

**Remuneration Consultants Group**

The annual Review of the Effectiveness of the Code of Conduct

December 2018

November 2018

Introduction by Dr Martin Read,

Since its formation in 2009, the role of the Remuneration Consultants Group (the “RCG”) has been the development and stewardship of the voluntary Code of Conduct (the “Code”). The Code sets out the role of executive remuneration consultants and describes the professional standards by which they advise their clients.

In order to ensure the Code continues to achieve its aims and remains fit for purpose, the RCG regularly reviews its content and the effectiveness of its implementation. The RCG sees this as an essential part of its remit and crucial for the success of the Code.

A review of the effectiveness of the Code has been conducted each year from 2011. The process followed in 2018 was similar to the process followed in previous years. It included an anonymous survey of all consultants engaged in executive pay consulting in the member firms (which focussed on the effectiveness of the Code and how well the disciplines of adherence were being maintained) and a questionnaire filled in by member firm Practice Leaders (which focussed specifically on the effectiveness of the Code in direct dealings with Remuneration Committee Chair and members). The process also included an analysis of the annual reports of FTSE 350 companies regarding disclosure on Remuneration Committee advisors. Additionally, two focus groups for junior consultants were run, which explored practical considerations related to the application of the Code and challenges faced by consultants in their everyday work. A number of examples were discussed which illustrated the relevance of the Code and how it applied to practical situations faced by consultants.

I am pleased to say that the review was productive, helpful and informative. It was reassuring to have confirmation that the Code is recognised as playing an important role in making clear the professional standards of remuneration consulting in the UK. While all member firms have processes in place to embed the requirements of the Code, the 2018 review emphasised the continued importance of training for consultants on the Code. It also highlighted the engagement with Remuneration Committee Chairs without management present as one of the key areas for member firms to focus on in the coming year.

The paper attached provides a summary of the review process. I would like to thank all member firms who participated in the review process and provided required information and resources for the review to be successfully completed.

Dr Martin Read CBE

Chairman

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## A. The RCG and its activities in 2018

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### Background

The Remuneration Consultants Group (the “RCG”) was formed in 2009 and represents the overwhelming majority of executive remuneration consultancy firms advising UK listed companies.

The role of the RCG is the stewardship and development of a voluntary Code of Conduct (the “Code”) which clearly sets out the role of executive remuneration consultants and the professional standards by which they advise their clients.

The inception of the Code and the RCG arose after the publication of the final recommendations of the Walker Review in November 2009. In this review, Sir David Walker advocated that it was appropriate for the executive remuneration consultancy industry to form a professional body with the oversight of a Code of Conduct. The objective was to provide greater clarity on the role of executive remuneration consultants and ensure that high professional standards are maintained.

The inaugural RCG Code was included as an annex to the final recommendations of the Walker Review in November 2009 and the RCG put a formal constitution in place shortly thereafter. Every two years, a review of the Code is conducted by the Board with the effectiveness of the Code reviewed annually.

During the course of 2017, the Code was reviewed and amended hence 2018 activities were restricted to reviewing the effectiveness of the Code only.

The RCG currently has eleven members. The member firms are:

Aon Hewitt	Korn Ferry Hay Group	Pearl Meyer
Deloitte LLP	KPMG	PwC
EY LLP	Mercer	Willis Towers Watson
FIT Remuneration Consultants LLP	MM&K Limited	

The Board comprises an independent Chairman, two independent non-executive directors and four directors elected by the Members (who are executive compensation consultants working for the member firms).

The Board meets four times a year. The attendance record of the Board members in 2018 is summarised below.

Member	18 Jan	17 April	12 June	31 Oct
Martin Read (Chairman)	✓	✓	✓	✓
Philippa Hird (Ind. Director)	✓	✓	✓	✓
Simon Neathercoat (Ind. Director)	✓	✓	✓	✓
Sally Cooper (Director)	✓	✓	✓	✓
Tom Gosling (Director)	✓ <sup>1</sup>	✓	✓	✓ <sup>6</sup>

<b>Member</b>	<b>18 Jan</b>	<b>17 April</b>	<b>12 June</b>	<b>31 Oct</b>
John Lee (Director)	✓ <sup>2</sup>	✓	✓ <sup>3</sup>	✓ <sup>7</sup>
Hazel Rees (Director) <sup>4</sup>	✓	✓	n/a	n/a
Richard Latham (Director) <sup>5</sup>	n/a	✓	✓	✓ <sup>8</sup>

