

Oral Statement by the Rt Hon Vince Cable, Secretary of State for Business, Innovation and Skills, on Directors' Pay: 20 June 2012

- I welcome this opportunity to set out the Government's proposals on directors' pay. This follows extensive consultation with business and investors.
- Since I first addressed the House on this issue, the Government has initiated a broad, national debate about shareholder activism. This has encouraged shareholders to become more engaged as owners of their companies during the so-called 'shareholder spring.' We have also seen many companies engaging constructively in the face of this opposition. This is an important step for encouraging improved pay discipline.
- As I said then, there is compelling evidence of a disconnect between pay and performance in large UK listed companies. It is right that the Government acts to address this clear market failure.
- Today I can therefore announce a far reaching package of reforms that will strengthen the hand of shareholders to challenge excessive pay whilst not imposing unnecessary regulatory burdens.
- We will give shareholders new powers to hold companies to account on the structure and level of pay, make it easier to understand what directors are earning, and how this links to company strategy and performance.
- Shareholders will have a binding vote on a company's pay policy including their approach to exit payments. Rather than being a one-off vote, for the first time, this will be a real, lasting and binding control on pay. A company will only be able to make payments within the limits that have been approved by a majority of shareholders.
- This binding vote will happen annually unless companies choose to leave their pay policy unchanged, in which case the vote will happen at a minimum every three years. This will encourage companies to set out and stick to a clear, long-term pay strategy. And it will help put a brake on the annual upward pay ratchet.

- The policy should explain clearly how pay supports the strategic objectives of the company and include better information on how director's pay relates to that of the wider workforce. This includes increased transparency on employee pay, including information which will show the difference between rises in directors' pay and that of the employees.
- Employee views on pay are important. That is why I am proposing that companies report on whether they have taken steps to seek the views of their workforce.
- As part of their policy, companies will have to spell out their approach to exit payments. When a director leaves, the company must publish a statement explaining to shareholders exactly what payments the director has received. Companies will not be able to pay more than shareholders agree.
- Alongside the binding vote on policy, there will, as now, be an annual advisory vote on how the policy has been implemented, including all remuneration paid in the previous year. If a company fails the advisory vote, this will automatically trigger a binding vote on policy the following year.
- Both the binding and advisory vote should be as strong as possible to keep up pressure on companies. I therefore welcome the CBI's call for the Financial Reporting Council's Corporate Governance Code to be updated to codify current best practice that companies make a statement when a significant minority of shareholders vote against a pay resolution. This would publicly hold directors to account.
- Pay reports will be clearer and more transparent for investors. Companies will have to report a single figure of the total pay directors received for the year, details of whether they met performance measures and a comparison between company performance and chief executive's pay.
- The Government will bring forward amendments to the Enterprise and Regulatory Reform Bill shortly to introduce these reforms. In tandem, and as good policy-making requires, we will publish - for comment - revised, simplified regulations setting out what companies must report on director's pay.

- Lasting reform is dependent on both business and investors maintaining this activism and developing and adopting good practice. The best companies and investors are already leading the way and acting as early adopters of these reforms.
- We welcome the close engagement of institutional shareholders and their willingness to use their voting powers. We want this to be sustained and shall continue to monitor disclosure levels. Evidence suggests that more institutional investors are disclosing their voting records and that up to three quarters of those investors are now disclosing their votes. We will consider further action if the number of investors volunteering to disclose their voting records does not continue to increase.
- This is a strong package of reform. It builds on the UK's status as a global leader in corporate governance, it commands wide support from investors and business and it addresses public concerns about directors' pay. These proposals:
 - restore a stronger, clearer link between pay and performance
 - reduce rewards for failure;
 - promote better engagement between companies and shareholders;
 - and, overall, empower shareholders to hold companies to account through binding votes.
- We look forward to discussing these proposals further with the Business Innovation and Skills Select Committee on 28 June and in the Public Bill Committee that will consider the Enterprise and Regulatory Reform Bill.

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