Directors’ remuneration report

Guidance on the implementation of the new regulations

The GC100 and Investor Group have released updated guidance on directors’ remuneration reporting.

The guidance, released in September, was developed by representatives of the Corporate Governance Forum (an informal network of leading UK Institutional Investors) and the association for the general counsels and company secretaries of companies in the FTSE 100 (GC100). The revised guidance includes a number of relatively small changes. The expectation is that further changes may be made as the guidance evolves over the coming months.

The changes are:

Introduction
Section 1.1 now clarifies that the regulations came into force on 1 October 2013 and apply to existing quoted companies in their first financial year to commence on or after that date.

The single total figure of remuneration
Section 3.1 now includes a new section on pension benefits in relation to the single figure which states that the total value of pension related benefits must be included in the single figure table and that this includes pension accrual, pension funding by the employer and payments in lieu of pension provision. The guidance notes that the Regulations specify the valuation method for benefits except payments in lieu.

Section 3.2 – the section on total pension entitlements has been expanded to clarify that the notes to the single figure table should include a director’s prospective pension entitlements under any defined benefit or cash balance plan at the end of the year assuming the earliest possible voluntary retirement without consent or reduction of pension. The guidance suggests that companies may wish to consider summarising these rights as the transfer value which is concise and allows comparisons across different types of arrangement.

Section 3.3 – the section on the performance period has been revised to clarify that the end of the performance period is often referred to as the vesting date. Although unchanged from the previous version of the guidance, it is worthwhile noting that while the regulations only require the disclosure of the last vesting date, the guidance suggests that companies should consider disclosing the vesting schedule (e.g. staggered vesting over three years).

Restrictions on remuneration and loss of office payments

Section 4.1.1 has been expanded to make it clear that companies need to ensure that they will be able to honour payments linked to commitments made before the policy came into effect and before the restrictions were applicable. The guidance also makes it clear that in addition to a general statement to deal with grandfathering payments, the future policy table should still include a reference to these arrangements.

Illustrations of the application of the remuneration policy

Section 4.8 - the paragraph relating to how market priced option awards should be disclosed in the bar charts has been amended so that the same treatment should apply whether these awards are determined as a percentage or multiple of salary, or as a fixed number of shares. In both cases the amount included in the chart should be based on the face value of the award and an appropriate option valuation methodology but should not take account of performance hurdles.

The revised guidance can be found:

http://uk.practicallaw.com/groups/uk-gc100-investor-group

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