

Directors' remuneration in FTSE 100 companies – the story of the 2014 AGM season so far Initial findings and the reaction of shareholders



We look forward to discussing further with you some of the challenges you will be facing over the next twelve months. Alternatively please contact any of the names listed on the back page if you would like to talk to us about any of these issues.

Forthcoming events

Launch of the 2014 report on Directors' remuneration in FTSE 100 and FTSE 250 companies

Tuesday 23 September 2014

This year we are again producing separate reports for FTSE 100 companies and FTSE 250 companies allowing us to focus specifically on the different remuneration practices and issues faced by these two groups of companies. The launch of the reports take place at the Deloitte Academy in Stonecutter Court, starting at 6.00pm and will be followed by a drinks reception where you will have the opportunity to ask questions of the Deloitte executive compensation team. Copies of the 2014 report will be available for you to take away. You can register for the launches at www.deloitte.co.uk/events using the password '350trends'.

Remuneration strategy conference Wednesday 15 October 2014

Join us at our annual conference where we will be looking back at 2014 and discussing how the world of executive remuneration will look in 2015. The conference will take place at our offices at 2 New Street Square from 2.30pm. You can register for the conference at www.deloitte.co.uk/events using the password 'strategy'.

Forthcoming surveys

Beyond the Board – Survey of remuneration for positions below the board

We would like to invite you to sign up to participate in our free survey of remuneration for the important roles that sit directly below the main board, a group of roles where reliable pay information is often hard to find. Ensure that you receive up to date and high quality pay, benefit and incentive information for this group of employees at FTSE All Share companies. Data is treated confidentially and there is no subscription fee.

We are currently in the process of collating data for the 2014 survey and results will be published in October. Email executiveremuneration@deloitte.co.uk for further details on how to sign up.

Introduction

The new disclosure regulations came into effect from 01 October 2013 and almost three quarters of FTSE 100 companies have now published their 'new' style directors' remuneration report. This represents companies with financial years ending on or after 30 September 2013 up to and including those with years ending in February 2014. Over 80% of these companies have already held their 2014 AGM at which shareholders have had the opportunity to vote on both the remuneration policy and the implementation of that policy.

Now is therefore a good time to review the season so far. It was to be expected that the media would show some interest in the voting, and reports in the media so far imply that shareholders have been flexing their muscles and that significant numbers have been voting against remuneration policies and reports. But the media picture tends to be distorted by a few high profile cases and masks the wider picture which is that most companies spent a good deal of time consulting with shareholders to ensure that they were aware of any potential issues and therefore had time to consider and make changes where appropriate. This has meant that most companies have received a high level of support and the median advisory vote in favour of the remuneration report is 97% so far this year, compared with 96% last year. In respect of the new, and binding, vote on policy, the median level of votes in favour is 96% so far this year.

Companies should not however be complacent. A significant number of companies, including nine FTSE 100 companies, have found it necessary to issue statements of clarification in relation to specific issues, notably on the recruitment policy. The median level of voting hides a more diverse picture. 13% of companies (and almost a quarter of the top 30 companies) received less than 80% of votes in favour of the remuneration report compared with only 5% last year, and 10% received less than 80% of votes in favour of the remuneration policy.

This review focuses on how shareholders are responding to the new reports and also includes some preliminary findings from our main report on directors' remuneration in FTSE 100 companies which will be published in September. There are some interesting trends emerging which suggest that shareholders are successfully influencing how directors' remuneration is structured. It is encouraging that this has tended to be the result of consultation prior to the vote rather than shareholders finding it necessary to use the vote to effect a change.

Most companies have received a high level of support from shareholders for both the remuneration policy and the remuneration report.

Shareholder reaction

At the time of writing the two biggest proxy research and voting services (The Association of British Insurers (ABI) Institutional Voting Information Service (IVIS))¹ and the proxy voting service (RREV) of Institutional Shareholder Services (ISS)) have issued reports on 67 FTSE 100 companies with AGMs in 2014. So far in 2014 the ABI has raised concerns in relation to the remuneration report in a similar number of companies to last year but have identified more issues in relation to the remuneration policy. ISS has raised more issues in relation to both the policy and the annual remuneration (implementation) report this year.

The policy report

So far in 2014 for FTSE 100 companies:

- The ABI has raised serious areas of concern in relation to the policy report in only two companies.
- The ABI has raised no particular areas of concern in relation to the policy report in almost two thirds of companies but less than half of the top 30 companies.
- ISS has recommended a vote against the policy report in 10% of companies and an abstention in one company.
- Only 40% of companies received an unqualified recommendation to vote for the policy report from ISS.

