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Overview from Mitul Shah

It has been a year since the Government announced its intention to implement a package of corporate governance reforms designed to "maintain the UK’s reputation for being a ‘dependable and confident place in which to do business’," and in recent months we have seen details of how these will be effected.

The new UK Corporate Governance Code, to take effect for accounting periods beginning on or after 1 January 2019, includes some far reaching changes, and the year ahead will be a period of review and change for many companies. Remuneration committees must look at how best to adapt to an expanded remit around workforce remuneration, as well as a greater focus on how judgment is used to ensure that pay outcomes are justified and supported by performance.

Against this backdrop, 2018 has been a mixed year in the FTSE 250 executive pay environment. In terms of pay outcomes, the picture is relatively stable. Overall pay levels have fallen for FTSE 250 chief executives and we have seen continued momentum in companies adopting executive alignment features such as holding periods, as well as strengthening shareholding guidelines for executives. Indeed, these should now be seen as ‘normal’ practice rather than ‘best practice’.

Around 10% of companies received ‘low votes’ on the remuneration report (less than 80% of votes in favour). Three companies lost a shareholder vote on remuneration, compared to one last year. All three of these companies received low votes on remuneration last year, highlighting the importance of remuneration committees engaging effectively with investors, and demonstrating that they are listening to, and acting on, the concerns of their shareholders. We are also seeing evidence that shareholders and proxy agencies now expect the same standard of disclosure and engagement as the larger FTSE 100 companies.

Notwithstanding this, general levels of shareholder support remained high, with a median vote of 97% for the annual remuneration report, and we have seen a number of positive moves from remuneration committees during the year. 17 companies reduced executive pensions (primarily for new hires) to provide better alignment with arrangements for the workforce, following a trend in the FTSE 100, and we expect this to accelerate further as a result of changes to the UK Corporate Governance Code. Incentive opportunities, which increased last year are relatively unchanged, perhaps reflecting the fact that it has not been a ‘policy year’ for the majority of companies.

We have also seen signs that shareholders can be supportive of more innovative incentive arrangements, when tailored in the right way and supported by a business rationale. Two FTSE 250 companies received the support of their shareholders in adopting restricted share plans. The new UK Corporate Governance Code Guidance on Board Effectiveness states that ‘remuneration committees are encouraged to be innovative and to work with shareholders to simplify the structure of the remuneration policy’. Going forward we hope that this trend will continue, and businesses are able to adopt a less ‘one size fits all’ approach to rewarding executives.

There continues to be a focus on themes of long-term accountability and executive alignment. Most notably, in 74% of long-term incentive plans, participants will receive no shares until the fifth anniversary of the award, compared to 29% of plans two years ago, when the typical time horizon was three years. This practice is now aligned with the FTSE 100 market, and is a trend we expect to see move further with the introduction of new requirements under the UK Corporate Governance Code.

1 Government Green Paper August 2017
So what have been the remuneration trends over the last year?

*Salary increases* – the median salary increase remains at around 2%, with over one-third of chief executives receiving no salary increase.

*Annual bonus out-turns* – the median annual bonus payout was 75% of the maximum opportunity, slightly higher than in the last two years (68% in 2016, 72% in 2015).

*Long-term incentive vesting* – the initial indication is that the vesting of performance share plan awards was lower than last year. The median vesting of performance share plan (PSP) awards was 48% of maximum, compared to 50% – 60% in recent years. There was zero vesting in nearly one-third of plans.

’S’ – we have seen a slight decrease in the median FTSE 250 chief executive ‘single figure’ total remuneration to £1.68m (£1.75m in 2016), while the median total pay for top 50 chief executives increased to £2.3m (£2.0m in 2016).

*Reduced pensions for new hires* – 17 companies have effectively reduced executive pensions in the last year, predominantly for new hires, reflecting a growing trend in the FTSE 100. We expect this trend to accelerate following recent changes to the UK Corporate Governance Code.

As shown above, the general trends paint a relatively stable picture, so what have been the key areas of shareholder dissent?

We have seen a particularly hard stance taken on those companies failing to address the concerns of shareholders – around one-half of companies receiving ‘low votes’ on remuneration resolutions this year also received low votes last year, and the Investment Association has recently announced that it will be developing proposals to specifically address the problem of ‘repeat offenders’.

There have also been a number of low votes relating to pay arrangements for new hires, in particular where fixed pay and/or incentive opportunities are set at a level higher than the predecessor. Annual bonus plans continue to be an area of focus, and we have seen investors take a tough stance on inadequate disclosure of performance targets, as well as lack of clarity around how bonus arrangements operate. These issues are often exacerbated by targets which are not considered to be sufficiently stretching, or where overall awards are excessive (e.g. uncapped arrangements).

In the coming year, executive versus workforce pay is set to be firmly under the spotlight, and now more than ever, politicians, investors and the public expect remuneration committees to understand their workforce – how it is comprised, rewarded, and incentivised. We expect to see a number of companies voluntarily ‘go early’ in publishing their chief executive to employee pay ratios, as remuneration committees adopt a broader remit including how success sharing opportunities are implemented across the workforce. In our view, this is a positive move that will broaden the lens through which executive pay decisions are made.

**Mitul Shah**  
Partner  
Deloitte LLP  
October 2018
1

Introduction
1. Introduction

This report is one of two volumes. This volume, Directors’ remuneration in FTSE 250 companies, provides detailed analyses of data on basic salary, salary increases, annual bonus payments and details of annual and long term incentive design, pensions, notice periods, exit and recruitment policies, other aspects of remuneration policy and non-executive director fees in FTSE 250 companies. The volume covering FTSE 100 companies is also available – please email executiveremuneration@deloitte.co.uk if you would like a copy.

This report is based on information available in the annual report and accounts of companies in the FTSE 250, as at 1 July 2018 excluding 57 investment trusts (49 in 2017). One company did not disclose sufficient information to include in the analyses, so has been excluded. There are therefore a total of 192 companies included in this 2018 report compared with 201 last year.

The report covers companies with financial year ends up to and including 28 February 2018.

Using the data

This report is intended to provide you with a guide to current levels of remuneration and the design of the different components of remuneration packages. Where possible, we have included analyses based on what companies are planning for the next financial period (i.e. for financial periods ending in 2018 or 2019). However, it is important to note that some of the information is based on information disclosed in remuneration reports relating to financial periods ending on, or after, March 2017 and therefore the analyses do not always fully reflect the current trends.

When using the report we would strongly recommend you consult your advisers on the interpretation of the data and its relevance to your particular circumstances.

We have provided information on remuneration levels primarily by company size based on market capitalisation. There is a clear correlation between salary levels and the size of a company, and this provides a useful starting point in the benchmarking process. However, there are a number of points to bear in mind:

- The analyses cover all companies in the FTSE 250 (excluding investment trusts) and you will need to consider whether a more specific comparator group would be more relevant.
- The analyses are shown by market capitalisation bands and you will need to make a judgment on where your company falls within this band and how to interpret the data in order to take this into account.
- You should be aware of the impact that volatility in financial markets has on salary benchmarks. Significant changes in the market capitalisation of particular companies or sectors may mean that comparator groups can include companies that were substantially bigger or smaller this time last year and the salaries in place at these companies will reflect this. In volatile times, salary benchmarks must be used with caution.
- There may be very good reasons why the remuneration paid to an individual is outside the market range for a given position and it is important to assess the particular circumstances of each individual.

1 FTSE is a trademark of the London Stock Exchange Group. All rights in FTSE indices vest in FTSE International Limited. For more information visit www.ftserussell.com.
1. Introduction

Use of this report
This report does not constitute the provision of advice or services to any reader of this report, and therefore Deloitte LLP may not be named in a company’s remuneration report as having provided material assistance to the remuneration committee based solely on the use of the information provided in this report.

How we can help you
The Deloitte executive remuneration consulting practice covers all aspects of senior executive remuneration and share plan services. Our well-established team comprises over 70 professional staff including remuneration, share plan, tax and accounting specialists, actuaries and lawyers. We provide advice on all aspects of senior executive remuneration with expertise in all areas including corporate governance implementation, investor relations, accounting, legal and tax issues.

Our practice is built around an integrated model, linking all of these areas, often separated in competitor consultancies.

The experience and breadth of our practice means that we have particular strengths in the key areas of investor relations and legal implementation of incentive schemes.

We also have access to a wide knowledge base within Deloitte. This allows us to more fully understand industries and provide our clients with strategic solutions for their specific needs.

We are current remuneration committee advisers to a range of different organisations across the FTSE All Share including around a quarter of FTSE 100 and FTSE 250 companies and 15% of FTSE SmallCap companies as well as a number of AIM listed and privately owned companies.
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2
Main findings
2. Main findings

- **Pay levels and out-turns**

  **Chief executive – ‘single figure’**

<table>
<thead>
<tr>
<th>Year</th>
<th>Median</th>
<th>Upper Quartile</th>
<th>Lower Quartile</th>
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<td>2014</td>
<td>£1.75m</td>
<td>£2.5m</td>
<td>£1.0m</td>
</tr>
<tr>
<td>2015</td>
<td>£1.80m</td>
<td>£2.6m</td>
<td>£1.0m</td>
</tr>
<tr>
<td>2016</td>
<td>£1.85m</td>
<td>£2.7m</td>
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<tr>
<td>2017</td>
<td>£1.90m</td>
<td>£2.8m</td>
<td>£1.0m</td>
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</table>

  **Chief financial officer – ‘single figure’**

<table>
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<tr>
<th>Year</th>
<th>Median</th>
<th>Upper Quartile</th>
<th>Lower Quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>£1.05m</td>
<td>£1.9m</td>
<td>£0.4m</td>
</tr>
<tr>
<td>2015</td>
<td>£1.10m</td>
<td>£1.95m</td>
<td>£0.45m</td>
</tr>
<tr>
<td>2016</td>
<td>£1.15m</td>
<td>£2.0m</td>
<td>£0.5m</td>
</tr>
<tr>
<td>2017</td>
<td>£1.20m</td>
<td>£2.05m</td>
<td>£0.55m</td>
</tr>
</tbody>
</table>

  Median ‘single figure’ for a FTSE 250 chief executive fell slightly in 2017 to £1.68m, despite an increase in the median ‘single figure’ for chief executives in the top 50 companies to £2.3m.

- **Structures, policies and disclosure**

  - 17 companies reduced executive director pension provisions, primarily for new hires, following a trend seen in the FTSE 100.
  - Examples of companies receiving strong shareholder support for more innovative incentive arrangements, such as restricted shares.
  - Less than 5% of companies disclosed a pay ratio (compared to 10% in the FTSE 100).
  - Incentive levels (annual bonus and performance share plans awards) remain relatively unchanged, compared to last year.
Executive alignment

- The adoption or enhancement of ‘shareholder friendly’ features designed to align executives with long-term sustainable growth and investor interests has continued.
- This includes increases to shareholding guidelines and post-vesting holding periods.
- Following recent changes to the UK Corporate Governance Code, we expect these trends to continue over the coming year.

8 companies operate post-termination shareholding requirements (compared to one last year).

Over one-half of chief executives hold more than 500% of salary in shares.

Nearly all (93%) of chief executives are required to hold at least 200% of salary in shares.

14% of companies increased shareholding requirements in the last year.

Median actual shareholding of 580% of salary for chief executive.

Shareholder environment and voting

Annual remuneration report
- ISS issued ‘against’ recommendations for 17% of FTSE 250 companies, which is similar to last year.
- Around 10% of FTSE 250 companies received a ‘low vote’ (less than 80% of votes in favour).
- Two companies lost the shareholder vote on the annual remuneration report.

Focus on ‘repeat offenders’
- Around one half of companies receiving low votes (less than 80% of votes in favour) also received low votes last year.
- The Investment Association has stated that it will focus on ‘repeat offenders’ in the coming year.

Annual remuneration report – voting outcomes

Areas of shareholder concern
- Pay levels (e.g. fixed pay increases, exceptionally high incentive out-turns, new hire packages)
- Link between performance and payout
- Disclosure of incentive targets and reasons for payout

- The 2018 AGM season continued to be challenging for the FTSE 250, following a difficult season last year.
- Increase in the activity of proxy agencies such as ISS, as well as continued pressure on those failing to address concerns raised following ‘low votes’ in previous years.
3

The current environment

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3.2 Summary of key developments in the corporate governance and regulatory environment 17
3.3 Summary of key changes to investor guidelines 25
3.4 Regulatory changes in the financial services sector 29
3. The current environment

This section provides an update on the 2018 AGM season, a summary of key developments in the corporate governance and regulatory environment, and changes to investor guidelines.

3.1 The 2018 AGM season

The majority of FTSE 250 companies (around 80%) have now held their 2018 AGM. This represents companies with financial years ending on or after 30 September 2017 up to and including some, though not all, companies with a March 2018 year end. Around 30% of FTSE 250 companies have so far put the directors’ remuneration policy to a vote this season. This follows a ‘policy year’ last year, where around one-half of FTSE 250 companies put their remuneration policy to a shareholder vote.

Remuneration issues have continued to generate a high level of interest in the media, with three FTSE 250 companies so far failing to secure a majority on remuneration (annual remuneration report or policy), and one company achieving a vote of only just over 50%. This compares to one company losing the vote last year. All four of these companies received low votes (less than 80% in favour) on remuneration last year, highlighting the importance of remuneration committees engaging effectively with investors, and demonstrating that they are listening to, and acting on, the concerns of their shareholders. Around 10% of FTSE 250 companies received ‘low votes’ (less than 80% in favour) on the annual remuneration report this year and we are seeing evidence of shareholders and proxy agencies increasingly expecting the same standard of disclosure and engagement as larger 100 companies. Of those companies receiving less than 80% of votes in favour, one-half also received ‘low votes’ last year. This highlights the importance of remuneration committees engaging effectively with investors, that they are listening to and acting on shareholders concerns.

However, the voting statistics show a more nuanced picture than some of the headlines might suggest, and general levels of support remain high. The median vote for the annual remuneration report is around 97% in FTSE 250 companies, which is the same as last year.

3.1.1 Shareholder reaction

Two of the biggest proxy voting services are Institutional Shareholder Services (ISS), the Investment Association’s Institutional Voting Information Service (IVIS) and Glass Lewis. At the time of writing, reports had been published for 154 FTSE 250 companies.

The annual remuneration report

**ISS**

- So far in 2018, ISS has recommended a vote against the remuneration report in 17% of FTSE 250 companies compared with 13% in the 2017 AGM season. This compares with 10% of FTSE 100 companies. There is little variation by company size. ISS have recommended an abstention in two companies this year compared with one last year.

- 26% of FTSE 250 companies have so far received an unqualified recommendation to vote in favour of the remuneration report from ISS, compared with 36% last year. ISS has issued a qualified recommendation to vote in favour for 56% of companies, compared with 51% in 2017.

**IVIS**

- So far this year, IVIS has raised areas of serious concern in 5% of FTSE 250 companies compared with 9% in 2017. Half of these companies also received a vote against recommendation from ISS.

- There has been a slight decrease in the proportion of FTSE 250 companies where no concerns have been raised from 44% last year to 41% this year. This compares with almost half of FTSE 100 companies.
Glass Lewis

- Glass Lewis recommendations are only available for 2017/18. In 2017/18, Glass Lewis issued recommendations to vote against the annual remuneration report in 10% of FTSE 250 companies.

The charts below illustrate the voting recommendations for the annual remuneration report vote in the last five years for the whole of the FTSE 250 and the top 50 companies.

Voting recommendations – annual remuneration report
(2017/18 includes proxy voting reports published for meetings held up to 31 July 2018)

The policy report

- So far, around 30% of FTSE 250 companies holding AGMs have sought shareholder approval for a revised remuneration policy report this season.
- Overall, 20% of companies have received a negative voting recommendation from either ISS or IVIS so far:
  – ISS has recommended a vote against the remuneration policy in eight companies.
  – IVIS has raised serious areas of concern in relation to the remuneration policy in two companies.
Key issues leading to negative voting recommendations

- **Increases in pay levels** – shareholders continue to raise concerns around decisions that lead to significant increases to executive directors’ pay. This includes significant increases to salary, variable incentive opportunities, and the grant of incentive awards at a similar level to the previous year despite a fall in the share price.

- **Pay arrangements for new hires** – fixed pay and/or increases in incentive opportunities in respect of new hires, where these are higher than those of the predecessor.

- **Annual bonus arrangements** – investors continue to take a tough stance on inadequate disclosure of performance targets, as well as lack of clarity around how bonus arrangements operate. These issues are often exacerbated by targets which are lower than those set previously or are considered to be insufficiently stretching, or where overall awards are considered excessive (e.g. uncapped arrangements).

- **Focus on short term performance** – investors are generally uncomfortable where the remuneration arrangements are too heavily weighted towards one year performance.

- **Link between performance and pay** – investors pay close attention to payouts to ensure that they are aligned with wider business performance. There is a clear expectation that remuneration committees should set appropriately stretching targets and exercise appropriate discretion in order to ensure that incentive outcomes and awards reflect the wider performance of the business and align with shareholder interests.
3.1.2 Voting in the 2018 season so far

The annual remuneration report

Overall, the level of shareholder support for the remuneration report in 2018 is similar to that seen over the past five years and remains high. The number of companies receiving a low vote has remained at a level similar to last year.

- The median vote for the report is around 97% in FTSE 250 companies, which is the same as last year.
- To date in 2018, 79% of FTSE 250 companies received more than 90% of votes in favour of the directors’ remuneration report. This is slightly lower than last year at 81%.
- Around 10% of companies have received votes in favour of less than 80%, which is the slightly less than last year. Of these companies, one half were ‘repeat offenders’, also receiving low votes last year.
- Two companies have so far failed to secure a majority for the annual remuneration report, with one further company scraping through with a vote of just over 50%. Last year saw one company fail to gain support for the report.

Proportion of votes in favour of the annual remuneration report 2013 – 2018
(2018 includes meetings held up to 31 July 2018)

The following charts illustrate the proportion of shareholders voting in favour for each company and how this relates to the colour coded IVIS reports from the Investment Association and to the proxy voting recommendations of ISS and Glass Lewis. As we have noted in previous years, we see a high correlation between the voting recommendations from ISS and the voting outcome.
So far in 2018, the level of shareholder support for the policy report has been slightly lower than that for the annual remuneration report:

• The median vote for the policy report is around 94% in FTSE 250 companies compared with 97% for the remuneration report.

• To date in 2018, around 90% of FTSE 250 companies have received more than 80% of votes in favour of the policy report. Although it is the same as last year, it should be noted that this was based on a much larger sample of companies introducing a new policy.

• So far, five FTSE 250 companies have received a vote in favour of less than 80%, including one lost vote of less than 50%.

• In addition, there have been three low votes on new or proposed amendments to long term incentive plans.
3.2 Summary of key developments in the corporate governance and regulatory environment

In August 2017, the Government announced a package of legislative, regulatory and investor-led measures designed to maintain the UK’s reputation for being a ‘dependable and confident place in which to do business’ and to ‘ensure that the largest companies are more transparent and accountable to their employees and shareholders’.

In July 2018, the Financial Reporting Council (‘FRC’) published a new UK Corporate Governance Code, to be effective from 1 January 2019. This was a substantial re-write and simplification of the existing Code, which is supplemented by a revised and expanded Guidance on Board Effectiveness.

The table below summarises the key reforms to date, which share a number of common themes impacting the executive remuneration landscape.

<table>
<thead>
<tr>
<th>Pay ratios and link to wider employee pay</th>
<th>Remuneration committee remit and responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening the employee and wider stakeholder voice</td>
<td>Corporate governance reforms and remuneration - common themes</td>
</tr>
<tr>
<td>Longer-term alignment and sustainability</td>
<td>Responding to voting dissent</td>
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</tbody>
</table>

**Legislative changes**

*The Companies (Miscellaneous Reporting) Regulations 2018 were approved by Parliament in July 2018 and will become effective in respect of accounting periods beginning on or after 1 January 2019.*

**Pay ratios**

- UK incorporated quoted companies (excluding AIM) with more than 250 UK employees to report and provide commentary on the ratio of CEO ‘single figure’ remuneration to the median, lower quartile and upper quartile pay of the UK workforce.

**Other reporting**

- UK incorporated quoted companies (excluding AIM) to provide:
  - In the next new remuneration policy, illustration of impact of 50% share price growth on remuneration structures
  - In the annual remuneration report, an estimate of the amount of single figure attributable to share price appreciation or depreciation
  - In the statement of the remuneration committee chair, a summary of any discretion applied to remuneration outcomes during the year.
Your guide | Directors’ remuneration in FTSE 250 companies

All UK registered companies with more than 250 UK employees to provide a summary in the Directors Report on how they have engaged with UK employees. This includes the action that has been taken to introduce, maintain or develop arrangements aimed at ‘encouraging the involvement of employees in the company’s performance through an employees’ share scheme or by some other means’.

New UK Corporate Governance Code
The new UK Corporate Governance Code was published on 16 July 2018, and is applicable to all companies with a premium listing in the UK. It will become effective in respect of accounting periods beginning on or after 1 January 2019.

The new UK Corporate Governance Code, effective from 1 January 2019, focuses on engagement between companies, shareholders and stakeholders as a driver of long-term sustainable growth. There is a renewed emphasis on the application of the Principles of the Code, alongside clear and meaningful reporting.

