

## The new remuneration report Second impressions – disclosure in FTSE 100 companies



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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 or after 30 September are required to comply with these new requirements.

**Emerging trends in FTSE 100 companies**  
(based on 53 companies reporting to 15 April 2014)

Almost **one third** of companies are not awarding a salary increase to executive directors in 2014.

The median salary increase is **2.5%** for executive directors and 2.0% for the chief executive.

Almost **one third** of companies are introducing a new long term incentive plan at the 2014 AGM.

Ten companies have simplified current arrangements by removing the deferred bonus matching or co-investment plan.

Around **40%** of companies are increasing, or introducing, shareholding requirements for executive directors. This means that 95% of FTSE 100 companies now have requirements in place and the median holding requirement is now 2 x salary.

Eleven companies are introducing a further holding/retention period following the end of the performance period. This means that in around a quarter of FTSE 100 companies the performance share plan now includes a further holding/retention period. It is also worth noting that over 10% of plans measure performance, for at least part of the award, over a period longer than three years.

A further eight companies are introducing malus or clawback provisions relating to the bonus or the deferred element of the bonus and seven have introduced provisions relating to long term awards. This means that almost **90%** of FTSE 100 companies now have malus or clawback provisions in place. In around 70% of these companies the provisions apply to both annual and long term plans; in 17% they apply to annual and annual deferred plans only and in 11% they apply to long term plans only. In around 40% of these companies there appears to be the provision to apply 'real' clawback.

Limits on variable pay awards on recruitment (excluding buy-out awards) typically range from 475% to 700% of salary with a median of **570%**.

# Introduction

Many, although not all, of the companies with a financial year ending on 31 December 2013 have now published the 2013 annual report and we have reviewed the remuneration reports of 53 FTSE 100 companies publishing to 15 April 2014 under the new regulations.

Our review covers the reports of six FTSE 100 constituents with a financial year ending on 30 September 2013 and 47 (representing over three quarters) of those with financial years ending in December 2013.

As well as noting some interesting developments in the remuneration arrangements for executive directors (see opposite – these themes will be explored more fully in our main report on directors' remuneration published later in the year) this review focuses on how information has been disclosed rather than what has been disclosed.

We have particularly highlighted some of the new disclosures where there are choices and decisions to be made about what and how information should be communicated and where we believe most companies are focusing their attention.

*We have seen positive signs that companies are setting remuneration following an improved dialogue with shareholders underpinned by greater transparency. Yet concerns have been raised that some companies are not observing the spirit, as well as the letter, of the new reporting regulations ... Unless business is seen to act responsibly, pressure for further action will inevitably result.*

## Key themes

### Policy report

- In almost all companies the policy takes 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. Seven companies include a maximum increase and five include an absolute maximum salary.
- Pension – most companies disclose the current maximum contribution to pension plans or the maximum salary supplement.
- Other benefits – most companies list the benefits currently provided, with most retaining flexibility to change in response to changing circumstances. All companies may provide relocation and expatriate allowances but for a number of companies this only applies for new recruits. A quarter of companies include a maximum value of benefits either as an absolute amount or as a percentage of salary.
- Maximum incentive awards – most companies disclose the limit on the annual bonus and in many cases, where this varies by individual, the individual limits are included. Few companies have an exceptional maximum bonus. Where there is an exceptional maximum in the long term plan (around 50% of companies) most companies include both the usual and exceptional maximum in the policy.
- 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 – around two thirds specifically note that a new recruit may be appointed on lower than market rate salary with phased increases to bring to market level. 40% of companies have no flexibility to make awards (other than buy-outs) outside of normal limits. One third may make awards up to exceptional limits. Only seven companies include a limit which is in excess of disclosed policy.

The Rt Hon Vince Cable  
MP – Secretary of State  
for Business, Innovation  
and Skills

### Annual remuneration report

- Companies are not disclosing prospective bonus performance measures and targets on the grounds that they are commercially sensitive.
- Around three quarters disclose the retrospective bonus measures and weighting of measures. A quarter provide full disclosure of financial targets and a further 30% provide partial disclosure. Few companies disclose non-financial targets.
- Relative spend on pay – 40% of companies show minimum requirements (employee costs and dividend/buybacks). 40% include a measure of profit. A small number of companies include additional information.
- Change in CEO pay – only around 20% of companies use all employees as the comparator group. Around half base the comparison on UK employees only and 20% on senior management positions.
- Implementation in the next financial period – most companies 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 confirm that these will be in line with those disclosed in the policy.

## Investor views

At the time of writing the two largest voting and recommendations agencies (The Association of British Insurers (ABI) Institutional Voting Information Service (IVIS) and the proxy voting service (RREV) of Institutional Shareholder Services (ISS)) had issued reports on 52 FTSE 100 companies with AGMs in 2014.

### Association of British Insurers

The ABI voting information service analyses annual reports and produces colour coded research reports for each company. One element of this is 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 of concern.

