual Directors' Statement should be presented online with a hard copy available to shareholders only on request?

Yes	No
Yes, but only if the hard copy includes those (important) cross referenced items that are currently reported.	
Comments	
Only if the hard copy includes those (important) cross referenced items that are currently reported.	

No comments on Questions 9 to 11

Question 12

Do you support the Government's proposals for company disclosure of the proportion of women on boards and in companies as a whole?

Yes	No
✓	
Comments	

No comments on Question 13 and 14

Question 15

Do you agree that the key information on remuneration should be included in the new Strategic Report? If so, would a standard format for this information be helpful?

Yes	No
✓	
Comments	
<p>Remuneration is both earned and paid over a period of years. Sometimes pay is received in one year as a result of awards made several years ago and performance over the subsequent years. This is illustrated in the diagram in Appendix 1 which represents the co-operative work of MM&K consultants and two LSE academics Drs Goh and Chahed.</p> <p>We agree with your drafting except as marked in bullet 1 and 5 below.</p> <p><i>The remuneration element of the Strategic Report should include the key pieces of information that shareholders have said they need to understand and assess a company's remuneration policy, including:</i></p> <ul style="list-style-type: none"> • <i>A single figure for the total remuneration of each individual director. (But see answer to Q.17)</i> • <i>An explanation of how remuneration in the relevant financial year relates to performance, including graphical representation of company performance.</i> • <i>Proposed remuneration policy and performance measures for the year ahead, including an illustration of potential remuneration if performance measures are exceeded, met or not met.</i> • <i>The relationship between executive pay and pay across the organisation, and expenditure on executive pay as a proportion of profit.</i> • <i>Information on service contracts and shareholdings of all directors.</i> • <i>A summary of how the remuneration committee came to its decision.</i> <p>We think "Information on service contracts" should be in the Annual Directors' Statement.</p> <p>Some pay is awarded in one year, but may not be received until many years later. Companies make awards of restricted shares (which may include shares with attached performance conditions, often referred to as LTIPs in the UK, and deferred bonuses in the form of shares, cash or other instruments) in, or in respect of, a particular year. These awards "vest" at some time in the future and may be contingent on performance criteria over a "performance period" (ordinarily of not less than three years but there is pressure for longer performance periods).</p> <p>Therefore shareholders should be able to see the data for the performance criteria and other KPIs over the performance period alongside the CEO pay.</p> <p>We advocate a table along these lines:</p>	

MM&K Ltd: response to BIS consultation on new reporting framework, 2011

	2006	2007	2008	2009	2010
CEO Pay - Total expected value of awards					
CEO Pay - Total received					
Total Shareholder Return – absolute value					
Total Shareholder Return – relative to an index eg FTSE 100, 250, All Share etc and/or comparator index or group of companies					
Share price growth (as the make up of TSR is useful to see)					
Dividends – yield as % share price					
Market Capitalisation (Note: we suggest this is included as well as TSR and share price. It is not quite the same as share price as, by issuing new shares, a company might increase market cap but reduce the price per share. Pay is correlated to size of company so this is an important piece of background)					
Net Debt					
Enterprise Value					
Turnover					
Profit (EBITDA)					
Profit margin					
Profit growth / Turnover relative to peers (eg as in the Obermatt Bonus Index (see www.obermatt.com for further explanation)					
Cash flow					
ROCE					
WACC					
Debt/ EBITDA					
EPS					
P/E ratio (share price/ EPS)					
Other KPIs E.g. ARPU (average revenue per user), key strategic goals, Customer satisfaction, staff effectiveness, Health and Safety, CSR measures					
CEO Salary					
CEO Bonus					
CEO shares and options – expected value of awards made in the year					
CEO share awards and options realised – total of gains from options exercised in the year and restricted shares that vested in the year					
Pension – transfer value of increase in accrued benefits					
Benefits – taxable value of benefits received					
Average Remuneration of employees					
Ratio of CEO (expected/realised) pay to average employee					

It is also important that shareholders can see the future potential payments to the CEO under a range of scenarios. Appendix 2 shows how this can be done quite simply.