This Code places emphasis on businesses building trust by forging strong relationships with key stakeholders, and calls for companies to establish a corporate culture that is aligned with the company purpose, business strategy, promotes integrity and values diversity.

There are a number of key areas of change for remuneration committees, as set out in section 3.2.2 below.

Investor-led changes
The Investment Association register came into effect in December 2017.

• The Investment Association (IA) has established a register of UK listed companies with low AGM votes.
• The register captures resolutions where less than 80% of votes are “for”.
• The IA has also announced that it is developing proposals to “specifically address the problem of repeat offenders”.

Ongoing political scrutiny
• Continued public debate on ‘excessive’ pay packages in the listed environment.
• Executive remuneration as an issue is increasingly entwined with other pay fairness issues, such as the Gender Pay Gap.
• The Business, Energy and Industrial Strategy Committee has conducted an enquiry into pay in the private sector, covering:
  – Compliance with Gender Pay Gap reporting and steps being taken to address the gap
  – The effectiveness of Remuneration Committees and investors in combating excessive executive pay
  – The implementation of the recommendations in its previous 2017 report.

Corporate governance arrangements in large private and unlisted public companies
The Companies (Miscellaneous Reporting) Regulations 2018 were approved by Parliament in July 2018 and will become effective in respect of accounting periods beginning on or after 1 January 2019.

The relevant provisions are applicable to UK incorporated companies with either 2,000 or more global employees, or a turnover over £200 million globally and a balance sheet over £2 billion globally.

Companies already required to report on their corporate governance (such as premium listed companies) are not within scope.

• Companies in scope will have to include a statement as part of their Directors’ Report stating which corporate governance code, if any, has been applied and how.

• If the company has departed from any aspect of the code it must set out the respects in which it did so, and the reasons. If the company has not applied any corporate governance code, the statement must explain why that is the case and what arrangements for corporate governance were applied.

Wates Corporate Governance Principles for large private companies
In January 2018, BEIS appointed James Wates CBE as Chairman of a Coalition Group of members.

• The Chairman and the Coalition Group have now issued the ‘Wates Corporate Governance Principles for Large Private Companies’ for a 12 week public consultation. The aim is to finalise this voluntary framework for publication in December 2018 to align with the introduction of the Government’s new reporting requirement (see above).
3.2.1 Legislative changes

Amendments to Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (quoted companies: directors’ remuneration report)

- The new requirements will apply to companies reporting on financial years starting on or after 1 January 2019. The first actual reporting under the new regulations will therefore be required for annual reports published in 2020.
- These regulations apply to UK incorporated companies whose shares are quoted on the Main List of the London Stock Exchange, the New York Stock Exchange, NASDAQ, or a recognised stock exchange in the European Economic Area. AIM companies are exempt from the new regime.

Pay ratios

- Quoted companies registered in the UK (with more than 250 UK employees) will be required to publish the ratio of their CEO’s ‘single figure’ total remuneration to the median, 25th and 75th percentile total remuneration of their full-time equivalent UK employees.
- Pay ratios will be calculated on a group-wide basis by reference to UK employees only.
- Supporting information will be required including the methodology used to calculate the pay ratios. Companies will be required to explain the reasons for changes to the ratio year on year and whether the company believes the median ratio is consistent with the company’s wider policies on employee pay, reward and progression.
- Companies will also be required to publish the total remuneration and salary (£value) for the median, 25th and 75th percentile employees used in the pay ratio calculation.
- Pay ratios will be disclosed in a table in the annual remuneration report, and will include pay ratio data that will build incrementally to cover a ten year period going forward. In the first year of reporting, only one set of pay ratios will be disclosed.

Pay ratio – illustrative table

<table>
<thead>
<tr>
<th>Year</th>
<th>Method</th>
<th>25th percentile pay ratio</th>
<th>Median pay ratio</th>
<th>75th percentile pay ratio</th>
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<tr>
<td>2019</td>
<td>A, B or C</td>
<td>(X/Y25): 1</td>
<td>(X/Y50): 1</td>
<td>(X/Y75): 1</td>
</tr>
</tbody>
</table>

X is the amount of remuneration for the CEO taken from the single figure table

Y is the amount of remuneration paid to UK employees, whose pay and benefits are on the 25th, median and 75th percentile of pay and benefits of the company’s UK employees for the relevant financial year.

Pay ratio – methodology overview

- The regulations allow for three potential approaches in calculating the pay ratio. This is intended to recognise that some companies may find challenges in collecting data in a relatively short period of time.
- CEO total remuneration will be the ‘single figure’ disclosed for the relevant financial year.
- Employee total remuneration should include wages and salary, taxable benefits, annual bonus, share-based remuneration or other incentive plans and pension benefits. As a minimum, employee wages and salary must be used. Under the regulations, employee remuneration will be calculated on the same basis as the CEO single figure (i.e. this differs from requirements under the gender pay gap regulations).
- Employee pay data may be determined no earlier than three months before the last day of the relevant financial year.

Option A

- Option A is the ‘purest’ approach. Under Option A, companies determine total full-time equivalent total remuneration for all UK employees for the relevant financial year.
- Using this data, companies will rank the data and identify employees whose remuneration places them at median, 25th and 75th percentile.
- Three pay ratios are then calculated against CEO ‘single figure’ total remuneration.
Options B and C offer some flexibility in calculating the pay ratios. Both options allow companies to identify, on an indicative basis, three UK employees at median, 25th and 75th percentile using existing pay data such as gender pay data (Option B) or any other recent existing data (Option C), without necessarily having to perform the calculation under Option A for all employees.

For both Option B and C, companies must then calculate the indicatively identified employees’ total remuneration for the financial year being reported on using the required methodology.

### Annual statement from Remuneration Committee Chair

Remuneration committees will be required to provide a summary explanation of any discretion used in respect of executive remuneration outcomes reported in the year.

### Annual remuneration report – notes to single figure table

In the notes to the single figure table, there will be a requirement to provide:

- an estimate of the amount of remuneration that is attributable to share price growth;
- whether, and if so how, discretion has been exercised to determine remuneration as a result of either share price appreciation or depreciation.

### Remuneration policy

In the next new remuneration policy, there will be a requirement to provide an illustration of the impact of potential future share price increases on executive pay outcomes that are linked to performance periods of more than one financial year (e.g. LTIP awards), assuming share price growth of 50% over the period.

### Other reporting requirements (employee engagement)

- In the Directors’ Report, all UK registered companies with more than 250 UK employees will need to provide a summary of how their directors have engaged with UK employees, how they have had regard to employee interests, and the effect that this has had, including on the principal decisions taken by the company during the financial year. This expands the information on employee engagement matters that companies already have to include in their current directors’ report.
- This now includes a requirement to state the action that has been taken during the financial year to introduce, maintain or develop arrangements aimed at ‘encouraging the involvement of employees in the company’s performance through an employees’ share scheme or by some other means’, as well as other provisions relating to achieving employee awareness around the financial and economic factors affecting the performance of the company.

### 3.2.2 New UK Corporate Governance Code (the ‘Code’)

- It is over 25 years since the UK Corporate Governance Code was first introduced, and in the first half of 2017 the Financial Reporting Council (‘FRC’) undertook a comprehensive review to ensure that the Code remains fit for purpose.
- Following a period of consultation, on 16 July 2018 the FRC published the new UK Corporate Governance Code. This was not a tweaking of the Code as in previous years but a substantial re-write and simplification, with a focus on the application of the Code principles. The new Code is supplemented by revised and expanded Guidance on Board Effectiveness.
- The new Code, applicable for accounting periods beginning on or after 1 January 2019, includes a number of specific changes to the Code requested by the Government’s response to the Green Paper Consultation on Corporate Governance Reform. In addition, to achieve a wider stakeholder focus, the changes draw out the findings from the FRC’s 2016 Culture Report. A number of the changes are far reaching, including new principles on:
  - alignment of company purpose, strategy, values and corporate culture;
  - effective engagement with shareholders and stakeholders;
  - responsibilities of the board to ensure that workforce policies and practices are consistent with the company’s values and support its long-term sustainable success;
  - consideration of the length of service of the board as a whole and the need for regular board refreshment; and
  - alignment of remuneration and workforce policies to the long-term success of the company and its values.
Key remuneration aspects of the new Code are summarised below.

### Remuneration committee – remit and responsibilities

- **Senior management**: Defined as “executive committee or the first layer of management below board level, including the company secretary”. (Code)

- **Workforce remuneration**: “the review will include matters such as any pay principles applied across the company, base pay, benefits, and all incentives and aspects of financial and non-financial reward that drive behaviour – for example, sales compensation – regardless of where this is managed in the business.” (Guidance)

- **Workforce remuneration**: Purpose of review is to:
  - Take account of workforce remuneration when setting executive pay
  - Enable explanation to workforce on how executive pay reflects wider company pay policy
  - Provide the board with feedback on workforce reward and conditions. (Guidance)

- **Remuneration committee chair**: Remuneration committee chair to have served on a remuneration committee for at least twelve months.

### Remuneration design and structure

- **Pension alignment**: “while it may not be practical to alter existing contractual commitments […] remuneration committees will need to ensure future contractual arrangements heed this”. (Guidance)

- **Holding periods**: “total vesting and holding periods of five plus years apply to share awards granted to executives; this would not include deferred elements of annual bonuses…” (FRC consultation response)

- **Post-employment shareholding**: “Packages that are structured to ensure exposure to the long-term share value, including for two to three years after leaving the company, can support alignment with shareholders.” (Guidance)

### Discretion and recovery

- **Discretion and judgement**: “the remuneration committee may wish to consider setting a limit in monetary terms for what it considers is a reasonable reward for individual executives. […] it should be prepared to explain the rationale behind its decision”. (Guidance)

- **Enforceability**: “an active decision on whether to exercise discretion would become a normal part of the annual process to determine remuneration outcomes. It will be important to ensure that the terms of individual contracts and scheme rules do not prevent such adjustments.” (Guidance)

- **Apply discretion and judgement**: Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

- **Enforceability**: Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes.
Culture, risk and behaviours

When determining executive director pay, committees should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.

Risk and behaviours

Alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy.

Culture and incentives

Along with risk and culture, remuneration committees should also address clarity, simplicity, predictability of outcomes and proportionality of awards for performance when determining executive director remuneration.

Reporting and other

Remuneration committee to report on its work including:

- Strategic rationale for executive remuneration policies, structures and metrics
- Why remuneration is appropriate (including use of pay ratios and pay gaps)
- Whether remuneration policy operated as intended
- Engagement with workforce to explain how executive remuneration aligns with wider company pay policy
- Use of discretion and reasons why

'Low votes'

Where more than 20% votes against a resolution, provide update on shareholder views and actions taken no later than six months after shareholder meeting.

Enhanced recovery provisions: Guidance expands the circumstances for malus and clawback. “Such circumstances might include payments based on erroneous or misleading data, misconduct, misstatement of accounts, serious reputational damage and corporate failure.” Guidance

Mitigation: “Committees should be robust in reducing compensation to reflect departing directors’ obligations to mitigate loss.” Code

Innovation and simplicity: “Remuneration committees are encouraged to be innovative and to work with shareholders to simplify the structure of the remuneration policy.” Guidance

Low votes: Provision applies to all shareholder resolutions. Code

Additional reporting

Remuneration committee to report on its work including:

- Strategic rationale for executive remuneration policies, structures and metrics
- Why remuneration is appropriate (including use of pay ratios and pay gaps)
- Whether remuneration policy operated as intended
- Engagement with workforce to explain how executive remuneration aligns with wider company pay policy
- Use of discretion and reasons why

‘Low votes’

Where more than 20% votes against a resolution, provide update on shareholder views and actions taken no later than six months after shareholder meeting.
3. The current environment

3.2.3 Investor-led changes – IA public register of shareholder votes

- Following the Government’s corporate governance reforms announcement in August 2017, in December 2017 the Investment Association (IA) launched its public register of shareholder votes. The register aims to focus attention on companies receiving significant shareholder dissent and to track whether, and how, they are addressing those concerns.

- Companies who received votes of 20% or more against any resolution (from 2017) appear on the register. The register also includes companies where a resolution has been withdrawn prior to the meeting (although the IA have acknowledged that there are many reasons why a resolution may be withdrawn which may not be related to shareholder concerns).

- The register includes a description of the resolution, the result of the shareholder vote, a link to the AGM results announcement (including any statement made in line with the UK Corporate Governance Code which states that where a significant number of votes have been cast against a resolution companies should explain, when the voting statistics are made available on the company’s website, what actions it intends to take to understand the reasons behind the vote) and a link to any further statement the company has made in relation to actions taken since the vote.

- In its written submission to the Business, Energy and Industrial Strategy Committee ‘Delivering on Fair Pay’ Inquiry in June 2018, the Investment Association announced that it would be “developing proposals to specifically address the problem of repeat offenders”.

3.2.4 BEIS Committee – ‘Delivering on Fair Pay’ Inquiry

- On 22 March 2018, the Business, Energy and Industrial Strategy Committee launched a ‘Delivering on Fair Pay’ inquiry, with a view to:
  - Examining the compliance by business with reporting requirements on the gender pay gap and to consider what steps they are taking to address the gap
  - Considering the implementation of the recommendations on executive pay by the previous Committee in its 2017 report on Corporate Governance and recent developments on executive pay
  - Examining the effectiveness of Remuneration Committees and institutional investors in combatting excessive executive pay.

Committee report – gender pay gap reporting

On 2 August 2018, the Committee delivered its report and recommendations on ‘Gender Pay Gap Reporting’. The report included a number of recommendations to the Government including:

- Requirement for organisations to publish alongside the figures, an explanation of any gender pay gap and an action plan for closing the gap (including objectives and targets), against which they would report progress each year

- Alteration of the reporting requirements, and improvement in the quality of guidance in how to calculate the figures, to include:
  - information on salary quartiles is changed to deciles
  - requirement to publish both part-time and full-time gender pay gap statistics
  - alteration of bonus calculations to be on a pro-rata basis (with improved guidance on how to calculate)
  - clarification on how partner pay should be calculated and included in time for publication of data next year

- Widening of the qualifying criteria to require those with over 50 employees to report their gender pay gap numbers.

- Recommendation that the Government consults on introducing requirements to collect and report pay gap data in respect of disability and ethnicity and, subject to this consultation, introduces this requirement in time for publication in 2020.

- Recommendation that “company boards introduce Key Performance Indicators for reducing and eliminating their pay gaps and that Remuneration Committees, in reporting on pay policy, should explain how this commitment to reducing the pay gap is reflected in their decisions”.
3.2.5 Other areas

**Gender pay gap reporting regulations**

In December 2016, the Government published revised gender pay gap reporting regulations which included a number of changes from the earlier draft regulations. Following this, in January 2017, Acas and the Government Equalities Office published some guidance. The guidance contains worked examples and provides insights in a number of areas including the scope of the regulations and the basis of preparation for inputs, the steps employers will need to take to comply with the regulations and further guidance on how companies can use the gender pay gap information to act to reduce the pay gap.

In addition, Acas has also provided a template for employers to use when communicating gender pay gap information with their employees and a factsheet on the top ten myths around the gender pay gap reporting requirements (including the distinction between equal pay and the gender pay gap).

All private and voluntary sector employers with more than 250 or more employees in Great Britain need to calculate gender pay gaps within their organisation and publish this information on their website and on an official portal by 5 April each year. There are separate regulations for public sector employers.

Many employers are finding the requirements more complex than anticipated and there are some key areas to be aware of:

- **Reporting for corporate groups:** the guidance accompanying the regulations makes clear that corporate groups must report for each entity employing 250 or more relevant employees. Corporate groups may voluntarily disclose consolidated figures, in addition to figures for each entity.

- **Territorial scope:** employees are considered relevant for the purposes of the regulations if they are able to bring a discrimination case against the employing entity under the GB (i.e. England, Wales and Scotland) Equality Act. Employees in Northern Ireland, the Channel Islands and Isle of Man will not usually be considered relevant, even though these employees will often be integrated into UK operations.

- **Including the correct incentive award:** the bonus pay gap figures are calculated using the gross amount of any bonus pay which becomes taxable in the twelve months to 5th April. The pay gap calculations include any bonus pay becoming taxable in the pay period which includes 5th April (e.g. April payroll), pro-rated to reflect the proportionate size of the relevant pay period compared with the performance period to which the bonus relates.

- **All-employee share plans:** employers are required to include pay at the point UK income tax is incurred. However not all pay is subject to income tax, for example where a company is offering a tax-advantaged share plan for its employees. The final Acas guidance clarifies that pay elements not subject to UK income tax, such as SAYE plans, should not be included in the calculations.

- **Gender pay gaps and equal pay:** when disclosing pay gap data, it is important to highlight to internal and external audiences that a gender pay gap does not necessarily mean there is an equal pay issue in the employing entity. Pay gaps are caused by a range of factors, affecting representation within an entity and across society more generally, rather than being a sign that unlawful discrimination is taking place within that entity.

For more information and help calculating the gender pay gap please see our interactive guide which has been designed to assist companies in complying with the regulations and to provide advice on additional measures which organisations may wish to consider to help identify and reduce gender pay gaps. The guide can be found here: [http://www.deloitte.co.uk/pdf/gender-pay-gap-regulations.pdf](http://www.deloitte.co.uk/pdf/gender-pay-gap-regulations.pdf)

**EU Shareholder Rights Directive**

The European Parliament adopted the Shareholder Rights Directive in May 2017, and member states have until June 2019 to bring national laws/regulations into force.

The Commission is expected to issue standardised guidance on the implementation of certain articles of the Directive at the end of 2018.

The regulations include a number of detailed remuneration requirements around the establishment of a remuneration policy and annual remuneration report, shareholder voting on remuneration policies and reports, as well as proxy advisor conduct. There are some aspects of divergence from existing UK executive remuneration reporting regulations.
3.3 Summary of key changes to investor guidelines

The key changes and developments in guidance from The Investment Association, ISS and Glass Lewis from September 2017 to August 2018 are summarised below, together with links to the specific documents. For full details of guidance from investors, please refer to the websites listed in Appendix 1.

3.3.1 The Investment Association – Principles of Remuneration 2017

In November 2017, the Investment Association (IA) issued an update of its Principles of Remuneration and an accompanying open letter to remuneration committee chairmen. Some of these areas have subsequently been included in the UK corporate governance code.

Open letter – issues for 2018 AGM season

In its letter to remuneration committee chairmen, the IA highlighted the following issues as areas of focus for the 2018 AGM season.

Levels of remuneration

- The IA also highlights concerns with incremental increases to variable remuneration maxima and with the impact of salary increases and even “automatic” inflationary salary increases on total compensation.
- Companies need to justify to investors the level of remuneration paid to executive directors, and take into account the wider social context of executive pay, rather than looking at benchmarking alone.
- Companies are expected to disclose the pay ratios between the CEO and median or average employee, as well as the CEO and the executive team, as part of justifying and explaining the levels of executive remuneration in the business.
- The IA reiterates that executive directors should have pension contribution rates at the same level as the general workforce.

Remuneration structures

- **Restricted shares:** Whilst there are a number of shareholders that are unsupportive of restricted shares, there are a growing number of shareholders that will support the introduction of restricted shares for the right company, in the right circumstances. In some cases, new remuneration structures are being proposed only when the current remuneration structures are not paying out to executive directors, which is not seen as a reason to move to a restricted share model.
- **Shareholder consultation:** It is critical that dialogue between companies and shareholders is meaningful and treated as a two-way process. The IA notes that failure to properly understand the views of shareholders has led a number of companies to withdraw their resolutions prior to the AGM and that these companies should ensure that they conduct a full analysis of shareholder feedback and consult further before re-submitting their remuneration policies.

Pay for performance

- **Financial target disclosure:** Full disclosure of threshold, target and maximum performance targets is expected either at the time of payment of the award, or within twelve months where an explicit explanation of the commercial sensitivity has been set out.
- **Target adjustment:** If metrics used for executive remuneration have been adjusted from headline KPI or reported numbers, companies must set out why this is appropriate, and provide a breakdown of how the remuneration target has been adjusted from the headline KPI.
- **Non-financial target disclosure:** The IA reiterates that members expect a thorough explanation as to why personal or strategic targets have paid out, not just a description of non-financial performance indicators. Insufficient information on non-financial targets will trigger an Amber Top. There will be increased scrutiny on payments made for non-financial performance where financial targets are not met.
Accountability of Remuneration Committee Chairs

• The letter notes that the 2017 AGM season saw an increase in the number of investors voting against the re-election of individual directors based on the decisions they make at the Remuneration Committee and highlights that members have a range of escalation approaches in their voting policies. For example, some members vote against the Remuneration Committee Chair if they vote against a remuneration resolution in two successive years, or if a remuneration resolution does not get majority support, some members vote against the re-election of the Remuneration Committee Chair at the next AGM.

Changes to the Principles

Discretion

• Any discretion specific to a particular incentive scheme should be disclosed in the remuneration policy in addition to the plan rules.

• Shareholders discourage the payment of variable remuneration to executive directors if the business has suffered an exceptional negative event, even if some specific targets have been met. In such circumstances, shareholders should be consulted on the implementation of the remuneration policy and any proposed payments should be carefully explained.

Pay for employees below Board level

• When fulfilling relevant reporting obligations in relation to workforce pay, such as the Gender Pay Gap Reporting legislation or when publishing executive pay to employee pay ratios, Remuneration Committees are expected to provide context relevant to the business and fully explain why these figures are appropriate.

