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Your guide
Directors' remuneration in FTSE 100 companies

The Deloitte Academy:
Promoting excellence in the boardroom

October 2020

Contents

Overview by Stephen Cahill

When the majority of FTSE 100 companies were finalising their 2019 year end decisions in early 2020, the global impact of COVID-19 was not yet known. Since that time, over 50% of FTSE 100 companies have announced board level pay cuts, typically a temporary reduction in salary, and investors have issued clear guidance to remuneration committees that executive pay decisions in the coming year should reflect the employee, investor and wider stakeholder experience.

Total remuneration (single figure)

Looking back to 2019, the median FTSE 100 chief executive total 'single figure' package remained relatively stable at £3.7m (£3.65m in 2018), following a fall from £4m in 2017. The median single figure for the chief financial officer fell by 12% to £1.9m (£2.2m in 2018).

In the largest FTSE 30 companies, the median total package for the chief executive fell by c.7% year on year (£5.9m in 2019 compared to £6.4m in 2018). The FTSE 30 chief financial officer median single figure for 2019 was £3.7m (£3.9m in 2018).

2019 packages reflect estimated values of share awards based on pre-COVID-19 share prices, therefore actual values are expected to fall by up to 10% when restated next year.

Policy changes

Nearly two-thirds of FTSE 100 companies put a new policy to vote during the recent 2020 AGM season. Changes have primarily focussed on the adoption of the UK Corporate Governance Code provisions such as executive and workforce pension alignment and post-employment shareholding requirements.

Following guidance issued by the Investment Association (IA) in September 2019 applicable to companies with years ending on or after 31 December 2019, we have seen a significant shift in market practice around incumbent executive pensions. Over 80% of companies have reduced incumbent pensions, with the majority committing to align executives with the workforce rate by the end of 2022. This trend is expected to continue in the coming year.

Three companies have introduced alternative incentive plans in the form of restricted shares, and we have continued to see mixed shareholder reaction in this area. As the impact of COVID-19 presents significant challenges for companies in setting performance targets, consideration of simplified incentive structures is likely to continue.

In the last year there has been a marked shift in companies incorporating non-financial measures based on environmental, social and governance (ESG) factors in their incentive plans. For example, over 40% of annual bonus plans now include metrics linked to ESG measures such as health and safety, sustainability and risk and compliance targets, compared to around 20% last year.

Incentive out-turns

Over the last five years, there has been a gradual decline in the level of annual bonus pay-outs for executive directors – a median of 68% of maximum in 2019 compared to 78% of maximum in 2015, and we have seen an increasing number of remuneration committees exercise discretion to reduce the formulaic out-turns in the context of wider factors such as overall financial performance and macroeconomic uncertainty. 19 companies used discretion to reduce annual bonus out-turns in 2019, compared to 14 last year.

Under long term incentive plans, vesting levels were slightly higher than in recent years, with a median pay out of 63% of the maximum award. These awards were typically based on three year performance from 2017 to 2019 and under the majority of plans no shares will be released to executives for a further two years. However, a significant number of 'in flight' long term incentive awards are unlikely to pay out in the future due to performance conditions set pre-COVID-19.

Shareholder voting

The 2020 AGM voting season has been mixed. Shareholder support has been generally high, with the median vote in favour of the annual remuneration report and policy at 96% and 95% respectively. Only 5% of companies received a 'low vote' (less than 80% in favour) on the annual remuneration report, the lowest level in recent years. 9% of companies received a low vote on the remuneration policy. In over a half of cases, this reflected a tougher stance from ISS around incumbent pensions at or above 25% of salary, where no credible plan to reduce by the end of 2022 has been put in place. One company lost the shareholder vote on the annual remuneration report, as shareholders demonstrated significant dissent in respect of an adjustment to 'in flight' award performance criteria.

Looking ahead

In the year ahead, executive pay will continue to be under intense scrutiny. Investors have been clear that they do not expect remuneration committees to adjust performance conditions for in-flight annual bonuses or long-term incentive awards to account for the impact of COVID-19, and discretion and judgment should be used to ensure that any pay outcomes reflect the wider stakeholder experience. A key challenge for committees will be balancing the need to attract and incentivise the leadership required to drive UK business recovery, in the context of a growing focus on building a fairer society.

Stephen Cahill
Vice Chairman
Deloitte LLP
October 2020

1
Introduction

1. Introduction

This report is one of two volumes. This volume, Directors' remuneration in FTSE[1] 100 companies, provides detailed analyses of basic salary, salary increases, annual bonus and long term incentive payments, details of annual and long term incentive design, pensions, other aspects of remuneration policy and non-executive director fees in FTSE 100 companies. The volume covering FTSE 250 companies is now also available – please email **executiveremuneration@deloitte.co.uk** if you would like a copy.

This volume is based on information available in the annual report and accounts of companies in the FTSE 100, as of 1 July 2020. Two of the FTSE 100 companies currently have no executive directors, one company is domiciled in the Netherlands and has a dual board structure and one company is an investment trust. Therefore there are 96 FTSE 100 companies included in the analyses in this report.

The reports cover companies with financial years ending from March 2019 until February 2020.

The current constituents are summarised in Appendix 1 along with analyses of the sample composition by company size and industry.

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 their next financial period (i.e. for financial periods ending in 2020 or early 2021). However, it is important to note that some of the analysis is based on information disclosed in remuneration reports relating to financial periods ending on, or after, March 2019 and therefore the analyses do not always fully reflect the very latest approach.

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 banded 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:

- We have included separate data for the top 30 companies and the companies ranked 31-100 but you will need to consider whether a more specific comparator group would be more relevant.
- The analyses are shown by market capitalisation bands (based on an average twelve month market capitalisation for each company) and you will need to make a judgement on where your company falls within this band taking into account any relevant factors (which might include, for example, the degree of internationality and the complexity of the business) in interpreting the data.
- You should be aware of the impact that volatility in financial markets can have on salary benchmarks. 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 viewed with particular 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 case. Positioning at the market median is not usually the correct starting point. In determining where to position the role consideration should be given to all the relevant factors including internal relativities and the calibre and experience of the individual.

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.

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.

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 design, implementation, investor relations, corporate governance, accounting, legal and tax issues.

One team

Design

- Strategic incentive design
- Developing strategically relevant performance conditions
- Cost effective funding and specialist advice on tax, accounting, legal and financial issues
- All-employee schemes

Remuneration committee advisers

- Insight on shareholder views and assistance with consultation
- Updates on market trends and corporate governance
- Executive pay benchmarking updates
- Assistance with drafting remuneration reports

Implementation & communication

- Drafting plan rules and all ancillary documents
- Testing of performance measures
- Developing and implementing reward communication strategies
- Global all-employee incentive design including tax, legal and regulatory advice; employee and employer guides; support with local authorities

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

We also have access to a wider knowledge base within Deloitte. This allows us to more fully understand each industry and provide genuinely strategic solutions to meet the specific needs of our clients.

We are current remuneration committee advisers to a range of different organisations across the FTSE All Share including around 30% of FTSE 100 and FTSE 250 companies and 25% of FTSE SmallCap companies, as well as a number of AIM listed and privately owned companies.

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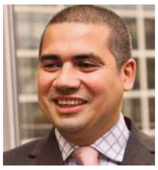

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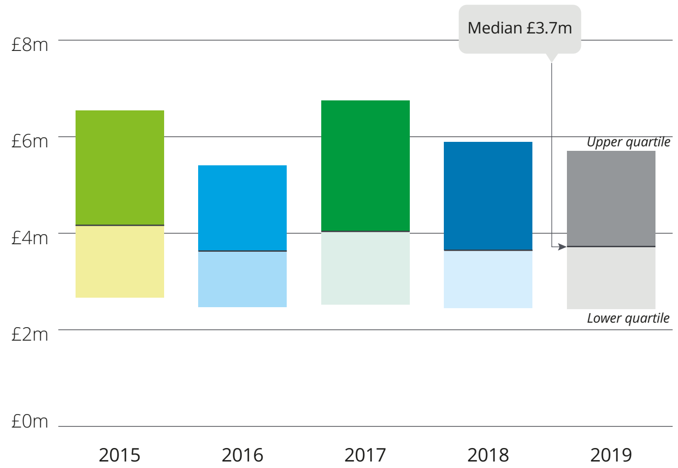
2
Main findings

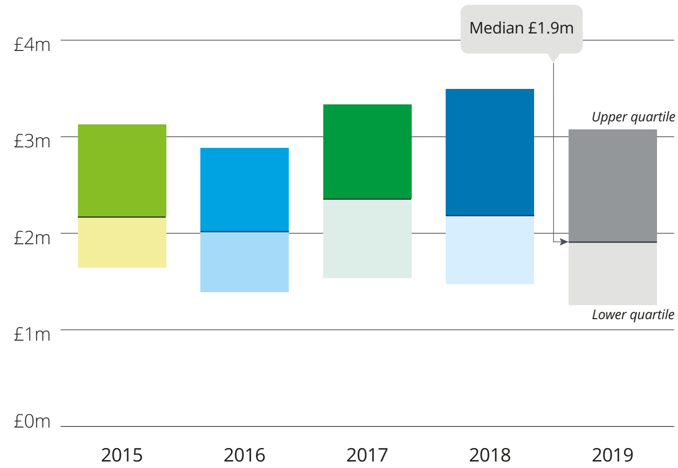
2. Main findings

Pay levels and out-turns

Chief executive – single figure



Chief financial officer – single figure



The median FTSE 100 chief executive total single figure package for 2019 remained relatively stable at £3.7m (£3.65m in 2018), following a fall from £4m in 2017. The median single figure for the chief financial officer fell by 12% to £1.9m (£2.2m in 2018).

In the largest FTSE 30 companies, the median total package for the chief executive fell by c.7% year on year (£5.9m in 2019 compared to £6.4m in 2018). The FTSE 30 chief financial officer median single figure for 2019 was £3.7m (£3.9m in 2018).

- 41% of chief executives receiving no salary increase
- Significant reductions to incumbent pensions
- Median bonus payout 68% of maximum (lowest level in last five years)
- Discretion used to reduce annual bonus in 19 plans
- Median performance share plan vesting so far of 63% of maximum (56% last year)
- Zero vesting in 15% of performance share plans so far

Structures, policies and disclosure

- Increased use of ESG metrics (now incorporated in 40% of annual bonus plans, compared to around 20% last year)
- Post-employment shareholding requirements in place in 79 companies
- Median CEO to employee pay ratio of 75:1
- Increasing examples of alternative incentive structures such as restricted shares, with mixed shareholder support

Executive alignment

- The adoption or enhancement of 'best practice' features designed to align executives with long-term sustainable growth and investor interests has continued.
- This includes adoption of post-employment shareholding requirements.

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

In 91% of performance share plans, **no shares will be released until after five years** (85% last year).

Nearly all companies operate a formal shareholding requirement Median of 300% of salary for the chief executive (400% of salary in top 30 companies).

79 companies operate post-employment shareholding requirements.

Median shareholding requirement of 225% of salary for other executive directors (300% of salary in top 30 companies).

Median shareholding of 810% of salary for chief executive.

Shareholder environment and voting

Annual remuneration report

Median vote 96% in favour

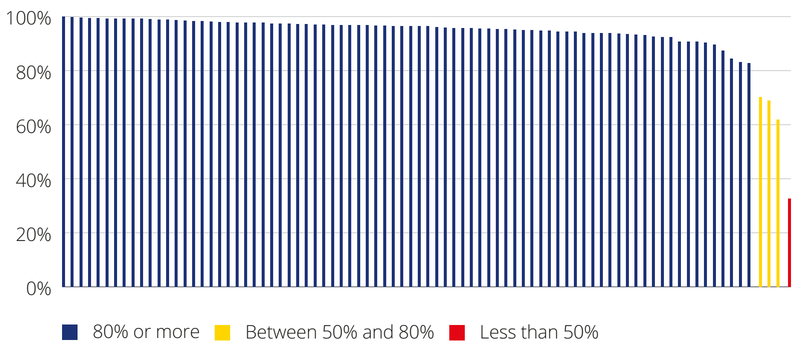
- 5% of companies received a 'low vote' (less than 80% of votes in favour), compared to 7% last year and 13% in 2018.
- ISS issued 'against' recommendations in respect of c.6% of companies (10% last year).
- IVIS issued 'Red Tops' in respect of 13% of FTSE 100 companies, primarily due to lack of executive and workforce pension alignment.
- One company lost the shareholder vote.

Remuneration policy

Median vote 95% in favour

- c.9% of remuneration policies received a 'low vote'.
- ISS issued 'against' recommendations for 14% of remuneration policies.

Annual remuneration report – voting outcomes



Areas of shareholder concern – **annual remuneration report**

- Adjustment to 'in flight' performance criteria
- Salary and/or incentive increases
- Significant incentive outcomes

Areas of shareholder concern – **remuneration policy**

- Incumbent pensions
- Incentive increases
- Alternative incentive structure

3
The current environment

3. The current environment

This section provides an update on the 2020 AGM season, a summary of key developments in the corporate governance and regulatory environment, changes to investor guidelines, and some of the other key technical developments that may impact remuneration over the coming period.

3.1 The 2020 AGM season

The majority of FTSE 100 companies (around 90%) have now held their 2020 AGM (as at 31 July 2020). This includes companies with financial years ending in September 2019, up to and including some, though not all, companies with a March 2020 year end. Around 60% of FTSE 100 companies holding their AGM so far this year have put a new remuneration policy to a vote.

Despite continued media focus on executive pay, this year's FTSE 100 AGM season has been relatively quiet compared to last year. Fewer companies have received low votes for the annual remuneration report, with 5% of companies receiving votes of less than 80% in favour, the lowest level in recent years.

One company lost the shareholder vote (below 50%). However, general levels of support remain high with the median vote for the report of around 96% in favour, in line with the range of 96%-97% we have seen over the last five years, which shows that the majority of companies are getting it right and engaging in effective dialogue with shareholders.

Around 9% of companies that put a new policy to a vote received votes of less than 80% in favour. No companies lost the policy vote and the median vote for the policy was around 95% in favour.

Proxy voting services reaction

Three 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 85 FTSE 100 companies.

The annual remuneration report

ISS

- So far in 2020, ISS has recommended a vote against the remuneration report in around 6% companies, compared to 11% last year.
- 42% of FTSE 100 companies have so far received an unqualified recommendation to vote in favour of the remuneration report, which is an increase from 26% last year.
- ISS has issued a qualified recommendation to vote in favour for 52% of companies, a decrease from 63% last year.

IVIS

- So far this year, IVIS has raised areas of serious concern in eleven FTSE 100 companies (13%). Three of these companies also received a recommendation to vote against from ISS.
- The proportion of companies where some concerns have been raised halved to 34% (2019: 69%). In the top 30 companies the proportion decreased from 65% to 43% so far.

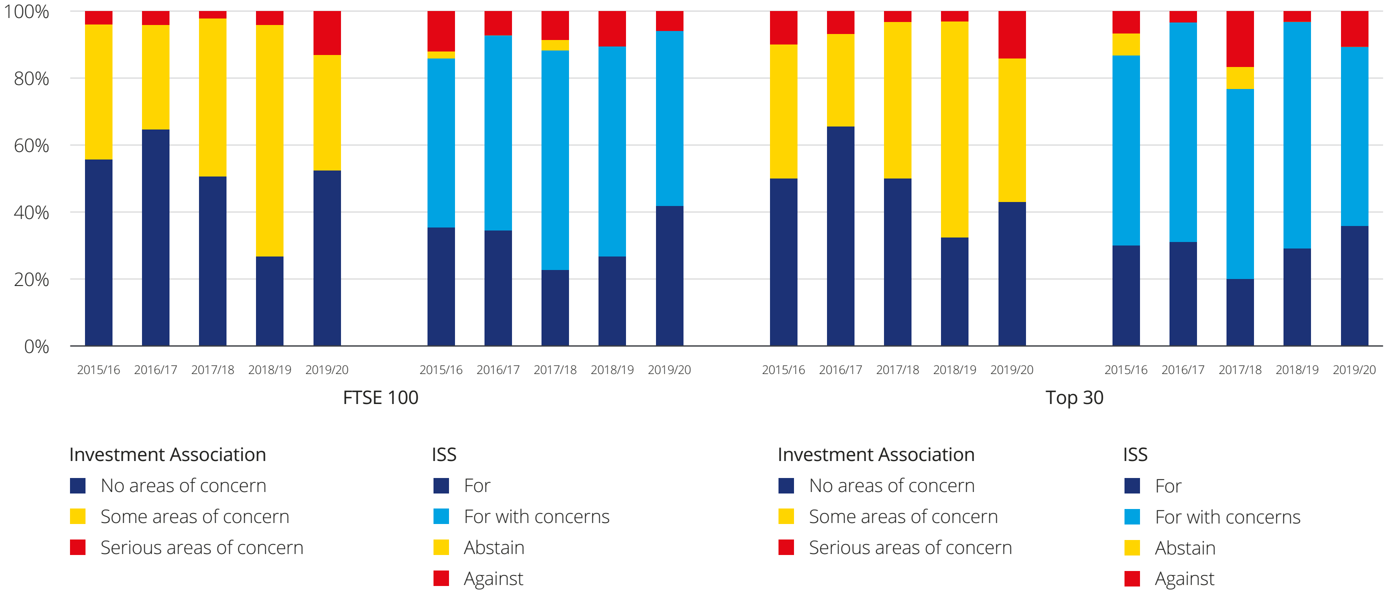
Glass Lewis

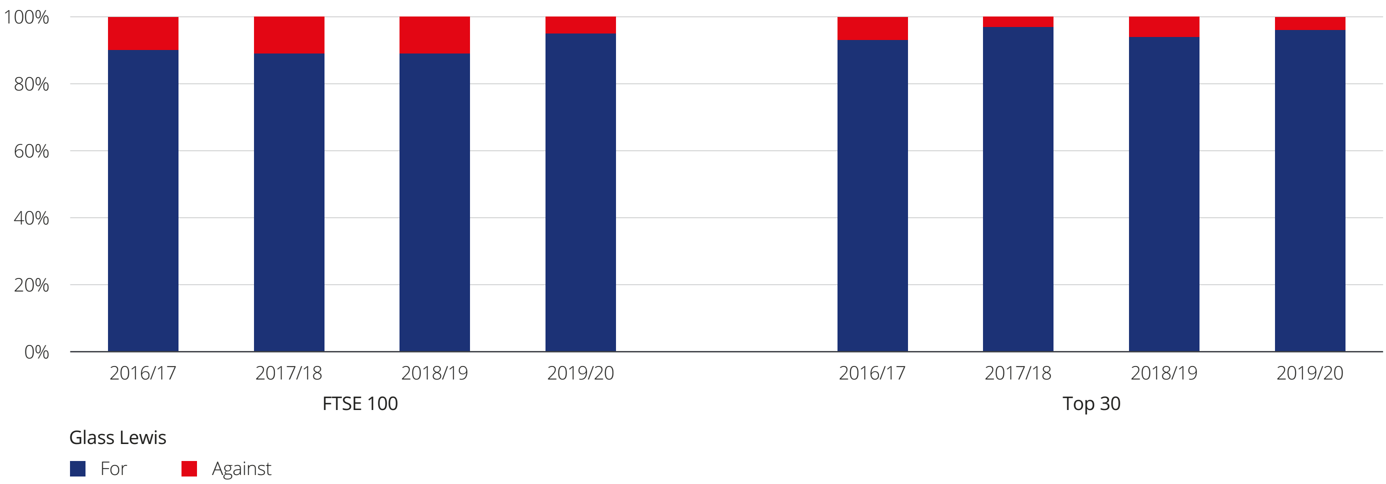
- Glass Lewis has issued recommendations to vote against the remuneration report in four FTSE 100 companies, a decrease from ten in 2019.

The charts below illustrate the voting recommendations for the non-binding annual remuneration report vote in the last six years for the FTSE 100 and the top 30.

Voting recommendations – annual remuneration report

(2019/20 includes proxy voting reports published for meetings held to 31 July 2020)





The remuneration policy

ISS

- So far in 2020, ISS has recommended a vote against the remuneration policy in eight companies (14%). Two companies received a recommendation to abstain from the vote.
- 36% of FTSE 100 companies have so far received an unqualified recommendation to vote in favour of the remuneration policy.
- ISS has issued a qualified recommendation to vote in favour for 47% of companies.

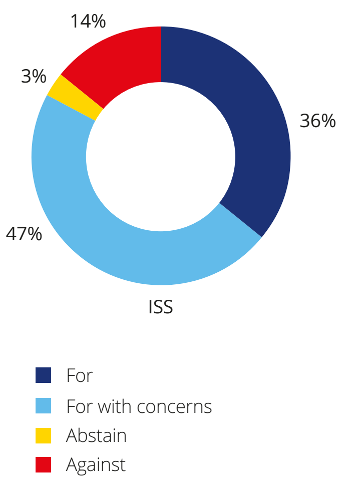
IVIS

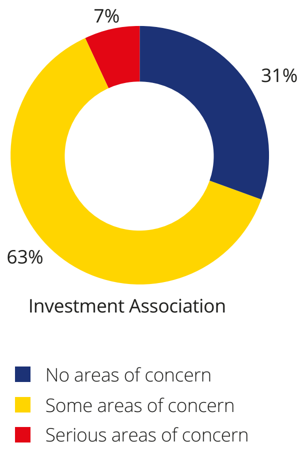
- So far this year, IVIS has raised areas of serious concern in four FTSE 100 companies (7%), one of them being a top 30 company. Two of these companies also received a recommendation to vote against from ISS.
- In 62% of FTSE 100 companies, some concerns have been raised.

