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Your guide
Directors' remuneration in FTSE 250 companies

September 2013

Overview from Mitul Shah

We are pleased to report that 2013 has, so far, been less turbulent than 2012. In response to concerns raised by shareholders it appears that companies have taken heed of the calls for greater shareholder alignment and long term stewardship when considering executive remuneration outcomes and structures. Over the last twelve months we have seen companies continue to introduce clawback and malus provisions, deferral arrangements and formal shareholding requirements. We are also seeing a continued move towards simpler remuneration structures consisting of an annual bonus and one long term incentive plan. Only one in five companies now operate more than one long term plan.

This suggests that companies are responding to the issues raised by shareholders and other stakeholders and goes some way towards explaining why investors have generally been more supportive of arrangements this year than in 2012. Our experience of the year so far also suggests that companies may have engaged with shareholders earlier, and where more contentious issues were anticipated, have consulted more extensively.

There are a number of trends to note from this year's analysis of remuneration. Salaries remain at 2012 levels in around a quarter of all companies and increases, where given, have for the most part been at a modest level. Overall, actual bonus payouts are generally slightly lower than last year. However over half of all plans paid out more than two thirds of the maximum potential reflecting relatively strong EPS performance over the most recent financial period with two thirds of companies showing stronger EPS performance than in the previous year.

The level of payout from performance share plan awards made in 2009 and vesting in 2012 is higher than it has been in the previous few years which represents stronger EPS and TSR growth over the three year period to 2012. It is also important to note that the vesting of long term plans tends to be more variable with over a quarter of plans not paying out at all in respect of the most recent three year period and around a third paying out at maximum, suggesting that plans are quite strongly linked to company performance.

This year our analysis indicates an increase in the median maximum bonus potential for the first time since 2005. The median bonus potential across the whole of the FTSE 250 is now 120% of salary. However the headline numbers can be misleading and companies should consider the drivers behind this headline increase. Our research indicates that bonus potentials are likely to be higher in finance & property companies where the median maximum opportunity is 150% of salary compared with 100% in other industry sectors. Further analysis indicates that there is a difference in practice between the largest companies in the FTSE 250 index and the others. For companies ranked outside the top 50 of FTSE 250 companies the median bonus potential remains at 100% of salary, with a higher potential amongst these top 50 companies, many of which regularly jump between the FTSE 100 and FTSE 250 and are typically more international and complex than other FTSE 250 members.

We are also seeing an increase in the median potential performance share plan award which has increased from 125% to 135% of salary. But again it is important to delve into some of the detail and to recognise that this is not across all companies. Opportunities tend to be higher in finance & property companies and retail & services companies than in industrial & manufacturing companies and, as with annual bonus, there is a substantial difference by company size with a median maximum award of 150% of salary in the top 50 companies compared with 100% of salary in companies ranked outside this group.

This emphasises the diverse nature of the constituents of the FTSE 250 and the need for remuneration committees to exercise caution when assessing market competitiveness and to not just focus on the headline numbers.

2013 will see the introduction of new disclosure requirements and the binding vote on remuneration policy. This represents the biggest change in the reporting of remuneration since the regulations first came into effect in 2002. It will, for the first time, not be possible to make payments to directors which are not mandated by a shareholder approved policy.

Many of you may have already spent time thinking about and planning for the new disclosures, and there is no doubting the extra workload these regulations will create for all companies. Particular focus should be on ensuring the remuneration report meets the new requirements, that shareholders will approve the policy and that the policy provides enough flexibility to make all potential payments to directors that will be necessary. Many companies with limited internal resource (particularly smaller companies) may struggle with developing an appropriate remuneration report and our advice would be for companies and remuneration committees to place increased importance on the report this year even if it means that other items on the committee agenda are postponed or the level of work on these items is minimised.

We believe that the new disclosure requirements provide a 'clean slate' opportunity and over time will encourage remuneration committees to review and update existing arrangements and policies, particularly in areas such as recruitment policies and exit payments, to ensure they balance the commercial needs with investor expectations. We look forward to working with many of you over the coming months to develop an appropriate remuneration policy which is right for your business.

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Main findings

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Base salary

Executive directors were awarded a 3% median increase in 2013, unchanged from last year and higher than in FTSE 100 companies.

Around a third of executive directors received increases in excess of 3% while a quarter received no increase.

Increases were lower in finance & property and retail & services companies.

Annual bonus

Median level of bonus opportunity is 120% of salary across all FTSE 250 companies but remains at 100% of salary in all but the largest of these companies.

Maximum bonus opportunity is higher in finance & property companies than in other industry sectors.

Bonus payouts lower than in the previous two years although over half of all plans paid out more than two thirds of the maximum.

Continued increase in the number of measures used, and in the use of non-financial measures.

Long term incentives

Most companies operate only one long term incentive plan, typically a performance share plan. Executive directors now only regularly granted options in 6% of companies.

Median potential performance share award is 135% of salary across all FTSE 250 companies but remains at 100% of salary in all but the largest of these companies.

Almost 40% of plans now incorporate measures other than TSR and EPS.

Vesting of 2009 awards in 2012 is significantly higher than in the previous few years with median vesting of just over 70% of maximum.

Shareholdings

Further increase in number of companies with shareholding requirements, from 70% to 79%.

Shareholding requirements of more than one times salary in place for one in five executive directors and a third of top full time executives.

40% of top full time executive directors and 20% of other executive directors hold shares worth more than 500% of salary. The median value of the shareholding of the top full time executive director is 350% of salary, and 150% of salary for other executive directors.

Shareholders

Overall fewer issues raised by ISS and the ABI so far in the 2013 AGM season.

Fewer votes against so far this year than in 2012. Number receiving less than 90% of votes of favour has fallen from 27% last year to only 21% this year.

Non-executive directors' fees

No increase in fees for 2013 in around 45% of companies. Median fee increase across all FTSE 250 companies is 2% but zero in finance & property companies.

Typical fee levels for non-executive directors in FTSE 250 companies between £41,000 and £52,500, with a median of £46,000.

Typical fee levels for the chairman between £144,000 and £225,000, with a median of £175,000.

Median fee for chairing either the remuneration or audit committee is £10,000.

Pension

Only 11% of executive directors currently participate in a defined benefit plan. This is more common in industrial & manufacturing companies.

Typical contribution to a defined contribution plan, personal pension plan or pension allowance is between 12% and 24% of salary with a median of 16%. The top full time executive director typically receives higher contributions.

Clawback/malus provisions

Provisions in place in almost 60% of companies compared with 40% last year and 25% two years ago. Provisions are in place in over 80% of FTSE 100 companies.