The annual remuneration report

So far in 2014 for FTSE 100 companies:

- The ABI has raised serious areas of concern in relation to the remuneration report in only one company.
- The ABI has raised no particular areas of concern in relation to the remuneration report in around two thirds of companies.
- ISS has recommended a vote against the remuneration report in 9% of companies and an abstention in four companies (6%).
- Only 31% of companies (and less than 30% of the top 30 companies) received an unqualified recommendation to vote for the remuneration report from ISS.

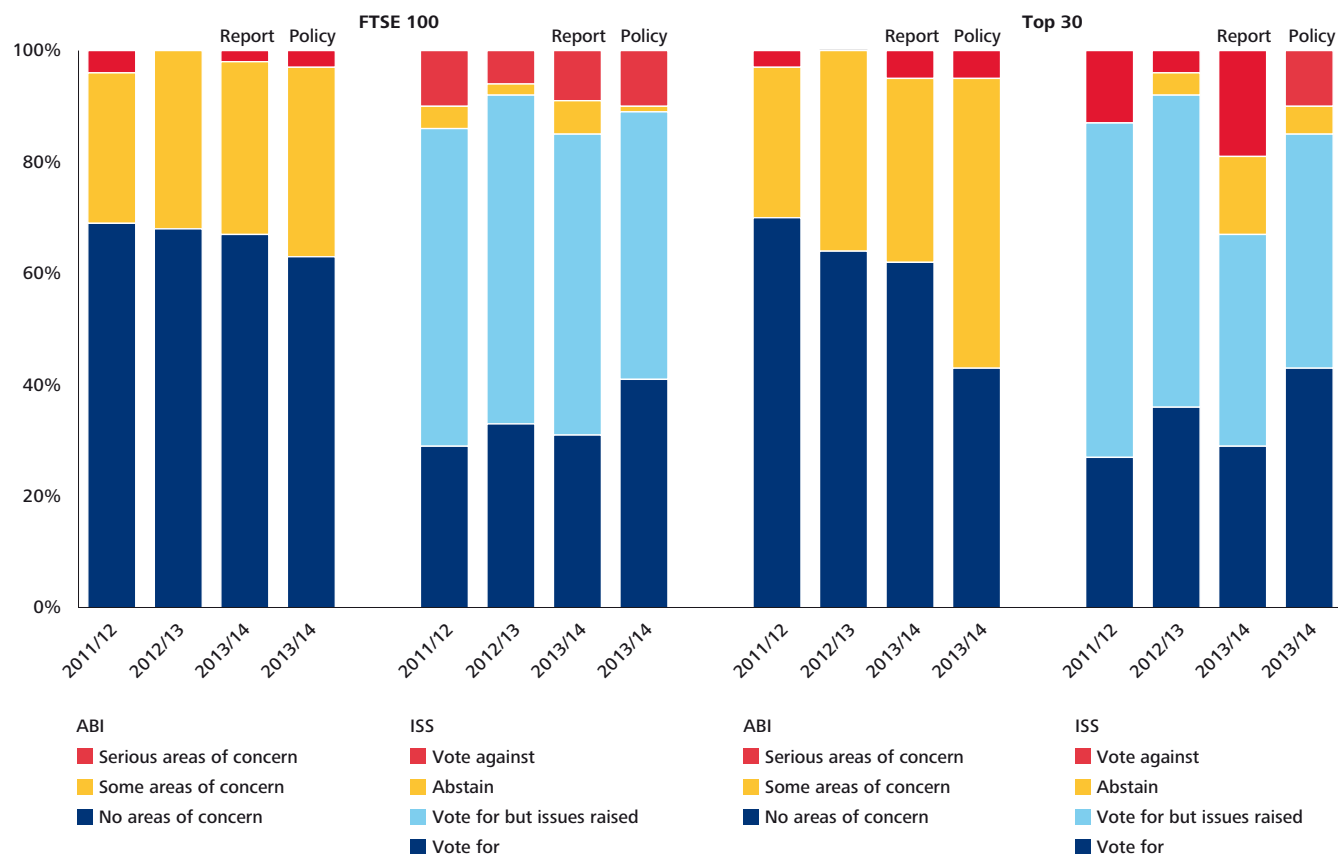
It is worth noting that for any particular company issues may have been raised in relation to the policy report and not the remuneration report, or vice versa. Less than half of companies had no issues raised in relation to both the policy and the remuneration report by either the ABI or ISS.

