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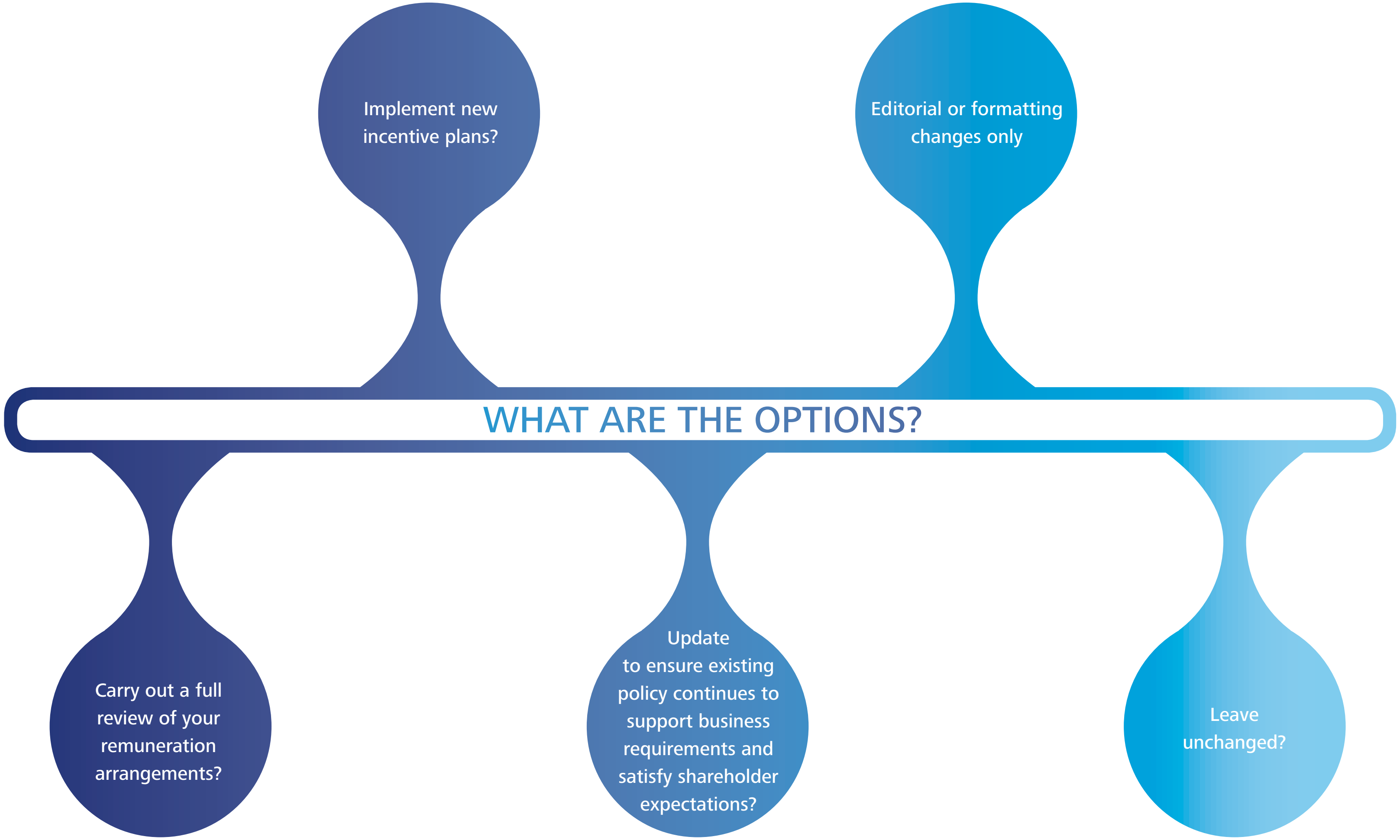
Second time around
Renewing your remuneration policy

March 2016

We can help you prepare a revised Directors' Remuneration Policy for shareholder approval

Introduction

Companies are required to obtain shareholder approval for their Policy at least once every three years – for many of you that means you will be seeking shareholder approval for your policy in the next twelve months.