Benefits

• Any benefits relating to the relocation of an executive should be disclosed at the time of appointment, be in place for a limited period, and details should be disclosed to shareholders. Each element of any relocation benefits should be detailed in the annual remuneration report.

Annual bonus

• The definition of any performance measure should be clearly disclosed. Any adjustments made to the metrics as set out in the company’s accounts should be clearly explained and the impact of the adjustment on the outcome disclosed.

• The wording around the timeframe within which bonus targets must be disclosed has been strengthened, now stating that targets for performance at threshold, target and maximum levels should be disclosed no later than twelve months following the payment of any bonus awards.

• The wording on bonus deferral has also been strengthened, with an expectation inserted that a portion of the bonus should be deferred where opportunity is greater than 100% of salary.

Types of long term scheme

The section on long term schemes has been restructured. The IA emphasises that the chosen remuneration structure should be appropriate for the specific business, and efficient and cost-effective in delivering its longer-term strategy. The selection of a scheme should be well justified to shareholders. Some changes were made to the LTIP and restricted shares sub sections:

LTIPs:

• Performance conditions should be carefully chosen, so they are suitable for measurement over a long period of time.

• Threshold vesting amounts should not be significant by comparison with annual base salary. Full vesting should reflect exceptional performance and should therefore be dependent on achievement of significantly greater value creation than that applicable to threshold vesting.
Restricted shares:
- The total vesting and post-vesting holding period should be at least five years.
- Restricted share awards should be accompanied with significant shareholding requirements.
- Some members expect that restricted share awards should be subject to an appropriate underpin.
- The Principles now state that the expected discount rate for moving from an LTIP to restricted share awards should be a minimum of 50% of grant levels (previously it stated that the ratio should be 50%) and should be held at this level in future and not gradually increased over time.
- Companies that have demonstrated a history of a sensible approach to remuneration and have established a relationship of trust with their investors are more likely to get acceptance for such a scheme.

3.3.2 Institutional Shareholder Services (ISS) – 2018 Proxy Voting Guidelines (UK & Ireland)
In January 2018, Institutional Shareholder Services updated its UK proxy voting guidelines, effective for meetings on or after 1 February 2018. Changes which were relevant to remuneration are summarised below:

Long term incentive plans (LTIPs)
- The wording on threshold vesting levels for LTIPs has been expanded to state that these will be looked at in the context of the stretch of threshold targets and the positioning of remuneration levels more generally.
  - ISS continues to look for threshold vesting levels of generally no more than 25% of maximum, unless there are special reasons such as low positioning of salaries and LTIP awards and relatively stretching targets at threshold.
  - However, vesting levels of 25% may be considered inappropriate if LTIP grants represent large multiples of salary.

Relocation benefits
- In line with the Investment Association’s Principles of Remuneration, the guidelines now note that any relocation benefits should be disclosed at the time of the appointment of the executive. Any relocation benefits should be in place for a limited period, which is disclosed to shareholders. Each element of any relocation benefits should be detailed in the Remuneration Report.

Remuneration committee composition
- The guidelines have been clarified to state that all members of the audit and remuneration committees should be independent.

Other guideline changes
- The guidance on overboarding has been restructured to work as a points-based system, whereby any person who holds more than five mandates at listed companies will be classified as overboarded.
  - A non-executive directorship will count as one mandate
  - A non-executive chairmanship will count as two mandates
  - An executive director role (or comparable) will count as three mandates
- In addition, any person holding an executive director role at one company and a non-executive chairmanship at another company will be classified as overboarded.

3.3.3 2018 Glass Lewis Policy Guidelines

In December 2017, Glass Lewis published its 2018 Proxy Voting Guidelines for the UK and Ireland. The guideline changes related to remuneration are summarised below.

### Pay ratios

The Guidelines have been updated to encourage companies to disclose the pay ratio between the chief executive and the median or average UK-based employee, along with the description of the methodology used by the company to calculate the ratio.

### Restricted share plans

- The guidance on restricted share plans has been updated to align with the Investment Association guidance. All restricted share plans will be assessed on a case-by-case basis, however the following is expected as a minimum:
  - The discount rate for moving from an LTIP to restricted share plan should be a minimum of 50%
  - Shares should not be released for at least five years
  - Restricted share awards should be accompanied by significant shareholding requirements
  - Restricted share awards should be subject to an appropriate underpin

### Incentive plan targets

- Glass Lewis may recommend voting against the remuneration report where performance targets for incentive plans have been set below the targets provided in guidance to shareholders and the company has not provided a compelling rationale for lowering the target.

  - It is generally expected that performance metrics should have a clear and direct link to a company's strategy, including explicit references, where appropriate, to KPIs described in relevant business cycles such as transformation plans.

### Other guideline changes

#### Board skills and diversity

- If Glass Lewis deems that a Board has failed to address material concerns regarding the mix of skills and experience of the non-executive directors, it will now consider recommending a vote against the chair of the nominating committee (or equivalent).

- Companies should disclose sufficient information to allow investors to make a meaningful assessment of the Board's skills and competencies. From 2018, Glass Lewis reports for FTSE 100 companies will include Board skills matrices in order to assist investors to assess a Board's competencies and to identify any potential skill gaps.

- The Guidelines have been updated to reflect the recommendation of the Parker Review that each FTSE 100 and FTSE 250 board should strive to have at least one director of colour by 2021 and 2024 respectively.

### Response to shareholder dissent

- Glass Lewis now expects the Board to respond to shareholder dissent of more than 20% (previously 25%) of votes cast on a resolution at a general meeting, particularly in the case of remuneration and director election resolutions. Glass Lewis takes into account a company's shareholder structure when determining what constitutes “significant” dissent.

The latest Glass Lewis Policy Guidelines can be found here: [http://www.glasslewis.com/guidelines](http://www.glasslewis.com/guidelines)
3.4 Regulatory changes in the financial services sector

Certain regulatory changes have, or are due to, impact firms in the financial services sector.

3.4.1 Banks, Building Societies and Investment Firms – new Remuneration Code on the remuneration and performance management of sales staff

A new Remuneration Code introduced by the Financial Conduct Authority (FCA) to implement the remuneration requirements in MiFID II took effect on 3 January 2018 (SYSC 19F), with certain connected amendments also being made to the relevant sections of the PRA Rulebook.

The new Code codifies existing FCA guidance on remuneration and performance management for client-facing staff (originally published in 2013 and 2015) and makes it the responsibility of a firm’s Board to approve the remuneration policy of sales staff, as well as requiring senior management to be responsible for the day-to-day implementation and monitoring of risks in the policy. In addition, the new Code stipulates that remuneration for sales staff must not be solely or predominantly based on quantitative commercial criteria, but rather must take appropriate qualitative criteria into account, reflecting compliance with regulations, the fair treatment of clients and the quality of services provided to them.

3.4.2 Consumer credit firms – new rules and guidance

The FCA published in April 2018 its finalised guidance and updated rules on new requirements for incentives, remuneration and performance management for staff in consumer credit firms. This follows the FCA’s thematic review of these areas in the consumer credit market undertaken in August 2015 and the FCA consultation which closed in October 2017.

The new rules and guidance are designed to help consumer credit firms identify the risks that their remuneration practices might pose to customer outcomes, and how the FCA expects them to mitigate these risks, as well as to bring consumer credit firms into line with other FCA-regulated firms. Firms will need to comply with the final rules and guidance by 1 October 2018.

The guidance states that the FCA expects firms to identify and assess the potential risks to customers that might arise from their consumer credit activities and to consider how incentives or performance management may cause “customer detriment”. As well as setting out the FCA’s expectations, the guidance also sets out examples of good and poor practice based on observations from the FCA’s review, and sets out the FCA’s expectations on the types of controls and governance practices firms should have in place in order to identify and manage risks arising from incentive schemes and performance management.

3.4.3 Banks, Building Societies and Investment Firms – proposed changes to CRD IV and a new prudential investment regime proposed for smaller investment firms

Negotiations are still on-going for the proposed amendments to CRD IV. Under CRD V, it is expected that it will only be possible to disapply on the ground of proportionality the deferral and payment in instrument rules (and the rule on discretionary pension benefits). The bonus cap is expected to apply to all firms regardless of size, and in relation to all Material Risk Takers (MRTs), regardless of their level of pay.

The firm-level and individual-level thresholds to be set for the application of proportionality are still to be agreed. The firm-level threshold may be set at gross assets of equal to or less than EUR 5 billion over the four-year period immediately preceding the relevant financial year, though it is possible that local regulators may be given the power to revise this threshold upwards (up to a maximum of EUR 15bn) in certain limited circumstances, if they choose to do so.

It is expected that the individual de minimis threshold may be limited to variable pay of no more than EUR 50,000, representing no more than one third of the individual’s total annual remuneration (although a limit of one quarter of total remuneration has also been proposed). Again, local regulators may be given the power to modify the individual-level thresholds, taking into account the particularities of the remuneration practices in the relevant local market and the responsibilities and job profile of relevant staff members.
It is expected that firms will need to explain whether proportionality has been applied on a firm-wide or an individual basis in their Pillar 3 disclosures under the revised Capital Requirements Regulation (CRR) text. They may also need to indicate which of the remuneration principles they have disapplied, the number of staff members that benefit from the disapplication and their total remuneration, split into fixed and variable remuneration.

The European Banking Authority (EBA) is also expected to be asked to develop further regulatory technical standards on the identification of MRTs.

Negotiations are expected to continue for the remainder of 2018, with the text of CRD V and CRR II expected to be finalised some time in Q1/Q2 2019. It is currently expected that there will be an 18 month implementation period, although this depends upon how the negotiations develop.

In parallel to the negotiations on the amended CRD, new draft EU legislation is being proposed to amend the prudential rules for EU investment firms.

Currently, the vast majority of investment firms in the EU are subject to rules that were originally designed for banks. The new draft legislation is aimed at introducing a simpler, more proportionate and more risk-sensitive alternative to CRD IV and CRR for investment firms. Under the proposals, smaller investment firms would become subject to a more appropriate prudential regime, while the largest and most systemic EU investment firms posing similar risks as banks would be regulated and supervised as banks.

The new regime would split investment firms into three categories according to their size, activities and business model. Those deemed to be systemic investment firms (or investment firms which are exposed to the same types of risks as credit institutions) would continue to be subject to CRD IV remuneration requirements, whilst the smallest investment firms (with less than EUR1.2 billion assets under management and no client money holdings/no administration of client assets) are expected to be subject to the MiFID remuneration rules only. Firms that fall under neither of those categories (which is expected to be the largest category of firm) would be subject to only a partial application of the CRD IV remuneration rules (for example, the bonus cap would not apply).

The proposed legislation is progressing through the EU legislative process, but implementation is not expected to take place before 2020.
4

Salary

4.1 Salary increases

4.2 Salary levels
4. Salary

4.1 Salary increases

The following chart shows the median level of salary increases in FTSE 250 companies. For 2018 this only includes those companies with financial years ending between 30 September 2017 and 28 February 2018 and therefore is not the full picture for the year.

We have excluded promotions and changes in responsibilities and have also excluded individuals recently appointed and given higher than usual increases to reflect development in the role.

**FTSE 250 chief executives – median salary increases since 2010**

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So far in 2018, 31% of companies ranked in the top 50 and 38% of companies ranked below this have given no salary increase to the chief executive for 2018.

There are some differences by sector, with almost 50% of retail & services companies freezing the chief executive’s salary, compared with just over a third of industrial & manufacturing companies and around a quarter of finance & property companies. Around 40% of retail & services companies are freezing the salary of other executive directors, compared with around a quarter of companies in other sectors.
Salary increases effective in 2018 – by index

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</thead>
<tbody>
<tr>
<td></td>
<td>FTSE 250</td>
<td>Top 50</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Median</td>
<td>2.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Proportion receiving no increase</td>
<td>36%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Salary increases effective in 2018 – by industry sector

<table>
<thead>
<tr>
<th></th>
<th>Chief executive</th>
<th>Other directors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FTSE 250 Finance &amp; property</td>
<td>Industrial &amp; manufacturing</td>
</tr>
<tr>
<td>0%</td>
<td>36%</td>
<td>23%</td>
</tr>
<tr>
<td>0% – 2.5%</td>
<td>28%</td>
<td>32%</td>
</tr>
<tr>
<td>2.5% – 5%</td>
<td>22%</td>
<td>26%</td>
</tr>
<tr>
<td>3% – 5%</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>5% – 10%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>More than 10%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Median</td>
<td>2.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>0.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
4.2 Salary levels

The analysis of salary levels is shown by company size based on the average market capitalisation for each company over the twelve months to 1 July 2018.

It should be noted that between July 2017 and June 2018, 24 new companies were included in the FTSE 250 index and 33 companies are no longer included. The changes to the constituents of the FTSE 250 index are outlined in Appendix 2.

Caution should be taken when using this information to benchmark salaries for executive director roles, with careful consideration of such factors as company size, the degree of internationality and complexity of the company, arrangements across the whole organisation, the individual specifics of roles and economic circumstances. Companies should consider the impact of salary increases to overall remuneration packages, an area of increasing shareholder focus in the last year.

As noted in the introduction to this report, there are a number of important points to bear in mind when considering salary data:

- Determining the relevant comparator groups.
- Assessing where your company falls within a given company size range.
- Avoiding a focus on a specific market position (e.g. median).
- Assessing the particular circumstances of an individual in relation to the market competitive range.
- The overall remuneration package and the impact of basic salary increases on other elements of pay.
- The analyses relating to the functional and operational directors are based on small samples as many companies now operate with only two executive directors. These analyses should therefore be treated with some caution.

The tables and charts in this section examine basic salary levels for four board positions – chief executive officer, chief financial officer, head of function and head of subsidiary, divisional and geographic operations.

4.2.1 Chief executive officer

Salary levels by market capitalisation

<table>
<thead>
<tr>
<th>Market capitalisation £m²</th>
<th>No of jobs</th>
<th>No of co’s</th>
<th>D1 £</th>
<th>Q1 £</th>
<th>Median £</th>
<th>Q3 £</th>
<th>D9 £</th>
<th>Average £</th>
</tr>
</thead>
<tbody>
<tr>
<td>600 – 850</td>
<td>33</td>
<td>33</td>
<td>406,700</td>
<td>445,000</td>
<td>490,500</td>
<td>552,600</td>
<td>577,100</td>
<td>494,200</td>
</tr>
<tr>
<td>851 – 1,000</td>
<td>17</td>
<td>17</td>
<td>416,800</td>
<td>477,000</td>
<td>530,500</td>
<td>579,100</td>
<td>695,200</td>
<td>566,100</td>
</tr>
<tr>
<td>1,001 – 2,000</td>
<td>82</td>
<td>82</td>
<td>374,500</td>
<td>478,400</td>
<td>539,100</td>
<td>629,000</td>
<td>747,100</td>
<td>554,100</td>
</tr>
<tr>
<td>2,001 – 4,000</td>
<td>67</td>
<td>67</td>
<td>488,900</td>
<td>569,600</td>
<td>630,000</td>
<td>748,400</td>
<td>851,200</td>
<td>659,900</td>
</tr>
<tr>
<td>4,001 – 6,000</td>
<td>28</td>
<td>28</td>
<td>513,100</td>
<td>602,000</td>
<td>669,100</td>
<td>743,300</td>
<td>836,700</td>
<td>675,300</td>
</tr>
</tbody>
</table>

² The market capitalisation band £600m to £850m includes 19 positions from FTSE SmallCap companies. The £4,001m to £6,000m band is composed of 19 positions from FTSE 100 companies and nine positions from FTSE 250 companies. The band £2,001m to £4,001m includes three FTSE 100 companies but these have been excluded as has one FTSE 250 company with a market cap below £600m.
The following chart provides an illustration of the inter-decile range of salary levels for the chief executive officer in FTSE 250 companies by size and by industry sector. The inter-decile range is shown as it represents practice in 80% of each group, whilst excluding outliers.

### Chief executive officer – inter-decile range of salary levels

[Chart showing salary levels for chief executive officer by size and industry]

#### 4.2.2 Chief financial officer

Salary levels by market capitalisation

<table>
<thead>
<tr>
<th>Market capitalisation £m</th>
<th>No of jobs</th>
<th>No of co's</th>
<th>D1 £</th>
<th>Q1 £</th>
<th>Median £</th>
<th>Q3 £</th>
<th>D9 £</th>
<th>Average £</th>
</tr>
</thead>
<tbody>
<tr>
<td>600 – 850</td>
<td>31</td>
<td>31</td>
<td>251,200</td>
<td>288,500</td>
<td>320,000</td>
<td>350,000</td>
<td>377,400</td>
<td>319,600</td>
</tr>
<tr>
<td>851 – 1,000</td>
<td>16</td>
<td>16</td>
<td>249,500</td>
<td>315,800</td>
<td>344,200</td>
<td>409,100</td>
<td>465,000</td>
<td>356,100</td>
</tr>
<tr>
<td>1,001 – 2,000</td>
<td>75</td>
<td>75</td>
<td>255,000</td>
<td>320,000</td>
<td>355,500</td>
<td>403,000</td>
<td>446,000</td>
<td>357,300</td>
</tr>
<tr>
<td>2,001 – 4,000</td>
<td>59</td>
<td>59</td>
<td>302,900</td>
<td>358,700</td>
<td>398,000</td>
<td>449,000</td>
<td>500,000</td>
<td>403,100</td>
</tr>
<tr>
<td>4,001 – 6,000</td>
<td>28</td>
<td>28</td>
<td>352,600</td>
<td>391,500</td>
<td>450,000</td>
<td>486,700</td>
<td>614,900</td>
<td>458,300</td>
</tr>
</tbody>
</table>

The following chart provides an illustration of the inter-decile range of salary levels for the chief financial officer in FTSE 250 companies by size and by industry sector. The inter-decile range is shown as it represents practice in 80% of each group, whilst excluding outliers.

### Chief financial officer – inter-decile range of salary levels

[Chart showing salary levels for chief financial officer by size and industry]

3 The market capitalisation band £601m to £850m includes 17 positions from FTSE SmallCap companies. The £4,001m to £6,000m band is composed of 19 positions from FTSE 100 companies and nine positions from FTSE 250 companies. The band £2,001m to £4,001m includes three FTSE 100 companies but these have been excluded as has one FTSE 250 company with a market cap below £600m.
4.2.3 Functional directors

This includes heads of major functions. These analyses are based on small samples as many companies operate with only two executive directors. Only around 15% of FTSE 250 companies now have a head of function appointed to the main board. These can include the Group HR Director, Group Legal Director, Chief Risk Officer and Chief Technology Officer.

The data should be treated with some caution given the small sample sizes.

Salary levels by market capitalisation

<table>
<thead>
<tr>
<th>Market capitalisation £m*</th>
<th>No of jobs</th>
<th>No of co's</th>
<th>D1 £</th>
<th>Q1 £</th>
<th>Median £</th>
<th>Q3 £</th>
<th>D9 £</th>
<th>Average £</th>
</tr>
</thead>
<tbody>
<tr>
<td>600 – 1,000</td>
<td>12</td>
<td>9</td>
<td>223,700</td>
<td>246,500</td>
<td>269,100</td>
<td>319,200</td>
<td>326,600</td>
<td>279,100</td>
</tr>
<tr>
<td>1,001 – 2,000</td>
<td>11</td>
<td>10</td>
<td>–</td>
<td>274,000</td>
<td>338,100</td>
<td>367,900</td>
<td>–</td>
<td>308,200</td>
</tr>
<tr>
<td>2,001 – 4,000</td>
<td>11</td>
<td>8</td>
<td>–</td>
<td>367,000</td>
<td>422,300</td>
<td>429,000</td>
<td>–</td>
<td>415,100</td>
</tr>
</tbody>
</table>

The following chart provides an illustration of the inter-decile range of salary levels for functional directors in FTSE 250 companies by size and industry sector. The inter-decile range is shown as it represents practice in 80% of each group, whilst excluding outliers.

Note that some sample sizes are too small to provide decile data.

Functional director – inter-decile range of salary levels

---

4 The smallest market capitalisation band (£600m to £1,000m) includes five FTSE SmallCap positions. The largest group (£2,001m to £4,001m) also contains two positions from FTSE 100 companies which have been excluded.
4.2.4 Operational heads

This includes heads of subsidiary, divisional and geographic operations. These analyses are based on small samples as many companies now operate with only two executive directors.

The data should be treated with some caution given the small sample sizes.

Salary levels by market capitalisation

<table>
<thead>
<tr>
<th>Market capitalisation £m¹</th>
<th>No of jobs</th>
<th>No of co’s</th>
<th>D1 £</th>
<th>Q1 £</th>
<th>Median £</th>
<th>Q3 £</th>
<th>D9 £</th>
<th>Average £</th>
</tr>
</thead>
<tbody>
<tr>
<td>600 – 1,000</td>
<td>7</td>
<td>6</td>
<td>–</td>
<td>284,500</td>
<td>330,000</td>
<td>355,500</td>
<td>–</td>
<td>411,400</td>
</tr>
<tr>
<td>1,001 – 2,000</td>
<td>14</td>
<td>12</td>
<td>264,200</td>
<td>284,100</td>
<td>357,800</td>
<td>375,000</td>
<td>500,000</td>
<td>374,700</td>
</tr>
<tr>
<td>2,001 – 3,000</td>
<td>17</td>
<td>15</td>
<td>293,000</td>
<td>351,000</td>
<td>386,000</td>
<td>469,000</td>
<td>567,000</td>
<td>418,000</td>
</tr>
<tr>
<td>3,001 – 6,000</td>
<td>18</td>
<td>11</td>
<td>344,600</td>
<td>375,300</td>
<td>409,500</td>
<td>476,500</td>
<td>564,500</td>
<td>435,100</td>
</tr>
</tbody>
</table>

The following chart provides an illustration of the inter-decile range of salary levels for operational heads in FTSE 250 companies by size and by industry sector. The inter-decile range is shown as it represents practice in 80% of each group, whilst excluding outliers.

