

Happy new year to all our clients and contacts in the executive reward community.

2018 is expected to be a busy year, as many companies prepare how they will respond to the new UK Corporate Governance Code from 1 January 2019 (consultation on the draft Code closes on 28 February and the final Code is expected in Summer 2018). New reporting legislation is also expected from the Government in early 2018.

Here are **five hot topics** that are likely to be on the agenda for **remuneration committees and HR teams** in the coming year, as well as some **key dates for your diaries**.



The Remuneration Committee – a broader remit

The draft UK Corporate Governance Code is set to widen the remit of Remuneration Committees, with responsibility for overseeing 'remuneration and workforce policies and practices' across the organisation. This is expected to include policies such as recruitment, training and development, reskilling and flexible working. Committees will be required to **report on their work** in this area, and we expect a focus on **finding practical solutions** to fulfilling these responsibilities over the coming year.

Potential approaches may include endorsing a set of **common principles for pay and reward** across the organisation, against which the Committee will monitor application and progress each year. To enable Committees to make assessments of how wider employee arrangements align with company values as well as executive reward, clear and concise **internal reporting** on workforce policies will be required.

We expect that companies will wait until the final Code is published before re-visiting the committee **terms of reference** and agreeing how they will respond.



Use of discretion – approving remuneration outcomes

In what circumstances does the Remuneration Committee expect to exercise discretion over formulaic remuneration outcomes? Recent examples have shown the importance of getting this right, and a new Principle in the draft Code states that the board should exercise judgement and discretion when approving pay outcomes, taking into account **company and individual performance**.

This discretion may be broader than provisions under current incentive plans. The guidance to the draft Code also suggests that Remuneration Committees should 'consider whether a cap on executive reward is appropriate, and be prepared to explain the rationale behind its decision', and we expect some interesting debate as committees consider their existing approach in this area. We are seeing some committees develop a **set of guidelines** on the use of discretion, to be applied going forward.



Pay ratios - early voluntary disclosure?

Government legislation out this year is likely to include a requirement for companies to publish pay ratios between CEO and the average employee, and in their recent updated guidelines, the Investment Association have called for early voluntary disclosure in this area. Most companies are expected to start looking at their ratios when details of the **pay ratio methodology** are published, expected in Q1 of 2018, with the majority waiting to publish their disclosures in the required timeframe.

So **how will pay ratios be used**? Companies and investors are likely to look at comparisons within industries and year-on-year movements to consider positioning. Ratios are also expected to be used as a tool for engaging with employees on fair pay issues, and therefore as with gender pay, the accompanying **narrative will be key**.



Workforce engagement – finding the best route forward

In addition to establishing a method for gathering views of the workforce (normally via a designated NED representative, an employee on the Board or workforce panel), the draft Code states that companies should **report on what engagement has taken place with the workforce** to explain how executive remuneration aligns with the wider company policy.

The 'right' approach will vary by company, but we expect to see organisations looking now at **how they connect with employees** with a view to strengthening their position in this area, in order to be ready for 1 January 2019.



Pensions – alignment across the workforce

In 2017 we saw a number of companies report a reduction in the pension allowance for new executive appointments, following some shareholders expressing concern around executive pensions more generous than those available to the general workforce. The new draft Code makes reference to **alignment between executive and workforce pension arrangements**, and for all new appointments companies should be looking at its position in this area, with further reductions in executive pension policies expected going forward.

Key diary dates



Government expected to publish **secondary legislation** following August 2017 White Paper



Gender pay reporting deadline
(30 March for public sector)



Government **secondary legislation** expected to come into effect (see above).



Financial Reporting Council expected to publish final **UK Corporate Governance Code** (consultation closes 28 February)



New UK Corporate Governance Code expected to apply for accounting periods beginning on or after 1 January 2019

Updated reporting requirements expected to include:

- Pay ratios
- Scenario reporting (e.g. range of potential remuneration outcomes)
- S172 - directors responsibilities and stakeholder interests

Companies with more than 250 employees required to submit figures to Portal and publish disclosures on website

Key events timeline



Publication of 2018 AGM season update - directors' remuneration in FTSE 100 companies



Deloitte Annual Remuneration Strategy Conference



Launch of Deloitte 'Your Guide' - directors' remuneration in FTSE 100 and FTSE 250 companies

Stephen Cahill
Vice Chairman
020 7303 8801
scahill@deloitte.co.uk

Helen Beck
Partner
020 7007 8055
hebeck@deloitte.co.uk

William Cohen
Partner
020 7007 2952
wacohen@deloitte.co.uk

Sally Cooper
Partner
020 7007 2809
sgcooper@deloitte.co.uk

John Cotton
Partner
020 7007 2345
jdcotton@deloitte.co.uk

Nicki Demby
Partner
020 7303 0083
ndemby@deloitte.co.uk

Anita Grant
Partner
011 8322 2861
anigrant@deloitte.co.uk

Juliet Halfhead
Partner
0121 695 5684
jhalfhead@deloitte.co.uk

Nick Hipwell
Partner
020 7007 8647
nhipwell@deloitte.co.uk

Rob Miller
Partner
020 7007 9631
robemiller@deloitte.co.uk

Mitul Shah
Partner
020 7007 2368
mitulshah@deloitte.co.uk

David Cullington
Director
020 7007 0899
dcullington@deloitte.co.uk

Clare Edwards
Director
020 7007 1997
clareedwards@deloitte.co.uk

James Harris
Director
020 7007 8818
jamesharris@deloitte.co.uk

Sonia Jenkins
Director
020 7007 2115
sojenkins@deloitte.co.uk

Katie Kenny
Director
020 7007 2162
katkenny@deloitte.co.uk

Dennis Patrickson
Director
020 7007 1996
dpatrickson@deloitte.co.uk

Ali Sidat
Director
020 7007 2818
asidat@deloitte.co.uk

Julie Swann
Director
012 1695 5081
jswann@deloitte.co.uk

Shona Thomson
Director
020 7303 4965
sthomson@deloitte.co.uk

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2018 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0)20 7583 1198.