<sup>1</sup> Represented by Fiona Camenzuli

<sup>2</sup> By telephone

<sup>3</sup> Represented by Katharine Turner

<sup>4</sup> Left the Board (by rotation) in April 2018

<sup>5</sup> New Director appointed to the Board in April 2018

<sup>6</sup> By telephone

<sup>7</sup> Represented by Darrell Hare

<sup>8</sup> By telephone

## **B. The Review of the Effectiveness of the Code**

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### **The objective**

In 2011, as part of the review of the Code, the Board agreed to carry out an annual Review of the Effectiveness of its Implementation. The evaluation process was based on information provided by the member firms, and the Board agreed to summarise the findings of the evaluation process and make them public on the RCG website. An important aspect of this exercise has been that the Members share good ideas that will improve the effectiveness of the implementation of the Code, as well as sharing experiences on barriers to effective implementation and how these might be overcome. This evaluation has been undertaken every year from 2011.

### **The process for 2018**

The 2018 process was similar to the previous year and it consisted of the following components:

- a) An anonymous survey of all consultants engaged in executive pay consulting in the member firms. A similar survey was run last year. The 2018 survey attracted responses from 265 individuals (Respondents completed the survey electronically but each member firm was to ensure that there was 100% completion). In 2017, 236 responses were received. The survey questions and the responses can be found in Appendix 1.
- b) A questionnaire filled in by Practice Leaders of the 11 member firms which attracted 100% response rate (100% last year). The aim of this has been to discover and share examples of helpful practice which may be useful across all member firms and to identify areas for improvement for better implementation of the Code.
- c) The identification of the number of FTSE 350 companies which disclosed in their DRR (i) their Remuneration Consultant, and (ii) that their Remuneration Consultant was a signatory to the Code.
- d) Focus groups

### **1) The main themes from the anonymous survey of consultants at member firms**

Appendix 3 provides detailed results and shows the percentage responses for this year's and last year's survey (where relevant). The survey covered consultants at all levels of experience and seniority. Responses from consultants with less than one year of experience have been presented separately.

A summary of the responses to multiple choice questions is set out below.

- The percentage of respondents who had read the Code was 93.58% and the percentage of individuals who were not aware that the Code existed was less than 0.5%. In this regard, it should be noted that not all of the respondents to the survey undertake work that falls within the remit of the Code. Although they may participate in the training and are aware

that the Code exists, the nature of their work may not require a more detailed knowledge of the Code.

- Over 32% of respondents received a lot of formal training (2 sessions or more) and further 58% received one session of formal training. 10% of individuals have received no formal training on the use of the Code, which is slightly higher than in 2017. Nonetheless, respondents have also received informal training with 28% receiving a lot and 60% a little of informal training. In 2018, the results were additionally broken down to exclude consultants with less than 1 year of experience (graduates) who had joined relatively recently and may not have received the training. Nonetheless, there seems to be a very narrow difference in responses regardless whether the graduates are included or not.
- 99% of individuals state that they encourage clients to ensure pay is properly linked to the long-term performance of the business most or all of the time with less than 1% stating that it was done sometimes.
- When asked to what extent the Code influences practices and behaviours within their firms, 51% of respondents felt that the influence was significant (no change since 2017).
- Slightly over 87% individuals said they are always clear whether they are working for the Remuneration Committee or for management (compared to 91% in 2017). Over 8% of respondents do not interface with clients.
- Around 65% of respondents stated that their firm have periodic one-to-one meetings with the Remuneration Committee Chair without management present in which the RCG Code is discussed. Over 50% stated that these meetings took place at least annually and over 15% stated that it was less often than annually. A further 26% did not know the answer. The question has been rephrased for clarity therefore comparison with the answers for 2017 is not relevant. Nonetheless, the 2017 question and answers are provided in Appendix 1 for reference.
- When asked if they personally attended and provided advice to Remuneration Committees, 45.5% said yes and 54.5% said no. In 2017 they were evenly split between yes and no.
- When asked if there are any ethical issues which arise when providing advice which are not addressed through the Code 98.5% responded no (compared to 98% in 2017). Only 2 respondents felt there were some issues (see detail in Appendix 1).
- When asked if they ensured advice was suitably linked to client strategy, the majority (95%) felt it always, or mostly, was. The remaining respondents said that they were involved only in a limited aspect such as the provision of data. This is very similar to responses provided in 2017.
- When asked if they ensured that the Remuneration Committee was mindful of the pay in the wider organisation, close to 70% felt they always do, almost 27% felt they mostly do and close to 3.5% felt they sometimes do. The number of respondents who feel they always