The chart opposite illustrates the voting recommendations in the last three years. This demonstrates that there are some substantial differences between FTSE 100 companies generally and the top 30 companies only. The ABI has highlighted areas of concern in relation to the policy report in significantly more of the larger companies, with almost 60% of top 30 companies receiving a red or amber coding compared with 36% of the FTSE 100 as a whole. Conversely ISS has found more issues with the remuneration report in the larger companies, recommending a vote against or abstain for a third of the top 30 companies, compared with 15% of the FTSE 100 as a whole.

¹ The ABI voting information service analyses reports and produces colour coded research reports for each company with one element comprising a detailed review of remuneration arrangements. Reports are coded blue if there are no particular areas of concern, amber if there are some areas of concern and red where there are serious areas for concern.

Voting recommendations in the last three years

(2014 includes proxy voting reports published before the end of May 2014)



How has this translated into voting outcomes?

So far, in 2014, with the exception of a few high profile cases, the level of shareholder support for the policy and remuneration report is similar to previous years. Overall, support has tended to be slightly higher for the policy report than for the remuneration report. In 2013 80% of FTSE 100 companies received more than 90% of votes in favour of the directors' remuneration report. To date in 2014, 79% of FTSE 100 companies received more than 90% of votes in favour of the remuneration report and 84% of companies received more than 90% of votes in favour of the policy report.

As noted above, the high level of support for the policy and remuneration reports can be in part attributed to the amount of time and effort companies have expended in reviewing and developing the remuneration policy to ensure that it is appropriate for the next three years, consulting with shareholders in drafting both the policy and remuneration reports to ensure that they are clear and that they comply with the new reporting regulations.

As part of this process many companies have shown restraint in relation to salary increases and have implemented a number of 'best practice' features: strengthening clawback provisions, increasing shareholding requirements and lengthening the time horizons of long term incentive awards. A summary of these trends is provided below. These factors have no doubt influenced how shareholders have responded, particularly in relation to remuneration policies. This suggests that a combination of the new regime and pressure from shareholders in these specific areas has resulted in some significant changes and has avoided the need for shareholders to take the more drastic action of voting against, or to abstain from voting on, the remuneration policy.

79% of FTSE 100 companies have so far received more than 90% of votes in favour of the remuneration report and 84% have received more than 90% of votes in favour of the remuneration policy.

There is evidence that shareholders are taking a robust position where policies and practices are not considered to be in line with best practice and this is evident at the lower end of the voting spectrum. In 2013 no FTSE 100 company received less than 70% of votes in favour of the directors' remuneration report. So far, in 2014, 10% of FTSE 100 companies received less than 70% of votes in favour of the remuneration report and 5% of companies received less than 70% of votes in favour of the policy report.

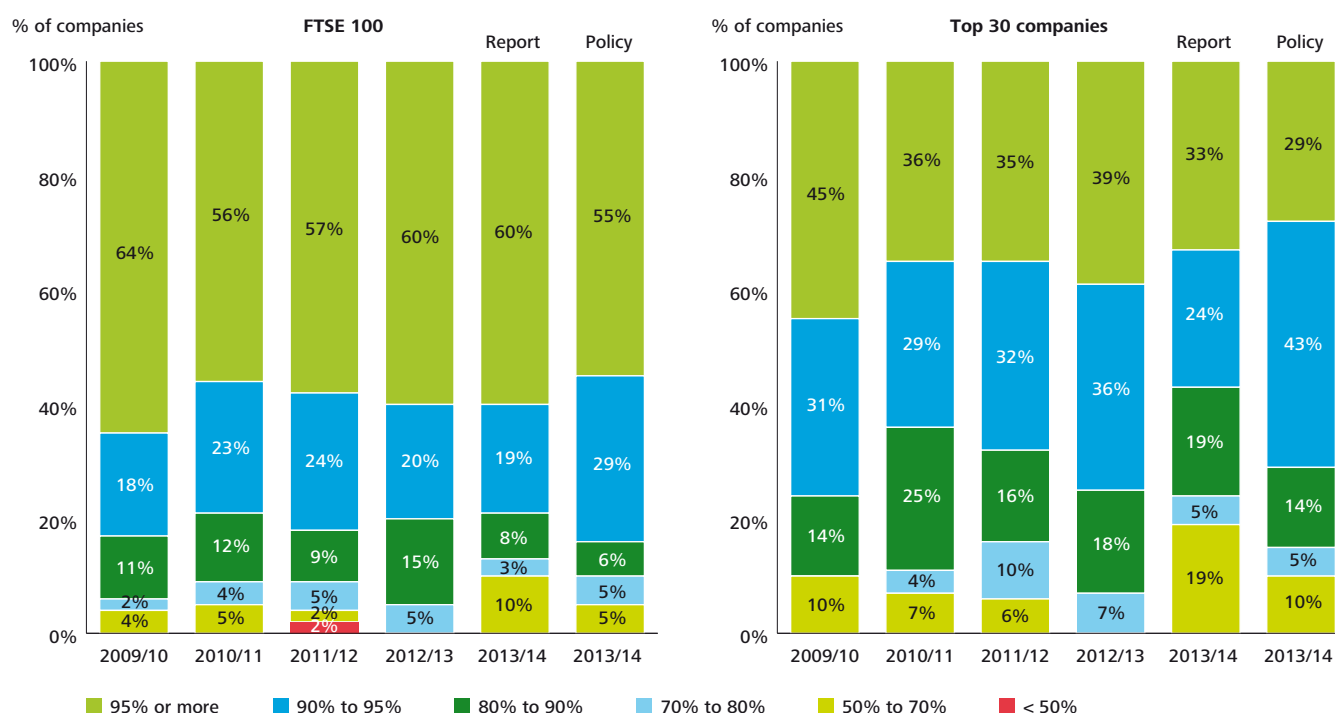
This year support for the remuneration report and policy report has been lower in the largest companies. So far, 72% of the top 30 companies received more than 90% of votes in favour of the policy report compared with 84% of the FTSE 100 generally. Only 57% of top 30 companies received more than 90% votes in favour of the remuneration report, compared with 79% of FTSE 100 companies.

