

The new remuneration report First impressions



New requirements for the disclosure of directors' remuneration and the new voting regime came into effect on 1 October 2013. Companies with a financial year ending on 30 September were the first to have to comply with the new requirements.

Key themes

Policy report

- In almost all of these companies the policy will take effect from the date of the AGM.
- Salary policy maximum – companies typically state that increases will be in line with other employees but retain flexibility to award higher increases in specific circumstances.
- Pension and benefits policy maximum – most companies disclose the current maximum contribution to pension plans or the maximum salary supplement. In respect of other benefits, most companies provide an indication of the types of benefits provided, with some making it clear that these may change in response to changing circumstances. Some companies have indicated that relocation and expatriate allowances may be considered but a number of companies only allow for this for new recruits. Most companies have retained flexibility on the maximum cost of non-pension benefits.
- Maximum incentive policy – most companies disclose the limit on the annual bonus and in many cases, where this varies by individual, the individual limits are included. Most companies include both the usual and overall maximum in the long term incentive plan.
- Policy on performance measures and targets – for annual bonus, most companies disclose only the broad measures on which bonus is based with an indication of the overall weighting, perhaps between financial and non-financial, but with flexibility to change. Including the specific measures in the long term plan is more common but most do not include the targets in the policy report.
- Recruitment policy – less than half the companies reporting so far note that a new recruit may be appointed on lower than market rate salary with phased increases to bring to market level. Many companies do not disclose a limit on the variable pay that may be awarded, with a significant number limiting this to the stated policy. Around a third will normally make awards within usual policy but retain flexibility to make higher awards.

Annual remuneration report

- Companies are not disclosing prospective bonus performance measures and targets on the grounds that they are commercially sensitive.
- Only half the companies disclose the retrospective bonus measures and financial targets. Most of the others provide an indication on the level of performance achieved and the resulting pay-out.
- Relative spend on pay – split between those who show minimum requirements (employee costs and dividend/buyback) and those including a measure of profit. Very few companies include any other information.
- Change in CEO pay – most companies use all employees as the comparator group although a number base the comparison on UK employees only and two on management/senior management positions.

Introduction

Most, although not all, of the companies with a financial year ending on 30 September 2013 have now published the 2013 annual report and we can now share with you our first impressions of how companies are addressing the new requirements. Our review covers the reports of 17 companies; five of these are FTSE 100 constituents and the others are constituents of the FTSE 250. Shareholders will have the first opportunity to vote on remuneration policy at the General Meetings of these companies in the next few weeks.

We have focused on key areas where there has been discussion relating to the level of detail shareholders will expect to see, and how the information should best be presented to provide clarity and understanding. Of course, this is a very small, and early, sample from which to draw conclusions and our intention is certainly not to attempt to identify any real trends, or suggest emerging 'best practice'. But it provides an opportunity to highlight where we are seeing interesting differences in the way companies are choosing to structure the directors' remuneration report, what information is being included and how this is being presented.

Based on this information we have highlighted aspects of the new disclosure where we believe companies should focus their attention and where a range of options may be considered.

One of the concerns raised by both companies and shareholders during the consultation phase of the regulations was the potential increase in the length of remuneration reports and the impact of this. Our analysis of the first new reports suggests that reports are indeed longer. Whereas the typical remuneration report previously tended to be around 12 pages long, the reports published so far under the new regime range from 13 to 30 pages long, with a median of around 17 pages.

The first companies to report under the new remuneration reporting regulations have now published the annual report. These are our first impressions of how companies are addressing the new requirements.

Annual statement

The directors' remuneration report must contain a statement by the chair of the remuneration committee summarising the major decisions on directors' remuneration, any substantial changes relating to directors' remuneration made during the year and the context in which those changes occurred and decisions have been taken.

Large and Medium-sized Companies and Groups Regulations 2008 as amended in 2013

The regulations do not prescribe what should be included in this statement. The guidance from the GC100 and Investor Group suggests some of the topics that might be considered. Of the 17 companies reporting so far, all but one company has provided some of this information but very few have included the full range of suggested disclosures.

- Remuneration philosophy and relationship with business strategy
- How company performance during the year is reflected in remuneration outcome
- A summary of any discretion applied during the year
- Challenges and issues addressed by the committee in the year
- Intended remuneration arrangements for the coming year
- Comment on stakeholder engagement
- Any changes to policy

Directors' Remuneration Reporting Guidance – GC 100 and Investor Group

Most companies provide a good summary of any proposed changes in remuneration arrangements for the coming year. The degree to which these decisions are explained is more variable. Less than half provide details of the context in which the decisions were taken and very few provide a detailed explanation of the relationship between remuneration and the business strategy. However, a significant number of companies comment on the level of shareholder support and the process for engagement with shareholders.