- During the 2013 AGM season none of the FTSE 100 received a red coding and around two thirds received a blue coding.
- Of the 52 companies reviewed so far in 2014 one company has received a red coding for both the remuneration report and the remuneration policy and one company received a red coding for the policy.
- Two thirds of companies have been given a blue coding for the remuneration report and for the remuneration policy, with around half of companies receiving blue codings for both reports.
- There are some areas of concern relating to the remuneration report and policy in around a third of companies.

### Institutional Shareholder Services

- ISS recommended a vote against in 6% of companies in 2013.
- So far in 2014 four companies (representing 8%) have received a recommendation to vote against the remuneration report and six (12%) have received a recommendation to vote against the remuneration policy. In only one of these companies there is a vote recommended against both the report and the policy.
- Three companies have received a recommendation to abstain on the remuneration report and one on the remuneration policy.
- Only around a third have received an unqualified vote for the remuneration report and for the remuneration policy.

These initial recommendations suggest that investors may be taking quite a strong stance particularly in relation to the remuneration policy.

Typically there will be a number of factors contributing to a recommended vote against from ISS or a red coding from the ABI. However, recruitment policies are proving a thorny issue and have provoked the strongest reaction so far. The potential to make awards on recruitment outside of stated policy, with no disclosed limit, is likely to result in a vote against recommendation or a red coding. The potential to award guaranteed bonuses and any kind of sign on award has also provoked a strong reaction. In order to avoid adverse voting recommendations a number of companies, including FTSE 100 companies, have issued further statements on websites and announcements on a Regulatory Information Service to clarify the policy.

Other issues contributing to a recommendation to vote against include large salary increases and no cap on the annual bonus payout. In one case termination arrangements which included an element of vesting with no reference to performance resulted in a vote against recommendation.

Issues which are being raised and which are contributing to an amber coding from the ABI and an abstain from ISS include:

- Lack of disclosure in relation to retrospective bonus targets. This is likely to be even more of an issue where bonus payouts are at or close to maximum and where the disclosure does not appear to provide satisfactory justification.
- Increase in pension contribution.
- Significant increase in NED fees.
- Level of vesting at threshold.
- Salary for a new appointment above the salary of the predecessor.

It is worth noting that a lack of a maximum salary or a limit on salary increases in the policy is likely to be highlighted but shareholders generally appear to accept this as long as there is a commitment to make increases in line with other employees other than in specific circumstances.

## Voting

At the time of writing only 26 AGMs had taken place in FTSE 100 companies. This is clearly a small sample from which to draw any conclusions. However, the initial voting on remuneration resolutions at these meetings suggests that although no company has had either the annual remuneration report or the remuneration policy voted down, shareholders are taking a robust position and this is being noted by the media in one or two high profile cases.

### Voting on the remuneration report (the implementation section)

Eight companies received less than 90% votes in favour, which represents around 30% of companies. This compares with 20% over the whole of the 2013 AGM season.

- Five companies received less than 80% votes in favour, compared with five during the whole of 2013.
- Two received less than 60% votes in favour. No FTSE 100 company received less than 60% of the vote in favour in 2013.

### Voting on the remuneration policy

- Five companies received less than 90% votes in favour which represents around a fifth of companies.
- Two companies received less than 80% votes in favour.
- One company received less than 60% votes in favour.

It is worth noting that in one of the companies receiving less than 60% votes in favour, this is a consequence of a large single shareholder voting against the resolutions.

### Navigating the report

When we looked at the reports of the first companies to publish under the new regulations earlier in the year we commented that the typical length of a remuneration report had increased from around 12 pages under the previous regulations to around 17 pages. Based on a larger sample of FTSE 100 reports it now appears that reports are typically ranging in length from 18 to 27 pages with a median of 21 pages. The longest report so far is 44 pages long.

Bearing this in mind, a number of companies have introduced ways of helping readers navigate the report. These include:

- A detailed index of where the disclosures can be found at the front of the report.
- References included in the policy report to where further details can be found elsewhere in the report.
- Table numbers on each table for ease of reference in the text.
- Summary table of key arrangements and changes at the front of the report typically alongside the chairman's statement.

## Annual statement

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

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 although there is guidance from the GC100 and Investor Group on some of the topics that might be considered.

- 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*

Of the 53 companies included in this review, most have included at least some of these topics and around a quarter have, in our opinion, covered all of these to some degree.

- Three quarters of companies provide a good summary of any proposed changes in remuneration arrangements for the coming year. As might be expected the degree to which the reasons for these decisions are explained is more variable but again over three quarters of the companies provide some explanation and justification for these.
- Over half (58%) provide details of the context in which the decisions were taken (such as the challenges faced by the company and how the company performed over the year). However, very few provide a detailed explanation of the relationship between remuneration and the business strategy.
- While a significant number of companies comment on the level of shareholder support and the process for engagement with shareholders, only around 20% discuss how the company has responded to any concerns. However, a small number of companies really focus on this aspect in the statement.
- The presentation of the statement also varies quite significantly with many companies providing text in the form of a letter, while some incorporate a number of headings which can make it easier to read and a few have chosen to present key facts in boxes and charts.

