George Turner
EVP, General Counsel & Company Secretary

IHG® InterContinental Hotels Group

Broadwater Park
Denham
Buckinghamshire UB9 5HR
United Kingdom

Switchboard +44 (0) 1895 512 000
General fax +44 (0) 1895 512 101
www.ihg.com

Direct Tel: +44 (0) 1895 512256
Direct Fax: +44 (0) 870 1917404
E-mail: george.turner@ihg.com

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

By email: codereview@frc.org.uk

Dear Ms Horton

IHG response to Financial Reporting Council (FRC) Consultation on Proposed Revisions to the UK Corporate Governance Code published 5 December 2017

I write by way of response to this consultation.

Background. IHG is an international company with 5,272 hotels and just over 785,500 hotels rooms operating across nearly 100 countries (as at September 2017). IHG is unique amongst the major international hotel companies in having a primary listing on the London Stock Exchange. Our main competitors (including Hilton, Marriott, Wyndham, Choice and Hyatt) are all listed on the New York Stock Exchange, with the exception of Accor (listed in Paris). In addition, we are experiencing growing competition from China-based hotel companies, US-based alternative lodging companies and third party intermediaries.

Our operating model is predominantly to franchise our brands to, and manage hotels on behalf of, third-party hotel owners. Approximately 80% of IHG branded hotels are run on a franchise basis. This in turn means that IHG does not employ the large majority of the c.350,000 colleagues who work across our brands, which has a direct bearing on the proposed changes to the remit of the Remuneration Committee. See below for further details on this.

Introduction. IHG is supportive of this review and the aim of ensuring the Code remains fit for purpose and continues to promote improvement in the quality of corporate governance. The principles of the revised Code represent what we consider all would recognise as good governance. The provisions are less prescriptive than in the past, which will empower companies to establish an appropriate governance structure for promoting the long-term success of the company.

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The comply or explain practice leaves flexibility for companies to choose alternatives to "comply", based on the unique circumstances of their business, along with a clear rationale for any deviations.

The review of the Code is wide-ranging, and we are not intending to provide responses to all matters.

UK Corporate Governance Code and Guidance on Board Effectiveness Questions

Q1. Do you have any concerns in relation to the proposed Code application date?

- The proposed application date of 1 January 2019 seems to us to be relatively short where new structures and processes will need to be implemented.

Q2. Do you have any comments on the revised Guidance?

- We have no comments on this.

Q3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?

- We consider that the options should enable companies to engage, and adopt a method that is appropriate for the specific aspects of their organisation and culture. We would suggest that there should remain further discretion for companies to decide the most meaningful method of engagement given the specific nature of each organisation.

- Care will need to be taken by companies that any new forums created for the purposes of engagement do not compete with existing bodies and processes.

Q4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or in the Guidance?

- In our view, companies should be free to align themselves with NGO principles that support the culture, values and ethos of the relevant company. The current proposed scope of the Code is therefore adequate and does not need to align with UN SDG's or other NGO principles, although these could be referred to as examples of good practice.

Q5. Do you agree that 20 per cent is 'significant' and that an update should be published no later than six months after the vote?

- We understand that one factor in the revision of the Code is the wish to avoid a tick-box approach to governance structures and reporting. In reality, many proxy agencies and some large shareholders use a tick-box approach to voting. The deficit in resources/availability for consulting of some shareholders and proxies exacerbates this. This provision could give disproportionate influence to proxies, as a recommendation against can lead to well over 20% votes against.

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- We believe that requiring further consultation for 20% votes against creates confusion with the 75% shareholder vote required for special resolutions. A resolution could pass and still breach the threshold proposed. We believe that the additional consultation should not be required in this circumstance.

- Further, there could be circumstances where far less than 20% of the issued share capital triggers the threshold. For example, if 75% of the issued share capital is voted, the 20% threshold would be triggered by only 15% of the share capital.

- In this context, the FRC proposals for companies with a negative vote of more than 20% is not appropriate and is too low a threshold.

- In addition, a 20% test will deter companies from adopting arrangements that are appropriate for their business, but out of step with common practice, given the risk of mixed proxy and shareholder views on diverging from the “norm”. Whilst our shareholder votes on remuneration have generally been above 90%, our key competitors for talent are non-UK based/listed; this means it is possible that we could in future need to consider adopting pay practices that are competitive in our talent market, but out of line with Code provisions.

- Therefore, in our view, a 20% vote against is not an appropriate threshold, and should not for example result in excessive time and energy spent in additional consultation. Instead, a 40% vote against, in our view, reflects “significant” polarisation of shareholders and would be a reasonable threshold for additional consultation and the potential reconsideration of resolutions.

Q6. Do you agree with the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years? If not, please provide information relating to the potential costs and other burdens involved.

- We have no comments on this.

Q7. Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?