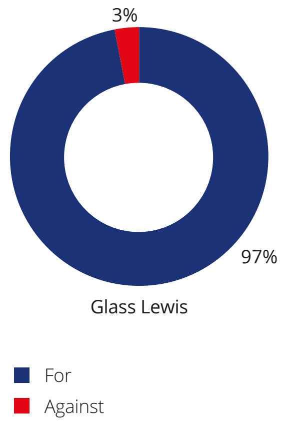
Glass Lewis

- Glass Lewis has issued recommendations to vote against the remuneration policy in two FTSE 100 companies.

Voting recommendations - remuneration policy report
(includes proxy voting reports published for meetings held up to 31 July 2020)







Key issues leading to negative voting recommendations

Incumbent pensions – the most common reason for a low vote in the 2020 AGM season was lack of commitment to align incumbent executive pensions with those available to the workforce, in particular in respect of executives on pension rates at or above 25% of salary.

Adjustment to in-flight performance criteria – shareholders demonstrated significant dissent in respect of adjustments to in-flight award performance criteria.

Salary and/or incentive increases – shareholders continue to raise concerns around decisions that lead to increases in pay. This included increases to salary above those awarded to the wider workforce, as well as significant increases to variable incentive opportunities.

Alternative incentive structures – shareholder reaction to alternative share plans such as restricted shares remains mixed, in particular where the reduction in quantum opportunity is not considered to sufficiently offset the certainty of payout.

Significant incentive outcomes – investors have expressed dissent in respect of variable pay structures delivering out-turns that are deemed to be excessive, irrespective of company performance.

Voting in the 2020 season so far

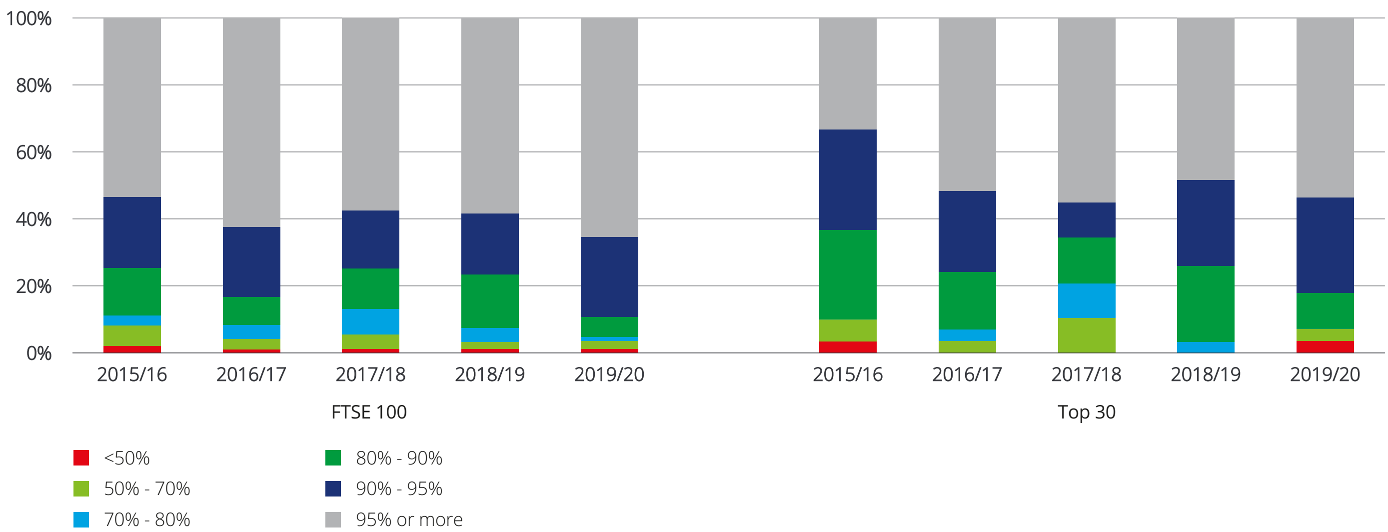
The annual remuneration report

The median vote for the report is around 96% in FTSE 100 companies, in line with the range of 96%-97% we have seen over the last five years.

Across the FTSE 100, 5% of companies received less than 80% support for their annual remuneration report, compared to 7% last year.

So far this year, one FTSE 100 company has failed to secure a majority of votes in favour of the remuneration report.

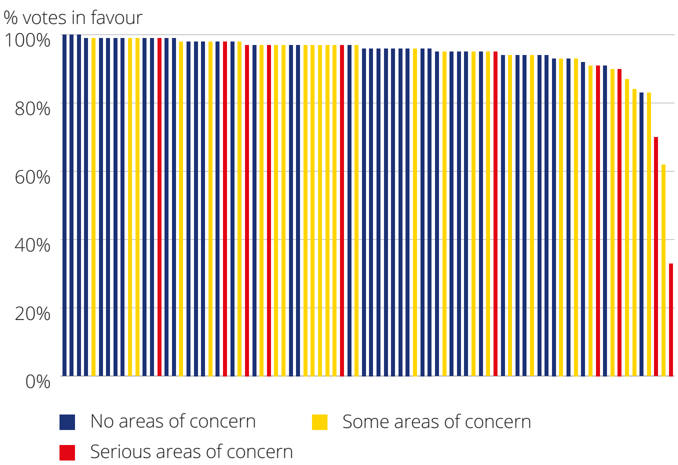
Proportion of votes in favour of the annual remuneration report 2016 – 2020
(2019/20 includes meetings held up to 31 July 2020)



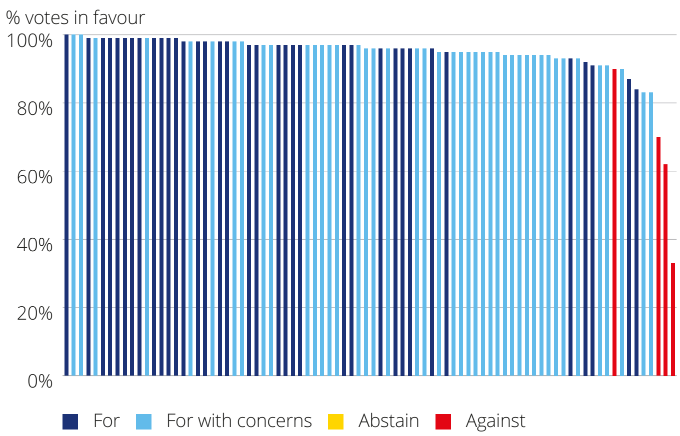
The following charts illustrate the proportion of shareholders voting in favour for each company and how this relates to the colour coded IVIS reports from the Investment Association, and to the proxy voting recommendations of ISS and Glass Lewis. As we have noted in previous years, we see a high correlation between the voting recommendations from ISS and the voting outcome. Many foreign (notably US) shareholders will automatically follow ISS and Glass Lewis recommendations.

FTSE 100 proportion of votes in favour of the annual remuneration report by company
(includes meetings held up to 31 July 2020)

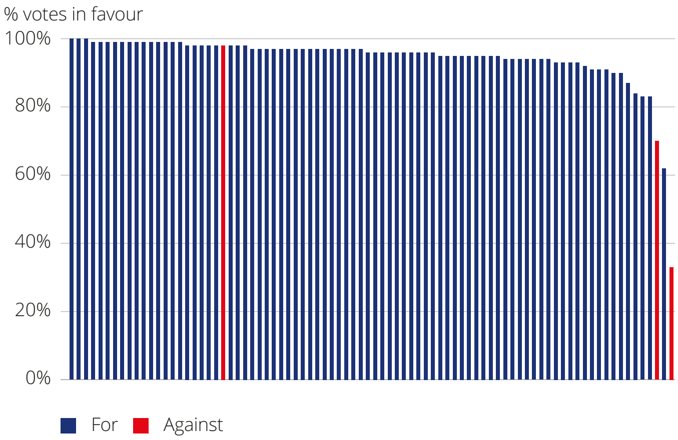
Investment Association



ISS

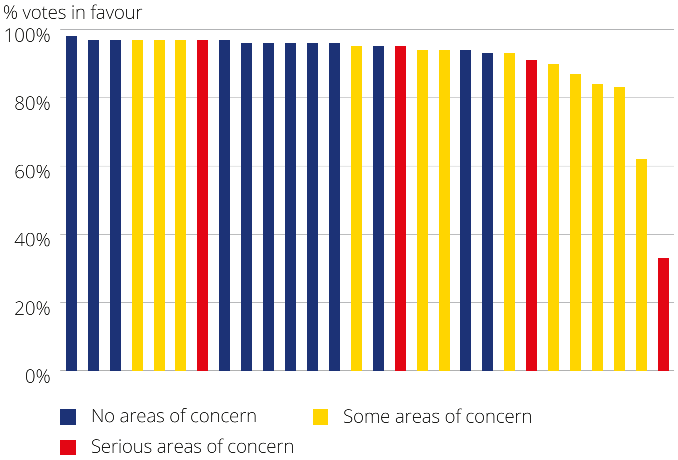


Glass Lewis

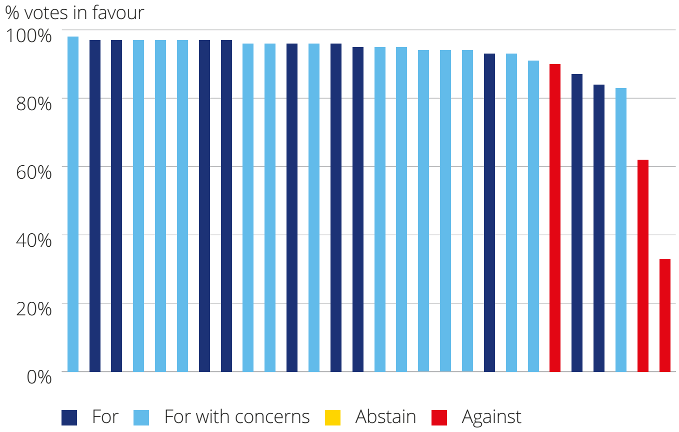


Top 30 companies proportion of votes in favour of the annual remuneration report by company
(includes meetings held up to 31 July 2020)

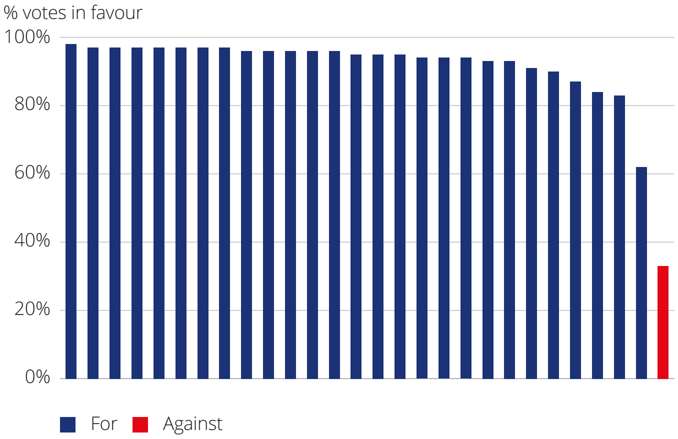
Investment Association



ISS

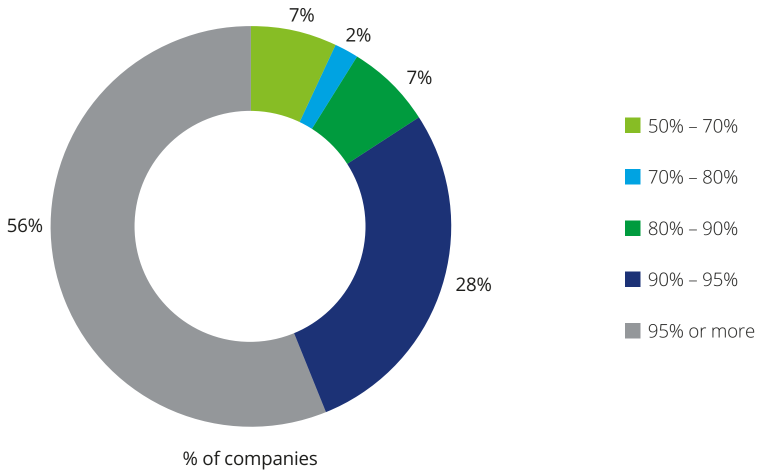


Glass Lewis



The policy report
The median vote for the policy report is 95% in FTSE 100 companies. So far, six companies (9%) have received a vote in favour of less than 80%. In addition, there have been three low votes on new or proposed amendments to long term incentive plans.

Proportion of votes in favour of the remuneration policy report
(includes meetings held up to 31 July 2020)



3.2 Key developments in the corporate governance and executive pay landscape

Over the last two years, a package of legislative, regulatory and investor-led initiatives have come into force with a wide reaching impact on the executive pay and governance landscape.

In recent months we have also seen a number of institutional investors issue commentary and guidance on their expectations for executive remuneration in the context of COVID-19.

UK Corporate Governance Code

The Financial Reporting Council's revised UK Corporate Governance Code came into effect for accounting periods beginning on or after 1 January 2019. This was a substantial re-write of the existing Code, and is supplemented by a revised and expanded Guidance on Board Effectiveness. The Code places greater emphasis on engagement between companies, shareholders and wider stakeholders, and calls for companies to establish a corporate culture that is aligned with company purpose, and promotes greater diversity. A summary of the key remuneration-related changes is provided on pages 19 – 20.

Legislative changes

The Companies (Miscellaneous Reporting) Regulations 2018 became effective in respect of accounting periods beginning on or after 1 January 2019. This included new regulations in respect of the disclosure of CEO to employee pay ratios, as well the potential impact of share price growth on long-term incentive structures.

The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 came into force on 10 June 2019 and will apply in respect of reporting on financial years beginning on or after 10 June 2019, or in respect of any new remuneration policy brought to shareholders for approval on or after 10 June 2019. The regulations have been introduced to implement the Revised Shareholder Rights Directive in the UK. A summary of the key changes is provided on pages 21 – 22.

Investor guidance

In September 2019, the Investment Association published guidance on voting in respect of pensions for new and incumbent executive directors.

In Autumn 2019, the Investment Association, ISS and Glass Lewis published amendments to their existing guidance on executive remuneration and governance. A summary of key changes is provided on pages 23 – 24.

COVID-19 guidance

Since March 2020, a number of institutional investors and proxy bodies have issued guidance and commentary around their expectations for executive remuneration specifically in the context of COVID-19. A summary of the guidance can be found on pages 25 – 28.

UK Corporate Governance Code

On 16 July 2018 the Financial Reporting Council ('FRC') published a revised UK Corporate Governance Code. This was a substantial re-write of the Code and is supplemented by revised and expanded Guidance on Board Effectiveness. The 2018 Code, applicable in respect of accounting periods beginning on or after 1 January 2019, includes a number of far reaching changes, including new principles on:

- alignment of company purpose, strategy, values and corporate culture;
- effective engagement with shareholders and stakeholders;
- alignment of remuneration and workforce policies to the long-term success of the company and its values;
- 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; and
- consideration of the length of service of the board as a whole and the need for regular board refreshment.

Key remuneration aspects of the 2018 UK Corporate Governance 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**	Senior management	Determining the policy for executive director remuneration and setting remuneration for the chair, executive directors **and senior management**.
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	**Review workforce remuneration and related policies,** and the **alignment of incentives and rewards with culture,** taking these into account when setting the policy for executive director remuneration.
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 <u>**a**</u> remuneration committee **for at least 12 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**	Pension alignment	The **pension contribution rates** for executive directors, or payments in lieu, should be **aligned with those available to the workforce**.
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**	Holding periods	Remuneration schemes should promote long-term shareholdings by executive directors. In normal circumstances, share awards should be released for sale on a phased basis and be subject to a total vesting and holding period of five years or more.
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**	Post-employment shareholding	Remuneration committees should develop a **formal policy for post-employment shareholding requirements** encompassing both unvested and vested shares.

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**

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

Mitigation: *Committees should be robust in reducing compensation to reflect departing directors' obligations to mitigate loss.* **Code**

Purpose, values and strategy: *Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.* **Code Principle**

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.

Culture and incentives

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

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

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.

Legislative changes – remuneration reporting

The Companies (Miscellaneous Reporting) Regulations 2018
The Companies (Miscellaneous Reporting) Regulations 2018 became effective in respect of accounting periods beginning on or after 1 January 2019.

Pay ratios (summary of disclosures)

- Quoted companies registered in the UK (with more than 250 UK employees) are 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 to be calculated on a group-wide basis by reference to UK employees only.
- Supporting information required including the methodology used to calculate the pay ratios. Companies are 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 are also 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 to be disclosed in a table in the annual remuneration report and will include pay ratio data that will build incrementally to a ten year period going forward. Therefore in the first year of reporting, only one set of pay ratios will be disclosed.

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.
- In the Directors' Report, 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'.

The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019

The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 came into force on 10 June 2019 and applies in respect of reporting on financial years beginning on or after 10 June 2019, or in respect of any new remuneration policy brought to shareholders for approval on or after 10 June 2019.

The regulations have been introduced to implement the Revised Shareholder Rights Directive in the UK. Many of the requirements under the Directive are already well established in the UK's existing framework for reporting and voting on directors' remuneration. A summary of the key changes is provided below.

Remuneration reporting

The changes to **remuneration reporting** came into effect in respect of **financial years beginning on or after 10th June 2019**

Single figure table	**Two additional columns to the existing 'Single Figure' table**, showing the **sub-totals of fixed and variable pay** for each director.
Annual change in pay	Provide comparison of **annual change** of **each individual director's pay** to the annual change in **average employee pay**, building up to a rolling five year period. Average employee pay based on Full Time Equivalent (FTE) calculation, using mean or median average. *The new requirement removes previous 'comparator group' flexibility – definition of employee is clarified in BEIS FAQs*.
Website	The report must be freely available on the company's website free of charge for at least 10 years (applies from 10th June 2019)
Deviation from policy	The report must set out any deviation from the procedure for the implementation of the approved remuneration policy.
Other changes	The report must set out any changes made to the exercise price and date of share options compared to the previous year.

Scope: Directors' remuneration policy and remuneration report requirements will apply to both **quoted companies and to traded companies whether quoted or unquoted.** (Excludes AIM)

In practice, the vast majority of traded companies are also quoted. However, a small number of traded companies are unquoted, because their shares are not listed on the Official List (primarily specialist investment firms).

Remuneration policy

The changes to **remuneration policy** requirements apply in respect of any **new policy brought to shareholders for approval on or after 10th June 2019**

Loss of vote	If the company loses the shareholder vote on the policy, it must bring a **revised Policy to another vote within a year**.
Service contracts	Policy must provide an indication of the **duration of directors' service contracts**.
Decision making process	Policy must set out the **decision-making process** through which it has been determined, reviewed and implemented.
Website	The company must put the **date and results of the shareholder vote** on the new Policy on its **website** as soon as reasonably practicable.
Other information	Certain additional details to be provided **in the Policy** in respect of performance shares awarded, in particular regarding **vesting periods, and any holding or deferral periods**.

In practice, many companies already fulfil these requirements under the Policy

Scope: Directors' remuneration policy and remuneration reporting requirements also extended to apply to any person who, **although not a director of the company, is its chief executive officer or deputy chief executive officer**.

Investor guidance

Investment Association (IA) (September and November 2019)

September 2019 – Updated guidance on executive pensions

For new executive director appointments (including new joiners and promotions):

Red top for any new **remuneration policy** that does not explicitly state that any new executive director appointed will have their pension contribution set in line with the majority of the workforce.

Red top for the **remuneration report** where any new executive director or director changing role has pension contribution not aligned with the level of the majority of the workforce.

For existing (incumbent) executive directors:

The following guidance applied for companies with year-ends on or after 31 December 2019.

Amber top for the **remuneration report** when a director is paid a pension contribution of 25% of salary or more (continuing approach from last season).

Red top for the **remuneration report** if the pension contribution received by the executive director is 25% or more and the committee has not disclosed a credible action plan to reduce the director's pension contribution to the level of the majority of the workforce by the end of 2022.

November 2019 – Updated Principles of Remuneration

In November 2019, the IA published updated Principles of Remuneration for 2020. Key changes are summarised below:

- 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 particular ones that impact on stakeholders including the company's workforce; for example if there has been a significant health and safety failure or a poor outcome for clients.
- Remuneration committees should consider introducing discretion into their incentive schemes to **limit vesting outcomes if a specific monetary value is exceeded**. IA members consider it appropriate for individual Remuneration committees to decide on the level at which such a discretion would be suitable for their company and how it would be implemented on an individual basis.
- **Payments made to departing directors** for payment in lieu of notice should only consist of contractual entitlements and be limited to salary, pensions and any benefits and reflect the length of the notice period. Any notice period should commence immediately when a decision has been made that an executive has resigned or the board has decided that that an individual is leaving the company.
- Annual bonus payments should only be paid to **good leavers** and deferred bonuses should continue to be settled in shares on the normal deferral schedule. Companies should disclose if a director is a good or bad leaver and the reasons for the company giving the director that status.
- For **personal or strategic objectives**, investors expect a detailed rationale for the payment of these elements. The weightings, achievement and outcomes of personal and strategic objectives should be disclosed separately.
- Executive directors should build up a significant level of **personal shareholding**, through personal investment and vesting of share incentives to ensure alignment of interests with shareholders.
- Remuneration committees should consider including **strategic or non-financial performance criteria** in variable remuneration.

