

**Directors' Remuneration:  
Response by the Local Authority Pension Fund  
Forum**

LAPFF Secretariat  
c/o 4th Floor, Cityside, 40 Adler Street, London E1 1EE  
Tel: 0171 247 2323 Fax: 0171 247 2457

## 1. Introduction

The Local Authority Pension Fund Forum (LAPFF) is a grouping of 22 pension funds with over 30 billion in assets. Its purpose is to provide a forum for debate and collective initiatives in relations to corporate governance issues and socially responsible investment issues. members are committed to the responsible use of their ownership rights and recognition of the responsibilities arising from these rights.

The Forum has had a long-standing interest in the issues surrounding directors' remuneration and welcomes the government's interest in the subject. LAPFF considers that the issue is important for a number of reasons:

- ▼▼ it is a key area where there is a potential conflict of interest between executive directors and shareholders,
- ▼▼ the structure of remuneration will affect company performance through companies' abilities to attract, retain and incentivise key executives, and in terms of the secondary impact it has on the attitudes of other employees,
- ▼▼ it has a social impact in terms of the differentials between high and low paid and in terms of consumption patterns within the economy.

The Forum considers that government scrutiny of the current system is fully justified on these grounds.

The Forum also broadly welcomes the government's general approach of exploring how the current system for setting and disclosing boardroom pay can be made more transparent and accountable.

The Forum's comments relate to the specific issues on which comments are sought.

## 2. The role of the remuneration committee

Proposal	Comment
All listed companies should have a remuneration committee of independent non-executives	Incorporation of this requirement into the Listing Rules would be a step forward. However, it should be made clear that the remuneration committee had delegated powers to set remuneration rather than simply making recommendations to the board.
Chairman of the board should not be a member of the remuneration committee as s/he cannot be viewed as a normal non-executive	Would strengthen independence of remuneration process where chairman is highly paid and highly involved in company. But would unfairly hit chairmen who were true non-executives. Focus on independence of all members would be preferable.
Remuneration committee should have access to professional advice from outside the company	Remuneration consultants are seen by some as contributing to increasing levels and complexity of directors' pay. But ability of committee to take independent advice is positive proposal.

Remuneration consultants should not also be employed by company's management	Ring-fencing consultants' advice from management would be important, though difficult to achieve if chief executive or HR department need to be consulted about management team pay. Proposal could prevent other advisers (eg auditors) being used for pay advice.
--	---

### 3. Linkage between pay and performance

Proposal	Comment
Government will take no view on appropriateness of performance criteria	Type of performance criteria is a matter for the company and its shareholders. Agree with approach.
Performance criteria should be realistic but challenging	Agree with approach. The key issue is to define 'challenging'.
Companies should be required to make more informative disclosures on linkage to performance.	Very few companies provide information on their performance in terms of the criteria used to determine remuneration so agree with approach.

### 4. Disclosure of directors? remuneration

Proposal	Comment
There is scope for simplifying some disclosure now required	Disclosure of information varies in format, consistency and comprehensiveness. Agree that there are some items which could be simplified. Consolidation of overall reporting framework is essential given that the Companies Act, the Listing Rules, accounting standards and the Combined Code all require various disclosures.
Additional disclosure could be required in relation to longer term objectives in performance of the board	There is little current information of this nature Would be useful in setting remuneration policy in context.
Additional disclosure of performance criteria used to assess director performance	Agree with approach.
Additional disclosure of comparator groups	Agree with approach
Disclosure of performance in relation to comparator groups over preceding years	Would be very valuable in assessing toughness of targets and appropriateness of comparators
Disclosure of balance between elements of package which are and are not performance-related	Would be useful though assessment of proportional importance would require method for valuing future value of long term incentives and options.

Disclosure of the relationship between awards made under incentive schemes and performance during the year	Would be very useful for analysis of packages.
--	--

## 5. Contracts and compensation

Proposal	Comment
Make contract information which is currently available with a contract inspection available in the remuneration report	Strict interpretation of current Listing Rules would require additional disclosure in annual reports (e.g. of liquidated damage provisions) but disclosure of all elements of contracts would be unnecessary if contracts were required to be sent to shareholders on request.
Require companies to justify any compensation paid to a departing director	Would be a useful way of assessing the degree to which mitigation has been applied and the components used to calculate compensation.

## 6. Directors' accountability to shareholders

Option	Comment
Require listed companies to put their remuneration report to the vote every year	Would enable a regular vote on a specific area of policy, though it is recognised this would be an advisory vote akin to voting on the report and accounts. Positive proposal.
Require listed companies to have a remuneration policy which was voted on every year	Would have much the same effect as the above since remuneration policy would be set out in the remuneration report, but would be more general. There is a problem of deciding the limitations of policy and the implementation of policy.
Require directors to stand for election every year	Would introduce stronger accountability over a range of issues, not just remuneration. Positive proposal in terms of general corporate governance reform but not necessarily relevant solely in terms of remuneration issues.
Require chairman of the remuneration committee to be elected every year	Would enable a vote on pay but may be difficult to justify this for one committee chairman and not require it for audit, nomination, environment etc.
Create special procedures to enable shareholders to move a resolution on remuneration at the AGM	Reform of shareholder resolution requirements would be very welcome as the current system is archaic, unwieldy and undemocratic but reform should apply to all resolutions. Unclear why there should be a special case for remuneration-linked resolutions.