



FAIR REWARD FRAMEWORK

Summary document to accompany
public consultation (Sept-Nov 2023)

www.surveymonkey.co.uk/r/FairReward2023

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LINK TO CONSULTATION: [WWW.SURVEYMONKEY.CO.UK/R/FAIRREWARD2023](https://www.surveymonkey.co.uk/r/fairreward2023)

WHAT IS THE FAIR REWARD FRAMEWORK? *[1 OF 3]*

An asset-owner led contribution to analysis of corporate pay packages

- At all levels of a company, remuneration is a key tool for attracting, motivating and retaining a high-calibre workforce and creating shareholder value. At the apex of this, executive pay is systemically relevant for the economy and society, in that it sets a clear marker within a company and across an economy for how performance is valued.
- The Fair Reward Framework (FRF) has been developed as a response to the long-standing debates around this issue, and what can be tensions between companies, shareholders and wider stakeholders about who and what within a company contributes to creating value and how that is rewarded. It is divided into three main sections: Company characteristics – Pay scrutiny process – Reward outcomes.
- Convened by the Church of England Pensions Board and Brunel Pension Partnership, in partnership with the High Pay Centre, the FRF has been developed on behalf of and with the input of a group of 11 UK Asset Owners, which also includes Friends Provident Foundation, Local Pensions Partnership Investments, Nest, Pension Protection Fund, People's Partnership, Railpen, Scottish Widows, and Universities Superannuation Scheme.

WHAT IS THE FAIR REWARD FRAMEWORK? [2 OF 3]

An asset-owner led contribution to analysis of corporate pay packages

- The framework poses a constructive challenge to all stakeholders to think more broadly about what factors lead to success and which approaches engender a fair division of the resulting rewards. No single indicator should be taken in isolation but viewed in combination, recognising the company's internal dynamics as well as how it pays back to shareholders and society.
- The FRF chooses to compile indicators of reward in a holistic sense, in order to present an overview of how reward is shaped and applied across a company. The intention is that the FRF brings to the surface how motivation, performance and retention is incentivised across a company at multiple levels, in recognition that long-term corporate performance is down to the efforts of employees and a variety of stakeholders across a firm, as well as societal inputs that all companies depend upon for their success.
- The group that have developed the draft FRF tool now invite both general and specific comments on all aspects of the tool, from the need it is intended to meet to the choice of indicators and the design of the assessment framework.
- Although for its pilot year the FRF will assess a focus list of companies drawn from the FTSE100, the longer-term intention of the asset owner group is that the indicators can be reviewed, adjusted and applied to provide relevant insights on a wider universe of companies including in other markets.

WHAT IS THE FAIR REWARD FRAMEWORK? *[3 OF 3]*

An asset-owner led contribution to analysis of corporate pay packages

- The consultation will run from September to Friday 10 November 2023 (09.00 GMT). We invite your participation via the online survey: www.surveymonkey.co.uk/r/FairReward2023
- We would particularly welcome feedback from those who are involved in pay-setting discussions and dialogue between companies and their stakeholders on this issue, such as RemCo chairs and committee members, remuneration consultants, asset managers and owners, and trade union representatives.
- Following public consultation, the FRF will be further refined for presentation. The resulting tool will be applied to annual reporting on a pilot basis during the 2023/24 AGM season, with the individual data assessments published on a rolling basis after each focus company publishes its annual report.
- After the first year's assessment cycle the FRF will undergo a review in Q3 2024 focused on its clarity and effectiveness in relation to its intended purpose. In particular, the review will explore the suitability of the indicators for expansion from the UK to other markets such as the US.

CONSULTATION QUESTIONS [1 OF 2]

Fair Reward Framework (FRF)

- Do you have comments you would like to share about Section 1: Rationale for the Fair Reward Framework? / Section 2: The FRF approach? / Section 3: Proposed FRF assessment process?
- Do you agree these are appropriate indicators (in Section 4) for assessing company characteristics/ fair reward practices and outcomes? If not, please provide an explanation.
- Are there any indicators you would want to add? If yes, please specify.
- Are there any amendments you would want to make to the proposed indicators in this section (e.g. change indicators, remove indicators, adjust the historic time period, add contextual information)? If yes, please specify.