The annual statement is 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. It may be well worth spending time on this element to properly set the scene for the detail to follow.

## The remuneration policy report

Given the binding nature of the policy for a period of up to three years, this section poses the greatest challenge. We continue to see a great deal of variation so far in how companies are choosing to structure the report and balance the level of detail with the required degree of flexibility incorporated within the policy to allow it to serve the needs of the business for up to three years once binding. Companies are also choosing many different presentational styles.

Although in the regulations the requirements relating to the policy report appear after the annual statement and the annual remuneration report, all but five companies (90%) have placed the policy report 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.

- Almost 90% of the 53 companies have opted to follow the guidance with the policy applying from the date of approval.
- Four companies have determined that the policy will apply from the start of the next financial period.
- One company intends that the policy will legally take effect from the start of the next financial period but in practice will operate it from the date of the AGM.
- One company does not appear to have disclosed the date the policy comes into effect but it should be noted that this company is not incorporated in the UK and the policy will not be binding in any case.

*Almost 90% of companies have opted to follow the guidance with the policy applying from the date of approval.*

### The structure of the policy table

In most companies the table includes, for each element of remuneration, the details as 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.

- Five companies combine the details of how the element operates and the maximum payable in one column.
- Five companies combine the maximum payable and the performance metrics in one column.
- Three companies combine the details of how the element operates with the maximum payable.
- Two companies include only two columns – one with columns summarising the reason for the element and the mechanics of the element and one with details of how the plan operates along with the maximum payable and the link to strategy and performance.
- One company provides commentary for each element although all the information is included.
- Two companies include an additional column highlighting any changes in policy from the previous year.
- Two companies include details of how the policy will be implemented in 2014, while noting that this does not form part of the binding policy.

Three quarters of 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 can make it more difficult to read, particularly when printed. The remaining quarter include the details in rows for each element.

### Illustrations of alternative layouts

Salary	Benefits	Annual bonus
Purpose and link to strategy • •	Purpose and link to strategy • •	Purpose and link to strategy • •
Operation • •	Operation • •	Operation • •
Opportunity • •	Opportunity • •	Opportunity • •
Performance measures • •	Performance measures • •	Performance measures • •

Salary	
Purpose	• •
Operation	• •
Maximum potential value	• •
Performance metrics	• •

	Purpose and link to strategy	
Base salary	• •	
Operation	Maximum opportunity	Performance metrics used
•	•	•
•	•	•



There are differences between what elements are included in the table and what is provided in the supporting information.

- Most companies include just the main remuneration elements in the table, with information on recruitment and service contracts included separately.
- Around a third include the shareholding guidelines in place as part of the policy table.
- Around 40% include information on all employee share plans in the policy table.
- Only two companies include details on service contracts in the policy table and four include the recruitment arrangements.
- Most companies include a separate table, or section, on non-executive directors although around 20% include this information as part of the main policy table.

### 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, and particularly in relation to salary, it may be appropriate to include some detail on the parameters within which levels will be determined.

*Most companies do not include salary limits but indicate that increases will normally be in line with those awarded to other employees.*

### The maximum – salary

*Only 13% of companies include the maximum increase that may be awarded.*

<p>Most companies do not include a maximum but indicate that increases will normally be in line with those awarded to other employees. In every case there is flexibility to make increases in excess of these in certain circumstances. These circumstances vary slightly but typically include development in role, change in role, or the responsibilities and complexities of the role. Other companies mention retention and market pressures.</p> <p>Seven companies (13%) include the maximum increase that may be awarded although this is done in many different ways:</p> <ul style="list-style-type: none"> <li>• Three companies disclose a maximum (5%, 9% and 10% p.a.) which may be exceeded in certain circumstances.</li> <li>• Two companies state that the maximum is normally in line with other employees but may be exceeded in certain circumstances within a limit of 10%.</li> <li>• One company limits the increase within 2% of the increase given to other group leaders.</li> <li>• One company includes a maximum 15% increase over the life of the policy, although this can be exceeded in exceptional circumstances.</li> </ul> <p>Three companies include an absolute maximum salary. These are £1m, 2m euros and £850,000. In addition one company caps the CEO salary at the existing level, one company caps the salary at the salary of the CEO plus 15% and one company caps the salary of the CEO within the top quartile of a group of comparator companies.</p> <p>Six companies (11%) 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>Eight companies (15%) state that there is no maximum.</p> <p>Most companies do not include the salaries for the next financial period (i.e. 2013/14) in the policy report. Only four companies do so, although ten companies (19%) reference where this information can be found in the annual remuneration report.</p>	<p><b>Points to consider</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• If increases will normally be in line with other employees, think about whether this is all employees, just UK employees, etc.</li> <li>• 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.</li> <li>• Where flexibility is provided it may be helpful to commit to explaining the rationale for the increase, to consider whether the increase should be phased and that the performance of the individual will be a consideration.</li> <li>• It is worth noting that ISS have 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.</li> </ul>
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## The maximum – pension and benefits

*Around a quarter of companies have included an indication of the maximum value of benefits.*

Almost all 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 mentioned but in many cases few details are provided in the policy report.

