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Catherine Horton  
Financial Reporting Council  
8th Floor  
125 London Wall  
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23<sup>rd</sup> February 2018

Dear Ms. Horton

I am writing in my capacity as Chief Executive of the City HR Association. My response is based on a Roundtable Discussion, comprising 35 members who are HR professionals within financial services (banking and asset management), which was held on 9th February and was attended by Paul George from the Financial Reporting Council. This response also includes insights provided by the Co-Chairs of our Consultation, Legislation and Policy Committee who are Marian Bloodworth, Employment Law Partner at Kemp Little LLP, and Joanne Owers, Employment Law Partner at DAC Beachcroft.

On reading through the proposed changes to the UK Corporate Governance Code, may I say that not all of the proposals apply to our population as the Association specifically represents those in Human Resources within financial services. Therefore, Marian, Jo and I will only provide a response to those elements that contain a people management element.

At the Roundtable, we divided our members into three groups to discuss specific issues, and then had a plenary session to capture the key points. We divided our groups as follows:

**Group A explored the Stakeholder Proposal** for three provisions for the "Worker Voice at Board Level" set out under Question 3

**Group B explored Diversity and Inclusion** as set out under Questions 9, 10 and 11

**Group C explored Remuneration** as set out under Questions 14, 15 and 16

At the outset, may we say that we view the consultation as being a positive development in updating the UK Corporate Governance Code and totally welcome the introduction or updating of principles around:-

- Culture, Leadership and Stakeholders
- Diversity and Inclusion (including succession planning) and the lens taken by Investors
- Remuneration Committee, Chair Provisions and the potential for the RemCo to have great insight into wider HR policies, albeit everyone felt some limitation of what this might entail would be useful

Furthermore, Marian, Jo and I have found that our Governance Roundtables - which commenced in September 2017 - generate tremendous interest from our HR members including those who are NOT UK listed companies, as many UK subsidiaries of overseas banks still uphold many of the values of the Code when their ExCo consider governance and culture matters. Our September 2017 meeting had 45 individuals in attendance and our February 2018 meeting was attended by 35 individuals. So, as HR is often the custodian of people management information on Succession Planning, Remuneration, D&I, People Risk, Culture and Leadership the Code is of material interest to us. I should also point out that for many HR professionals, the "WHAT" organisations do is set by the leadership but we often implement "HOW" this happens.

## SPECIFIC RESPONSES

### Stakeholders and the Employee Voice

#### **Question 3: Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement**

The Stakeholder Voice was welcomed by the Group A participants although there was much discussion about which of the three options best fitted. All appreciated the flexibility of the 3 provisions in setting out how this might work, and felt that most firms would go with a hybrid which suited the nature, culture and domicile (Head Office) of their business.

They also debated "who" the stakeholders might be out of an employee or workforce population. For example, would this extend to suppliers, contractors, temporary staff, in-plant staff and the like who might actually have an employment contract with another party other than the firm. Some clarification on this point would be welcomed. In the consultation, the FRC has included agency workers and contractors. Whilst we think this is a laudable aim, there are current issues arising from cases such as Uber and the Taylor Review which might make employers understandably reluctant to include non-employees in the same type of engagement mechanisms as they would for core staff and you may wish to consider this when determining your final guidance.

### Diversity and Inclusion

This is an area of concern for most organisations. For this reason we welcome initiatives that help the Board and businesses to focus on key items that might help them to make a difference. At the City HR Association, our bi-annual benchmarking survey shows that our firms are investing considerable time in trying to move the dial on diversity and inclusion yet whilst good progress is being made since the Lord Davies Report and measured outcomes, it is still very limited. This is mirrored across most industry sectors. We are mindful - in financial services - of the targets set in the Hampton Alexander Review (Gender Equality), the Parker Review (Race) and the Women in Finance Charter (Jayne-Ann Gadhia Paper) and this is all being taken seriously. But in many firms, the talent pipeline seems to become fragmented in middle management meaning that still not enough diverse talent is getting through to the top resulting in smaller pools from which to choose diverse talent.

We therefore support the initiatives being suggested in the Code proposals that help with "pull through" and provide an impetus for organisations to strive to achieve D&I targets. For this reason, we agree with:-

**Question 9 - do you agree that overall changes proposed in Section 3 of the revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole** BUT cannot see a solution in this proposal which helps with the "pull-through". Looking at succession planning one level beneath the board is good, but the stagnation is further down the pipeline. There is no magic bullet here, but at the City HR Association, we are working with Past Lord Mayor, Dame Fiona Woolf, and the City of London Corporation to look at what we can do to either encourage Middle Managers to pull through their staff, or to encourage ALL staff to take responsibility for their own career development, under the guidance of their line manager and HR representative. One early view suggested by City HR and separately in Dame Fiona's report "Power of Diversity: Measurement, Motivation and Management" is that this could be monitored through the performance management scheme through providing recognition to those who have actively developed their entire staff population as well as having provided specific attention to those in diverse groups.