Institutional Shareholder Services (ISS) (November 2019)

ISS published its updated proxy voting guidelines for the UK and Ireland (as part of its revised guidance for Europe, Middle East and Africa), effective for meetings on or after 1 February 2020. Key remuneration-related changes are summarised below:

- **Pension arrangements** for new joiners should be aligned with those of the wider workforce, and companies should actively disclose whether or not this is the case.
- For incumbent directors, companies should seek to align **pension contribution rates** with the workforce over time, recognising that many investors in the UK will expect this to be achieved in the near-term.
- ISS will normally recommend a vote against a remuneration report where **annual bonus targets** are not disclosed. Targets for both financial and non-financial objectives should be presented in an appropriate level of detail, preferably with a full target range (e.g. threshold, target and maximum) set out. Any company choosing to disclose one or more years in arrears would be out of step with wider market practice and may attract a negative vote recommendation.
- The remuneration committee should disclose how it has taken into account any relevant **environmental, social, and governance (ESG) matters** when determining remuneration outcomes. Such factors may include (but are not limited to): workplace fatalities and injuries, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant adverse legal judgments or settlements.
- In respect of **departing directors**, in general, formal notice should be served no later than the day on which the leaving date is announced. If a company chooses not to serve notice at this time, it should explain its reasoning for this in the subsequent remuneration report.

Glass Lewis (November 2019)

Glass Lewis published its revised 2020 proxy voting guidelines for the UK. Key remuneration-related changes are summarised below:

- **Pension provisions** for executive directors generally expected to be in line with those available to the majority of the wider workforce. While new executive directors are expected to be appointed on this level of pension contribution, it is recognised that pension rates for incumbents may need to be reduced over time.
- **Post-employment shareholding requirements** are now included among the best practice features generally expected of remuneration policies.
- Remuneration committees should consider exercising **downward discretion** where a company has suffered an **exceptional negative event**, even if formulaic targets have been met. 'For example, investors may expect a remuneration committee to reduce an annual bonus payout and/or the size of an LTI grant following a significant decline in share price'.
- Glass Lewis generally expect long-term incentive plans to allow for no more than **25% vesting for threshold performance**.
- Where **restricted shares** are awarded, this 'should be accompanied by significant shareholding requirements, including a post-exit shareholding requirement of at least two years'.

3.3 COVID-19 guidance and commentary

In recent months, a number of proxy agencies and investors have set out expectations for remuneration committees in considering executive pay in the current environment.

ISS

In the event of a board changing their performance metrics, goals or targets, they should provide contemporaneous disclosure of their rationale for these changes to shareholders. Such disclosures will provide shareholders with greater insights now and next year into the board's rationale and circumstances when the changes are made.

ISS are generally not supportive of changes to midstream or in-flight LTIP awards since they cover multi-year periods. *Such changes made to long-term awards will be assessed on a case-by-case basis to determine if directors exercised appropriate discretion, and provided adequate explanation to shareholders of the rationale for changes.*

ISS will assess any structural changes to long-term plans made to take the new economic environment into consideration under their existing benchmark policy frameworks.

Glass Lewis

In terms of executive compensation, '***those that take a proportional approach to the impacts on shareholders and employees look more likely to be widely supported****. [..] The stark reality is that for many workers, including executives, they should not expect to be worth as much as they were before the crisis, because their free market value as human capital has now changed. There is a* ***heavy burden of proof for boards and executives to justify their compensation level*** *in a drastically different market for talent.'*

Investment Association

Suspended or cancelled dividends

- Committees are expected to **consider adjusting bonus outcomes to reflect suspended or cancelled dividends**.
- Where bonuses have already been decided or paid, the IA expects committees to consider using malus or discretion provisions to reduce any deferred shares relating to 2019 annual bonus.
- Alternatively, committees could make corresponding reductions to the 2020 bonus.

Adjusting performance conditions

- IA members **do not expect committees to adjust performance conditions for annual bonuses or in-flight LTIP awards** to account for the impact of COVID-19.
- Committees should **exercise discretion where they consider there to be a misalignment between pay and performance**. Where discretion is exercised, committees should engage with their shareholders and disclose the rationale behind the decisions made.

2020 LTIP grants (awards already granted)

- Where LTIP awards have already been granted for 2020, the IA accepts that there does not need to be a reduction in grant size provided the share price fall is solely related to COVID-19. Any other share price underperformance should be taken into account when determining the grant size.
- The IA will expect committees to use their discretion to reduce vesting outcomes where windfall gains have been received. The approach to judging whether there have been windfall gains should be disclosed in the next remuneration report.

Investment Association

Suspended or cancelled dividends

- Committees should be considering the individual circumstances of the company and if it is appropriate to make LTIP grants at the current time given the current market environment. The IA has set out the following three options it considers could be used:
  1. Grant on the normal timeline setting performance conditions and grant size at current time.
  2. Grant on the normal timeline setting the grant size now but committing to set performance conditions within the next six months.
  3. Delaying grant to allow the Committee to assess the appropriate performance conditions and grant size (normally within six months of normal grant).
- Grant sizes – committees should consider making reduced LTIP grants where the share price has fallen substantially. Making awards at the maximum opportunity where the share price has fallen substantially is discouraged.
- **Performance conditions – the IA expects performance conditions to be stretching.** Where grants are delayed, the IA still expects the performance period to be three years following grant. Where the performance condition is shortened, grant sizes should be similarly reduced.

Additional capital from shareholders or furloughing employees

- Where **companies seek additional capital from shareholders or takes money from the government** (such as by furloughing employees), the IA would **expect this to be reflected in the executives' remuneration outcomes**.
- **Remuneration committees and management teams should be even more mindful of the wider employee context through this period.** Failure to do so may have significant reputational ramifications.

Remuneration policy votes

- The IA believes that companies should not be rewriting their remuneration policies at this time. If companies are seeking to propose variable pay increases this year, the Committee should carefully consider if such an increase is appropriate in 2020.
- It may not be appropriate to bring forward remuneration policies with substantial changes if the company has been significantly impacted by COVID-19.

Aberdeen Standard

*A number of companies will be seeking the triennial approval of their remuneration policies which will apply for the next three years. If necessary **we will support** companies seeking approval of **the continuation of their existing policy for a further year** to allow the **deferral of changes until a more normal business environment exists**.*

Our approach to voting on AGM resolutions will invariably be based on the prevailing circumstances, including our past history of voting.

Fidelity

Covid-19 was a major external shock, and we recognise that many remuneration committees are now keen to ensure that pay outcomes for FY20 reflect senior executives' efforts in navigating through the crisis. We are aware that many companies took immediate steps to restrain executive remuneration as a matter of cost savings e.g. by cutting or deferring the FY19 bonus and/or enacting temporary salary cuts, and some companies also reduced LTIP grants to reflect the fall in the share price and risk of windfall gains for recipients. We will consider these factors when it comes time for us to evaluate executive pay outcomes for FY20.

While we understand the desire for our investee companies to pay competitively and reward management fairly, given the continuing uncertainty about the post-Covid economic recovery we are advocating for a restrained approach to executive pay this year:

- *Remuneration committees must remain mindful of ensuring that variable pay outcomes broadly reflect shareholders' experience, and appropriate discretion should be applied when this is not reflected in formulaic outcomes.*
- *We expect companies that have participated in taxpayer-supported employee furlough schemes to not pay bonuses (cash or otherwise) to executive directors and senior management for FY20.*
- *We strongly encourage scaling back LTIP grants in monetary terms to account for any temporary fall in the share price. Companies that did not do this in 2020 should put a hard cap on the pay outcomes to prevent windfall gains.*
- *When evaluating pay outcomes, we will consider the consistency between company's treatment between senior management and the general workforce. We expect senior management salaries to be frozen or rise only modestly next year and in any event, not beyond the workforce rate of increase.*
- *Any ex-post adjustments to performance targets should be well-explained in the remuneration report and should respect the principles of shareholder alignment and consistent treatment with the broader workforce.*
- *The Covid-19 crisis has highlighted the importance of appropriately reflecting stakeholder outcomes in executive pay. Looking ahead to FY21, we will be encouraging investee companies to incorporate appropriate non-financial and/or stakeholder-focused factors into their remuneration policies where they have not done so already and where sufficiently robust metrics can be identified.*

Legal and General Investment Management

*In relation to executive remuneration, we will support the relevant board committee when they demonstrate **restraint and discretion** in awarding **salary increases, cash bonuses and share awards**. We trust the board in setting the right tone on this issue in these turbulent times.*

Schroders

Where companies seek additional capital we would expect their boards to suspend dividends and to ***reconsider management's remuneration****.*

Federated Hermes

In an open letter to companies, Federated Hermes highlighted that executive pay faces more intense scrutiny than usual, requiring **remuneration committees to use more discretion over whether to hand out pay deals more typically created in a formulaic way**.

PIRC

As part of an appropriate response, PIRC urges all companies to ***review their approach to pay, and amounts to be paid to their executives****, in the light of current event.* ***Few if any executive pay schemes are likely to be appropriate*** *for a company in the current market circumstances and the health emergency.* ***PIRC therefore calls on companies to suspend all payments to executives other than basic salary from 1 April, until the end of the financial year.***

3.4 Diversity and inclusion

Gender pay reporting

The Gender Pay Gap Reporting (GPGR) regulations require British employing entities with 250 or more employees as at 5 April 2019 to submit their gender pay gap data by 4 April 2020 (30 March 2020 for public sector organisations).

In March 2020, in light of COVID-19 the Government Equalities Office (GEO) and the Equality and Human Rights Commission (EHRC) announced the suspension of enforcement of gender pay gap reporting deadlines for this reporting year (2019/20).

A number of employers that had not already reported may still do so voluntarily, potentially at a later date or at the same time as next year's reporting requirements.

Ethnicity pay reporting – government consultation

The government ran a consultation from October 2018 to January 2019 on the introduction of mandatory ethnicity pay reporting. They are currently analysing feedback and have committed to respond by the end of the 2020. In July 2020, the following statement was issued:

"Following the consultation, Government met with businesses and representative organisations to understand the barriers to reporting and explore what information could be published to allow for meaningful action to be taken. It is essential that any reporting is reliable and robust, and that is why last year we also ran a voluntary methodology testing exercise with a broad range of businesses to better understand the complexities outlined in the consultation using real payroll data.

This work highlighted the genuine difficulties in designing a methodology that produces accurate figures that allows for interpretation and action from employers, employees and the wider public. [...] The Government is continuing to analyse this data and is committed to responding to the consultation by the end of the year at the latest."

Boardroom diversity

The main proxy voting agencies have focused on gender diversity in their voting guidelines, in support of the Hampton-Alexander Review target of one-third female representation on boards by the end of 2020. More recently, ethnic diversity has come under the spotlight; the Investment Association now asks whether companies have disclosed the percentage of the board that comes from an ethnic minority background and Glass Lewis' guidelines reference the Parker Review targets, i.e. FTSE 100 boards should have at least one director of colour by 2021 and FTSE 250 boards by 2024. In July 2020, ISS in the US wrote to companies asking them to voluntarily disclose the ethnicities of their directors and senior executives. In September 2020, Legal and General Investment Management announced that from 2022 they will vote against the chair of the nomination committee or of the board, where companies do not have ethnically diverse directors on the board.

While significant progress has been made to improve gender diversity in UK boardrooms and at senior leadership levels, ethnic diversity remains poor. The 2020 Parker Review Update found that directors of colour represent 7.5% of all FTSE 350 directors (where ethnicity is known) which is unchanged from the 2017 findings. We expect investors to take a tougher stance on companies with white-only boards in the coming season, as part of a wider push to build more diverse and inclusive workplaces.

3.5 Regulatory changes in the financial services sector

There has been a higher level of activity on the reward regulatory front over the past year with a number of new requirements due to enter into force in the coming months. Credit institutions and investment firms will both see material changes to current requirements.

Capital Requirements Directive V (CRD V) and Capital Requirements Regulation II (CRR II)

One key change is the amendments that will be made to the current remuneration rules under CRD IV as part of the CRD V package of reforms. This will impact EU regulated banks, building societies and investment firms which are categorised as systemically important and exposed to the same types of risks as credit institutions.

Following the publication of CRD V and CRR II in the Official Journal of the EU in June 2019, Member States must implement into local law the changes introduced under CRD V by 28 December 2020. The UK Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have confirmed that, notwithstanding Brexit, the CRD V remuneration requirements will come into effect for UK-regulated firms for performance periods beginning on or after 29 December 2020. As such, the changes summarised below will apply from the 2021 performance year onwards. The UK regulators will also be implementing the remuneration disclosure changes set out in CRR II.

In the summer of 2020, the PRA and FCA both published Consultation Papers considering how they propose to implement the new provisions of CRD V in the UK. The consultation phase closed at the end of September 2020 with the final guidance and updated rules to be published thereafter. As a result, the proposed implementation outlined below remains subject to change.

The key changes are as follows:

- **Application of the bonus cap to all firms, regardless of size**. Under CRD V, it will not be possible for smaller firms to disapply the bonus cap for Material Risk Takers (MRTs). This is a key change for smaller (proportionality Level 3) firms in the UK.
- **No disapplication of malus and clawback for MRTs**. Under CRD V, there will be no disapplication of malus and clawback rules, regardless of the size of the firm. All variable remuneration awarded to MRTs should be subject to malus and clawback.

  As part of their consultation process, the PRA and FCA have proposed updated minimum clawback periods. Under the proposals, firms will need to apply the longer of:
  - The minimum clawback period set out in the PRA/FCA's rules; or
  - The period which is equal to the sum of the deferral and retention periods applied to the individual.

  This would generally mean that MRTs earning over £500,000 would continue to be subject to a clawback period of 7 years in relation to both their upfront and deferred variable remuneration.

  Individuals who receive £500,000 or below would be subject to a minimum clawback period of the deferral period plus retention period (in practice, this could mean a 5, 5.5 or 6 year clawback period). A minimum clawback period of 1 year would be applicable to variable remuneration which is immediately paid and not subject to deferral.
- **Increase in minimum deferral requirements**. Under CRD V, the minimum deferral period will be increased from three years to four years. This will impact those MRTs currently subject to three year deferral.

  Further changes in the UK deferral rules have also been proposed, which have the potential to be notably more complex than the current rules. For example, the PRA and FCA have introduced a new concept of a 'higher-paid' MRT, broadly defined as an individual who receives total remuneration above £500,000. (It remains to be seen whether such an individual will also be defined on the basis of whether their variable remuneration exceeds 33% of their total remuneration.)

  Higher-paid MRTs who perform a PRA-designated Senior Management Function will continue to be subject to 7 year deferral, while MRTs who perform such functions who are not higher paid will be subject to 5 year deferral (as will MRTs who perform an FCA-designated Senior Management Function). Other MRTs will be subject to 4 or 5 year deferral, depending upon whether they are a 'higher-paid' MRT and the nature of their role.
- **Disapplication of specific remuneration rules on grounds of proportionality**. There are two bases for the disapplication of the more prescriptive CRD remuneration rules: firm-level proportionality and individual level proportionality.

  In relation to the application of firm-level proportionality, the threshold for dis-applying the rules on deferral, payment in instruments and discretionary pension benefits will be reduced under CRD V. For firms which are not "large institutions", CRD V sets a default asset threshold of EUR 5 billion over the four preceding years below which firms can dis-apply the above rules – a threshold which can be amended by local regulators up to a maximum of EUR 15 billion in certain circumstances.

  The PRA and FCA propose to exercise the discretion permitted under CRD V to increase the total assets threshold to EUR 15 billion (proposed to be set at £13 billion) for firms that meet the following criteria:
  a) they do not qualify as "large institutions";
  b) they are subject to no obligations, or simplified obligations, for recovery and resolution planning purposes under the Bank Recovery and Resolution Directive;
  c) their on- and off-balance sheet trading book business is equal to or less than 5% of their total assets, and EUR 50 million; and
  d) total value of derivatives positions held with trading intent does not exceed 2% of their total on- and off-balance sheet assets, with total value of overall derivatives not exceeding 5% of the same assets;
  e) it is appropriate for the firm not to be required to comply, taking into account the nature, scope and complexity of its activities, its internal organisation and, if applicable, the characteristics of the group to which it belongs.

In relation to the application of individual proportionality under CRD V, the thresholds are also being considerably lowered from a UK standpoint. Under CRD V, it will only be possible to dis-apply the rules on deferral, payment in instruments and discretionary pension benefits where an individual's annual variable remuneration is no more than EUR 50,000 and this represents no more than one-third of their total annual remuneration. The UK regulators propose to set this threshold at £44,000. This is a significant change from the existing UK individual proportionality thresholds and is likely to result in more MRTs becoming subject to the rules on deferral and payment in instruments.

- **Use of phantom awards by listed firms**. CRD V formally removes the restriction on listed firms using phantom awards to satisfy the 'payment in instruments' requirement.
- **MRT identification**. New Regulatory Technical Standards on MRT identification have been developed by the European Banking Authority (EBA), with the final draft text published in June 2020. The new rules include changes to both the current qualitative and quantitative tests for MRT identification.

  In summary, changes to the qualitative tests primarily concern clarifying the definitions of managerial responsibility, material business units and control functions; in addition, some specific roles have been identified as needing to be identified as MRTs, including individuals responsible for information technology and security, anti-money laundering and terrorist financing, and managing the outsourcing of critical or important functions.

  For the quantitative criteria, the approach is broadly being simplified whereby firms will no longer need to identify individuals earning the same amount as the lowest paid member of senior management, and the 0.3% of highest earners test has also been removed for organisations with less than 1,000 staff members.

  In addition, changes have been made to the approach to exclusions, removing the current 'notification' requirement so that any exclusions will only be for local regulatory approval.
- **Gender considerations**. CRD V introduces a specific requirement for firms to have a "gender neutral" remuneration policy. This is defined in CRD V as being a remuneration policy based on equal pay for male and female workers for equal work or work of equal value.

Further to this, the FCA proposes to introduce a new requirement for firms to ensure and be able to show that their remuneration policies and remuneration practices are gender neutral. In addition, the FCA is proposing to include guidance which reminds firms of their existing obligations as employers to ensure that their remuneration policies and practices do not discriminate against applicants and employees on the grounds of any of the protected characteristics under the 2010 Equality Act.

New prudential regime for Investment Firms

In June 2020, the FCA published a discussion paper on the implementation of a new prudential regime for UK investment firms (IFPR). In principle, the FCA has indicated that it is minded to adopt a regime in the UK that is based on the provisions set out in the EU's Investment Firms Directive (IFD) and accompanying Regulation, where possible and appropriate for the UK market. The date of implementation in the UK is expected to be around the summer of 2021 (to align with the June 2021 implementation deadline for the IFD), although this has not been confirmed and it remains unclear as to which performance year the new requirements will first apply. The FCA expects firms to continue to comply with the existing IFPRU and BIPRU Remuneration Codes until any new remuneration code for investment firms under the IFPR comes into force.

Under a new categorisation of investment firms, Class 1 investment firms, defined as systemic and 'bank-like', will be subject to CRD V requirements above, while the Class 3 firms (i.e., those considered to be small and non-interconnected), will be subject to the MiFID II remuneration principles only. Most UK investment firms are, however, expected to be categorised under Class 2 and therefore subject to the remuneration provisions set out in the IFPR. This means that many firms which currently dis-apply the stricter remuneration provisions of deferral, payment in instruments and malus and clawback under the proportionality provisions of CRD IV, will be required to apply pay-out process rules to MRTs whose remuneration exceeds the relevant de minimis threshold (see below) following the implementation of IFPR.

Although a formal bonus cap will not be applied, Class 2 firms will be expected to set an "appropriate ratio" between fixed and variable components of remuneration. The FCA does not consider it appropriate to provide further guidance on what this ratio may be, although considers that it may be appropriate for different ratios to be applied to different categories of staff.

In line with the changes under the IFD, the other key changes under the new IFPR are expected to include the following:

- **Payment in instruments**. At least 50% of the variable remuneration awarded to MRTs will have to consist of shares, share-linked instruments or non-cash instruments which reflect the instruments of the portfolios managed. The FCA intends to consult on the details of the proposed UK approach to classes of instruments.
- **Deferral**. At least 40% of the variable remuneration awarded to MRTs must be deferred over three to five years as appropriate, depending on the business cycle of the investment firm, the nature of its business, its risks and the activities of the individual in question, with 60% required to be deferred where the variable remuneration is a particularly high amount. The FCA has suggested that this threshold would be set at £500,000 in the UK, which is aligned to the existing threshold under CRD IV, subject to consultation.
- **Malus and clawback**. 100% of variable remuneration awarded to MRTs will have to be subject to malus or clawback arrangements under specific criteria set by investment firms. This must cover situations such where as an individual participated in or was responsible for conduct which resulted in significant losses for the investment firm or where an individual is no longer considered "fit and proper". The level of variable remuneration should also be reduced where the firm's financial performance is subdued or negative.
- **Disapplication of specific remuneration rules on grounds of proportionality**. Under the IFD, where an investment firm's on- and off-balance sheet assets have an average value equal to or less than EUR 100 million over the preceding four years, the firm will be able to disapply the rules on deferral, payment in instruments and discretionary pension benefits. However, it will not be possible for firms to disapply malus and clawback, regardless of the size of the firm. The IFD provides for local regulators to increase this threshold to EUR 300 million. For the purposes of the IFPR in the UK, the FCA considers that the higher threshold may be appropriate in the UK market, although it notes that it may also set a threshold for certain types of firm of below EUR 100 million, specifically mentioning the wholesale broker market in this context.

