

16 November 2011

John Kay
The Kay Review
Department for Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

Dear John,

**The Kay Review of UK Equity Markets and Long-Term Decision Making
Call for Evidence
Response from MM&K**

MM & K Limited ("MM&K") is an independent firm of remuneration consultants. We have limited our provision of factual evidence to those areas in which we are experts. We have only responded to question 1.a., viz.:

- 1. Whether the timescales considered by boards and senior management in evaluating corporate risks and opportunities, and by institutional shareholders and asset managers in making investment and governance decisions, match the time horizons of the underlying beneficiaries.**

We would particularly welcome evidence on:

- a. the relationship between reporting timescales and those used for internal planning and appraisal;**

Remuneration committees, under pressure from all sides, are becoming increasingly conservative. As a result, they often look outside for 'best practice' rather than designing tailored remuneration plans which drive value and performance. **The 'best practice' model that has emerged is horrendously short-term.** The timescale for incentive measurement for bonuses and LTIPs is one to three years. The use of deferred bonus plans has further shortened the timescale of performance measurement. This reflects the systematic short-termism amongst most investors as well as the media. Chief executives are expected to 'do something' to get results in the short-term. Share options are now sadly neglected; despite the fact they potentially create an interest in the share price for up to ten years.

In support of this view we provide the following evidence (in the table overleaf), which shows that the average annual bonus of FTSE100 CEOs has increased tenfold from £188,000 to £1.7 million, in the period 1998 to 2010.

We also enclose an article in ICSA magazine which explains our views in more detail and, for reference, a copy of the September 2011 MM&K/Manifest Executive Director Total Remuneration Survey, which is the source of the above data and which contains further information to support our views.

Table of FTSE100 Average CEO Salary and Bonus 1998-2010 (source MM&K/Manifest Executive Director Total Remuneration Survey – September 2011)

Average CEO - FTSE100	Salary £000	Bonus £000	Deferred Bonus £000	Cash Bonus + Deferred Bonus	
				£000	% Salary
Latest data	827	885	824	1,709	207%
2010	825	857	488	1,345	163%
2009	818	715	462	1,177	144%
2008	810	750	377	1,127	139%
2007	755	828	350	1,178	156%
2006	711	740	249	990	139%
2005	716	623	299	922	129%
2004	672	635	224	859	128%
2003	659	581	127	708	108%
2002	620	504	69	573	92%
2001	525	369	3	372	71%
2000	499	345	4	348	70%
1999	444	214	-	214	48%
1998	425	188	-	188	44%

More broadly we welcome the framework of questions that your review has constructed. We feel it addresses the subject comprehensively, which the Stewardship Code manifestly has failed to do. You have invited specific suggestions as well as factual evidence, and we would like to offer one suggestion.

Your review appears to start from the premise that the health of UK industry depends on shareholders taking a long-term view of companies and giving more emphasis to business fundamentals as opposed to market trends. This illustrates the dichotomy that exists between shareholders as owners (at the top of the corporate governance pyramid where they certainly should be concerned with long-term health) and shareholders as the providers of equity capital – which is just one sort of funding in a spectrum of risk/return that includes mezzanine debt to corporate bonds and bank lending. There is a place for short-term equity holdings – even for high-speed computer trading. But it should not be allowed to contaminate the responsibility of shareholders as voting owners.

We therefore suggest that voting rights in shares should accrue to the individual or institutional shareholders once they have been held for, say, two years.

Other mechanisms, such as capital gains tax relief for longer term shareholders could also be considered, or a small increase in the imputed tax on dividends. Such tax changes could be tax neutral in terms of total revenue but create a small incentive for longer term shareholders.

These are the views of MM&K. Cliff Weight and Damien Knight would be pleased to discuss them with you.

Yours sincerely,

Cliff Weight and Damien Knight

Appendix - About MM&K

MM&K is a leading independent consultancy specialising in the planning, design and implementation of executive pay and reward strategies.

Founded in 1973, MM&K focuses on directors' and senior executive remuneration, but we have added other services to support our clients' needs through the acquisitions of Independent Remuneration Solutions and The Share Option Centre and the launch of higher talent, our specialist recruiter of HR professionals. MM&K is owned by its employees and directors.

Our consultants' expertise areas include HR, share schemes, law, accountancy, tax, corporate governance, business management and statistics. Our multi-disciplinary approach to remuneration is always tailored to individual client requirements.

MM & K Limited is owned by its employees and directors.

MM & K Limited is authorised and regulated by the Financial Services Authority.

Who We Are

Paul Norris, Chief Executive

Masters graduate in Law and Barrister. Paul started his career with MWP Incentives Limited, and then spent a period in merchant banking before joining the buy-in team that created MM & K in 1985. He advises a number of remuneration committees on business-linked remuneration strategies and is experienced in the design and implementation of cash and share based incentive plans.

Nigel Mills, Director

PPE graduate and chartered accountant. Nigel joined MM & K in 1985 having spent 6 years at Price Waterhouse after graduating from Oxford. He is an authority on executive and all employee cash and equity based incentive schemes for public and private companies. He also leads the Private Equity business of MM & K and is an expert on carried interest and co-investment plans for Private Equity houses.

Cliff Weight, Director

Graduate in Mathematics and Statistics from Cambridge. Cliff has over 20 years' experience as a remuneration consultant. He was a Director of Independent Remuneration Solutions, who merged with MM & K in November 2006. He specialises in advising companies on executive directors' remuneration, annual and long term incentives and non-executive directors' fees. He is a regular speaker at conferences and is co-author of Tottel's (now Bloomsbury Publishing) Corporate Governance Handbook, for which he wrote the chapters on directors' remuneration.

Damien Knight, Executive Compensation Director

Physics graduate. After a period in construction management, Damien has followed a career in human resources and remuneration consulting, spanning 30 years. Damien was a director of the Hay group where he worked for over 20 years and most recently Damien was Senior Consultant with Watson Wyatt. For the past 15 years he has specialised in executive remuneration and has advised the remuneration committees and management of a wide range of companies in the UK and elsewhere in Europe, including several FTSE 100 and other major corporations.