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Your guide

# Directors' remuneration in FTSE 100 companies

The Deloitte Academy: promoting excellence in the boardroom  
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# Overview from Stephen Cahill

The second year of reporting under the new disclosure regime is now almost over and in many ways it has been a quieter year for remuneration committees. Less than one in five companies chose to put an amended policy to shareholders for approval and so for the majority of companies the policy remains the same. Only eleven companies have implemented new long term incentive arrangements for executive directors this year compared with around a third of companies in the previous year.

However, it has certainly not been quieter on the media front, with headlines on executive pay still appearing on an almost daily basis. Much of the focus this year has been on the growing inequality between those at the top of the organisation and the general workforce and this concern spreads far wider than just the UK. In the US the Securities and Exchange Commission has now adopted rules which require companies to disclose the median pay of the workforce with that of the CEO and debate is still going on in the European Parliament about whether the provisions on the disclosure of executive pay in the Shareholder Rights Directive should include a requirement to disclose this ratio.

The level of support for the remuneration report over the past year has generally been higher than last year with fewer companies receiving less than 80% of votes in favour. Where concerns have been raised these have typically been focused on high salary increases and bonus payouts. But perhaps the issue which has caused the most concern and which has been the subject of much publicity, resulting in a vote against the report in one company, is that of the arrangements put in place for new appointments. In all cases these issues have been in companies where an executive director, in most cases the chief executive, has been appointed from outside. Concerns have been primarily over buy-out arrangements but also over the overall size of the potential package.

This raises a number of issues. One is that having an approved policy in place which includes a policy on recruitment is no safeguard against shareholder disapproval of the way in which the policy is implemented. For obvious reasons many companies included a degree of flexibility in the recruitment policy when it was first introduced last year but remuneration committees should take heed of shareholder reactions over the past year and may want to consider drawing up parameters of how the policy may be implemented in advance of any future board appointment. This ensures clarity from the beginning of the recruitment process and may avoid some of the issues faced by a few companies this year, often played out in the media.

The second issue is that of succession planning, also encompassing to some degree the 'cult of the CEO' which has been the subject of much discussion over recent years. Our data suggests that the remuneration arrangements of the chief executive continue to diverge from those for the CFO and other board positions. In almost half of FTSE 100 companies the CEO is eligible for a higher potential annual bonus payout than other executive directors and in around half may be awarded a higher potential long term award. In a third of companies the CEO may get both a higher bonus and a higher long term award. The median level of potential payouts in both annual and long term incentive plans has increased, widening the gap between the overall level of remuneration potentially receivable by the CEO compared with the CFO and other board members. It is worth reflecting on whether this increasing gap is always necessary and helpful to long term business success and stewardship.

There is a wealth of research which suggests that there is less risk in appointing an internal successor to the CEO and that internally promoted CEO's are likely to perform better and remain in post for longer. There is also little doubt that generally internal appointments cost less than those made from outside. As investors are increasingly looking for evidence of long term stewardship they are focusing particularly on the issue of succession planning. The quality of board succession planning has been identified by the Financial Reporting Council (FRC) as a key priority for the coming year and we expect a discussion paper to be published in the near future.

On a more positive note, the generally high level of support for remuneration arrangements is almost certainly attributable to the continuation of a number of trends we identified last year.

Incentive plans with time horizons longer than three years (including longer performance periods and further holding periods) continue to become more common with almost 60% of companies now in this category compared to around 50% last year. It is also worth noting that in almost 40% of performance share plans participants will not receive any shares for at least five years, which has increased from around a quarter of plans last year.



The 2015 UK Corporate Governance Code included new provisions on clawback and malus provisions and of those companies reporting since the new Code was published over 80% now appear to be in full compliance with these provisions.

In all but one company (and in this case the executive directors are already large shareholders) formal shareholding requirements are either currently in place, or will be introduced during 2015. 15% of companies increased the level of shareholding to be maintained by executive directors, with almost 20% of companies increasing the level for the CEO.

Last year we talked about simplification and noted a significant number of companies removing deferred bonus matching arrangements. More companies have followed suit this year and only around one in five now operate more than one long term incentive plan for executive directors which compares with almost half of companies two years ago. It is worth noting that the Investment Association have put together a working group to come up with proposals for a 'radical simplification' of executive pay, on the basis that there is a strong body of opinion that pay structures have become too complex. Proposals are expected to be published in the Spring of 2016 and we encourage companies to contribute to this review.