Operational director – inter-decile range of salary levels

---

5 The smallest market capitalisation band (£600m to £1,000m) includes three FTSE SmallCap positions. The £4.01m to £6,000m band is composed of nine positions from FTSE 100 companies and five positions from FTSE 250 companies.
Disclosure requirements – salary

In the policy report details relating to each element of pay must be provided. This includes how the element supports the business strategy, how it operates and the maximum that may be paid (in monetary terms or otherwise). The policy report should include the “material factors that have been taken into account when setting the pay policy, specifically employee pay and shareholder views”.

In the implementation report the salary paid in the year, in relation to ‘qualifying services’ must be included in the single figure for each director. The section on implementation of policy in the following year does not include a specific requirement to disclose the salary that will apply for the next financial period. However, current guidance from investors generally recommends that this information is disclosed.

Guidance from investors and proxy voting agencies

- Changes in executive pay levels should take into account the pay and conditions across the company, and the factors taken into account should be disclosed. Increases should reflect a real change in the scope and complexity of the role.
- Remuneration committees should be aware of the multiplier effect that increases in salary have on total remuneration.
- Any increase in base salaries in excess of inflation or those awarded to the rest of the workforce should be fully explained and justified to shareholders. There is a growing number of investors who consider that executive directors should not receive regular salary increases given the overall structure of their remuneration packages.
- Where an individual is appointed on an ‘entry-level’ salary with the intention of increasing this to a higher level over time, this intention should be explained at the time of appointment.
- Salaries should reflect the role and responsibilities of the individual and be set at a level which is no higher than necessary.
- Salary decisions should not be taken on the basis of simple benchmarking against peer companies and if benchmarking is used then it should not be with the aim of matching the median. Benchmarking should only be carried out infrequently.
- Pay ratios are considered useful reference points and remuneration committee should take these into consideration.
- The use of fixed allowances is discouraged. Where such payments are considered necessary this should be clearly justified and explained within the context of the remuneration package as a whole.
5
Annual bonus plans

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5.5 Bonus payouts  47
5.6 Bonus disclosure  49
### 5. Annual bonus plans

#### 5.1 Summary of key trends

| **Plan structure** | 97% of companies operate an annual bonus plan for executive directors  
| 76% of companies operate bonus deferral (68% last year)  
| Typically half the bonus is deferred over three years |
| **Performance measures** | Bonuses are typically based on more than three measures  
| Financial performance measures make up around 70% of the bonus  
| 17% of companies, but only five top 50 companies, base the bonus wholly on financial measures  
| Profit is the most common performance measure, used in over 90% of plans  
| Around two-thirds of plans use non-financial measures and almost half use individual measures  
| Around 20% of plans have a minimum performance hurdle to be achieved prior to any payout |
| **Opportunity** | For all FTSE 250 companies, the median maximum award remains at 150% of salary for the chief executive and increased to 135% for other executive directors (from 125%)  
| In the top 50 companies the median maximum award remains at 150% of salary for the chief executive and other executive directors |
| **Most recent payouts** | Median bonus payout is 75% of maximum compared to 68% last year. This is higher than in the last five years  
| 8% of companies paid no bonus to executive directors in respect of the most recent financial period  
| Discretion has been applied to reduce the bonus outcome in 14 FTSE 250 companies (twelve last year) |
| **Disclosure of annual bonus targets** | 75% of companies reporting so far this year provided full retrospective disclosure of all financial targets and outcomes, 8% provided partial disclosure and 11% provided some indication of the degree to which targets were met  
| 15% of companies fully disclosed non-financial targets (7% last year), 41% provided some of the targets and 31% provided some indication of the degree to which targets were met |
5.2 Bonus structure

Deferred bonus plans remain more common in companies ranked in the top 50 (82%) than in those ranked below (74%). Deferral is also more common in finance & property companies (85%) than industrial & manufacturing companies (75%) and retail & services companies (71%).

The use of bonus matching plans continues to decrease in FTSE 250 companies. Only two FTSE 250 companies (compared with four last year) operate bonus matching plans where executives may earn additional shares on deferred bonuses subject to performance. In both plans the deferral is voluntary. A further two companies operate a co-investment plan.

There are currently only seven FTSE 250 companies where no annual bonus plan is operated.

5.2.1 Deferred bonus plans (no matching shares)

Deferral period

The deferral period is three years or more in 75% of plans in FTSE 250 companies, in line with last year.

Phasing the release of shares over the deferral period remains a minority practice, with only 18% of plans using this approach, similar to last year. Phasing is more common in finance & property companies (35%) compared with industrial & manufacturing (8%) and retail & services companies (16%). This is to be expected, given the regulatory requirements for deferral in financial services.
The required level of deferral is most commonly half of any bonus earned (39% of plans), followed by one-third and less than one-third (both 21% of plans).

The level of deferral tends to increase with company size. It also varies by industry, as would be expected, given the regulatory requirements in financial services companies. Over three quarters of finance & property companies defer more than one-third of the bonus, compared with 60% of retail & services companies and 40% of industrial & manufacturing companies.

In around one-fifth of plans the deferral is expressed as any bonus earned in excess of a specified percentage of salary.
5.3 Performance measures

Guidance from investors and proxy voting agencies clearly states that annual bonus performance measures should be linked to business targets and KPIs. This is intended to ensure a strong strategic fit and align payouts with performance and shareholder value creation.

Whilst there is no ‘one-size-fits-all’ approach to selecting performance measures, we have analysed the use of different types of measures to identify some key trends. These are consistent with last year.

5.3.1 Number and weighting of measures

In 77% of FTSE 250 companies the annual bonus is based on more than three measures, compared with 70% last year.

Retail & services companies continue to use the fewest measures with a quarter of companies still only using one or two measures compared with 9% of industrial & manufacturing companies. No finance & property company uses fewer than three measures.

The following table shows the average weighting of measures.

<table>
<thead>
<tr>
<th>Weighting of measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 250</td>
</tr>
<tr>
<td>Top 50</td>
</tr>
<tr>
<td>Rest of FTSE 250</td>
</tr>
<tr>
<td>Finance &amp; property</td>
</tr>
<tr>
<td>Industrial &amp; manufacturing</td>
</tr>
<tr>
<td>Retail &amp; services</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial measures</th>
<th>Strategic measures</th>
<th>Individual objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>73%</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td>70%</td>
<td>22%</td>
<td>8%</td>
</tr>
<tr>
<td>74%</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>65%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>71%</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>79%</td>
<td>11%</td>
<td>10%</td>
</tr>
</tbody>
</table>

In a FTSE 250 company, typically the bonus will be weighted 73% on financial measures, 16% on strategic business measures and 11% on individual objectives. There are some differences by company size with more weight being given to strategic measures in larger companies. Financial measures are typically given more weight in retail & services companies (79%).

The annual bonus is wholly based on financial measures in 17% of FTSE 250 companies, a steady decline from 34% five years ago. This is the case in only five of the top 50 companies and 18% of companies ranked below this.
5.3.2 Measures used

The charts below illustrate the prevalence of different types of performance measures. There has been little change over the last two years.

### Financial measures - % of plans using each measure

<table>
<thead>
<tr>
<th>Measure Type</th>
<th>% of Plans</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit measures</strong></td>
<td>92%</td>
<td>More common in retail &amp; services companies (99%) and industrial &amp; manufacturing companies (97%) than in finance &amp; property companies (75%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>of which</strong></td>
</tr>
<tr>
<td>EPS</td>
<td>10%</td>
<td>More common in top 50 companies (37%)</td>
</tr>
<tr>
<td>Operating profit</td>
<td>21%</td>
<td>More common in industrial &amp; manufacturing companies (47%) and retail &amp; services companies (27%) than in finance &amp; property companies (7%)</td>
</tr>
<tr>
<td>PBT</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td><strong>Cash measures</strong></td>
<td>29%</td>
<td>More common in top 50 companies (37%)</td>
</tr>
<tr>
<td><strong>Return measures</strong></td>
<td>19%</td>
<td>More common in top 50 companies (24%)</td>
</tr>
<tr>
<td>e.g. ROE, ROCE</td>
<td></td>
<td>Most common in finance &amp; property companies (50%)</td>
</tr>
<tr>
<td><strong>Sales/revenue measures</strong></td>
<td>16%</td>
<td>More common in top 50 companies (22%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Most common in retail &amp; services companies (24%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Less common than in FTSE 100 companies (32%)</td>
</tr>
<tr>
<td><strong>Cost measures</strong></td>
<td>5%</td>
<td>Little difference by company size or industry sector</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Less common than in FTSE 100 companies (13%)</td>
</tr>
</tbody>
</table>
### 5. Annual bonus plans

#### Non-financial and individual measures – % of plans using each measure

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-financial measures</td>
<td>68%</td>
<td>• More common in top 50 companies (76%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• More common in finance &amp; property companies (73%) and industrial &amp; manufacturing companies (70%) than retail &amp; services companies (63%)</td>
</tr>
<tr>
<td>Individual measures</td>
<td>48%</td>
<td>• Less common in top 50 companies (43%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• More common in finance &amp; property companies (64%) than industrial &amp; manufacturing companies (44%) and retail &amp; services companies (43%)</td>
</tr>
</tbody>
</table>

#### Use of non-financial measures:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific strategic measures</td>
<td>45%</td>
<td>• More common in top 50 companies (63%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Less common in retail &amp; services companies (36%) than other industry sectors</td>
</tr>
<tr>
<td>Customer service</td>
<td>19%</td>
<td>• More common in finance &amp; property companies (32%) than retail &amp; services companies (16%) and industrial &amp; manufacturing companies (13%)</td>
</tr>
<tr>
<td>People measures</td>
<td>18%</td>
<td>• More common in finance &amp; property companies (23%) and retail &amp; services companies (21%) than industrial &amp; manufacturing companies (11%)</td>
</tr>
<tr>
<td>Health and safety</td>
<td>13%</td>
<td>• Most common in industrial &amp; manufacturing companies (27%)</td>
</tr>
<tr>
<td>Environmental, social and governance</td>
<td>3%</td>
<td>• Little difference by company size or industry sector</td>
</tr>
</tbody>
</table>

5.3.3 Performance hurdle

A number of companies incorporate a performance hurdle to ensure that a minimum level of performance is achieved before any bonus pays out. Typically, this requires a minimum level of financial performance, although some plans require a minimum level of personal performance or that a health and safety threshold is met.

Currently 21% of plans in FTSE 250 companies incorporate a performance hurdle. This is more common in the top 50 companies (26%) and in retail & services companies (30%) compared with industrial & manufacturing companies (17%) and finance & property companies (14%).
5.4 Bonus opportunity

22 FTSE 250 companies with bonus plans have increased the potential bonus that may be earned by executive directors for the year ending in 2018/19. Five companies have decreased the bonus potential for executive directors. Only three FTSE 250 companies have uncapped bonuses.

The median potential bonus has not changed in industrial & manufacturing companies (125% of salary) or finance & property companies (150% of salary). However, in retail & services companies the median has increased from 125% to 133% of salary.

The following tables indicate the inter-quartile range of threshold, on-target and maximum awards that may be earned. The analysis is based on the forward looking policy.

**Annual bonus maximum awards – % of salary**

<table>
<thead>
<tr>
<th></th>
<th>Chief executive</th>
<th>Other executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FTSE 250</td>
<td>Top 50</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>170%</td>
<td>200%</td>
</tr>
<tr>
<td>Median</td>
<td>150%</td>
<td>150%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>125%</td>
<td>150%</td>
</tr>
</tbody>
</table>

*Note: where there is a higher maximum for the chief executive, it is likely to be around 25% of salary higher than for other executive directors*

In 38% of FTSE 250 companies the chief executive has a higher maximum bonus than the other executive directors. This practice is less common in finance & property companies (31%) than in other sectors.

**Annual bonus threshold and target awards – % of maximum**

<table>
<thead>
<tr>
<th></th>
<th>Chief executive</th>
<th>Other executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FTSE 250</td>
<td>Top 50</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>25%</td>
<td>19%</td>
</tr>
<tr>
<td>Median</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Note: not all companies provide details of the award paid for threshold and target performance*

60% of companies disclose the bonus payable at threshold and 90% disclose the bonus payable for on-target performance. Typically between 50% and 60% of the bonus opportunity pays out at target. At threshold the typical level of payout is around 15-20% of the maximum opportunity, though it is zero in around 40% of companies disclosing this information.
5.5 Bonus payouts

5.5.1 Bonus payouts – % of maximum

As bonus potentials vary across companies, we have analysed how close the actual payments are to the maximum that may be earned. For each company we have taken the average bonus paid to the executive directors in the past year as a proportion of the maximum that may be earned.

The table below shows that bonus payouts in respect of the most recent financial period typically range from around 45% to 90% of maximum with a median of 75%. This is slightly higher than last year and similar to two years ago.

8% of companies paid no bonus for the most recent financial period, similar to the previous period.

There is little difference in the median bonus payout in the top 50 companies compared with the companies ranked below this (72% and 75% of maximum respectively). There were some differences by industry sector, with payouts in retail & services companies lower (median 66% of maximum) than in other sectors.

**Annual bonus – average awards as % of plan maximum (executive directors other than the CEO)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper quartile</td>
<td>91%</td>
<td>89%</td>
<td>86%</td>
<td>88%</td>
</tr>
<tr>
<td>Median</td>
<td>69%</td>
<td>72%</td>
<td>68%</td>
<td>75%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>50%</td>
<td>46%</td>
<td>40%</td>
<td>47%</td>
</tr>
</tbody>
</table>

No award made (% of companies with plans) |

6% 7% 8% 8%

Bonus payouts for the chief executive this year are similar to those paid to other executive directors.

5.5.2 Use of discretion

This year discretion has been applied to reduce the bonus outcome to at least one executive director in 14 FTSE 250 companies compared with 12 last year. In a further two companies the payout was not decreased but a higher proportion of the bonus was deferred into shares to reflect overall performance. No company has disclosed that the outcome was adjusted upwards. In a further eight companies one or more of the directors waived their right to some or all of the bonus.
5.5.3 Historic payouts
The following chart illustrates the median bonus payout, as a percentage of maximum, over the last five years and demonstrates that payouts in respect of 2017/18 are higher than in previous years.

### Median bonus paid to other executive directors over past five years – % of max

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus paid in respect of years ending in:</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>60%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>80%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>120%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>140%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5.5.4 Bonus payouts – % of salary
We have also analysed bonus payouts, as a percentage of salary, compared with the bonus payable for on-target performance.

The median payout for the most recent financial period was 93% of salary, which is higher than in the previous period (85%).

As with last year, payouts were higher in the larger companies. The median payout in the top 50 ranked companies is 104% of salary compared with 90% in the companies ranked below this (an increase from 78% in the previous period).

### Bonus paid to executive directors (excluding the chief executive) vs target award – % of salary

<table>
<thead>
<tr>
<th>FTSE 250</th>
<th>Top 50</th>
<th>Rest of FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target</td>
<td>% salary</td>
<td>Actual</td>
</tr>
<tr>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>60%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>80%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>120%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>140%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: not all companies provide details of the potential award paid for target performance
5. Annual bonus plans

**Bonus paid – % of salary**
Median bonus payouts have increased this year. For chief executives the median is 99% of salary compared to 92% last year. For other executive directors it has increased from 85% of salary to 92% this year. The increase is more marked in the smaller companies as the median is unchanged in the top 50 companies.

<table>
<thead>
<tr>
<th></th>
<th>Chief executive</th>
<th>Other executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FTSE 250</td>
<td>Top 50</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>128%</td>
<td>157%</td>
</tr>
<tr>
<td>Median</td>
<td>99%</td>
<td>119%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>70%</td>
<td>82%</td>
</tr>
</tbody>
</table>

*Note: we expect payouts to the chief executive to be higher reflecting the higher bonus potential in almost 40% of all FTSE 250 companies*

5.6 Bonus disclosure

Investors continue to take a tough stance on inadequate disclosure of performance targets and achievements during the year. Our research suggests that 60% of companies operating an annual bonus now disclose the minimum level of payout for performance at threshold and around 90% disclose that for on-target performance.

In relation to performance measures and targets, many companies continue to make use of the ‘commercially sensitive’ opt-out and do not disclose forward-looking targets. However, we found that retrospective disclosure continued to improve year on year.

At the time of compiling this report, we had analysed the bonus disclosures of around 60% of FTSE 250 companies reporting so far in 2018 and the following charts illustrate the extent of the retrospective bonus disclosures.

### Retrospective disclosure of financial targets

- All companies disclosed financial measures retrospectively and all but six disclosed the non-financial measures.
- 92% of companies disclosed the weightings that apply to the financial measures and around 80% disclosed the weightings applying to non-financial measures.
- 75% of companies provided full details of all financial targets and outcomes, 8% provided some of the targets and a further 11% provided some indication of the degree to which the targets have been met.
- 15% of companies fully disclosed the targets for non-financial measures compared with 7% last year. Two-fifths of companies provided some of the targets and almost a third provided some indication of the degree to which the targets have been met. This is an improvement on last year.
Disclosure requirements – annual bonus

The policy report should include the maximum potential value, a description of any performance metrics and, where there is more than one measure the relative weighting of the measure, or groups of measures. Details of the performance period over which these are measured must also be included. The level of payout at threshold and other levels of performance as specified in the policy must also be disclosed. If there are no performance measures this should be explained. However, companies do not have to disclose information relating to performance measures or targets where doing so is considered by the directors to be commercially sensitive. Where the policy provides for the exercise of discretion the policy must clearly set out the extent of that discretion in respect of any such variation, change or amendment. Any malus and clawback provisions should be disclosed and the circumstances in which the committee considers it appropriate to use such provisions should also be disclosed.

The annual remuneration report should include details of the performance measures applicable to any bonus payout and the relative weighting of each. For each performance measure the disclosures should also include the targets originally set, the potential level of award achievable, how the company performed against each target, any discretion exercised by the remuneration committee, how the discretion was exercised and the resulting level of award. As with the policy section this information need not be disclosed where it is considered to be commercially sensitive although this must be explained.

Guidance from investors and proxy voting agencies

• Maximum bonus levels should be disclosed and any change from the previous year should be explained.
• Annual bonuses exist to reward contribution above the level expected. Shareholders expect the remuneration committee to exercise relevant discretion to avoid excessive remuneration payouts.
• Companies should explain how performance measures are set as part of the policy. This does not mean what the specific targets are, but how they are determined. The performance measures for the current year and the next financial period should be disclosed in the annual remuneration report.
• Following payment of the bonus companies should provide a full analysis in the annual remuneration report of the extent to which the relevant targets were actually met. Shareholders now expect that targets will either be disclosed retrospectively in full at the end of the year, or that companies will give a commitment to disclose such targets in full at a specified time in the future. Withholding such information on the basis of ‘commercial sensitivity’ is discouraged. A thorough explanation as to why personal or strategic targets have paid out is required.
• Bonuses should be clearly linked to business targets and ideally linked to disclosed KPIs and if other measures are chosen they should be explained. Where non-financial objectives are used the majority of any payout should be linked to financial performance.
• Performance targets should be aligned with company strategy, future direction, performance and shareholder value creation, without promoting or rewarding disproportionate risk-taking.
• Where a company increases the maximum bonus opportunity, the performance targets should be made sufficiently more challenging to justify the additional reward that can be earned.
• Any rebalancing towards annual incentives should be linked with a significant reduction in maximum opportunity given the increased certainty of measuring performance over one year rather than a longer period.
• Annual bonuses should not be paid if the business has suffered an exceptional negative event. If some targets have been met, “shareholders should be consulted on bonus policy and any proposed payments should be carefully explained”.
• A significant proportion of bonus should be deferred and there should be the facility to reduce the level of payout if performance is not sustained. However, the use of deferral and clawback provisions do not merit an increase in the size of the award.
• Performance targets should use the reported numbers without further adjustments. Any adjustments to reported metrics should be clearly explained and the impact on the outcome detailed.
• Remuneration committees should exercise judgment about the overall performance of the company when determining awards. In particular the committee should consider how the results have been achieved and not just what was achieved. The range of discretion that can be applied to bonus awards should be disclosed. Any use of discretion and its impact on the award should be explained.
6

Long term incentive plans

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6.3 Performance share plans – time horizons 53
6.4 Performance share plans – measures and targets 54
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6.6 Performance share plans – awards vesting 60
## 6. Long term incentive plans

### 6.1 Summary of key trends

| Plan structure | • 87% of companies operate a performance share plan  
  Ten companies introduced a new plan in the last twelve months  
  Only 2% of companies operate more than one type of LTIP for their executive directors compared with 8% last year  
  80% of plans incorporate a post-vesting holding period compared with 59% last year  
  In four plans performance is measured over a period longer than three years  
  In 74% of plans (51% last year) no shares will be released for at least a period of five years from award. The majority of these combine a three year performance period with a two year holding period |
| Performance measures | • 87% of plans use more than one measure of performance and 35% incorporate three or more  
  60% of plans use measures other than TSR and EPS (55% last year)  
  TSR is used in 75% of plans and EPS is used in 71% of plans, in line with last year  
  After TSR and EPS the most common measures are return measures and specific strategic objectives  
  There has been a further increase in the number of companies where EPS is measured by an absolute growth target (rather than in relation to inflation) |
| Opportunity | • The median usual performance share award remains at 200% of salary for chief executives and 150% for other executive directors  
  In the top 50 companies the median for other executive directors is still 175% of salary  
  In companies ranked below the top 50, the median for the chief executive has increased slightly from 175% to 180% of salary  
  The median overall maximum limit (typically used only in exceptional circumstances such as recruitment) is unchanged at 200% of salary and has decreased in the top 50 companies from 270% to 200% of salary, due to changes in the constituent companies |
| Vesting | • The median vesting of awards made in 2014 was 48% of the maximum. This is lower than the prior year but in line with the preceding two years  
  There is less variation in vesting levels across sectors than in prior years  
  30% of plans did not vest, similar to prior years  
  Around 20% of plans vested in full which is similar to last year but lower than in prior years |
6.2 Long term incentive plans – overview

16 FTSE 250 companies with a long term incentive plan do not award performance shares. Of these companies, seven operate a combined annual and long-term plan, two operate restricted shares, two operate cash-based plans and two operate one-off plans.

