

Invitation to Tender (ITT):

Provision of Research Services

Reference	FRC2020 - 024 Remuneration Research Project
Date	May 2020

FTSE 100 and FTSE 250 remuneration policies in 2020

1. Background

The Financial Reporting Council (FRC) regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship Codes. We seek to promote transparency and integrity in business; our work is aimed at investors and others who rely on company accounts, audit and high-quality risk management. As the Competent Authority for audit in the UK, the FRC sets auditing and ethical standards and monitors and enforces audit quality.

2. Project / Requirements

2.1. Summary

In 2018 the FRC published the new [UK Corporate Governance Code](#) (hereafter "the Code"). It places greater emphasis on relationships between companies and all their stakeholders. The Code also promotes the importance of establishing a corporate culture that is aligned with the company's purpose, business strategy and values. The Code applies to accounting periods beginning on or after 1 January 2019. Therefore, for the vast majority of companies, 2020 will be the first year of reporting against the 2018 Code.

The law sets out many of the requirements related to directors' remuneration. The Code sets out the role of a company's remuneration committee and matters to be considered when determining its remuneration policy. The 2018 Code brought significant changes in this area, including new Principles and Provisions to ensure that a company's remuneration and workforce policies align with its long-term success and values and that, when setting directors' pay, the remuneration committee take account of wider employee pay.

A significant number of FTSE 350¹ companies have revised their pay policies during 2019/20 as a result of the normal three-year cycle. The aim of this research project is to examine how such companies have applied the Code's new *Principles* and *Provisions* on remuneration in their revised pay policies voted on at 2020 annual general meetings (AGMs).

2.2. Project objectives and scope

The project will have two parts, as detailed below. Part A will use content analysis to examine remuneration policies detailed in company annual reports covering the periods both before and after the Code's introduction. Part B will analyse shareholder voting on companies' revised remuneration policies at their 2020 annual general meetings (AGMs). The project scope for both parts is FTSE 350 companies.

Part A

For a sample of FTSE 350 companies (see section 2.3), assess the extent to which each company's *revised* remuneration policy

- adheres to each of the Principles and Provisions of the Code specified below, and;
 - differs from the company's previous remuneration policy in areas directly related to the Principles and Provisions of the Code specified below.
- i) Principle P:

¹ FTSE 350 companies means companies in either of the FTSE 100 or FTSE 250 indexes.

The company's remuneration policy and practices are designed to:

- *support the company's strategy and promote its long-term sustainable success,*
- *link executive remuneration clearly to the successful delivery of the company's long-term strategy,*
- *align executive remuneration with the company's purpose and values.*

- ii) Provision 33 – with respect to reviewing workforce remuneration and the alignment of incentives and rewards with culture:

The remuneration committee should [...] review workforce² remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.

- iii) Principle E – with respect to workforce remuneration and related policies in the excerpt from Provision 33, in (ii) above:

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

- iv) Provision 36:

Remuneration schemes should promote long-term shareholdings by executive directors that support alignment with long-term shareholder interests. Share awards granted for this purpose should be released for sale on a phased basis and be subject to a total vesting and holding period of five years or more. The remuneration committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.

- v) Provision 37:

Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. They should also include provisions that would enable the company to recover and/or withhold sums or share awards and specify the circumstances in which it would be appropriate to do so.

- vi) Provision 40:

When determining executive director remuneration policy and practices, the remuneration committee should address the following:

- *clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce;*
- *simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand;*
- *risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated;*
- *predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy;*
- *proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance;*

² See the [FRC Guidance on Board Effectiveness](#), Section 5 for a description of 'workforce' in this context.

- *alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy.*

With respect to the last point in Provision 40 ('alignment to culture') the FRC is particularly interested in the use of non-financial KPIs in executive pay formulas, including bonuses and suchlike.

Part B

Analyse shareholder voting on companies' revised remuneration policies at their 2020 AGMs in order to assess:

- The extent of shareholder dissent over the revised remuneration policies³.
- The reason(s) for such dissent, where it occurred. We are interested in whether there was dissent over the policy itself, or over the levels of pay the policy would produce, or both.

Most of the revised Remuneration Policies will have been drafted prior to the Covid-19 pandemic. However, annual reporting, and the subsequent AGM voting on revised remuneration policies, will have taken place *during* the Covid-19 pandemic. As such, in addition to the above voting analysis, the project also asks for a summary record of:

- Any and all amendments to remuneration policies, subsequent to the revised policy as published in annual reports, that have been made in response to the Covid-19 pandemic.

2.3. Suggested Approach

Part A of the project should be carried out using a representative (by size and by sector) sample of c.80-100 FTSE 350 companies that have proposed revisions to their remuneration policies to be voted on at their 2020 AGMs. This sample should include:

- Companies representing the full range of sizes, by turnover and market capitalisation, across the FTSE 350;
- Companies representing as wide a range of sectors as possible.