  In addition, the IFD allows firms to disapply those rules in relation to individual MRTs whose annual variable pay is no more than EUR 50,000 and no more than 25% of their total annual pay. The FCA recognises that these thresholds are substantially lower than existing individual proportionality thresholds in the UK and has invited firms to feedback on this element of the discussion paper. At this stage, the FCA's proposed approach to individual proportionality thresholds is therefore to be confirmed.
- **Gender considerations**. Under the IFD, firms must have a remuneration policy which is gender neutral, as per the corresponding CRD V requirement. Firms that exceed the firm-level proportionality threshold above must also have an independent "gender balanced" remuneration committee, which may be established at group level. The FCA is considering proposing that firms set their own targets for the level of gender representation and be prepared to justify why the target is acceptable, if requested to do so by the FCA.
- **MRT identification**. Draft new Regulatory Technical Standards were published by the EBA in June 2020 in relation to the identification of MRTs for the purposes of the IFD. The FCA has indicated that it intends to consult on its approach to MRT identification, although it expects the future UK approach to be based on the EBA RTS. The FCA does, however, expect to make adjustments for the UK market and would encourage firms to consider broader categories of roles to ensure that all types of risks involved in an employee's professional activities are taken into account, and not just those which are prudentially focused.

Under the IFD, firms will also be required to submit information in relation to high earners, as well as provide information on the ratio between fixed and variable remuneration, and include information on whether they benefit from the application of firm-wide or individual proportionality. It is expected that UK firms will be required to submit similar information to the FCA.

4

Salary

4. Salary

4.1 Salary increases

41%
CEOs receiving zero increase
2019 **28%**

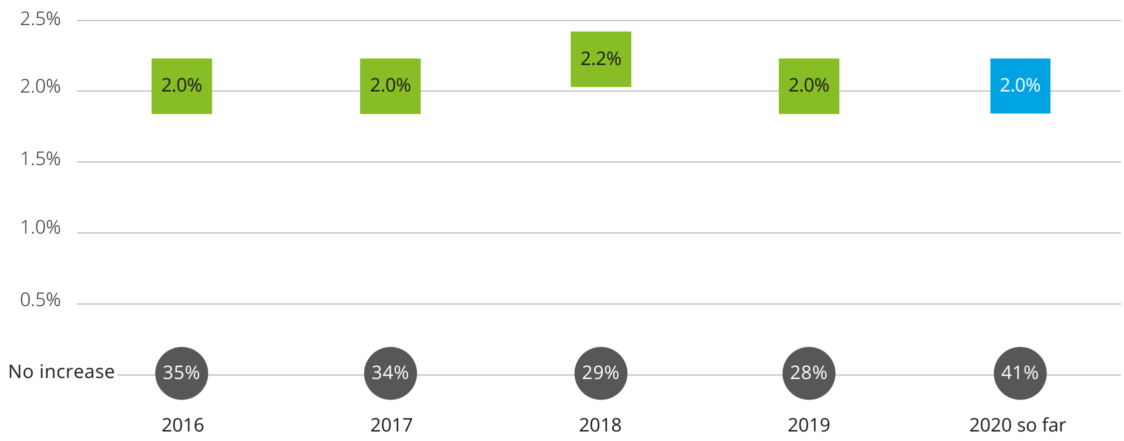
2.0%
median increase for CEO so far for 2020
No change

33%
other executive directors receiving zero increase
2019 **23%**

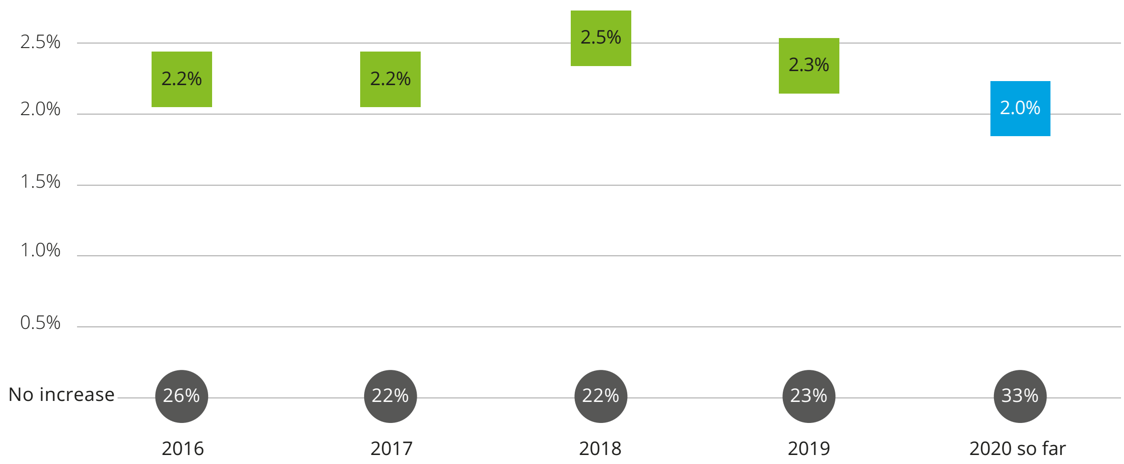
2.0%
median increase for other executive directors so far for 2020
2019 **2.3%**

The following charts show the median level of salary increases in FTSE 100 companies. 2020 data is based on companies with financial years ending between 30 September 2019 and 29 February 2020, and therefore is not the full picture for the year. We have excluded individuals receiving phased higher than usual increases post appointment below market rates, role scope increases, those ineligible for a review due to either being recently appointed or known to be leaving, and companies where increases have been deferred and the percentage was not disclosed or is subject to review at a future date.

FTSE 100 chief executives – median salary increases since 2016



FTSE 100 other executive directors – median salary increases since 2016



So far in 2020, 41% of chief executives and 33% of other executive directors have received no increase, which is significantly above the levels in prior years. This increase reflects that many companies are choosing to freeze salaries in light of the COVID-19 pandemic. Salary freezes are more prevalent in the top 30 companies.

Salary increases effective in 2020 so far – by index

	Chief executive			Other executive directors		
	FTSE 100	**Top 30**	**31 – 100**	**FTSE 100**	**Top 30**	**31 – 100**
0%	41%	47%	38%	33%	41%	27%
0% – 2%	21%	19%	22%	24%	18%	27%
2% – 2.5%	10%	14%	8%	14%	18%	12%
2.5% – 3%	17%	10%	22%	24%	23%	25%
3% – 5%	9%	5%	10%	5%	0%	9%
5% – 10%	2%	5%	0%	0%	0%	0%
More than 10%	0%	0%	0%	0%	0%	0%
Upper quartile	2.6%	2.5%	3.0%	2.7%	2.5%	2.9%
Median	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Lower quartile	0%	0%	0%	0%	0%	0%

There is some difference by sector, with almost half of retail & services companies freezing the chief executive's salary for 2020 and almost 40% freezing the salary of other executive directors. This compares with around 40% of chief executives and around 30% of other executive directors in industrial & manufacturing and finance & property companies.

Salary increases effective in 2020 so far – by industry sector

	Chief executive			Other executive directors		
	Finance & property	Industrial & manufacturing	Retail & services	Finance & property	Industrial & manufacturing	Retail & services
0%	40%	38%	47%	31%	30%	38%
0% – 2%	20%	15%	29%	25%	22%	25%
2% – 2.5%	20%	4%	12%	13%	9%	25%
2.5% – 3%	13%	27%	6%	25%	35%	6%
3% – 5%	7%	12%	6%	6%	4%	6%
5% – 10%	0%	4%	0%	0%	0%	0%
More than 10%	0%	0%	0%	0%	0%	0%
Upper quartile	2.5%	3.0%	2.0%	2.8%	3.0%	2.4%
Median	2.0%	2.0%	1.8%	2.0%	2.0%	2.0%
Lower quartile	0%	0%	0%	0%	0%	0%

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 2020.

Caution should be taken when using this information to benchmark salaries for executive director roles, taking careful consideration of such factors as company size, the degree of internationality and complexity of the company, remuneration arrangements across the whole organisation, the individual specifics of roles and economic circumstances. Companies should also consider the impact of salary increases on overall remuneration packages, an area which comes under shareholder scrutiny.

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 group.
- Assessing where your company falls within a given company size range.
- Considering the full range of market practice to avoid focusing on a specific market position (e.g. median).
- Assessing the particular circumstances of an individual in relation to the full range of market practice.
- The overall remuneration package and the impact of basic salary increases on total pay.

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 operations.

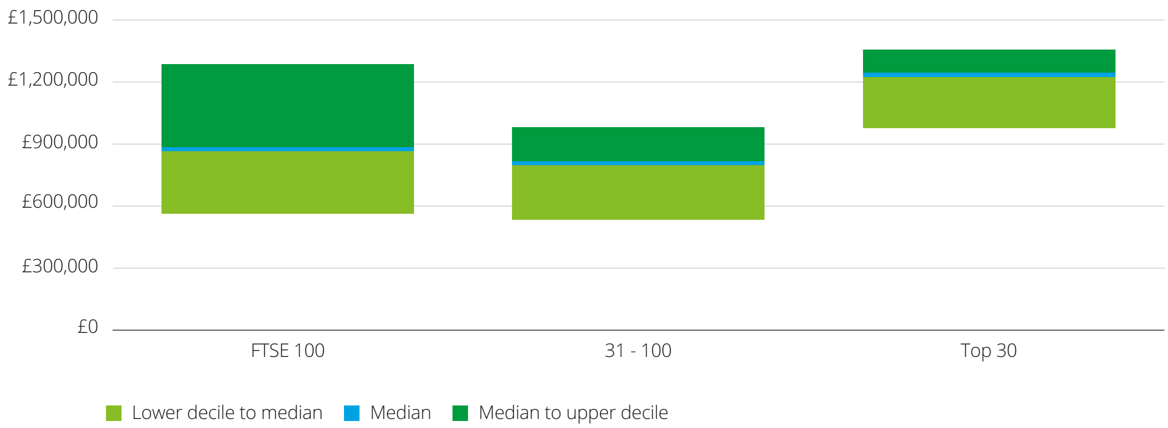
The analyses relating to functional and operational directors are based on small samples as many companies now operate with only two executive directors. These analyses should therefore be treated with some caution.

Chief executive officer
Salary levels by market capitalisation

Market capitalisation	No of co's	Lower decile £	Lower quartile £	Median £	Upper quartile £	Upper decile £	Average £
£4-6bn	26	524,600	568,100	807,000	874,000	961,600	743,900
£6-8bn	19	587,600	672,500	760,000	850,800	971,000	766,000
£8-17bn	22	631,700	714,600	854,500	978,400	1,078,200	849,500
£17-36bn	14	975,100	1,007,400	1,136,000	1,267,300	1,364,900	1,137,800
>£36bn	13	1,072,400	1,199,200	1,284,000	1,300,000	1,324,200	1,238,800

The following chart provides an illustration of the inter-decile range of salary levels for the chief executive officer in FTSE 100 companies.

Chief executive officer – inter-decile range of salary levels

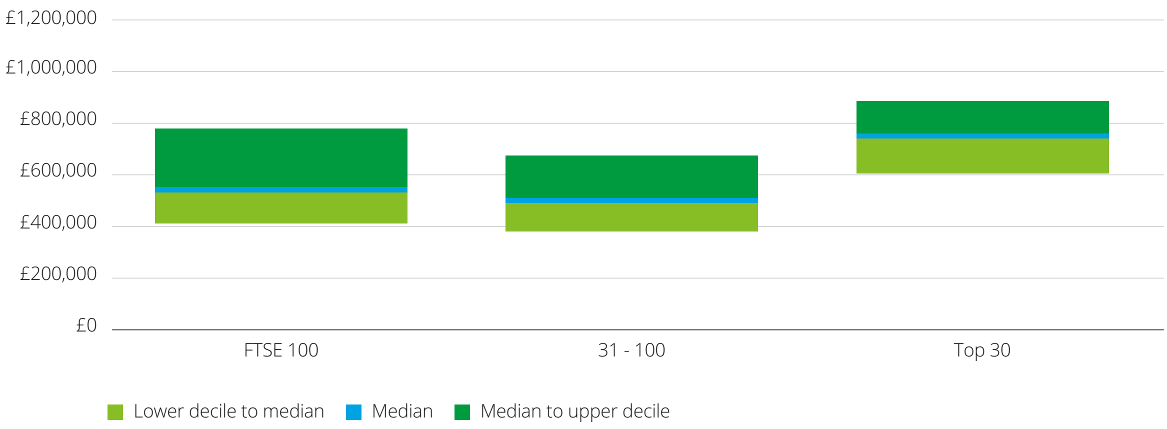


Chief financial officer
Salary levels by market capitalisation

Market capitalisation	No of co's	Lower decile £	Lower quartile £	Median £	Upper quartile £	Upper decile £	Average £
£4-6bn	22	383,100	422,500	490,800	526,300	564,300	482,200
£6-8bn	17	355,200	425,000	503,500	538,000	572,400	486,500
£8-17bn	20	437,500	472,000	536,700	681,300	735,900	562,700
£17-36bn	14	596,500	626,000	743,000	801,900	851,700	730,400
>£36bn	12	695,500	730,800	768,800	850,800	903,400	793,400

The following chart provides an illustration of the inter-decile range of salary levels for the chief financial officer in FTSE 100 companies.

Chief financial officer – inter-decile range of salary levels



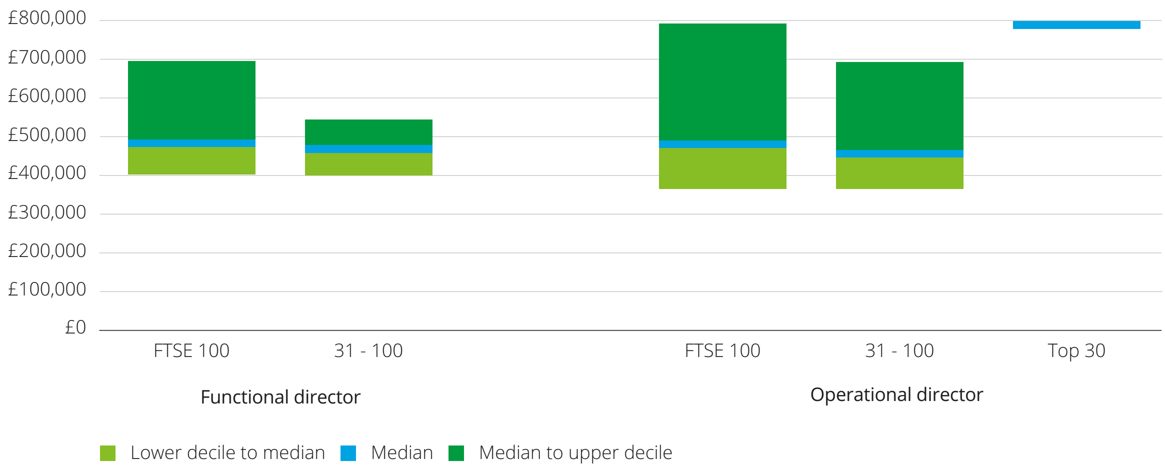
Functional and operational directors

These analyses are based on small samples as most companies operate with only two executive directors. There are insufficient data points to show separate market capitalisation bands.

Salary levels

	No of jobs	No of co's	Lower decile £	Lower quartile £	Median £	Upper quartile £	Upper decile £	Average £
Functional director								
FTSE 100	15	12	402,300	440,000	483,000	574,000	695,400	562,700
31-100	12	9	400,600	431,500	467,800	515,000	544,700	473,000
Operational director								
FTSE 100	33	26	365,000	410,900	480,000	723,500	792,200	561,600
Top 30	8	7	-	715,600	788,000	851,800	-	779,400
31-100	25	19	365,000	380,000	455,200	571,100	692,600	491,900

Functional and operational directors – inter-decile range of salary levels



5

Annual bonus plans

5. Annual bonus plans

5.1 Summary

77%
of plans have
three or more
performance measures

60%-90%
typical weighting given to financial measures

47% of plans
use people measures

42% of plans
use ESG measures

2019 **195%**

200%
of salary
median maximum CEO bonus

2019 **160%**

165%
of salary
median maximum other executive directors bonus

Typically
50%
deferred for
three years

No change

51%–84%
of maximum
typical 2019 payout range

2018 **70%**

68%
of maximum
median 2019 payout

2018 **1in7**

1 in 5
companies
applied discretion to 2019 out-turn

5.2 Bonus structure

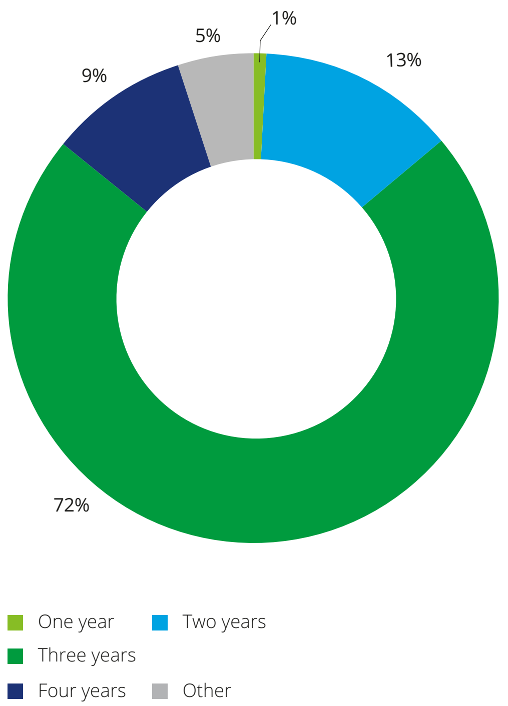
All but four FTSE 100 companies operate an annual bonus plan, with the vast majority of these being deferred plans. The four companies without an annual bonus operate some other form of incentive plan, either a long term plan or a single plan that rewards both annual and multi-year performance.

Deferral period and proportion deferred

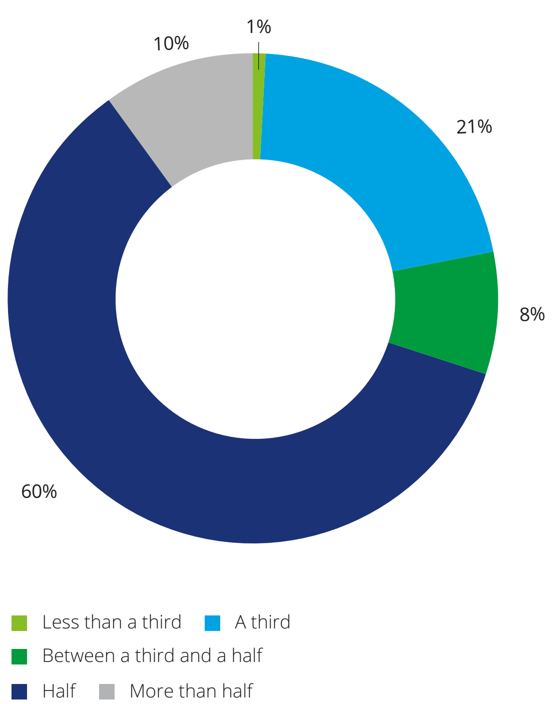
The bonus deferral period is three years or more in 86% of plans in FTSE 100 companies.

Phasing the release of shares over the deferral period remains a minority practice, with only 16% of plans using this approach. Phasing is more common in financial services companies due to the regulatory requirements for this sector.

Deferral period



Proportion deferred



The majority of deferred bonus plans now require that half of any bonus earned is deferred (60% of plans – an increase from 44% of plans last year). One third of the bonus is deferred in a further 21% of plans.

In a small number of companies the deferral is expressed as any bonus earned in excess of a specified percentage of salary. Typically in these cases, deferral applies to bonus amounts in excess of 100% of salary.

5.3 Performance measures

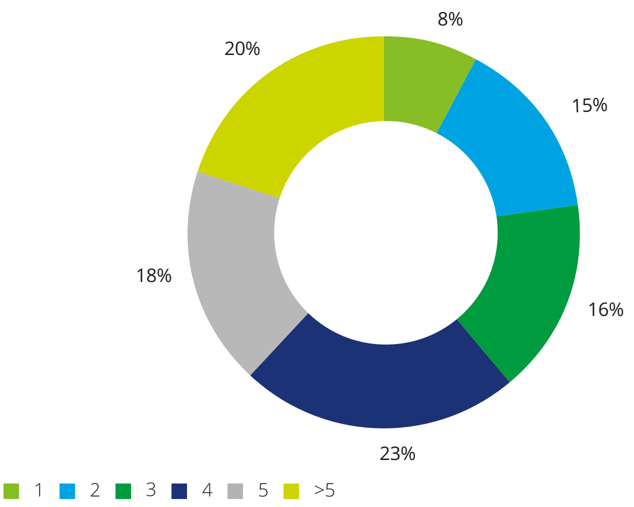
Guidance from investors and proxy voting agencies clearly states that annual bonus performance measures should be linked to business targets and key performance indicators. This ensures a strong strategic fit and aligns payouts with performance and shareholder value creation.