ensure that the Remuneration Committee was mindful of the pay in the wider organisation increased from 62% in 2017. This change is partially reflective of the recent legislative changes which have brought the wider workforce to the fore and is in line with the sentiment expressed by shareholders for some time.

- When asked if the Code needed further improvement, 95% felt it did not.

A number of new questions were posed in 2018, for instance:

- When asked about the effectiveness of the training, 60% of respondents believed that the training they received was very effective and further 36% believed that the training was effective but could be improved.
- When asked how often the Code was discussed during the course of the client work, over 23% of respondents said frequently, almost 48% said infrequently and over 17% said that the Code was discussed very rarely or never discussed.

## **2) The main themes from the questionnaire sent to practice leaders**

A questionnaire was sent to the leaders of the executive remuneration practices at the 11 member firms and at least one submission was expected from each firm. All member firms responded. All questions asked for a written response to help the RCG better understand how the Code's provisions have been implemented by member firms and to gain insights into practices which might be helpful to other member firms. In addition, the RCG hoped to identify any barriers and problems practice leaders may have faced when implementing the Code. The following key themes were identified:

- There are a variety of good practice examples of how member firms encourage adherence to the Code; including annual communications, regular training for staff on the Code and partner discussion on client matters.
- In general member firms do not feel there are any significant barriers to adhering to the Code.

There were no major changes in the responses from the survey carried out in 2017.

## **3) Disclosure**

Based on the latest Directors' Remuneration Report disclosures:

- Of the 96 FTSE 100 companies that disclose a named Remuneration Committee advisor, 98% have a lead advisor that is a signatory to the RCG Code of Conduct and 93% of them disclose that the advisor is a signatory to the Code.
- Of the 178 FTSE 250 companies that disclose a named Remuneration Committee advisor, 98% have a lead advisor that is a signatory to the RCG Code of Conduct and 88% of them disclose that the advisor is a signatory to the Code.

*Notes:*

*The analysis excludes investment trusts and companies that do not have a named advisor or do not have executive directors on the Board.*



#### **4) Focus groups**

Each Member firm was invited to nominate one attendee for the focus group this year. There was a separate focus group run for consultants with less than 3 years of experience and those with more than 3 years of experience. The purpose of this was to collect data on the effectiveness of the Code from client-facing staff and to look at the Code from a forward looking angle, in contrast to the backward looking surveys. The key themes from this year's focus groups were:

##### **i. The role of benchmarking in executive compensation advice**

- Consultants noted the need to ensure that any benchmarking data provided needs to be appropriately positioned and presented within a wider context. It should be considered as only one of the factors in decision making.

##### **ii. How executive compensation consultants understand the business strategy of companies they advise**

- Information about the client's strategy is gained through conversations with the management and from publicly available sources such as annual reports or investor decks. In smaller and private companies consultants will often seek additional input from various stakeholders, such as the Remuneration Committee, to gather consistent information.

##### **iii. The value executive compensation consultants add to Management and the Remuneration Committee**

- The general consensus was that executive compensation consultants bring in additional perspectives, such as market insights and investor views. Moreover, the fact that they are independent and objective, means that they can also help to navigate any conflict between management/NEDs/Remuneration Committee.

##### **iii. General thoughts on the effectiveness of the Code**

- Overall the Code provides a governance framework and useful frame of reference when navigating the relationship with the Remuneration Committee and the management. The challenges that consultants come across in their work and the fact that these various aspects are addressed in the Code indicates that the Code remains relevant and is fit for purpose.

##### **iv. Other comments**

- All consultants agreed that there is more interest in the pay and conditions of the wider workforce with Remuneration Committees asking specifically for this information. They also see clients making more efforts to actively engage with employee representatives. The general consensus was that the regulatory changes such as Gender Pay Gap regulations, CEO pay ratio regulations and the most recent changes to the Corporate Governance Code have helped to bring the wider workforce to the fore.