Only 2% of companies regularly make awards under more than one long term plan, a reduction from 8% last year. These companies either grant share options or restricted shares alongside performance shares.

In total, ten companies have introduced new plans over the past twelve months, compared with 18 in the previous period.

New plans
- Ten companies introduced new plans during the past twelve months, of which all but two measure performance over three years, with two plans measuring performance (at least in part) over a five year period.
- In all but one plan, no shares are released before the fifth anniversary of grant. In this case half of any vested shares are released at the end of the three year performance period with the balance released after a further two years.
- The median potential award under these plans is 185% of salary for the CEO and 160% for other executive directors. The median overall maximum which may be used in exceptional circumstances is of 250% of salary.
- Where details are given, the median level of vesting for performance at threshold is 25% of the maximum but is lower than this under four plans.
- Under six of these plans performance is based on at least two measures. TSR is used in all but two plans and EPS in half of plans.

6.3 Performance share plans – time horizons

The usual performance period continue to be three years, though there are currently four plans based on a performance period of four or five years.

The recently published revised UK Corporate Governance Code provides that long term share awards should be subject to a total vesting and holding period of five years or more. Currently, 74% of performance share plans in FTSE 250 companies comply with this provision (51% last year).

The chart below shows the proportion of plans where performance is measured over three, four or five years as well as the length of holding period that applies.

PSP performance and holding periods

<table>
<thead>
<tr>
<th>Performance period</th>
<th>Holding period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant</td>
<td>19%</td>
</tr>
<tr>
<td>1</td>
<td>75%</td>
</tr>
<tr>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td>3</td>
<td>1%</td>
</tr>
<tr>
<td>4</td>
<td>1%</td>
</tr>
<tr>
<td>5</td>
<td>2%</td>
</tr>
<tr>
<td>&gt;5 years</td>
<td>1%</td>
</tr>
</tbody>
</table>

96% of companies operate some form of long term incentive for executive directors

In 87% of companies this is a performance share plan

The performance period is three years in 98% of plans

80% of plans have a post-vesting holding period

In 74% of plans no shares will be released for at least five years (51% last year)
The prevalence of holding periods continues to increase. Currently, 80% of performance share plans in FTSE 250 companies require vested shares to be held for a further period, compared with 59% last year and 41% in 2016.

In companies ranked below the top 50, holding periods have increased from 53% last year to 80%, and are now equally prevalent as in the larger companies.

There is also now less difference by sector, with 84% of industrial & manufacturing companies having a holding period, compared with 78% of finance & property companies and 77% of retail & services companies.

The typical time horizon remains a three year performance period and a two year holding period (75% of plans).

Only 9% of plans with a holding period release shares on a phased basis throughout the holding period.

### 6.4 Performance share plans – measures and targets

**Performance share plans – % of plans using each measure**

<table>
<thead>
<tr>
<th>Measure</th>
<th>% of Plans</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR</td>
<td>76%</td>
<td>More common in companies ranked below the top 50 (78%) than in the top 50 (68%). Little difference between industry sectors.</td>
</tr>
<tr>
<td>EPS</td>
<td>71%</td>
<td>More common in companies ranked below the top 50 (76%) than in the top 50 companies (59%). Also more common in retail &amp; services companies (86%) compared with finance &amp; property companies (53%) and industrial &amp; manufacturing companies (67%)</td>
</tr>
<tr>
<td>Return measures e.g. ROE, ROCE</td>
<td>26%</td>
<td>More common in the top 50 companies (32%) than companies ranked below this (24%) and more common in industrial &amp; manufacturing companies (30%) compared with other industry sectors.</td>
</tr>
<tr>
<td>Other strategic measures</td>
<td>21%</td>
<td>More common in the top 50 companies (27%) than companies ranked below this (21%). Less common in retail &amp; services companies (9%) than in other industry sectors.</td>
</tr>
<tr>
<td>Profit measures</td>
<td>8%</td>
<td>More common in the top 50 companies (12%) than in companies ranked below (7%).</td>
</tr>
<tr>
<td>Cash measures</td>
<td>7%</td>
<td>More common in the top 50 companies (12%) than companies ranked below this (5%). Little differentiation between sectors.</td>
</tr>
<tr>
<td>Non-financial measures</td>
<td>5%</td>
<td>Somewhat less common in the top 50 companies (2%) than in companies ranked below (6%). More common in finance &amp; property companies (8%) and retail &amp; services companies (6%).</td>
</tr>
<tr>
<td>Sales/revenue measures</td>
<td>3%</td>
<td>Not a common measure in FTSE 250 companies.</td>
</tr>
</tbody>
</table>
• TSR and EPS continue to be the most common measures in performance share plans, though they are rarely used in isolation. Over half of all plans use TSR and/or EPS in combination with other measures. A further 30% use TSR and EPS together.

• EPS is still more commonly used in smaller companies in the FTSE 250 and is far more common in retail & services companies, where it is used as one of the main measures in over 85% of plans. This compares with 53% of finance & property companies and 65% of industrial & manufacturing companies.

• Where other strategic measures are used these may include a corporate scorecard of key metrics or specific objectives such as new product development or acquisition synergies. Strategic measures are typically given a weighting of 40%.

• Where specific non-financial measures are used these may relate to metrics such as risk, customer service, safety and employee engagement. Non-financial measures are typically given a weighting of 25%.

**How TSR is measured**
Where companies use TSR as a main measure:

• The majority of plans determine TSR performance on a ranked basis against a comparator group (84% of plans).

• A straightforward ranked approach is now more common in the top 50 companies (89%) than in the smaller companies (82%), and is also more common in industrial & manufacturing companies (91%).

• 15% of plans base at least part of the TSR element on the outperformance of an index (either a synthetic index based on the ‘average’ TSR of a number of comparator companies or a recognised sector or market index).

• An index approach is more common in retail & services companies (21%) than in finance & property companies (14%) and industrial & manufacturing companies (11%).

• The above numbers include plans which use a combination of approaches. There are four plans which use both a ranked and index approach and two plans which use a combination of absolute targets and a ranked approach.

• In addition, there are five plans where the TSR element is based solely on absolute targets.

The following chart illustrates how FTSE 250 companies are currently measuring TSR.
Index TSR performance
Where the index method is used the majority of plans use an index based on a selected group of comparator companies.

Threshold vesting usually occurs for equalling the performance of the index. However, the percentage above the index that must be achieved for full vesting varies by company, ranging from 4% to 40% and more typically between 8% and 10%.

Ranked TSR performance relative to a comparator group
In all of the plans where TSR is ranked against a comparator group, the TSR of the company must be at least at median of the comparator group before any part of the award vests.

In order for the award to vest in full, all plans require at least upper quartile performance and this is the requirement for full vesting in the majority of plans in FTSE 250 companies (88%).

There is some difference by company size, with a quarter of plans in the top 50 companies currently requiring performance above upper quartile for full vesting, compared with only 8% in companies ranked below this, as shown in the following table.

Performance share plans – relative TSR performance for maximum vesting

<table>
<thead>
<tr>
<th>Comparator groups</th>
<th>FTSE 250</th>
<th>Top 50</th>
<th>Rest of FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2018</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>90th percentile</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>80th percentile</td>
<td>10%</td>
<td>8%</td>
<td>25%</td>
</tr>
<tr>
<td>75th percentile</td>
<td>87%</td>
<td>88%</td>
<td>71%</td>
</tr>
</tbody>
</table>

Companion groups
Apart from the few plans which set an absolute TSR target, most of the plans currently in place use TSR relative to a comparator group of companies. This can be a broad index, such as the FTSE 250 companies, or a more specific group of companies such as an industry sector or a small group of competitor companies.

There has been an increase in the use of a broad index and a decrease in the use of a more bespoke comparator group, compared with last year, as shown in the following table.

<table>
<thead>
<tr>
<th>Comparator groups</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad index</td>
<td>50%</td>
<td>47%</td>
<td>52%</td>
</tr>
<tr>
<td>Sector/comparator group</td>
<td>44%</td>
<td>47%</td>
<td>42%</td>
</tr>
<tr>
<td>Combination of index and comparator group</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

There are some significant differences between the industry sectors. Plans in retail & services companies are much more likely to be based on broad index comparisons and these are used in over 70% of plans, compared with around 40% of plans in other sectors.

Where a selected comparator group is used, the number of constituents typically ranges from 11 to 18, with a median of 15.
How EPS is measured
Whilst only nine plans in FTSE 250 companies are based on EPS alone, it is used as one of the main measures in 70% of plans in operation.

When setting EPS targets, past performance and growth expectations are more relevant than general market practice. However, investors will be aware of general market trends and this data can help inform the target-setting process.

Most companies using EPS set growth targets without reference to the retail price index (RPI) (59%). Measuring EPS growth relative to RPI continues to decline and is currently used in 11% of plans (17% last year).

30% of plans including EPS measures use absolute EPS targets.

There are some interesting industry trends. Finance & property companies are less likely to use EPS as a measure but where it is used, the targets are set relative to RPI in 28% of plans. EPS targets are set relative to RPI in less than 10% of plans in retail & services and industrial & manufacturing companies.

The following chart illustrates the move away from RPI related targets.

Performance share plans – EPS measures

EPS targets
The following table provides an indication of the level of EPS growth required for threshold and full vesting. For the purposes of this analysis, where growth targets are determined relative to RPI growth, we have adjusted the EPS targets based on the historic average change in RPI of 3% p.a.

There has been very little change in the EPS targets set over the past few years. There are also no substantial differences between the levels of EPS targets set in different sectors. However, as can be seen in the table below, targets are typically slightly higher in smaller companies.

Compared with FTSE 100 companies, the targets for minimum vesting are the same but the targets for maximum vesting are typically slightly higher in FTSE 250 companies than in the larger companies.
Performance share plans – EPS targets

<table>
<thead>
<tr>
<th>FTSE 250</th>
<th>Top 50</th>
<th>Rest of FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>M</td>
<td>Q3</td>
</tr>
<tr>
<td>Minimum vesting</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Maximum vesting</td>
<td>10%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Financial underpin
Investor guidelines state that the remuneration committee should satisfy itself that relative TSR performance genuinely reflects the company's underlying financial performance, and therefore, there is pressure to include an underpin relating to financial performance. 28% of all performance share plans incorporate such underpin or 'hurdle'. There is no real difference by company size or sector.

In most cases, the hurdle is of a general nature rather than requiring a specific financial target to be achieved.

Where companies do not operate a formal ‘hurdle’ of this nature, the remuneration committee may nevertheless have discretion to adjust the outcomes on the basis of overall company performance. This practice is expected to become more widespread in light of the new Corporate Governance Code provisions relating to discretion to override formulaic outcomes.

6.5 Performance share plans – opportunity

Usual maximum award
Across all FTSE 250 companies the median usual award for the chief executive remains at 200% of salary. In the companies ranked below the top 50 the median is slightly lower, at 180% of salary (175% last year).

Performance share plans – usual maximum award to the chief executive (% of salary)

| | FTSE 250 | Top 50 | Rest of FTSE 250 |
| Upper quartile | 200% | 200% | 200% | 200% | 250% | 250% | 225% | 200% | 200% | 200% |
| Median | 175% | 200% | 200% | 200% | 200% | 200% | 150% | 175% | 180% |
| Lower quartile | 150% | 150% | 150% | 150% | 150% | 150% | 150% | 150% | 150% |

Note: the chief executive's usual award is higher than that for other executive directors in 41% of FTSE 250 companies (finance & property companies: 32%; industrial & manufacturing companies: 39%; retail & services companies: 48%)

For other executive directors, the median usual award remains 150% of salary which is unchanged since 2014. The median usual award level in the top 50 companies is 175%.
Performance share plans – usual maximum award to other executive directors (% of salary)

<table>
<thead>
<tr>
<th></th>
<th>FTSE 250</th>
<th>Top 50</th>
<th>Rest of FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>200%</td>
<td>200%</td>
<td>200%</td>
</tr>
<tr>
<td>Median</td>
<td>150%</td>
<td>150%</td>
<td>150%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>125%</td>
<td>125%</td>
<td>150%</td>
</tr>
</tbody>
</table>

Overall maximum award
The overall maximum award (as defined by the policy) has not generally changed but has decreased in the top 50 companies from 270% of salary last year to 200% this year. This change is primarily due to changes in the constituents of this group, rather than companies decreasing their policy maximum.

Performance share plans – overall maximum award (% of salary)

<table>
<thead>
<tr>
<th></th>
<th>FTSE 250</th>
<th>Top 50</th>
<th>Rest of FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>300%</td>
<td>300%</td>
<td>300%</td>
</tr>
<tr>
<td>Median</td>
<td>200%</td>
<td>200%</td>
<td>200%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>200%</td>
<td>200%</td>
<td>200%</td>
</tr>
</tbody>
</table>

Note: in many companies the overall maximum would only be used in exceptional recruitment or retention circumstances

Threshold level of award
Typically, the proportion of a performance share award that may vest for achieving threshold, or median, performance is 25% of the award. This has not changed significantly over the past few years.
6.6 Performance share plans – awards vesting

The following chart and table illustrate the level of vesting of performance share awards made from 2010 to 2014. Around 60% of the awards made in 2015 vested in early 2018 but vesting will take place throughout the rest of the year and the sample is currently not fully representative. We have therefore not included an analysis of 2015 awards, although early indications are that vesting will be lower than those vesting in 2017. The median of those vesting so far this year is around 38% of maximum, with just under a third of plans not paying out.

The analysis is based on the constituents of the index at the time the award was made, not when the award vested.

In FTSE 250 companies the vesting of performance share plan awards is very variable and we have shown the level of vesting by industry sector to highlight these sectoral differences.

The level of vesting in FTSE 250 companies is typically higher than in larger FTSE 100 companies, although early indications are that this year the trend has reversed. Across the FTSE 250, typically 20% of awards vest in full and 30% vest at zero.

Awards in industrial & manufacturing companies have consistently vested at lower levels than in other industry sectors. Awards in finance & property companies have vested at significantly higher levels in recent years, though the vesting of 2014 awards has dropped to 50% of the maximum from a range of 70% – 95% for preceding awards. Proportionately more awards vest in full and fewer have zero vesting in finance & property companies than in industrial & manufacturing and retail & services companies.

Discretion has been applied to reduce the level of vesting in two companies so far in 2018.

Performance share plans – inter-quartile range of vesting

<table>
<thead>
<tr>
<th>Year</th>
<th>Median to upper quartile</th>
<th>Median</th>
<th>Lower quartile to median</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>20%</td>
<td>60%</td>
<td>80%</td>
</tr>
<tr>
<td>2011</td>
<td>40%</td>
<td>60%</td>
<td>80%</td>
</tr>
<tr>
<td>2012</td>
<td>40%</td>
<td>60%</td>
<td>80%</td>
</tr>
<tr>
<td>2013</td>
<td>40%</td>
<td>60%</td>
<td>80%</td>
</tr>
<tr>
<td>2014</td>
<td>40%</td>
<td>60%</td>
<td>80%</td>
</tr>
</tbody>
</table>

Median vesting of 2014 awards in 2017 is 48% of the maximum award.

Lower than last year, but in line with the preceding two years.
## Performance share plans – awards vesting

<table>
<thead>
<tr>
<th></th>
<th>FTSE 250</th>
<th>Finance &amp; property</th>
<th>Industrial &amp; manufacturing</th>
<th>Retail &amp; services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2014 awards vesting</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>89%</td>
<td>92%</td>
<td>90%</td>
<td>88%</td>
</tr>
<tr>
<td>Median</td>
<td>48%</td>
<td>50%</td>
<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>Q1</td>
<td>0%</td>
<td>20%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>% of companies with zero vesting</td>
<td>30%</td>
<td>19%</td>
<td>35%</td>
<td>31%</td>
</tr>
<tr>
<td>% of companies with full vesting</td>
<td>21%</td>
<td>25%</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>Number of companies in sample</td>
<td>144</td>
<td>32</td>
<td>54</td>
<td>58</td>
</tr>
<tr>
<td><strong>2013 awards vesting</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>98%</td>
<td>100%</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>Median</td>
<td>57%</td>
<td>71%</td>
<td>34%</td>
<td>49%</td>
</tr>
<tr>
<td>Q1</td>
<td>0%</td>
<td>54%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>% of companies with zero vesting</td>
<td>30%</td>
<td>9%</td>
<td>42%</td>
<td>30%</td>
</tr>
<tr>
<td>% of companies with full vesting</td>
<td>22%</td>
<td>34%</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Number of companies in sample</td>
<td>148</td>
<td>35</td>
<td>60</td>
<td>53</td>
</tr>
<tr>
<td><strong>2012 awards vesting</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>95%</td>
<td>100%</td>
<td>83%</td>
<td>94%</td>
</tr>
<tr>
<td>Median</td>
<td>50%</td>
<td>91%</td>
<td>37%</td>
<td>42%</td>
</tr>
<tr>
<td>Q1</td>
<td>0%</td>
<td>50%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>% of companies with zero vesting</td>
<td>27%</td>
<td>4%</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>% of companies with full vesting</td>
<td>19%</td>
<td>26%</td>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>Number of companies in sample</td>
<td>135</td>
<td>27</td>
<td>55</td>
<td>53</td>
</tr>
<tr>
<td><strong>2011 awards vesting</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>100%</td>
<td>100%</td>
<td>89%</td>
<td>99%</td>
</tr>
<tr>
<td>Median</td>
<td>50%</td>
<td>95%</td>
<td>47%</td>
<td>47%</td>
</tr>
<tr>
<td>Q1</td>
<td>0%</td>
<td>52%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>% of companies with zero vesting</td>
<td>30%</td>
<td>11%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>% of companies with full vesting</td>
<td>27%</td>
<td>48%</td>
<td>18%</td>
<td>26%</td>
</tr>
<tr>
<td>Number of companies in sample</td>
<td>135</td>
<td>27</td>
<td>50</td>
<td>58</td>
</tr>
<tr>
<td><strong>2010 awards vesting</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>95%</td>
</tr>
<tr>
<td>Median</td>
<td>71%</td>
<td>86%</td>
<td>75%</td>
<td>59%</td>
</tr>
<tr>
<td>Q1</td>
<td>2%</td>
<td>46%</td>
<td>28%</td>
<td>0%</td>
</tr>
<tr>
<td>% of companies with zero vesting</td>
<td>25%</td>
<td>8%</td>
<td>23%</td>
<td>34%</td>
</tr>
<tr>
<td>% of companies with full vesting</td>
<td>29%</td>
<td>38%</td>
<td>31%</td>
<td>24%</td>
</tr>
<tr>
<td>Number of companies in sample</td>
<td>134</td>
<td>24</td>
<td>52</td>
<td>58</td>
</tr>
</tbody>
</table>
Disclosure requirements – long term plans

• The policy report should include the maximum potential, a description of any performance metrics and where there is more than one measure the relative weighting. Details of the performance period over which these are measured must be included. The level of payout at threshold and other levels of performance as specified in the policy must also be disclosed. If there are no performance measures this should be explained.

• The provision that companies will not have to disclose information relating to performance measures or targets which the directors consider to be commercially sensitive also applies to long term plans, although lack of transparency for share based plans is likely to be more of an issue than for annual bonus plans and it will be important to note shareholder expectations in relation to disclosure in this area.

• Where the policy provides for the exercise of discretion the policy must clearly set out the extent of that discretion in respect of any such variation, change or amendment.

• Any malus and clawback provisions should be disclosed and the circumstances in which the committee considers it appropriate to use such provisions should also be disclosed.

• The annual remuneration report should include details of the performance measures applicable to any vesting and the relative weighting. For each measure the disclosures should also include the targets originally set, the potential level of award achievable, how the company performed against each target, any discretion exercised by the remuneration committee, how the discretion was exercised and the resulting level of award. As with the policy section, this information need not be disclosed where it is considered to be commercially sensitive but this must be explained.