Part B of the project should be carried out using data covering the full list of FTSE 350 companies that have proposed revised remuneration policies for their 2020 AGMs.

It is a legal requirement for FTSE 350 remuneration policies to be voted on every three years. The FRC will provide the successful bidder with a list of FTSE 350 companies that have proposed revised remuneration policies for their 2020 AGMs.

The FRC will host a detailed kick-off meeting (by video conference, as necessary) at the project start in order to go through the requirements of sections 2.2 and 2.3 and to address any questions that may arise from these as the successful bidder begins to operationalise the research design. At this meeting we will also want to discuss the coding approach to be used in the content analysis for Part A of the project.

Parts A and B will both require careful and consistent judgement by analysts with experience and knowledge of remuneration policies and practices, as well as corporate governance more broadly. An important consideration for the FRC in identifying the strongest tender bid will therefore be the experience of staff that the bidder proposes for carrying out these aspects of the project. We anticipate that ensuring quality output for these parts will also involve cross-checking or moderation processes among the analysts.

³ Please note this does not include shareholder dissent over the remuneration policies, or levels of pay, that applied to the previous reporting period – only the newly revised remuneration policies.

2.4. Outputs and deliverables

A report with findings and an analytical narrative which highlights the extent to which remuneration policies have been revised in light of the new Code, and which highlights those companies (or categories of companies) that have produced policies that may be considered 'good practice'. Any companies (or categories of companies) whose revised policies do not take account of the changes of the new Code should also be highlighted.

The final report should include a data annex and a clear explanation of the methods used in each part of the project, including the criteria and coding used in the content analysis of annual reports for Part A.

2.5. Liaison arrangements

The FRC policy team should be updated on project progress and consulted on key decisions in the research design and operationalisation.

- Regular progress updates (by conference call)
- FRC to sign-off initial test run of content analysis, including coding approach
- Preliminary findings presentation
- Draft report; final report

2.6. Duration of the Contract

- **15 June 2020 – 18 September 2020**

2.7. Cost /Financials

- The tenderer should provide a fixed fee for the work exclusive of VAT, inclusive of all expenses. Tenderers should detail their cost in the Tender Response Documents in the format specified. No other costs should be charged on top of the fixed fee, unless the scope has materially changed from what is set out / agreed. Changes to the scope / cost must be mutually agreed.
- **The FRC does not anticipate tender bids over £45,000 excluding VAT**

2.8. Your tender response

The proposal should be no more than 7 pages in total, excluding annexes, and include:

- A succinct summary of the proposal, including an estimated timeline of project milestones.
- Details of the proposed approach. This should include, as appropriate, the techniques, methodology, and data sources to be used, including your rationale for choosing them. It should also include a high-level overview of the coding scheme to be used for the content analysis in Part A.
- Demonstrable understanding of remuneration policies and practices, as well as corporate governance more broadly.
- Details of personnel to be involved including their role for this project and their relevant experience.
- Your organisation's experience of similar projects and relevant research capability.
- Arrangements for managing this work and quality assuring outputs, including cross-checking or moderation among content analysts in part A, and quality assurance of the data and methods in Part B.

- A budget, including a breakdown of time and costs per activity, in line with the principal project objectives outlined above. If your proposal includes options, these should be costed separately.
- Project team CVs should be included in an annex, along with any additional information about your organisation that you think is relevant.
- Bids should identify any real or perceived conflicts of interest.

2.9. Tender Evaluation

Bids will be assessed against the following principal criteria:

- Understanding of our requirement (supported by relevant experience, track record and / or transferrable knowledge).
- The suitability of the approach (including methodology and management)
- Experience / relevant experience of the proposed personnel
- Pricing / cost of your proposal

References

- The FRC reserves the right to take up references. You will be required to provide references within the Tender Response Document. References must be relevant to the FRC requirement and within the last five years.

3. Use of ITT & publication

3.1.1. Tenderers **must not** undertake any publicity activity regarding the procurement with any section of the media

4. Questions & Clarifications

4.1.1. Tenderers may raise questions or seek clarification regarding any aspect of this further competition at any time prior to the tender clarification deadline.

4.1.2. Tenderers may raise questions or seek clarification within the timeframe by sending questions to procurement@frc.org.uk in the following format.

Nature of query / clarification	Query / Clarification

4.1.3. The FRC will not enter into exclusive discussions regarding the requirements of this ITT with tenderers.

4.1.4. To ensure that all tenderers have equal access to information regarding this tender opportunity, FRC will publish all its responses to questions raised by Tenderers on an anonymous basis.

4.1.5. Responses will be published in a questions and answers document to all Tenderers who have indicated that they wish to participate.