If the above approach were adopted, we would favour significantly reduced remuneration reporting in the annual Strategic Report, with most of the information currently in the remuneration report being merely reported on the company website in the Annual Directors' Statement. This would reduce much of the clutter in the annual report and make it clearer and easier to read. Shareholders wishing to go into the detail of remuneration could access this via the company website. Hence no transparency would be lost. Currently there is too much data in annual reports and not enough information. The distinction between data and information is important. Our suggestions improve the information flow to shareholders.

Question 16

Which elements of the current disclosure requirements could be moved to the Annual Director’s Statement, or removed entirely?

Yes	No
Comments	
<p>All the current disclosure is needed in order for shareholders and proxy advisers to drill down into what is really happening.</p> <p>But apart from the information in Question 15, the remainder could be in the Annual Director Statement on the website.</p> <p>The only thing which could be rationalised is the pensions disclosure which requires two different methodologies.</p>	

Question 17

Do you agree that quoted companies should be required to disclose the total remuneration of each director in a single cumulative figure?

If so, how should be calculated so that it accounts appropriately for the various elements of remuneration packages, including share options, LTIPs and pensions?

Yes	No
✓	
Comments	
<p>Yes, but it should on two bases.</p> <p>First with the expected value, following the methodology used in the USA.</p> <p>The second approach should be with the amount “realised” in the year.</p> <p>1. There is a timing issue in relation to when pay is awarded and when it vests and when it is received. Therefore our recommended Total Remuneration disclosure is of both the total remuneration awarded in the year and the total actually realised in the year.</p>	

1.1. Total remuneration **awarded** is the sum of salary, bonus, benefits, the increase in the transfer value of accrued pension and the expected value of share plans and share options and any other long term incentive arrangement. Expected value should be on the same basis as in the US (i.e. similar to the IFRS2 fair value methodology)

1.2. Total remuneration **realised** is the same as that awarded except for all long term incentives and share options, the amount of money made, or lost, in the latest year is included, i.e. the amount in £s of LTIP that vests in the year and for options the amount of any gain on options exercised in the year.

The figure for realised gains would be added to the other remuneration received to get the total remuneration realised.

1.3 Other figures are useful. Companies may choose to disclose them to help their shareholders understand their reward policy, but we do not recommend that companies have to disclose this information:

- i. The is the amounts that are likely to vest from LTIs as assessed at the end of the year less the amounts as assessed at the start of the year.
- ii. The amounts of shares held plus the amounts of shares that have vested but not sold, as assessed at the end of the year less the amounts as assessed at the start of the year.

2. There should be disclosure of chief executive pay over the previous five years so that changes in pay are clear to shareholders.

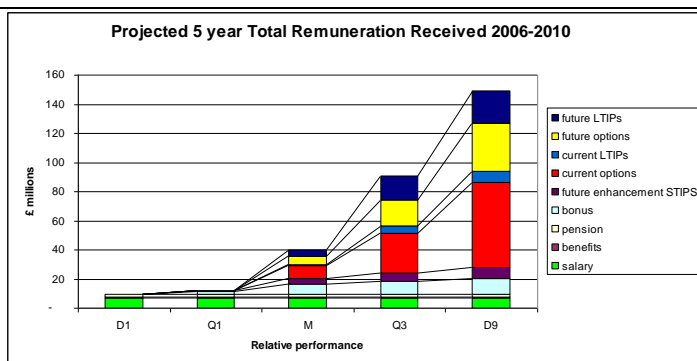
3. Chief executive total (expected and realised) remuneration should be disclosed alongside the average remuneration of employees and the ratio of the two should be shown.

3.1. There has been widespread concern about the growing differentials between chief executives' and average employees' remuneration, but this is not the reason for our proposal. We believe that chief executive pay should be linked to performance and any increase above the average for employees should be justified to shareholders.

