



IMA Principles of Remuneration

20th October 2014

Foreword

Following the merger of ABI Investment Affairs with the IMA on 30th June, 2014, the enlarged Investment Management Association (IMA), to be renamed The Investment Association in January 2015, has assumed responsibility for guidance previously issued by the ABI.

The Principles set out members' views on the role of shareholders and directors in relation to remuneration and the manner in which remuneration should be determined and structured. We believe that these Principles continue to provide a useful guide to shareholder expectations and good practice. As ever, a continued and close dialogue between companies and their shareholders is crucial.

This document is designed with a format of over-arching Principles and general Guidance. Appendix 1 covers IMA views on practical aspects of the new reporting arrangements. This document is predominantly for companies with a main market listing but is also relevant to companies on other public markets and other entities.

Members continue to expect that, as a minimum, companies will follow the requirements relating to Remuneration in the UK's Companies Act 2006, Reporting Regulations, the UK Corporate Governance Code and the UK Listing Rules. Where companies are not subject to these regimes they should apply similar high standards.

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PRINCIPLES OF REMUNERATION

i. The Role of Shareholders

- a. IMA members as institutional investors are interested in long-term value creation for the benefit of our ultimate clients. We have a fiduciary responsibility to our clients, who are primarily individual savers and pensioners.
- b. This responsibility involves ensuring that clients' capital is allocated efficiently and that the companies we own are well governed and run in the interests of their shareholders.
- c. As part of this, members seek to ensure that remuneration practices and policies of companies they invest in are aligned with shareholder interests and promote sustainable value creation.
- d. IMA members are committed to responsible ownership as outlined in FRC's Stewardship Code, but it is not the role of shareholders to micro-manage companies.

ii. The Role of the Board and Directors

- a. Boards of Directors are appointed by shareholders to run companies and act in their interests. They have a fiduciary duty to act in the best interests of their shareholders when determining remuneration. It is their responsibility to promote the long-term success of the company, taking into account the interests of employees, suppliers, customers, community, the environment and society.
- b. Executive directors develop and implement strategy for the company. Non-executive directors should constructively challenge and contribute to this process, scrutinise the performance of the executives, and ensure that risk management systems are robust.
- c. Non-executive directors, particularly those serving on the Remuneration Committee, should oversee executive remuneration.

iii. Remuneration Committee

- a. Shareholders look to the Remuneration Committee to protect and promote their interests in setting executive remuneration. As directors, committee members are accountable to shareholders for the structure and quantum of remuneration.
- b. Remuneration Committees should set remuneration within the context of overall corporate performance. Structure should be aligned with strategy and agreed risk appetite, reward success fairly and avoid paying more than is necessary.
- c. Remuneration Committees should look at executive remuneration in terms of the pay policy of the company as a whole, pay and conditions elsewhere in the Group, and the overall cost to shareholders.

iv. Remuneration Policies

- a. Remuneration policies should be set to promote value creation through transparent alignment with the agreed corporate strategy.
- b. Remuneration policies should support performance, encourage the underlying sustainable financial health of the business and promote sound risk management for the benefit of all investors, including shareholders and creditors.
- c. Undeserved remuneration undermines the efficient operation of the company. Excessive remuneration adversely affects its reputation and is not aligned with shareholder interests.
- d. The board as a whole must consider the aggregate impact of employee remuneration on the finances of the company, its investment and capital needs, and dividends to shareholders.

v. Remuneration Structures

- a. The Remuneration Committee should select a remuneration structure which is appropriate for the specific business, and efficient and cost-effective in delivering its longer-term strategy. These Principles do not seek to prescribe or recommend any particular remuneration structure.
- b. Complexity is discouraged. Shareholders prefer simple and understandable remuneration structures; simplicity can be improved by limiting variable remuneration to an annual bonus and one long term incentive scheme.
- c. Executives and shareholders can have divergent interests, particularly in relation to time horizons and the consequences of failure or corporate underperformance. Incentive structures should have a long-term focus.
- d. To avoid payment for failure and promote a long-term focus, remuneration structures should contain a careful balance of fixed and variable pay. They should include a high degree of deferral and measurement of performance over the long-term.
- e. Structures should also include provisions that allow the company, in specified circumstances, to:
 - Forfeit all or part of a bonus or long-term incentive award before it has vested and been paid ('performance adjustment' or 'malus'); and/or
 - Recover sums already paid ('clawback')
- f. Executives should build up a high level of personal shareholding to ensure alignment of interest with shareholders.

