Remuneration Committee Competence Profile.

Position Paper 8

To support the process of appointing members of a Remuneration Committee
The Remuneration Committee Forum (the “Forum”) is constituted as a forum of the Institute of Directors in Southern Africa (“IoDSA”), and is sponsored by EY. The activities of the Forum have specific focus on the governance, accountability, role and duties of remuneration committee members.

The objective of the Forum is to serve as a platform for dissemination of guidance to remuneration committee members. Such guidance will typically cover the following:

- Matters that relate to the function, duties and composition of remuneration committees; and
- Matters concerning remuneration committees in the public domain.

The dissemination of such guidance will typically take the form of position papers and roundtable discussions.

The current members of the Forum are:

- Dr R Nienaber  Independent (Chair)
- Mr T Anderson  Independent
- Mr C Blair  21st Century
- Mr D Couldridge  Investec
- Ms J Dixon  IoDSA (Secretariat)
- Mr L Grubb  South African Reward Association (SARA)
- Mr R Harraway  Independent
- Ms M Jialal-Dasrath  Independent
- Mr A Johnston  Independent
- Mr P Koornhof  Allan Gray
- Ms E Kumalo  Independent
- Dr K Mohamed-Padayachee  Independent
- Ms P Natesan  IoDSA
- Mr B Olivier  Vasdex
- Mr M Pannell  Korn Ferry
- Mrs A Ramalho  Independent
- Mr C Schaefer  EY
- Ms S Tosh  Standard Bank
- Ms V Vandyar  IoDSA
- Mr M Westcott  PE Corporate Services

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Quotations illustrating the need for competent Remcos:

**Bank bosses at NAB and ANZ face investor backlash over executive pay**

With an alleged fraud under investigation at NAB - “National Australia Bank chairman Ken Henry has admitted the bank got it wrong on executive pay this year and says it will revamp its pay structure as the bank faced an unprecedented investor revolt, with the highest ever vote against a remuneration report in corporate history.”

19 December 2018 – ABC News

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**FTSE companies warned to follow pay guidelines or face investor revolts**

“....new rules to push large listed companies to clamp down on excessive executive pay. The guidelines include provisions to prevent firms from inflating bosses’ salaries by giving outsized pension contributions, and requiring that firms strengthen their ability to claw back performance-related pay.”

22 November 2018 – The Guardian

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**Carillion and the “failure” of clawback**

“The collapse of Carillion has raised many issues relating to public procurement, the actions of the board and the role of the auditors. But a press release by the Institute of Directors suggesting that in 2016 Carillion relaxed the clawback conditions that applied to bonuses has raised questions over remuneration governance.”

16 January 2018 - Executive Remuneration, Stock and Share Incentive Plans Journal

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**Disney Shareholders Push Back on Board’s Executive Compensation Plan**

“Bloomberg notes that this is the first time Disney shareholders have pushed back on an executive compensation package since federal regulators began encouraging these “say on pay” votes...”

Gartner, 9 March 2018
Introduction

The Remuneration Committee (Remco) is led by the Remco Chair, a role that is incredibly tough, time consuming and which attracts considerable personal reputational risk. The Remco Chair needs to be trustworthy with a high level of professional scepticism, emotional intelligence, integrity, resilience and independence to balance executive expectations while justifying to shareholders that the management team is deserving of its rewards.

Global literature suggests that effective Remco Chairs have typically first been Remco members for several years, gaining technical and process experience, before being appointed to lead the committee. Identifying appropriate Remco competencies and helping to develop effective Remco members is the purpose of this paper.

Remco members have a complex and expanding task to develop an appropriate remuneration policy, oversee its implementation and assess the efficacy thereof. As an extension of the Board, the Remco has to ensure that the remuneration policy enables the business strategy but also aligns with stakeholder interests. In Position Paper 1, the primary roles of the Remco were set out as ensuring that:

- The directors, executives and prescribed officers are remunerated fairly and responsibly bearing the long-term interests of the company in mind;
- The remuneration report and disclosure of executive and prescribed officer remuneration is simple to read and understand, accurate and complete; and
- An effective remuneration policy is in place, aligned with the company's strategy, and is applied consistently throughout the entity at all employee levels.

