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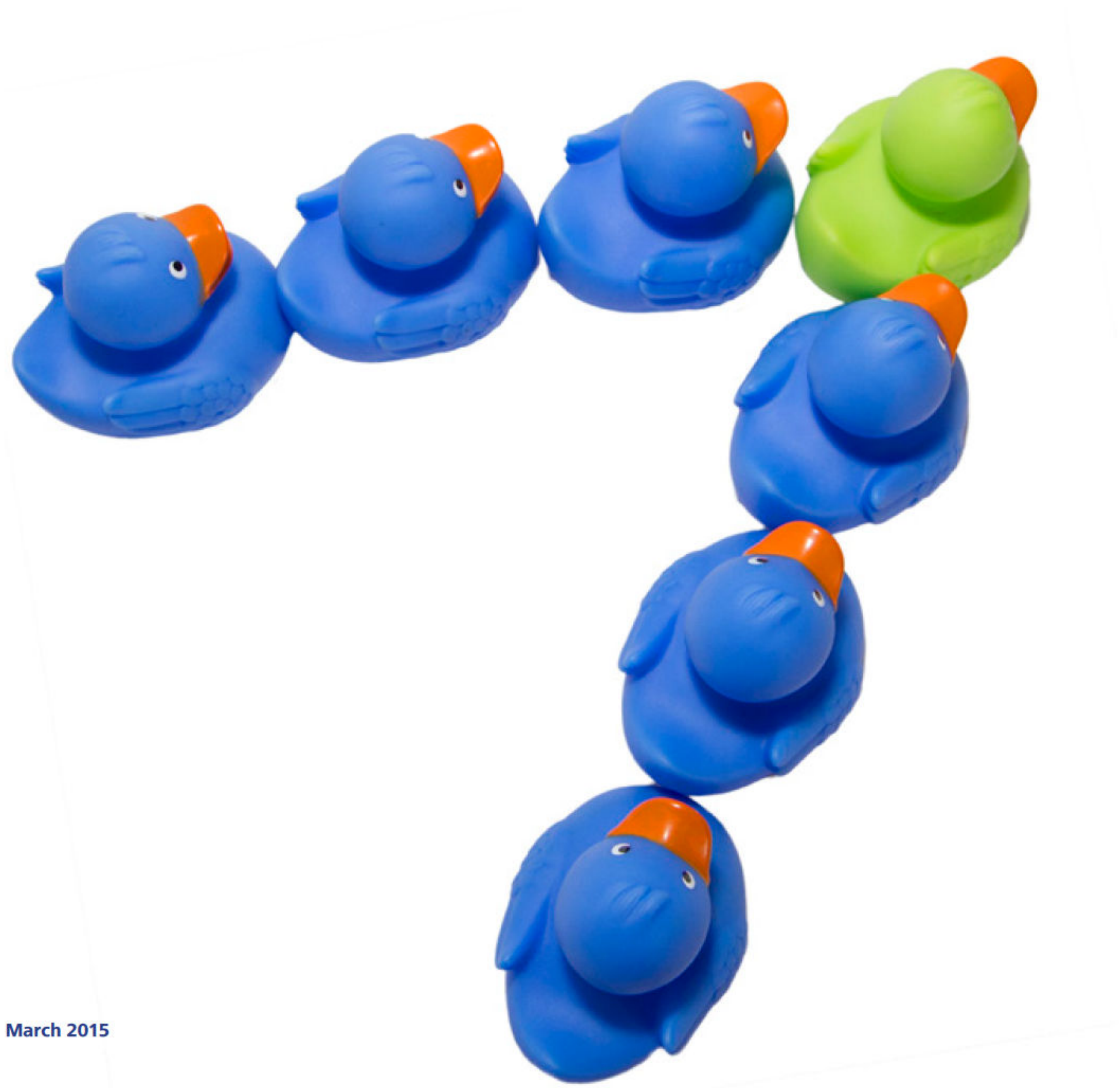
Directors' remuneration in smaller companies



March 2015

Overview from Juliet Halfhead

The new remuneration disclosure and voting regulations for companies are now in place and have resulted in a busy time for companies managing the complexities of the legislation and a complete redrafting of their remuneration reports. During the 2014 AGM season, the primary focus was on the FTSE 100 and the expectation that they should be leading the way on best practice. The chief areas of criticism were around limited bonus target disclosure, too much flexibility in the recruitment policy and salary increases above the wider employee population. Investors expect to see a clear link between business strategy and remuneration policy as well as between the performance of the business and how this has translated into pay. Shareholders continue to encourage companies to use the Chairman's letter to articulate this clearly and succinctly.

The focus has turned more widely to the FTSE 350 now, with a number of the institutions setting out their expectations on holding periods, shareholding guidelines and, most recently, contract periods. Inevitably these expectations will influence practice across the FTSE SmallCap – our analysis shows that two thirds of FTSE SmallCap now have formal shareholding guidelines and c.12% of companies have introduced an additional holding period post vesting into their LTIP and we expect this trend to continue.

Similarly FTSE 350 emerging practice on the introduction of malus and clawback is influencing SmallCap policy. Under the new Combined Code, companies are required to comply or explain as to whether they have malus and clawback provisions applying to their variable pay arrangements. In practice, most listed companies are choosing to comply rather than explain non-compliance with these requirements.

Indeed, practice in the main market is also increasingly having an impact on AIM companies. Based on our experience the larger AIM companies who wish to adopt some of the governance expectations of a fully listed business are seeking to introduce remuneration structures more akin to those of the main market, to seek advisory votes at their AGM in respect of their remuneration reports and to engage in shareholder consultation on proposed changes to remuneration. Certain institutions are actively encouraging these changes in behaviour and approach.

We anticipate that 2015 will continue to be a busy year for Remuneration Committees across both the main market and for larger AIM companies.

Juliet Halfhead
Deloitte LLP
March 2015

2. Main findings

Base salary

Median salary increase for 2014 was around 2.5% for chief executives and 2.8% for other executives

Around a quarter of companies gave no salary increase to executive directors in 2014

A third of chief executives received no salary increase in 2014

The level of increase did not vary by industry sector but more companies in the retail and services sector gave no salary increase to executive directors

Incentives

Little change to the incentive potential in annual or long term plans – median bonus and median PSP awards remain at 100% of salary

Two thirds of companies now operate clawback or malus provisions (50% last year). Only 20% of companies can recover cash bonuses paid and only around a quarter can recover shares already vested

12% of all performance share plans now include an additional holding period post vesting

23% of companies introduced a new PSP during the year

Pension

No FTSE SmallCap company continues to offer defined benefit pension arrangements to new appointments.

The typical contribution to a defined contribution plan, personal pension plan or pension allowance is between 10% and 20% of salary with a median of 15%

Contributions do not typically vary for the chief executive

Shareholdings

68% of companies have specific shareholding requirements in place compared with 59% last year

The usual requirement is one times salary but almost a fifth of companies require executives to hold more than this, and almost 30% have a higher requirement in place for the chief executive

Non-executive fees

Almost 60% of non-executive directors and around 65% of chairmen received no fee increase in 2014

Typical fee levels for non-executive directors in FTSE SmallCap companies are between £36,000 and £45,000 with a median of £40,000

Typical fee levels for the chairman of a FTSE SmallCap company are between £100,000 and £150,000 with a median of £124,500

Shareholders

87% of companies received more than 90% of votes in favour of the annual remuneration report. 77% received more than 90% in favour of the policy report