- Although we understand the sentiment, for a business such as ours, where long-term owner relationships are key, the ability to be a NED and/or Chair for a significant length of time is important. Longer term “corporate memory” may also be compromised. Tenure should be purely at the discretion of the Board and take into account a series of factors.

- The nine-year rule may also lead to the unintended consequence that fewer women and people of differing ethnic backgrounds will become Chairs. To take the gender example, it is more likely that women will be appointed Chairs of companies on which they have been NEDs. Defining independence from the date of their first appointment will lead companies to look externally for Chairs for the continuity of nine years, which may lead to a lack of diversity in the boardroom.

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Q8. Do you agree that it is not necessary to provide for a maximum period of tenure?

- We agree this is not necessary.

Q9. Do you agree that the overall changes proposed in Section 3 of revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?

- We consider that these changes, along with other initiatives such as the Gender Pay Gap Reporting, are likely to result in an increased focus on promoting diversity in the boardroom and more generally. Our own experience has been that participation in the annual Hampton-Alexander Review of FTSE 100 companies has increased the profile and transparency of IHG gender diversity both internally and in the way we describe our colleague population to others.

Q10. Do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350? If not, please provide information relating to the potential costs and other burdens involved.

- No comment.

Q11. What are your views on encouraging companies to report on levels of ethnicity in executive pipelines? Please provide information relating to the practical implications, potential costs and other burdens involved, and to which companies it should apply.

- We would agree directionally to the encouragement of companies reporting on ethnicity levels. This is a more complex area than gender-based reporting (including gender pay gap reporting) as ethnicity is difficult to track - an aspect that employees currently do not widely self-report on. There would need to be a significant period for companies to prepare for a reporting obligation based on ethnicity, and supporting enabling legislation to ensure accuracy. In the meantime, we consider that at this stage it is appropriate for ethnicity to be referenced in Principle J of the Code.

Q12. Do you agree with retaining the requirements included in the current Code, even though there is some duplication with the Listing Rules, the Disclosure and Transparency Rules or Companies Act?

- We agree with retaining these in the Code.

Q13. Do you support the removal to the Guidance of the requirement currently retained in C.3.3 of the current Code? If not, please give reasons.

- We agree with removing this from the Code, which will encourage more meaningful commentary rather than “tick box” reporting.

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Q14. Do you agree with the wider remit for the remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?

- It is not clear from the draft Code whether the Remuneration Committee is expected to take responsibility for oversight of all workforce policies and practices, or just those related to pay. We agree that ultimately all these policies are the responsibility of the Board of Directors, but would suggest that either (1) the final Code clarifies that the scope of Remuneration Committee responsibility is specifically pay arrangements only; or (2) companies are left to decide the scope of the Remuneration Committee in this respect. It would also be helpful to qualify the meaning of "oversee", to be clear whether this means, for example, one or more of the following:
  - having sight of the policies
  - having a right to comment on the policies
  - having a veto right over the policies
  - positively approving the policies
- In practice, the first two may be practical, but a scope beyond this risks making the workload of the committee untenable.
- A further comment is around the application of the wider remit in terms of "workforce" in provision 33, rather than for example "employees". Applied to IHG, this is a difference between 6,587 direct employees (at 31 Dec 2016) vs over 350,000 (as at 31 Dec 2016) who work in hotels under the managed and franchised model. We understand this is designed to encourage Remuneration Committees to consider stakeholder interests in their broadest sense, but would suggest that to make such responsibility practical, companies be left to decide for themselves what the exact scope of the Remuneration Committee's responsibilities are, taking account of the nature of the specific business.
- The widening of responsibility to these defined areas also implies that executive responsibilities are being given to non-executive directors, whose role is to oversee and challenge, rather than manage. There is a risk that the role of the CEO and executive committee may be blurred given a wider remit of the Remuneration Committee.

Q15. Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?

- We consider that the current draft Code, along with existing legislation, regulation and investor body guidance, supports incentive pay structures and related disclosure requirements that will drive both long-term sustainable performance and consistency between executive pay outcomes and corporate performance.

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Q16. Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?

- We consider that the proposal to disclose the financial extent to which remuneration outcomes have been affected by Board discretion is a sensible development of existing requirements around the exercise of discretion.

Other comments on draft UK Corporate Governance Code

Provision 2 – It may be challenging to describe how a Board monitors and assesses a culture. An explanation of good practice would be useful.

Provision 14 – It is assumed that the reference to external appointments is only applicable to Executive Directors.

Provision 21 – It should also be considered as to whether an external reviewer should repeat an evaluation on more than two occasions, as a fresh perspective should be encouraged.

Provision 39 – It should be within the Company's discretion to offer the appropriate length of notice period commensurate with the type and location of the role.

UK Stewardship Code Questions

We have no comments on these questions.

Yours sincerely

George Turner
EVP, General Counsel & Company Secretary
Six Continents Limited