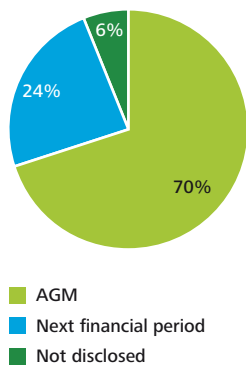
The annual statement is an opportunity to tell the story of the year, providing context and flavour to the rest of the report.

We see the annual statement as an opportunity to tell the story of the year, providing context and flavour to the disclosures in the rest of the report. If this statement is well drafted, there should be no surprises in the rest of the report and this will help to build understanding and trust between the committee and the shareholders. We would therefore like to encourage committees to spend time on the statement and make the most of this opportunity to provide clarity and focus.

The remuneration policy report

Given the binding nature of the policy for a period of up to three years, there is no doubt that this section is posing the greatest challenge. We are seeing a great deal of variation so far in how companies are choosing to structure the report and balance the information contained in the report and the degree of flexibility incorporated within the policy to allow it to serve the needs of the business for up to three years once binding.

Although in the regulations the requirements relating to the policy report appear after the annual statement and the annual remuneration report, all but two companies have included the policy before the implementation section.



Date from which the policy applies

Guidance from the ABI and the GC100 and Investor Group suggests that shareholders expect the policy to apply from the date of the AGM. 70% of the 17 companies have opted to follow the guidance with the policy applying from the AGM.

What is included in the policy table?

In most companies the tables include, for each element of remuneration, the details specified in the regulations – how the element supports strategy, how it operates, the maximum that may be paid and the performance measures which apply. However, there are some differences:

- One company does not include a separate section on maximum payable.
- One company includes details of the maximum payable as part of the section on how the element is operated.
- One company does not include a separate section on performance measures but includes a broad statement on measures in the column on how the element is operated.
- One company does not include all the columns in the table as specified in the regulations, although all the information required is included.

All but three companies conform to a similar table layout with remuneration elements in rows and the details relating to each element in columns although in some cases the columns relating to each element are spread over two pages of the report, which may make it more difficult to read, particularly when printed. The other three reports include the details in rows for each element.

Disclosing the maximum in the policy report

There is a requirement to disclose the maximum under each remuneration element. This must be explained in monetary terms or any other way appropriate to the company, which might include as a percentage of salary. If there is no maximum then it may be appropriate to make this clear and in some cases it may be appropriate to include some detail on parameters within which levels will be determined.

The maximum – salary

<p>None of the companies reporting so far include an absolute maximum salary. However, one company specifies a maximum salary increase, which is set at a relatively high level although the report states that in normal circumstances increases will be in line with increases awarded to employees generally.</p> <p>Six of the 17 companies do not mention a maximum at all, although some indication of the factors that will be taken into account when determining the increase is provided.</p> <p>Six companies state that there is no maximum and four state that increases will be in line with those awarded to other employees. In these four companies the policy allows for discretion to be applied to award increases above this level, although two companies limit this discretion to where there is a significant change in responsibilities or the scope of the job.</p> <p>Most companies do not include the salaries for the next financial period (i.e. 2013/14) in the policy report. Only two companies do so, with a further company including the salary increase applying. The majority of other companies include the 2014 salaries in the implementation section of the report, and six companies make specific reference to this in the policy report.</p>	<p>Points to consider</p> <ul style="list-style-type: none"> • The regulations state that a maximum should be included so if there is no defined maximum opportunity it may be helpful to make this clear. • If increases will normally be in line with other employees, think about whether this is all employees, just UK employees, etc. • If there is flexibility consider whether this should be limited or not. Be aware of the implications of using certain words, such as 'significant' change of role, or will not 'exceed' increases given to other employees. • It is worth noting that ISS have already indicated that they expect to see forward looking salaries included in the policy report. This is likely to be a matter of remuneration committee preference as it is not a requirement of the regulations to include this in the report. This information more naturally falls in the section on implementation of policy in the following financial year. A reference in the policy report to where this can be found in the annual remuneration report may be helpful.
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None of the companies reporting so far include an absolute maximum salary.

