Center On Executive Compensation

September 26, 2012

VIA EMAIL

Mr. Barry Walker
Executive Pay Consultation
Department of Business, Innovation and Skills
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RE: Center On Executive Compensation Comments on the Revised Remuneration Reporting Regulations

Dear Mr. Walker:

The Center On Executive Compensation ("Center") is pleased to submit comments on the Department of Business, Innovation and Skills' proposed revisions to the Remuneration Reporting Regulations. The Center is a U.S.-based research and advocacy organization that seeks to provide a principles-based approach to executive compensation policy from the perspective of the senior human resource officers of leading companies. Headquartered in Washington, DC, the Center is a division of HR Policy Association, which represents the chief human resource officers of over 335 large companies, and the Center's 100 subscribing companies are HR Policy members who represent a broad-cross-section of industries. While most Center Subscribers are headquartered and listed in the United States, a large proportion has a significant presence in the U.K. and European markets.

The Center's primary purpose in commenting on the proposed changes is to give our perspective on the impact of expanded executive remuneration disclosure requirements, based upon changes that have been made in the United States since 2006, and to urge that those experiences and the experiences of other countries be factored into the development of the final regulations. Because the market for executives extends beyond any one country's border and is truly now a global market, the Center's comments also urge the BIS to ensure that enhanced transparency – which is a desirable end -- does not inadvertently affect the ability of companies to attract or retain senior talent.

The Center strongly supports clearer disclosure of director remuneration that will truly foster greater investor understanding of whether pay and performance are aligned at a particular company. While there are a number of approaches to achieve this end, the Center supports disclosure of a comparison of realized pay to actual performance rather than estimates of potential payouts. The Center also believes that it is important to ensure that disclosure does not encroach on the flexibility of companies to determine how pay should be delivered, or impact their ability to recruit and retain employees.

In addition, there should be a balance between the quality and quantity of disclosure. Expanded remuneration disclosure in the United States has generated widespread criticism by investors and companies alike that the disclosures have become too long and in many cases may have effectively reduced transparency by making it difficult for investors to find information they are seeking. Practices are improving, but length continues to be an issue. In response to investor requests, companies have begun to include executive summaries at the front of their disclosures to allow investors to identify key issues and prioritize where to spend their time. Although the proposed letter from the chair of the remuneration committee appears to be such a summary, the Center urges the BIS to implement revised regulations that minimize unnecessary information in disclosures to allow an effective and efficient flow of information. For example, the proposed increase of disclosure about the wider employee context of director remuneration calls for companies to disclose the comparison metrics taken into account (if any) and how they were taken into account, along with the percentage increase in pay of the workforce and the percentage increase in pay of the CEO. Because the pay levels of employees at all levels of a company are typically determined based upon the skills required, the market for that talent and the overall importance to the company, there is a significant question regarding whether this information would be useful to investors in making investment decisions.

Another concern when making the decision to increase disclosure requirements is that significant expertise will need to be developed within the government in order to understand and implement the new regulations. In the U.S., when new and expanded disclosure regulations were implemented in 2007, the staff of the U.S. Securities and Exchange Commission reviewed a random set of roughly 300 company disclosures for compliance and issued comment letters to them. It was quickly discovered that the SEC professional staff, while experienced in other aspects of corporate disclosure, were not sufficiently familiar with corporate pay regimes or compensation disclosures. Since 2007, great strides have been made, but the initial communications led to considerable frustration on the parts of companies and regulators. Finally, the expansion of disclosure requirements in the U.S., Canada and Australia give the U.K. a body of experience from which to work, and the Center urges that these examples be used as the final regulations are developed and implemented.

The proposed revisions to the regulations highlight the focus of the "shareholder spring" on greater accountability for pay regimes in the U.K., it is important to understand that the market for senior director talent is increasingly global in scope. The regulations should be careful to focus on greater transparency rather than regulating the structure or amount of compensation, so that U.K.-listed businesses are not negatively impacted within the global market for talent. Companies are increasingly reaching across continents to secure the best executive talent. Emerging markets such as China, Brazil and India, which are experiencing a shortage of qualified executives, can support highly competitive pay packages to attract top talent from around the world, including from companies based in the West. The Center urges BIS to consider the impact this battle for talent might have on companies hampered by requirements which make it difficult for them to remain competitive with regard to pay design and delivery for directors.

Some data help put this point into perspective. A 2010 Korn/Ferry survey of global executive mobility reported that 82 percent of executives said they were willing to relocate to a different region, state or country, and more than half said they had already accepted an international assignment.[1] A recent talent mapping study by executive career site Experteer showed that U.K. executives are particularly willing to move – 26 percent of senior professionals

[1] Korn/Ferry, The Executive Quiz (2010), http://ir.kornferry.com/phoenix.zhtml?c=100800&p=irol-newsArticle&ID=1420936&highlight.

changing jobs between 2010 and 2011 chose to work in a new country, compared to Germany where the figure was only seven percent.[2] To the extent overly prescriptive disclosure requirements prevent U.K.-listed employers from retaining their executive talent, inability to compete could negatively impact UK employers and perhaps lead to a talent drain into more business-friendly markets.

Further evidence of the market for talent comes from leading global management consulting firm Booz & Co.'s 2011 annual global study of worldwide CEO succession patterns, which noted that CEO turnover is on the rise again, largely due to the improving economy in many parts of the world. More than 20 percent of incoming CEOs came from outside the company (up from just 14% in 2007) reflecting a wider net being cast by companies to obtain CEOs with experience in multiple regions. The report also noted that the number of companies based in emerging markets has more than doubled, rising from 10% in 2006 to 25% in 2011, while the number of companies headquartered in Western Europe dropped from 26% to 19%.[3] These emerging markets are experiencing a chronic shortage of executive talent and are willing to pay to obtain it.

In sum, the Center believes that greater transparency is worthwhile and should be adopted, but that the impact on global competitiveness should be factored into the development of the regulations.

Conclusion

The Center On Executive Compensation appreciates the opportunity to comment on the proposed revisions to the Remuneration Reporting Regulations. Please do not hesitate to contact me at tbartl@execcomp.org if you have any questions about our comments or would like to discuss them further.

Sincerely,

Timothy J. Bartl
President

[2] Experteer, OMIS Research, Talent Mapping (2011), http://www.experteer.co.uk/about/press_release/european-executive-talent-movement.

[3] Booz & Company, CEO Succession Report, 4 (2011),http://www.booz.com/media/uploads/BoozCo_CEO-Succession-Study-2011_Extended-Study-Report.pdf.