15% of the top 30 companies received less than 80% of votes in favour of the remuneration policy compared with 10% of FTSE 100 companies and 24% received less than 80% of votes in favour of the remuneration report compared with only 13% in FTSE 100 companies generally.

The following chart highlights these trends and also shows patterns in shareholder voting over the past five years. The charts illustrate that the level of support for the remuneration report has generally decreased, albeit not that significantly, over the past five years.

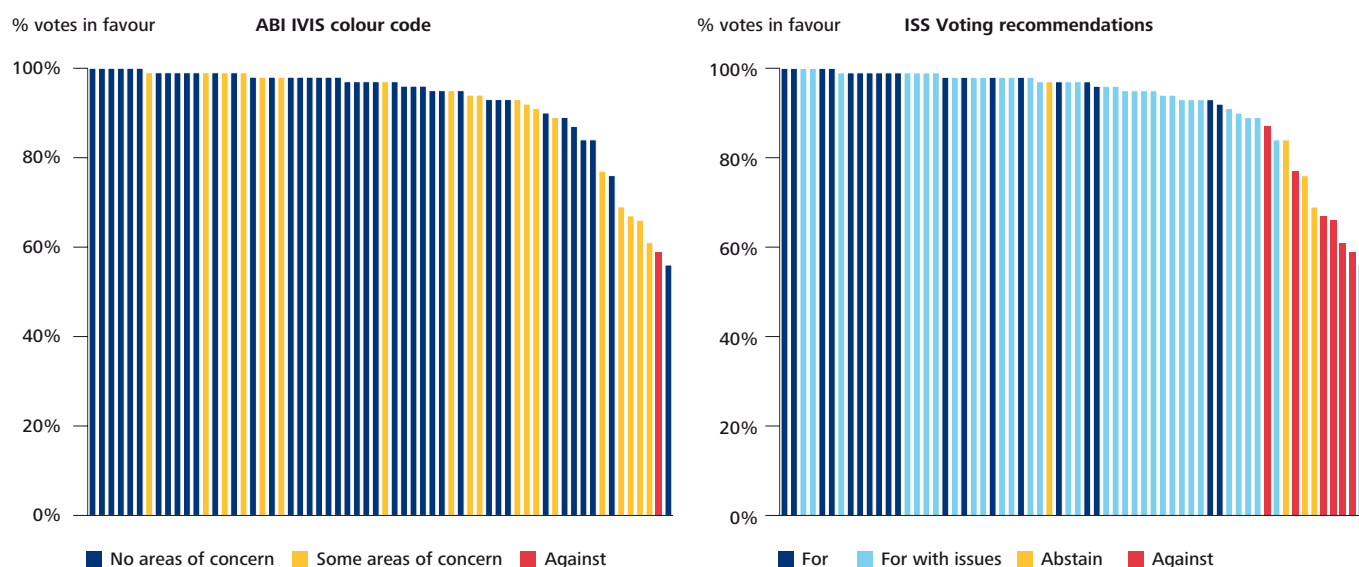
Proportion of votes in favour over the past five years

(2014 includes proxy voting reports for meetings held up to the end of May 2014)