The maximum – pension and benefits

<p>The majority of companies include the maximum contribution to the pension plan, or given as a pension supplement, where these are of a defined contribution nature or in the form of a cash allowance. Where directors are still accruing benefits in a defined benefit plan this is typically described but few details provided in the policy report.</p> <p>Of the 17 companies reporting so far, only one includes the maximum relating to each individual non-pension benefit and in addition includes a maximum on the amount that may be paid in relocation or expatriate assistance. One other company includes the maximum that may be paid in benefits as a % of salary in normal circumstances with the ability to exceed this if necessary.</p> <p>None of the other companies mention a maximum value of non-pension benefits which may reflect the fact that employers have limited control over the cost of insured benefits. The majority of companies list the typical benefits provided with around two thirds of these providing for some flexibility.</p> <p>Seven companies allow for the possibility, in the policy table, of providing relocation and other allowances, including expatriate allowances. In other companies this is only mentioned as part of the recruitment policy and these companies will therefore be limited to these situations only. Three companies do not appear to make any provision for these benefits.</p>	<p>Points to consider</p> <ul style="list-style-type: none"> • As with salary, if the committee determines that it is inappropriate to include a limit on the benefits provision, it may be helpful to make this clear. • If the typical benefits are listed it may be appropriate to provide for some flexibility so the committee is not limited to this list for the future. • The key issue is likely to be striking a balance between ensuring that the committee has the ability to flex the benefits if necessary whilst managing costs effectively.
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The majority of companies include the maximum contribution to the pension plan, or given as a pension supplement, where these are of a defined contribution nature or in the form of a cash allowance.

The maximum – incentive plans

Where there is a cap on the bonus this is typically disclosed in the policy table and there is no provision for a higher maximum bonus in specific circumstances.

Annual bonus

Where there is a cap on the bonus this is typically disclosed in the policy table and there is no provision for a higher maximum bonus in specific circumstances. Where there is a different maximum bonus in place for the CEO, most companies choose to disclose both limits in place and typically this is not disclosed in a way that would allow the higher maximum to be used for the other executive directors.

Only one company discloses an overall maximum that applies to the CEO but does not disclose the usual maximum that applies to the other executives, which is lower. This provides the flexibility to use the overall maximum if required.

In a small number of companies the bonus maximum is disclosed as 'up to' a specified percentage and in one of these companies one of the executive directors has a bonus limit which is lower than that disclosed in the policy table.

Long term incentive

The most common practice so far is to disclose the overall maximum and the 'usual' maximum that is typically awarded, which in many cases is disclosed for the CEO, with a lower maximum for the other executive directors. Only two companies appear to disclose a maximum which is higher than the awards usually made. One company discloses an overall and a 'usual' maximum but a lower maximum has been included in the scenario charts.

Points to consider

- If there is no bonus cap, consideration should be given as to how this is explained, as this is a point on which many shareholders will focus.
- Many companies operate a different maximum for different positions, and may have an overall maximum (particularly in relation to long term plans) which may be used in exceptional circumstances but which is not the 'normal' maximum. Disclosing the overall maximum in the policy table may be the simplest option, allowing the most flexibility, but remuneration committees should consider whether the normal maximum should also be disclosed and whether this should be on an individual basis where this varies.
- If normal limits are to be disclosed, particularly if this is on an individual basis, consideration should be given as to whether there is then sufficient flexibility to deal with unforeseen and unusual circumstances.
- If an overall maximum is given in relation to bonus or long term awards which is higher than that typically given, consider what will be used in the scenario charts and ensure this is explained where different.

One of the biggest challenges facing companies is the level of disclosure on the performance measures and targets included in incentive plans.

Performance measures and targets

One of the biggest challenges facing companies is the level of disclosure on the performance measures and targets included in incentive plans. Shareholders are likely to be uncomfortable with complete discretion in relation to what performance is being measured and rewarded but recognise that the company must have flexibility to be able to set objectives and targets which support the business strategy and that this may change within a three year period. This is particularly important in annual bonus plans but even in long term plans where measures may be more fixed, the company may want the flexibility to be able to vary the weighting of the measures or to change the specific targets.

Payout at threshold and target – the regulations state that the amount which may be paid for the minimum level of performance and any further levels of performance must be disclosed in the policy table. So far, the disclosures have been variable.

- Annual bonus – around half the companies reporting so far disclose the level payable for on-target performance and around half disclose what is payable at the minimum or threshold level of performance, although these are not always the same companies.
- Long term plan – around three quarters of companies disclose what will vest for minimum performance but only three companies disclose what will vest for on-target performance.