- g. Dilution of shareholders through the issuing of shares to employees represents a significant transfer of value. Dilution limits are an important shareholder protection and should be respected.

GUIDANCE FOR REMUNERATION COMMITTEES

The following guidance is set out to help Remuneration Committees apply the IMA Principles of Remuneration and ensure a proper level of shareholder protection.

SECTION A – GENERAL GUIDANCE

1. Quantum

Quantum of remuneration is a matter of concern to shareholders. Levels of pay that do not reflect corporate performance undermine the ability to reward success and represent excess rent extractions. Undeserved remuneration undermines the efficient operation of the company. Excessive remuneration adversely affects its reputation and is not aligned with shareholder interests. Shareholders are likely to object to levels of pay that do not respect the core principles of paying no more than is necessary and a linkage to sustainable long-term value creation.

Companies must consider the aggregate impact of employee remuneration on the finances of the company, its investment and capital needs, and dividends to shareholders.

The Remuneration Committee should seek specific points of reference against which the appropriateness of quantum can be judged. Useful reference points, which should help avoid unnecessary disagreements with shareholders, include:

- A stated policy that links aggregate remuneration to overall corporate performance. High pay for exceptional performance is consistent with this approach.
- The remuneration policy of the company as a whole. Remuneration Committees should assess the appropriateness of changes in the quantum of executive remuneration in the context of the company overall, including changes in employee remuneration more broadly.
- A relevant and fairly constructed peer universe. It is undesirable simply to use “median” pay as a benchmark since this, if used broadly, can lead to ratcheted increases in remuneration.

2. Executive Shareholdings

Executive directors and senior executives should build up significant shareholdings in companies. Unvested share based incentives should not be allowed to count towards the holding requirements and these requirements are not a substitute for performance metrics under share based plans. Shares should only count towards the executive’s shareholding guideline if vesting is not subject to any further performance or other conditions such as continued employment. Shares which are vested, but which remain subject to a holding period and/or clawback, may count towards the holding requirement. The use of shareholdings in hedging arrangements or as collateral for loans should be fully disclosed. Shares which are subject to future performance, holding periods, claw-back or shareholding guidelines should not be hedged or used as collateral.

3. Non-Executive Shareholding

Shareholders encourage non-executive directors to own shares in the company. Chairmen and non-executives may receive part of their fees in shares bought at the market price. However, shareholders consider it inappropriate for chairmen and independent directors to receive incentive awards geared to the share price or corporate performance.

4. Performance Adjustment/Malus and Clawback

As stated above, structures should include provisions that allow the company, in specified circumstances, to:

- Forfeit all or part of a bonus or long-term incentive award before it has vested and been paid ('performance adjustment' or 'malus'); and/or
- Recover sums already paid ('clawback')

Shareholders believe the circumstances in which performance adjustment and clawback can be implemented need to be agreed and documented before awards are made.

The Committee should review the circumstances in which these provisions can apply and ensure that they are appropriate for the company. In general, shareholders accept that performance adjustment will apply to a broader range of circumstances than for clawback. The circumstances should, in each case, be clearly disclosed to shareholders.

The Committee should also consider the enforcement power they have to implement each process.

5. Discretion

Discretion can help Remuneration Committees to ensure that the outcomes of executive pay schemes properly reflect overall corporate performance and the experience of the shareholders in terms of value creation.

Discretion should be exercised diligently and in a manner that is aligned with shareholders' interests. Discretion should only be exercised within the previously agreed boundaries and maxima. If these are exceeded, then shareholders will consider excessive payments to be ex gratia in nature. Remuneration Committees will have to disclose the level of discretion applicable under the Policy Table.

