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PEOPLE SERVICES

KPMG's Guide to Directors' Remuneration 2014 Summary

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Highlights

Basic salary

The number of companies with a base salary freeze remains broadly similar to last year, with around 19% of executive directors not receiving a pay rise. Where increases were given, they have remained modest and were more in line with those seen across the broader employee population, with a median of between two and three percent.

Annual bonus and deferred annual bonus

Annual bonus payments movements varied by role within the FTSE 100 but increased slightly in the FTSE 250. The number of zero bonus payments has increased this year, with 12% of FTSE 350 executive directors receiving no bonus.

Some form of deferral features in most annual plans. Following the trend that has developed over the last two years, this tends to be compulsory deferral and without any form of matching award.

Long term incentives


The level of grants under performance share plans has remained relatively similar to last year across the FTSE 350, with median awards of 250% of base salary for directors of FTSE 100 companies and 155% of base salary for directors of FTSE 250 companies.

Regulatory

This year saw further regulatory developments in respect of remuneration and reward arrangements. Changes to the Corporate Governance Code take effect for financial years starting on or after 1 October, while a number of financial services specific regulations came into effect during the year.

Shareholders

Shareholders' support of pay policies has been received as an improvement in the level of engagement and that companies are addressing the concerns of investors, with an average vote for remuneration reports at 94%.



The guide analyses the latest trends in FTSE 350 directors' pay. It covers basic pay and incentives, and pensions. We also look at some of the wider factors that impact the executive pay landscape and how these have changed over the year.

Use of this summary

This publication is designed as a summary of the main findings from the Guide to Directors' Remuneration 2014. For your complimentary copy of the comprehensive guide please contact us or visit:

<http://events.kpmg.co.uk/kgdr/register.aspx>

The remuneration landscape

2014 has been an interesting year for those interested in the executive pay debate.

The new disclosure and voting regulations were introduced to address perceived failings in the corporate governance framework for executive pay, and in particular there was a stated aim to boost transparency so that what people are paid is clear and easily understood. It is worth noting that one issue which the new regulations do not address is quantum.

When looking at the disclosures made during 2014, it is questionable as to whether there have been any significant improvements in transparency. The majority of companies already had a good level of disclosure, and this is reflected in the levels of shareholder support seen in previous years.

Within this new environment, we have seen base salary increases remain at a modest level, while annual bonus plans continue to pay out at a high level for the majority of companies. The clarity of the link between pay received and performance delivered remains a key focus for both shareholders and companies.

Summary

FTSE 100

The tables below summarise median market practice in FTSE 100 companies for chief executives, finance directors and other executive directors, as reported in the Guide.

	Chief Executive	Finance Director	Other Executive Directors
Salary increase	2%	3%	2%
Basic salary £'000s	837	485	501
Annual bonus			
Maximum bonus (percentage of salary)	180%	150%	150%
Total bonus (percentage of maximum)	71%	66%	67%
Total bonus (percentage of salary)	117%	102%	115%
Most common performance measure	Combination of profit and non-financial measures	Combination of profit and non-financial measures	Combination of profit and non-financial measures
Deferred bonus			
Maximum permitted deferral (percentage of annual bonus)¹	50%	50%	50%
Typical matching ratio, if applicable	1:1 / 2:1	1:1 / 2:1	1:1 / 2:1
Deferral period	3 years	3 years	3 years
Performance share plans			
Maximum award (percentage of salary)¹	300%	215%	225%
Actual award (percentage of salary)¹	291%	209%	221%
Actual gains (percentage of salary)	235%	198%	181%
Most common performance measure	TSR** relative to comparator group and EPS* growth	TSR** relative to comparator group and EPS* growth	TSR** relative to comparator group and EPS* growth
Share option plans			
Actual gains (percentage of salary)²	125%	31%	175%
Total earnings (£'000s)³	3,754	1,874	2,087

1 Face value of award.

2 The cash value of market value share options vested during the year.

3 Includes benefits, total bonus and cash value of PSP awards vested and share options exercised in the year.

* Earnings per share

** Total shareholder return

FTSE 250

The table below summarise median market practice in FTSE 250 companies for chief executives, finance directors and other executive directors, as reported in the Guide.

	Chief Executive	Finance Director	Other Executive Directors
Salary increase	3%	3%	3%
Basic salary (£'000s)	481	325	300
Annual bonus			
Maximum bonus (percentage of salary)	125%	120%	100%
Total bonus (percentage of maximum)	67%	65%	75%
Total bonus (percentage of salary)	95%	90%	94%
Most common performance measure	Combination of profit and non-financial measures	Combination of profit and non-financial measures	Combination of profit and non-financial measures
Deferred bonus			
Maximum permitted deferral (percentage of annual bonus)¹	50%	50%	50%
Typical matching ratio, if applicable	1:1 / 2:1	1:1 / 2:1	1:1 / 2:1
Deferral period	3 years	3 years	3 years
Performance share plans			
Maximum award (percentage of salary)¹	160%	160%	155%
Actual award (percentage of salary)¹	157%	155%	155%
Actual gains (percentage of salary)	172%	140%	157%
Most common performance measure	TSR** relative to comparator group and EPS* growth	TSR** relative to comparator group and EPS* growth	TSR** relative to comparator group and EPS* growth
Share option plans			
Actual gains (percentage of salary)²	77%	64%	73%
Total earnings (£'000s)³	1,560	912	963

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The shareholder perspective

From a shareholder perspective, while there may be some new and different information, the key concerns for them remain:

- The link between remuneration policy and company strategy
- The performance achieved and the quantum of pay delivered by reference to this
- Alignment with long term sustained success

Therefore the way in which messages about pay are communicated is very important.

There were only two companies across the FTSE 350 which received a majority vote against their remuneration reporting. Our research however shows that the number of FTSE companies that received a significant vote against has increased.

In other words, although a majority vote in favour is received, there are issues which shareholders will expect to see addressed, and where they are not shareholders are willing to vote against.

It is also becoming evident that in many instances, remuneration committees and their boards may need to accept that not all shareholders will be in agreement with their approach to rewarding executives.



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Looking ahead

The temptation for financial year 2014 will be to view it as a quieter year, with less scrutiny of disclosures and no need to worry about pay structures as long as they are within the approved policy. Shareholders will undoubtedly scrutinise annual remuneration reports to ensure that they are comfortable that the quantum received is commensurate with the performance delivered in the same way as would have been the case prior to the new regulations.

As with the last reporting year, it is important that companies consider the way in which messages around pay are expressed, rather than viewing disclosure as a pure compliance exercise. Directly referencing decisions to the market is a red flag for investors, so companies may wish to consider the

value of an individual from a different perspective. This could include factors such as:

- Talent (and scarcity);
- Ownership – the extent to which an individual is an owner of the company as well as the broader ownership structure);
- The performance of the company; and
- The ability of the company to generate profit.

All of these factors are relevant to an individual's value (together with others), and communicating in this way rather than referring to market practice may help to improve the quality of the discussion with shareholders.



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