These are all encouraging signs that companies are responding to shareholder concerns. However, we continue to see high levels of concern over the linkage between bonus payouts and performance. Median bonus payouts are slightly higher, at 73% of maximum potential, this year than last year. It is striking that the median payout has only fallen below 70% of the maximum potential once in the last ten years, despite the fact that the potential has increased over this period. While the disclosure of performance measures and targets and the extent to which these have been achieved has undoubtedly improved this year, there have still been significant concerns over the degree to which the bonus payouts have been adequately justified in the disclosures in many companies. Remuneration committees should continue to focus both on the target setting process to ensure targets are appropriately stretching and on the disclosure of these targets in relation to the payouts. We expect increased scrutiny from investors on this aspect in the 2016 AGM season.

We continue to believe that the new disclosure regime and the increased level of dialogue between companies and their shareholders has had a positive impact overall both on the quality of disclosure and on the structure of remuneration policies. Perhaps the potential downside of the increased focus on disclosure and the introduction of a binding vote is an increased conformity of arrangements. This may result in remuneration arrangements that are less likely to be designed to properly support the business strategy. We hope that over the next twelve to 24 months the trust between companies and their shareholders will develop to the point where companies will have the confidence and support of shareholders to implement arrangements that are right for the business rather than arrangements which tick all the boxes.

**Stephen Cahill**

Deloitte LLP

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# 2. Main findings

## Base salary

44% of executive directors in top 30 companies and 21% in companies ranked 31 – 100 received no increase.

The median increase is 2.2% in 2015.

18% of executive directors received increases in excess of 3%, which is similar to last year.

## Shareholdings

98% of companies have formal shareholding requirements.

The median shareholding requirement remains at 200% of salary. Over half of the top 30 companies require shareholdings of 300% or more.

Over half of top full time executive directors and around a third of other executives hold shares worth more than 500% of salary.

## Pension

13% of executive directors currently participate in a defined benefit plan which is similar to last year. This remains slightly higher in top 30 companies. Only 2% of FTSE 100 companies would offer a defined benefit plan to new appointments.

Typical contributions to defined contribution or personal pension plans, or pension allowances are between 20% and 30% of salary with a median of 25% for executive directors (28% of salary for the top full time executive).

## Clawback/malus provisions

Provisions are now in place in relation to both annual and long term incentive plans in around 90% of companies. Of companies reporting since the revised Corporate Governance Code, around 80% are fully compliant.

## Annual bonus

Median level of bonus opportunity remains at 150% of salary in FTSE 100 companies and at 180% of salary in the top 30 companies.

Bonus payouts were higher than last year in the top 30 companies (median 72% of maximum) but at a similar level in companies ranked 31 – 100 (median 75% of maximum).

The remuneration committee used discretion to reduce the level of bonus paid in only two companies this year, compared with eleven last year.

Non-financial measures are included in over 80% of plans typically accounting for around 15% to 20% of the bonus.

Bonus matching plans continue to disappear. A straightforward bonus deferral is now in place in 69% of FTSE 100 companies which includes 87% of finance & property companies, 66% of industrial & manufacturing companies and 60% of retail & services companies.

## Longer time horizons

51% of performance share plans now include a further holding period for at least part of the award. 10% of plans have a performance period longer than three years.

In 38% of plans participants will not receive any shares for five years from award.

## Shareholders

82% of companies received more than 90% of votes in favour of the annual remuneration report. Support has increased in top 30 companies, but remains lower than for the FTSE 100 as a whole.

## Long term incentives

Most companies operate a performance share plan. Executive directors are now regularly granted options in only 11% of companies.

Participation in more than one long term incentive plan has decreased significantly, down to 21% from 29% last year.

Median potential performance share award remains the same at 300% of salary in the top 30 companies and 200% in the companies ranked below this.

Over 80% of plans now incorporate measures other than TSR and EPS.

Vesting of 2012 PSP awards to date is lower than in recent years with median vesting of just 30% of maximum compared with 41% for 2011 awards and 54% for 2010 awards.

## Non-executive fees

Around 60% of companies are not increasing NED fees in 2015, rising to over 80% of the top 30 companies.

Typical fee levels for non-executive directors:  
Top 30 companies – between £73,000 and £93,000, median £83,000  
Companies ranked 31 – 100 – between £55,000 and £68,000, median £60,000.

Typical fee levels for the chairman:  
Top 30 companies – between £497,500 and £702,500, median £647,500  
Companies ranked 31 – 100 – between £279,000 and £400,000, median £350,000.

In companies ranked 31 – 100, the median fee for chairing the remuneration committee is £15,000 and £17,500 for the audit committee. In the top 30 companies this increases to £28,000 and £30,000 respectively.