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3 December 2013

Ms Catherine Woods
Financial Reporting Council
Fifth Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN

Email: remcon@frc.org.uk

Dear Ms Woods,

Consultation Document – Directors' Remuneration

Thank you for providing us with the opportunity to comment on the Consultation Document, *Directors' Remuneration* (Consultation Document).

The Australian Institute of Company Directors (Company Directors) is the second largest member-based director association worldwide, with individual members from a wide range of corporations: publicly-listed companies, private companies, not-for-profit organisations, charities, and government and semi-government bodies. As the principal professional body in Australia representing a diverse membership of directors, we offer world class education services and provide a broad-based director perspective to current director issues in the policy debate.

While we are based in Australia, we believe that it is important to comment on the proposals set out in the Consultation Document as:

- some of our members sit on the boards of UK companies; and
- there is a tendency for Australian regulators to look to the regulations that are in place in other jurisdictions when developing regulation for Australia.

While we do not intend to comment specifically on each of the issues raised in the Consultation Document, we would like to take this opportunity to make some general comments regarding the issues that the FRC is seeking views on.

Also, we attach *Executive Remuneration: Guidelines for Listed Companies* and provide links to the following documents which set out our general policy positions with respect to executive remuneration:

- *Position Paper No. 15: Remuneration Reports*; and
- Our submission in response to the Australian Federal Government's Discussion Paper, *The clawback of executive remuneration where financial statements are materially misstated*.

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General comments

Our comments are as follows:

- As there is no "one size fits all" approach to executive remuneration or corporate governance more generally, it is important that companies are allowed maximum flexibility in adopting the remuneration and governance arrangements that are the most appropriate for their circumstances.
- While the Code applies on a "comply or explain" basis so that companies are not required to comply with a particular provision of the Code if it is not appropriate for them to do so, the reality is that the practices set down in the Code will be treated by most market participants (in particular proxy advisory firms and the media) as being the practices that companies must ascribe to. This has the effect of making them quasi-prescriptive in nature – ultimately resulting in companies being less inclined to choose the practices that are most suited for their particular organisation, and instead treating the Code as a corporate governance check-list.
- As such, we would caution against the introduction of further principles without there being sound governance reasons to do so. A matter should only be introduced as a requirement under the Code where there is a reasonable expectation that adopting the practice will lead to better corporate governance and a better outcome for investors. We are not convinced that this is the case with these proposals.
- The significant concerns that have arisen with respect to executive remuneration in recent years almost exclusively involve companies in the financial services industry. Legislation and other regulation have already been introduced to deal specifically with these concerns within that industry. In our view, there is no real evidence to suggest that further requirements regarding executive remuneration need to be introduced into the Code to regulate companies outside the financial services industry.

If you would like to discuss any aspect of our views please contact our Senior Policy Advisor, Gemma Morgan on +61 2 8248 6600.

Yours sincerely,

John H C Colvin
Chief Executive Officer &
Managing Director