



PLSA

Corporate governance policy and voting guidelines

19th January 2017

"The Remuneration Committee should design rewards that drive long-term success. Remuneration committees should take ownership of, and be accountable for, both the remuneration policy and its outcomes. Companies should consider how they might align pay more closely with the interests of their long-term owners in order to position themselves best for future success."

The Pensions and Lifetime Savings Association (PLSA) has published its 2017 corporate governance policy and voting guidelines. The key changes are as follows.

General guidance

Section A: Leadership

The general guidance has been updated to reflect the requirement for Directors' to have regard for other stakeholders, including workers, customers, suppliers and wider society and the environment and for the board to be aware of these requirements when carrying out their work.

This is reflected in the detailed voting guidelines on the re-election of directors which now recommends that companies should, as part of the explanation as to why a director should be re-elected, include information relating to the fulfilment of their duty to act in the long-term interest of the company while also having regard for other stakeholders.

Section C: Accountability

The guidance now makes reference to the importance of a company's **workforce** to its long-term success and encourages companies to disclose more details of corporate culture and working practices. The detailed guidelines acknowledge that gathering the data necessary to clearly communicate the composition, stability, skills and engagement levels of a company's workforce may be a medium to long-term process, but note that if shareholders do not see better disclosure in this area in coming years, a vote against the annual report would be appropriate.

The detailed guidelines also now state that a vote against the re-election of the Chair or Chair of the Nominations Committee could be justified if there is a failure to move closer to the 33% target for **gender diversity**. Progress towards the target in the 2016 Parker report of no 'all white' boards is also considered as another useful measure of whether diversity is being sufficiently considered.

Section D: Remuneration

The general guidance has been expanded to highlight the growing concern around the size of executive pay packages as well as the structure and note that pay policies should be mindful of wider societal expectations as well as being aligned with pay policies in the company as a whole. The guidance states that “the evidence that pay incentives are necessary to motivate or reward executives and to achieve success for companies is questionable. Remuneration Committee deliberations should take a critical and challenging approach to pay increases and be prepared to exert downward pressure on executive pay”.

Detailed voting guidelines

The key changes to the voting guidelines regarding remuneration are as follows:

The remuneration policy

The new guidelines include specific guidance relating to executive pay levels. This states that pay policies should ensure that **maximum pay-outs remain in line with the expectations of shareholders and other stakeholders, including workers and wider society**. The policy should not enable pay awards larger than necessary to successfully execute the strategy and to incentivise and reward success. Specific voting guidelines introduced are:

- Pay policies which may result in pay awards that could bring the company into public disrepute or foster internal resentment, owing to excessive value and/or overly-generous incentives, justify a vote against the policy.
- If the process of engagement prior to the AGM vote fails to produce a remuneration policy that shareholders can support, it is considered a serious failure on part of the Chair of the remuneration committee in the most fundamental aspect of their role. A vote against the remuneration policy should in most circumstances be accompanied by a **vote against the Chair of the remuneration committee**, if they have been in post for more than one year.
- In the event of a vote against a revised remuneration policy, if the revised policy continues to fail to meet the principles outlined in these guidelines, it may also be appropriate to **vote against the Chair of the Board**.

The issues that are considered to potentially warrant a vote against the remuneration policy have been expanded to include:

- Pension payments or payments in lieu of **pension worth over 50 per cent of annual salary**.
- **Failure to disclose** or retrospective disclosure of variable pay **performance conditions for annual bonuses**.
- Excessively generous salary or performance-related pay awards.

The remuneration report

Circumstances that may trigger a vote against have been expanded to now include inappropriate or inadequate use of discretion, for example not scaling back awards in light of how performance was achieved, or in light of wider factors relating to the company, and its conduct, reputation and relationship with key stakeholders.

In line with the guidance on the remuneration policy, this section has been expanded to specifically note that a successful remuneration report, as with policy, requires the chair of the remuneration committee to work effectively with shareholders to understand their concerns and to exercise judgement and discretion appropriately. It is considered that failure to do so represents failure to carry out their most important duties. Therefore, in most circumstances where shareholders vote against the remuneration report they should **vote against the re-election of the chair of the committee** (if they have been in post for more than one year), and other members of the committee if appropriate.

The guidelines also note that high levels of shareholder dissent are too rarely heeded by companies and now **encourage shareholders to consider voting against the**

remuneration report rather than abstaining.

Deloitte view

The PLSA guidelines specifically note that quantum is as much an issue for shareholders as the structure of remuneration and have a strong focus on the importance of the wider workforce and the company's reputation.

The changes to the guidelines imply that the PLSA may be of the view that voting against the chair of the remuneration committee, or against a report rather than abstain, may be required to trigger change. This is a harder stance than we have seen in other guidelines.

As BlackRock and the Investment Association, the guidelines now specifically mention pension allowances, confirming that this is likely to be a key issue in 2017.

As with other guidelines, it is also clear that a transparent disclosure of pay outcome is expected.

Full details of the PLSA 2017 corporate governance policy and voting guidelines can be found [here](#).

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