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13 December 2013

Dear Ms Woods,

**Financial Reporting Council - Directors' Remuneration - Consultation Document**

***Introduction***

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Corporate Governance and Share Schemes Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

***Response***

We welcome the opportunity to respond to this consultation. We do not support changes to the UK Corporate Governance Code (the "Code") on remuneration at the moment. Any additional regulatory or legislative changes on remuneration would be premature, seeing as the new directors' remuneration regulations only came into effect on 1 October 2013 and, accordingly, to date, no relevant annual general meetings have been called under this new regime.

We believe that both the Government and the Financial Reporting Council (FRC) should allow the new regulations to bed down and then evaluate, after the 2015 AGM season, the cultural change they have elicited in the relationship between companies and their shareholders. At that stage, it should be assessed as to whether it is necessary to make changes to the Code.

Below are some specific comments on the issues on which views are sought:

**1. Extended Clawback Provisions**

We do not believe that there is a present need for the Code to be amended regarding clawback. Investors are currently making their views very clear on this matter (for example, the NAPF/Hermes EOS five

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Registration Number: 4025281

principles and the recent letter sent by Fidelity to investee companies). Investors expect both the adoption of such arrangements and the disclosure of sufficient information in relation thereto.

## **2. Remuneration Committee Membership**

The data provided in the consultation paper shows that the practice of executive directors of FTSE 350 sitting on remuneration committees of other large companies does not seem to be widespread, and in fact, has been declining, for the most part, over the past 10 years. We do not consider any need for changes to Code at the current time so as to deter the appointment of executive directors to the remuneration committees of other listed companies. Indeed, there is insufficient evidence at the moment to demonstrate the detrimental nature of such a situation.

## **3. Votes Against Remuneration Resolutions**

We do not believe that an explicit requirement in the Code to report to the market in circumstances where a company fails to obtain at least a substantial majority in support of a resolution on remuneration is needed. Other rules already mandate the manner in which a company needs to issue an RIS announcement and each company must be trusted to manage its investor relations sensibly in other circumstances, so as to ensure that investors remain invested in the company.

We are especially concerned that an explicit requirement in the Code would fundamentally undermine the underlying 'comply or explain' basis of the Code, as strongly espoused by the FRC.

Moreover, as stated in the consultation paper, the Regulations already require disclosure in the annual remuneration report of any resolution at the previous year's AGM where there was significant dissent expressed and GC100 guidance goes further to suggest that companies should consider including this in their RIS announcement on the results of the AGM. In addition, in our Remuneration Committee Guide for Smaller Quoted Companies, we suggest that it is important for companies to engage with investors as soon as possible after an AGM on remuneration issues where shareholders expressed concerns. Therefore, we believe that it is best practice for a company to address votes against remuneration resolutions as soon as possible after the AGM - and so believe that there is no need for it to be further regulated.

## **4. Other Possible Changes**

We think that other possible changes to the Code should only be addressed at the same time as the 2015 AGM season, once the new regulations have bedded in to the AGM cycle. We consider it important that the Code continues to explicitly emphasise the importance of structuring a significant proportion of executive directors' in such a manner as it links rewards to corporate and individual performance.

Clearly, in due course, there will be a need for certain cross references to the new remuneration regulations (and, indeed, The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 which made changes to the 2008 regulations) to be included, but we do not think that this is necessary at present. However, we only consider it necessary for such changes to be made at the same time as there is a substantive change to the content of the Code itself.

If you would like to discuss any of these issues further, we would be happy to attend a meeting.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'TW', is positioned below the closing text.

Tim Ward  
Chief Executive

**Quoted Companies Alliance Corporate Governance Expert Group**

Edward Craft (Chairman)	Wedlake Bell LLP
Colin Jones (Deputy Chairman)	UHY Hacker Young
Victoria Barron	Hermes Equity Ownership Services
Edward Beale	Western Selection Plc
Rob Burdett	FIT Remuneration Consultants
Anthony Carey	Mazars LLP
Richie Clark	Fox Williams LLP
Louis Cooper	Crowe Clark Whitehill LLP
Madeleine Cordes	TMF Corporate Secretarial Services Ltd
Kate Elsdon	PricewaterhouseCoopers LLP
David Firth	Penna Consulting PLC
Peter Fitzwilliam	Mission Marketing Group (The) PLC
David Fuller	CLS Holdings PLC
Clive Garston	DAC Beachcroft LLP
Nick Graves	Burges Salmon
Andrew Hobbs	EY
Alexandra Hockenhull	Xchanging plc
David Isherwood	BDO LLP
Nick Janmohamed	Speechly Bircham LLP
Dalia Joseph	Oriel Securities Limited
Claire Noyce	Hybridan LLP
Gabriella Olson-Welsh	McguireWoods
Anita Skipper	Aviva Investors
Julie Stanbrook	Hogan Lovells International LLP
Nicholas Stretch	CMS Cameron McKenna LLP
Peter Swabey	ICSA
Eugenia Unanyants-Jackson	F&C Investments
Melanie Wadsworth	Faegre Baker Daniels LLP
Cliff Weight	MM & K Limited

**Quoted Companies Alliance Share Schemes Expert Group**

Fiona Bell (Chairman)	RM2 Partnership Limited
Barbara Allen/Anika Chandra	Stephenson Harwood
Emma Bailey	Fox Williams LLP
Martin Benson	Baker Tilly
Danny Blum	Eversheds LLP
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Sara Cohen	Lewis Silkin
Karen Cooper	Osborne Clarke
Jared Cranney	ISG plc
Rory Cray	FIT Remuneration Consultants
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Matthew Findley	Pinsent Masons LLP
David Firth	Penna Consulting PLC
Philip Fisher	BDO LLP
Amanda Flint/Richard Sharman/	
Amanda Stapleton	Grant Thornton UK LLP
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Mia Thursby-Pelham  
Nick Wallis  
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