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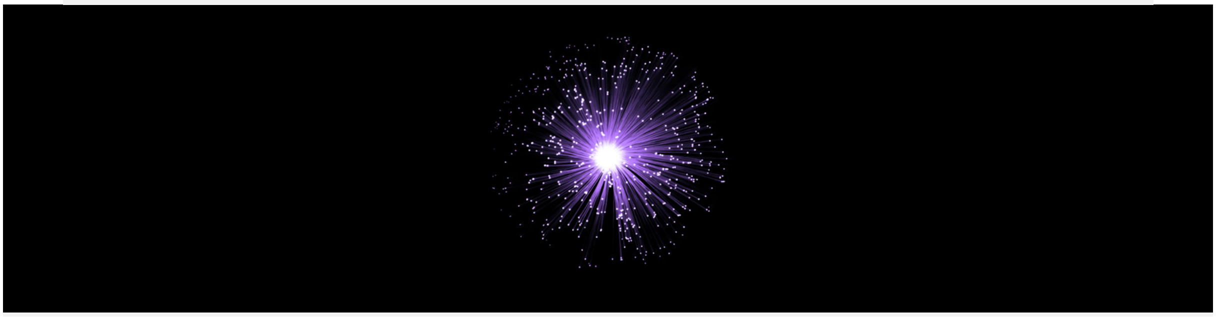

GC100 and Investor Group

Directors’ Remuneration Reporting Guidance 2016

16th August 2016

The GC100 and Investor Group has published a revised version of its guidance on directors’ remuneration reporting. This second edition reflects changes in response to a review which has been carried out over the 2014 to 2016 AGM seasons and incorporates the changes released in a statement in December 2014.

In the 2014 statement the Group noted that the quality of remuneration reporting had generally improved but that companies should continue to focus on clarity and conciseness. The guidance now encourages remuneration committees to consider:

- Feedback from shareholders on the last report and whether this suggests that the disclosures could be set out more clearly.
- What would make it easier to assess and understand each section of the report.
- Whether the thinking and purpose behind the committee’s decisions is clear.

The key changes to the guidance are as follows:

Link to strategy

In the 2014 statement the Group noted that linking remuneration to the company strategy remains an important issue for investors, given greater emphasis by the requirement to publish an annual strategic report. The guidance relating to the Annual Statement from the Remuneration Committee Chairman now specifically notes the need to explain the link between remuneration and strategy and suggests that there should be alignment and cross referencing between the remuneration report and the annual strategic report.

Flexibility, discretion and judgement

Section 1.3 has been expanded in relation to the exercise of discretion to specifically provide that:

Where qualitative performance measures are used, and performance against those measures is assessed as being very good, but the company’s overall financial performance over the relevant assessment period is not commensurate with that assessment… investors generally expect the remuneration committee to give careful consideration to a moderation of formulaic outcomes – through the exercise of discretion – so that the remuneration outcome balances management performance and the shareholder experience.

In the 2014 statement the Group noted the number of assurances issued by companies after the publication of the remuneration report in response to shareholder concerns over the degree of flexibility in the policy. The guidance now explicitly states:

Companies may well face unexpected developments over the term of a policy, but a broad discretion to address these will be more likely to be approved if it is drafted and explained to make investors confident that it will be used only if and as genuinely required, and within an acceptable maximum (either the general, or a higher exceptional, maximum).

Use of commercial sensitivity

The guidance in Section 2.1 on the use of commercial sensitivity to justify the non-disclosure of performance targets has been significantly expanded. The guidance states that any decision to rely on the commercial sensitivity carve-out should not be taken lightly. The carve-out should only be used where the directors positively form the opinion that company-specific circumstances mean the performance target or measure in question is commercially sensitive. Directors should consider the following before forming that opinion:

Short-term incentives

- Investors do not generally expect prospective disclosure of targets, as this would commonly result in commercial sensitivity issues.

- Investors generally expect retrospective disclosure of targets. This should be at the end of the reported year or, where commercial sensitivity remains an issue, at a later time. In the latter instance, investors generally expect a commitment in the remuneration report at a specified time in the future.

- Investors generally expect the full range (threshold, target and maximum) to be disclosed retrospectively.

Long-term incentives

- Disclosure of prospective and retrospective disclosure of targets is generally expected.

- If commercial sensitivity does exist, for example where measures are specifically linked to strategy, investors generally expect a commitment to disclose at a specified time in the future.

- If targets are not disclosed prospectively at grant on the grounds of commercial sensitivity, investors generally expect remuneration committees to consider including qualitative updates on performance to date in relation to awards that are yet to reach the end of their performance period in subsequent remuneration reports.

Single total figure of remuneration

The only changes to Section 3.1 are:

- In relation to any additional items of remuneration which should be included in additional columns in the single figure table. The list of potential items that may need to be included has been expanded to include buy-out awards.

- The requirement to include any dividend or dividend-equivalent payment in relation to a long-term incentive has been included in the guidance.

Payments to past directors and payments for loss of office

In Sections 3.4 and 3.5 the guidance now suggests that where no payments to past directors or for loss of office have been made that the report should include a 'nil return' to confirm this fact.

Percentage change in remuneration of the CEO

The guidance in Section 3.8 on the requirement to retrospectively disclose the percentage change in the remuneration of the chief executive against a comparator has been expanded. The guidance suggests that companies may wish to consider using a group of employees defined by geography, business unit or level. However, the following sentence has now been added:

Investors (and other stakeholders) generally expect a meaningful comparator group; not, for example, a narrow group consisting of senior managers.

Remuneration policy

The guidance now states that if a company wishes to put forward a new policy to shareholders mid-cycle, investors generally expect a coherent rationale as to the reasons for doing so.

Maxima contained in the remuneration policy table

Section 4.3 has been amended to clarify that the maximum level of each component of remuneration should be included for each individual executive director in the remuneration policy table. The guidance also states:

- *Companies may wish to consider including a generic director policy should it be perceived that a new director role could be created during a policy period.*

The guidance also reinforces the requirement to include a maximum salary in the policy, either in monetary terms or any other way appropriate to the company, such as an increase as a percentage of salary.

Short and long-term incentives

The guidance now states that if there is a requirement to hold shares post vesting that this should be disclosed in the policy table, in the section on how the component operates, and should be cross referenced in the shareholding requirements section of the report.

The guidance also now specifically notes that the weightings of each of the performance measures, or groups of measures, should be included in the policy. This can be disclosed as a range.

Deloitte view

We agree with the GC100 and Investor Group that the quality of disclosure has improved since the new disclosure regulations were introduced. We also agree that in many companies the link between the remuneration policy and the company's business strategy could and should be made more transparent.

We continue to be supportive of the need for remuneration committees to adjust formulaic outcomes in incentive plans to ensure that final payouts are fair and reasonable in light of overall company performance. This is an area which has been receiving much attention of late. In our view the key issues here are firstly that any use of discretion, whether up or down, must be clearly explained and justified by the remuneration committee and secondly that investors must make a proper assessment of this rationale and be prepared to accept the decision of the remuneration committee where this is clearly appropriate in the circumstances.

In respect of the disclosure of a salary maximum in the policy table, we continue to believe that including a monetary maximum will be counter-productive and potentially lead to further salary ratcheting. We continue to be of the view that the requirements can be met by stating that salary increases will normally be in line with increases awarded to the wider group, unless there are very specific reasons to award an increase in excess of this level, such as a material change in responsibilities.

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