



“ 2013 has seen significant change in remuneration reporting, with UK-quoted companies having to prepare their next Directors' Remuneration Reports under new regulations. The first DRRs to be prepared under the new BIS regulations will be published later in the year by companies with September year ends. Other

companies will be able to see from these reports how the new regulations have been interpreted and see how shareholders vote on the remuneration policies. It is clear that shareholders will be busy in the next 12 months reviewing and voting on new disclosures. ISS has

said it does not want to be consulted on policies which are unchanged from the prior year. We expect most policy reports to be supported by shareholders, as contentious disclosures can generally be confined to the Annual Report on Remuneration. If shareholders have significant concerns about the implementation they can trigger a review of the policy the following year.

We recommend companies start preparing their Directors' Remuneration Report well in advance to ensure sufficient time for the Remuneration Committee to agree the detail of policies. We also suggest taking the new draft policy to all Remuneration Committee meetings to confirm that all decisions fit with it.

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Robert Talbut's speech at Kepler's Annual Ritz luncheon



“ In June, Kepler hosted its annual luncheon for Chairmen and Remuneration Committee Chairmen at the Ritz. Our guest speaker was Robert Talbut, Chairman of the ABI Investment Committee and Chief Investment Officer at Royal London Asset Management. His key messages are outlined below:

Remuneration design

- Internal benchmarking of pay is as important as external benchmarking
- Remuneration structures need to be simple and transparent. The motivational impact of complex schemes on executives is questionable. Performance metrics should be few and simple. A typical executive package could be simplified to salary, cash bonus and deferred shares
- Remuneration structures should be linked to the underlying business plan and strategy
- Many executives feel cash bonuses are a reward rather than an incentive
- In terms of performance periods, '5 is the new 3' Companies should also consider increased holding periods
- In general, shareholders would like to see an increase in executive shareholding requirements.

Remuneration Committee Chairs

- The role of the Remuneration Committee is increasingly being seen by some shareholders as the second most important non-executive role. It is a tricky 'dual' role requiring a balance between the interests of the company and shareholders.
- Responsibility for remuneration policy is shared between the Board, not just the Remuneration Committee
- Committees should be independent, i.e. in

Shareholder consultations

- Boards and investors need to work together to ensure a fair balance between rewards to executives and returns to stakeholders
- Investors want open and frank discussions with companies on executive remuneration. These discussions should be kept private
- Simple and transparent remuneration structures will help reduce the degree to which some investors feel the need to delegate scrutiny of remuneration reports to third parties.

Steps to be taken by investor community

- Robert Talbut acknowledged that fund managers and corporate governance representatives need to be more 'joined up'
- Investors should appoint people to their committees who have a good understanding of the company's business context and who display thoughtful and independent judgement.

Use of discretion

- The use of discretion is increasing between the Remuneration Committee and executives on the one hand, and shareholders on the other. It is a two-way, it can be used to adjust between pay and performance.

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About Kepler

Kepler Associates is an independent reward consultancy focussed on helping companies develop executive remuneration programmes aligned to their business strategy that maximise shareholder value. Our clients are companies that see incentive compensation as a source of competitive advantage. Remuneration Committees value our independence, our ability to bring new thinking to old problems, and the responsiveness of our service.

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