The use of discretion should be clearly disclosed. Remuneration Committees will be held accountable for the way discretion is used.

6. Pay for Employees Below Board Level

The Remuneration Committee should be cognisant of pay and conditions elsewhere in the Group and take them into account when determining executive remuneration.

The Committee may have a role in determining pay or having oversight of remuneration at below board level. This is of particular relevance where the levels of remuneration or the risks associated with the activities involved are material to the Group's overall performance.

7. Taxation

Remuneration Committees should not seek to make changes to any element of executive remuneration to compensate participants for changes in their personal tax status.

Remuneration structures that seek to increase tax efficiency should not result in additional costs to the company or an increase in its own tax bill. Remuneration Committees should be aware of the potential damage to the company's and shareholders' reputation from implementing such schemes.

8. Contracts and Severance

Companies should follow the Principles and Guidance contained within the IMA and NAPF Statement on Executive Contracts and Severance and the UK Corporate Governance Code.

The Statement is available at:

https://www.ivis.co.uk/media/5896/ABI_NAPF_Joint_Statement_14feb2008_2_v_5.pdf

9. Recruitment of Executive Directors

When recruiting Executive Directors, companies should pay no more than is necessary and should fully justify payments to shareholders. Compensating executives for the forfeiture of awards from a previous employer should generally be on a comparable basis, taking account of performance achieved or likely to be achieved, the proportion of performance period remaining and the form of the award.

10. Reward for Failure

It is unacceptable that poor performance by senior executives, which detracts from the value of an enterprise and threatens the livelihood of employees, can result in excessive payments to departing directors. Payment for failure cannot be tolerated. Boards should ensure that this cannot occur, both when negotiating new contracts and when agreeing any payments when contracts are terminated.

11. Special Awards and ex-gratia Payments

Effective remuneration planning involving a balance of short and long term plans, carefully selected and calibrated performance measures and targets, and annual grants, should make exceptional awards unnecessary. A need for special grants, particularly for continuing management, indicates poor planning by the Remuneration Committee.

Special awards may be acceptable when, for example, a new team is brought in to turn around a company. If such awards are made, the Remuneration Committee must justify them.

Shareholders believe that retention awards for main board directors rarely work. Retention concerns on their own are not sufficient grounds for remuneration to increase.

Shareholders do not support the practice of paying transaction related bonuses.

SECTION B - FIXED REMUNERATION

1. Base Pay

Base pay should be set at a level which reflects the role and responsibility of the individual, whilst respecting the principle of paying no more than is necessary.

Where Remuneration Committees seek to increase base pay, the reasons should be fully disclosed and justified. Salary decisions should not be taken purely on the basis of simple benchmarking against peer companies. If benchmarking is used, the aim should not solely be to match the "median" but to provide a point of reference for determining the appropriate salary for the specific job. The constant chasing of a perceived median has been a major contributor to the spiralling levels of pay.

Remuneration Committees should also be aware of the multiplier effect that increases in base pay have on the overall quantum of remuneration.

2. Pensions

Pension provision can represent a considerable cost to the company and this should be recognised by the Remuneration Committee when considering total executive remuneration.

Pension related payments should not be used as a mechanism for increasing total remuneration. The pension provision for executives should, where possible, be in line with the general approach to the employees as a whole. Any differences in pension contribution rates for executives and the general workforce should be disclosed and justified to shareholders.

Payments in lieu of pension scheme participation should be clearly disclosed and treated as a separate non-salary benefit. There should be informative disclosure identifying incremental value accruing to pension scheme participation and any other superannuation arrangements.

Changes in pension benefit entitlements or to transfer values reflecting significant changes in actuarial and other relevant assumptions should be fully identified and explained. Where changes to pension benefit entitlements or transfers are made at the discretion of the Remuneration Committee, these should be made clear and justification should be provided. Pensions paid on early retirement should be subject to abatement.