When a remuneration policy is designed appropriately, it provides an organisation with a valuable management tool that can help attract and retain top talent, drive long term, sustainable performance in a balanced manner and effectively align the interests of management and shareholders. While Remco members do not need to be experts in remuneration, they do need to apply and assert their understanding of the organisation's business model, strategic objectives, market related practices and data to ensure that the remuneration frameworks they approve serve to advance the company's mission and deliver continuous value to stakeholders.

Although there is guidance published by the IoDSA regarding the aspects that will lead Remcos to operate effectively, there is paucity of guidance available regarding the appropriate qualifications, experience and competence that Remco members should exhibit in order to effectively serve the interests of shareholders.

This position paper therefore endeavours to outline a practical competence profile that can be used in the evaluation of Remco members for appointment, development or in the evaluation of overall committee effectiveness. It is very likely that most Remco members will not possess all the competencies and experience as set out in this paper. However, it is the value of diverse backgrounds, experience and skills collectively from all the Remco members which will ensure rich debates and result in balanced and effective decision making. Competencies and experience in the collective is therefore the important factor to consider. This paper also considers that the competencies required for board members as stated in the Standards for the Board are already in place, i.e the ability to:

- Establish a vision, mission and values;
- Set a strategy and structure;
- Delegate to management and oversight of implementation; and
- Exercise accountability to shareholders and being responsible to relevant stakeholders.

This paper is written with listed entities in mind, however most of the content should equally apply to Remcos in other forms of organisations. Remcos at all types of organisations need to be vigilant to ensure that executive remuneration does not expose an organisation to undue risk and embarrassment.

1 This document should be read in conjunction with the IoDSA Competency Framework for Directors (www.idsa.co.za); Section 66 of the amended Companies Act, No 71 of 2008 (duties of directors) and Section 3.84 of the JSE Listing Requirements (addressing the appointment of directors to listed entities)
2 IoDSA Remuneration Committee Forum Position Paper 1 – May 2013
3 IoDSA Remuneration Committee Forum Position Paper 1 – May 2013 p6
Strategic focus areas of the role of a Remco member

Remcos operate in terms of a Charter or a Terms of Reference (ToR), which is approved by the governing body of an organisation. Every Remco therefore has variations in the role they play although there are broad similarities. Some Remcos include general human resources matters in the ToR whilst others include remuneration in the ToR for the Nominations and Governance or Directors Affairs Committee. This competency profile aims to address the competencies required specifically for adequately addressing remuneration related matters.

Before designing a competency profile for any role, the broad parameters of the job to be done need to be identified. To inform this we looked at reward related regulations, policy, codes and practices, legislation as well as market failures where reward practices created unintended consequences.

The following framework was used to identify the common focus areas of typical Remcos:-

