ShareSoc
UK Individual Shareholders Society

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Press Release

Will Cameron Deliver on his Pay Promise?

ShareSoc (the "UK Individual Shareholders Society") welcomes the commitment from David Cameron last Sunday that the Government is to tackle the problem of excessive remuneration in UK public companies

A summary of what he said is given at the end of this press release, but it included a commitment to a binding vote on pay by shareholders, better reporting of actual pay and reform of remuneration committees. These are all measures that ShareSoc has advocated recently so it is good to see that the Government is listening.

Needless to say, there has already been lobbying against these proposals by those who wish to preserve the existing status quo. The arguments range from "binding votes are legally impractical" to "these measures won't solve the problems". The latter is true unless a package of co-ordinated measures are introduced which we cover below.

The former is simply untrue. **There are no practical problems with introducing forward looking and binding votes so long as they are based on the combined pay of all directors – this system has been in use in investment trusts for many years**. It should be combined with advisory votes on the pay of individual directors, and any problems with the contracts of individual directors could be resolved over time without difficulty.

But as others have pointed out, current resolutions on remuneration are rarely voted down because of a natural reluctance of institutions to vote against the wishes of the board of directors. Making such votes "prospective" rather than "retrospective" and "binding" rather than "advisory" will improve matters but there also needs to be reform of remuneration committees who set the remuneration policy, as Mr Cameron suggested.

We support his idea of appointing shareholders to the remuneration committee - indeed it is surely best if shareholders were the dominant group on such committees with a representative of the main board and possibly an employee representative in addition. We have argued for some time that remuneration and board appointments should be made by a separate "shareholder committee" and not by the board, if "crony capitalism" is to be defeated. **Someone other than the directors themselves needs to determine who gets appointed to boards and their pay.**

Improved reporting of pay, so it is clearer what the directors are actually paid in total and how it moves over time and compares to other similar companies is also essential.

The last factor that needs looking at is the engagement of shareholders if the above changes are to have an impact. Institutional shareholders need to be more "engaged" with companies and take an active role in setting pay. Often they do not vote at present, rarely attend AGMs, and in some cases have no interest in engagement whatsoever ("index tracking funds" for example). We are not convinced that the "stewardship code" goes far enough to tackle these problems.

Meanwhile private investors, who are beneficial owners rather than simply acting as intermediaries for others and hence have a more direct interest, are typically disenfranchised and cannot vote. These problems need fixing also if Mr Cameron's proposals are to have an impact.

One only has to look at companies such as Diageo, or the more recent example of Conygar (documented on our web site), to see that votes in isolation will not be effective. So our view is that Mr Cameron's Government will not deliver unless all the following five issues are tackled:

1. A binding and forward looking vote on pay.
2. Remuneration and nomination committees should become "shareholder committees".
3. Improved pay reporting with a national body producing comparative data.
4. The role of institutional investors and their lack of engagement.
5. The disenfranchisement of individual shareholders.

ShareSoc's Remuneration Policies

See our submission to Vince Cable's consultation on Executive Pay on this page of our web site www.sharesoc.org/consultations.html for more information (response submitted on the 3rd November).

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Note any members of the press who wish to receive a complimentary copy of our informative monthly newsletter should send a request to sharesoc@btconnect.com . Our newsletters cover not just the affairs of our organisation but contain general financial news and commentary. Examples of our past newsletters are available on our web site.

What Mr Cameron had to say on BBC-TV's Andrew Marr show

Mr Cameron said that the Government was definitely going to tackle excessive pay. Here's a condensed summary of the key points he covered:

"*What I think is wrong is pay going up and up when it is not commensurate with the success companies are having. Government should not tell people what they are going to be paid but there is a market failure. Average pay of FTSE executives has gone up 4 times from 1998 to 2010. The absolute key I can confirm today, and it will happen, is clear transparency in terms of the publication of proper pay numbers so you can really see what people are being paid. And then binding shareholder votes so the owners of the company are being asked to vote on pay levels and on dismissal packages and payments for failure*."

Marr asked about putting an employee on Remuneration Committees. Cameron said "*I don't rule that out but the key thing here is reforming Remuneration Committees themselves. Reform Remuneration Committees to make them work better and making sure there is shareholder representation. Vince Cable will be setting out proposals, we have a Queens Speech coming up and there is room for legislative changes*."

About the UK Individual Shareholders Society (ShareSoc)

ShareSoc represents and supports individual investors who invest in the UK stock markets (and who own over 10% of the shares in UK public companies in aggregate). We are a mutual association controlled by our members with "not-for-profit" articles and incorporated as a company limited by guarantee. The organisation is financed by member subscriptions, donations from supporters and by its commercial activities. Associate Membership of ShareSoc is free and is open to everyone with an interest in stock market investment (go to www.sharesoc.org/membership.html to register). More information on ShareSoc can be obtained from our web site at www.sharesoc.org (our objects are fully defined on this page: www.sharesoc.org/objects.html).