3. Benefits

Benefits should be fully disclosed and, where significant, viewed as an integral component of fixed remuneration.

4. “Allowances” as part of Fixed Pay

Members consider that, in general, the use of allowances as part of fixed pay goes against the spirit of simplicity, clarity and pay for performance.

If a Committee considers that the payment of an allowance is necessary it should be clearly justified and explained within the context of the overall remuneration package.

SECTION C – VARIABLE REMUNERATION

A significant proportion of executive remuneration should be performance related, and tied to the achievement of the agreed corporate strategy and long-term value creation. These Principles do not seek to prescribe or recommend any particular remuneration structure.

Shareholders prefer simple remuneration structures; simplicity can be improved by limiting variable remuneration to an annual bonus and one long term incentive scheme. Remuneration committees may consider non-financial performance criteria in variable remuneration, for example relating to environmental, social and governance (ESG) objectives, or to particular operational objectives. ESG measures should only be used if they are material to the business and quantifiable. In each case, the link to strategy and method of performance measurement should be clearly explained.

No element of variable pay should be pensionable.

1. Annual Bonuses

Annual bonuses incentivise performance and reward achievement in line with the agreed corporate strategy.

Annual bonuses exist to reward contribution to the business during the year above the level expected for being in receipt of a salary. They should be clearly linked to business targets, ideally through the KPIs reported in the Strategic Report. Where other measures are chosen, these should be explained and justified. The KPIs can be both financial and non-financial.

The measurements chosen must be quantifiable and the targets set at the start of the year.

Companies should clearly disclose and justify the performance measures chosen and the related targets. Where consideration of commercial sensitivities may prevent a fuller disclosure of specific short-term targets at the start of the performance period, shareholders expect to be informed of the main performance parameters, both corporate and personal, for the financial year being reported on.

Following payment of the bonus, companies should provide a full analysis in the Remuneration Report of the extent to which the relevant targets were actually met.

Maximum participation levels should be disclosed and any increases in the maximum from one year to the next explicitly justified.

Deferring a portion of the bonus into shares can create a greater alignment with shareholders, particularly where there is no long term incentive. However, this should not result in an increase in the overall quantum of the bonus.

Shareholders discourage the payment of annual bonuses to executive directors if the business has suffered an exceptional negative event, even if some specific targets have been met. In such circumstances, shareholders should be consulted on bonus policy and any proposed payments should be carefully explained.

Discretion should be retained to ensure that a payment that is inappropriate in all the company's circumstances is not made. Companies should disclose the range of discretion which can be applied to bonus awards.

2. Long-Term Incentives

i. General

Long-term incentives exist to reward the successful implementation of strategy and the creation of shareholder value over a period appropriate to the strategic objectives of the company. Equity based long-term incentive schemes are the most effective way to align the interests of participants and shareholders.

The performance period should be clearly linked to the timing of the implementation of the strategy of the business, which should be no less than three years and shareholders would generally prefer longer. Committees should consider the use of additional holding periods.

All new incentives or any substantive changes to existing schemes should be subject to prior approval by shareholders by means of a separate and binding resolution. Any change in quantum should be fully explained and justified.

Scheme and individual participation limits must be fully disclosed in share incentive schemes.

The operation of share incentive schemes should not lead to dilution in excess of the limits acceptable to shareholders.

ii. Performance Conditions

The widely differing nature of business models and industry characteristics means that the appropriate performance measures and conditions for different companies may vary significantly. Performance measures and vesting conditions should be fully explained and clearly linked to the achievement of appropriately challenging financial performance which will enhance shareholder value.

Whilst other considerations may apply in particular circumstances, for example, restructuring, shareholders will expect that remuneration policies and structures will normally be consistent with the following criteria:

- Shareholders have a clear preference for financial measures linked to value creation. Performance criteria should be linked to the Company's long-term strategy and targets reflect an appropriate balance between the shorter- and longer-term.