<table>
<thead>
<tr>
<th>AREA OF FOCUS</th>
<th>KEY ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRATEGY</strong></td>
<td>Understand the vagaries of the industry, the geographical location(s) where it operates, the company business model, how it creates value and how these factors influence the human capital strategy and the reward policy</td>
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<td></td>
<td>Understand the company’s past and future strategy, vision, purpose and culture</td>
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<td></td>
<td>Understand how the company’s ability to create value, can be achieved through an employee value proposition as well as incentive target setting without creating unintended consequences</td>
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<tr>
<td><strong>PERFORMANCE</strong></td>
<td>Link the achievement of business and individual performance targets to executive remuneration outcomes</td>
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<td></td>
<td>Evaluate how leadership behaviour contributes to balanced growth, long term sustainable financial success, creation of measurable value and management of business risk</td>
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<td></td>
<td>Evaluate the executive remuneration policy to assess: - Efficacy to attract and retain talent; and - Alignment of executive pay with shareholder interests</td>
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<tr>
<td></td>
<td>Evaluate the appropriateness and validity of performance measures and outcomes</td>
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<tr>
<td></td>
<td>Step back and determine overall Remco comfort with the type and level of remuneration and benefits the CEO receives and the remuneration gap between the next level of executives as well as the lowest level employees in the organisation</td>
</tr>
<tr>
<td><strong>REMUNERATION</strong></td>
<td>Recommend to the Board the approval of the remuneration philosophy and policy</td>
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<td></td>
<td>Review and consider the executive contract terms and termination provisions, salary structure, short and long-term incentives (design and targets), share ownership plans, clawbacks and malus provisions, benchmarking - to name a few important aspects</td>
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<td></td>
<td>Determine what constitutes fair and responsible pay for executives and the rest of employees in an organisation</td>
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<td></td>
<td>Review and interrogate an appropriate mix of short and long-term remuneration that aligns with the organisation’s performance objectives</td>
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<td></td>
<td>Consider remuneration comparators that informs a view on “market practices” or benchmarking</td>
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<td></td>
<td>Mandate responsible salary increases for the organisation</td>
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<tr>
<td><strong>GOVERNANCE</strong></td>
<td>Understand the Remco’s role and responsibilities</td>
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<td></td>
<td>Ensure compliance with the law, regulations and company policy, as appropriate</td>
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<td></td>
<td>Determine that information provided by management, consultants, legal counsel and finance allows the Remco to effectively make decisions and appoint independent advisors if additional information is required</td>
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<tr>
<td></td>
<td>Appropriately disclose executive and non-executive remuneration in the integrated annual report or in the annual financial statements</td>
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<tr>
<td></td>
<td>Maintain committee independence</td>
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<td></td>
<td>Evaluate Remco effectiveness and relevance – review historical decisions and their efficacy and proactively anticipate the impact of future remuneration trends</td>
</tr>
<tr>
<td></td>
<td>Understand how executive remuneration will be perceived in the context of remuneration at all other levels in the company</td>
</tr>
<tr>
<td><strong>STAKEHOLDERS</strong></td>
<td>Communicate effectively with stakeholders and manage the potential tensions between executives and shareholders</td>
</tr>
<tr>
<td></td>
<td>Engage with investors on the remuneration policy and the implementation report when the results from the non-binding advisory votes fall below 75% and also in anticipation when (significant) changes to the remuneration policy are envisaged</td>
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</tbody>
</table>
# Development of an appropriate Remco competence profile

To validate an appropriate competency profile, a number of Remco Chairs and members were interviewed to determine the key competencies (skills, knowledge and attributes) they deem necessary for an effective Remco. Furthermore, previous IoDSA Remuneration Forum position papers were revisited and global research was undertaken to confirm the scope of work for Remcos at a tactical and strategic level.

Findings were themed and categorised into four broad categories stipulated in the Success Profile literature, namely:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>KEY CONSIDERATIONS</th>
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<tbody>
<tr>
<td>KNOWLEDGE</td>
<td>What people <strong>know</strong> – technical and/or professional information needed to perform job activities</td>
</tr>
<tr>
<td>EXPERIENCE</td>
<td>What people <strong>have done</strong> – practical application of knowledge</td>
</tr>
<tr>
<td>COMPETENCIES</td>
<td>What people <strong>can do</strong> – a cluster of technical and behavioural competencies required</td>
</tr>
<tr>
<td>PERSONAL ATTRIBUTES</td>
<td>Who people <strong>are</strong> – personal dispositions and motivations that relate to job satisfaction, job success or failure</td>
</tr>
</tbody>
</table>

As indicated, we acknowledge that a single Remco member may likely not possess all the characteristics of the recommended profile. However, the Remco Chair is encouraged to appoint members with diverse backgrounds, experience and skill sets that will span the profile categories to enable the Remco as a collective, to efficiently discharge its fiduciary duties. Appropriate use of external consultants (acting independently from management), consultations with the organisation’s legal counsel, governance specialists HR and finance teams, together with cross-board committee collaboration will assist the Remco in the execution of its duties. The success of the Remco lies not only in its independent governance and oversight, but in the balanced views stemming from diverse skills and knowledge of the respective members.