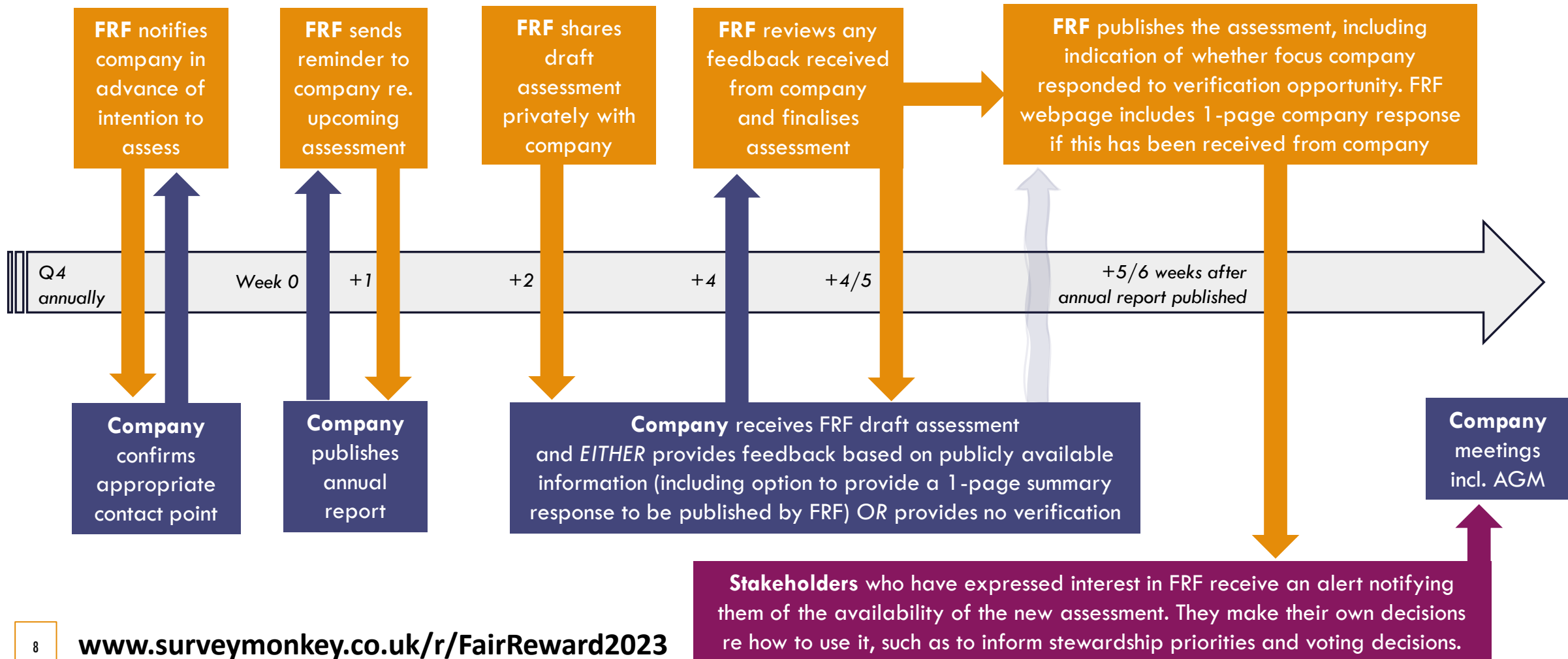
CONSULTATION QUESTIONS *[2 OF 2]*

Fair Reward Framework (FRF)

- In your opinion, which of these indicators are the most important for assessing whether reward practices across a company are both robust and fair (please specify between 10 and 15 indicators)?
- Do you have any additional comments about executive pay or the framework to assess fair reward that you haven't yet had chance to share? (e.g. priorities for future development, such as assessment universe or scoring system)
- Would you be happy for your name and/or affiliation to be included in a list of respondents to the consultation (this will be an indication of participation only)?
- Would you be happy for us to contact you to follow up on any of the points you have raised? Yes/No

LINK TO CONSULTATION: www.surveymonkey.co.uk/r/FairReward2023

PROPOSED PROCESS: FAIR REWARD FRAMEWORK (PILOT YEAR)



FAIR REWARD FRAMEWORK: BASIS FOR CONSULTATION

Proposed indicators: 26 groupings (+3 TBC)							
A. Company characteristics	A1. Financial year end	A2. Sector/economy/industry	A3. HQ country	A4. Market capitalisation	A5. Net profit margin	A6. CEO tenure	
	A7. Employee headcount	A8. Living Wage	A9. Living Hours	A10. Fair Tax	A11. FRF verification response		CapEx (tbc: D1)*
B. Pay Scrutiny	B1. RemCo discretion	B2. Workforce director	B3. Trade union relations	B4. Worker consultation	B5. History of shareholder dissent		Remuneration consultants (tbc: D2)* <i>*Located in section 4 (D): Potential additional indicators</i>
C. Reward Outcomes	C1. CEO pay level	C2. CEO pay ratios	C3. Potential pay-outs in policy	C4. Pension awards	C5. Pay of CFO		High pay beyond exec team (tbc: D3)*
	C6. Gender pay gap	C7. Ethnicity pay gap	C8. Worker share ownership	C9. NED total fees	C10. Cash returned to shareholders		

Which 10 to 15 of these indicators are the most important when reviewing reward processes and outcomes?

WHY WE ARE SEEKING YOUR VIEWS

The intention behind the Fair Reward Framework (FRF) is to promote and inform meaningful conversations between a company and its stakeholders, which can ultimately lead to outcomes that have broad benefits for the company's culture, governance, strategy and success.

To that end, we are particularly interested in the views of those who are involved in pay-setting processes (company representatives, board members, worker representatives, remuneration consultants) and those who have experience of assessing the resulting outputs (in particular, investors in the course of engagement and exercising their voting rights), though all contributions are welcome.

Although the FRF will focus during its pilot year on FTSE100 companies, our interests in fair reward are not limited to this market. We warmly invite respondents with an outlook on other jurisdictions to share their views, both on the proposed indicators and on how the framework might be adapted in future.

Please direct all responses via the online survey so that your views are accurately recorded:
www.surveymonkey.co.uk/r/FairReward2023

THE DRAFT FRAMEWORK IS STILL SUBJECT TO CHANGE: SHARE YOUR VIEWS NOW AND HELP TO SHAPE THE PILOT YEAR