3.2. The combination of this disclosure together with a comparison of chief executive pay over the previous five years with TSR (and any other relevant performance measures) will force companies to explain why they have paid the chief executive the way they have.

4. The CBI has proposed that taxable remuneration should be disclosed. Taxable remuneration does not include pension contributions. If taxable remuneration were the only figure for total remuneration to be disclosed, this would encourage executives to defer the exercise of LTIPs, options and deferred bonuses and might lead to a growth in "promises" about future payments that are not captured under the disguised remuneration rules. However if the disclosure of taxable remuneration (in particular if the tax the executive paid in the UK is also disclosed), with the amounts awarded (expected value) and received, this might help create a more complete picture of remuneration.

5. In respect of future potential earnings, we advocate the following disclosure for the CEO of **Future Potential earnings in next 5 years:**



This would assume standardised salary increases at 3% p.a., bonus payout at max for D9, 50% of target at median and nil at D1, standard assumptions re share price growth, TSR and vesting of performance conditions. (There is a precedent in the US SEC rules for using standardised assumptions, e.g. the valuations of options pre IFRS2.)

- Another problem is that the disclosure is limited to directors. In the US, the disclosure must include the 5 highest paid executives and this approach should be followed in the UK, in respect of the (audited) details required by the DRR. Since the DRR became law, fewer executives have been appointed to the main board and in some cases this was to avoid the disclosure of (embarrassingly) high remuneration.

Question 18

Would there be benefits in introducing a requirement to disclose the pay of the highest earning executive officers below board level and, if so, to which companies and individuals should such an obligation be extended?

Are there alternative ways of improving shareholder oversight of the performance and pay of influential non-board executive officers?

Yes	No
✓	
Comments	
<p>Currently disclosure only applies to senior executives who are main board directors. This creates a perverse incentive not to go on the board so as to avoid disclosing pay and subsequent publicity.</p> <p>There needs to be an even playing field and the pay of at least the 5 highest paid executives should be disclosed. For FSA tier 1 and FTSE100 firms a</p>	

higher number could be disclosed, eg 10.

Alternative ways are disclosure of the top 10 executives remuneration as a percentage of the total of all employees remuneration over a 5 year period. This will show if the top 10 executives are being disproportionately rewarded.

Question 19

Do you agree that quoted companies should be required to disclose how remuneration awarded relates to performance in the relevant financial year and to the company's strategic objectives?

Yes	No
Yes but it should be over 5 years.	
Comments	
Yes but it should be over 5 years and should also show KPIs and amounts received as well as awarded.	

Question 20

Should quoted companies be required to illustrate performance and the total remuneration of the CEO for the last five financial years, to enable shareholders to assess the relationship between total pay and performance over time?

If so, which performance measure would be the most appropriate?

Yes	No
✓	
Comments	
Yes but it should also show KPIs and amounts received as well as awarded.	
Companies should as a minimum disclose for 5 years:	
<ul style="list-style-type: none"> i. TSR (in absolute terms) 	

<p>ii. TSR relative to an index (eg FTSE100)</p> <p>iii. TSR relative to a sector or specified group of companies. (sophisticated fund managers judge management on a relative basis and make investment decisions on whether they expect companies to do better than their peers).</p> <p>iv. Profits</p>
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Question 21

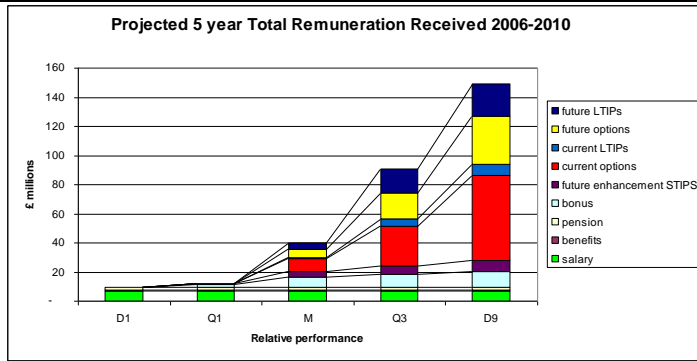
Should quoted companies be required to explain how the performance criteria for remuneration policy for the year ahead relates to the company's strategic objectives, as set out in the new Strategic Report?