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5 https://www.ddiworld.com/products/success-profiles
Knowledge

The first profile category relates to knowledge, being the technical or professional information that Remco members need to have to be able to effectively perform the expectations of the role.

The field of knowledge required for a Remco to operate effectively, typically includes:

- Organisational strategy, operating model, shareholder value creation and understanding how sustainable business growth is achieved through human capital;
- External and internal challenges experienced (including industry and geographical issues) in the context of operations or business delivery;
- Board and governance matters (location specific);
- The organisational risk framework including the risk appetite;
- Legislative scope and regulations;
- Financial metrics, macro and micro economics, behavioural economics prevalent in this context;
- The culture and values of the organisation;
- People strategy, human resources policy, headcount breakdown and status in terms of collective bargaining units including employee relations;
- Remuneration, benefits, incentives, performance management and the respective policies in which this information is contained in;
- Stakeholder management; and
- Conflict management.

This field of knowledge is required to enable Remcos to assess organisational and people value drivers and expected performance outcomes, within the context of the operating environment. They need to evaluate to what extent leadership has prepared and activated the organisation to take advantage of opportunities and mitigate matters which could pose a risk. They also need to understand the relationship between deliberate leadership actions and concomitant business results.

Practically, Remcos need to determine to what extent leadership has deliberately positioned the organisation to sustainably perform in the current and uncertain future through the adoption of appropriate business strategies and models, attraction and retention of key skills and the management of all stakeholders and how the remuneration policy is an enabler thereof.
Experience

The second profile category is experience. Experience can be defined as “familiarity with a skill or field of knowledge, acquired over years of actual practice, which enables an individual to gain a superior level of understanding or mastery”. Frequent exposure to events, and the level of event complexity, differentiates individuals and their ability to identify, manage and deal with intended and unintended consequences.

Based on the feedback from Remco members who were interviewed, this category was considered to be the most important characteristic for Remco success and was seen as a strategic differentiator. Experience is typically indicated in years of relevant experience, but in the case of a Non-executive director serving on a Remco, it would probably be inappropriate to require years of experience, but rather focus on extensive relevant experience in specific areas.

In Position Paper 16, experience included some of the following:

- Understanding of typical remuneration practices, processes and systems in the geographical location in which the organisation operates;
- Having worked in or with Human Resources and with Remuneration specifically to have obtained a detailed understanding of remuneration terminology, remuneration structuring, incentive design (including target setting) and benchmarking;
- Be able to calculate the impact of outcomes of different pay schemes both in financial and non-financial terms;
- Corporate governance; and
- Experience as a business leader that understands how to motivate employees at all levels, in both financial and non-financial ways and how organisations can derive value for shareholders through people.

6 IoDSA Remuneration Committee Forum Position Paper 1 – May 2013
Competencies

The third profile category relates to competencies. These are clusters of desired technical and behavioural competencies required for a role.

A list of Remco competencies are provided hereunder to assist Boards with the appointment of new members, to assess areas of development and to be used as a framework for the assessment of performance of the Remco as well as individual members:

- **Business Acumen:** Ability to deal with a business situation in a manner that is likely to lead to a positive outcome.

- **Leadership:** Provides management with guidance and direction in terms of key remuneration decisions. Understand how remuneration can be used as a lever to motivate employees and to supplement other parts of the employee value propositions. Making decisions decisively and taking the necessary actions in the best interests of all stakeholders.

- **Analytical and problem solving:** Ability to understand the various components of the business and remuneration and how they fit together as well as the ability to resolve issues efficiently by applying logical thinking. Ask the right questions. Understand the knock-on effect of one decision on other processes.

- **Engagement in debate:** Ability to participate in meetings in such a way that encourages robust and probing debate and which is productive and constructive.

- **Conflict management:** Proficiency in managing the conflicts and tensions between the Remco and/or management. The ability to act independently from management—a Remco should be independent in character and judgement and there should be no relationships or circumstances which are likely to affect, or could appear to affect this independence.

