

Catherine Horton
Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

BY EMAIL

27 February 2018

Dear Ms Horton

Consultation - Revised UK Corporate Governance Code and Guidance

The Board of Vesuvius plc recognises that robust governance and culture underpin business success. To this end the Company has consistently complied with the provisions of the UK Corporate Governance Code (the **Code**), since its listing in 2012. It has now considered the proposed revisions to the Code, presented for consultation in December 2017. The Board is supportive of the simplification of the Code and remains strongly supportive of the fundamental concept of "comply or explain" in UK corporate governance. The Board wishes to raise its concerns about two of the provisions.

Section 1 Provision 3

The board should establish a method of gathering the views of the workforce.

The Board understands the focus to ensure that the views of the workforce are heard in the boardroom, but is concerned about the prescriptiveness of the proposed revision. We anticipate that "normally" will, in practice, be interpreted to mean "by one of the ways suggested" (i.e. director appointed from the workforce, a workforce advisory panel or a designated non-executive director) rather than providing the necessary flexibility to use another suitable way determined by the board. A method appropriate to the company that delivers compliance with the underlying principle, may thus be interpreted as being non-compliant. The choices given are very restrictive and, in this way, risk removing a company's ability to formulate and adopt a method which would be more effective for its business model. To accomplish its purpose, this proposed revision must be achievable from the resources available to a company and therefore anticipate numerous different methods of gathering views from the workforce. This is especially important for global companies such as Vesuvius, which has 97% of its workforce being non-UK based.

Our preference is for the provision to be clarified to indicate that any relevant method approved by the board can be used to gather the views of the workforce.

Section 5 Provision 33

The remuneration committee should have delegated responsibility for determining the policy for director remuneration and setting remuneration for the board and senior management.


In accordance with the existing Code, remuneration committees already have overall responsibility for monitoring the level and structure of remuneration for senior management. Best practice encourages boards to interact with senior management to better understand the respective business functions and to enable boards to contribute to succession planning discussions. However, such involvement does not give the non-executive directors who comprise the membership of the remuneration committee the overall knowledge to assess a senior manager's personal performance, achievement of strategy and targets, leadership qualities, and commitment to the company's culture, all of which are the key elements for determining individual remuneration.

We believe that the proposed Code revision has the potential to weaken the critical link between pay and performance for senior management and reduce the authority of the role of Chief Executive. It also adds a further layer of formality and potentially significantly increases the workload of the committee. The Chief Executive, as leader of senior management, assisted by the head of the HR function, is the most informed person to objectively set remuneration for direct reports, aligned with the policy determined by the remuneration committee, this being a fundamental area of management control. It is a concern that by transferring responsibility to the remuneration committee, the process to set remuneration for senior management could become formulaic, will not differentiate and reward performance, and will become another process on the remuneration committee's annual agenda cycle. Such activity would also place the remuneration committee members into the sphere of management responsibility, which is not the role of a non-executive director.

Our preference is for the existing provision to be preserved and for the remuneration committee to retain overall responsibility for monitoring the level and structure of remuneration to ensure alignment with culture and strategy, but not set the remuneration for senior management.

Comply or explain

As a general comment, we believe that the concept of "comply or explain" is the single, most important governance principle embedded in the UK corporate system. It allows companies to implement Code provisions, whilst preserving the flexibility to adapt where this is in the best interests of the company. In this way it increases accountability to shareholders. We would be disappointed to see this concept eroded in favour of more mandatory compliance, or see governance move towards interpreting guidance as a requirement. We believe it would be a retrograde step, resulting in restrictive behaviours and in certain situations frustrating UK entrepreneurial growth.



Henry Knowles
Company Secretary

