How will Remuneration Committees cope with their expanded remit?

Changes to UK corporate governance guidance and disclosure regulations introduced this summer have expanded the remit of remuneration committees. The effects reach beyond quoted companies. We have designed a programme to help navigate through the added complexity.

The UK Corporate Governance Code (UKCGC), applicable to companies with a premium listing in London, now requires remuneration committees to have delegated responsibility for setting remuneration for senior managers. It goes further, requiring remuneration committees to review workforce remuneration and related polices and the alignment of incentives and rewards with culture, and to take these into account when setting executive remuneration policy.

Regulations made under the Companies Act, which govern the content of the Directors' Report, Strategic Report and Directors' Remuneration Report (DRR), will require enhanced disclosures. Some of the changes will affect all companies, depending on size but only quoted companies are required to publish a DRR. Most of the changes come into force for financial years starting on or after 1 January 2019, so their effect will not be seen until the annual reports published in 2020 are available. However, some committees may wish voluntarily to comply in their 2019 annual report to test the water.

The objective is greater clarity about actions taken, the reasons why they were taken and their effect on key decisions made during the year to which the relevant report relates. Specifically in relation to the DRR, remuneration committees will have to make additional disclosures about:

- the use of discretion
- the effect of share price movements on the value of vested incentive awards
- the effect of assumed share price movements on the projected value of executives' remuneration
- the ratio of CEO pay to the lower quartile, median and upper quartile employee's pay.

By an amendment to the AIM rules, AIM companies were, by 28 September 2018, required to adopt a recognised corporate governance code, identify it on their web-site and explain the extent to which they comply with its principles, or explain why they have not done so. There are only two choices in practice; the UK Corporate Governance Code or the code published by the Quoted Companies Alliance (QCA). An AIM company which has adopted the UKCGC has effectively bound itself to adopt and comply with the governance principles applicable to a company with a premium listing in London, or to identify the principles with which it does not comply and its reasons for not doing so. The QCA code is more user-friendly. It has been designed specifically for smaller companies and is accompanied by a helpful guide for remuneration committees, which includes a specimen remuneration report. A recent survey indicates that 80% of AIM companies have adopted the QCA code.

To help non-executive directors, newly or recently appointed either as remuneration committee chair or committee member, we have designed a training programme, which can be delivered one-to-one or in a group setting. One-to-one sessions can be arranged by appointment to suit diary commitments and we are currently in the process of planning another group programme.

For more information about remuneration committee training programmes, please contact: Paul Norris (paul.norris@mm-k.com), Damien Knight (damien.knight@mm-k.com) or Stuart James (stuart.james@mm-k.com)

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