

**EXPLANATORY MEMORANDUM TO THE HOUSE OF LORDS SELECT
COMMITTEE ON THE MERITS OF STATUTORY INSTRUMENTS**

**DIRECTORS' REMUNERATION REPORT REGULATIONS
(NORTHERN IRELAND) 2005**

2005 No. 56

- 1.1 This explanatory memorandum has been prepared by the Department of Enterprise, Trade and Investment and is laid before Parliament by Command of Her Majesty.
- 1.2 This memorandum contains information for the House of Lords Select Committee on the Merits of Statutory Instruments.

2. Description

- 2.1 This statutory rule amends the Companies (Northern Ireland) Order 1986 to bring company law in Northern Ireland into line with the law in Great Britain by requiring quoted companies to prepare a report on the remuneration of directors. A quoted company is defined as a company incorporated in Northern Ireland which is listed in the United Kingdom or in an EEA state or on either the New York stock exchange or NASDAQ.
- 2.2 The Regulations are made under powers conferred on the Department of Enterprise, Trade and Investment by Article 265 of the Companies (Northern Ireland) Order 1986. This Article, among other things, allows the Department to add to the classes of documents to be prepared by a company in the context of accounting requirements.

3. Matters of special interest to the Committee

- 3.1 None.

4. Legislative Background

- 4.1 This statutory rule is being made to require quoted companies to be more transparent and accountable in regard to the remuneration of directors. The Regulations require the directors of a quoted company to produce for each financial year a directors' remuneration report. The company's auditors are required to confirm that this report complies with the provisions set out in respect of it and the report must be approved by an ordinary resolution of shareholders.
- 4.2 The directors' remuneration report must include details of the circumstances surrounding the consideration by directors of matters pertaining to directors'

remuneration and the company's remuneration policy for the following financial year. A graph setting out the company's performance must also be included. A copy of the report must be forwarded to the registrar of companies.

5. Extent

- 5.1 This statutory rule extends to Northern Ireland only. The corresponding Great Britain Regulations are the Directors' Remuneration Report Regulations (S.I. 2002/1986).

6. European Convention on Human Rights

- 6.1 Barry Gardiner MP, Minister for Enterprise, Trade and Investment has made the following statement under section 19(1)(a) of the Human Rights Act 1998 (c. 42) :

"In my view, the provisions of the Directors' Remuneration Report Regulations (Northern Ireland) 2005 are compatible with the Convention rights".

7. Policy background

- 7.1 The main purpose of the Regulations is to introduce greater transparency and accountability to the setting of directors' remuneration. This is achieved by requiring companies to produce an annual directors' remuneration report and by giving shareholders the right to vote on that report.

8. Impact

- 8.1 The Department believes that the requirements in the Regulations will not add significantly to the costs of companies whose securities have been admitted to the UK's Official List. It is already a requirement of the Listing Rules that companies must disclose details of each director's pay. Any additional costs on quoted companies should be considered alongside the benefits of a more effective link between directors' remuneration and company performance.
- 8.2 There is no impact on the public sector as this statutory rule only applies to quoted companies.

Contact

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