The majority of companies do not mention a maximum value of non-pension benefits which may reflect the fact that employers have limited control over the cost of insured benefits.

Only around a quarter of companies have included an indication of the maximum value of benefits either as an absolute amount or as a % of salary. This ranges from a maximum of £70,000 to £100,000 and from 5% of salary to 15% of salary.

All the companies in this sample list the typical benefits provided although it is worth noting that only 80% of these provide for some flexibility which suggests that 20% of companies are limited by the policy in terms of what benefits they may provide.

All companies allow for the possibility of providing relocation and other allowances, including expatriate allowances. This may be included in the policy table or in some cases may be included as part of the recruitment policy section.

### Points to consider

- 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.
- There are now few requirements in the regulations relating to pension and it may be worth bearing in mind that if only high level details are included in the policy report it may be difficult to ascertain the policies in place on an individual basis.

## 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.*

### Annual bonus

Where there is a cap on the bonus this is typically disclosed in the policy table and in most companies there is no provision for a higher maximum bonus in specific circumstances. Only seven companies appear to have an exceptional limit in the annual bonus plan which is not usually used.

Almost half the companies disclose the maximum bonus for the CEO and for other directors separately. This is typically disclosed in a way which does not appear to allow the higher maximum to be used for other directors.

Only one company has disclosed the maximum bonus for the CEO with no indication of what the usual maximum would be for other executive directors.

In a small number of companies the bonus maximum is disclosed as 'up to' a specified percentage.

The policy table in one company includes the possibility of exceeding the maximum in exceptional circumstances with no overall limit disclosed. The company has subsequently included a statement to clarify an overall cap on the bonus in these circumstances.

### Long term incentive

Almost half the companies have disclosed an exceptional maximum that is not used under normal circumstances. All but one company discloses the usual maximum that may be awarded. The other company discloses the exceptional maximum and states that annual awards will be disclosed in the implementation section each year. Less than a third disclose the maximum by individual position.

### 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. 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. This appears to be the most common approach.
- 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.

## Performance measures and targets

One of the biggest challenges facing companies is the level of disclosure of 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 two thirds of companies disclose the level payable for on-target performance and around 60% disclose what is payable at the minimum or threshold level of performance, although these are not always the same companies. Threshold is typically between 10% and 30% (median 20%) of the maximum bonus is payable.
- Long term plan – around three quarters of companies disclose what vests for minimum performance and less than a third disclose what vests 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 may be zero with typically 50% to 60% payable for on-target performance. It is also worth noting that very few companies choose only to include the maximum payable in the policy table.

**Annual bonus plans – performance measures and targets**  
Around half the companies choose to disclose only the broad measures being used and almost a quarter do not disclose any specific information about the performance measures.

Almost 30% do disclose the specific measures but in these companies this will either be disclosed as the 'typical' measures that may be used or the measures to be used in the coming year will be disclosed. This means that almost all companies retain flexibility to change the specific measures and in many cases this is explicitly stated in the table.

Very few companies give the weighting of specific measures and, as noted above, where this is the case this will usually relate to the next financial period only. Around 40% provide an indication of the broad weighting of measures and this may often be limited to disclosing the weighting of financial and non-financial measures, or the split between financial and strategic KPIs, or individual targets. Some companies choose to provide a minimum/maximum that may applied so for example may say that no less than 70% of the bonus will be based on financial measures, or no more than 25% of the bonus will be based on individual measures.

No company has chosen to disclose the performance targets in the policy report.

**Long term plans – performance measures and targets**  
Around three quarters of companies disclose the specific measures being used. However, in a number of these companies, as for the annual bonus, the measures are disclosed as those applying for the next awards to be made. More than half the companies appear to have the flexibility to change the measures, either by specific reference in the policy table, or by an additional statement which lists the degree of discretion the committee has to vary the terms of the incentive plan.

Around two thirds disclose the weighting attached to specific measures.

Only seven companies include the actual performance targets in the remuneration policy.

Some companies provide additional detail on the performance measures in the supporting information.

### 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.
- 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.

*Almost all companies retain flexibility to change the specific measures used in the annual bonus plan.*

*More than half the companies retain flexibility to change the specific measures used in the long term plan.*

*A number of companies have found it necessary to issue statements to clarify areas of the recruitment policy.*

## 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 a key challenge for many companies and one of the areas of focus from investors and investor bodies. Most companies have not previously 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. This has led to a number of companies, including three FTSE 100 companies, issuing statements on websites, and via a Regulatory Information Service, to clarify areas of the policy which have been questioned by the proxy research bodies.