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.

Number and weighting of measures

Annual bonus plans in FTSE 100 companies typically have between two and five performance measures, although one in five plans has more than five measures. There are significant differences between the sectors, with almost half of finance & property companies using five or more measures, compared with only around 10% of retail & services companies and 15% of industrial & manufacturing companies.

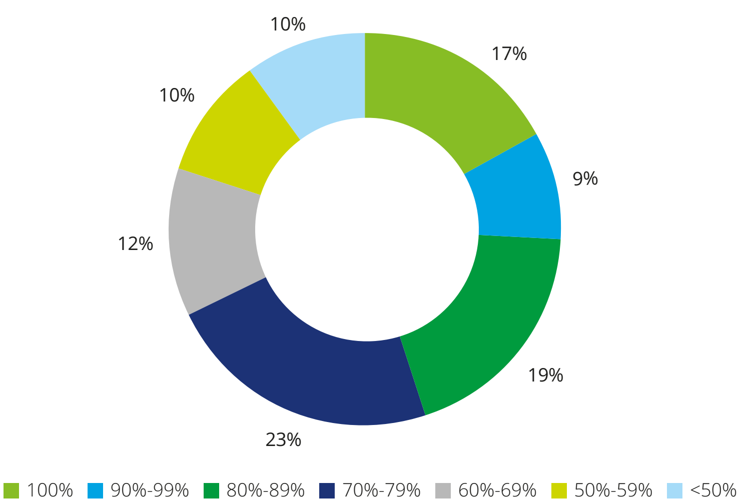
FTSE 100 – number of annual bonus measures



All plans use financial performance measures and these typically account for at least 70% of the total bonus. The remaining element is based on non-financial measures which is usually split c.20% on other business measures and c.10% on individual objectives.

The chart below shows the weighting given to financial performance measures for each company disclosing this information.

FTSE 100 – annual bonus - weighting of financial measures



Measures used

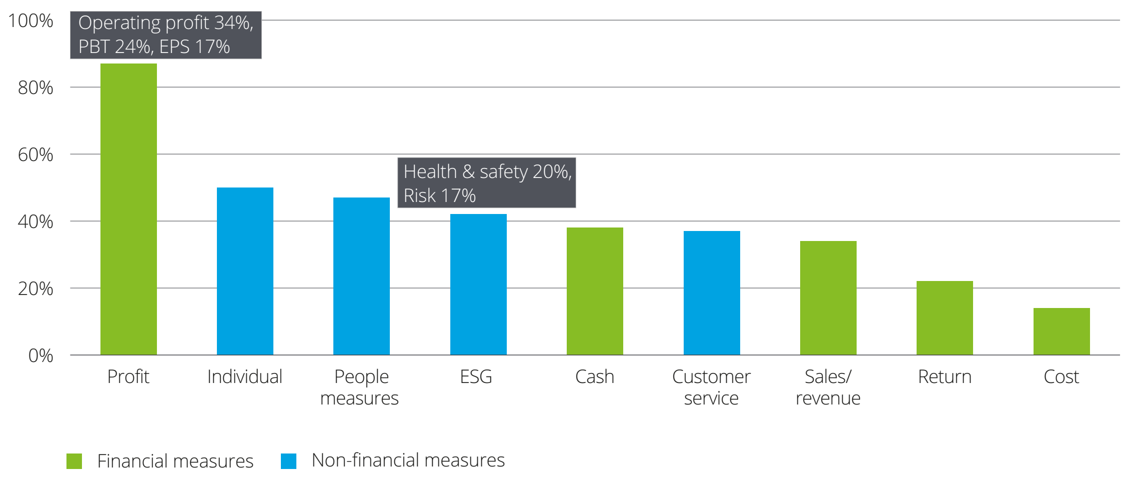
The most significant change in 2019 is the increased use of people measures and of ESG (environmental, social and governance) measures. Almost half of all annual bonus plans now use people measures (up from around 20% last year), including employee engagement, talent metrics and diversity and inclusion goals. These may be articulated as shared, company-wide objectives, or form part of an individual executive's personal performance goals.

Just over 40% of plans now include ESG measures such as health and safety, risk and compliance, and sustainability targets, an increase from around 20% of plans last year.

Profit remains the most common performance measure, used in almost 90% of annual bonus plans. The next most common financial measures, cash and sales/revenue, feature in around a third of all plans.

Individual performance objectives are used in half of all plans and are the most common category of non-financial performance measures.

FTSE 100 – prevalence of different performance measures



There are some notable differences by company size, for example ESG measures are more common in the top 30 companies (59%) than those ranked below (35%). Cash measures are also favoured by the larger companies (59%) compared with those ranked 31-100 (29%).

Performance hurdle

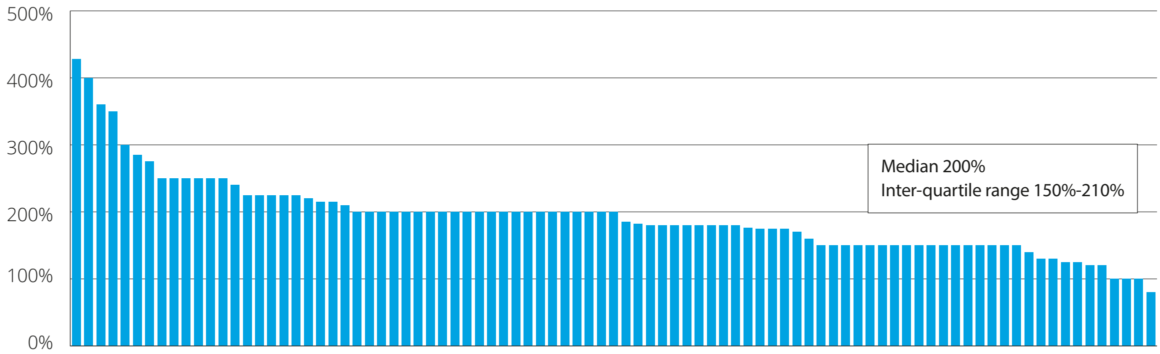
A quarter of bonus plans incorporate a performance hurdle to ensure that a minimum level of performance is achieved before any amount pays out. Typically this requires a minimum level of financial performance, although some plans require a minimum level of personal performance or that a health and safety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

5.4 Bonus opportunity

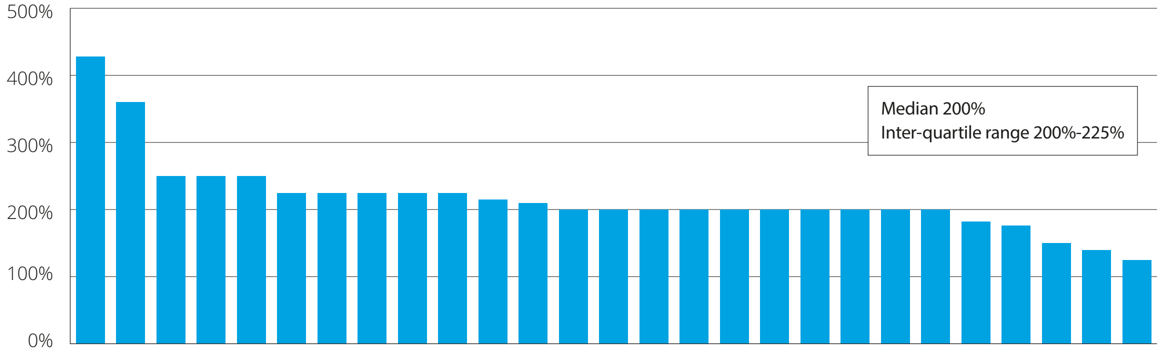
The range of maximum bonus opportunities for chief executives and other executive directors are broadly unchanged from last year.

Chief executive maximum bonus opportunity (% of salary)

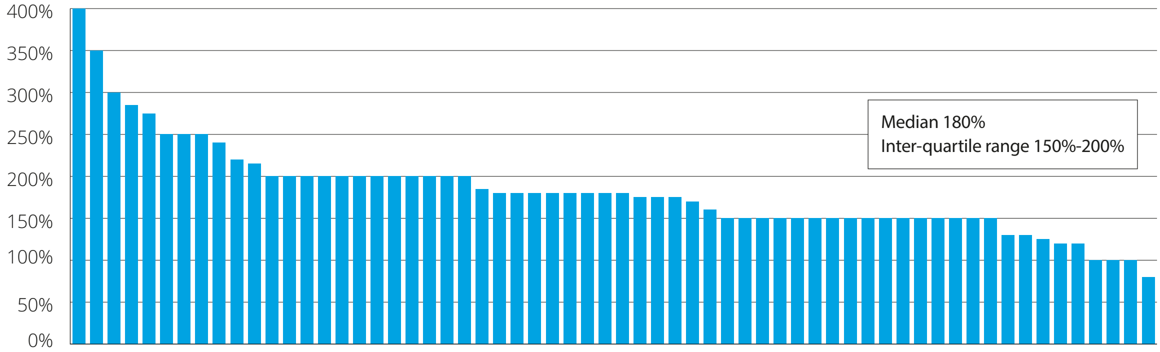
FTSE 100



Top 30



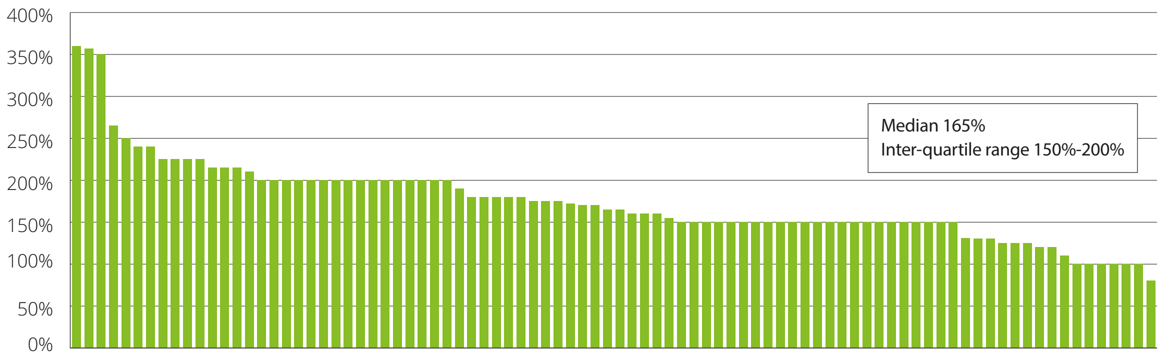
FTSE 31-100



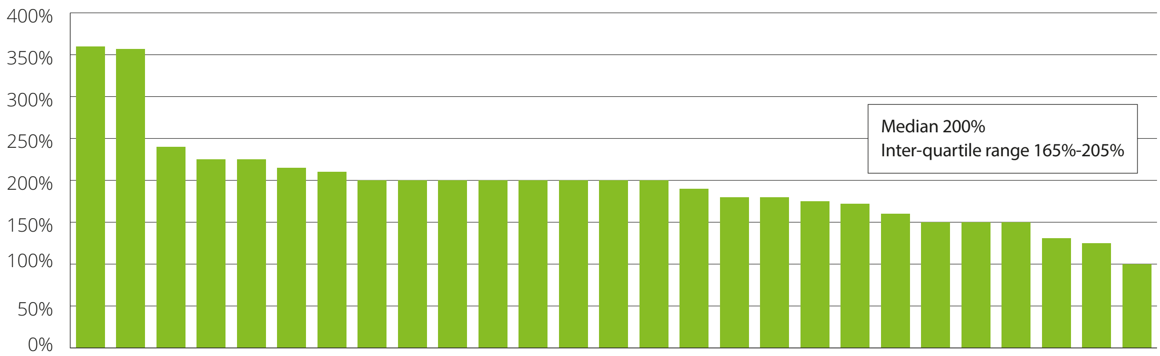
Around 45% of companies set a higher bonus maximum for the chief executive officer than for the chief financial officer and other executive directors, at typically around 35% of salary more.

Other executive directors' maximum bonus opportunity (% of salary)

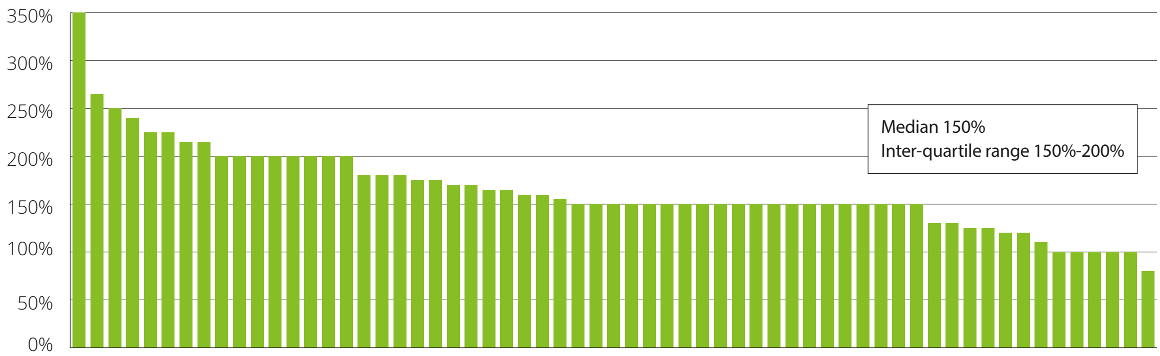
FTSE 100



Top 30



FTSE 31-100



Threshold and target awards

Around 60% of companies disclose the level of payout for threshold performance. In a third of these companies, threshold performance earns a zero payout. More typically, around 20% of the maximum pays out at threshold. Target awards are typically 50% of the maximum, in line with the guidance issued by ISS in 2018.

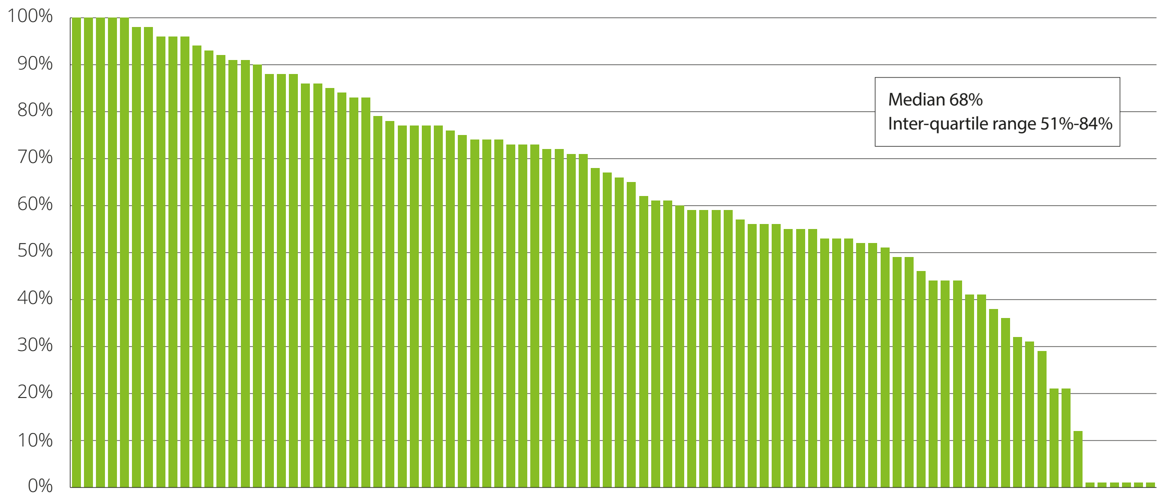
5.5 Bonus payouts

We have analysed how annual bonus payouts compare to the maximum that may be earned. For each company we have taken the bonus paid to the chief executive and the average paid to other executive directors (if more than one), as a proportion of the maximum.

The payouts for years ending between March 2019 and February 2020 fell slightly compared with last year, to a median of 68% of maximum. This continues the gradual fall we have observed over the last five years, from a median out-turn in 2015 of 78% of maximum.

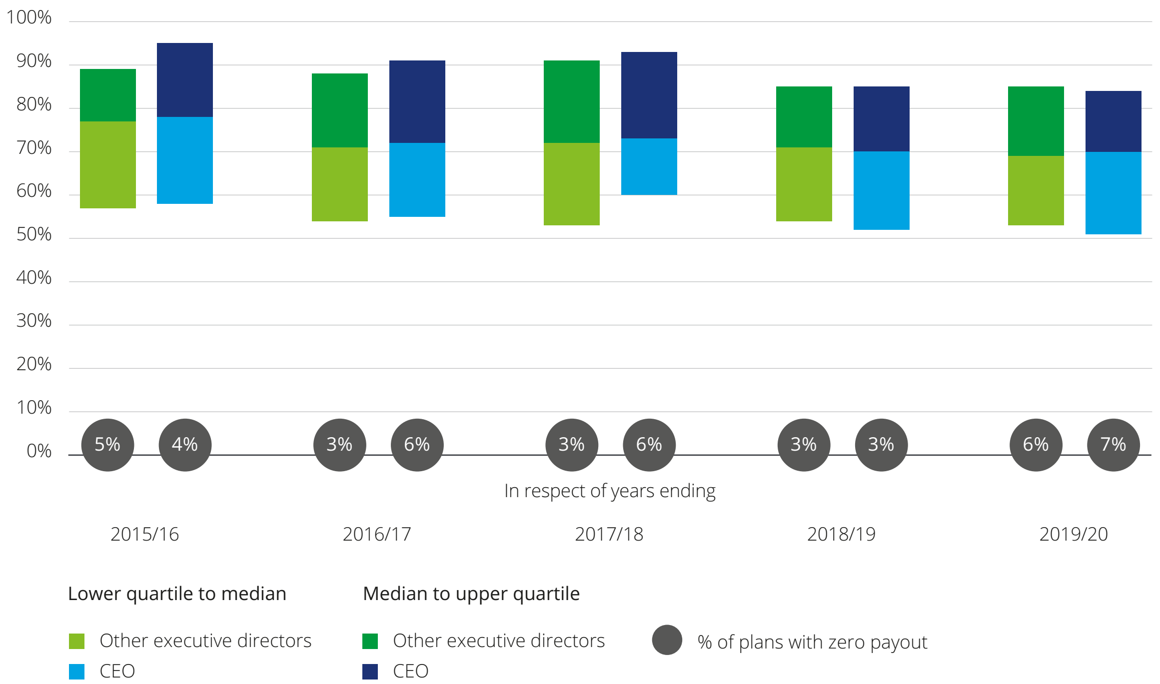
The full range of payouts for all FTSE 100 executive directors is shown in this graph:

All executive directors bonus payout (% of maximum)



The range of payouts for 2019 is similar to last year, though more plans had a zero payout, as shown below.

Annual bonus payout (% of maximum) – inter-quartile range

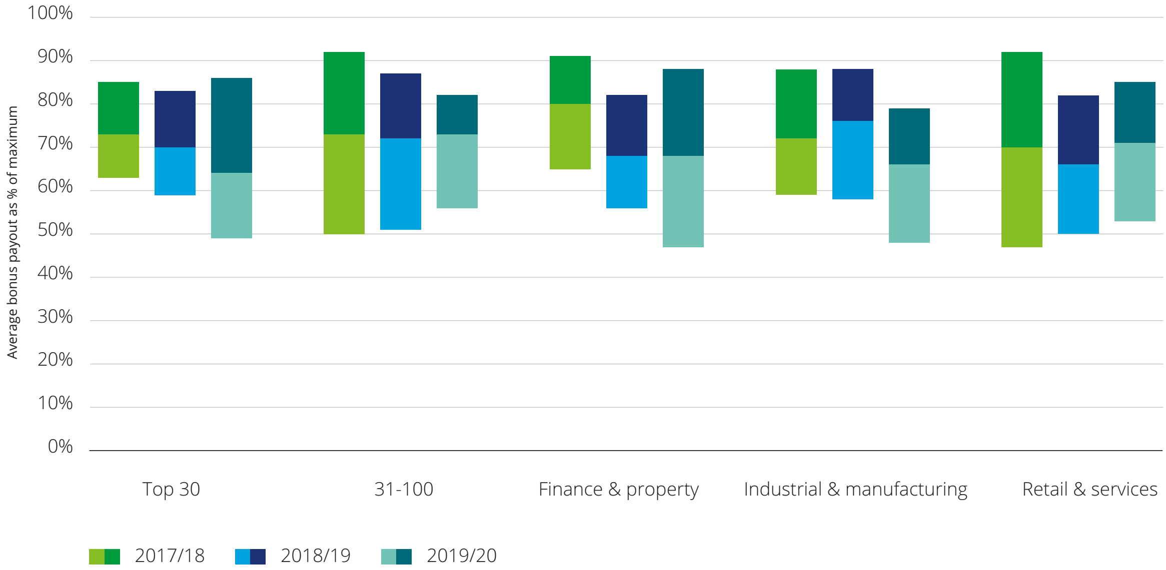


When looking at payouts by company size, there is a slight change in the median payout in the top 30 companies over the last three years. The median payout for 2019 is 73%, compared to 70% in 2018 and 74% in 2017; a slight increase on last year and broadly similar to 2017. The inter-quartile range of payouts for 2019 is also broader at 56%-83%, compared with around 60%-84% in the previous two years.