## **Recommendations for 2019**

The results of this year's review highlight some points for the RCG Members to act on. The recommendations are as follows:

1. Ensure that all your consultants have read the Code even if they are not engaged full-time in supporting Remuneration Committees.
2. Ensure one-to-one meetings with Remuneration Committee Chairs without management present are undertaken at which there is an opportunity provided to discuss the Code.
3. Continue with a provision of mandatory training for all consultants on the Code.
4. Continue to promote the Code to interested parties.

## Appendix 1

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### Effectiveness of the Code – Survey of Consultants

Total responses: 265 (236 in 2017 survey). Statistics shown in brackets represent the 2017 survey results. It is noted that the survey for all consultants split questions into those for senior consultants and those for consultants of all grades to ensure relevance. Additionally, responses to questions 3 – 13 have been presented in two tables with the first table including response from all and the second table excluding responses from consultants with less than 1 year of experience.

**Question 1** asked respondents to confirm which member firm they work for and response options were as follows:

Aon Hewitt  
Deloitte  
Ernst & Young LLP  
FIT Remuneration Consultants LLP  
Korn Ferry Hay Group  
KPMG  
Mercer  
MM&K  
PwC  
Pearl Meyer  
Willis Towers Watson

**Question 2:** How many years of executive pay consulting experience do you have?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Less than 1 year ( <i>new option for 2018</i> )	11.70
b. 1-3 years	18.49 (32.63)
c. 3-6 years	24.15 (17.8)
d. 6-9 years	12.45 (10.59)
e. 9+ years	33.21 (39.98)

**Question 3:** Do you personally attend and provide advice to Remuneration Committees?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	44.45 (50.22)
b. No	54.55 (49.78)

**Question 3:** Do you personally attend and provide advice to Remuneration Committees (excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	54.64

b. No 49.36

**Question 4:** Prior to this survey, were you aware that a Code of Conduct governing the activities of remuneration consultancies existed?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	99.62 (98.73)
b. No	0.38 (1.27)

**Question 4:** Prior to this survey, were you aware that a Code of Conduct governing the activities of remuneration consultancies existed? (Excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	99.57
b. No	0.43

**Question 5:** Have you read the Code of Conduct?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	93.58 (95.34)
b. No	6.42 (4.66)

**Question 5:** Have you read the Code of Conduct? (Excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	96.58
b. No	3.42

**Question 6:** How much *formal* training (e.g. induction, webcasts, lunch and learns) have you had on the use of the Code in the last 12 months?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. A lot (2 sessions per annum)	31.70 (20.34)
b. A little (only one session)	57.74 (61.02)
c. Less than 1 session pa ( <i>answer option removed for 2018</i> )	n/a (9.32)
c. None	10.57 (9.32)

**Question 6:** How much *formal* training (e.g. induction, webcasts, lunch and learns) have you had on the use of the Code? (Excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. A lot (2 sessions per annum)	32.05 (n/a)

b. A little (only one session)	58.12 (n/a)
c. None	9.83 (n/a)

**Question 7:** How much *informal* training (e.g. discussions with other consultants, references in work) have you had on the use of the Code?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. A lot	27.92 (31.36)
b. A little	60.00 (59.75)
c. None	12.08 (8.9)

**Question 7:** How much *informal* training (e.g. discussions with other consultants, references in work) have you had on the use of the Code? (Excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. A lot	28.63 (n/a)
b. A little	61.11 (n/a)
c. None	10.26 (n/a)

**Question 8:** Do you think the training you received was effective? (*new question for 2018*)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Very effective	59.62 (n/a)
b. Quite effective but could be improved	36.23 (n/a)
c. Not effective	4.15 (n/a)

**Question 8:** Do you think the training you received was effective? (*new question for 2018*) (Excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Very effective	60.68 (n/a)
b. Quite effective but could be improved	35.47 (n/a)
c. Not effective	3.85 (n/a)

**Question 9:** How often is the Code discussed during the course of your client work?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Frequently	23.40 (23.73)
b. Infrequently	47.92 (47.88)
c. Very rarely	15.47 (17.80)
d. Never	1.89 (2.54)
e. Not applicable	11.32 (8.05)

**Question 9:** How often is the Code discussed during the course of your client work?  
(Excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Frequently	24.36%
b. Infrequently	50.00%
c. Very rarely	16.24%
d. Never	2.14%
e. Not applicable	7.26%