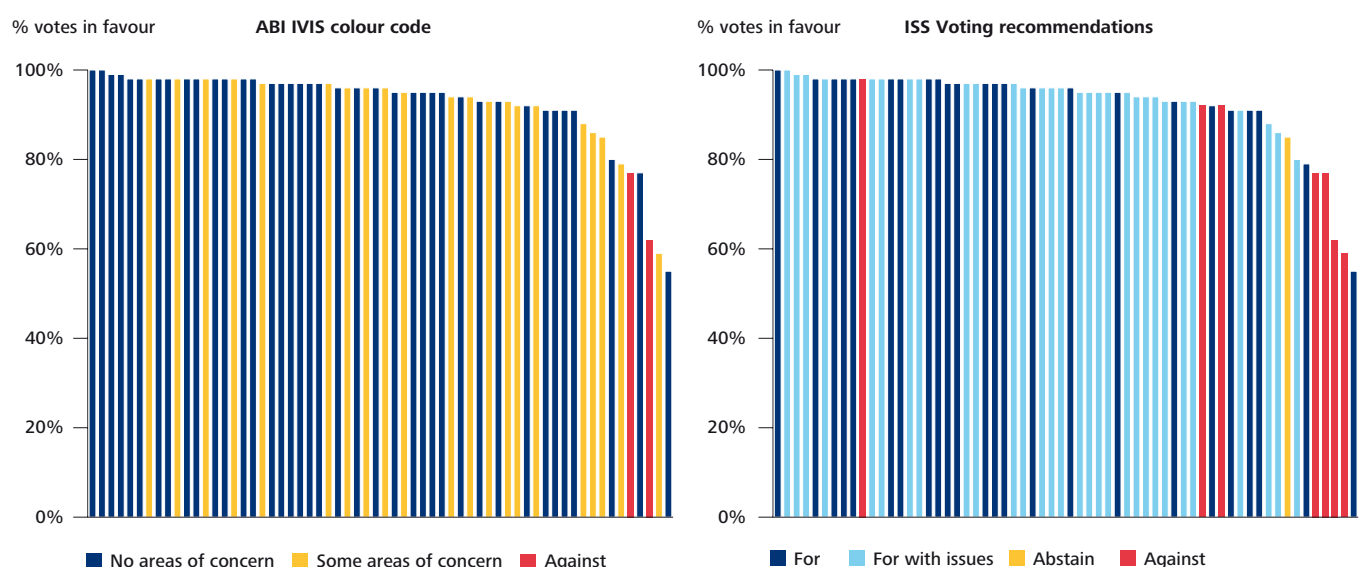


The following charts illustrate the proportion of shareholders voting in favour for each company and how this relates to the colour coded IVIS reports from the ABI and to the proxy voting recommendations of ISS. These charts illustrate that there is a high correlation between the voting recommendations from ISS and the voting outcome. Many US shareholders will automatically follow ISS recommendations and companies with a significant US shareholding may want to take note of this.

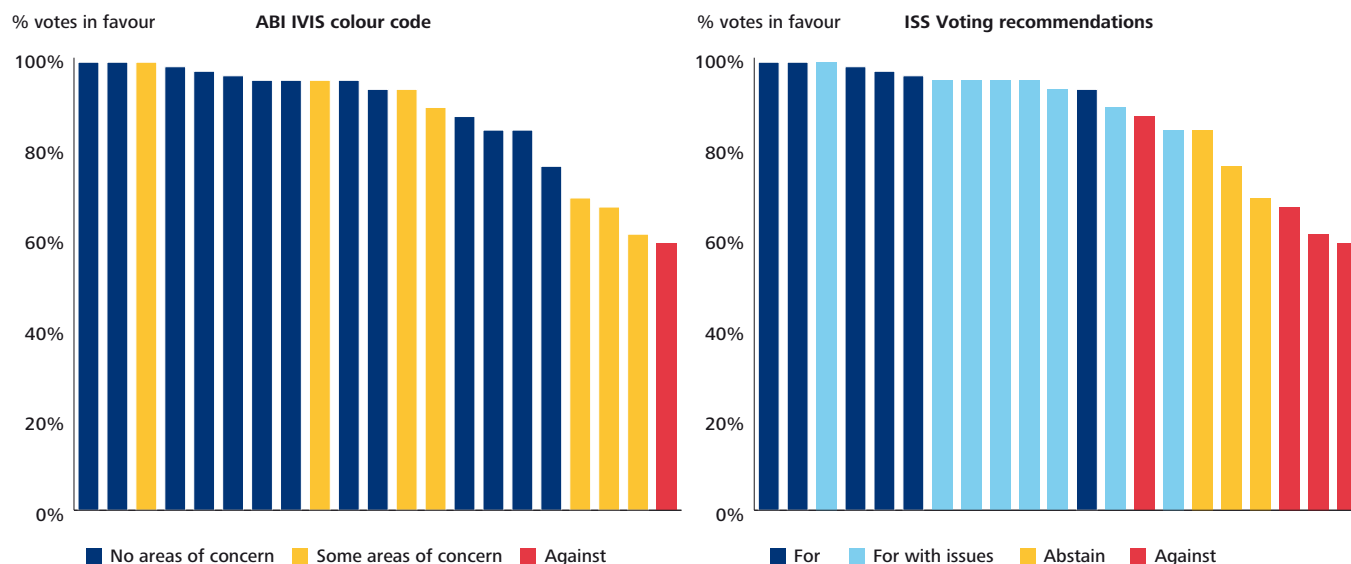
FTSE 100 proportion of votes in favour of the annual remuneration report for each company in 2014
(includes meetings held up to the end of May 2014)