Conversely, the range of payouts for companies ranked 31-100 is slightly wider at 49%-85% of maximum, with a stable median payout of 64%.

From a sector perspective, the picture is more mixed. Finance & property companies have seen a broader range of payouts than in prior years with a median unchanged from last year (68% of maximum). Industrial & manufacturing companies have seen a lower median payout (67%) and a significant drop in the range (48%-80%, compared with 58%-88% in the previous two years). Yet retail & services companies have seen an increase in the median payout from last year (72% compared with 66%) and a slight increase in the overall range.

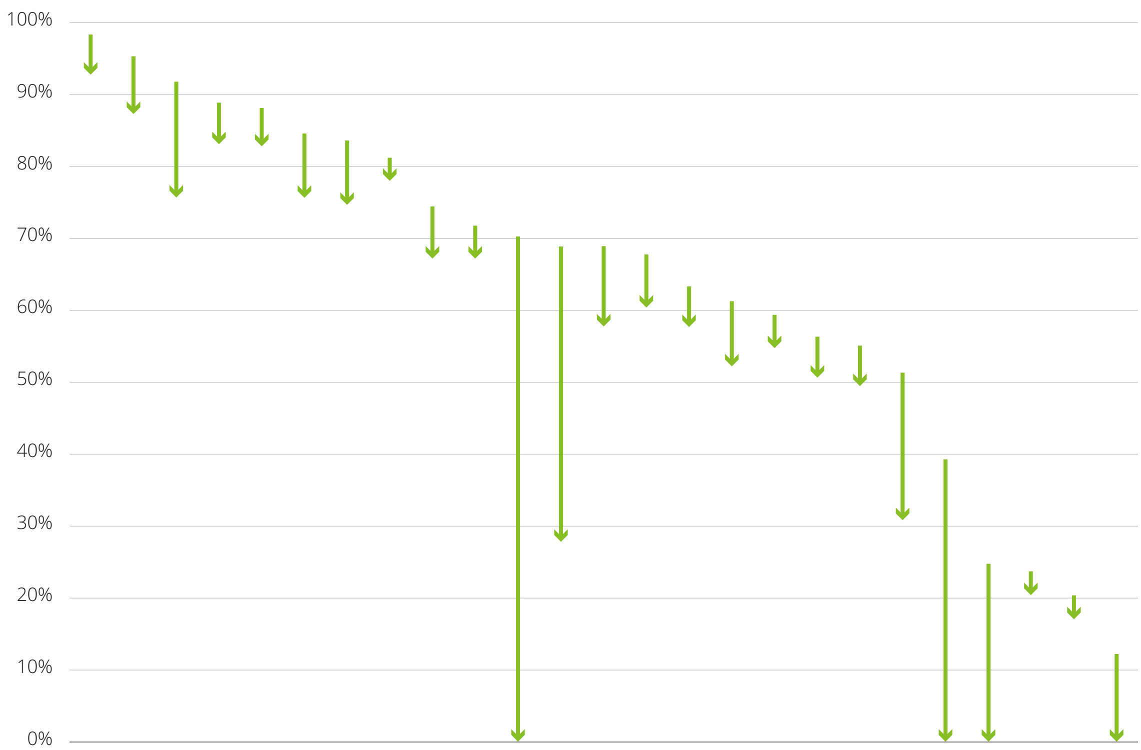
Annual bonus payout by size and sector (% of maximum) – inter-quartile range



Use of discretion

One in five companies disclosed that they exercised discretion in determining annual bonus outcomes, up from one in seven last year. All but one of these companies reduced bonus payouts and the extent of the reductions is shown in the chart below:

Discretionary reductions to annual bonus payouts



Note that the chart includes more than one data point per company where different levels of reduction were applied to individual executive directors.

The main reason for exercising downwards discretion was to reflect broader company performance and the wider stakeholder experience, followed by employee fatalities.

Rationale for exercising downwards discretion	Number of companies
Reflect broader company performance and/or stakeholder experience	10
Fatalities	4
Financial results fell short	1
Risk and controls require further embedding	1
Need to increase resilience to climate change	1
Technology outage	1
Reflect reduction in wider incentive pool	1

6

Long term incentive plans

6. Long term incentive plans

6.1 Summary

Performance shares
most common LTIP

TSR
most common performance measure

38% of plans
use three performance measures

32% of plans
use two performance measures

260% of salary
median usual award for CEOs
2019 **250%**

225% of salary
median usual award for other executive directors
No change

91% of PSPs
release no shares for at least five years
2019 **85%**

63% of maximum
median vesting for 2017 PSP awards (so far)
2016 **56%**

Two companies
applied discretion to out-turn (so far)

6.2 Long term incentive plans – overview

All but one FTSE 100 company operated a long term incentive plan in 2019. The vast majority used performance shares as their only long term plan, although three companies have introduced restricted shares to replace performance shares from 2020.

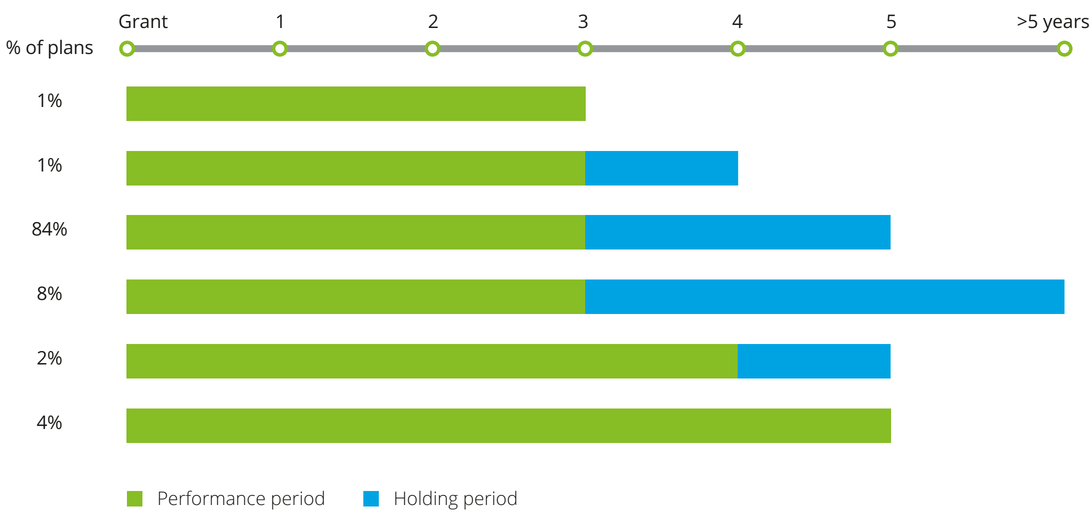
Long term incentives - 2019	Number of companies	% of companies
Performance shares only	77	81%
Performance shares and market value share options	4	4%
Performance shares and restricted shares	3	3%
Restricted shares only	3	3%
Value creation plan	2	2%
Combined annual and long term plan	2	2%
Long term cash plan	1	1%
Co-investment plan	1	1%
One-off award made in a prior year	2	2%
No long term incentive plan	1	1%

6.3 Performance share plans – time horizons

The usual performance period continues to be three years, though there are currently five performance share plans based on a performance period of four or five years. In 91% of plans, no shares are released for at least five years (up from 85% last year).

The chart below shows the proportion of plans where performance is measured over three, four or five years plus any holding period that applies. The typical time horizon remains a three year performance period and a two year holding period (84% of plans).

PSP performance and holding periods



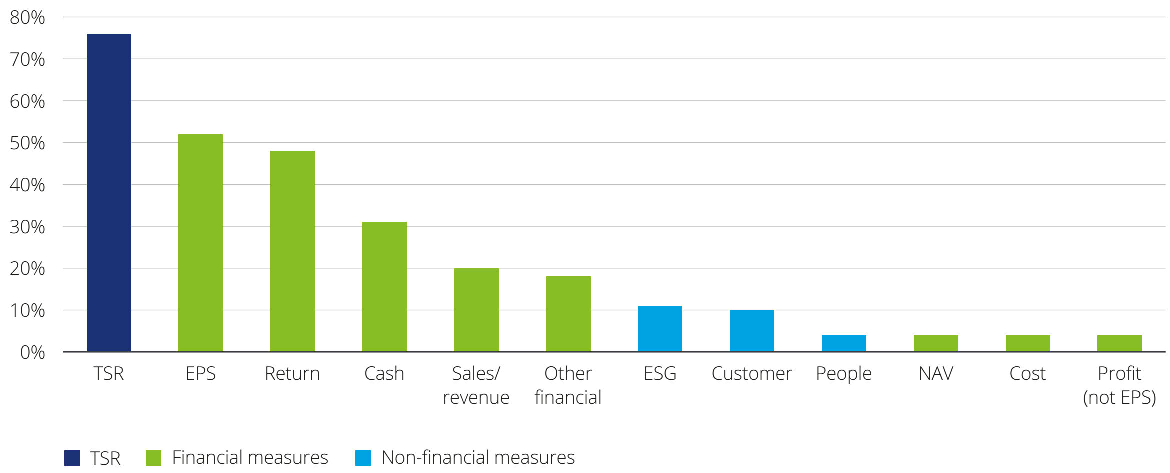
6.4 Performance share plans – measures and targets

Our analysis of measures used in performance share plans (PSPs) is based on disclosures relating to the next awards to be made.

FTSE 100 companies typically base PSPs on two to four performance measures, although 16% of finance & property companies use more than four measures, compared with only 3% of retail & services companies and no industrial & manufacturing companies.

As shown in the following chart, TSR continues to be the most common performance share plan measure (76% of plans), followed by EPS and return measures (used in around half of plans). 15% of plans use non-financial measures, the most common being ESG and customer-based measures. Additionally, one third of plans include an underpin relating to the company's overall financial performance.

FTSE 100 performance share plans – prevalence of different performance measures



TSR measurement and targets

TSR measurement	Prevalence (% of plans using TSR)	Threshold performance	Maximum performance
Ranked vs comparator group or broad index	76%	50th percentile	75th percentile (71% of plans) 80th percentile or above (29% of plans)
Indexed	16%	Equal the index	Typically outperform index by 6%-10%
Absolute target	2%	Typically 8%-10% p.a.	Typically 16%-18% p.a.
Combination of types	6%		

EPS measurement and targets

EPS measurement	Prevalence (% of plans using EPS)	Threshold performance	Maximum performance
Growth target	69%	Typically 4%-6% p.a.	Typically 10%-13% p.a.
Absolute target	31%	Varies by company based on past performance and future forecasts	

Typically 20% of a performance share award vests for achieving overall threshold performance, rising on a straight line basis with full vesting at maximum performance.

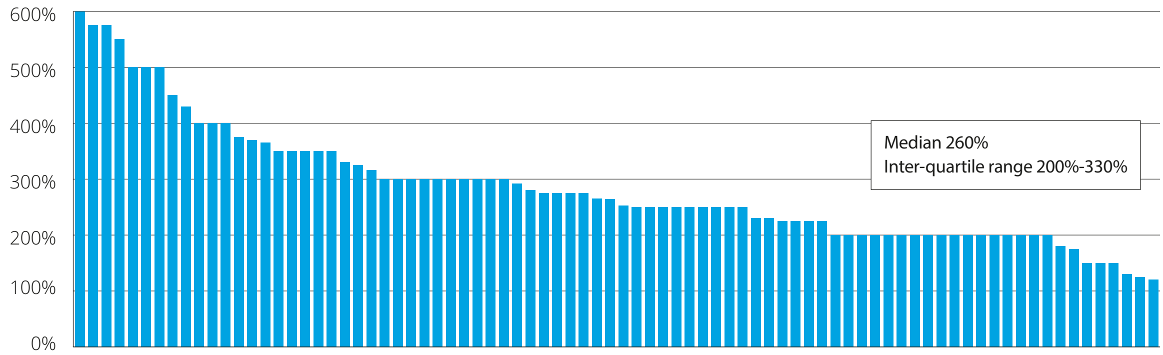
6.5 Performance share plans – opportunity

Our analysis of PSP opportunities is based on the maximum next award that will be made, where this has been disclosed.

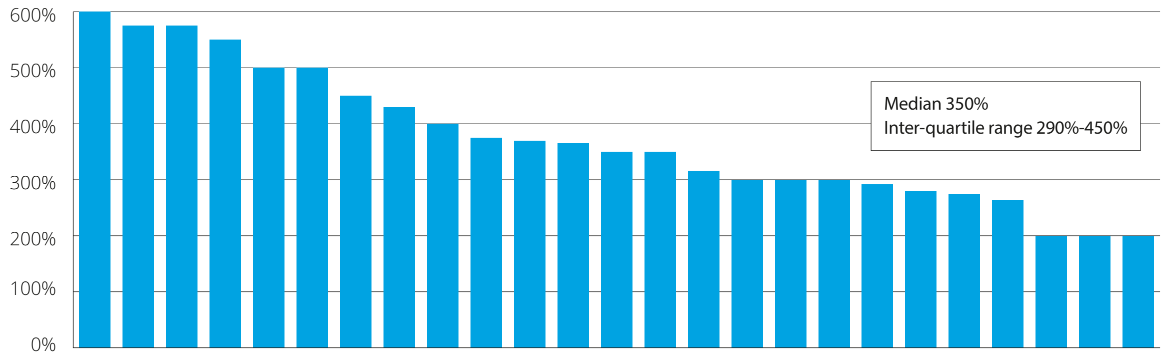
Across all FTSE 100 companies the median usual award for the chief executive has increased slightly from 250% of salary to 260%, but remains below the level of 2018 (275%). In the top 30 companies the median award has decreased again for the second year and is now 350% of salary (370% in 2019 and 400% of salary in 2018). In companies ranked 31 – 100 the median has increased from 225% of salary to 250%.

Chief executive usual maximum PSP award (% of salary)

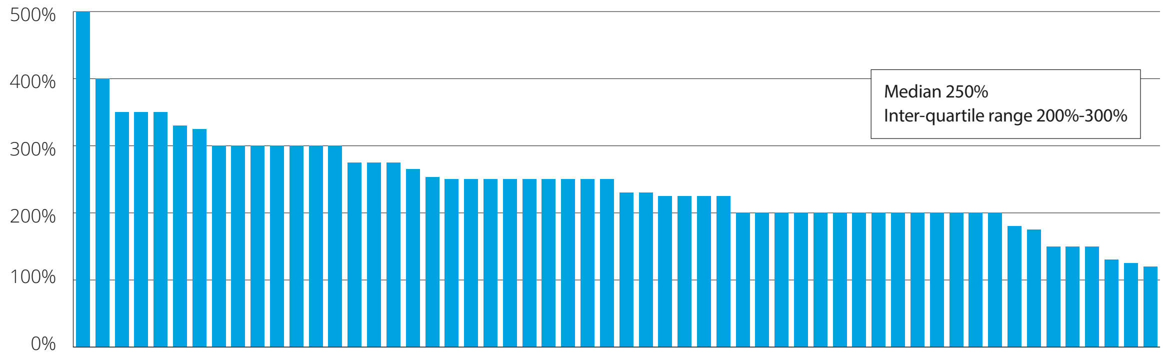
FTSE 100



FTSE 30



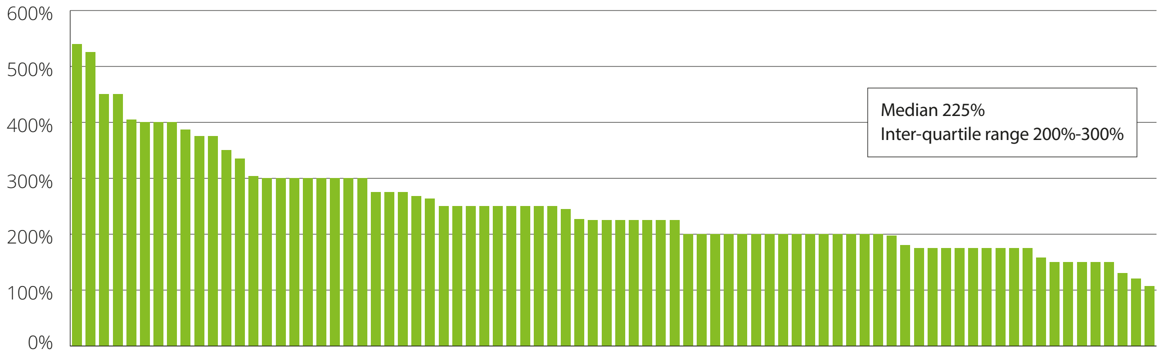
FTSE 31-100



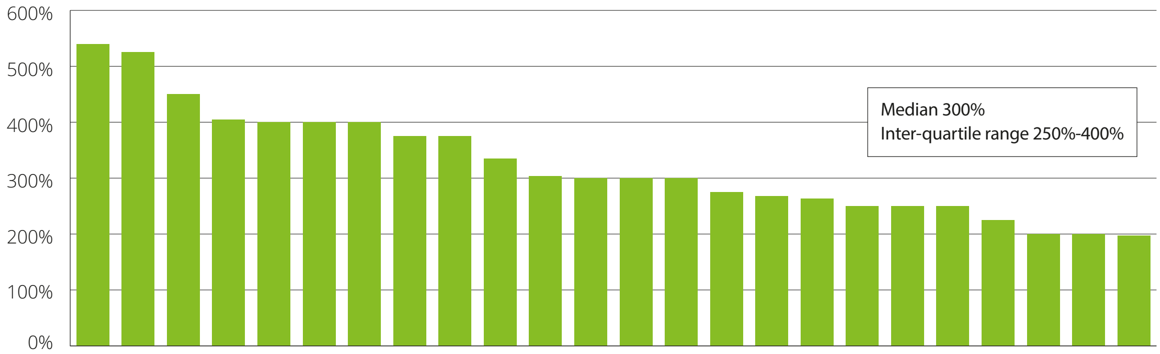
Other executive directors' usual maximum PSP award (% of salary)

Award levels for other executive directors are unchanged from last year.

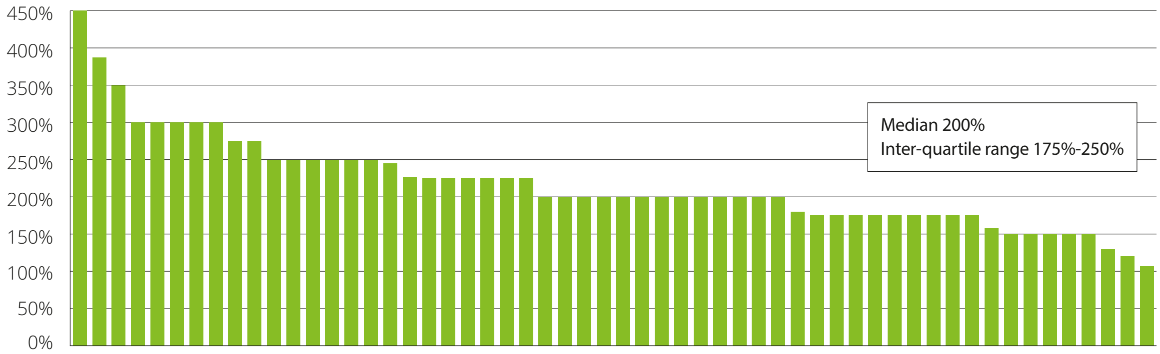
FTSE 100



FTSE 30



FTSE 31-100



Overall maximum PSP award (% of salary)

Many companies set an overall maximum PSP award in their remuneration policy that would only be used in exceptional recruitment or retention circumstances. These have not changed significantly over the last three years.

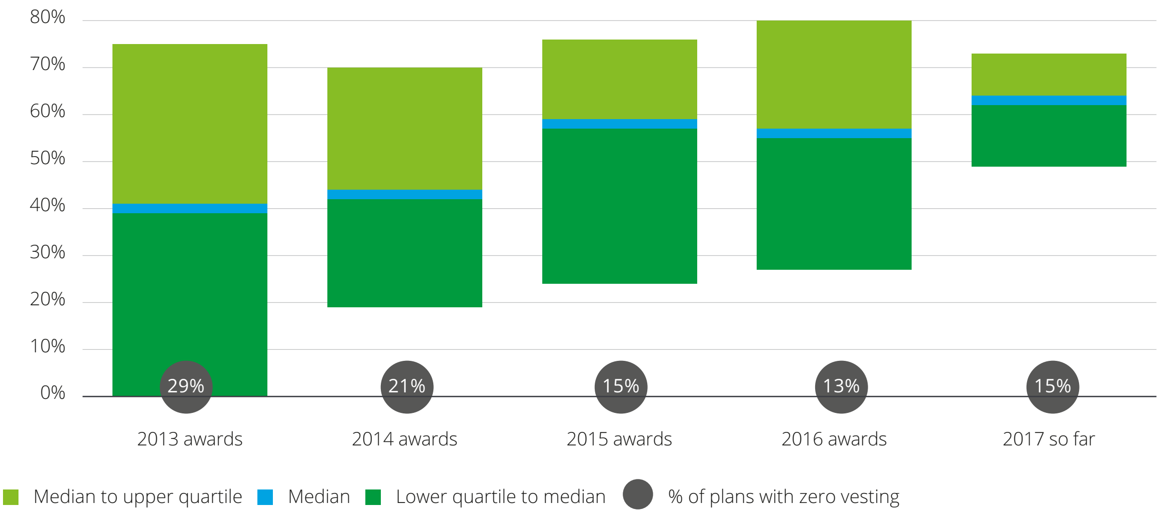
	FTSE 100			31 – 100			Top 30		
	2018	**2019**	**2020**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**
Upper quartile	400%	400%	**400%**	350%	350%	**350%**	500%	500%	**500%**
Median	300%	300%	**310%**	300%	300%	**300%**	440%	400%	**400%**
Lower quartile	250%	250%	**250%**	250%	225%	**250%**	350%	350%	**350%**

6.6 Performance share plans – awards vesting

The analysis of vesting is based on the constituents of the index at the time the awards were made, not when they vested.