It is worth noting that the terminology can vary as 'threshold' vesting for long term plans is typically more likely to be related to median, or on-target, performance, whereas for an annual bonus plan the minimum is often zero with typically 50% payable for on-target performance. It is worth noting that some companies choose only to include the maximum payable in the policy table.

Points to consider

- Information must be disclosed in the annual remuneration report on implementation of the policy in both the next financial period and in the current financial period where the degree to which the performance targets have been achieved must be disclosed. Therefore much of the detail in relation to measures and targets will be disclosed in this section of the report.
- For annual bonus plans companies will need to make a judgement on the amount of flexibility they will need to be able to vary the measures and the weighting of these measures from year to year. For example it may be appropriate to provide details of the financial measures that will be used each year but leave more flexibility to vary strategic and personal objectives.

<p>Annual bonus plans – performance measures and targets Most companies choose to disclose only the broad measures being used, meaning that almost all companies retain flexibility to change the specific measures and weighting. Disclosure is often limited to stating that performance is based on a mixture of financial and non-financial targets, or may provide a little more detail on the financial measures to be used. Around a third of companies provide some details of the specific measures and typically as an example of the measures that may be used rather than as a fixed structure. Very few companies provide any indication of the weighting of the bonus measures, although a small number provide an overall indication of the split between financial and other. One company does not disclose anything about the measures in the policy table but has given a very broad indication of the type of measures used in the supporting information. No company has chosen to disclose the performance targets in the policy report.</p> <p>Long term plans – performance measures and targets The majority of companies disclose the specific measures being used and around half disclose the weighting attached to these measures. Only around a third of companies provide flexibility for these to be changed without approval. In these companies the broad measures in place are disclosed although four companies leave the policy on weighting completely flexible. Only four companies include the actual performance targets in the remuneration policy.</p>	<p>Points to consider</p> <ul style="list-style-type: none"> • The key measures in long term plans typically change less often and companies may feel it is more appropriate to disclose the specific measures on which awards are based, although where an element relates to strategic targets, flexibility to adjust the measures each year may be appropriate. Some companies will want to allow for the possibility of adjusting the weighting of the measures. In relation to targets many companies will want to adjust these on an annual basis, although depending on the nature of the targets it may be reasonable to fix these for the life of the policy.
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For annual bonus plans most of the companies reporting so far choose to disclose only the broad measures being used, thereby retaining flexibility to change the specific measures and weighting.

Recruitment policy

The policy report must now specifically include the details of the remuneration policy that will apply on recruitment. This is a new disclosure which is proving to be another significant challenge for many companies. Most companies will not previously have had a formal policy on recruitment remuneration in place and have tended to respond to the candidate and the business situation as the need has arisen. This now forms part of the binding policy and must provide sufficient flexibility to allow the company to deal with unforeseen circumstances at any time and must be certain enough to gain shareholder approval, in advance, for the range of provisions that the company might expect to use when recruiting a director.

<p>This information is, in all the companies reporting so far, included in the supporting information following the policy table.</p> <p>Salary – seven companies do not disclose any details of how salary would be managed on recruitment. Six companies specifically note that a new incumbent may be appointed on a salary below the market rate with phased increases planned to bring the salary up to market rate if performance warrants. Two companies state that the salary may be below market rate and two provide a broad indication of the basis on which the salary will be determined.</p> <p>Variable pay – seven companies disclose that any variable pay (excluding any buy outs of existing awards forgone) will be awarded within the disclosed policy and have no flexibility to make awards outside the policy. Six companies state that they will normally make awards within the stated policy but may exceed this in some circumstances and six companies disclose an overall maximum limit on variable pay which is in excess of the usual policy limits and in four of these the maximum is higher than the overall policy maximum. Five companies specifically state that performance measures and targets set for variable pay may be different from those currently used.</p> <p>Two companies appear to allow for almost complete flexibility in what may be offered.</p>	<p>Points to consider</p> <ul style="list-style-type: none"> • Shareholders are focussing on recruitment arrangements and are unlikely to support excessive limits. While they recognise that some degree of flexibility is required, they will expect justification where there are significant differences in relation to the normal policy. It is worth noting that initial reactions to the first policy reports suggest that shareholder bodies and proxy research and voting agencies are unlikely to support resolutions to approve the policy report where the discretionary powers are considered too broad. In some cases companies have felt it necessary to issue further clarification on this point on their websites. • Companies need to identify the level of flexibility they need to build into the policy, remembering that the starting point should be to offer arrangements which fall within the approved policy. • This will include considering the potential to make additional awards outside of normal policy and the need to buyout existing awards and how this should be managed.
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In the recruitment policy companies need to identify the level of flexibility they need, remembering that the starting point should be to offer arrangements which fall within the approved policy.