Yes	No
✓	
Comments	
<p>At one level the question is a tortology.</p> <p>However, it should be noted that:</p> <ul style="list-style-type: none"> i. The relationship between pay and TSR is long-term. One needs to take care because MM&K and others (including many of our clients) advocate that TSR is not a good short-term measure of management's performance and should not be the sole determinant of incentive pay. Clearly, a company's share price should ultimately reflect both good and bad performance but there is a lag. An annual comparison of pay and TSR is misleading and potentially dangerous, but long-term trend information would be useful. Shareholders should not be overly influenced by an annual comparison, but should focus on the long term as required by the new UK Corporate Governance Code, by the regulators and other policy makers in the context of executive pay. ii. Share prices are driven by many factors. In the list below, only the last two are under the control of management, e.g. <ul style="list-style-type: none"> a. Interest rates b. General economic activity and growth forecasts c. Market sentiment d. Sector sentiment e. Market view of management capability and future strategy f. Achievement of operational goals and whether management generates sustainable competitive advantage. <p>As a result share price can often be out of alignment with the underlying performance of the company, often for substantial periods of time.</p>	

Question 22

Should quoted companies be required to provide estimates of the total future remuneration of executive directors if they exceed, meet or do not meet their performance criteria?

Yes	No																																																						
✓																																																							
Comments																																																							
<p>This is quite easily do-able for awards made in the year, e.g.</p>																																																							
<div style="text-align: center;"> <p>Pay versus Performance - an example of "significant" performance related pay?</p> <table border="1"> <caption>Estimated data from 'Pay versus Performance' chart</caption> <thead> <tr> <th>Performance</th> <th>Salary = 100</th> <th>Pension</th> <th>Benefits</th> <th>Bonus</th> <th>Deferred Bonus</th> <th>LTIP</th> <th>Exit Compensation</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>you're fired</td> <td>100</td> <td>10</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>150</td> <td>260</td> </tr> <tr> <td>poor</td> <td>100</td> <td>10</td> <td>0</td> <td>10</td> <td>10</td> <td>0</td> <td>0</td> <td>130</td> </tr> <tr> <td>good</td> <td>100</td> <td>10</td> <td>0</td> <td>50</td> <td>30</td> <td>30</td> <td>0</td> <td>220</td> </tr> <tr> <td>high</td> <td>100</td> <td>10</td> <td>0</td> <td>80</td> <td>50</td> <td>150</td> <td>0</td> <td>390</td> </tr> <tr> <td>excellent</td> <td>100</td> <td>10</td> <td>0</td> <td>100</td> <td>80</td> <td>200</td> <td>0</td> <td>490</td> </tr> </tbody> </table> </div>		Performance	Salary = 100	Pension	Benefits	Bonus	Deferred Bonus	LTIP	Exit Compensation	Total	you're fired	100	10	0	0	0	0	150	260	poor	100	10	0	10	10	0	0	130	good	100	10	0	50	30	30	0	220	high	100	10	0	80	50	150	0	390	excellent	100	10	0	100	80	200	0	490
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<p>Of greater use is an estimate which includes previous awards and future (likely) awards, as only by such disclosure can shareholders easily see the cumulative impact of several years of remuneration.</p>																																																							
<p>In respect of future potential earnings, we advocate the following disclosure for the CEO of Future Potential earnings in next 5 years (the example below was done for in 2005 and refers to the period 2006-2010):</p>																																																							



This would assume standardised salary increases at 3% p.a., bonus payout at max for D9, 50% of target at median and nil at D1, standard assumptions re share price growth, TSR and vesting of performance conditions. (There is a precedent in the US SEC for using standardised assumptions, e.g. the valuations of options pre IFRS2.)