- **Willingness to take unpopular decisions:** The Remco member should be willing to take unpopular decisions and deliver “bad news” to management for whatever reason.

- **Communication and Stakeholder Management:** Ability to adopt a stakeholder inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time. Shareholder management skills will be an increasingly important quality for Remco members as they are required to explain or rationalise pay packages to shareholders more frequently. Further to this, Remco members will increasingly be required to play a mediating role between management and shareholders. Balancing shareholders’ demands with management’s expectations demands a specific skillset.

- **Strategy development:** Ability to play a prominent role in the strategy development process and should ensure that pay for executives is linked to the creation of value for stakeholders over the short, medium and long-term.

- **Monitoring Performance:** Ability to effectively interpret data and information in whatever format presented in order to readily identify key points, issues, trends or anomalies of contextual significance relating to remuneration.

- **Risk / Reward Relationship management:** Ability to identify material reward risks within the organisation and monitor the reward risk. The Remco members should be competent in considering the behavioural impact of all remuneration related decisions not only on management, but on all employees.

- **Resilience:** Ability to ‘push back’ against both management and shareholders where this is justified and keeping a rein on executive reward expectations ensuring that these are aligned with performance outcomes.

- **Emotional intelligence:** Capacity to be aware of, to control and to express one’s emotions, and to handle interpersonal relationships through self-awareness, self-regulation, motivation, empathy and social skills.

- **Critical thinking:** The objective analysis and evaluation of an issue in order to form a judgement and to reserve judgement until all facts have been thoroughly examined.

- **Reputational Risk Awareness & Management:** Being aware of the potential reputational risk of decisions and mitigating for such risks.

- **Interpersonal skills:** The ability to work effectively with others, influence in a positive and constructive manner and to demonstrate a high degree of emotional intelligence.
Personal Attributes

The last profile category relates to personal attributes, describing who people are. Out of all four categories, this category is the most difficult to master – it’s who a person is, but there is always room for development.

- **Self-awareness**: Behaviour that demonstrates self-knowledge of personal strengths and weaknesses.

- **Self-management**: An ability to manage oneself in a proactive manner that contributes constructively to the activities of the Remco.

- **Intellectual curiosity**: Be interested in continuous development and improvement.

- **Independent mindedness**: Not being unduly influenced in forming an opinion or making a decision.

- **Conscience**: Act with the intellectual honesty and independence of mind in the best interests of the organisation and its stakeholders in accordance with the inclusive stakeholder approach to corporate governance.

- **Inclusivity**: Achieve sustainability through the consideration of the legitimate interests and expectations of all stakeholders.

- **Commitment**: Be diligent in performing duties and devote sufficient time to company affairs. Dedicate sufficient time for preparation, attendance of meetings (including contribution in the meeting), follow-up activities as well as shareholder meetings where required.

- **Courage**: Take appropriate risks associated with directing and controlling a successful, sustainable enterprise, and also act with integrity in all remuneration decisions and activities.
Recruitment and on-boarding

The trend to follow a more professional recruitment process in identifying suitable Remco members has expanded in the last few years. Recruiting appropriately to identify persons that meet the success profile of an effective Remco member is essential for the effective functioning of the Remco.

Over and above the Board induction programme, a newly recruited Remco member should be provided with at least the following documents when on-boarded:

- Overview of their role;
- Overview of time commitments expected of them;
- Remco charter or terms of reference and annual work plan;
- Overview of business objectives and how these align with the reward strategy, policy and processes;
- Overview of the employee landscape and footprint, sector dynamics, socio economic profile, union dynamics, differences in benefits and remuneration structures across the organisation, cross-geographical differences and other factors that will influence the decisions made by the Remco;
- Overview of the company employee value proposition and HR policies;
- Overview of talent management, i.e. types of skills, succession planning processes, retention issues;
- Total cost of salaries and benefits;
- Benchmarking methodology;
- The latest integrated annual report (including the remuneration report);
- Voting results on the recent remuneration policy and implementation report and reasons for the voting outcome (where these are known);
- Previous Remco minutes of meetings; and
- Contact details for directors, key members of management as well as other Remco members.