*40% of companies disclose that any variable pay awarded on appointment will be within normal policy limits.*

<p>This section is typically included in the supporting information following the policy table although four companies have included this as part of the policy table.</p> <p><b>Salary</b> – where salary is mentioned in the recruitment policy section, typically the policy on salary is stated to be in line with the approved policy. Around two thirds of companies specifically allow for higher increases to be awarded where a new incumbent is appointed on a salary below the market rate with phased increases planned to bring the salary up to market rate if performance warrants. This may be explicitly stated in the recruitment policy or may be covered in the salary section of the policy table.</p> <p><b>Variable pay</b></p> <ul style="list-style-type: none"> <li>• 40% of companies disclose that any variable pay (excluding any buy-outs of existing awards forgone) will be awarded within normal limits as disclosed in the policy and have no flexibility to make awards outside this. One third of companies may make awards within the exceptional limits included in the policy.</li> <li>• Four companies state that they will normally make awards within the stated policy but may exceed this in some circumstances.</li> <li>• Seven companies disclose an overall maximum limit on variable pay which is in excess of the policy limits.</li> <li>• Seven companies specifically state that performance measures and targets set for variable pay may be different from those currently used and three companies appear to include the facility to make awards with no performance conditions.</li> <li>• Two companies appear to allow for almost complete flexibility in what may be offered.</li> </ul> <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. 40% of companies specifically mention the facility to use Listing Rule 9.4.2 when making awards to new appointments.</p> <p><b>Buy-outs</b> – 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> <p><b>Service contracts</b> – interestingly only around a third of companies include, either in the recruitment policy or the policy on service contracts and loss of office, the facility to offer a longer notice period on appointment, reducing to 12 months over time.</p>	<p><b>Points to consider</b></p> <ul style="list-style-type: none"> <li>• As noted in our analysis of the first companies to report under the new regulations, shareholders are very focused 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.</li> <li>• 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.</li> <li>• This will include considering the potential to make additional awards outside of normal policy and the need to buy-out existing awards and how this should be managed.</li> <li>• 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.</li> <li>• 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.</li> <li>• Specific areas which have required clarification include limiting the use of Listing Rule 9.4.2 to buy-out awards only, clarity on the overall limit on awards (other than buy-out) made on recruitment and the use of sign on awards or 'golden hellos'.</li> </ul>
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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.

Non-executive director fees	Relocation and expatriate allowances	Very few companies disclose any maximum fee levels for non-executive directors other than the limit on aggregate fees as contained in the articles which is disclosed in around 50% of companies.
<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 a separate table as part of the supporting information to the policy report. This will usually include details of terms and conditions and the way in which fees are structured although many do not include actual fee levels in this section.</p> <p>Very few companies disclose any maximum fee levels other than the limit on aggregate fees as contained in the articles which is disclosed in around 50% of companies.</p> <p>One company includes a 5% limit on fee increase, one a 10% limit and one a 20% limit over the life of the policy.</p> <p>Two companies state that fee increases will normally be in line with other employees but may be exceeded in certain circumstances and one company states that fee increases will normally be in line with those in other FTSE 100 companies but also may be exceeded in certain circumstances.</p> <p>Details of actual fee policy and levels are usually disclosed in the annual remuneration report. Some include all of this information in both sections.</p> <p>Around 15% of companies do not include the fee policy for the next financial period.</p>	<p>As noted above, all companies allow for the possibility of providing relocation allowances and other allowances where an individual is required to move from one country to another. However, in around 15% of companies this is not covered in the general policy section but only in the recruitment section and therefore it will only be possible to use this in recruitment situations.</p>	
Provisions for the recovery of sums paid or the withholding of payment	Shareholding requirements	Currently around 40% of all FTSE 100 companies appear to be able to operate 'real' clawback.
<p>The new regulations require companies to explain where there are any provisions for the recovery of sums paid or the withholding of the payment of any sum.</p> <p>With a number of companies introducing new provisions for 2014, almost 90% of FTSE 100 companies now have provisions in place. The level of detail disclosed is however variable.</p> <p>Currently around 40% of all FTSE 100 companies appear to be able to operate 'real' clawback and most of the provisions recently introduced are on that basis. However, it is worth noting that relatively few companies (currently 14) disclose the time period over which the awards may be clawed back and this may be something for consideration.</p> <p>Where clawback and/or malus provisions exist these are typically referenced in the policy table under the relevant remuneration element. Often further information is given on how these provisions operate, either in the supporting information or in the implementation section of the report.</p> <p>It is worth noting that the ABI is expecting the circumstances in which these provisions may apply to be disclosed and that ISS are specifically highlighting where no provisions apply.</p>	<p>It is not a requirement to include details of shareholding requirements in the policy report but almost half of companies have chosen to do so. One third of companies have included this information in the main policy table, with others including it in the supporting information.</p> <p>Over 40% of companies include this section in the annual report on remuneration. Five companies include the information in both reports.</p> <p>Around 60% of companies include information on the time frame in which directors must attain the required shareholding and just over half of companies disclose requirements to retain shares vesting from share plans until the shareholding achieved. Although included in the latest ABI guidelines far fewer companies disclose what shares are included for the purpose of calculating whether or not the requirements are met.</p> <p>It is worth noting that ISS in particular would prefer to see shareholding requirements included in the policy statement and are highlighting what they consider to be low requirements, more often in smaller companies, but in at least one FTSE 100 company so far this year.</p>	

Very few companies provide any real explanation of the differences in the policies in place for directors and employees.