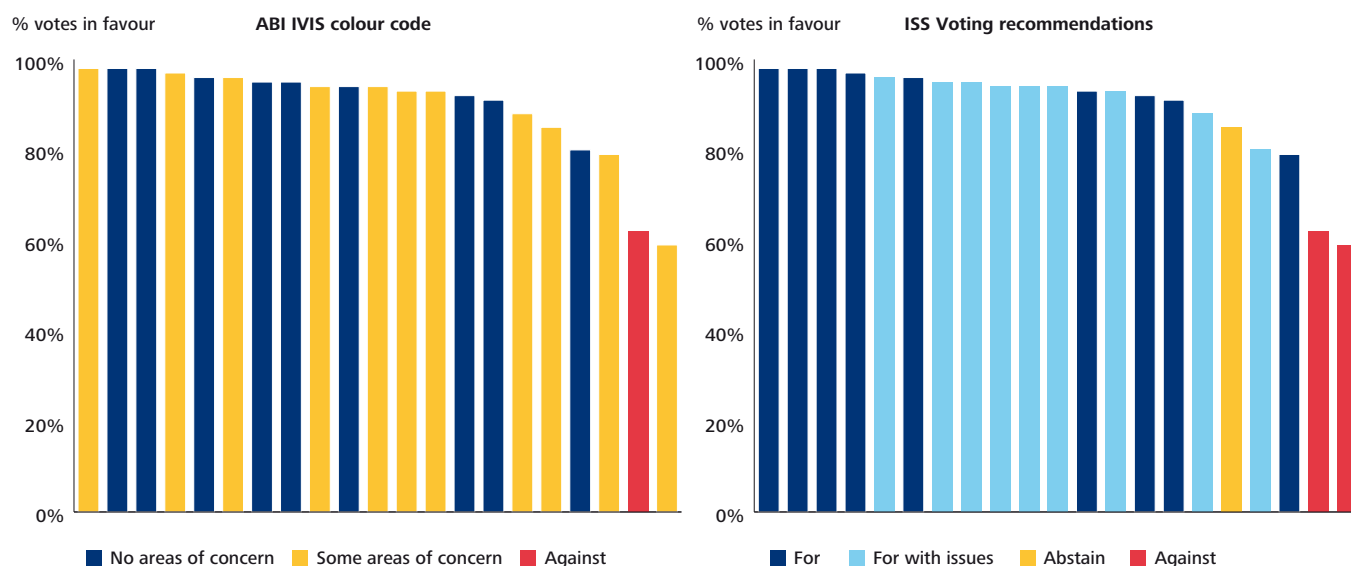
FTSE 100 proportion of votes in favour of the policy report for each company in 2014
(includes meetings held up to the end of May 2014)



Top 30 companies proportion of votes in favour of the annual remuneration report for each company in 2014
(includes meetings held up to the end of May 2014)



Top 30 companies proportion of votes in favour of the policy report for each company in 2014
(includes meetings held up to the end of May 2014)



What are the key issues shareholders are likely to be concerned about?

Typically there will be a number of factors contributing to a recommendation to vote against from ISS or a red coding from IVIS. In respect of the advisory vote on the remuneration report the most common issues raised are the level of salary increases and the lack of disclosure of retrospective bonus targets, particularly where the bonus pay outs have been high.

In respect of the binding vote on policy, although increases in overall quantum are likely to cause concern, by far the most contentious issue has been the recruitment policy. The most common issue being where the policy allows for a degree of flexibility to make awards outside of policy and where it is not clear in what circumstances this might occur and where there does not appear to be any overall limit. As noted above this resulted in a number of companies finding it necessary to issue a further statement on their website or via a RIS announcement in order to avoid a red/amber coding from IVIS or a recommendation to vote against or abstain from ISS.