Therefore any steps taken by the FRC to encourage "pull through" would add clarity to the task ahead, provide meaningful results and help organisations to work collectively on advancing diversity and inclusion. However, it is recognised at the Association that the majority of our individual member firms are working

hard to shift the diversity dial - hence help focusing efforts **in the right direction** could be a positive step for targets.

Incidentally, a small number of those in Group C discussing the D&I aspects of the proposed changes were from small, foreign banks. They emphasised the importance of organisations, such as the FRC, focusing attention on D&I and emphasising the importance to good governance. We realise that not all foreign banks will necessarily have to conform to UK Corporate Governance Code, but good principles such as these are useful in helping management to think of these important aspects and normalises the situation.

**Question 10 - do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350?** Yes.

**Question 11 - What are your views on ethnicity reporting in executive pipelines?** As already signified in this section, any pull-through for any diverse group is to be welcomed and we would therefore support this initiative.

**Question 28 - Should board and executive pipeline be included as an explicit expectation of investor engagement?**

This happens with increasing frequency for our members in some areas of banking and asset management. However, if this were applied to all firms as a matter of course, then organisations (irrespective of their size) would strive to have good diversity and inclusion practices in place and there would be a great impetus for "pull through" from lower grades in the organisation to create a pipeline. That being said, the Association does also see how hard firms are trying in this regard and does appreciate that the candidates are not always there. That is why – as a Trade Association - we are focusing on apprenticeships (to get more people into the sector from all backgrounds), positive performance management and considering empowering people to drive their own career development, supported by their firms.

## Remuneration

Overall, the changes proposed to Remuneration were well received, but many of these have already been addressed within Financial Services by the PRA and the FCA either through the Remuneration Codes, via EU Directives such as Solvency II, MiFID and AIFMD and to some extent via the Senior Managers Regime.

**Question 14. 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?**

First of all, **we did not feel that the Chair of the RemCo should have 12 months experience** of this role before being appointed Chair. What is really important, is that if they have not got prior experience of RemCo, that **they should as an alternative demonstrate extensive experience of Compensation at a senior level either within a firm or within a consultancy firm.**

We also felt this would hinder diversity and inclusion as you would get a small number of already "experienced" people who do have this service level getting onto more and more boards and blocking well-qualified talent coming through different areas of Remuneration.

We did feel that the issue of workforce policies should be understood by the RemCo as this informs "how the firm treats its people" and to some extent, the underlying culture. For example, a firm that just pays people base salary and a bonus is by default setting a culture that Financial Services has worked so hard to eradicate. Wider employee benefits such as enhanced (or not!) maternity and paternity benefits, sick

leave (especially mental well-being initiatives) and such-like enhance the overall employee proposition and should be welcomed and promoted.

However, some clarity from the FRC as to the scope of what should be advised to the RemCo around workforce policies would be helpful as the current wording is open to "too much interpretation".

**Question 15: Other ways in which the Code could support executive remuneration that drives long-term sustainable performance.**

We felt that this issue has been addressed by the PRA, FCA and some EU Directives for the financial services sector, but do believe these principles should be extended to all sectors in the interest of all stakeholders.

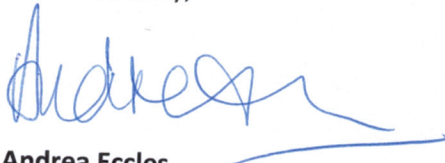
**Question 16: Do you think the changes proposed will give meaningful impetus to boards in exercising discretion.**

Yes, and this is welcomed. However, we do feel that the PRA and FCA - as well as relevant EU Directives - have addressed this issue for financial services.

These are the main issues that require a response from the Human Resource profession who manage the "HOW" around governance, culture and remuneration.

Please do not hesitate to contact me should you have any questions. It should be stated that the views given by City HR do not specifically reflect those of individual members who will make their own representations, but does draw on the experience of at least 35 professionals and 2 employment lawyers who work on these issues almost every day.

Yours sincerely,



**Andrea Eccles**  
**Chief Executive**  
**City HR Association**

This paper has been read and is supported by the Co-Chairs of the City HR Consultation, Legislation and Policy Committee and they have been copied on this response.

**Copies sent to:**

Marian Bloodworth, Employment Partner, Kemp Little LLP

Joanne Owers, Partner Employment and Pension Group, DAC Beachcroft LLP