#### Explanation of the differences in the policy in place for directors and for employees generally and statement of consideration of employment conditions.

This information is usually included in the supporting information following the policy table. However, the disclosures so far do not typically include significant detail.

Very few companies provide any real explanation of the differences in the policies in place for directors and employees. These statements tend to use fairly boilerplate language and focus on the fact that the same principles are applied and that the remuneration of directors is more strongly related to performance.

Most companies state that there is no formal consultation with employees but that employment conditions are taken into consideration. Almost a third of companies note that a regular survey is undertaken of employee views on a range of topics including remuneration and that the remuneration committee reviews the results. Around 20% of companies specifically mention receiving regular updates from HR. A few companies provide broad details of employee participation in incentive plans. A small number of companies make reference to the fact that many employees are shareholders by virtue of the employee share plans and can therefore express an opinion by voting at the AGM.

#### Service contracts

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.

All but six 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. One company includes the details on the leaver treatment under the relevant element in the policy table.

#### Discretion to honour prior commitments

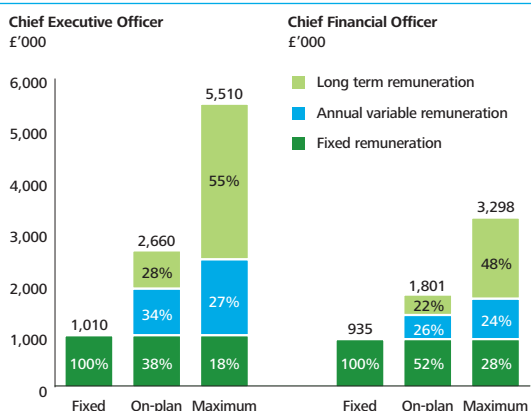
Almost all of the companies include a general statement somewhere in the policy report that the Remuneration Committee reserves the right to make any remuneration or loss of office payments where the terms were agreed prior to an individual being appointed a director of the company or prior to the approval of the policy.

#### External appointments

It is not a requirement to disclose the policy in relation to allowing executive directors to take external non-executive positions although the UK Corporate Governance Code requires the disclosure of any external appointments held and any remuneration earned in respect of these.

It has generally been good practice to disclose this policy and currently over half the companies have included the details in the policy report. Around a third of companies have chosen to include this in the annual remuneration report and a small number have not disclosed the policy.

#### Scenario charts



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, around a third of companies use on-target bonus (typically 50% to 60% of maximum) and threshold vesting under the long term plan. Just over a third use on-target bonus and 50% of maximum under the long term plan. Four companies use a level of vesting which falls halfway between threshold and maximum. Other variations include using expected value and using actuals where there are no limits in the plan or where there is no target policy.

Three companies show four scenarios – two based on minimum, threshold, target and maximum and one based on minimum, target, maximum and exceptional.

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. A small number of companies do not include the total amount of the package for each scenario.

In presentational terms around 50% of companies choose to show the chart in bars and 50% in columns.



# The annual remuneration report

The order in which the information in the annual remuneration report should be presented is not prescribed and companies are choosing to structure the report in different ways.

## Not just a compliance exercise

Although many companies start with the single number and broadly follow the order of the regulations, around 40% of companies start the section with the details of the remuneration committee and the advisers and around 15% start with a section on how the policy will be implemented in the coming year.

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. Around 20% of companies include past and future implementation under section headings of salary, annual bonus, long term incentive plans etc., rather than including a separate section on how policy is to be implemented in the next financial period.

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 to build understanding and trust between companies and their shareholders and that clarity and transparency are as important as compliance.

## The single figure of remuneration

- Determining an appropriate methodology for the single figure was a lengthy process but now this is agreed most companies do not appear to find any difficulty in providing this information. The majority of companies appear to follow the regulations, and the underlying report from the Financial Reporting Lab on which the regulations were based.
- Most long term awards do not vest until after the end of the financial year but based on a performance period ending at the end of the financial year. In these cases the vesting of the award is known and the value of the award is based on the average share price over the three months to the end of the financial year as prescribed in the regulations. A very small number of companies have used a different share price such as the price on the last day of the financial year, or the day on which the performance period ended.
- Where all, or part, of the award is based on a performance period ending after the year end, the report of the Financial Reporting Lab suggested that companies should estimate the level of vesting if not known at the time the report is published. Most companies have done this and in fact in most cases the level of vesting appears to be known rather than estimated. A small number of companies have chosen to base the single number on the award vesting in the year rather than on awards vesting after the year end. This can depend on when the awards are made which in some companies may be the middle of the year or later. Where the award is split over two or more performance measures with part based on a period ending in the financial year and part based on a period ending after the financial year a small number of companies have chosen to split the value included, basing it on performance periods ending in the year with part from awards made in one year and part from awards made in a different year.
- Many companies make no mention of any payment in respect of dividends accrued on vested shares and it is unclear whether this is or is not included in the LTIP value, or whether no dividend equivalents are awarded. Where these are included they may relate to dividend equivalents awarded in the year which may not relate to awards vesting in respect of the year.

