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**IAIM STATEMENT OF BEST PRACTICE  
AND THE CADBURY REPORT**

In May 1992, the Irish Association of Investment Managers published a Statement of Best Practice on the Role and Responsibilities of Directors of Public Limited Companies. The purpose of the Statement of Best Practice was to give to the directors of Irish registered plcs and their advisers the views of institutional shareholders on corporate governance. The IAIM Statement of Best Practice preceded the publication, in the UK, of the Cadbury Report.

There are substantial points of agreement between the IAIM Statement and the Cadbury Report, most notably their emphasis on the importance of non-executive directors and the formation of audit and remuneration committees comprised of non-executive directors. There are also, however, fundamental differences between both publications, particularly in relation to the separation of the roles of chairman and chief executive and whether or not there should be a majority of non-executive directors on boards of plcs.

**Separation of the roles of Chairman and Chief Executive**

In its Statement of Best Practice, the IAIM stated clearly its view that these roles should not be combined. The Cadbury Report refrained from a clear statement that the roles should not be separated, stating that "where the Chairman is also the Chief Executive, there should be a strong and independent element on the board, with a recognised senior member."

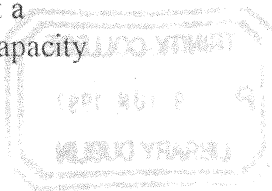
Having considered this question further, the IAIM remains of the view that it is in the interests of plcs and their shareholders that the roles of Chairman and Chief Executive be separated. It considers that the Cadbury proposal for a strong and independent element on the board is, at best, an interim measure insofar as separation of these roles is concerned.

The IAIM urges all plcs who have not yet separated the roles of Chairman and Chief Executive to do so without delay.

**Majority of Independent Non-Executive Directors.**

The IAIM, in its Statement, favoured a majority of independent, non-executive directors on boards of plcs. It stated that independence is more likely to be assured when the director is not retained as a professional adviser by the company; is not a significant supplier or customer to the company; has not been employed in any capacity

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by the company in the recent past and does not participate in any share option scheme within the company.

Cadbury, on the other hand, advocated a minimum of three non-executive directors, one of whom may be the chairman of the company provided he or she is not also its executive head. Cadbury also recommended that two of the three non-executive directors should be independent non-executive directors.

Following consideration of the different approaches taken by the IAIM Statement and the Cadbury Report, the IAIM remains of the view that it is preferable that Boards of Plcs have a majority of independent non-executive directors. The IAIM considers that this is necessary both to ensure a proper balance on the board and to facilitate the effective operation of audit and remuneration committees.

However, the IAIM accepts that, for some companies, there will be a time lag between implementation of the recommendations of the Cadbury Report and the IAIM Statement of Best Practice. It considers that these companies should meet the requirements of the Cadbury Report and should implement those of the IAIM Statement of Best Practice as soon as possible thereafter.

Progress on implementation of these recommendations will be monitored regularly by the IAIM.

### **Remuneration of Non-Executive Directors**

The IAIM wishes to reiterate the views expressed in its Statement of Best Practice that the remuneration paid to non-executive directors should reflect their responsibilities and the contribution which they make to the company.

### **Disclosure of Remuneration of Directors**

In its Statement of Best Practice, the IAIM proposed that the Annual Report should include a schedule setting out details of directors' total remuneration and a schedule setting out, in £5000 bands, the total remuneration of top management. This proposal was not unlike the disclosure requirement of UK Companies' legislation, but went further than the requirements of Irish Companies' legislation.

In considering the question of disclosure of remuneration, the Cadbury Report stated that there should be "full and clear disclosure of directors' total emoluments and those of the Chairman and highest paid UK director, including pension contributions and stock options. Separate figures should be given for salary and performance-related elements and the basis on which performance is measured should be explained".

Following discussions with various plcs, the IAIM has reconsidered its proposal for disclosure, in bands, of the total remuneration of top management.

The primary concern of the IAIM is that there should be full and clear disclosure of all emoluments paid to directors. The IAIM also considers that the Cadbury Report's proposal for a separation of fixed and performance related emoluments is to be welcomed. Accordingly, the Association has amended its proposals for disclosure of remuneration in the Annual Report. The revised disclosure proposals are as follows:

- (i) A note along the following lines should be included as part of the disclosure of Directors' emoluments in the Annual Accounts of a plc:

"Directors' remuneration shown comprises all of the fees, salaries, pension contributions and other benefits and emoluments paid to Directors.

The basis of the Executive Directors' remuneration [and the level of bonuses paid] are fixed by the Remuneration Committee of the Board which is comprised solely of non-executive directors of the company."

- (ii) Aggregate figures for the performance element of the remuneration of executive directors should be stated separately.
- (iii) Information on share option schemes should include the following: size of scheme, number of options outstanding, number of options held by individual directors and the range of exercise prices and dates applicable to these options.
- (iv) Details of remuneration paid to directors, share options, service contracts (where appropriate) etc should be presented in one section of the Annual Report and Accounts.

#### **Other Aspects of the IAIM's Statement of Best Practice**

The views of the IAIM on other aspects of the Statement of Best Practice eg the composition and functions of audit and remuneration committees, service contracts etc remain unchanged.

#### **New Listings**

Members of the IAIM expect that companies going to the market will comply with all aspects of the Association's Statement of Best Practice.

#### **Monitoring Implementation of IAIM Statement of Best Practice and the Cadbury Report**

The IAIM will actively monitor implementation of its Statement of Best Practice and the Cadbury Report over the coming year and will seek to engage in discussions with those companies that have difficulty in meeting their recommendations.

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