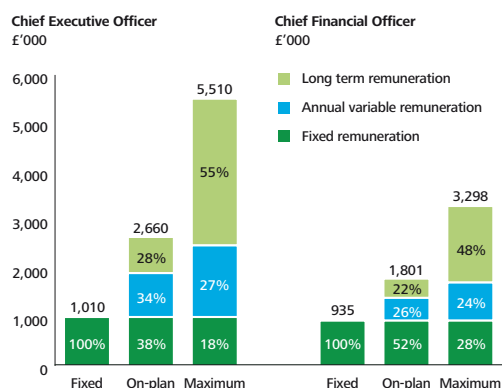
<p>The Listing Rules require companies to seek shareholder approval for any share plan which involves the issue of new shares (or the transfer of treasury shares), or any long term plan in which directors of the company may participate. LR 9.4.2 states that this does not apply to plans where the only participant is a director of the company and the plan is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the individual. Eight companies specifically mention the facility to use Listing Rule 9.4.2 when making awards to new appointments</p> <p>Buyouts – all companies state that the buying out of existing awards may be considered and in almost all cases that these would normally reflect the existing awards in terms of time horizons, expectation of vesting, delivery mechanism etc.</p>	<ul style="list-style-type: none"> • For some companies it may be appropriate to provide no additional headroom in regular incentive awards other than the exceptional limits included in the policy. For other companies there may be insufficient, or no, headroom in the policy and it may therefore be reasonable to provide for some flexibility on recruitment. • Flexibility may also need to be factored in to allow for relocation and expatriate allowances if required. Some companies may feel it necessary to be able to vary the performance measures and targets for incentive awards made in the first year of appointment.
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Other information included in the policy report

The type and level of information included in the policy table and the rest of the policy report varies quite significantly by company.

<p>Non-executive director fees</p> <p>There is a great deal of variation in the level of information and where in the report this information is disclosed. Few companies include this information in the same policy table format as for executives. Most include some degree of information in the supporting information to the policy report with details of actual fee policy and levels in the annual remuneration report. Some include all of this information in both sections. Not all companies include the policy on fees for the next financial period.</p>	<p>Relocation and expatriate allowances</p> <p>Two companies make no mention of this at all and therefore will not have the flexibility within the approved policy. Should the need arise this would need shareholder approval. Eleven companies allow for this in the recruitment section and therefore would be able to offer this benefit to a new recruit. As noted above, seven companies include a general statement in the policy report that these benefits may be offered where appropriate.</p>
<p>Provisions for the recovery of sums paid or the withholding of payment</p> <p>Where clawback/malus provisions exist these are typically referenced in the policy table under the relevant remuneration element. Only one company includes a separate section in the policy table on clawback. The regulations state that the policy table should include information on whether these provisions are in place. Where there are no provisions in place there is typically no mention in either the policy table or the supporting information. Often further information is given on how these provisions operate, either in the supporting information or in the implementation section of the report. It is worth noting that the ABI is expecting the circumstances in which these provisions may apply to be disclosed.</p>	<p>Shareholding requirements</p> <p>It is not a requirement to include details of shareholding requirements in the policy report but a significant number of companies have chosen to do so. Three companies include the policy on shareholding as a separate section in the policy table. A further seven companies include the policy in the information supplementing the policy table. Six companies include this information in the annual remuneration report, although reference to it is sometimes made in the policy report. One company does not mention shareholding requirements.</p>
<p>Explanation of the differences in the policy in place for directors and for employees generally and statement of consideration of employment conditions</p> <p>This information is usually included in the supporting information following the policy table, although one company includes a separate section on the differences for each remuneration element in this table. However, the disclosures so far do not typically include significant detail. Most companies state that there is no formal consultation with employees but that employment conditions are taken into consideration. Only three companies disclose the practice of receiving regular updates from HR and/or reviewing employee satisfaction survey results. A few companies provide broad details of employee participation in incentive plans and note the difference in quantum at different levels in the organisation.</p>	<p>Service contracts</p> <p>Most companies have considerably increased the amount of information provided under the service contract and loss of office section. This is usually included in the supporting information following the policy table although as noted below, two companies include leaver provisions for each element of remuneration in the policy table.</p> <p>All but four companies now include details of what would constitute a 'good leaver' for the purpose of payments for loss of office. While all companies have given some indication of the treatment of bonus awards and share awards for good leavers and in a change of control situation, it should be noted that the level of detail is still variable. This ranges from one company who has included a table giving good leaver and 'other' leaver scenarios for each element of pay to companies who have included a relatively brief statement, sometimes included under the relevant element in the policy table.</p>
<p>Discretion to honour prior commitments</p> <p>All but two of the companies include a general statement somewhere in the policy report that the Remuneration Committee reserves the right to make any remuneration or loss of office payments where the terms were agreed prior to an individual being appointed a director of the company or prior to the approval of the policy.</p>	