*Companies are choosing to structure the annual remuneration report in different ways.*

*The majority of companies are disclosing the single figure in line with the regulations and the underlying report from the Financial Reporting Lab on which the regulations were based.*

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 separate tables and sometimes in quite separate places within the report. 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.	Around a third of companies include executive and non-executive directors in the same table, leaving the non-relevant columns blank. Presentationally this can be less attractive but emphasises a 'one board' approach.
Most companies structure the table with individuals in rows and remuneration elements in columns.	Nine (17%) companies structure the table with individuals in columns and remuneration elements in rows adding up to a total at the bottom of each column. One company has a separate table for each individual.
Most companies include 2013 and 2012 data in adjacent columns for each element.	Around a quarter of companies include two rows for each element. In addition six companies either split the table or 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.	Very few companies split the bonus into cash and deferred elements and a small number split out difference types of long term arrangements. A small number also split out taxable and non-taxable benefits. Almost a quarter of companies included additional columns which include sign-in/ buy-out arrangements, SIP and SAYE, relocation and cash dividends.
Charts	One company has included a chart illustrating the single number for the current and previous year.

### Example single figure table layouts

	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 disclosure of performance measures and targets

The single figure table must be accompanied by supplementary 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. Actual targets need not be disclosed where these are considered commercially sensitive although it should be explained when, if at all, this 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 as noted above, this is already proving to be a key area of focus for many investors.



## Annual bonus

Most companies provide some indication of the measures and the weighting applied to these measures. Disclosure of actual targets is more variable and ranges from a short paragraph providing some indication of how performance was assessed to full tabular disclosure of financial targets, typically with some description of non-financial targets.

- Over 80% of companies disclose the measures on which the bonus was based in the year just ended.
- Around three quarters of companies disclose the weighting of each measure, with a few companies providing a broad indication of the weighting.
- A quarter of companies provide full disclosure of financial targets and a further 30% provide partial disclosure of targets where these are not considered commercially sensitive. Very few companies provide full disclosure of non-financial targets although around a quarter of companies provide partial disclosure of targets for these measures.

Those that do not disclose the targets state that this is because they are still considered commercially sensitive. Very few provide any explanation as to why this is the case other than it would compromise the competitive position of the company. Equally very few companies provide any indication of when the targets will be disclosed and some suggest that they do not intend to fully disclose targets in the future.

However, even where actual targets are not disclosed, most companies do provide some indication of the level of performance achieved and the resulting payout. In our opinion, around three quarters of companies provide a good level of detail in relation to the payout.

*Demonstrating the link between pay and performance and providing adequate justification for bonus payouts continues to be a key issue for many investors.*

## Illustrations of the range of practice in retrospective bonus disclosure

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

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

	Below threshold	Between threshold and target	On target	Maximum	Max bonus % salary	Actual performance achieved	Actual payout % salary
<b>Financial</b>							
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%
<b>Personal</b>							
Customer service <sup>1</sup>	xx%	xx%	xx%	xx%	20%	xx%	10%
Strategic objectives	Not met	Successful	Exceeding	Outstanding	20%	Description of achievements	20%
<b>Total</b>					<b>150%</b>	<b>53%</b>	<b>80%</b>

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

### Long term incentive awards

Disclosure of the performance measures and targets applying to long term awards tend to be less commercially sensitive. Almost all companies disclose the measures and the weighting and over 80% disclose the actual targets relating to the awards. Again, in our opinion, three quarters of companies provide a good level of detail in explaining the link between the vesting of the award and the level of performance achieved.

*Most companies 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.*

### 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. Details relating to performance measures and targets need not be disclosed where these are considered to be commercially sensitive.

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. Companies can also choose to make reference to the information provided in the policy statement, or in earlier sections of the remuneration report where this information is the same.

- Over half of companies include this section towards the end of the annual report on remuneration, which follows the order of the regulations, although in some cases this may be before the detailed share award tables.
- Around 15% of companies have chosen to put this information upfront, at the beginning of the annual report on remuneration.
- Around 20% of 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 does not appear to include any information on how the policy will be applied for the coming year. It is also worth noting that, as mentioned above, two companies include information on how the policy will be implemented in the coming year in the policy report. Many companies also include details in the annual statement from the chairman of the remuneration committee, which can be a very helpful way of providing shareholders with an overview of 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 chairman's statement and the extent of the changes compared with the previous year.

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.