Reviewing your remuneration framework

The Investment Association ("IA") have been undertaking a review focusing on how executive pay could be simplified. Their conclusions are expected to be published later in the year and may have an impact on the design of executive remuneration structures.

The three year renewal of your Directors' Remuneration Policy is the perfect opportunity to take a step back and make sure your remuneration framework effectively supports the delivery of your business strategy and the creation of shareholder value. The intention is likely to be that this policy will be in place for the next three year period so it is worth spending the time to get it right.

Alongside this you will want to make sure that you are getting your key messages across to your shareholders in a clear and unambiguous way. Disclosure has improved but there are always areas where communication could be better.

We can work with you to undertake a strategic review of your remuneration policy to ensure that it will support your business for the next three years.

Framework
- → Does the reward framework support your business strategy? Can this be articulated?
- → Could the reward framework be simplified to enhance understanding and buy-in from participants and shareholders?

Timeframe
- → Is the timeframe over which both short and long-term reward is delivered appropriate for your business?

Performance measures
- → Do the performance measures for both your annual and long-term incentives support the delivery of your strategy?
- → Do the annual bonus measures include measures which relate to the key goals for the year?
- → Do the LTIP measures reflect the company's longer-term strategic objectives?

Reward levels
- → Are reward levels appropriate?

Shareholder expectations
- → Does the remuneration framework include appropriate best practice features?
- → Do you have malus and clawback provisions in place? Have you considered how these would operate in practice?
- → Have you considered including holding periods?
- → Do shareholding guidelines operate? Are these at an appropriate level?

Wider employee population
- → Have you considered and adequately disclosed differences between the remuneration policies in place for employees and directors?
- → Have you fully explained how the pay and employment conditions of employees were taken into account when determining the policy for Executive Directors?

Simplification
- → Are there elements of reward which could be simplified reflecting shareholder feedback?

Policy report

Our team has in-depth experience of working with companies to draft the remuneration policy in a way which balances the need to reassure shareholders that the policy is appropriate while retaining flexibility to deal with unforeseen circumstances.

Key areas of focus

Policy changes

- You are required to disclose changes in policy. There are many ways in which you can summarise any changes in a clear and easily digestible manner:
  - Providing a summary of the changes and the rationale for these at the start of the policy. Including a well laid out table can be helpful.
  - Including an additional column in the policy table which summarises any changes.
- The best approach for you may depend on the scale of changes to the policy.
- We can help you decide what the most appropriate approach is for you.

Salary policy

- Most companies do not state the maximum salary that may be paid.
- It is our view that including a maximum is likely to lead to salaries drifting towards that level.
- You should be comfortable that the policy provides sufficient 'constraints' when awarding salary increases while at the same time allowing for any necessary flexibility to deal with specific circumstances.
- Full details of the rationale for any salary increases awarded should always be provided in the annual report on remuneration.

Performance measures for long-term incentives

- You need to consider very carefully how you draft the details of the performance measures.
- One of the most common reasons for companies needing to update the policy before three years was to make changes to the performance measures.
- It should be possible to find the right balance between providing details and flexibility to satisfy shareholder expectations to avoid having to seek shareholder approval for an updated policy.

Malus & clawback

- The UK Corporate Governance Code now requires companies to include 'malus and clawback' of variable pay for executive directors.
- Many companies have updated the malus and clawback policies and need to ensure that these are fully described in the revised policy.
- If you are not yet fully compliant with these provisions you should review and decide whether to change the policy or whether to explain any areas of non-compliance.

Exit and recruitment

- First time around the leaving and recruitment policies were two of the most challenging areas to draft. They were also the areas which received the most scrutiny from shareholders.
- In our experience, not all companies fully captured all payments they might want to make, for example, legal fees or outplacement counselling. Not all companies provided flexibility to enter compromise agreements.
- You should review the current leaving policies to ensure they provide the right degree of flexibility to cover all payments you may want to make.
- You will also want to review the recruitment policy to ensure it remains appropriate.

Payments which are consistent with previous policies

- Companies typically include a provision in their policy to allow for payments outside policy where payments were agreed before an individual joined the board or before a policy was approved.
- This provision should be updated to allow for payments to be made which were consistent with the policy when the payment was agreed even where not consistent with the prevailing policy.