We have summarised some of the main issues raised in ABI reports coded red or amber, and ISS reports with a vote against or abstain recommendation below:

The policy report

- Recruitment policies
 - Potential to make awards in excess of policy limits, particularly where the limit is not disclosed
 - Potential to make sign on awards, or guaranteed bonuses/awards with no performance conditions which are not in relation to buy-outs
- Uncapped bonus arrangements
- Increases to overall quantum
- Level of vesting at threshold performance
- Increased pension contributions
- Termination payments, particularly where there is the potential for bonus payments to be included

The annual remuneration report

- Salary increases
- Overall quantum
- Lack of disclosure of performance measures and particularly retrospective bonus targets
- Link between pay and performance
- Lack of stretch in performance targets
- Recruitment arrangements, particularly where appointed on a salary higher than the previous incumbent or where awards are made with no performance conditions
- Termination payments
- Use of discretion

Emerging trends in FTSE 100 companies

As noted above we are seeing some interesting trends emerging from our preliminary analyses of the remuneration policies and practices in FTSE 100 companies. It seems likely that these are as a direct result of shareholder pressure for directors to be more strongly aligned with shareholders and for remuneration to be longer term in nature.

Clawback

- A further eight FTSE 100 companies have introduced clawback (recovery of sums paid) or malus (withholding of awards not yet vested) provisions relating to the bonus or the deferred element of the bonus and nine have introduced provisions relating to long term awards.
- Almost 90% of FTSE 100 companies now have some form of clawback or malus provision in place. Around 80% have provisions relating to annual and annual deferred plans and around 80% have provisions relating to long term plans.
- Although there are often few details provided it appears that 'real' clawback, ie the ability to recover sums already paid, are in place in over 40% of companies.

Longer time horizons

- The number of companies where the long term plan incorporates a further holding/retention period following the end of the performance period has increased significantly.
- Over a third of plans now include a further holding period for at least part of the award. Last year only around one in five plans had this feature.
- 12% of FTSE 100 companies measure performance, for at least part of the award, over a period of more than three years.
- There are now almost a quarter of performance share plans where participants will not receive any of the shares vesting before the fifth anniversary of the grant of the award.

Shareholding requirements

- The corporate governance policy and voting guidelines produced by the National Association of Pension Funds (NAPF) in November 2013 state that shareholding requirements of less than 200% of salary are considered to provide insufficient alignment with shareholders. It is worth noting that the ISS 2013 RREV remuneration guidance is consistent with these principles.
- Around a third of FTSE 100 companies have increased the shareholding requirements for their executive directors over the past year. In addition two companies have introduced requirements.
- 95% of companies now have formal requirements in place.
- Almost three quarters of companies have shareholding requirements in excess of 100% of salary compared with 62% last year.
- The median shareholding requirement is now 200% of salary.

Simplifying arrangements

- 12 companies have removed the matching awards on deferred bonuses or co-investment plan.