Furthermore, arrangements should be made for the Remco members to meet and discuss pertinent organisation matters with the CEO, CFO, COO and Chief HR Officer (and Reward Head if appropriate) to provide insight to the history, purpose, strategy and culture of the organisation as well as key remuneration challenges and stakeholder expectations.

It is also critical that the Company Secretary arranges for a session for the Remco covering their responsibilities/duties in terms of the Companies Act, the JSE Listings Requirements, King IV™, other applicable statutory requirements as well as an overview of the latest regulatory and reporting requirements for disclosure.
Mentorship, Training and Development

According to the IRRC Institute and Institutional Shareholder Services Board Trends, nearly one-tenth of directors serving on S&P Boards in 2016 are new, with no prior board service/membership. A similar scenario exists for South African Boards.

Though not necessarily common, one-on-one mentoring is a valuable training method for new Remco members. Mentoring allows new Remco members to build relationships whilst at the same time learning from experienced Remco members to obtain critical knowledge and develop skills with immediate feedback. To aid development, Remcos are also encouraged to conduct regular performance evaluations against a success profile to measure the effectiveness of the committee and to build the skill set of its members.

Evaluation at three levels is recommended: -

1. Self-evaluation, by all the members of the Remco, as stipulated by the chair of the committee;
2. Annually, by the main board; and
3. Annually, albeit indirectly, by the shareholders at the annual general meeting, in the exercise of their annual non-binding vote on the remuneration policy and the implementation report.

Over and above mentoring, it is imperative that Remco members are continually provided with market updates on changes in remuneration dynamics and legislative and regulatory matters, to ensure that they keep abreast of this very dynamic environment.

Conclusion

The role of the Remco is complex and expanding with little guidance on what will make a Remco member effective. Shareholder activism demands experienced Remco members with confidence, gravitas, experience and the ability to influence. This position paper endeavours to provide an appropriate role profile to assist the Board and Remco Chairs with the appointment of Remco members and to assess performance and efficacy of the Remco.

The success profile provides four key categories – knowledge, experience, competencies and personal attributes – developed through interviewing experienced Remco chairpersons/members in South Africa, and referencing characteristics from effective global Remco Chairs/members.

Applying this role profile to Remco members may go a long way to strengthen remuneration governance and Remco effectiveness in South Africa.

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7 IRRC Institute and ISS, Board Refreshment Trends at S&P 1500 Firms; (New York, NY: 2017).
Annexure A –
Previous IoDSA Remuneration Forum Position Papers

Position paper 1, “A framework for remuneration committees” released in May 2013. This paper provides high level guidance to Remco members, and those responsible for appointing them, on the prerequisites of an effective Remco, its roles and responsibilities.

Position paper 2, “The Remuneration Policy” released in December 2013. This paper provides guidance to Remcos on how to engage with shareholders on the remuneration policy.

Position paper 3, “Managing conflicts and tensions at the remuneration committee” released in October 2014. This paper deals with how Remcos manage the tension between the expectations of executives, the needs of the organisation and the organisation's shareholders and stakeholders.

Position Paper 4, “Linking pay with performance” released in August 2015. This paper provides practical guidance to Remco members on linking executive pay with performance, a legitimate expectation of all stakeholders and particularly investors.

Position Paper 5, “Value Creation and Executive Pay” released in June 2016. This paper focuses on value creation for shareholders over the long term.

Position Paper 6, “Fair and Responsible Remuneration” released in March 2017. This paper focuses on fair and responsible remuneration, for all levels of employees and not just executives. The Remco has the challenging, but primary responsibility of ensuring that appropriate principles, policies and practices are in place as a foundation for fair and responsible remuneration.

Position Paper 7, “Paying for Sustainable Performance” released in July 2018. This paper outlines appropriate executive behaviours for sustainable performance as well as linking executive pay to strategy achievement.