- Remuneration Committees will need to consider, and explain, appropriate performance criteria in the light of the specific business characteristics of the group in question. Performance criteria should fully reflect the performance of the business as a whole and should be applied consistently across measurement periods.
- The definition of any performance measurement should be clearly disclosed.
- Retesting of performance conditions is not acceptable.
- Remuneration Committees should ensure that, when using in isolation either comparative or absolute performance metrics, the result does not produce outcomes that are not in line with the overall performance of the company, its future prospects or the experience of its shareholders over the performance period.
- Comparator groups used for performance purposes should be both relevant and representative. Where only a small number of companies is used for a comparator group, Remuneration Committees should satisfy themselves that the comparative performance will not result in arbitrary outcomes. Awards should not vest for less than median performance.
- Where operational measurements are used, they would generally be expected:
 - To include, subject to business strategy, one or more measures relating to overall business volume or growth
 - To include one or more measures relating to business efficiency or profitability
 - To avoid the risk of providing an implicit incentive to take undue operational or financial risks or, in particular, to adopt an unduly risky capital structure.
- Where Total Shareholder Return (TSR) relative to a relevant index or peer group is used, Remuneration Committees should satisfy themselves prior to vesting that the recorded TSR or other criterion is a genuine reflection of the company's underlying financial performance, and explain their reasoning.
- The calculation of starting and finishing values for TSR should be made by reference to average share prices over a short period of time at the beginning and end of the performance period. Lengthy averaging periods should be avoided. Where TSR is used as a performance criterion and the chosen comparator group includes companies listed in overseas markets, it is essential that TSR be measured on a consistent basis. The standard approach should be for a common currency to be used. Where there are compelling grounds for the calculation to be based on local currency TSR of comparator group companies, then the reasons for choosing this approach should be fully explained.

- Where appropriate, Remuneration Committees should take account of the IMA Guidelines on Responsible Investment Disclosures:
https://www.ivis.co.uk/media/5893/ABI_RID_guidelines.pdf

iii. Vesting

Threshold vesting amounts, reflecting expected performance, should not be significant by comparison with annual base salary.

Awards' structures with a marked 'cliff edge' vesting profile are considered inappropriate. Full vesting should reflect exceptional performance and so be dependent on achievement of significantly greater value creation than that applicable to threshold vesting.

Sliding scales and graduated vesting profiles are a useful way of ensuring that performance conditions are genuinely challenging. They generally provide a better motivator for improving corporate performance than a 'single hurdle'.

iv. Grant Size

Windfall gains may arise if the level of share or option grants expressed as a multiple of salary is maintained after a substantial fall in the share price. Where this risk exists, grants should be scaled back.

v. Cost

The primary information that should be disclosed includes:

- The potential value of awards due to individual scheme participants on full vesting. This should be expressed by reference to the face value of shares or shares under option at point of grant, and expressed as a multiple of base salary.
- The maximum dilution which may arise through the issue of shares to satisfy entitlements.

vi. Change of Control Provisions

Scheme rules should state that there will be no automatic waiving of performance conditions either in the event of a change of control or where subsisting options and awards are 'rolled over' in the event of a capital reconstruction, and/or the early termination of the participant's employment. Remuneration Committees should use best endeavours to provide meaningful disclosure that quantifies the aggregate payments arising on a change of control.

In the event of a change of control, the key determinant of the level of awards vesting should be underlying financial performance. Also, any such early vesting as a consequence of a change of control should be on a time pro-rata basis i.e. taking into account the vesting period that has elapsed at the time of change of control. Remuneration Committees should

satisfy themselves that the measured performance provides genuine evidence of underlying financial achievement over any shorter time period. They should explain their reasoning in the Remuneration Report or other relevant documentation sent to shareholders.

vii. Pricing and Timing of Awards

The price at which shares are issued under a scheme should not be less than the mid-market price (or similar formula) immediately preceding grant of the shares under the scheme.

Options granted under executive (discretionary) schemes should not be granted at a discount to the prevailing mid-market price.

Repricing or surrender and regrant of awards or 'underwater' share options is not appropriate.