Based on the information available at the time of writing, the range of vesting for 2017 awards so far is much narrower than in recent years, at around 50% to 75% of maximum. Median vesting so far is 63% of maximum, compared with 56% last year, though the full picture will not emerge until all companies have reported on these awards.

Performance share plans – inter-quartile range of vesting



	FTSE 100	31 – 100	Top 30
2017 awards vesting to date			
Upper quartile	73%	84%	71%
Median	63%	63%	60%
Lower quartile	49%	33%	50%
% of companies with zero vesting	15%	18%	10%
% of companies with full vesting	4%	6%	0%
Number of companies in sample	53	33	20
2016 awards vesting			
Upper quartile	80%	87%	77%
Median	56%	49%	66%
Lower quartile	27%	20%	43%
% of companies with zero vesting	13%	17%	5%
% of companies with full vesting	11%	13%	5%
Number of companies in sample	76	54	22
2015 awards vesting			
Upper quartile	76%	75%	78%
Median	58%	50%	68%
Lower quartile	24%	15%	48%
% of companies with zero vesting	15%	18%	8%
% of companies with full vesting	9%	11%	4%
Number of companies in sample	80	56	24
2014 awards vesting			
Upper quartile	70%	69%	72%
Median	43%	43%	43%
Lower quartile	19%	18%	34%
% of companies with zero vesting	21%	21%	21%
% of companies with full vesting	10%	11%	8%
Number of companies in sample	81	57	24
2013 awards vesting			
Upper quartile	75%	72%	80%
Median	40%	34%	56%
Lower quartile	0%	0%	31%
% of companies with zero vesting	29%	36%	12%
% of companies with full vesting	8%	10%	4%
Number of companies in sample	84	59	25

Use of discretion

Discretion has been applied to reduce the level of PSP vesting in two companies so far in 2020. In one case, an adjustment was made to the TSR peer group to remove a company that was no longer deemed to be an appropriate comparator, which enabled the award to partially vest. In the second case, the overall vesting was reduced to zero to reflect wider financial performance.

7

Total compensation

7. Total compensation

7.1 Summary

2018
£3.65m

£3.7m
median CEO single total figure (estimated)

75:1
median CEO to employee pay ratio

2018
£2.2m

£1.9m
median CFO single total figure (estimated)

7.2 Single total figure

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

Under the reporting regulations, bonuses and long term incentives are included in the single total figure once there are no more outstanding performance conditions that must be satisfied. Therefore the value reflects both the extent to which performance conditions have been met and any share price movement over the period from grant.

The following tables and charts show the single total figure for chief executives and chief financial officers for the last three years. Executive directors in role for 12 months or less 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.

The median FTSE 100 chief executive total for 2019 remained relatively stable at £3.7m (£3.65m for 2018) following a fall from £4m in 2017. The median chief financial officer total for 2019 has fallen to £1.9m from £2.2m. However, it is important to note that 2019 figures include estimated long term incentive values based on the three-month average share price prior to the year end. In most cases these will be pre-COVID 19 share prices, therefore the actual values for 2019 are expected to fall when restated next year.

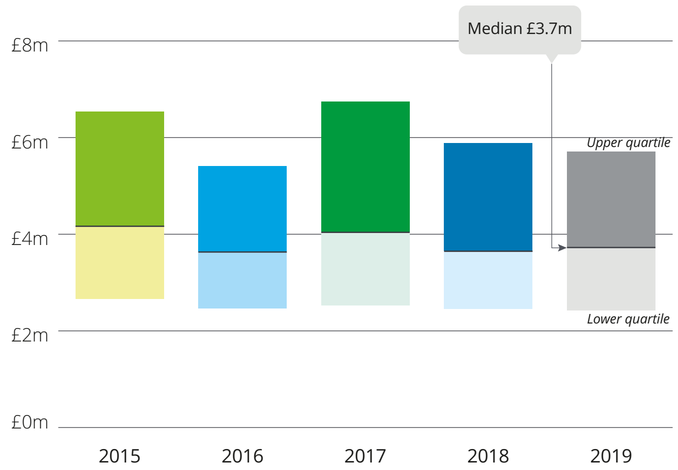
Single total figure – chief executive (2019 figures based on estimated share prices)

	FTSE 100			31 – 100			Top 30		
	2017	**2018**	**2019**	**2017**	**2018**	**2019**	**2017**	**2018**	**2019**
Upper quartile	£6,747,000	£5,887,000	£5,709,000	£5,023,000	£3,996,000	£4,281,000	£8,560,000	£8,896,000	£8,708,000
Median	£4,039,000	£3,648,000	£3,725,000	£3,559,000	£3,119,000	£3,192,000	£5,617,000	£6,387,000	£5,932,000
Lower quartile	£2,524,000	£2,454,000	£2,426,000	£2,323,000	£2,290,000	£2,142,000	£4,082,000	£3,853,000	£4,354,000

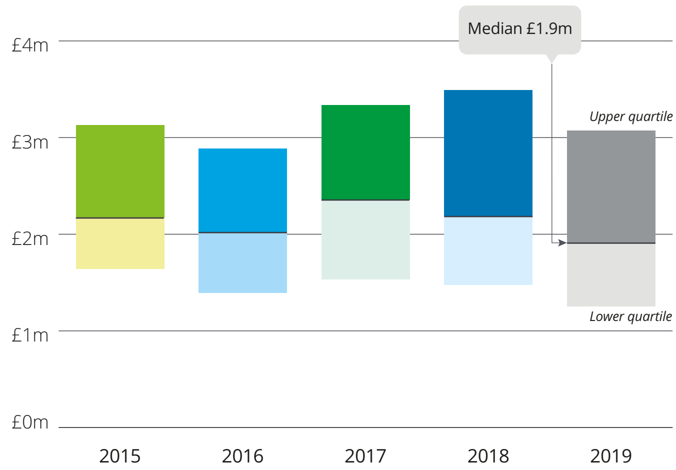
Single total figure – chief financial officer (2019 figures based on estimated share prices)

	FTSE 100			31 – 100			Top 30		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Upper quartile	£3,333,000	£3,492,000	£3,074,000	£2,734,000	£2,241,000	£2,270,000	£4,195,000	£4,817,000	£5,828,000
Median	£2,281,000	£2,183,000	£1,908,000	£2,047,000	£1,782,000	£1,609,000	£3,324,000	£3,942,000	£3,738,000
Lower quartile	£1,494,000	£1,475,000	£1,255,000	£1,262,000	£1,269,000	£1,108,000	£2,354,000	£3,250,000	£2,831,000

Chief executive



Chief financial officer



Distribution of single total figure – chief executive officer

	Percentage of companies		
	2017 restated	2018 restated	2019 estimated
Below £1m	2%	1%	5%
£1m - 2m	13%	14%	12%
£2m - £3m	15%	20%	19%
£3m - £4m	19%	26%	21%
£4m - £5m	16%	10%	13%
£5m - £7.5m	13%	14%	15%
£7.5m - £10m	9%	6%	8%
Above £10m	13%	9%	7%

The number of FTSE 100 chief executives receiving a single total figure in excess of £7.5 million has fallen from 22% for 2017 to 15% for 2018 and 2019.

7.3 CEO pay ratios

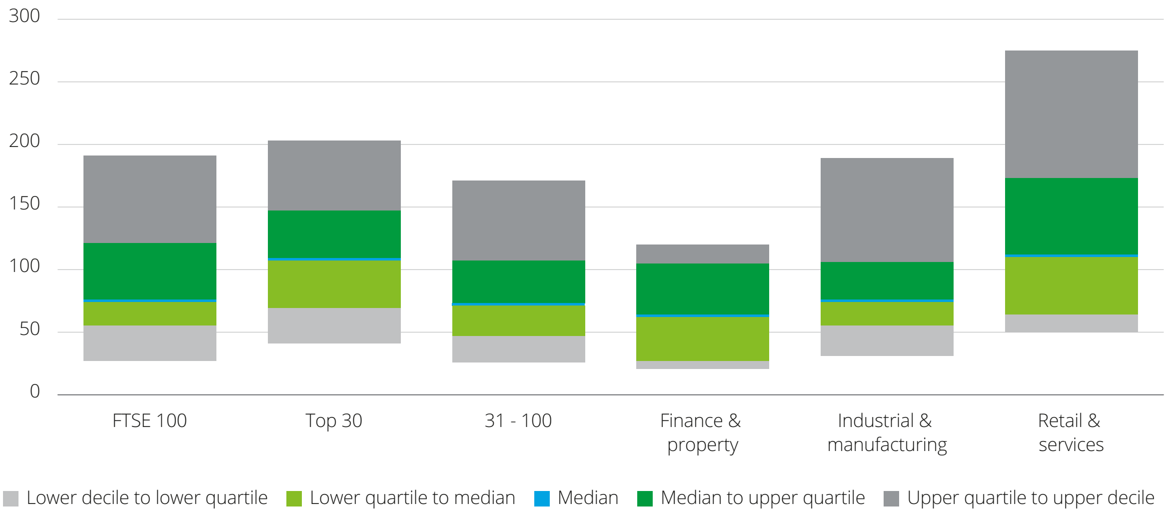
Quoted companies incorporated in the UK (with more than 250 UK employees) are now required to publish the ratio of their CEO's single figure total remuneration to the median, 25th and 75th percentile total remuneration of their full-time equivalent UK employees.

The regulations give three options for calculating the ratios. Option A, considered the 'purest' approach, is most common across all companies.

FTSE 100 companies – CEO pay ratio methodology
(% of those disclosing the ratio)

Methodology option	FTSE 100	Top 30	31–100	Finance & property	Industrial & manufacturing	Retail & services
A	57%	69%	50%	62%	61%	44%
B	31%	15%	39%	28%	24%	44%
C	6%	12%	4%	5%	6%	8%
Other	1%	4%	0%	0%	3%	0%
Not disclosed	5%	0%	7%	5%	6%	4%
No. of companies	80	26	54	21	34	25

FTSE 100 companies – ratio of CEO : median employee total pay
The following chart shows the inter-decile range of the median CEO pay ratios across FTSE 100 companies and industry sectors.



The inter-decile range across all companies so far is 27:1 to 191:1, with a median of 75:1. The median is higher in the top 30 companies at 108:1. There are some interesting sectoral differences, with finance & property companies having the narrowest range and the lowest median ratio (63:1) compared with retail & services companies, which have the broadest range and a median ratio of 111:1. This reflects the lower average pay packages in the retail & services sector.

8

Malus and clawback

8. Malus and clawback

This year, 33 FTSE 100 companies have introduced changes to malus and clawback provisions, including changes to trigger events and the time period over which the provisions can be applied.

All FTSE 100 companies with an annual bonus plan have some form of malus and/or clawback provisions relating to the bonus and almost all disclose that they have some form of clawback and/or malus provisions relating to long term incentive awards. Provisions are in place in all of the top 30 companies.

Provisions typically apply for two or three years after awards have vested, although there are specific clawback requirements for certain financial services companies.

Circumstances that trigger malus and/or clawback
Although most companies disclose some details of the circumstances in which malus and clawback will apply, not all companies do so. Additionally, where it is disclosed, the list is often not exhaustive and there are other situations where the provisions may be applied, at the discretion of the remuneration committee. The percentages below are calculated based on the number of companies disclosing the applicable circumstances.

Circumstances in which provisions may be applied – % of those disclosing	Malus	Clawback
Misstatement of results/error in performance calculation	100%	100%
Reputational damage	65%	58%
Misconduct – gross/justifying summary dismissal	35%	39%
– not defined	34%	34%
– serious/material	31%	29%
Failure of risk management and control	36%	34%
Corporate failure	27%	27%
Performance not sustained	10%	6%
Other reasons	64%	62%

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

9

Pensions

9. Pensions

9.1 Summary

98%
companies aligned to workforce rate for new appointments

9%-15% of salary
typical pension provision for new hires

80%
companies committed to reduce incumbent pensions where not aligned with workforce

9.2 Company policy

The analysis of executive directors' pensions in FTSE 100 companies excludes individuals who belong to non-UK retirement plans.

Almost all companies disclose the pension policy that will apply to new appointments. Within the policy there is often an element of choice about whether to participate in the company plan (which in the majority of cases is a defined contribution plan) or take a cash allowance.

Although few directors in FTSE 100 companies still participate in defined benefit plans, this is becoming increasingly uncommon policy for new hires with just one company operating this type of plan.

9.3 Levels of contribution

The following tables are based on the most recent disclosed policy and include contributions to defined contribution plans, personal pension plans and pension 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.

Following changes to the UK Corporate Governance Code in 2018, 98% of FTSE 100 companies have aligned the pension contribution rate for newly appointed executive directors with that of the wider workforce. As a result, the median pension contribution for new hires in the FTSE 100 has decreased from 15% of salary last year to 11%.

Pension contribution for new hires – % of salary

(includes employer contributions to defined contribution plans, personal pensions and salary supplements)

			2019			2020
All executives	**Lower quartile**	**Median**	**Upper quartile**	**Lower quartile**	**Median**	**Upper quartile**
FTSE 100	11%	15%	25%	**9%**	**11%**	**15%**
Top 30	13%	20%	25%	**10%**	**10%**	**15%**
31 – 100	11%	15%	25%	**9%**	**12%**	**15%**

Pension contributions for current executives are generally slightly higher than for new hires. However, this data reflects a mix of situations as some incumbent executives are recent appointments already aligned to the workforce pension rate, while others are transitioning to that lower rate over a number of years. Accordingly, we would not recommend using this data for benchmarking purposes.

Pension contribution for incumbent executives – % of salary

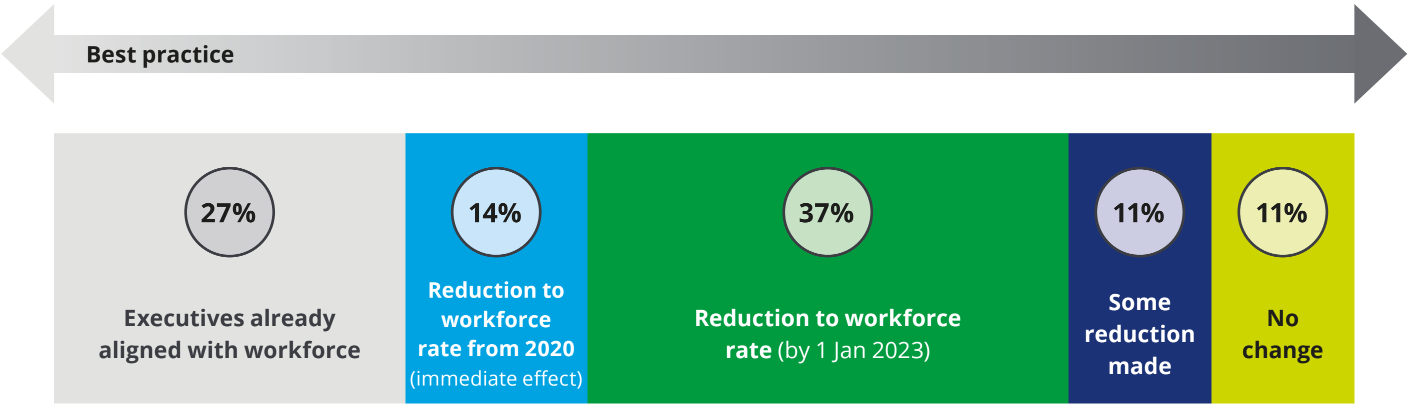
(includes employer contributions to defined contribution plans, personal pensions and salary supplements)

			2019			2020
Chief executive	**Lower quartile**	**Median**	**Upper quartile**	**Lower quartile**	**Median**	**Upper quartile**
FTSE 100	17%	25%	30%	**15%**	**20%**	**25%**
Top 30	24%	30%	30%	**10%**	**20%**	**29%**
31 – 100	15%	20%	25%	**15%**	**21%**	**25%**
Other executive directors						
FTSE 100	15%	20%	25%	**12%**	**16%**	**24%**
Top 30	22%	25%	30%	**15%**	**20%**	**25%**
31 – 100	15%	20%	25%	**10%**	**15%**	**22%**

9.4 Companies committing to reduce incumbent executive pensions

Following guidance issued by the Investment Association in September 2019 applicable to companies with years ending on or after 31 December 2019, we have seen a significant shift in market practice around incumbent executive pensions where they are not aligned with the rate available to the wider workforce. 80% of those companies have committed to reduce incumbent pensions, with the majority committing to align executives with the workforce rate by 1 January 2023. This trend is expected to continue in the coming year.

Incumbent pensions (annual remuneration reports published post-IA guidance)



10

Shareholding requirements

10. Shareholding requirements

10.1 Summary

24%
companies increased shareholding requirements in 2019

79
companies have formal post-cessation shareholding requirements

300% of salary
median CEO requirement

225% of salary
median other executive directors requirement

72%
of CEOs required to hold shares worth at least 300% of salary

93%
of other executive directors required to hold shares worth at least 200% of salary

810% of salary
median value of CEO shareholding

320% of salary
median value of other executive directors shareholding

10.2 Shareholding requirements

There is now only one FTSE 100 company that does not have a formal shareholding requirement for the executive directors.

Overall, two thirds of companies state the number of years over which the director must attain the required shareholding, with 90% of these allowing five years. Only three companies allow individuals longer than five years to acquire the shares. Three companies allow less than five years.

60% of companies explicitly state that restrictions are placed on the number of shares vesting from share plans which may be sold until the shareholding is achieved. Where restrictions are in place, almost half of companies require all of the net of tax shares vesting to be retained until the guidelines are met. The remainder typically require 50% of the net of tax shares vesting to be retained.

Level of shareholding

The voting guidance of both ISS and the PLSA recommends shareholding guidelines of at least 200% of salary. 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.

This year 24% of FTSE 100 companies increased the shareholding requirements for executive directors.

The median shareholding requirement for the chief executive remains at 300% of salary, with the median requirement increasing to 400% in the top 30 companies. For other executive directors the median has increased from 200% last year to 225% of salary, increasing further to 300% in the top 30 companies. There is little difference by industry sector.

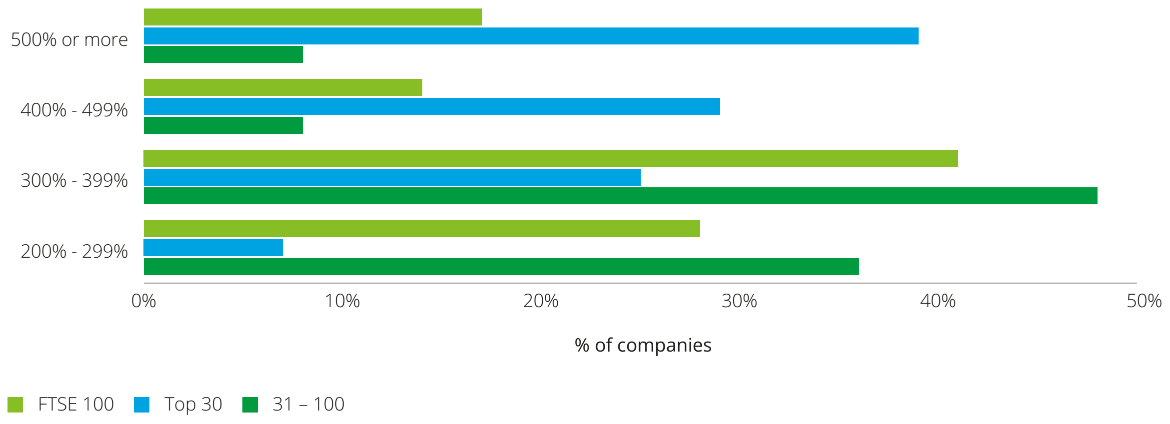
93% of executive directors and all chief executives in FTSE 100 companies are required to hold at least 200% of salary in shares. 72% of chief executives are now required to hold at least 300% of salary in shares. In the top 30 companies, 39% of chief executives are required to maintain a shareholding of five times salary or more, which is an increase from a third last year.

The following table shows the median and quartile shareholding requirements in FTSE 100 companies.

