
The Investment Association

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Dear Remuneration Committee Chairman,

I am writing to outline the key changes to The Investment Association Principles of Remuneration for 2015, to highlight the items of focus for our members at the current time and provide more details on The Investment Association's Executive Remuneration Working Group which is seeking to establish a simpler structure of executive remuneration.

2015 Review of the Principles of Remuneration

Members of The Investment Association have been encouraged by the progress made in the second year under the new Remuneration Regulations. Given the establishment of The Investment Association's Executive Remuneration Working Group, we do not consider it appropriate to make significant amendments to the Principles, but have made one change to the Principles:

Length of performance and holding periods for long term incentives – we have updated the Principles to make it clear that it is now members' expectation that long term incentives have a performance and holding period of at least five years in total.

Issues of concern to shareholders

In particular, our members have asked us to re-emphasise the following aspects of the Principles:

Salary increases – Investors continue to be concerned by the level and frequency of salary increases. For a number of years, shareholders have had a clear expectation that in normal circumstances, basic salary increases should be limited to inflation or the increase being given to the general workforce. In fact, there are a growing number of investors, who consider that executive directors should not receive regular salary increases, given the overall structure of their remuneration packages.

Members are seeing a notable trend in the number of salary increases above inflation. These increases are leading to a significant rise in the overall levels of remuneration packages. Members will continue to scrutinise all salary increases, and believe that all salary increases

should be justified with clear and explicit rationale, particularly for any increases in excess of inflation or the increases provided to the general workforce.



Bonus disclosure – Shareholders require the retrospective disclosure of bonus targets so that they can ensure that there is an appropriate link between pay and performance. Our members’ beneficiaries continue to seek explanations as to why we support the remuneration packages of investee companies; therefore, we need this information to justify supporting remuneration packages to our clients. This year we have seen some improvement in the level of retrospective disclosure of bonus targets but there are still a number of companies that provide no details on their bonus targets or consider them to be commercial sensitivity with little justification. The Remuneration Regulations allow companies not to disclose targets if they are “commercially sensitive”; however, any company which considers their targets to be commercially sensitive must explain to shareholders the circumstances that justify the use of this approach and indicate when targets will be disclosed in the future.

Members now expect that targets will either be disclosed retrospectively in full at the end of the year, or that there is a commitment to disclose such targets in full at a specified time in the future. Where companies do not disclose any targets or do not commit to full future disclosure, members have asked IVIS to Red Top those companies as they believe that there is insufficient information to make an informed voting decision. Where relative achievement is disclosed with no commitment to disclose the actual target ranges, an Amber Top will be given. This policy will take effect for companies with year-ends on or after 1 December 2015.

Service contracts – During the year there has been much debate about length of service contracts. The majority of members are still in favour of notice periods of up to 12 months. However, members believe that new contracts should have equal notice periods for both the company and the director. Members also believe that for new contracts, companies should introduce clauses to allow the withholding of pay in lieu of notice where there is any ongoing regulatory or internal disciplinary or misconduct investigation.

Pensions – Members are concerned with the large increase in pension amounts as well as complex pension arrangements with Executive Directors, which differ from arrangements that are in place for the rest of the employee population. Members expect the pension arrangements to be in line with those for the rest of the company.

Recruitment and leaving arrangements - Investors will continue to scrutinise recruitment arrangements and buyout awards. In particular any attempts to re-award or re-issue recruitment awards in the circumstances of a fall in company value is a concern for Investment Association members. It is the view of our members that both the executive and the company take on risk during a recruitment situation and that it is inappropriate for the executive to be shielded from such risks.

In relation to leaving arrangements, members would like to reiterate that Remuneration Committees should take a firm approach when determining leaving arrangements and assessing whether an individual is a good or bad leaver. Members expect full justification of the treatment of leavers particularly where a leaver is deemed to be a good leaver.

The Investment Association’s Executive Remuneration Working Group

In September, we announced the creation of an Executive Remuneration Working Group to bring forward proposals for a radical simplification of executive pay. Concern has been

mounting in the investment industry, on company boards and with executives themselves that pay structures are becoming too complex, leading to a lack of clear incentives for company management to act in the best long term interests of the companies themselves and their investors.



The Investment Association's Executive Remuneration Working Group brings together senior representatives from the investment community and the corporate world to address the issue. The Working Group is expected to bring forward proposals in the spring of 2016.

If you would like to provide your views on executive remuneration to the Working Group, please do not hesitate to contact me.

If you need any further details on the Principles of Remuneration, please do not hesitate to contact me or one of the IVIS team (www.ivis.co.uk/contact-us).

Yours faithfully,

Andrew Ninian
Director, Corporate Governance & Engagement