The rules of a scheme should provide that share or option awards should normally be granted within a 42 day period following the publication of the company's results.

viii. Life of Schemes and Incentive Awards

No awards should be made beyond the life of the scheme approved on adoption by shareholders, which should not exceed 10 years.

Shares and options should not vest or be exercisable within three years from the date of grant. In addition, options should not be exercisable more than ten years from the date of grant.

Where individuals choose to terminate their employment before the end of the service period, or in the event that employment is terminated for cause, any unvested options or conditional share-based award should normally lapse.

In other circumstances of cessation of employment¹, some portion of the award may vest, to the extent of the service period that has been completed, but subject to the achievement of relevant performance criteria. In general, the originally stipulated performance measurement period should continue to apply. However, where in the opinion of the Remuneration Committee, early vesting is appropriate, or where it is otherwise necessary², awards should vest by reference to performance criteria achieved over the period to date.

¹ Such circumstances may include disability, ill health, redundancy, retirement or analogous reasons for departure of a 'good leaver' nature.

² Such circumstances may include death and also occasions such as takeover of the company or sale or transfer of the business undertaking where awards are not being rolled over into equivalent awards in the successor entity or new employer.

Where options vest, in the event of death or cessation of employment of the option holder or where a company is taken over (except where arrangements are made for a switch to options of the offeror company), or where they have already vested at the time of such event, they must be exercised (or lapse) within 12 months. Where the performance measurement period applicable to an option extends beyond the point of cessation of employment, options must be exercised within 12 months of vesting following the end of the performance measurement period.

Any shares or options that a company may grant in exchange for those released under the schemes of acquired companies should normally be taken into account for the purposes of dilution and individual participation limits determined in accordance with this Guidance.

ix. Dilution

The rules of a scheme must provide that commitments to issue new shares or re-issue treasury shares, when aggregated with awards under all of the company's other schemes, must not exceed 10% of the issued ordinary share capital (adjusted for share issuance and cancellation) in any rolling 10 year period. Remuneration Committees should ensure that appropriate policies regarding flow-rates exist in order to spread the potential issue of new shares over the life of relevant schemes in order to ensure the limit is not breached.

Commitments to issue new shares or re-issue treasury shares under executive (discretionary) schemes should not exceed 5% of the issued ordinary share capital of the company (adjusted for share issuance and cancellation) in any rolling 10 year period. This may be exceeded where vesting is dependent on the achievement of significantly more stretching performance criteria. The implicit dilution commitment should always be provided for at point of grant even where, as in the case of share-settled share appreciation rights, it is recognised that only a proportion of shares may in practice be used.

x. Joint Venture Companies and Subsidiary Companies

Shareholders generally consider it undesirable for options and other share-based incentives to be granted over the share capital of a joint venture company.

Discretionary grants over shares of a subsidiary company should be made only in exceptional circumstances. Where companies can justify doing so in terms of contribution to overall value creation, shareholders may consider exceptions, subject to the following:

- Participation in subsidiary company schemes is restricted to those whose time is fully allocated to that subsidiary. Parent company directors should not participate in such schemes.
- There is full disclosure of the accounting treatment used when recognising the cost of option or share awards.
- Grants of options or share awards are subject to appropriately challenging performance criteria.

- Dilution limits relating to the subsidiary company should be disclosed in the context of parent company dilution limits.
- The methodology for valuing the subsidiary company shares and, in the case of option awards, the measurement of volatility of those shares should be disclosed. The party responsible for the valuation process should also be disclosed.
- Any entitlement or obligation to convert subsidiary company shares to parent company shares should be disclosed.

Shareholders may consider further exceptions where the condition of exercise is subject to flotation or sale of the subsidiary company. In such circumstances, grants should be conditional, so that vesting is dependent on a return on investment that exceeds the cost of capital and that the market value of the shares at date of grant is subject to external validation.