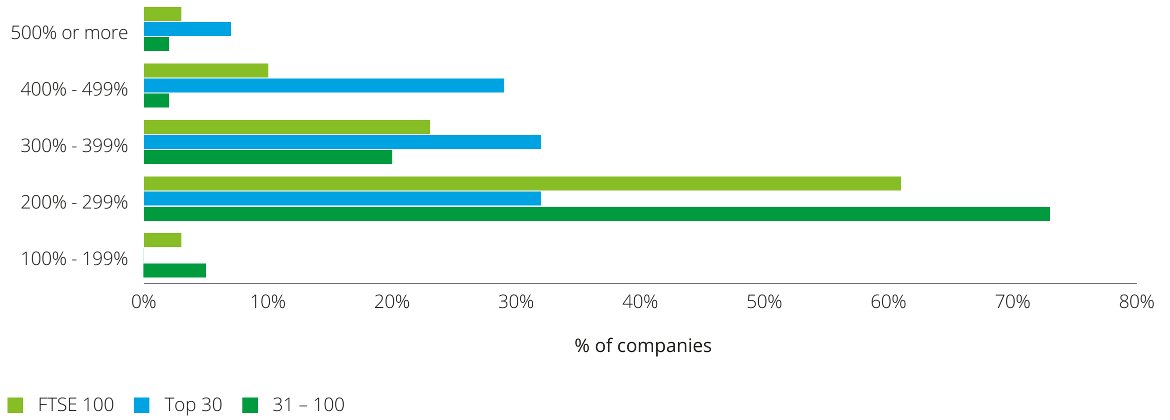
Level of shareholding required – % of salary

	Chief executive			Other executive directors		
	FTSE 100	**Top 30**	**31 – 100**	**FTSE 100**	**Top 30**	**31 – 100**
Upper quartile	400%	500%	300%	300%	400%	250%
Median	300%	400%	300%	225%	300%	200%
Lower quartile	250%	300%	200%	200%	250%	200%

Level of shareholding required – chief executive (% of salary)



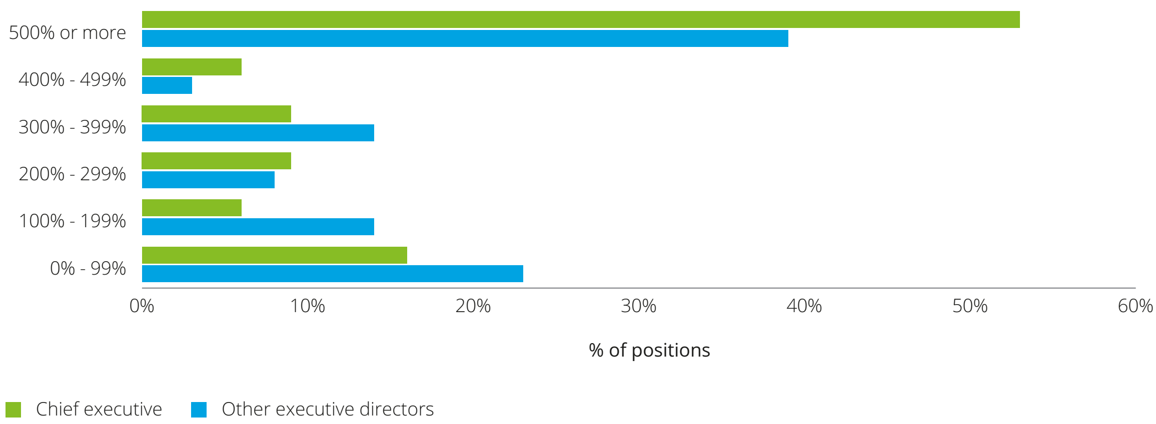
Level of shareholding required – other executive directors (% of salary)



Value of shareholding

To assess the degree to which directors achieve these shareholdings, we have analysed the value of each individual executive director's shareholding based on the number of shares held at the end of the financial period, as disclosed in the annual report. The value has been calculated using the share price at the year end (i.e. pre-COVID-19) and the current salary. 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 where there has been little time to build up a shareholding.

Value of shareholding – based on year end (pre-COVID-19) share price (% of salary)



Our key findings for FTSE 100 companies are:

- Around 70% of all executive directors hold shares in excess of the relevant required guidelines.
- 16% of chief executives and 23% of other executive directors hold less than one times salary in shares.
- 53% of chief executives and 39% of other executive directors have shareholdings worth more than 500% of salary.
- The median value of the shareholding of the chief executive is around 800% of salary and for other executive directors it is 320% of salary.
- In the top 30 companies, the median value of the shareholding of the chief executive is around 800% of salary and for other executive directors is 380% of salary.
- In companies ranked 31 – 100, the median value of the shareholding of the chief executive is around 665% of salary and for other executive directors is around 315% of salary.

The following table shows how median values of shareholdings vary by length of service:

Median value of shareholding (% of salary)

	Chief executive	Other executive directors
Less than three years' service	200%	140%
Three to five years' service	380%	250%
Five to ten years' service	1,005%	530%
Greater than ten years' service	1,500%	1,780%

Formal post-employment shareholding requirements

79 companies have adopted a formal policy that requires executive directors to retain shares after leaving the company, based on latest disclosures.

These provisions vary in the way they are applied:

- in around 67% of cases, executive directors must continue to hold the required level of shares for two years after leaving employment, in line with the Investment Association guidelines;

- in 18% of cases the requirement reduces to 50% of the usual level in the second year post-cessation; and

- the remainder have adopted other, less onerous, requirements (e.g. a requirement for one year only).

Note that for this analysis we have excluded companies that are only applying incentive plan leaver provisions or holding periods to outstanding share awards post-cessation.

11

Non-executive directors' fees

11. Non-executive directors' fees

11.1 Summary

c.55%
companies not increasing NED or company chair fees during 2020

2%-3%
typical increase where applicable

£325,000 – £600,000
typical range of chair fees

£64,000 – £86,000
typical range of NED base fees

£21,000
median additional fee for audit committee chair

£20,000
median additional fee for remuneration committee chair

£20,000
median additional fee for senior independent director

15%
companies pay NEDs in shares

39%
companies require or encourage NEDs to hold shares

11.2 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 the majority of companies disclosing this information now review the fees every year. However, as the table below illustrates, a review does not always result in a fee increase.

Fee increases for 2020

Non-executive chair

	FTSE 100	31- 100	Top 30
0%	59%	53%	70%
0% to 2.5%	15%	18%	7%
2.5% to 5%	17%	17%	19%
5% to 10%	2%	2%	4%
Over 10%	7%	10%	0%
Upper quartile	2.5%	2.5%	2.0%
Median	0.0%	0.0%	0.0%
Lower quartile	0.0%	0.0%	0.0%
Average	3.2%	4.2%	1.1%

Non-executive directors

	FTSE 100	31- 100	Top 30
0%	55%	53%	59%
0% to 2.5%	16%	20%	8%
2.5% to 5%	16%	19%	11%
5% to 10%	6%	3%	11%
Over 10%	7%	5%	11%
Upper quartile	2.5%	2.5%	3.0%
Median	0.0%	0.0%	0.0%
Lower quartile	0.0%	0.0%	0.0%
Average	2.7%	2.5%	3.1%

11.3 Fee levels

The data on fee levels is based on the disclosed fee policy 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 2019 and February 2020. 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 2020.
- Where the current fees are not provided we have taken the fee policy effective in 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.

Non-executive chair

The fee levels for non-executive chair positions tend to be influenced by two main factors – company size and the time commitment required for the role. Few companies disclose information regarding the time commitment of the chair but the directors' service contracts and letters of appointment can set out the time commitment expected to fill the role.

Non-executive chair fees by company size

	Lower quartile £	Median £	Upper quartile £	Average £
FTSE 100	325,000	425,000	600,000	479,000
31 – 100	300,000	372,000	432,000	373,000
Top 30	600,000	687,000	750,000	713,000

Non-executive director base fees

In most companies the policy includes a base fee and separate committee chair fees. The base fee is typically higher for larger companies as often these roles require greater time commitments.

Base fee policy by company size

	Lower quartile £	Median £	Upper quartile £	Average £
FTSE 100	64,000	71,000	86,000	77,000
31 – 100	61,000	66,000	75,000	69,000
Top 30	81,000	90,000	99,000	94,000

Additional fees

Additional fees are usually paid for chairing the remuneration and audit committees. Fees for chairing the nomination committee are less common as this committee is typically chaired by the company chair, who receives an inclusive fee.

Fees for committee membership are generally less prevalent but are more common in larger companies. Membership fees are in place in around three quarters of top 30 companies compared with around a third of companies ranked 31 – 100. Almost all companies identify a separate additional fee for the role of senior independent director.

Currently around 30% of FTSE 100 companies pay a higher fee for chairing the audit committee than the remuneration committee.

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

Additional fees

	Senior independent director	Remuneration committee chair	Audit committee chair	Nomination committee chair[1]
FTSE 100				
Upper quartile	£30,000	£30,000	£33,000	£22,000
Median	£20,000	£20,000	£21,000	£15,000
Lower quartile	£12,000	£15,000	£17,000	£14,000
% of companies identifying separate fees	96%	99%	99%	21%
Top 30				
Upper quartile	£50,000	£40,000	£53,000	-
Median	£36,000	£32,000	£35,000	£26,000
Lower quartile	£27,000	£30,000	£30,000	-
% of companies identifying separate fees	100%	100%	100%	14%
31 – 100				
Upper quartile	£20,000	£20,000	£23,000	£18,000
Median	£15,000	£18,000	£20,000	£15,000
Lower quartile	£10,000	£15,000	£15,000	£11,000
% of companies identifying separate fees	94%	99%	99%	24%

[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. Where the sample size is too small only the median figure is shown.

	Remuneration committee member	Audit committee member	Nomination committee member	NED designated for workforce engagement
FTSE 100				
Upper quartile	£20,000	£24,000	£15,000	£20,000
Median	£15,000	£15,000	£10,000	£18,000
Lower quartile	£10,000	£10,000	£7,000	£14,000
% of companies identifying separate fees	46%	46%	38%	13%
Top 30				
Upper quartile	£30,000	£30,000	£15,000	£28,000
Median	£20,000	£23,000	£15,000	£21,000
Lower quartile	£15,000	£18,000	£11,000	£18,000
% of companies identifying separate fees	72%	72%	59%	21%
31 – 100				
Upper quartile	£14,000	£15,000	£10,000	£18,000
Median	£10,000	£10,000	£8,000	£15,000
Lower quartile	£6,000	£7,000	£5,000	£11,000
% of companies identifying separate fees	34%	34%	28%	9%

Non-executive director designated for workforce engagement

The revised UK Corporate Governance Code focuses strongly on the duty of directors to have regard to a wide range of stakeholder perspectives when arriving at board decisions. In particular, the new Code calls for boards to establish a method for gathering the views of the workforce and sets out three options: a director appointed from the workforce, a formal workforce advisory council or a designated non-executive director.

Where companies adopt the designated NED approach, it is common to pay an additional fee in addition to the base fee. In FTSE 100 companies the additional fees disclosed to date range from £5,000 to £40,000 (disclosed by 13% of companies).

11.4 Shares and shareholding guidelines

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 majority of FTSE 100 companies do not pay non-executive directors in shares.

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, 15% of FTSE 100 companies either make payment, or part payment, of fees in shares or encourage non-executive directors to take the fees in shares, which has not changed significantly in recent years. This is more common in the largest companies, with 21% of top 30 companies using such practices compared with 12% of the companies ranked 31 – 100.

39% of companies now 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 practice is more common in larger top 30 companies, where just over half have guidelines in place.

The following table shows the different practices in place in FTSE 100 companies. We have distinguished between those companies who have a specified shareholding requirement which must be maintained and those where fees are paid in shares, or where directors are expected to use the fees to buy and hold shares. However, in practice, in most of these cases the non-executive directors will be expected to hold these shares until retirement from the board. 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.

Payment in shares and shareholding requirements

	FTSE 100	Top 30	31 – 100
Part, or all, of fees must be used to buy shares or the directors are encouraged to use fees to buy shares	15%	21%	12%
Required to hold shares or maintain a specified shareholding	26%	31%	22%
Encouraged to hold shares or maintain a specified shareholding	13%	24%	7%

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Appendices

Appendix 1 – Sample composition

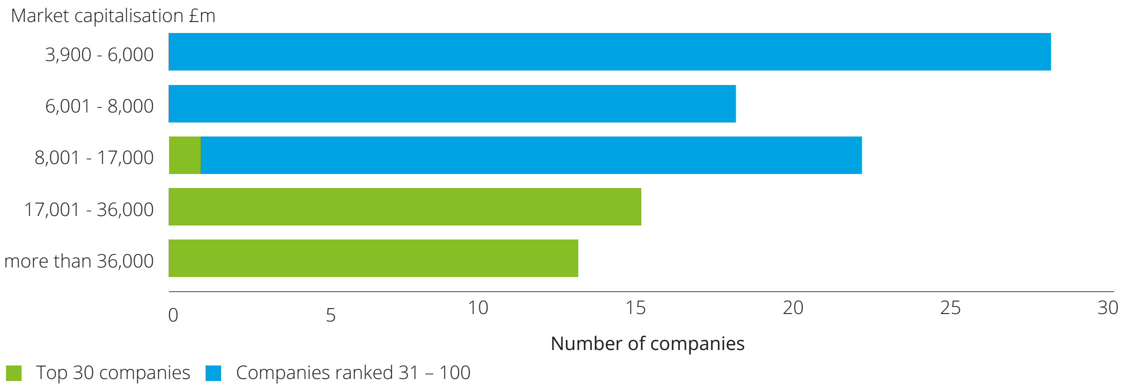
FTSE 100 companies as at 1 July 2020

Four companies are excluded from the report. Antofagasta and Fresnillo currently have no executive directors. Just Eat Takeway.com listed on the London Stock Exchange after their most recent year end and during the year was not subject to UK reporting regulations. Scottish Mortgage is an investment trust. As such, there are 96 FTSE 100 companies included in the analyses in this report.

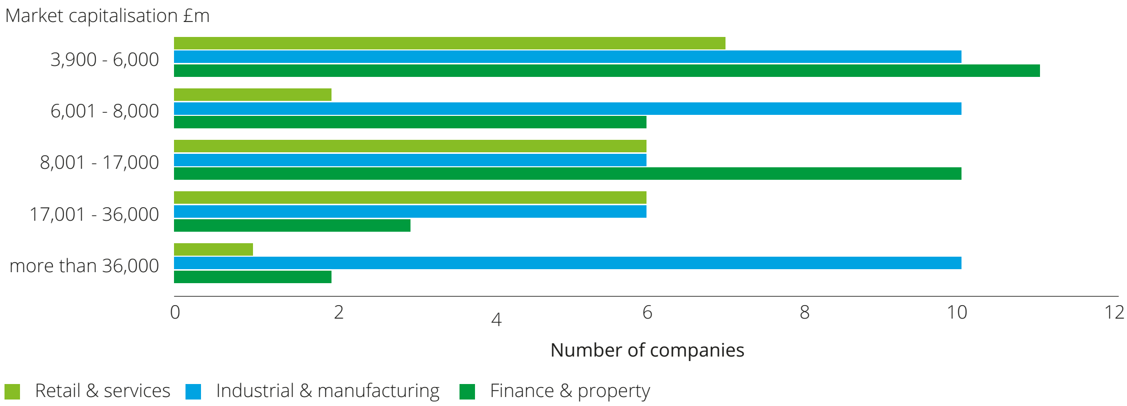
- 3i Group
- Admiral Group
- Anglo American
- Ashtead Group
- Associated British Foods
- AstraZeneca
- Auto Trader Group
- Avast*
- Aveva Group
- Aviva
- BAE Systems
- Barclays
- Barratt Developments
- Berkeley Group Holdings
- BHP Group
- BP
- British American Tobacco
- British Land Company
- BT Group
- Bunzl
- Burberry Group
- Coca-Cola HBC AG
- Compass Group
- CRH
- Croda International
- DCC
- Diageo
- DS Smith
- Evraz
- Experian
- Ferguson
- Flutter Entertainment
- GlaxoSmithKline
- Glencore
- GVC Holdings*
- Halma
- Hargreaves Lansdown
- Hikma Pharmaceuticals*
- Homeserve*
- HSBC Holdings
- Imperial Brands
- Informa
- InterContinental Hotels Group
- Intermediate Capital Group*
- International Consolidated Airlines Group
- Intertek Group
- ITV
- J Sainsbury
- JD Sports Fashion
- Johnson Matthey
- Kingfisher
- Land Securities
- Legal & General
- Lloyds Banking Group
- London Stock Exchange Group
- M&G*
- Melrose Industries
- Mondi
- Morrison (Wm) Supermarkets
- National Grid
- Next
- Ocado Group
- Pearson
- Pennon Group*
- Persimmon
- Phoenix Group Holdings
- Polymetal International*
- Prudential
- Reckitt Benckiser Group
- RELX
- Rentokil Initial
- Rightmove Group
- Rio Tinto
- Rolls-Royce Holdings
- Royal Bank of Scotland Group
- Royal Dutch Shell
- RSA Insurance Group
- Sage Group
- Schroders
- SEGRO
- Severn Trent
- Smith & Nephew
- Smiths Group
- Smurfit Kappa Group
- Spirax-Sarco Engineering
- SSE
- St James's Place
- Standard Chartered
- Standard Life Aberdeen
- Taylor Wimpey
- Tesco
- Unilever
- United Utilities
- Vodafone Group
- Whitbread
- WPP

* denotes new constituent since last report

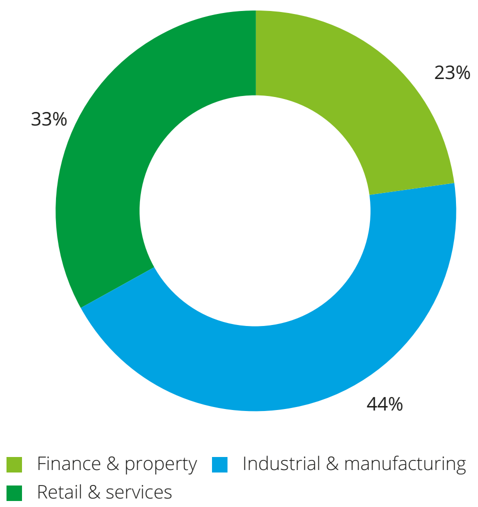
Index distribution by market capitalisation



Sector distribution by market capitalisation



Sector distribution by industry



The table below shows the number of companies in each of the main business sectors.

	100	31 – 100	Top 30
Banks	5	2	5
Chemicals	2	4	0
Construction	5	7	1
Financial Services	8	2	1
Food, Beverages and Household Goods	8	1	6
Healthcare	1	9	0
Industrial Goods & Services	10	5	1
Insurance	6	6	1
Media	7	2	1
Mining & Metals	6	0	4
Oil & Gas	2	1	2
Pharmaceuticals	3	0	2
Pharmaceuticals and Biotechnology	0	3	0
Real Estate	3	7	0
Retail	8	4	1
Technology & Telecommunications	5	5	1
Transportation & Business Services	6	5	1
Travel & Leisure	6	4	1
Utilities	5	0	1
	96	**67**	**29**

Appendix 2 – Methodology

Salary analyses

The salary analyses are based on the forward looking salary and reflect, as accurately as we are able, salary levels effective during 2020.

The analyses are presented by:

- *Position* – we have categorised main board positions into four main groups – the chief executive officer, the chief financial officer, heads of subsidiary or divisional operations and heads of function. 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 12 months to 1 July 2020. For the purposes of this analysis companies have been grouped together into market capitalisation bands.

Statistics

Throughout the report data are presented by using the following statistics:

- Upper quartile – separates the top 25% of a sample from the bottom 75%
- Median – the middle point of a sample
- Lower quartile – 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 – separates the top 10% of a sample from the bottom 90%
- Lower decile – separates the bottom 10% of a sample from the top 90%

Policy and sector analyses

Throughout the report the analyses are presented in a number of ways.

- FTSE 100 index as at July 2020 – in most of the analyses we show statistics for the FTSE 100 as a group and, where relevant, any differences in remuneration practices between companies ranked in the top 30 by market capitalisation and those ranked 31 – 100.
- Industry sector – for some of the analyses companies have been grouped into industry categories. Three overall categories have been included:
  - Finance & property companies (22 companies)
  - Industrial & manufacturing companies (42 companies)
  - Retail & services companies (32 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 100 are not spread evenly between the three industry groups and are weighted towards industrial & manufacturing and retail & services.

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

Finance & property (23% of companies)	**Industrial & manufacturing** (44% of companies)	**Retail & services** (33% of companies)
Banks	Chemicals	Healthcare (provider/services)
Financial services	Construction	Media
Insurance	Food, beverages & household goods	Retail
Real estate	Healthcare (equipment/supplies)	Technology & telecommunications
	Industrial goods & services	Transportation & business services
	Mining & metals	Travel & leisure
	Oil & gas	
	Pharmaceuticals	
	Pharmaceuticals & Biology	
	Technology & telecommunications	
	Utilities	

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.

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.

Restricted share plans

Restricted share plans are gradually becoming more popular as companies consider alternative incentive structures. Most plans incorporate a performance "underpin", which may be tested pre-grant or pre-vest, which is usually linked to company performance. This may not be as formulaic as the performance conditions in a performance share plan.

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.

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Deloitte.

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