5. Timeline

DATE/TIME	ACTIVITY
07-05-2020	Publication of this Invitation to Tender
18-05-2020 5pm	Deadline to submit clarification questions
22-05-2020	FRC to publish responses to clarification questions
01-06-2020 5pm	Deadline for tender submission to the FRC.
08-06-2020	Tender Outcome
15-06-2020	Contract Start
TBD	Preliminary findings
TBD	Draft report
18-09-2020	Final report; contract end

6. Conduct

- 6.1.1. The tenderer must not communicate to any person the tender price, even approximately, before the date of the contract award other than to obtain, in strict confidence, a price for insurance required to submit the tender.
- 6.1.2. The tenderer must not try to obtain any information about any other person's tender or proposed tender before the date of the contract award.
- 6.1.3. The tenderer must not make any arrangements with any other person about whether or not they should tender, or about their tender price.
- 6.1.4. The tenderer must not offer any incentive to any member of FRC's staff for doing or refraining from doing any act in relation to the tender.
- 6.1.5. If the tenderer engages in any of the activities set out in this paragraph or if FRC considers the tenderer's behaviour is in any way unethical FRC reserves the right to disqualify the tenderer from the procurement.
- 6.1.6. The tenderer represent and warrant that a conflict of interest check has been carried out and that check revealed no conflicts of interest.
- 6.1.7. Where a conflict of interest exists or arises or may exist or arise during the procurement process or following contract award the tenderer must inform FRC and submit proposals to avoid such conflicts.
- 6.1.8. Tenderers must obtain for themselves at their own responsibility and expense all information necessary for the preparation of tenders. FRC is not liable for any costs incurred by the tenderer as a result of the tendering procedure. Any work undertaken by the tenderer prior to the award of contract is a matter solely for the tenderer's own commercial judgement.

7. Due Diligence

- 7.1.1. While reasonable care has been taken in preparing the information in this ITT and any supporting documents, the information within the documents does not purport to be exhaustive nor has it been independently verified.
- 7.1.2. Neither FRC, nor its representatives, employees, agents or advisors:

- makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the ITT and supporting documents; or
- Accepts any responsibility for the adequacy, accuracy or completeness of the information contained in the ITT and supporting documents nor shall any of them be liable for any loss or damage, other than in respect of fraudulent misrepresentation, arising as a result of reliance on such information or any subsequent communication.

7.1.3. It's the tenderer's sole responsibility to undertake such investigations and take such advice, including professional advice, as it considers appropriate in order to make decisions regarding the content of its tenders and in order to verify any information provided to it during the procurement process and to query any ambiguity, whether actual or potential.

7.1.4. It is a requirement that the successful supplier (i) comply with all applicable laws and regulations including, without limitation, the Bribery Act 2010, the Equality Act 2010 and the Modern Slavery Act 2015; and (ii) in addition to any contractual requirement(s), inform the FRC immediately upon becoming aware of any event (including actual or threatened court proceedings) which may impact upon the reputation of the FRC, whether or not connected with the Supplies and/or Services.

8. Submitting a Tender

8.1.1. Tenderers must submit their tender response within the deadline to procurement@frc.org.uk.

8.1.2. Where a Tender Response Tender is provided, potential providers must align their tender response with that format.

8.1.3. A Tender must remain valid and capable of acceptance by the Authority for a period of 90 days following the Tender Submission Deadline. A Tender with a shorter validity period may be rejected.

9. Evaluation

9.1.1. FRC will award the contract on the basis of the tender which best meets the evaluation criteria aligned to the requirements.

10. Acceptance of Tender & Notification of Award

10.1.1. FRC reserves the right to amend, add to or withdraw all or any part of this ITT at any time during the procurement.

10.1.2. FRC shall not be under any obligation to accept the lowest price tender or any tender and reserves the right to accept such portion or portions as it may decide, unless the tenderer includes a formal statement to the contrary in the tender. FRC also reserves the right to award more than one contract to fulfil the requirement.

10.1.3. The tenderer will be notified of the outcome of the tender submission at the earliest possible time.

10.1.4. Where the procurement process is subject to EU public procurement directives, a minimum standstill period of 10 calendar days will apply between communicating the award decision electronically to tenderers and awarding the contract.

10.1.5. Nothing in the documentation provided by FRC to the tenderer during this procurement or any communication between the tenderer and FRC or FRC's representatives, employees,

agents or advisers shall be taken as constituting an offer to contract or a contract. No tender will be deemed to have been formally accepted until the successful tenderer has received a formal contract award letter from FRC.

11. Additional Information

11.1.1. Please use the attached Tender Response Document for your reply.

11.1.2. The Terms and Conditions that will apply to this proposed Agreement are attached. Suppliers should accept the T&C's with no material changes.