Scenario charts



Almost all companies include charts which illustrate, for the three scenarios required, the total amount of the package and the percentage breakdown of the package by fixed, annual variable and long term variable pay. Some companies break the fixed remuneration down into the components of salary, benefits and pension. In presentational terms there is a mix of companies choosing to show the chart in bars or in columns.

In terms of what is included in each scenario there is some variation although almost all companies base the maximum on the 'usual' maximum long term award rather than an overall maximum irrespective of what is in the policy table.

For the 'in line with expectations' scenario, most companies use 50% of bonus maximum and threshold vesting under the long term plan. However, four companies use the stated target bonus which is more than 50% of maximum, one company uses 50% vesting of the long term award and two companies use a level of vesting which falls halfway between threshold and maximum.

Three companies show scenarios which are different to those required by the regulations. One includes both a stretch and an exceptional scenario, one includes the actual payout in the year to compare with the potential payouts. One includes minimum and actual only as there are no limits in the incentive plans.

The annual remuneration report

The order in which the information in the annual remuneration report should be presented is not prescribed and we are seeing some differences in how companies have chosen to structure the report.

Not just a compliance exercise

Most companies start with the single number and broadly follow the order of the regulations. Four companies start the section with the details of how the policy is to be implemented in the coming year.

The report can be structured in whatever way provides better clarity and explains how the remuneration of the directors is appropriate in the context of the business strategy and performance. As long as the report includes all the required information it can be presented in any order and does not need to be structured under the headings as listed in the regulations. One company has for example retained the question and answer style of previous reports which includes all the new disclosures but links it all together rather than providing a series of disconnected disclosures. Some companies, rather than including a separate section on how policy is to be implemented in the next financial period, have included past and future implementation under section headings of salary, annual bonus, long term incentive plans etc.

The report can be structured in whatever way provides better clarity and explains how the remuneration of the directors is appropriate in the context of the business strategy and performance.

The structure of the implementation section of the report is a matter of preference but it is important to remember the role of the disclosure in helping build understanding and trust between companies and their shareholders and that clarity and transparency are as important as compliance.

The single figure of remuneration

Although the prospect of a single figure of remuneration and the methodology to be used in calculating this figure presented some difficulties, now the methodology has been agreed it is relatively straightforward to produce the numbers. The majority of companies appear to follow the regulations, and the underlying report from the Financial Reporting Lab on which the regulations were based. However a few companies appear to include, in the long term element, the value of the awards vesting in the year and not in respect of performance periods ending in the year, which in most companies will vest after the year end. Most companies make no mention of any payment in respect of dividends accrued on vested shares and it is unclear whether this is not included, is included in the LTIP value, or whether no dividend equivalents are awarded.

The main difference in the disclosure is in presentation and companies have adopted many different styles.

Most common	Other options
Most companies include executive and non-executive directors in one table	Five companies include separate tables for executive and non-executive directors. Separate tables have some advantages in that clearly a lot of the information is not relevant to non-executive directors and it may help with the overall structure of the report if this information is included in a separate section on implementation of NED fee policy.
Most companies structure the table with individuals in rows and remuneration elements in columns	Two companies structure the table with individuals in columns and remuneration elements in rows adding up to a total at the bottom of each column.
Most companies include 2013 and 2012 data in adjacent columns for each element	One company includes two rows for each element, one company split the table into two and four companies provide a separate table for each year.
Most companies include the basic required columns only. The regulations require that other elements of remuneration must be included in additional columns.	Other columns used by some companies include buy-out arrangements, SIP and SAYE, legacy bonus prior to appointment to the board and termination payments. One company has, for the value of the long term award, included the value attributable to the achievement of the performance conditions, the value attributable to share price growth and the value attributable to dividends.