Shareholding guidelines

- Although not a requirement many companies include details of any shareholding guidelines in the policy on the basis that it logically fits as part of the overall policy on shareholder alignment. Some shareholders will expect this information to be disclosed as part of the policy.
- But in order to avoid inadvertently breaching the policy (for example, executives could fall below the shareholding guideline due to a fall in share price), it is essential to draft this section appropriately.

Employees – differences in policy, consideration of employment conditions and consideration of shareholder views

- The view from some investors is that disclosure in all of these areas tends to be boiler plate. When renewing their policies you may want to consider how you can improve disclosure in this area.
- One of the challenges is that this disclosure may be specific to a particular year and therefore may be out of date in subsequent reports.
- An option would be to include a general overview of policy in these areas and provide more details in the annual report on remuneration.

NED benefits policy

- Although NEDs typically do not receive employee benefits in a conventional sense, HMRC are currently focussed on whether certain reimbursed expenses constitute "taxable benefits" under the UK tax regime.
- Not all companies have flexibility under the policy to deliver such taxable benefits to NEDs and therefore a review of the policy may be required.
- Companies should review their approach to reimbursing NED expenses to ensure that the treatment is appropriate and complies with relevant tax requirements as well as ensuring that "taxable benefits" are disclosed correctly in the single-figure.

Contextual information

- Most companies include the policy report, or a summary of the report, in future remuneration reports in the years in between implementing a new policy.
- You may want to consider how much and how detailed any further contextual information should be provided in the policy (such as including details of implementation in the following period) with a view to how the policy will be disclosed in the following years.

New share plans?

Where new share plans are likely to be required in the next two to three years it may make sense to implement them in the same year that approval for a revised policy is being sought. This ensures that the rules of the plan are aligned with the policy.

We can advise you in relation to the drafting and implementation of new share plan rules.

Annual remuneration report

Alongside the new policy report, the annual remuneration report must also be updated. In the years since the new requirements came into force many companies have left the format of the annual remuneration report largely unchanged, updating the details to reflect the current year.

The three year review and update of the remuneration policy is also the ideal time to review this section of the report and to ensure that this is consistent with shareholder expectations and written in a way which complements the new remuneration policy, providing the detail and rationale for how the policy has been implemented.

Areas to consider

Implementation of policy in next financial period	Retrospective disclosure of performance targets	Single figure table
• Is sufficient detail included for shareholders to be clear on how the policy will be operated? • Include in a separate section, front or back of the report or include details throughout the report? • Would a summary table showing current and future implementation be helpful? • Ensure the rationale for any changes is clear.	• This will be the key focus for investors – detailed disclosure of the targets are expected and any failure to disclose the full details will need to be explained. • There are many ways in which this information can be effectively disclosed but it must be clear and comprehensive and demonstrate the link between pay and performance.	• Ensure all relevant supporting information is contained in the notes to the table. • Review the format of the table and consider whether any improvements could be made.

Date for your diary

Please join us at one of our breakfast seminars:

19 May 2016 – 8.45am to 10.15am

16 June 2016 – 8.45am to 10.15am

21 July 2016 – 8.45am to 10.15am

If you would like to attend one of the seminars please contact Amber Jackson (amjackson@deloitte.co.uk / +44 20 7007 3925).

We are holding seminars to discuss implementing revised remuneration policies.

Contacts

If you would like further information please do not hesitate to contact any of the names below:

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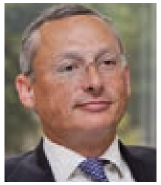

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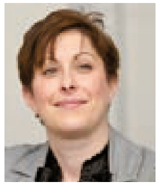

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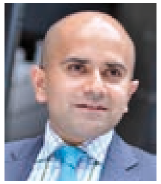

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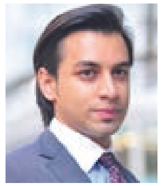

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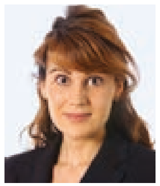

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