



ICGN

International Corporate Governance Network
Inspiring good governance & stewardship

Ms. Clare Richards
Chief Responsible Investment Officer
Church of England Pensions Board
Church House
Great Smith Street
London SW1P 3AZ

25 October 2023

Dear Ms. Richards and Representatives of the Fair Reward Framework,

Subject: Fair Reward Framework Public Consultation

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the proposed Fair Reward Framework (“FRF”), as convened by the Church of England Pensions Board and Brunel Pension Partnership, in coordination with the High Pay Centre and with the input from a group of 11 UK Asset Owners, several of whom are ICGN members.

Led by investors responsible for assets under management of US\$77 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 40 countries - largely in Europe and North America, with growing representation in Asia. The ICGN Global Governance Principles (“ICGN GGP”), written from an investor perspective, are widely used by our members in their company assessments and voting decisions, and by regulators when developing corporate governance rules.¹

ICGN appreciates the work of the asset-owner led group to provide a framework to find appropriate solutions to the complex issues surrounding overall remuneration and fairness for executives and in the workplace, which can provide incentives supporting a high-calibre workforce and creating shareholder value. As stated in the consultation document, “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.”² The questions of who and what attributes within a company contribute to creating value and how that is rewarded are indeed necessary to answer.

ICGN believes that fair executive remuneration should be “reasonable and equitable”, with company boards considering their overall human capital management strategy when setting executive remuneration levels. ICGN’s GPP recommend that corporate boards should be aware that “Societal norms reflect concerns about income inequality and call for executive remuneration levels to take into consideration the level of pay of the average company worker and relative to the average median income of the company’s place of domicile”.³

ICGN has issued the ICGN GGP Principle 5 to assist boards of directors in effectively managing remuneration for both management and the workforce. It states:

Remuneration should be designed to equitably and effectively align the interests of the CEO, executive officers and workforce with a company’s strategy and purpose to help

¹ [ICGN Global Governance Principles \(2021\)](#), [ICGN Global Stewardship Principles \(2020\)](#)

² Church of England, [‘The Fair Reward Framework \(FRF\) - Consultation Document’](#) p.3

³ ICGN Global Governance Principles (2021), p.20

ensure long-term sustainable value preservation and creation. Aggregate remuneration should be appropriately balanced with the payment of dividends to shareholders and retention of capital for future investment and the level of quantum should be defensible relative to social considerations relating to income inequality.⁴

The proposed Framework appears to align the interests of the company between reasonable pay scrutiny and tangible reward outcomes that support long-term value creation, both of which serve to limit incentives that can cause senior leadership to forgo longer-term plans for short-term gains. ICGN agrees with the need to link performance measures with “risk considerations so that there are no rewards for taking inappropriate risks at the expense of the company, shareholders and relevant stakeholders.”⁵

ICGN has not responded directly to the questions in the survey that are aimed to pay professionals that relate to specific fair reward practices, indicators, and outcomes. ICGN can say that we have incorporated these types of metrics into the ICGN GGP and our published Guidance on executive remuneration and Viewpoints.⁶ We believe that boards of directors have the ultimate responsibility to set rigorous metrics, with methodologies that can be measured over appropriate timescales, to help ensure that pay is directly correlated with a company’s sustained value creation. In addition to financial performance metrics, ICGN recommends that boards utilize quantifiable indicators that are considered material to the company’s sustainable value creation and preservation, such as human capital and natural capital. ICGN also recommends that any metrics used to guide performance grants should be based on audited financial data, and, where possible, assured sustainability indicators.⁷

There are two additional factors to executive pay and compensation that ICGN would like to ensure are considered:

1. We encourage the FRF to include a malus and clawback component to ensure that companies and boards are able to withhold the payment of any remuneration or sum (‘malus’), or recover remuneration or sums paid (‘clawback’), in the event of serious misconduct or a material misstatement in the company’s financial statements by an individual or individuals at the company, even upon termination from employment.⁸
2. We encourage the FRF to include public disclosure of any remuneration policy by the board which is clear and easy to understand. The company should be able to provide relevant reports on an ongoing basis which are aligned with the company’s purpose and long-term strategic objectives. Such disclosure should facilitate comparability and accountability so that investors are able to assess remuneration packages against the metrics, outcomes, and practices effectively.⁹

ICGN understands that the FRF will commence its effort during the upcoming pilot year for FTSE100 companies and then consider other jurisdictions, both on the proposed indicators and on how the framework might be adapted in the future. ICGN applauds this effort to set a framework that can be piloted with companies next year and would be pleased to review any future iterations or plans for expansion with you.

⁴ ICGN Global Governance Principles, Principle 5, Remuneration, p.20

⁵ ICGN Global Governance Principles, p.21

⁶ See [ICGN Guidance on Executive Remuneration \(2016\)](#); [ICGN Viewpoint Integrating ESG in Executive Compensation \(November 2020\)](#)

⁷ ICGN Global Governance Principles (2021), p.21

⁸ ICGN Global Governance Principles (2021), Principle 5.4 Malus and clawback, p.21

⁹ ICGN Global Governance Principles (2021), Principle 5.5, Disclosure, p.21

Thank you again for the opportunity to share our perspective on the Fair Rewards Framework. If you would like to follow up with questions or comments, please contact our Global Policy Director, Séverine Neervoort (severine.neervoort@icgn.org) or Carol Nolan Drake, Senior Policy Manager (carol.nolandrake@icgn.org).

Yours faithfully,



Kerrie Waring
Chief Executive Officer, ICGN