**Question 10:** To what extent do you think the Code influences practices and behaviours in your firm?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Significantly (Significantly for the better)	51.32 (51.69)
b. A little (A little for the better)	35.09 (37.29)
c. Not at all (No change and improvements still needed)	1.51 (2.54)
d. No view	12.08 (8.47)

**Question 10:** To what extent do you think the Code influences practices and behaviours in your firm?  
(Excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Significantly (Significantly for the better)	52.14
b. A little (A little for the better)	37.61
c. Not at all (No change and improvements still needed)	1.71
d. No view	8.55

**Question 11:** When you are working for a client, are you always clear for whom you are doing the work and whether it is for the Remuneration Committee or for management?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	87.17 (90.68)
b. No	4.53 (2.97)
c. Not applicable	8.30 (6.36)

**Question 11:** When you are working for a client, are you always clear for whom you are doing the work and whether it is for the Remuneration Committee or for management? (Excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	91.45
b. No	4.27
c. Not applicable	4.27

**Question 12:** Are there any ethical issues which arise in providing executive remuneration advice which are not addressed through the Code?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	0.77 (2.20)
b. No	98.46 (97.80)
c. Not applicable ( <i>new option for 2018</i> )	0.77

**Question 12:** Are there any ethical issues which arise in providing executive remuneration advice which are not addressed through the Code? (Excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	0.87
b. No	98.27
c. Not applicable ( <i>new option for 2018</i> )	0.87

*One respondent mentioned fairness as a key emerging theme in the work of remuneration consultants.*

**Question 13:** Do you think the Code needs further improvement?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	3.11 (3.49)
b. No	94.94 (93.45)
c. If so, please state	1.95 (3.06)

**Question 13:** Do you think the Code needs further improvement? (Excluding consultants with less than 1 year of experience?)

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	3.49
b. No	94.32
c. If so, please state	2.18

*Respondents suggested some redrafting to the Code to improve clarity, references to the wider workforce and encouraging Remuneration Committees to invest time in ensuring that appropriate protocols are in place.*

**Question 14:** Do you have any other comments on the Code?

<b>Answer Options</b>	<b>Response Count</b>
Yes	41 (37)

*Respondents' comments were positive and encouraged continuing initiatives to promote compliance.*

**ADDITIONAL QUESTIONS FOR CONSULTANTS WITH 6+ YEARS' EXPERIENCE**  
**(110 consultants with 6+ years' experience and 115 consultants with less experience)**

**Question 15:** In general, does your firm have periodic one-to-one meetings with client Remuneration Committee Chairs without management present in which the RCG Code of Conduct is discussed? *(The question has been rephrased for clarity. The 2017 question and answers are provided below for reference)*

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes - at least annually	50.42
b. Yes - less often than annually	15.13
c. No	8.40
d. Don't know	26.05

*The 2017 question: In general, does your firm have regular one-to-one meetings with client Remuneration Committee chairmen without management present?*

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes - at least annually	75.22
b. Yes - less often than annually	12.39
c. No	2.65
d. Don't know	9.73

**Question 16:** How comfortable are you in challenging the views of management at Remuneration Committee meetings (when circumstances call for it)?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Very comfortable	52.94 (55.75)
b. Comfortable	29.41 (30.97)
c. Uncomfortable	0 (1.77)
d. Not applicable	15.97 (9.73)
e. It depends (please say more)	1.68 (1.77)

**Question 17:** Do you encourage your clients to ensure that pay is properly linked to the long-term performance of the business?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Always	91.60 (91.15)
b. Mostly	7.56 (7.96)



c. Sometimes	0.84 (0)
d. No	0 (0.88)

**Question 18:** Do you encourage your clients to consider fully the implications of complex design both on the motivation of executives and on the transparency of arrangements to shareholders and other stakeholders?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Always	92.44 (92.92)
b. Mostly	7.56 (4.42)
c. Sometimes	0 (0.88)
d. No	0 (1.77)

**Question 19:** Where you are advising the Remuneration Committee, do you make the Remuneration Committee aware of the likely views of shareholders on your client's executive remuneration?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Always	95.8 (94.69)
b. Mostly	4.2 (3.54)
c. Sometimes	0 (0)
d. No	0 (1.77)