	Salary		Taxable benefits		Pension		Annual bonus		Long term incentive		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Executive A												
Executive B												

	Salary	Taxable benefits	Pension	Annual bonus	Long term incentive	Total
Executive A						
2013						
2012						
Executive B						
2013						
2012						

	Executive A		Executive B		Executive C	
	2013	2012	2013	2012	2013	2012
Salary						
Taxable Benefits						
Pension						
Annual bonus						
Long term incentive						
Total						

Retrospective bonus disclosure

In the supplementary information to the single figure table the report must include details of any performance measures and the relative weighting, the performance targets set at the beginning of the year and the corresponding value of the award achievable, actual performance and resulting award and details of any discretion applied. It is not necessary to disclose actual targets where these are considered commercially sensitive although it should be explained when, if at all, the information will be published.

The lack of a clear link between incentive payouts and performance achieved has been a source of concern for many years and we anticipate that this will be the key area of focus for many investors.

The lack of a clear link between incentive payouts and performance achieved has been a source of concern for many years and we anticipate that this will be the key area of focus for many investors. At the time of writing we are aware of only three companies reporting so far under the new regime where the research reports have been published from the ABI IVIS service and the ISS RREV voting research service. In all three of these the lack of retrospective disclosure of performance targets has been raised.

Nearly half of the companies reporting so far disclose details of the financial performance targets retrospectively. Those that do not disclose state that this is because they are still considered commercially sensitive. Where the targets are not disclosed most companies do provide some indication of the level of performance achieved and the resulting payout. However, of three highlighted above, two give an indication of the performance achieved and this is only on a broad level. The following tables provide an indication of the range of practice we are seeing so far.

	Below threshold	Between threshold and target	On target	Above target	Max bonus % salary	Actual payout % salary
Profit before tax		✓			50%	20%
Net revenue growth			✓		30%	15%
Cash flow			✓		30%	15%
Customer service			✓		20%	10%
Strategic objectives				✓	20%	20%
Total					150%	80%

	Below threshold	Between threshold and target	On target	Above target	Max bonus % salary	Actual performance achieved	Actual payout % salary
Profit before tax					50%	£xx	20%
Net revenue growth					30%	xx%	15%
Cash flow					30%	£xx	15%
Customer service					20%	Description of achievements	10%
Strategic objectives					20%	Description of achievements	20%
Total					150%	53%	80%

	Below threshold	Between threshold and target	On target	Maximum	Max bonus % salary	Actual performance achieved	Actual payout % salary
Profit before tax	£xx	£xx	£xx	£xx	50%	£xx	20%
Net revenue growth	xx%	xx%	xx%	xx%	30%	xx%	15%
Cash flow	£xx	£xx	£xx	£xx	30%	£xx	15%
Customer service ¹	xx%	xx%	xx%	xx%	20%	xx%	10%
Strategic objectives	Not met	Successful	Exceeding	Outstanding	20%	Description of achievements	20%
Total					150%	53%	80%

1 The customer service targets are based on the results of an annual customer service satisfaction survey.

Implementation in the next financial period

The regulations require companies to include a statement describing how the company intends to implement the remuneration policy in the next financial period. This must include performance measures, weighting and targets, and any significant changes in the way the policy is to be implemented compared with how it was implemented in the current period.

However, details relating to performance measures and targets need not be disclosed where these are considered to be commercially sensitive and it is worth noting that the regulations state that this section does not need to include information given elsewhere in the report, which means that companies can choose to include this information throughout the report rather than in a specific section.

Although most companies have included this section towards the end of the annual report on remuneration, which follows the order of the regulations, three companies have chosen to put this information upfront, at the beginning of the annual report on remuneration. Five companies have not included this information as a separate section but have included information about how the policy will be implemented in the coming year in the appropriate places throughout the report. One company has not included any information on how the policy will be applied for the coming year.

There is no right or wrong way of presenting this information which will ultimately be down to the style and preference of each company and to some extent the degree to which the information has already been provided in the annual statement from the chairman of the remuneration committee.

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Other than the performance measures and targets there is no requirement to disclose any other information, however most companies have chosen to disclose information about salaries and fees to be paid in the next financial period and the level of awards to be made under incentive plans, or at least to confirm that these will be in line with those disclosed in the policy.