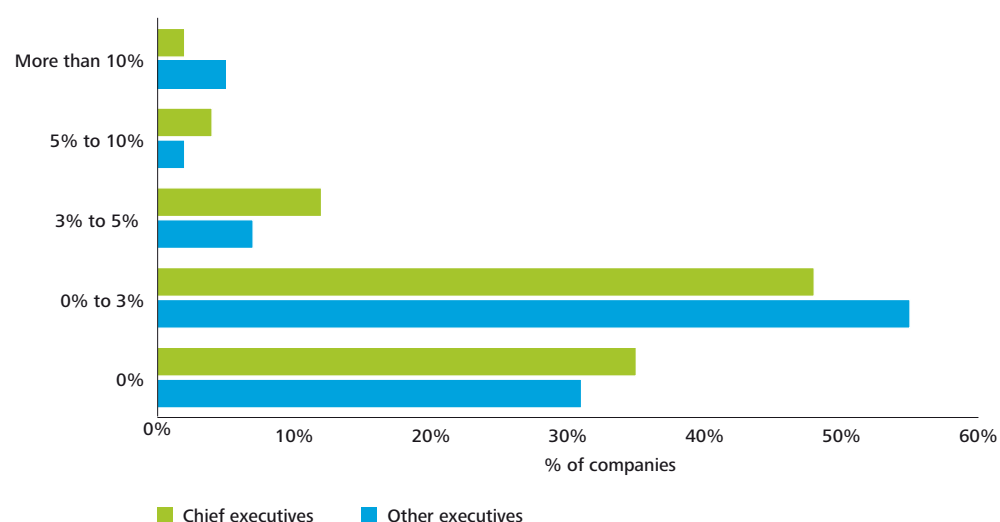
Recruitment policies

- The maximum variable remuneration that may be made on appointment, excluding buy-out arrangements, is within the normal policy limits in around 40% of companies. In around a third of companies there are exceptional policy limits which may be used. 13% of companies have disclosed a limit which is in excess of policy limits.
- 10% of companies can make awards with different performance measures or targets.
- Over 10% of companies can make additional sign on awards.
- A very small number of companies appear to be able to make awards with no performance conditions and an equally small number of companies appear to have complete discretion over the quantum that may be offered on appointment, although it should be stressed that this discretion would only be used in very exceptional circumstances.
- The maximum variable remuneration that may be awarded, excluding buy-out arrangements, ranges from 300% of salary to over 1800% of salary but the typical range is from 450% to 700% of salary with a median of 550% of salary.

Salary increases

- 90% of FTSE 100 companies have disclosed salary information for 2014. The median salary increase is around 2.5%, which is similar to last year.
- Around a third of companies are not increasing the salaries of executive directors in 2014 which is slightly less than last year.
- The following chart illustrates the range of salary increases given to the chief executive and other executive directors in 2014.

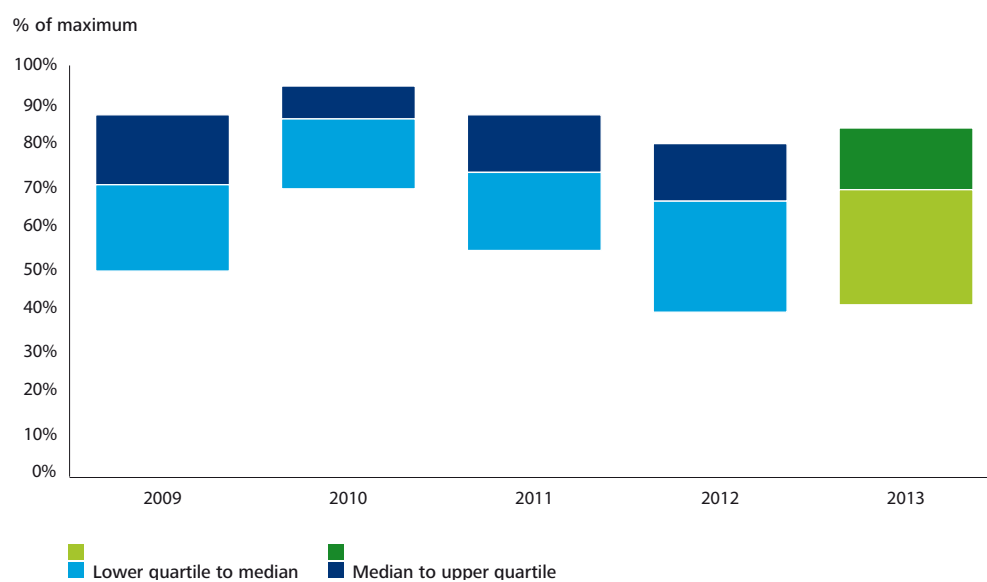
2014 salary increases to executive directors



Annual bonus pay outs

- Bonuses paid in respect of performance in 2013 are at a very similar level to those paid last year. The median bonus pay out is 70% of maximum, or around 110% of salary, compared with 67% last year.
- 8% of companies have made no bonus payment to executive directors in respect of 2013.
- 7% of companies have paid the maximum bonus in respect of 2013.
- The following chart illustrates the range of bonuses paid to executive directors over the last five years.

Bonus pay outs in the last five years – % of maximum



Notes

Notes

If you would like further information on any of the areas covered in this report or help in interpreting and using this data please do not hesitate to contact any of the names below.

Contacts

Executive Compensation



Stephen Cahill
020 7303 8801
scahill@deloitte.co.uk



Helen Beck
020 7007 8055
hebeck@deloitte.co.uk



William Cohen
020 7007 2952
wacohen@deloitte.co.uk



Sally Cooper
020 7007 2809
sgcooper@deloitte.co.uk



Nicki Demby
020 7303 0083
ndemby@deloitte.co.uk



Anita Grant
0118 322 2861
anigrant@deloitte.co.uk



Juliet Halfhead
0121 695 5684
jhalfhead@deloitte.co.uk



Nick Hipwell
020 7007 8647
nhipwell@deloitte.co.uk



Mitul Shah
020 7007 2368
mitulshah@deloitte.co.uk

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