**Question 20:** When advising a company on its remuneration arrangements generally, do you ensure that your advice is suitably linked to the client's strategy?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Always	88.14 (87.39)
b. Mostly	6.78 (8.11)
c. Sometimes	0 (0)
d. No	0 (0)
e. I am only involved in a limited aspect such as the provision of data	5.08 (3.6)
f. Not applicable ( <i>option removed for 2018</i> )	(0.90)

**Question 21:** When advising a Remuneration Committee, do you ensure it is mindful of pay in the wider organisation?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Always	69.83 (62.50)
b. Mostly	26.72 (33.93)
c. Sometimes	3.45 (1.79)
d. No	0 (1.79)

**Question 22:** Do you ensure that your reports are clear on the types of companies comprised within the comparator group(s) used and the rationale for their selection and summarise the methodology used to value different elements of the remuneration package?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Always	92.44 (91.15)
b. Mostly	6.72 (8.85)
c. Sometimes	0 (0)
d. No	0.84 (0)

**Question 23:** Do you ensure that your reports clarify where information is provided by management or from other consulting firms?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Always	89.08 (90.27)
b. Mostly	10.92 (7.96)
c. Sometimes	0 (1.77)
d. No	0 (0)

**Question 24:** Do you ensure that you are clear in your report what is your firm's opinion and what is management's opinion?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Always	91.6 (88.5)
b. Mostly	8.4 (9.73)
c. Sometimes	0 (1.77)
d. No	0 (0)

**Question 25:** Do you ensure that your written advice is capable of being read and understood by the Remuneration Committee without your presence?

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Always	89.08 (90.27)
b. Mostly	10.92 (8.85)
c. Sometimes	0 (0)
d. No	0 (0.88)

**Question 26:** Unsolicited benchmarking means sending out reports which have been modified in some way to refer to the recipient company but not generic surveys such as a FTSE100 or pharmaceutical survey which has not been modified for that company in any way (bespoke benchmarking as part of a response to an RFP constitutes solicited rather than unsolicited benchmarking).

The Code prohibits sending of unsolicited benchmarking to clients and non-clients. Have you been involved in sending unsolicited benchmarking in the last 12 months?

*(The question amended for clarity in 2018. No answers are provided for 2017 as the question was phrased differently and asked whether respondents ensured that unsolicited benchmarking was never sent. As a result, the answer options were different so it would be difficult to make comparisons).*

<b>Answer Options</b>	<b>Response Percentage (%)</b>
a. Yes	0 (NA)
b. No	100 (NA)

**Question 27:** Are you clear that reasonable steps have been taken to ensure that potential conflicts of interest are appropriately managed in accordance with Paragraph 12 of the Code?

<b>Answer Options</b>	<b>Response Percentage (%)</b>	<b>Response Count</b>
a. Yes	100% (100%)	110 (113)
b. No	0 (0)	0 (0)

### Effectiveness of the Code – Questionnaire for Practice Leaders

A questionnaire was sent to the leaders and senior teams of the executive remuneration practices at the 11 member firms and one submission was received from each firm. All questions asked for a written response to help the RCG better understand how the Code's provisions have been implemented by member firms and to gain insights into practices which might be helpful to other member firms. In addition, the RCG hoped to identify any barriers and problems practice leaders may have faced when implementing the Code.

1. *Internal communication – List the actions that you take within your firm to ensure **awareness** of the Code?*

To ensure awareness, firms have formal training for all team members, including both new joiners and experienced hires. These courses are mandatory and conducted annually. Other methods to raise awareness include marketing materials and regular circulation of RCG matters.

2. *Internal adherence – List the actions that you take within your firm to ensure effective **adherence** to, and **implementation** of, the Code?*

Responses focussed on two key areas; (1) most firms stated that they review and discuss any new proposals and opportunities to ensure there is no risk of conflict of interest, and (2) most firms ensure there is a clear distinction between communications to management and to Remuneration Committee. Ensuring strict security and confidentiality of all client information were also highlighted as regular actions. Moreover, to give more prominence to the Code and its requirements during periodic meetings with the Remuneration Committee Chair without the management present, some firms are developing a framework based on the Code which they intend to incorporate into those meetings.

3. *Conflicts – If not covered in question 2, specify what steps you take to manage conflicts?*

All firms addressed this point in the previous question, highlighting their high-level review and client acceptance procedures before accepting new pieces of work.