Salary	Most companies have previously disclosed this information and investors have made it clear that they expect this information to be provided. 13 of the 17 companies reporting so far include the salaries for the next financial period, two disclose the increase that will be awarded and two do not include this information. As noted above, two of these companies include the prospective salaries in the policy report.
NED fees	Eleven companies disclosed the prospective fees, with one company indicating the increase only. Five companies do not disclose this information.
Bonus potential	In two companies the bonus is uncapped but of the others around two thirds specifically disclose the maximum bonus potential for the coming year. Of the others, most either note that the potential remains as it was in the policy report or include this in the annual statement.
Bonus measures and targets	None of the companies reporting so far disclose the measures and targets that will apply to the 2014 bonus. However ten companies disclose some information relating to financial measures and eight provide some information on the non-financial measures. Typically companies include the specific measures and the weighting for those measures where these are financial. Where non-financial measures are used typically only the overall weighting applicable is disclosed.
Long term incentives	In most companies more information relating to measures and targets is provided in the policy report thereby limiting the flexibility to make adjustments. Around half the companies reporting so far specifically disclose the maximum award to be made in the coming year, along with the measures, weighting and targets.
Explanation of commercially sensitive information	Very few companies provide any rationale for the non-disclosure although two companies have provided some explanation. Three companies specifically state that full disclosure will be provided retrospectively while others state that disclosure will be given when targets are no longer considered commercially sensitive, with no indication of when this may be.

Relative spend on pay

Companies are required to include a graph, or table, indicating the actual expenditure of the company in the current and preceding year and the year on year difference on the remuneration of all employees, distributions by way of dividend and share buyback and any other significant distributions to assist in understanding the relative importance of spend on pay.

- Around two thirds of companies disclose this information in a table, with other companies showing the data graphically.
- Seven companies only show the minimum requirement of remuneration and dividend/share buyback.
- Eight companies include a measure of profit (retained profit, PBT, PBIT, PAT, EBIT).
- Other items include employee numbers, revenue, capex, tax.
- Three companies provide director remuneration as a subset of employee remuneration.

It is worth noting that the regulations require any change in the items included in subsequent years to be explained so it is worth taking the time to consider what should be included, bearing in mind that the minimum may be the most appropriate answer. However, this is very much a company specific disclosure and there is no right or wrong answer.

Companies must include, in addition to the five year TSR chart (which will increase to ten years over time), a table which includes for the CEO, for the same period, the single figure, the bonus paid as a percentage of maximum and the level of long term award vesting as a percentage of the maximum.

These tables do not vary as significantly as other disclosures. However a few points are worth noting:

- The intention of this table is to provide some indication of CEO remuneration in relation to performance, as illustrated in the TSR chart. This may be best achieved when the table is disclosed underneath the chart and where the columns for each year line up with the years on the chart so that it is easy to compare the two disclosures.
- Some companies do not put the two disclosures together in this way and one or two companies show the data for each year in rows rather than columns making comparisons difficult.
- One company includes the TSR for each year in the table and splits the single number into separate components.

Change in CEO pay

The requirement is to show the year on year change in salary, benefits and bonus for the CEO and for other employees. Companies may choose to compare the CEO with all employees or may choose a more appropriate subset of employees, explaining the rationale for this.

- Most base the employee pay on all employees although it is worth noting that in some cases most, if not all, of the employees may be UK based so this is not an issue. Five companies base the comparison on UK employees only and two use only management, or senior management, employees.
- Some companies address inconsistencies in different ways by using a constant sample of employees, basing it on a per capita basis (as suggested in the GC 100 guidance) or showing the number of employees and average employee pay.
- Some companies show the aggregate numbers as well as the percentage change. Although most provide this information in tabular form, two include the information in a short paragraph.

The differences highlight that although this element of disclosure appears straightforward there are in fact a number of options to consider. The most important of these is to think carefully about what employee group makes the most sense, taking into account the ease of accessing this information, and where employee numbers have changed significantly, to consider calculating the percentage change on a constant sample, or on a per capita basis in order to provide a meaningful comparison.

To conclude

Some parts of the regulations are less prescriptive than others and companies are having to make many judgment calls on the level of detail to include. In the first year of reporting, before best practice begins to emerge, this is clearly a challenge, and this is particularly true for the first companies to report under the new regulations. It is therefore not surprising that we are seeing significant differences in what information is being disclosed and the format and presentation of this data. We may see more convergence over time as investors focus on specific areas and encourage additional, or more in-depth, information and as some disclosures prove to be of less interest and are given less prominence.

One of the key aims of the new regulations is to raise the level of disclosure and transparency in all companies to that of the 'best in class'. Given the increased amount of disclosure required there is a real and understandable danger of over focusing on compliance. This would be a backward step. The 'best in class' reports have never been those where the main aim was compliance but are those written with a real desire to be clear and transparent and which set the remuneration arrangements firmly within the context of the business strategy and performance. These reports convey the time, thought and consideration given to the final outcome and build trust between the remuneration committee and the shareholders. We hope that remuneration committees, shareholders, shareholder representatives and the proxy voting agencies will all embrace this spirit.

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