Exceptions will apply in the case of an overseas subsidiary company where required by local legislation, or in circumstances where at least 25% of the ordinary share capital of the subsidiary company is listed and held outside the group.

xi. Particular Types of Scheme

a) Matching schemes

Any matching shares allocated will be considered by shareholders as part of the quantum of total remuneration. The performance conditions should be appropriate to the total amount potentially to be received, including matching shares. Matching schemes may add unnecessary complexity.

b) Option schemes

Dividends should not be paid or accrue in the period prior to exercise, as the shares are not owned by the participant.

c) Performance on grant schemes

Measuring performance achieved prior to the point of grant is generally not favoured. If the Remuneration Committee considers a performance on grant scheme to be appropriate:

- It should be carefully justified, and accompanied with genuinely long holding periods and significant shareholding requirements;
- There should be clear disclosure (in advance) of the performance required, and achieved, to justify grants;
- Given that such schemes are, generally, not subject to future performance or other conditions (other than performance adjustment or clawback), shareholders expect

the amounts awarded to be significantly lower than under long-term incentive schemes subject to such conditions;

- The use of a measurable financial performance underpin over the holding period should be considered.

xii. Employee Share Ownership Trusts - ESOTs

ESOTs should not hold more shares at any one time than would be required in practice to match their outstanding liabilities, nor should they be used as an anti-takeover or similar device. Furthermore, an ESOT's deed should provide that any unvested shares held in the ESOT shall not be voted at shareholder meetings. The prior approval of shareholders should be obtained before 5% or more of a company's share capital at any one time may be held within ESOTs.

Where companies have provided for an ESOT to be used to meet scheme requirements, they should disclose the number of shares held by the ESOT in order to assist shareholders with their evaluation of the overall use of shares for remuneration purposes. The company should explain its strategy in this regard.

xiii. All-Employee Schemes

All-Employee schemes, such as SAYE schemes and Share Incentive Plans (SIPs) should operate within an appropriate best practice framework. If newly issued shares are utilised, the overall dilution limits for share schemes should be complied with. The Guidance relating to timing of grants (except for pre-determined regular appropriation of shares under SIPs) applies.

APPENDIX 1 – THE NEW REPORTING AND VOTING REGIME

The IMA support the GC100 and Investor Group guidance, which has been produced jointly between companies and investors to assist companies in reporting under the new regulations.

The IMA believe that the Principles of Remuneration continue to provide a useful guide to shareholder expectations and good practice under the new remuneration reporting and voting regime. We outline below IMA views on various practical aspects of the new reporting arrangements:

1. Frequency of the vote on the Policy Report – The legislation requires shareholders to vote on a company's Policy Report at least every three years. In normal circumstances, the IMA would expect the Policy Report to be voted on every three years and not on an annual basis; this will help to ensure that the company's remuneration strategy is aligned with the long term business strategy.
2. Policy start date – In normal circumstances shareholders would expect a company's Remuneration Policy to apply immediately after approval. Policies which take effect only at the start of the following financial year may be set too far in advance for meaningful engagement or dialogue with shareholders.
3. Disclosure of the Policy Report – Although not required by the Reporting Regulations, it will be helpful to shareholders if the Policy Table is disclosed in the Remuneration Report on an annual basis.
4. Commercially sensitive performance targets – Where, in the opinion of the Directors, performance targets are considered to be commercially sensitive, the legislation allows for these targets not to be disclosed. Shareholders recognise that, in some cases, it would be detrimental to the company and shareholders to disclose these targets. However, shareholders consider this provision should generally apply by exception and should be clearly justified to shareholders.
5. Quality of reporting – Companies should seek not just to comply with the Reporting Regulations but should provide a full and clear explanation of the key decisions that the Remuneration Committee has made during the year and the reasons for them.
6. Recruitment of new directors - Companies have to disclose the maximum variable remuneration which can be paid to a new director. This excludes any payments made in compensation for the forfeiture of any award under variable remuneration at a previous employer. Shareholders recognise that companies may need flexibility to allow them to recruit new directors. However, shareholders will not support excessive - or no - limits within their policy and will want any significant differences between the normal policy and the recruitment policy to be clearly justified.