4. *External communication – Explain the ways in which you communicate to clients your firm's obligations under the Code?*

Responses were very similar. All firms stated that they mention their RCG membership in proposals / terms of engagement. There is also a push from firms to ensure clients state that their advisor is a member of the RCG in their DRR.

5. *External adherence – How do you ensure that the tenets of the Code are embedded from the start of any new executive remuneration engagement with a client?*

Responses to this question were mostly answered previously; firms include principles of the Code in their engagement letters to ensure it is implemented immediately from appointment. Discussions of the Code at meetings and reminders sent to committee Chairs are further methods used.

6. *Unsolicited benchmarking means sending out reports which have been modified in some way to refer to the recipient company but not generic surveys such as a FTSE100 or pharmaceutical survey which has not been modified for that company in any way (bespoke benchmarking as part of a response to an RFP constitutes solicited rather than unsolicited benchmarking).*

*The Code prohibits sending of unsolicited benchmarking to clients and non-clients. What steps do you take to ensure that such unsolicited benchmarking is never sent?*

Most firms stated that they made it very clear to consultants that this practice was prohibited. Some firms stated that they considered benchmarking to be just one of the inputs into the discussion and they would not provide a stand-alone benchmarking report tailored to the client. Other firms stated that they were not a benchmarking-driven consultancy and hence benchmarking in general was not a part of their operating model.

7. *Impact – In practice, to what extent do you think the Code influences practices and behaviours in your firm?*

All firms felt that their own code of conduct and firm behaviours already cover principles of the Code, so the Code only serves as further reinforcement of guidelines that are already in place. However, many feel the Code is a useful reminder of good practice.

8. *Challenges – Do any barriers exist to the effective implementation of the Code?*

Overall, firms agreed that the Code operates well and there are limited barriers to its implementation. Remuneration Committee Chairs were interested to know if the advisor was a signatory to the RCG Code. In instances where there was a potential conflict of interests, the Code provided additional reference for firms to rely on when resolving the conflict. While not a barrier, the main area to focus on was for member firms to continue to increase awareness of the Code and its requirements amongst their clients and key stakeholders.

9. *Recent improvements – What changes has your firm made (if any) in the last two years to ensure and/or increase adherence to the Code? For example, what arrangements do you have in place to ensure that Remuneration Committee Chairs are met with periodically?*

Most of firms made some improvements although some firms stated that there were no changes needed to their internal processes as their teams were aware of the Code and its provisions. Some firms undertook a review of how they were supporting implementation and communication of the Code. As a result of the review, they were developing a framework based on the Code for incorporation into periodic meetings with the Chair without the management present. One firm introduced a register to capture whether the lead consultant had met with the Remuneration Committee Chair and the RCG Code was one of the topics discussed during that meeting.

10. *Feedback – Do you generally find that clients and Remuneration Committee Chairs are interested and/or ask questions about your compliance with the Code?*

Responses to this category were broadly similar. Nearly all firms stated that it is now almost a given for clients to expect RCG membership and ultimately compliance with the Code, with most

addressing this in their RFPs. Nonetheless, some noted that the fact that the firm was a signatory of the Code provided re-assurance to clients but it would not necessarily mean that they are interested in the Code itself.

*11. Feedback – Have you received any feedback about the Code from clients and Remuneration Committee Chairs? If you have received any feedback, what was it?*

There is a general consensus that there is an awareness of the Code and it is regarded as a helpful point of reference.

*12. Practical example – Could you describe any instances when the Code has helped resolve a situation on a client?*

There were a few examples illustrating how the Code has helped to resolve a client situation. For example, it has helped to ensure complete transparency between management and Remuneration Committees and thus prevented conflicts of interest.

*13. Compliance – Does the risk and compliance function at your firm assess compliance with the Code during their quality assurance processes (e.g. file reviews etc.)?*

Responses were broadly similar. The majority of firms stated that their internal risk/compliance functions do not assess compliance with the Code as the Code is already incorporated into the firms' own code of conduct. Compliance with the Code is therefore managed locally by consultants.

*14. Do you have any other comments on the Code?*

Very few additional comments were provided. One firm stated that, while the Code is not the primary reference point to put a spotlight on bad practice, its existence helps to maintain a common industry-wide standard.