



UK Executive Pay & Governance

New BEIS Select Committee Inquiry on Executive Pay and Gender Pay

March 2018

Introduction

On 23 March the Business, Energy and Industrial Strategy (BEIS) Select Committee [announced an inquiry](#) (click for link) into both gender pay and executive pay.

The Select Committee is inviting written submissions on a series of questions on both topics. **The deadline for the submissions on gender pay is 10 April (i.e. a fortnight's time), while the deadline for comments on the executive pay questions is 8 May.** The Select Committee intends to hold a hearing on gender pay reporting on 17 April and a hearing on executive pay on 16 May.

The BEIS Select Committee was reconstituted following the 2017 general election and is now chaired by Rachel Reeves MP (Labour).

Executive pay

The inquiry will consider key developments in executive pay since the previous Select Committee's report on corporate governance was published in April 2017. Among other things, that report included the following recommendations:

- Bonuses should be aligned with broader corporate responsibilities and company objectives rather than "share value"
- LTIPs should be scrapped and replaced with "deferred stock", with no new LTIPs being agreed from the start of 2018
- There should be a binding vote on "executive pay awards" when there is a 25%+ vote against in the prior year
- The UK Corporate Governance Code should recommend that the chair of the remuneration committee should resign where proposals do not achieve 75% support

- The chair of the remuneration committee should serve on the committee for at least one year before appointment as chair
- The Code should be amended to recommend employee representation on the remuneration committee and the publication of CEO pay ratios

The new inquiry is due to review progress in simplifying executive pay and pay reporting as well as "the role of remuneration committees, institutional investors and shareholders in curbing excessive pay."

It is also due to examine clawback provisions in incentive schemes following the case of Carillion, which was criticised for weakening these provisions not long before the company collapsed.

The specific questions on which the Select Committee seeks views are as follows:

- What progress has been made on implementing the recommendations on executive pay by the previous Committee in its 2017 report on corporate governance?
- What improvements have been made to reporting on executive pay in the last 12 months?
- What steps have been taken by remuneration committees and institutional investors to combat excessive executive pay in the last 12 months?
- What further measures should be considered?

Gender pay

With the deadline for companies to report their gender pay gap (4 April) rapidly approaching, the Select Committee will investigate issues surrounding the specific reporting requirements, what steps companies are taking to address the gender pay gap and the sanctions in place for those companies which do not report correctly. The Select Committee is seeking views on various [questions](#) linked to these issues.



Our View

- The latest inquiry comes only one year after the publication of the report from the previous Select Committee and arrives in a period where extensive consideration of the executive pay regime has led to pending legislative and regulatory change. Draft legislation covering (among other things) pay ratios and directors' duties is expected soon, and the FRC is currently digesting responses to its consultation on amending the UK Corporate Governance Code. **As a result, the broader market appetite for a further round of debate on potential reforms to executive pay may be limited.** Furthermore, one key group, investors, will be spending the next couple of months focused on voting at AGMs for December year end companies and may therefore find it difficult to apply significant resource to this consultation.
- It is clear, however, that the Select Committee believes that the collapse of Carillion has provided additional impetus for this further review of the current state of play. The Select Committee has been active in recent months investigating Carillion, holding sessions with former directors and advisers and also publishing remuneration committee minutes and papers on its [website](#).
- In terms of the inquiry's specific focus, we highlight that some of the recommendations of last year's Select Committee report are in the process of being adopted in law (e.g. CEO pay ratio reporting), are proposed to be taken up in amended form (e.g. the FRC proposal on the prior service of the remuneration committee chair) or have been rejected (e.g. changing the voting rules for remuneration policy and remuneration report resolutions or effectively "outlawing" LTIPs). We believe that the Government and the FRC may have limited enthusiasm to revisit some of the outstanding issues so soon.
- More generally, for better or for worse, **we do not believe that market dynamics have changed substantially in the last 12 months.** We are a long way from scrapping LTIPs. The conventional pay model remains in place at most companies, and while there have been experiments with innovation (e.g. restricted shares), these have not always met with success and most remuneration committees have opted to play it safe. There are a number of reasons for this, not least investor pushback on some of the proposals and a strong desire among committee chairs to stay off the Investment Association's [Public Register](#) of companies which receive a vote against of 20% or more.
- Gender pay reporting has captured considerable public and media attention in recent weeks as more and more companies report ahead of the deadline, and the quirks and limitations of the reporting and sanctions regime have been much discussed. In this regard the Select Committee's inquiry is timely, although we highlight that the timeframe for submitting comments on the questions is very short – just two weeks, over the Easter holiday period – and thus those who would like to contribute to the inquiry on this topic are urged to do so as soon as possible.

Want to know more?

Please contact:

Andrew Udale
m: 07770 720 888
andrew.udale@kornferry.com

Jonathan Hutchings
m: 07408 802 787
jonathan.hutchings@kornferry.com

Chris Niland
m: 07779 270 334
chris.niland@kornferry.com

Simon Garrett
m: 07748 328 560
simon.garrett@kornferry.com

Deborah Hall
m: 07495 796 619
deborah.hall@kornferry.com

Rob Burdett
m: 07979 537 326
rob.burdett@kornferry.com