<b>Salary</b>	Prior to the new regulations coming into force, most companies disclosed this information and investors have made it clear that they expect this information to be provided. Over 90% of companies reporting so far include the salaries for the next financial period, one discloses the increase that will be awarded and four do not include this information, although this is usually because the salary review does not take place until later in the year. Four companies include the prospective salaries in the policy report and one company only includes this information in the scenario charts in the policy report.
<b>NED fees</b>	Two thirds of companies disclose the prospective fees.
<b>Bonus potential and long term awards</b>	Around half of companies specifically disclose the bonus potential for the coming year and around two thirds disclose the long term award levels. Where this information is not included most companies state that awards will be in line with the policy.
<b>Bonus measures and targets</b>	Although around two thirds of companies have given an indication of the financial measures that will apply in the next year, none of the companies reporting so far disclose the targets. Only around a third provide any information relating to non-financial measures and none provide details of targets.
<b>Long term incentive measures and targets</b>	In most companies more information relating to measures and targets is provided in the policy report thereby limiting the flexibility to make adjustments. Around 60% of companies reporting so far specifically disclose the measures, weighting and targets applying to forthcoming awards and a further quarter disclose details of the measures and weighting.
<b>Explanation of commercially sensitive information</b>	There is rarely any explanation given for non-disclosure of the targets other than that they are considered commercially sensitive. Only around 20% of companies commit to disclosing the targets in the report in the following year, with two committing to disclose after two years.

## 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 buybacks and any other significant distributions to assist in understanding the relative importance of spend on pay.

All but one company include this information with three quarters of companies disclosing the information in a table, and the other quarter showing the data graphically.

- Over 40% of companies show only the minimum requirement of remuneration and dividend/share buybacks.
- Over 40% of companies include a measure of profit (retained profit, PBT, PBIT, PAT, EBIT).
- Around 20% include other items such as employee numbers, revenue, capex, tax, spend on R&D.
- Around 20% provide director remuneration as a subset of employee remuneration.

*Over 40% of companies include a measure of profit in the disclosure of relative spend on pay.*

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 may be included. This is very much a company specific disclosure and there is no right or wrong answer.

## CEO vs performance

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. All companies provide this information in tabular format although the format of the table can vary. Where there has been more than one CEO over the period most companies have provided the information for both CEOs in the year the change occurred. One company, in addition to this table, includes the CEO single figure of remuneration on the TSR chart.

It is worth noting that the intention of this table is to illustrate the link between CEO remuneration and performance, in the form of 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.

## 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.

*Around 20% of companies use senior management as the comparator group of employees in the comparison of the year on year change in salary, benefits and bonus for the CEO and other employees.*

All but one company includes this information with all but one of these providing the information in the form of a table. Only around 20% of companies base this comparison on all employees with many companies choosing a regional comparator group and some basing the comparator group on only those employees above a certain level. Some choose a comparator group based on more than one factor so the following statistics do not add up to 100%.

- Around half base the comparison on UK employees and a further 15% use another region or combination of regions such as UK and US based employees. It is worth noting that in some cases most, if not all, of the employees may be UK based so this may not be an issue.
- Around 20% of companies base the comparison on senior management. A further 15% of companies base the comparison on another subset of employees which may include salaried employees, those eligible for a bonus, management and head office staff.
- 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.
- 10% of companies show the aggregate numbers as well as the percentage change.

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.

It is also worth bearing in mind that there has been some negative comment on the use of the senior management population for this comparison and suggestions that this may not be in keeping with the spirit of the regulations which are intended to illustrate, to some degree, the pay of the CEO in the context of the wider employee population.

## Share awards

The regulations require details of any share awards made during the financial period under review. This should include a description of the type of interest, the basis on which the award was made, the face value of the award, the percentage that would be received if the minimum performance was achieved, for share options an explanation of any difference between the exercise price and the share price used to calculate the award, the date the performance period ends, a summary of the performance measures and targets. The share price should also be given, along with whether this was the share price at the date of grant (and if so the date the award was granted) or an average share price (and if so the period used to calculate the average).

The regulations also require a statement of directors' shareholdings and share interests which must include a statement of any requirement to own shares and whether that requirement has been met and a table showing the total number of interests in shares for each director (and connected person), the total number of scheme interests (differentiating between shares and options and those with or without performance conditions), details of those scheme interests and details of share options which are vested but unexercised and those exercised in the relevant financial year.

The requirements to disclose the details of long term awards previously included in the Listing Rules have been removed.

Around half the companies disclosing so far have continued to include the share award tables in the same format as previously in addition to the new disclosures. The other half have removed the award tables and disclosed only the information required by the regulations.

# 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 it is not surprising that we are seeing differences in the level of information being disclosed and the format and presentation of this data. In respect of investor reaction and recommendations from investor bodies it is also still early days in terms of ascertaining the key areas of concern and the expectations in relation to these. We are already seeing a significant level of concern relating to the recruitment policy and the issuing of supplementary statements either on the website or via a Regulatory Information Service is not something we have seen before.

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'. 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.

It is perhaps understandable that in the first year there will be an element of caution in the disclosures and a tendency to focus primarily on compliance but there have already been signals from the Government that further legislation has not been ruled out if executive pay continues to be perceived as excessive. Remuneration committees therefore need to focus on ensuring that policies are clearly designed to align pay with performance and the strategic goals of the company, demonstrating that these aims are delivered and ensuring that disclosures avoid boiler plate language and that they have embraced the spirit of disclosure.

*Further legislation has not been ruled out if executive pay continues to be perceived as excessive.*

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