Question 23

Should quoted companies be required to disclose the performance criteria for annual bonuses?

If so, should companies be permitted to delay the publication of commercially sensitive performance criteria for up to two years?

Yes	No
✓	
Comments	

Question 24

Would disclosure by quoted companies of the ratio between the pay of the company's Chief Executive and the median earnings of the organisation's workforce provide useful information to shareholders?

If so, how should the ratio be calculated?

Yes	No
Yes but should be average earnings.	

Comments
<p>Using median introduces much complexity.</p> <p>Average employee remuneration is the total remuneration in the accounts (including share based IFRS2 estimates) divided by the total number of employees as shown in the accounts. (this makes no allowance for full time equivalents or part timers. However it is simple and cheap to do.) If this is disclosed over 5 years a trend is readily observable.</p>

Question 25

Do you agree that quoted companies should be required to disclose the total spend on directors' remuneration as a proportion of profit for the relevant financial year?

Yes	No
Yes, but...	
Comments	
<p>In place of "total spend" it should be both total awarded and total received.</p> <p>In place of directors it should be the sum of the Chairman, NEDs and the 5 highest paid executives.</p>	

Question 26

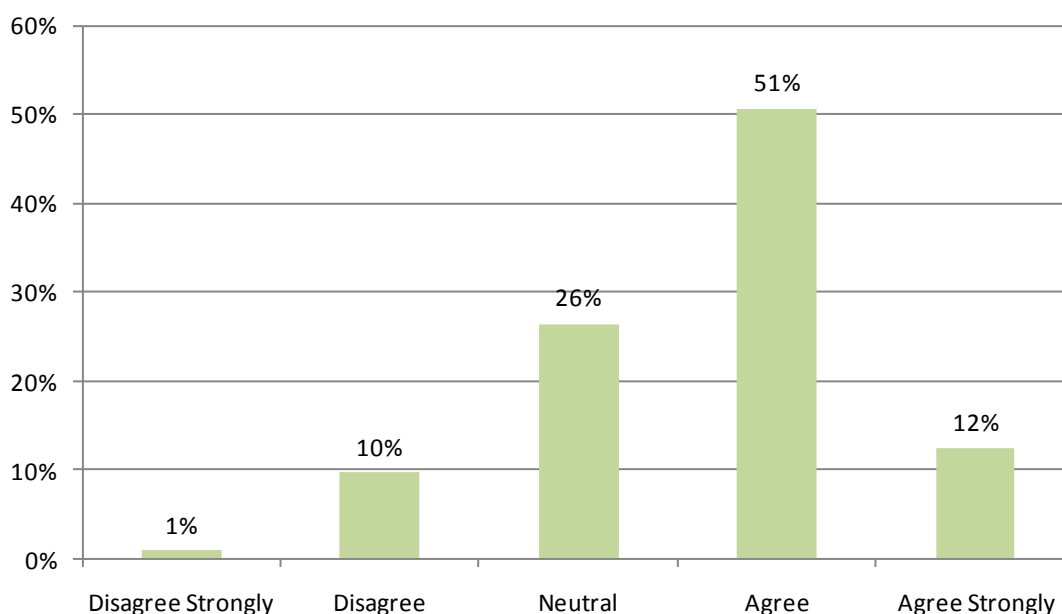
Should the amount of fees paid by companies to remuneration consultants be disclosed, and is there any further information which should be disclosed by companies in relation to the procedure for setting directors' remuneration?

Yes	No
✓	
Comments	
<p>Fees paid to remuneration consultants should be disclosed:</p> <p>In our view, the level of fees paid to some large remuneration consultants may result in a conflict of interest. Publishing the fees paid for remuneration committee advice and separately for other services to the company (in a similar</p>	

way that audit fees are disclosed) will improve the transparency.