• Under updated reporting requirements to apply to quoted companies reporting on financial years starting on or after 1 January 2019, companies will be required to illustrate, in the directors remuneration policy, the possible effect of a future share price increase of 50% on long-term incentive outcomes.
6. Long term incentive plans

**Guidance from investors and proxy voting agencies**

- Incentive schemes should be simple to understand. Firms should avoid operating multiple long-term schemes. Remuneration committees should choose a structure which best supports the business strategy. There are mixed views on restricted shares but where used there should be increased shareholding requirements and the level of award should be significantly reduced (by at least 50%) to take account of the increased certainty of reward.

- Award limits for the scheme and the individuals must be fully disclosed and increases in opportunity fully explained.

- Where the share price has fallen significantly remuneration committees should take this into account when determining the number of shares to be allocated. To do otherwise may have a significant impact on dilution and could result in windfall gains over the performance period.

- Clawback and malus provisions should be in place, preferably not just for financial misstatement.

- The performance period should be clearly linked to the timing of the implementation of the strategy of the business, which should be no less than three years. Shareholders would prefer longer. The use of additional holding periods is now generally expected, so that in total the performance and holding period should cover a period of at least five years.

- Performance measures and the definition of any performance measurement along with the vesting conditions should be fully explained. Retrospective disclosure of performance against targets is now a minimum expectation.

- Shareholders prefer financial measures which are linked to value creation and aligned with business strategy. Targets should be challenging but realistic. Performance can incorporate a combination of absolute and relative return measures. Some investors have a preference for ‘input’ metrics. Where operational measures are used these would be expected to include one or more measures relating to volume or growth, one or more measures relating to business efficiency or profitability and avoid the risk of providing an incentive to take undue operational or financial risks.

- Companies should use their discretion to ensure that outcomes are in line with the overall performance of the company, its future prospects and the experience of shareholders over the performance period.

- The lowering of targets should generally be reflected in a reduction of the amount that can vest and any increase in award size should be linked to more challenging targets.

- Threshold vesting amounts, which should reflect expected performance, should not be significant in relation to salary and should be no more than 25% of maximum. However, vesting levels of 25% may be considered inappropriate if LTIP grants represent large multiples of salary.

- Uncapped incentive plans (such as value creation type plans) are unlikely to be supported.

- Dividends relating to the performance period may be paid retrospectively on shares retained after the performance targets have been measured, but no dividends should be paid on any part of the award.
7

Total compensation

7.1 Summary of key trends

7.2 Single total figure
7. Total compensation

7.1 Summary of key trends

<table>
<thead>
<tr>
<th>Description</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median single figure for the chief executive has decreased by around 4% to £1.68m.</td>
<td></td>
</tr>
<tr>
<td>In the top 50 companies, the median figure has increased (13%). In companies ranked below this it is unchanged from last year.</td>
<td></td>
</tr>
<tr>
<td>Across the sectors, the median figure has decreased in finance &amp; property and retail &amp; services companies (by 5% and 2% respectively) and increased by 1% in industrial &amp; manufacturing companies.</td>
<td></td>
</tr>
<tr>
<td>Median single figure for the chief financial officer has increased by 4% to £0.95m.</td>
<td></td>
</tr>
<tr>
<td>There is a very wide range of total pay outcomes. The range is more pronounced for chief executives (from £0.2m to £12m) but is also significant for chief financial officers (from £0.2m to £4.3m).</td>
<td></td>
</tr>
</tbody>
</table>

7.2 Single total figure

The single total figure is a simple summary of an executive directors’ total remuneration for the year and is therefore the headline figure that comes under the greatest level of scrutiny in the media.

Variable awards are disclosed once there are no more outstanding performance conditions that must be satisfied. The value will reflect the extent to which the performance conditions have been met, as well as the extent of any share price growth over the period and dividends paid.

The single figure provides a snapshot of remuneration in any given year and does not necessarily represent the value of the ongoing remuneration package for a role.

Given the many factors influencing the single figure, it would be inappropriate to use this number in order to benchmark pay, although it is a useful indicator of the annual remuneration paid to an executive director in any given year. These factors include:

- Since 60% to 80% of pay for senior executives is performance related, it follows that the single figure is to a large extent driven by the performance of the company. This may relate to performance over a number of years.
- A significant proportion of executive directors’ remuneration is delivered in shares and therefore movements in share price have a significant impact on the amount disclosed in the single figure table. Since share price movements are influenced not only by company performance but also by general market conditions, the single figure may not always directly reflect underlying company performance.
- The single figure is a snapshot of the current executive directors of the current FTSE 250 and year on year comparisons are therefore influenced by changes in incumbents and changes in the constituents of the FTSE 250 index. It is also important to note that where an executive director has only been in the role for a short period of time, there may be no long term incentive award vesting in the year being reported on, or the award may relate to a previous role rather than the current position. For the purposes of the analyses, executive directors who have been in role for less than twelve months have been excluded. However, the data still includes individuals who are relatively new in role and do not have long term incentive awards vesting in the year being reported on.
• Any buyout and retention awards, or other payments such as relocation provisions, may also be included. These may not reflect the ongoing remuneration package for the director, being typically one-off in nature.

When comparing to the prior year, those in the sample last year have been restated from the more recent annual report. This restatement often takes place if there was an estimate in long term incentive plan vesting or in the share price used to value vested awards in the previous year’s single figure.

### Single total figure – chief executive

<table>
<thead>
<tr>
<th></th>
<th>FTSE 250</th>
<th>Rest of 250</th>
<th>Top 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper quartile</td>
<td>£2,517,800</td>
<td>£2,564,200</td>
<td>£2,726,000</td>
</tr>
<tr>
<td>Median</td>
<td>£1,574,700</td>
<td>£1,747,400</td>
<td>£1,680,000</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>£997,000</td>
<td>£1,091,000</td>
<td>£1,150,000</td>
</tr>
</tbody>
</table>

### Single total figure – chief financial officer

<table>
<thead>
<tr>
<th></th>
<th>FTSE 250</th>
<th>Rest of 250</th>
<th>Top 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper quartile</td>
<td>£1,522,000</td>
<td>£1,331,500</td>
<td>£1,408,800</td>
</tr>
<tr>
<td>Median</td>
<td>£945,200</td>
<td>£911,500</td>
<td>£948,700</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>£671,000</td>
<td>£675,400</td>
<td>£712,500</td>
</tr>
</tbody>
</table>

The charts below show the value of the single figure for each company against its average annual market capitalisation and show that there is some correlation between company size and the single total figure values (note that a small number of outliers have been excluded).

**FTSE 250 Chief executives**

![Graph showing correlation between market capitalisation and total single figure for FTSE 250 chief executives.](image-url)
Malus and clawback

8.1 Summary of key trends

8.2 Malus and clawback provisions
8. Malus and clawback

8.1 Summary of key trends

| Annual bonus plans | • 85% of companies have provisions in place to claw back cash bonuses (78% last year)  
|                    | • 67% of companies have provisions to apply malus to unvested deferred shares and 58% can claw back deferred shares post vesting (62% and 50% respectively last year)  
|                    | • Of those disclosing the period over which clawback can be applied, the most common period is three years, which is in place in over half of companies  
| Long term incentive plans | • Around 90% of companies have some form of malus and/or clawback provisions in place in the long term incentive plan  
|                        | • Almost 90% of companies now have provisions in place to claw back awards which have vested (83% last year)  
|                        | • Most commonly the clawback period is two years (typically the two year holding period where this exists)  

8.2 Malus and clawback provisions

Over the past year the number of companies with malus and clawback provisions in place has continued to increase. Companies are generally providing more details about provisions as well as the circumstances in which they may be applied.

As far as we are aware, no FTSE 250 company has operated malus or clawback for executive directors during the past year.

Annual bonus

• 93% of FTSE 250 companies now have some form of malus and/or clawback provisions relating to the annual bonus, which is similar to last year.

• There is some difference by size or industry sector with provisions more common in industrial & manufacturing companies (99%) and less common in finance & property companies (86%).

• Clawback of cash bonus – we are continuing to see an increase in the number of companies where the cash bonus can be clawed back after payment. As far as we can determine from the disclosures, currently 85% of FTSE 250 companies have provisions allowing cash bonuses to be clawed back compared with 78% last year.

• Malus applying to unvested deferred shares – these provisions vary more by size and by industry.

  This provision is now in place in almost 70% of FTSE 250 companies overall but remains more common in the top 50 companies (84%) than in those ranked below this (61%). It is also more common in finance & property companies (around 76%) compared with only around 60% of retail & services companies and around 65% of finance & property companies.

• Clawback of deferred shares after release – these provisions are slightly less common and almost 60% of companies currently have them in place, an increase from 50% last year. There are also significant variations by company size, with provisions more common in the top 50 companies (76%) compared with only a half of companies ranked below this. Again, finance & property companies are more likely to include provisions of this nature (70%) than other industry sectors.

In addition to this, around 10% of companies specifically state that bonus clawback can be effected by reducing other outstanding or future awards.
The table below illustrates how the provisions can be applied.

### Provisions applicable to annual bonus

<table>
<thead>
<tr>
<th></th>
<th>FTSE 250</th>
<th>Top 50</th>
<th>Rest of FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clawback (recovery) of cash bonus</td>
<td>85%</td>
<td>88%</td>
<td>85%</td>
</tr>
<tr>
<td>Lapse of deferred shares (malus)</td>
<td>67%</td>
<td>84%</td>
<td>61%</td>
</tr>
<tr>
<td>Clawback (recovery) of deferred shares</td>
<td>58%</td>
<td>76%</td>
<td>51%</td>
</tr>
</tbody>
</table>

### Long term incentive plans

91% of FTSE 250 companies now have some form of clawback and/or malus provisions relating to long term incentive awards which is a slight increase from last year. There are no particular differences by company size. On an industry basis provisions are slightly less common in finance & property companies.

The table below illustrates how the provisions can be applied to long term incentive awards. For the purpose of this analysis, where provisions allow for awards to lapse or be reduced during a holding period after the end of a performance period, we have classified this as clawback rather than malus.

In some cases it is not always clear in what way the provisions may be applied, however, our analysis suggests:

- 83% of companies have the ability to apply malus to long term share awards.
- 88% of companies have provisions allowing vested shares to be clawed back compared with around 83% last year. There is little difference by company size but provisions are slightly more common in retail & services companies.
- Around 15% of companies specifically state that clawback of long term awards can be effected by reducing other outstanding or future awards.

### Provisions applicable to long term incentive awards

<table>
<thead>
<tr>
<th></th>
<th>FTSE 250</th>
<th>Top 50</th>
<th>Rest of FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lapse of shares (malus)</td>
<td>83%</td>
<td>86%</td>
<td>82%</td>
</tr>
<tr>
<td>Clawback (recovery) of shares</td>
<td>88%</td>
<td>88%</td>
<td>87%</td>
</tr>
</tbody>
</table>

### Circumstances that trigger malus and/or clawback

Although most of the companies disclose some details of the circumstances, it should be noted that not all companies do so. It is also worth noting that in most cases where it is disclosed, the list is not intended to be exhaustive so there are usually other situations where the provisions may be applied. Percentages are calculated based on the number of companies disclosing the circumstances in which malus and/or clawback may be applied.

It should also be noted that most companies provide information on how the provisions apply to incentive awards generally, so this data is applicable to all incentive plans.

The most common circumstances mentioned are the misstatement of results, an error in the calculations of the level of payout/vesting and misconduct on the part of the participant. Reputational damage is cited as a trigger to apply malus and/or clawback in around a third of FTSE 250 companies.
Only around 5% of companies disclose that they would apply malus and/or clawback for reasons of performance not being sustained over the deferral/holding period. However, as noted above, the disclosed reasons are typically not exhaustive and there may be other situations where the provisions could be triggered. This may particularly be the case for financial services companies who are subject to additional regulations around pay. It is therefore not surprising that of the eleven companies disclosing that malus could be triggered where performance has not been sustained, the majority of these are financial services companies.

The following table shows the range of circumstances in which the malus and clawback provisions may be triggered, as disclosed in the remuneration report.

### Circumstances in which provisions may be applied – % of those disclosing

<table>
<thead>
<tr>
<th>Circumstance</th>
<th>Malus</th>
<th>Clawback</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misstatement of results or an error in performance calculations</td>
<td>90%</td>
<td>98%</td>
</tr>
<tr>
<td>Misconduct</td>
<td>84%</td>
<td>90%</td>
</tr>
<tr>
<td>Reputational damage</td>
<td>36%</td>
<td>31%</td>
</tr>
<tr>
<td>Failure of risk management and control</td>
<td>24%</td>
<td>20%</td>
</tr>
<tr>
<td>Performance not sustained</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Other reasons</td>
<td>47%</td>
<td>47%</td>
</tr>
</tbody>
</table>

The most common other reasons given are breaches of health and safety codes, fraud, inappropriate behaviour, censure from a regulatory authority, and where there has been an exceptional negative event.

### Period over which provisions may apply

Where there are clawback provisions on the cash bonus, almost 70% of companies disclose the period over which the provisions apply, compared with almost 80% disclosing the period over which they apply to long term incentives.

Most commonly this period is two or three years. It is also worth noting that there are specific clawback requirements for certain financial services companies; this requirement is seven years, extending to ten years in circumstances where the company or a regulatory authority has commenced an investigation which could potentially lead to the application of clawback.

The charts below illustrate the number of years over which clawback may apply to the annual bonus and long term incentive plans.
9

Pensions

9.1 Future company policy 74
9.2 Current participation 74
9.3 Defined contribution plans 75
9. Pensions

The analysis of executive directors’ pensions in FTSE 250 companies includes those who participate in either defined contribution plans, or where an allowance is paid into a personal pension plans, or as a salary supplement, as well as those who participate in defined benefit plans. Where participation in the defined benefit plan is subject to an earnings cap and unapproved plans operate on earnings above this cap, this is categorised as participation in a defined benefit plan only. For the purposes of these analyses we have excluded individuals who belong to non-UK retirement plans.

9.1 Future company policy

The majority of companies disclose the pension policy that will apply to new appointments going forward. This often differs from the legacy arrangements for existing directors. Within the policy there is often an element of choice about whether to participate in a company pension plan or take a cash allowance.

Although a number of directors in FTSE 250 companies still participate in defined benefit plans, only two companies now appear to operate a policy which may provide this benefit to new appointments.

Last year, there were calls from some investors and investor bodies for companies to ensure that pension provision is aligned with the wider workforce and this is reflected in the provisions of the revised Corporate Governance Code. Since last year, 17 companies have updated the pension policy, reducing the pension allowance for new appointments, and two companies introduced a cap on contributions for new appointments. This is a trend we expect to continue.

<table>
<thead>
<tr>
<th>Pension policy for new appointments</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of companies</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Defined benefit plan</td>
</tr>
<tr>
<td>Defined contribution/ pension allowance</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>No pension provision</td>
</tr>
</tbody>
</table>

9.2 Current participation

Current practice for existing executive directors, some of whom will have been employed by the company for many years, reflects the various pension regimes in place over the years rather than what would be offered to a new appointment.

7% of executive directors in FTSE 250 companies have no pension provision or do not participate in any company pension arrangements, and have been excluded from these analyses. In addition, we have excluded those individuals participating in non-UK arrangements or where arrangements for new appointments are not yet fully disclosed.

The vast majority of executive directors in FTSE 250 companies either participate in a defined contribution plan, receive a cash supplement or a contribution to a personal plan. Only 4% now participate in defined benefit plans which is the same as last year.

It is worth noting that in the top 50 companies there are currently no chief executives participating in defined benefit arrangements. For other executive directors there is no significant difference by company size. Defined benefit arrangements continue to be less common in finance & property companies.
Participation in defined benefit or defined contribution pension plan – by position

<table>
<thead>
<tr>
<th>% of executive directors</th>
<th>Chief executive</th>
<th>Other executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit plan</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Defined contribution plan, cash supplement or contribution to personal pension plan</td>
<td>95%</td>
<td>97%</td>
</tr>
</tbody>
</table>

9.3 Defined contribution plans

The following tables include contributions, as a percentage of salary, to defined contribution plans, personal pension plans, pension allowances and salary supplements. Where directors have opted out of defined benefit plans and are now in receipt of a salary supplement, these are also included. Salary supplements on earnings above a notional earnings cap, where directors remain in a defined benefit plan, are not included.

There is no change in the typical range of contributions in the recruitment policies in FTSE 250 companies, which is between 15% and 25% of salary with a median of 20%. However, the inter-quartile range for the chief executive across has decreased from 15% – 23% to 15% – 20%.

In companies where the recruitment policy is disclosed for both the chief executive and other directors, the chief executive has a higher contribution level in only around 5% of companies which is similar to last year.

Value of contribution to defined contribution plan (including employer contributions to personal pensions and salary supplement) (% of salary)

<table>
<thead>
<tr>
<th></th>
<th>Chief executive</th>
<th>Other executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>M</td>
<td>Q3</td>
</tr>
<tr>
<td>FTSE 250</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Top 50</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Rest of FTSE 250</td>
<td>15%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Disclosure requirements – pensions
In the policy report details of the policy in relation to pension provision for executive directors must be given. Along with the other elements of the package information is required relating to how the pension plan, or plans, operate and the maximum that may be paid. Where there is more than one plan currently in operation it is important to make reference to this and to highlight previous policy and the policy that will apply to future appointments.

The annual remuneration report must include a number of details relating to any pension entitlement for defined benefit schemes. This includes details of any provisions in relation to early retirement. The pension value must also be included in the ‘single number’ disclosure. This should include payments in lieu of retirement benefits and any benefits from participation in pension schemes. The methodology for valuing participation in a defined benefit plan is provided in the regulations. The pension value should include benefits arising in respect of participation in more than one plan and companies may want to provide details where this is the case. Although no longer a regulatory requirement, best practice guidance suggests that companies may want to consider including details of the transfer value.

Guidance from investors and proxy voting agencies
• Pension related payments should not be used as a mechanism for increasing total remuneration.
• The pension provision should be in line with those of the wider workforce and any difference should be disclosed and justified.
• Directors should not be offered an unreduced pension on early retirement unless there are exceptional circumstances.
• Payments in lieu of participation in a pension plan should be clearly disclosed and treated as a separate non-salary benefit. They should not be included in the calculation of bonus payments and share plan awards.
• Compensation for changes in tax relief is not acceptable.
10

Exit and recruitment policy

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10.2 Termination payments  78
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10. Exit and recruitment policy

10.1 Notice periods

The analysis of notice periods is based on the disclosed policy that would typically apply to any new appointments.

- Twelve months continues to be the typical notice period offered for executive directors. As in the previous year, only 14% of FTSE 250 companies have a stated policy of a notice period of less than twelve months.

- Notice periods of less than twelve months continue to be significantly more common in finance & property companies than in other sectors, with around 30% of these companies having shorter notice periods. This compares to 8% in industrial & manufacturing companies and 12% in retail & services companies.

- 96% of FTSE 250 companies have notice periods of the same length for both the chief executive and other executive directors.

- Retail & services companies are more likely to have a longer initial fixed term (21%) than industrial & manufacturing companies (10%) and finance & property companies (16%).

- In just under 30% of companies the notice period required by the company is different to that required by the executive director. In these cases the notice period will typically be twelve months from the company and six months from the executive director.

The tables below show the current policy on notice periods.

### Notice periods – from employer to executive director

<table>
<thead>
<tr>
<th>Notice periods – from employer to executive director</th>
<th>FTSE 250</th>
<th>Finance &amp; property</th>
<th>Industrial &amp; manufacturing</th>
<th>Retail &amp; services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 12 month rolling notice period</td>
<td>16%</td>
<td>29%</td>
<td>9%</td>
<td>14%</td>
</tr>
<tr>
<td>12 month rolling notice period</td>
<td>84%</td>
<td>71%</td>
<td>91%</td>
<td>86%</td>
</tr>
<tr>
<td>Longer initial fixed term for new appointments or key positions</td>
<td>16%</td>
<td>16%</td>
<td>10%</td>
<td>21%</td>
</tr>
</tbody>
</table>

### Notice periods – from executive director to employer

<table>
<thead>
<tr>
<th>Notice periods – from executive director to employer</th>
<th>FTSE 250</th>
<th>Finance &amp; property</th>
<th>Industrial &amp; manufacturing</th>
<th>Retail &amp; services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 12 month rolling notice period</td>
<td>34%</td>
<td>38%</td>
<td>37%</td>
<td>28%</td>
</tr>
<tr>
<td>12 month rolling notice period</td>
<td>66%</td>
<td>62%</td>
<td>63%</td>
<td>72%</td>
</tr>
</tbody>
</table>

10.2 Termination payments

Termination payments remain an area of focus for investors with particular emphasis on companies explaining and justifying any payments made. This scrutiny and the continued evolution of disclosure requirements means that generally, disclosure relating to termination payments has improved. However, information can still be unclear on occasions.

The elements typically included in the termination payment can vary as can be seen in the table below.

Shareholders remain uncomfortable with the potential to include any element of bonus in the termination payment and this practice continues to be less common. Currently, some element of bonus is included in the termination payment in only 5% of FTSE 250 companies.
According to our analysis, currently no top 50 companies have an element of the bonus within the termination payment. For companies ranked below the top 50 this figure is 7%.

