

INVESTMENT ASSOCIATION UPDATES EXECUTIVE REMUNERATIONS PRINCIPLES AND PUBLISHES OPEN LETTER

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Legal Briefings

Following the recommendations of the Executive Remuneration Working Group in July 2016 (see our briefing [here](#)) the Investment Association ("IA") has written an [open letter](#) to all companies in the FTSE 350 setting out its expectations on executive pay.

The IA has updated its [Principles of Remuneration](#) in line with the Executive Remuneration Working Group's recommendations to encourage simpler and more flexible remuneration structures.

The Principles do not favour any single remuneration structure above others so as to enable companies to choose the most appropriate structure for their business and strategy.

The Principles make it clear that a Board must justify levels of executive pay, both the maximum potential remuneration as set out in the remuneration policy, as well as actual payments made during the year in the context of the company's performance.

The IA wants companies to disclose pay ratios between the CEO and median employee, and the CEO and the executive team, to help shareholders understand the scale of awards made.

The IA also suggests that Remuneration Committees should consider implementing post-employment shareholding requirements.

The IA has informed companies of the need to improve shareholder consultation on remuneration issues (companies should not treat consultation as a validation exercise) and to ensure that this engagement is based upon how pay is in line with the company's strategy.

Finally, the open letter has a section on remuneration policy renewals setting out the IA's expectations on maximum limits on each element of variable remuneration, use of discretion and recruitment scenarios.

Our commentary

There are now several competing pressures for change in the executive remuneration sphere, from Theresa May's stated intention to "curb" excessive executive pay inflation; continuing media focus on high pay levels which itself leads to increased public anger; Remuneration Committee frustration at having to work with a complex and sometimes broken model; and signs that the investment community is starting to think that quantum rather than structure is the real issue.

Given the influence in this area of the IA (and, in its former guise, the ABI), it is expected that Remuneration Committees and their advisors (both in-house and external) will consider the views published by the IA very carefully (as well as those of other influential bodies such as ISS who called for [comment](#) last week on what issues it should take into account when assessing unusual incentive structures, such as those proposed by the Executive Remuneration Working Group and whether the longest serving member of a Remuneration Committee should be held accountable if serious concerns have been raised with pay practices over a number of years).

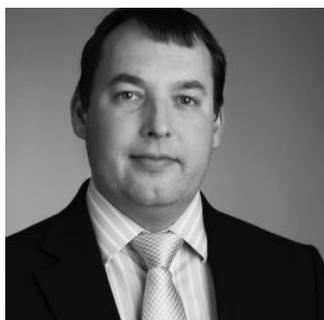
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