

Investment Management Association Principles of Remuneration 2014



October 2014

The Investment Management Association (IMA) has issued an update of the executive remuneration guidelines for listed companies.

Following the merger of the Investment Affairs division of the ABI with the IMA, the IMA has assumed responsibility for the guidance on executive remuneration which was previously issued by the ABI.

The covering letter which has been circulated to remuneration committee chairmen states that IMA members are generally positive about the first AGM season since the new reporting regulations came into force. The letter notes that there has been a high level of engagement and that generally companies have listened to their investors resulting in changes to draft policies or public assurances where concerns were raised, particularly in areas where policies allowed for significant discretion to be applied.

In light of this, the Principles of Remuneration have not been significantly changed.

Changes to the guidelines

- Fixed allowances - the key change relates to the addition of guidance on fixed allowances. This is included in Section B – Fixed Remuneration. The guidance states that the use of allowances is not consistent with the spirit of simplicity, clarity and pay for performance. Where such payments are considered necessary this should be clearly justified and explained within the context of the remuneration package as a whole.
- The only other change is in Appendix 1, which relates to the new reporting and voting regime. In the section on recruitment the guidance notes that shareholders will not support excessive variable remuneration limits on recruitment. The updated guidance expands this to clarify that this includes where there is no limit.

Shareholder concerns arising from the 2014 AGM season

The letter to remuneration committee chairmen emphasises a number of points raised by IMA members.

- Investors continue to be concerned about the overall quantum of remuneration and the level of gearing in variable remuneration and will continue to scrutinise any proposals to increase these, in particular in relation to salary increases and an increase in maximum variable pay. Any increase in salary above inflation or the general employee increase, or any increase in the maximum potential variable remuneration, should be clearly explained and justified.
- The amount payable for the achievement of threshold performance will also be scrutinised, not just as a proportion of the maximum, but as an absolute amount. Even 25% of an award can lead to substantial payments where the opportunities are high.
- Investors encourage all companies to consider longer performance periods and/or additional holding periods.
- Retrospective changes to performance conditions will not be supported. Investors are aware that some companies are considering retrospective changes to take account of movements in exchange rates but consider the management of exchange rate risk to be part of an executive's role.

Other comments on the 2014 AGM season

- **Engagement process** - a number of ways in which the process could be improved are noted:
 - Consultation or information – companies should be clear as to whether they are genuinely consulting with their shareholders on a proposal or providing information relating to a decision already made.
 - Consultations should take place as early as possible to allow for proper consideration.
 - Full details of any proposals should be given during the consultation.
 - It would be helpful for companies to send a 'wrap-up' letter confirming that the consultation has finished and setting out the key decisions.
- **Retrospective disclosure of annual bonus targets** – investors are disappointed in the level of disclosure and the large number of companies using the 'commercially sensitive' opt-out. Investors expect remuneration committees to disclose the performance range for annual bonus targets as well as the performance actually achieved retrospectively.
- **Public statements of clarification** – public assurances and further information in relation to remuneration policies, often published on websites, were considered helpful. Investors do not expect companies to seek re-approval of the policy to incorporate these assurances. but do expect details to be included in the next remuneration report.

- **Policy table** – although not required, investors would find it helpful for the policy table to be included in the remuneration report every year.

The full guidelines can be found at:

<https://www.ivis.co.uk/guidelines>

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