There is some difference between sectors, with 8% of finance & property companies and 6% of retail & services companies having an element of the bonus within the termination payment, compared to only 3% of industrial & manufacturing companies.

### Elements of remuneration included in termination payment

<table>
<thead>
<tr>
<th>FTSE 250</th>
<th>Salary</th>
<th>14%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary and benefits</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Salary and pension</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Salary, bonus and benefits</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Salary, bonus and pension</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Salary, benefits and pension</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>Salary, bonus, benefits and pension</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>

**Mitigation and phased payments**

Based on current disclosures, 71% of FTSE 250 companies make a specific reference to requiring directors to mitigate their losses, which is slightly higher than last year.

Almost half of FTSE 250 companies state that where appropriate the termination payment will be phased or paid in instalments, usually with payments ceasing or reducing should the director find alternative employment. Within FTSE 250 companies there is no significant difference by industry sector but phased termination payments are more common in top 50 companies (58%).

### 10.3 Recruitment policy

Recruitment arrangements continue to be a key area of focus for shareholders when considering the way in which companies implement their approved remuneration policies.

#### Limits on variable awards

The charts below illustrate current practice in relation to the maximum variable awards that may be made on recruitment in FTSE 250 companies. Typically, the maximum on recruitment is in line with either the exceptional policy limits, or the normal policy limits, although in the top 50 companies there is a greater tendency to keep within the normal policy limits than is seen in companies ranked below this.

#### Limits on variable awards in recruitment arrangements

- **FTSE 250**:
  - 6%: Variable limit is within normal policy limits
  - 3%: Variable limit is within normal policy limits but can exceed with overall maximum disclosed as part of recruitment policy
  - 47%: Variable limit is normally within policy but can exceed with no disclosed maximum

- **Top 50**:
  - 6%: Variable limit is within normal policy limits
  - 2%: Variable limit is within normal policy limits but can exceed with overall maximum disclosed as part of recruitment policy
  - 58%: Variable limit is normally within policy but can exceed with no disclosed maximum

- **Rest of 250**:
  - 7%: Variable limit is within normal policy limits
  - 3%: Variable limit is within normal policy limits but can exceed with overall maximum disclosed as part of recruitment policy
  - 43%: Variable limit is normally within policy but can exceed with no disclosed maximum
46% of companies specifically state that different performance measures and targets may be set for recruitment awards. This practice is less common in FTSE 100 companies (around a quarter).

Listing Rule 9.4.2 allows companies to make variable recruitment awards under a one-off plan established specifically to facilitate the recruitment or retention of an individual. 50% of FTSE 250 companies specifically mention the facility to use this provision when making awards to new appointments.

**Disclosure requirements – service contracts, recruitment and termination payments**

The policy report must include details of all existing provisions that relate to directors remuneration. Companies will also need to set out the approach to exit payments.

During the year, in the event of a director leaving the Board, a company is required to issue a statement on their website as soon as reasonably practical setting out how the exit payment has been calculated. In the section on how policy has been implemented in the past year companies will be required to restate these details and this should include the total amount of any payment for loss of office, broken down into the key elements, an explanation of how each element was calculated and an explanation of how the discretion allowed for within the policy on exit payments was exercised.

**Guidance from investors and proxy voting agencies**

- Boards are ‘strongly encouraged’ to consider notice periods shorter than twelve months and should provide for a maximum notice period of one year. If the company requires a longer term for recruitment purposes the notice period should reduce each month until the normal twelve month duration is reached.

- Companies should have a policy for new service contracts that limits the termination payment to one year’s salary and benefits. All payments should be subject to phased payment and mitigation.

- New contracts should have equal notice periods for both the company and the director.

- Ex gratia or special payments on termination are unlikely to be supported.

- The remuneration committee should carefully consider what commitments (including pension) the contracts would entail in the event of early termination.

- Contracts should not provide additional compensation for severance as a result of change of control.

- When contracts are negotiated the remuneration committee should consider the reputational risk of having to make large payments in the event of termination due to failure to perform.

- Non-contractual payments should be linked to performance. If a director’s contract is terminated due to poor corporate performance the severance payment should relate to salary only and not discretionary elements.

- The remuneration committee should identify parameters for the pay of new appointees. When recruiting executive directors, companies should pay no more than is necessary and should fully justify payments to shareholders.

- The remuneration policy should contain sufficient flexibility to recruit executive directors. Any additional recruitment limits should be clearly justified in the remuneration policy. Companies should only seek approval to operate outside the remuneration policy in genuinely exceptional circumstances. Any significant differences between the normal policy and the recruitment policy should be clearly justified.

- One off payments or special awards are not typically supported.
11 Shareholding

11.1 Required shareholding

11.2 Value of shareholding
11. Shareholding

11.1 Required shareholding

Around 90% of companies currently have a formal shareholding requirement for the executive directors. This is lower than in the FTSE 100 where only three companies do not have a requirement in place. However, a further six FTSE 250 companies ‘encourage’ directors to hold a specified number of shares meaning that almost 95% of companies have guidelines in place. Overall:

- Half of companies state the number of years over which the director must attain the required shareholding, with around 85% of these allowing five years. Only five companies allow individuals longer than five years to acquire the shares. Seven companies allow less than five years.
- 63% of companies explicitly restrict the sale of vested shares from incentive plans until the shareholding is achieved. Of these companies, 64% require half the vested shares (net of tax) to be retained until the guidelines are met, with around a third requiring all vested shares to be retained.
- Eight companies now have post termination requirements to retain shares, compared with just one company last year. The revised Corporate Governance Code now requires companies to develop a formal policy for post-employment shareholding requirements and therefore we expect to see a significant shift in the coming year.

**Level of shareholding**

The voting guidance of both the PLSA and ISS recommends shareholding guidelines of at least 200%. Other investors have taken this further, with Hermes suggesting a holding of 500% of salary is appropriate for a FTSE 100 company and Blackrock suggesting that the requirement should be to hold shares equal to the aggregate variable pay. The effect of this is that we continue to see the level of shareholding requirements increase.

- Over the past year, 14% of FTSE 250 companies increased the shareholding requirements for executive directors. Nine companies introduced guidelines for the first time.
- The median shareholding requirement for executive directors in FTSE 250 companies remains unchanged at 200%.
- In those companies with requirements, 93% of chief executives (83% last year) and 76% of executive directors (56% last year) are required to hold at least 200% of salary in shares. 16% of chief executives are now required to hold at least 300% of salary in shares. Around a third of top 50 companies have requirements of 300% of salary or higher for the chief executive.

The following table shows the median and quartile shareholding requirements in FTSE 250 companies.

**Level of shareholding required – % of salary**

<table>
<thead>
<tr>
<th></th>
<th>Chief executive</th>
<th>Other executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FTSE 250</td>
<td>Top 50</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>250%</td>
<td>300%</td>
</tr>
<tr>
<td>Median</td>
<td>200%</td>
<td>200%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>200%</td>
<td>200%</td>
</tr>
</tbody>
</table>
The charts below show the range of shareholding in FTSE 250 companies.

**Level of shareholding required – chief executive**

<table>
<thead>
<tr>
<th>% of companies</th>
<th>FTSE 250</th>
<th>Top 50</th>
<th>Rest of FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td>500% or more</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>400 - 499%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>300 - 399%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200 - 299%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 - 199%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Level of shareholding required – other executive directors**

<table>
<thead>
<tr>
<th>% of companies</th>
<th>FTSE 250</th>
<th>Top 50</th>
<th>Rest of FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td>500% or more</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>400 - 499%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>300 - 399%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200 - 299%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 - 199%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**11.2 Value of shareholding**

To assess the degree to which directors achieve the required shareholdings, we have analysed the value of the shareholding of each individual executive director based on the number of shares held at the end of the financial period, as disclosed in the annual report. The value of the shareholding has been calculated as a multiple of salary using the share price and the salary at the year end. This is based on shares beneficially owned and does not include unvested share awards or deferred shares.

We have excluded any individuals appointed within twelve months of the year end and executives at companies that have floated during the year. In both instances, there may have been little time to build up any shareholdings and in the latter instance individuals may have realised a large number of shares upon listing.

The following chart shows the value of the shares currently held by executive directors in FTSE 250 companies.
Value of shareholding – FTSE 250

<table>
<thead>
<tr>
<th>% of positions</th>
<th>Chief executive</th>
<th>Other executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>500% or more</td>
<td></td>
<td></td>
</tr>
<tr>
<td>400 - 499%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>300 - 399%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200 - 299%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 - 199%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 - 99%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Our key findings for FTSE 250 companies are:

- Almost 70% of chief executives and 55% of other executive directors hold shares in excess of the required guidelines.
- 20% of chief executives and 34% of other executive directors hold less than one times salary in shares.
- Almost 53% of chief executives and 30% of other executive directors have shareholdings worth more than five times salary.
- The median value of the chief executive’s shareholding is 580% of salary and for other executive directors it is 240%.
- In the top 50 companies the median value of the chief executive’s shareholding is around 710%, whereas in the rest of the FTSE 250 it is about 530%.
- For other executive directors in the top 50 companies the median value of shareholding is about 300% of salary. For the rest of the FTSE 250 it is 230% of salary.
- Shareholdings are higher in finance & property companies, where the median for the chief executive is just over 730% and for other executive directors is around 425%.
- Shareholdings are lower in industrial & manufacturing companies, where the median is around 345% for the chief executive and around 130% for other executive directors. The median figures for retail & services companies are 645% and 220% respectively.

The following table shows how the median shareholding values vary by length of service.

### Median value of shareholding

<table>
<thead>
<tr>
<th>Length of service</th>
<th>Chief executive</th>
<th>Other executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than three years’ service</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Three to five years’ service</td>
<td>210%</td>
<td>115%</td>
</tr>
<tr>
<td>Five to ten years’ service</td>
<td>590%</td>
<td>400%</td>
</tr>
<tr>
<td>Greater than ten years’ service</td>
<td>1940%</td>
<td>680%</td>
</tr>
</tbody>
</table>
Disclosure requirements – shareholding
In the annual remuneration report companies are required to disclose share ownership requirements and whether they have been met. Companies are also required to disclose the total number of shares and share options that each director owns outright, the number subject to deferral and the number subject to performance conditions. In practice most companies are also including the details of shareholding requirements in the policy report.

Guidance from investors and proxy voting agencies
• Executive directors and senior executives should build up significant shareholdings and should be encouraged to purchase shares using their own resources.
• A shareholding of twice salary is considered a minimum requirement.
• Post-employment shareholding requirements should be considered.
• Shares should only count towards the executive’s shareholding guideline if vesting is not subject to any further performance or other conditions such as continued employment. Shares which are vested, but which remain subject to a holding period and/or clawback, may count towards the holding requirement.
• Shareholding requirements are not a substitute for performance conditions in share based plans.
12 Non-executive directors’ fees

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12.2 Fee increases  88
12.3 Fee levels  89
12.4 Paying non-executive directors in shares  92
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12. Non-executive directors’ fees

12.1 Summary of key trends

Around 54% of companies are not, or do not anticipate, increasing non-executive fees during 2018, compared with around 60% of companies in 2017 (55% in 2016).

The chair’s fees are not being increased in 55% of companies, compared with 62% last year.

Most increases continue to be around 2% to 3%. Increases in excess of 5% have only been awarded to non-executive directors in 10% of companies and to 15% of chairs.

The median increase for 2018 remains at zero as it has been for a number of years.

There is little difference by company size and across broad industry, however, more companies in the finance & property sector have given an increase in excess of 5% to non-executive directors than in other industry sectors.

12.2 Fee increases

Although a number of companies only review the fees of non-executive directors every two or three years, it is now more common to conduct more regular fee reviews. Our data suggests that in over 80% of those disclosing this information the fees are reviewed every year. However, as the data below illustrates, a review does not always result in a fee increase.

The tables below show the range and average of the fee increases so far reported for 2018.

**Fee increases for 2018**

<table>
<thead>
<tr>
<th>% of companies</th>
<th>Chair</th>
<th>Non-executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero increase</td>
<td>55%</td>
<td>54%</td>
</tr>
<tr>
<td>1% to 5% increase</td>
<td>30%</td>
<td>36%</td>
</tr>
<tr>
<td>5% to 10% increase</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Over 10% increase</td>
<td>9%</td>
<td>4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% increase</th>
<th>Chair</th>
<th>Non-executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper quartile</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Median</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Average</td>
<td>2.7%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>
12.3 Fee levels

The data on fee levels is based on the fee policy disclosed in the remuneration reports rather than the actual fees received by individual non-executive directors, which are influenced by the particular location and committee responsibilities of the individual. The policy data relates to companies with financial periods ending between March 2017 and February 2018. Most of these companies provide information on the fee levels for the following financial period, or an indication of the increase to be made to fee levels, although some only provide the fees for the financial period under review.

The analyses attempt to reflect the most up to date information, therefore:

- Where disclosed we have included the fee policy effective in 2018.
- Where the current fees are not provided, we have taken the fee policy in effect for the financial period under review.
- In some cases, for example where a non-executive director has been appointed to the role of chair during the year, it may not be possible to ascertain the fee level for the new position.

Summary of key trends

| The fees for the chair typically range from £175,000 to £275,000 p.a. in FTSE 250 companies with a median of £222,500 p.a. (£204,000 p.a. last year). |
| The chair’s fees are clearly influenced by company size. The median basic fee for the chair in the top 50 companies is significantly higher at £280,000 p.a., compared with £195,000 p.a. in companies ranked below this. |
| There is no significant difference between industry sectors although fees are likely to be slightly lower in industrial & manufacturing companies. |
| The median basic fee for a non-executive director is £54,500 p.a., 5% higher than last year. The fees typically range from £50,000 to £60,000 p.a. |
| The median fee in the top 50 companies is £60,000 p.a. compared with £52,000 p.a. in companies ranked below. |
| Fees in finance & property companies are likely to be slightly higher than in other industry sectors. |
| The total fees (basic fee plus committee chair fee) for a non-executive director chairing a board committee are on average around 15% to 20% higher than the basic fee alone. |
| The median total fee for the chair of the remuneration committee is £64,000 p.a. and for the chair of the audit committee is £65,000 p.a. |
| Total fees for the senior independent director (basic fee plus additional SID fee) are very similar to those of a non-executive director chairing a board committee. |
| Median additional fee for chairing the remuneration committee remains at £10,000 p.a. across all FTSE 250 companies compared to £14,500 p.a. in the top 50 companies. The median additional fee in finance & property companies is £15,000 p.a. |
| Median additional fee for chairing the audit committee remains at £10,000 p.a. across all FTSE 250 companies. Median additional fees are higher in the top 50 companies and in finance & property companies at £15,000 p.a. |
12.3.1 Non-executive chair
The fee levels for non-executive chair positions tend to be influenced by two main factors – company size and the number of days’ service required. Few companies disclose information regarding the time commitment of the chair. In our experience this typically ranges from one to two days a week in FTSE 250 companies. The level of commitment will also be influenced by the board structure and the nature of the role.

Non-executive chair fees by company size

<table>
<thead>
<tr>
<th></th>
<th>Q1 £</th>
<th>Median £</th>
<th>Q3 £</th>
<th>Average £</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 250</td>
<td>175,000</td>
<td>222,500</td>
<td>275,000</td>
<td>228,500</td>
</tr>
<tr>
<td>Top 50 companies</td>
<td>236,500</td>
<td>280,000</td>
<td>345,500</td>
<td>288,000</td>
</tr>
<tr>
<td>Rest of FTSE 250</td>
<td>167,500</td>
<td>195,000</td>
<td>250,000</td>
<td>208,000</td>
</tr>
</tbody>
</table>

12.3.2 Basic non-executive director fees
The fees for non-executive directors will also be influenced by company size and the number of days’ service required. Few companies disclose information regarding the time commitment of the non-executive directors. Our experience suggests that non-executive directors serving on two committees will typically provide between 15 and 20 days’ service a year, although the time commitment can be considerably more where the level of activity is much higher.

Basic fee policy by company size

<table>
<thead>
<tr>
<th></th>
<th>Q1 £</th>
<th>Median £</th>
<th>Q3 £</th>
<th>Average £</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 250</td>
<td>50,000</td>
<td>54,500</td>
<td>60,000</td>
<td>56,000</td>
</tr>
<tr>
<td>Top 50 companies</td>
<td>55,000</td>
<td>60,000</td>
<td>65,000</td>
<td>61,500</td>
</tr>
<tr>
<td>Rest of FTSE 250</td>
<td>49,000</td>
<td>52,000</td>
<td>60,000</td>
<td>55,000</td>
</tr>
</tbody>
</table>

12.3.3 Additional fees
In most companies the policy includes a basic fee and separate committee chair fees, usually for the remuneration and audit committees. Additional fees for chairing the nomination committee are less common as this committee is typically chaired by the company chair, who receives an inclusive fee.

Some companies differentiate between different committees and, where this is the case, the fees for chairing the audit committee will typically be higher than for other committees. In FTSE 250 companies, 16% of those disclosing committee fees pay a higher fee for chairing the audit committee. This compares with over a third of FTSE 100 companies paying a higher fee for chairing the audit committee than for other committees.

Additional fees for committee membership are disclosed in less than a quarter of companies, typically for the audit and remuneration committees. In many companies all the non-executive directors will be members of the nomination committee and therefore this may be considered to be covered under the basic fee.

The following table shows the range of additional fees, where these are identified separately, and the number of companies disclosing separate fees.
### Additional fees

<table>
<thead>
<tr>
<th></th>
<th>SID fees</th>
<th>Remuneration committee member</th>
<th>Audit committee member</th>
<th>Nomination committee member</th>
<th>Remuneration committee chair</th>
<th>Audit committee chair</th>
<th>Nomination committee chair</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FTSE 250</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>£12,500</td>
<td>£10,000</td>
<td>£10,000</td>
<td>£6,000</td>
<td>£15,000</td>
<td>£15,000</td>
<td>£10,000</td>
</tr>
<tr>
<td>Median</td>
<td>£10,000</td>
<td>£5,000</td>
<td>£5,000</td>
<td>£5,000</td>
<td>£10,000</td>
<td>£10,000</td>
<td>£10,000</td>
</tr>
<tr>
<td>Q1</td>
<td>£8,000</td>
<td>£5,000</td>
<td>£5,000</td>
<td>£3,500</td>
<td>£9,000</td>
<td>£10,000</td>
<td>£7,500</td>
</tr>
<tr>
<td>% of companies identifying separate fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTSE 250</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of companies identifying separate fees</td>
<td>96%</td>
<td>24%</td>
<td>24%</td>
<td>16%</td>
<td>100%</td>
<td>100%</td>
<td>21%</td>
</tr>
<tr>
<td><strong>Top 50</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>£15,000</td>
<td>£10,000</td>
<td>£10,500</td>
<td>£10,000</td>
<td>£20,000</td>
<td>£20,000</td>
<td>£13,000</td>
</tr>
<tr>
<td>Median</td>
<td>£10,000</td>
<td>£10,000</td>
<td>£10,000</td>
<td>£5,000</td>
<td>£14,500</td>
<td>£15,000</td>
<td>£8,000</td>
</tr>
<tr>
<td>Q1</td>
<td>£10,000</td>
<td>£5,000</td>
<td>£5,000</td>
<td>£5,000</td>
<td>£10,000</td>
<td>£10,000</td>
<td>£6,500</td>
</tr>
<tr>
<td>% of companies identifying separate fees</td>
<td>100%</td>
<td>44%</td>
<td>42%</td>
<td>28%</td>
<td>100%</td>
<td>100%</td>
<td>16%</td>
</tr>
<tr>
<td><strong>Rest of FTSE 250</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>£11,500</td>
<td>£5,500</td>
<td>£6,000</td>
<td>£5,500</td>
<td>£12,000</td>
<td>£14,500</td>
<td>£10,000</td>
</tr>
<tr>
<td>Median</td>
<td>£10,000</td>
<td>£5,000</td>
<td>£5,000</td>
<td>£4,000</td>
<td>£10,000</td>
<td>£10,000</td>
<td>£10,000</td>
</tr>
<tr>
<td>Q1</td>
<td>£7,000</td>
<td>£5,000</td>
<td>£5,000</td>
<td>£3,000</td>
<td>£8,500</td>
<td>£9,000</td>
<td>£7,500</td>
</tr>
<tr>
<td>% of companies identifying separate fees</td>
<td>86%</td>
<td>15%</td>
<td>17%</td>
<td>11%</td>
<td>91%</td>
<td>91%</td>
<td>21%</td>
</tr>
</tbody>
</table>

1 The nomination committee is often chaired by the chair of the board and therefore a much smaller number of companies specify a separate fee for chairing this committee.

#### Committee chair

The following tables show the fee policy for chairing the remuneration committee and the audit committee, where these positions are not held by the company chair. The figures in the following tables include the base fee plus any additional fee in relation to that specific role only. This is not necessarily the total fees actually paid to individuals holding this position who may also receive other additional committee fees.

We have not included a similar analysis for the chair of the nomination committee as this position is frequently held by the chair of the board.

