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**The Investment Association**

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**Date: 31 October 2016**

Dear Remuneration Committee Chairman,

I am writing to outline the key changes to The Investment Association Principles of Remuneration for 2016. These changes reflect the Investment Association's response to the Executive Remuneration Working Group Final Report which was published in July. Our members have also asked us to highlight some issues they will be focusing on ahead of the 2017 AGM season.

**2016 Review of the Principles of Remuneration**

Following the publication of the Executive Remuneration Working Group Final Report in July 2016, the Investment Association has updated its Principles of Remuneration. The main changes are:

- The Principles have been slimmed down to a set of high level issues and updated to reflect the recommendations of the Executive Remuneration Working Group.
- The Principles have also been amended to acknowledge the need for increased flexibility of remuneration structures.
- The Principles and Guidance have been updated to ensure that they do not promote a single remuneration structure.
- The Principles have been updated to ensure that the level of remuneration has appropriate focus and that companies should disclose pay ratios between the CEO and median employee, and the CEO and the Executive team, to provide the context of the remuneration provided.
- The Guidance includes a new section on the importance of improving shareholder consultation, ensuring that it is based on the strategic elements of remuneration and leads to consultation rather than affirmation of the company's position.
- Post retirement shareholding guidelines have also been encouraged.

**Issues to consider for 2017 AGMs**

In particular, our members have asked us to re-emphasise the following aspects of the Principles:



**Levels of Remuneration** – The level of remuneration awarded to Executive Directors continues to be an area of particular concern for members, as well as society as a whole, with the current economic and political climate also contributing to the level of scrutiny. Members continue to pay close attention to levels of remuneration, and it is essential that companies adequately justify the level of remuneration awarded to Executives. This should be both in terms of the maximum potential remuneration as set out in the Remuneration Policy, but also payments actually made to the Executive during the year in the context of the company's performance.

In particular, members believe that any salary increases or increases to variable remuneration should be justified with clear and explicit rationale. Companies must be sensitive to the prevailing mood regarding executive remuneration, and take into account the effect of executive pay levels on all stakeholders.

**Bonus disclosure** – Shareholders require the retrospective disclosure of bonus targets so that they can ensure that there is an appropriate link between pay and performance. Our members' beneficiaries continue to seek explanations as to why we support the remuneration packages of investee companies; therefore, we need this information to justify supporting remuneration packages to our clients. In recent years, we have seen improvements to the retrospective disclosure of bonus targets. For 2017, members expect the following:

Financial Targets: Full retrospective disclosure of the threshold, target and maximum performance targets, the level of performance achieved against these targets and the resulting bonus outcome. Where targets are not disclosed or the Company has not made a commitment to disclose the target range in future, Investment Association members have asked IVIS, our Corporate Governance research service, to highlight this issue on a Red Top. As without such disclosures there is insufficient information to make an informed voting decision.

Further to the recommendations of the Executive Remuneration Working Group, members now also expect Remuneration Committees to provide an overview of how the performance targets have been set.

Personal and Strategic Performance Targets: Members expect a thorough explanation as to why personal or strategic targets have paid out, not just a description of non-financial performance indicators. Where IVIS deems there to be insufficient information on non-financial targets, members have asked IVIS to Amber Top the report.

Where financial metrics do not warrant a bonus payment, members will scrutinise the payment and rationale for the payment of any personal or strategic elements to ensure that such a payment is warranted.

**Policy Renewals** – A majority of companies will be seeking a Remuneration Policy vote at their 2017 AGM. We would like to remind companies that Investment Association members expect companies to have maximum limits on each aspect of variable remuneration. Whilst discretion is an important part of the Remuneration Policy, members do not expect companies to seek discretions to provide payments outside the scope of the policy. Finally, shareholders will review closely the recruitment provisions within the Remuneration Policy. In normal circumstances, they would expect the Remuneration Policy to contain sufficient flexibility to recruit individuals. Any additional recruitment limits should be clearly justified.

**Use of Discretion** – Discretion is an important tool to ensure that the remuneration outcomes are appropriate for the overall performance of the company, shareholder experience, and fair

to executives. Members wish for companies to be clear when the Committee has exercised discretion and fully outline the circumstances, reasons and outcomes of the use of the discretion.



**Pensions** – For a number of years the IA and our members have highlighted the disparity in Executive Director pension provision compared to that provided to the general workforce. Members are concerned with the lack of progress which has been made on this issue. Therefore, members continue to reiterate that, in instances where contribution rates for Executives and the general workforce differ, that the differences should be clearly justified.

If you need any further details on the Principles of Remuneration, please do not hesitate to contact me or one of the IVIS team ([www.ivis.co.uk/contact-us](http://www.ivis.co.uk/contact-us)).

Yours faithfully,

**Andrew Ninian**  
**Director, Corporate Governance & Engagement**