SECURITIES & INVESTMENT INSTITUTE

Core Principles

SII INTEGRITY POSITION PAPER

1) **The SII recognises and supports the concept of paying people an element of remuneration in recognition of achievements in their employment that are over and above what would normally be expected and/or for a legitimate share in the profits of the organisation or parts of the organisation.**

2) **These achievements may not always result in additional income accruing to the firm.** In many cases it could and should be because the individual's actions have saved money, provided a valuable support service or prevented a loss. A pound saved is as a good as a pound earned.

3) **A bonus should take into account not only the contribution of an individual but also that of their team/division and the overall performance of the firm/company.** Payment based solely on an employee's individual profit needs exceptional justification because of the possible incentive it gives to the individual to put his or her interests before those of other stakeholders.

4) **A bonus should also take into account factors other than profit, such as co-operation with others, compliance with procedures and training of others.**

5) **A bonus should reflect the risk involved and firm's capital used in acquiring any additional profit or higher than anticipated level of performance.** For example, an individual who built up a few highly leveraged or complex positions, trades or deals that worked in his or her favour, is likely to be deemed to be riskier than someone who made the same contribution from smaller, but more frequent or matched, positions, trades or deals.

6) **Payment of a bonus (depending on the type of transaction), should not be front loaded and should be spread over a period relevant to the transaction eg, between two to five years.** This is to allow time for the results of the underlying transactions upon which the award was made to be properly evaluated.

7) **Bonus awards should be indicative, not final and vest in yearly tranches.** The vesting is not intended to restrict mobility and need not be tied to whether the employee remains with the firm. The intention is to allow the possibility of clawing back part or all of the bonus award, should it emerge at a later stage that the underlying transaction was not as profitable as first thought. Similarly, the reverse could apply.

8) **In the case of a quoted company, or where phantom shares are used for deferred remuneration then, generally, the higher the bonus award, the greater the proportion which should be paid in shares.** This ensures that the objectives of the individual are aligned with the shareholders and encourages a long-term approach.

9) **The larger an award compared with an employee's basic salary (for example if it is greater than twice their salary) the greater the need for it to be signed off by an independent body within the firm, such as the remuneration committee or non-executive directors.** This is to reduce the temptation by individuals of obtaining a life changing amount of money by taking a short term course of action.

10) **The annual report and accounts of firms should, in future, provide a level of disclosure above the statutory minimum on bonus payments and break down details of these payments into the salary and bonus elements in the standard bands of £5,000.**