#### Chair of the remuneration committee - basic fee plus committee chair fee

<table>
<thead>
<tr>
<th></th>
<th>Q1 £</th>
<th>Median £</th>
<th>Q3 £</th>
<th>Average £</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 250</td>
<td>58,000</td>
<td>64,000</td>
<td>75,000</td>
<td>68,500</td>
</tr>
<tr>
<td>Top 50 companies</td>
<td>65,000</td>
<td>75,000</td>
<td>82,000</td>
<td>76,500</td>
</tr>
<tr>
<td>Rest of FTSE 250</td>
<td>56,500</td>
<td>60,000</td>
<td>70,000</td>
<td>65,500</td>
</tr>
</tbody>
</table>
Chair of the audit committee – basic fee plus committee chair fee

<table>
<thead>
<tr>
<th></th>
<th>Q1 £</th>
<th>Median £</th>
<th>Q3 £</th>
<th>Average £</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 250</td>
<td>58,000</td>
<td>65,000</td>
<td>75,000</td>
<td>69,000</td>
</tr>
<tr>
<td>Top 50 companies</td>
<td>65,000</td>
<td>74,500</td>
<td>84,000</td>
<td>78,000</td>
</tr>
<tr>
<td>Rest of FTSE 250</td>
<td>57,000</td>
<td>61,500</td>
<td>70,000</td>
<td>66,000</td>
</tr>
</tbody>
</table>

Senior independent non-executive director
Almost all FTSE 250 companies have an appointed senior independent non-executive director. The following table shows the fee policy in place for this position. In practice many individuals holding the position of senior independent director will also hold other committee positions and total fees may be higher.

Senior independent non-executive director – basic fee plus senior independent director fee

<table>
<thead>
<tr>
<th></th>
<th>Q1 £</th>
<th>Median £</th>
<th>Q3 £</th>
<th>Average £</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 250</td>
<td>55,500</td>
<td>63,500</td>
<td>75,000</td>
<td>68,500</td>
</tr>
<tr>
<td>Top 50 companies</td>
<td>65,000</td>
<td>74,000</td>
<td>83,500</td>
<td>75,000</td>
</tr>
<tr>
<td>Rest of FTSE 250</td>
<td>54,500</td>
<td>60,000</td>
<td>70,000</td>
<td>66,000</td>
</tr>
</tbody>
</table>

12.4 Paying non-executive directors in shares
Best practice guidelines suggest that there may be merit in using shares to remunerate non-executive directors. One of the stated advantages of paying non-executive directors in shares is that it aligns the interests of non-executive directors with shareholders. Payment in shares may also aid the recruitment and retention of individuals, particularly for companies wishing to appoint US nationals, as it is more common in the US for the remuneration of non-executive directors to include awards of shares, share options or restricted shares. Despite this guidance, a significant majority of FTSE 250 companies do not pay non-executive directors in shares.

It is worth noting that the UK Corporate Governance Code states that remuneration for non-executive directors should not include share options or other performance related elements.

Current practice
Currently only 2% of FTSE 250 companies either make payment, or part payment, of fees in shares or encourage non-executive directors to take the fees in shares (5% last year). This is significantly lower than in FTSE 100 companies where around a quarter of companies have adopted this practice.

11% of companies have formal shareholding guidelines in place for non-executive directors, although in some cases the non-executive directors are encouraged, rather than required, to maintain this shareholding. This is still significantly lower than in FTSE 100 companies where almost 40% of companies have guidelines in place.

The following table shows the different practices in place in FTSE 250 companies. In most of these cases the non-executive directors will be expected to hold their shares until retirement. There are some companies included in both categories in this table, as they may pay part of the fees in shares and also have a specific shareholding guideline in place for the non-executive directors.
12. Non-executive directors’ fees

Payment in shares or shareholding requirements – % of companies

<table>
<thead>
<tr>
<th>Part, or all, of fees must be used to buy shares or the directors are encouraged to use the fees to buy shares</th>
<th>FTSE 250</th>
<th>Top 50 companies</th>
<th>Rest of FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of companies</td>
<td>2%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Required to hold shares or to maintain a specified shareholding</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Encouraged to hold shares or to maintain a specified shareholding</td>
<td>7%</td>
<td>6%</td>
<td>8%</td>
</tr>
</tbody>
</table>

12.5 Notice periods

It is common practice for non-executive directors to be given letters of appointment they do not normally enter into service contracts. Almost 80% of FTSE 250 companies currently disclose the details of notice periods for non-executive directors.

The following table shows the typical notice period required from the company for non-executive directors. The length of the notice period for the chair is most commonly three or six months and for other non-executive directors is likely to be one or three months. It is very uncommon for a non-executive director other than the chair to have a twelve month notice period.

Notice periods for chair and non-executive directors

<table>
<thead>
<tr>
<th>% of directors with notice period details</th>
<th>Chair</th>
<th>NEDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>No notice required</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>1 months’ notice</td>
<td>14%</td>
<td>25%</td>
</tr>
<tr>
<td>2 months’ notice</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>3 months’ notice</td>
<td>38%</td>
<td>51%</td>
</tr>
<tr>
<td>4 months’ notice</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>6 months’ notice</td>
<td>27%</td>
<td>8%</td>
</tr>
<tr>
<td>12 months’ notice</td>
<td>8%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Disclosure requirements – non-executive directors
All of the requirements on disclosure apply to non-executive directors as well as executive directors. However, the introductory section of the regulations states:

- Where the requirements make reference to a director, these may be complied with in a way which distinguishes between executive and non-executive directors.
- Any requirement to disclose information which is not applicable to non-executive directors may be omitted or modified as long as this is explained.

This means that companies may choose, for example, to show separate tables for executive and non-executive directors in relation to the single total figure of remuneration and the future policy table.

Guidance from investors and proxy voting agencies
- Non-executive directors should not be entitled to performance-related remuneration.
- Shareholders encourage non-executive directors to own shares in the company. Chairmen and non-executives may receive part of their fees in shares bought at the market price.
Appendices

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Appendix 1 – Useful websites

**Deloitte resources**
Executive Remuneration Consulting

**Brexit**

**Government departments and regulators**
Department for Business, Energy and Industrial Strategy

European Banking Authority
http://www.eba.europa.eu/

European Securities and Markets Association
https://www.esma.europa.eu/

Financial Conduct Authority
http://www.fca.org.uk/

Government Equalities Office

Prudential Regulation Authority
http://www.bankofengland.co.uk/pra/Pages/default.aspx

**Investor bodies**
Glass Lewis (Guidelines)
http://www.glasslewis.com/guidelines/

Institutional Shareholder Services (Guidelines)
https://www.issgovernance.com/policy-gateway/2017-policy-information/

The Investment Association
http://www.theinvestmentassociation.org/

IVIS (Guidelines)
https://www.ivis.co.uk/guidelines

Pension and Lifetime Savings Association (Guidelines)
http://plsa.co.uk/PolicyandResearch/Corporate-Governance/NAPF-Corporate-Governance-Policy-and-Voting-Guidelines.aspx

**Corporate governance bodies**
Financial Reporting Council
https://www.frc.org.uk/

GC100 and Investor Group
https://uk.practicallaw.thomsonreuters.com/Browse/Home/About/GC100andInvestorGroup
Appendix 2 – Sample composition

Changes to the composition of the FTSE 250 index:

- Excluding investment trusts, there are now 192 companies in the FTSE 250 which is nine less than last year.
- Between July 2017 and July 2018, 24 new companies were included in the FTSE 250 and 33 companies are no longer included in the index.
- There are currently 57 investment trusts in the FTSE 250 index which is eight more than last year. One company joined the FTSE 250 but did not publish enough data to be included.

Inclusions

- Ten of the new constituents to the FTSE 250 index are newly floated companies or new additions to the FTSE UK index series: 888 Holdings, Alfa Financial Software Holdings, Bakkavor Group, BCA Marketplace, Charter Court Financial Services, ContourGlobal. Energean Oil and Gas, Integrafin Holdings, Quilter and TI Fluid Systems
- Seven of the new constituents were previously FTSE 100 companies: Babcock International Group, ConvaTec Group, G4S, Hammerson, Mediclinic International, Merlin Entertainments and Provident Financial.
- Seven of the new constituents were previously constituents of the FTSE SmallCap index: Equiniti Group, Games Workshop Group, Hilton Food Group, On The Beach Group, Premier Oil, Renewi and Stobart Group

Exclusions

- Ten of the companies no longer included in the FTSE 250 are now constituents of the FTSE 100: Berkeley Group Holdings, DS Smith, Evraz, GVC Holdings, Halma, Just Eat, Melrose Industries, NMC Health, Ocado Group and Rightmove Group.
- Twelve companies are now constituents of the FTSE SmallCap: Acacia Mining, Dignity, Hansteen Holdings, Marston’s, MITIE Group, Northgate, Nostrum Oil & Gas, Paypoint, Petra Diamonds, Pets At Home Group, Restaurant Group and Vectura Group.
- Eleven companies are no longer listed in the FTSE All Share: Aberdeen Asset Management, Aldermore Group, Amec Foster Wheeler, Atkins WS, Berendsen, Booker Group, Carillion, Ladbrokes Coral Group, Paysafe Group, Shawbrook Group and UBM.
- One company entered the FTSE 250 but did not disclose sufficient information to include in the analyses. They therefore have been excluded.
FTSE 250 Companies

888 Holdings
A G Barr
AA
Aggreko
Alfa Financial Software
Holdings
Ascential
Ashmore Group
Assura Group
Auto Trader Group
Aveva Group
B&M European Value Retail
Babcock International Group
Balfour Beatty
BBA Aviation
BCA Marketplace
Beazley
Bellway
BGEO Group
Big Yellow Group
Bodycote
Bovis Homes Group
Brewin Dolphin Holdings
British
BTG
Cairn Energy
Capta
Capital & Counties Properties
Card Factory
Centamin
Charter Court Financial
Services
Cineworld Group
Clarkson
Close Brothers Group
CLS Holdings
Coats Group
Cobham
Computacenter
ContourGlobal
ConvaTec Group
Countryside Properties
Cranstwick
Crest Nicholson Holdings
CYBG
Daejan Holdings
Dairy Crest Group
Dechra Pharmaceuticals
Derwent London
Diploma
Dixons Carphone
Domino’s Pizza Group
Drax Group
Dunelm Group
Electrocomponents
Elementis
Energean Oil and Gas
Entertainment One
Equiniti Group
Essentra
Sure Group
Euromoney Institutional
Investor
FDM Group Holdings
Ferrexpo
Fidessa Group
FirstGroup
G4S
Galliford Try
Games Workshop Group
Genus
Go-Ahead Group
Grafton Group
Grainger
Great Portland Estates
Greencore Group
Greene King
Greggs
Halfrords Group
Hammerson
Hastings Group Holdings
Hays
Hikma Pharmaceuticals
Hill & Smith Holdings
Hilton Food Group
Hiscox
Hochschild Mining
Homeseve
Howden Joinery Group
Hunting
Ibstock
IG Group Holdings
IMI
Inchcape
Indivior
Inmarsat
Integrafin Holdings
Intermediate Capital Group
Intu Properties
Investec
IP Group
IWG
JD Wetherspoon
James Fisher and Sons
Jardine Lloyd Thompson
Group
JD Sports Fashion
John Laing Group
John Wood Group
Jupiter Fund Management
Just Group
Kaz Minerals
Kier Group
Lancashire Holdings
LondonMetric Property
Man Group
Marshalls
McCarthy & Stone
Mediclinic International
Meggitt
Merlin Entertainments
Metro Bank
Millennium & Cophorne
Hotels
Mitchells & Butlers
Moneysupermarket.com
Group
Morgan Advanced Materials
National Express Group
NEX Group
On The Beach Group
Onesavings Bank
PageGroup
Paragon Banking Group
Pennon Group
Petrofac
Phoenix Group Holdings
Playtech
Polymetal International
Polypipe Group
Premier Oil
Provident Financial
PZ Cussons
Qinetiq Group
Quilter
Rank Group
Rathbone Brothers
RDI REIT
Redrow
Renewi
Renishaw
Rotork
RPC Group
Safestore Holdings
Sage
Sanne Group
Savills
Senior
Serco Group
Shaftesbury
SIG
Sirius Minerals
Sofcat
Sophos Group
Spectris
Spirax-Sarco Engineering
Spire Healthcare Group
Sports Direct International
SSP Group
St Modwen Properties
Stagecoach Group
Stobart Group
Superdry
Synthomer
TalkTalk Telecom Group
Tate & Lyle
TBC Bank Group
Ted Baker
Telecom Plus
Thomas Cook Group
Ti Fluid Systems
TP ICAP
Travis Perkins
Tullow Oil
UDG Healthcare
Ultra Electronics Holdings
Unite Group
Vedanta Resources
Vesuvius
Victron
Virgin Money Holdings
Weir Group
WH Smith
William Hill
Wizz Air Holdings
Workspace Group
ZPG
The table below shows the number of companies in each of the main business sectors, excluding investment trusts.

<table>
<thead>
<tr>
<th>Sector</th>
<th>FTSE 250</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>6</td>
</tr>
<tr>
<td>Chemicals</td>
<td>4</td>
</tr>
<tr>
<td>Construction</td>
<td>12</td>
</tr>
<tr>
<td>Financial Services</td>
<td>18</td>
</tr>
<tr>
<td>Food, Beverages and Household Goods</td>
<td>12</td>
</tr>
<tr>
<td>Healthcare</td>
<td>4</td>
</tr>
<tr>
<td>Industrial Goods &amp; Services</td>
<td>18</td>
</tr>
<tr>
<td>Insurance</td>
<td>8</td>
</tr>
<tr>
<td>Media</td>
<td>6</td>
</tr>
<tr>
<td>Mining &amp; Metals</td>
<td>6</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>7</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>3</td>
</tr>
<tr>
<td>Pharmaceuticals and Biotechnology</td>
<td>2</td>
</tr>
<tr>
<td>Real Estate</td>
<td>18</td>
</tr>
<tr>
<td>Retail</td>
<td>11</td>
</tr>
<tr>
<td>Technology &amp; Telecommunications</td>
<td>10</td>
</tr>
<tr>
<td>Transportation &amp; Business Services</td>
<td>25</td>
</tr>
<tr>
<td>Travel &amp; Leisure</td>
<td>19</td>
</tr>
<tr>
<td>Utilities</td>
<td>3</td>
</tr>
</tbody>
</table>

Total: 192
Appendix 3 – Methodology

The analyses shown in this report relate to FTSE 250 companies, excluding investment trusts, representing 192 companies.

A3.1 Salary analyses
For the salary analyses by market capitalisation all companies with a market capitalisation in excess of £600m and up to £6,000m have been included. The smallest market capitalisation band therefore includes a number of FTSE SmallCap companies, where there is an overlap of the annual average market capitalisation in companies in both indices. The smallest market capitalisation band (£600m to £850m) includes 19 FTSE SmallCap companies. One FTSE 250 company has been excluded as it has a market capitalisation lower than £600m. This ensures that the salary levels shown for the market capitalisation bands are fully representative of all companies of that size.

The salary analyses include only those positions where remuneration for the full financial year was provided in the annual report or where it was possible to reasonably pro-rate any part year salary information.

When using published data, analyses are based on remuneration reports relating to different financial periods. A significant and increasing number of companies provide information in the remuneration report on the salaries for the next financial period, or an indication of the increase to be made to salaries, and where this is the case, this data has been used. Where the salaries for the next financial period are not disclosed, the salaries for the year under review have been included.

The analyses therefore attempt to reflect, as accurately as we are able, salary levels effective during 2017 and at the beginning of 2018 and we have not applied any ageing factor to the disclosed salaries.

The analyses are presented by:

- **Position** – we have categorised main board positions into four main groups – the top full time executive officer, the chief financial officer, heads of subsidiary or divisional operations and heads of function. In most companies the top full time executive officer is the chief executive and we have referred to this position as the chief executive throughout the report. However it is worth noting that in a few companies the top full time executive holds the job title of executive chair, or combined chair and chief executive. In many companies the only executive board members are the chief executive and the chief financial officer and therefore not all companies are represented in the other analyses. It is also worth noting that in some companies where an executive director has left during the year the details of the new incumbent are not yet known at the time of reporting, or are not disclosed. This means that there will not always be a chief executive or chief financial officer included for every company.

- **Company size** – as measured by average market capitalisation over the twelve months to 1 July 2018.
  For the purposes of this analysis companies have been grouped together into market capitalisation bands.

A3.2 Statistics
Throughout the report data are presented by using the following statistics:

- **Upper quartile (Q3)** – separates the top 25% of a sample from the bottom 75%
- **Median (M)** – the middle point of a sample
- **Lower quartile (Q1)** – separates the bottom 25% of a sample from the top 75%
- **Average** – the arithmetic mean of a sample

Where there is sufficient data the following statistics have also been given:

- **Upper decile (D9)** – separates the top 10% of a sample from the bottom 90%
- **Lower decile (D1)** – separates the bottom 10% of a sample from the top 90%
A3.3 Policy and sector analyses
Throughout the report the analyses are presented in a number of ways.

- **FTSE 250 index** as at July 2018 – in most of the analyses we show statistics for the FTSE 250 as a group and where relevant any differences in remuneration practices between companies ranked in the top 50 of this group by market capitalisation and those ranked below this which we refer to as ‘rest of FTSE 250’.

- **Industry sector** – for some of the analyses companies have been grouped into industry categories. Three overall categories have been included:
  - Finance & property companies (50 companies)
  - Industrial & manufacturing companies (69 companies)
  - Retail & services companies (73 companies)

We have commented where there are significant differences by broad market sector but it is important to note that the constituents of the FTSE 250 are not spread evenly between the three industry groups and are weighted quite towards retail & services.

The broad market sectors are made up of the following industry sector groups:

<table>
<thead>
<tr>
<th>Finance &amp; property (26% of companies)</th>
<th>Industrial &amp; manufacturing (36% of companies)</th>
<th>Retail &amp; services (38% of companies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>Chemicals</td>
<td>Healthcare (providers)</td>
</tr>
<tr>
<td>Financial services</td>
<td>Construction</td>
<td>Media</td>
</tr>
<tr>
<td>Insurance</td>
<td>Food, beverages &amp; household goods</td>
<td>Retail</td>
</tr>
<tr>
<td>Real estate</td>
<td>Healthcare (equipment)</td>
<td>Technology &amp; telecommunications (services)</td>
</tr>
<tr>
<td></td>
<td>Industrial goods &amp; services</td>
<td>Transportation &amp; business services</td>
</tr>
<tr>
<td></td>
<td>Mining &amp; metals</td>
<td>Travel &amp; leisure</td>
</tr>
<tr>
<td></td>
<td>Oil &amp; gas</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pharmaceuticals &amp; biotechnology</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technology &amp; telecommunications (equipment)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Utilities</td>
<td></td>
</tr>
</tbody>
</table>
A3.4 Plan definitions

Annual bonus plans
We have defined an annual bonus plan as one which pays out an award based on the performance of the company over no more than a one year period, usually the previous financial year. The payment may be made in cash or shares, or a combination of both.

Deferred bonus plans
Part, or all, of the annual bonus award is deferred for a specified period of time. This may be a requirement or may be at the request of the participant. The deferred part of the award usually takes the form of shares, held in trust for the deferred period.

Deferred bonus plans with performance based matching
These plans may be considered a hybrid between an annual bonus plan and a long term incentive. The plans operate in the same way as the deferred plan described above, with part, or all, of the annual bonus award being made in deferred shares. However, matching awards will only be made if certain performance conditions are met over the deferred period.

Performance criteria are typically of a similar nature to those used in performance share plans. Although these plans may be considered long term, we have differentiated between these and other long term plans on the basis that the initial award is based on performance over one year, and not over a longer period.

Co-investment plans
Participants are invited to make an investment, often substantial, in company shares which will be matched after a period of time depending on company performance. The initial investment may in most cases be satisfied in part by existing shareholdings but most plans will require at least some of the investment to be satisfied by purchased shares, or shares vesting from other share based plans. The number of matching shares may be up to three or four shares for each share held if company performance is exceptional.

Performance share plans
An initial award is made to a participant at the beginning of a performance cycle. This award is usually expressed as a percentage of basic salary and will take the form of a share right, part or all of which will vest at the end of the performance period depending on the performance of the company over this period. The value of the final award received will therefore depend both on the performance of the company and the performance of the share price over the performance period.

Other long term plans
There are a few plans where the monetary value of the award is determined at the end of the performance period and the plan is not structured as an initial grant of share rights. These plans operate in much the same way as those described above in terms of performance measures and periods, the main difference being that the value of the final award will not be influenced by the share price over the performance period. The award made at the end of the period may be in cash or shares.
Share option plans
Most companies granting share options to executive directors will operate both a UK tax advantaged and non-tax advantaged plan. Commonly these will comply with the broad principles set down in the Investment Association guidelines. The exercise price of these options will usually be equal to the market value at the date of grant. Options are generally granted on an annual basis and most plans incorporate an annual limit on the number of options that may be granted each year, usually expressed as a percentage of salary. Plans usually require specified performance conditions to be met over the three year period from grant before the options may be exercised. In some cases all of the options may be exercised if the performance condition is met but in the majority of plans the exercise of options is scaled so the proportion that may be exercised depends on the level of performance achieved.

Phantom option plans/share appreciation rights
These plans operate in the same way as a share option plan but the growth in value of the share price is paid in cash when the options are exercised. These plans are not common in the UK and are most often used where conventional options are not appropriate. Most plans will incorporate performance conditions in the same way as a standard share option plan.
Notes