Chairman and Non-Executive Directors are very strongly in favour of this proposal - 63% agree that fees for remuneration consultants be disclosed in annual reports. Only 11% disagree. The source of this data is the MM&K 2010 Chairman and Non-Executive Director Survey. 442 directors - 290 chairmen and 152 non-executive directors - contributed to the survey. They provided data on 1,170 appointments on main market, AIM, PLUS and private company boards, across all sectors.

Fees for remuneration consultants should be disclosed in the annual reports of listed companies



Publishing the fees paid for remuneration committee advice and separately for other services to the company (in a similar way that audit fees are disclosed) will improve the transparency.

The process by which directors' remuneration is decided?

1. The remuneration report disclosures do not provide clear reports on how involved executive management are versus non-executive directors in the way pay is set for executive management.
2. It is also unclear whether the remuneration consultants are under the influence of the management or are operating in a truly independent way without any conflicts of interest. This could be substantially improved if the fees paid to advisers for remuneration committee advice and, separately, fees for their other services to the company and its pension fund had to be shown in the annual remuneration report.

3. The following example of the 2010 Robert Wiseman Dairies PLC Directors' Remuneration Report shows their disclosure. From this, their shareholders can see the degree of input and potential conflict of interest.

During the year, the Committee consulted with AW Wiseman, Company Chairman, in relation to a number of its proposals and continued to receive advice from both Shepherd and Wedderburn LLP and Towers Watson (formerly Watson Wyatt) on structuring Directors' remuneration packages for which they received fees of £22,000 and £2,345 respectively (2009: £6,537 and £14,774 respectively). Shepherd and Wedderburn LLP and Towers Watson provided additional services to the Group on the administration, operation and design of the Company's share incentive arrangements for which they received fees of £23,415 and £1,915 respectively (2009: £25,913 and £8,177 respectively).

4. In many large companies the fees for executive compensation services run into hundreds of thousands of pounds whilst consultancy fees for advice to management and the pension fund can be in the millions. Shareholders should be given this information, in a transparent way so they can judge whether the consultant's advice is tainted.

We suggest the UK adopts rules similar to the Australian rules, which could be a good template to follow.

Increasing transparency over the use of remuneration consultants: the Australian approach

Amendments to the *2001 Corporation Act* introduced in Australia earlier this year require:

- approval of the engagement of a remuneration consultant by the board or RemCo
- remuneration consultants to report to the non-executive directors or the RemCo rather than company executives

The remuneration report must also provide detailed disclosures about the consultant, including:

- name
- statement that the consultant made such a recommendation
- details of any other advice they have provided
- amount and nature of the consideration payable for the remuneration recommendation
- amount and nature of the consideration payable for any other kind of advice referred to above

Both the remuneration consultant and the Board are required to make separate declarations that any recommendations on remuneration are free from undue influence by Key Management Personnel to whom the recommendations relate, and the Board must also disclose its reasons for being satisfied that undue influence by Key Management Personnel has not occurred.

Question 27

Do you agree that company law and the Listing Rule disclosure requirements on remuneration should be made fully consistent?

Yes	No
✓	
Comments	
<p>The only problem we are aware of is Actuarial Guidance Note GN11 re pensions.</p> <p>The different ASB rules for IFRS, UK GAAP and Frizzie do not to our knowledge cause problems in respect of remuneration.</p> <p>Some auditors' interpretations of when bonuses are paid/earned and hence disclosable vary, particularly in respect of deferred remuneration, but we do not think this requires changes to the listing rules or company law.</p>	

Question 28

Would reporting under International Financial Reporting Standards provide an appropriate basis for disclosure of remuneration in the preceding financial year if this were required on both an aggregate and individual basis?

Yes	No
	✓
Comments	
<p>The UK should not cede control over disclosure to IFRS. We may at times wish to adopt standards that are more stringent and more suited to the UK's needs.</p> <p>At other times we may not wish to adopt gold plated standards that are not suited to our markets.</p>	

We have not responded to Questions 29 to 35



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