



Press release

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### **The IIC welcomes measures to address excesses in the boardroom**

The Institutional Investor Committee (IIC) - comprising the ABI (Association of British Insurers), IMA (Investment Management Association) and NAPF (National Association of Pension Funds) - welcomes measures to address remuneration excesses in the board room as BIS (Department of Business Innovation and Skills) released its [consultation paper](#) on enhanced shareholder voting rights today.

The IIC fully supports BIS's aims of encouraging more engagement between companies and shareholders, and creating a strong link between incentives and performance. The IIC will continue to contribute to this very important debate and as part of this will develop further the Principles of Remuneration issued by the ABI last year.

Douglas Ferrans, Chairman of the IIC, said:

“Shareholders are primarily concerned with the returns from sustainable business success and executive management should only be rewarded on this basis – payment for failure is not acceptable in company boardrooms. It is essential that great companies are created and preserved for the benefit of shareholders and appropriate incentives form an important part of this. We support boards in achieving this success but will also hold them to account on this and their remuneration through active engagement and voting.”

-Ends-

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## **Notes to Editors**

The IIC is a group of trade associations that represents institutional investors and comprises the Association of British Insurers, the Investment Management Association and the National Association of Pensions Funds. Website - <http://www.iicomm.org/>

The IIC will be developing its thinking in relation to linking remuneration to performance along the following key high level themes which are simplicity, transparency and accountability.

It is expected that providers of capital will consider the following prior to voting on remuneration arrangements.

### **Simplicity**

- Remuneration arrangements should be tailored to and consistent with an individual company's specific strategy and risk profile thereby assisting sustainable business success. Arrangements should not be standardised or off the shelf and there should not be an over reliance upon remuneration consultants and benchmarking.
- Complex reward arrangements do not help incentivise performance and, indeed, are highly likely to be counter-productive. Remuneration arrangements should be simple and contain only a small number of variable elements.

### **Transparency and linking reward to performance**

- Superior sustainable business achievements should be rewarded commensurately but underperformance or failure should not be rewarded. Where business achievements are not sustained or sustainable then the associated rewards should be subject to claw-back and/or appropriate use of downward discretion by the remuneration committee. More importantly, underlying remuneration structures should not allow any reward for unsustained performance.
- Performance metrics should be linked to the business KPIs as set out in the annual report, and should focus management on longer term strategic measures and discourage over-reliance on metrics that focus attention upon shorter term actions or achievements. Success should be defined, and clearly demonstrated, by the delivery of the corporate strategy through achieving specific business objectives. The focus of incentives should be long-term arrangements of longer than three years rather than annual bonus and payment of shares rather than cash.
- Those who manage listed companies should share in the risks and rewards of corporate performance. They are entitled to be rewarded for their own endeavours that lead to sustained and sustainable increases in value to the capital that shareholders have committed. Executives should build up significant direct equity holdings funded out of salary and incentive arrangements that they own for the long-term. This is one of the best ways to align the interests of management with shareholders.



- Tone from the top should extend to remuneration and pay policy should be aligned with the culture, behaviour and practice that the board expects for all employees.

### **Accountability**

- While shareholders hold directors to account for remuneration arrangements through both dialogue and voting we are also reliant on remuneration committees/boards to explain and justify how they arrived at their decisions. There should be high quality explanations of the decisions made and why they match the company's specific circumstances. Any significant use of discretion needs to be transparently articulated with the reasons for its use elucidated. If we conclude that the remuneration committee is not applying these principles appropriately, while we will vote against remuneration proposals, companies should expect that we will more routinely vote against one or more members of the remuneration committee.
- Individual executives leaving due to underperformance should not receive more than their contractual salary and benefits for the unexpired term of their contract upon exit. Executive contracts should reflect this (with incentive grants being contingent on any necessary changes) and they should contain clear measures around success or failure.
- Remuneration proposals or strategies should be subject to detailed consultation with sufficient time to enable full debate with shareholders prior to the company seeking specific approval via voting. If this does not occur the company should expect that shareholders will not be supportive. Remuneration consultants should be used minimally to interact with shareholders in such consultations.

The Association of British Insurers Principles of Remuneration as at September 2011 are at <http://www.ivis.co.uk/ExecutiveRemuneration.aspx>