

# Finalising your Remuneration Report Workshop 15 January 2014

## Agenda

- The Annual Statement and the Annual Report on Remuneration – Damien Knight and Cliff Weight, MM&K
- Directors' Remuneration Policy – Jeremy Edwards & Kathy Hood, Baker & McKenzie



# **Finalising your Remuneration Report Annual Statement and Annual Report on Remuneration**

**Damien Knight and Cliff Weight  
Executive Compensation Director, MM&K**

## About MM&K

- MM&K is a leading independent executive remuneration consultancy:
  - based in the City
  - owned by directors, employees and EBT
  - established for over 35 years
- Five Principals, each with over 25 years experience in the field
- Remuneration Committee adviser in over 50 companies over last three years, including FTSE 350, Small Cap, AIM and private companies
- Strong focus on alternative investment firms, particularly Private Equity Fund Managers and Hedge Fund Managers
- Member of the Remuneration Consultants Group and committed to its code of practice.

## Contents of Annual Report on Remuneration(implementation report)

- Single total figure table
- Additional requirements in respect of the single figure table
- Total pension entitlements
- Scheme interests awarded in the year
- Payments to past directors
- Compensation for loss of office
- Directors' shareholdings
- Line graph comparison of TSR performance and Index over 5 years (to 10 years)
- 5 year (to 10 year) record of CEO Single Figure of Total Remuneration and Bonus as % maximum and LTIP vested %
- Percentage change in remuneration of director undertaking the role of CEO
- Relative importance of spend on pay
- Statement of implementation of remuneration policy in the following financial year
- Consideration by the directors of matters relating to directors' remuneration, including remuneration committee advisers and their fees
- Shareholder voting

## We will cover

- Key issues
- How companies with September 30<sup>th</sup> year ends have dealt with them
  - 15 main market companies with September year ends (excluding investment trusts) had published their annual report when we prepared our analysis
  - We will present our analysis in relation to the Summary Statement and the Annual Report on Remuneration. Baker & McKenzie will be presenting their findings on the treatment of the Directors' Remuneration Policy
- A shareholder's viewpoint
- Questions for discussion

## “30<sup>th</sup> September” companies analysed

Aberdeen Asset Management	ITE
Avon Rubber	Lonmin
Compass Group	Mitchells & Butlers
Diploma	Sage Group
easyJet	Thomas Cook
Euromoney	Treatt
Grainger	Victrex
Imperial Tobacco Group	

## Annual Statement (remuneration committee chair's letter)

- Average length of full report 16.5 pages
  - Maximum 30 pages
  - Minimum 14 pages
- Average length of rem co chair's letter 1.25 pages
  - Maximum 2.5 pages
  - Minimum 0.25 pages

# Chairman's letter

- Two distinct styles:
  - 'Intrinsic' – focused on report format, rem co membership and activities
  - 'Extrinsic' – focused on rem philosophy, KPIs, company performance and remuneration outcomes
- Some companies included an extra section after the letter to deal with remuneration committee issues, the new regulations and the format of the remuneration report
  - Most companies provided more information than required by the new regulations (eg committee terms of reference, activities and attendance)
- One company included a summary remuneration table in the chairman's letter
- References to shareholder consultation are more useful (and powerful) if they describe the issues and responses (also part of Section 40)

# Annual Report on Remuneration

- By common parlance the 'Implementation Report' – confusing
- 14 out of 15 companies presented the future policy first (ie not in the order of the Regulations)
- 12 out of 15 companies laid out the elements of pay across the page (on the X-axis)
- The previous year's figures presented in many ways, largely dependent on the number of executive directors
  - Adjacent columns
  - Adjacent rows
  - Separate tables for each year
- Incidentally for the *Future Policy Table* all companies laid out the elements of pay vertically. In most cases the features of the elements were laid out on across the page, but in two case they were stacked vertically under each element heading.

## Pension and benefits information

- The amount of pension information provided and the style of presentation depended on the type of plan. For some DB plans there was a long narrative
- Interesting points for debate
  - Should increase to value of a closed, deferred DB pension due to inflation be included in the single figure? Avon Rubber chose not to include it
  - What happens if there is an unfunded pension promise?
- Worth visiting: Imperial Tobacco for a comprehensive description of benefits
- Benefits in kind and insured benefits mostly described briefly in a note to the Single Figure table

## Annual bonus: the 'relevant details'

- Disclosure rules require measures, weighting, target, maximum opportunity, actual performance, actual payout
- There is of course a blanket 'cop out' for commercial sensitivity, but requiring an explanation and when, if ever, members can expect to get full disclosure
- The level of disclosure was mixed:
  - 7 out of 15 companies gave full disclosure
  - 3 gave incomplete disclosure eg actual outcomes and payments but not the specific target
  - 3 claimed commercial sensitivity – none of these made any promises about future disclosure
  - One company was completely vague
  - Euromoney has an uncapped profit sharing plan. Worth reading to see how they deal with this
- Also worth visiting : Lonmin; Compass; easyJet

## Long-term incentives – the ‘relevant details’

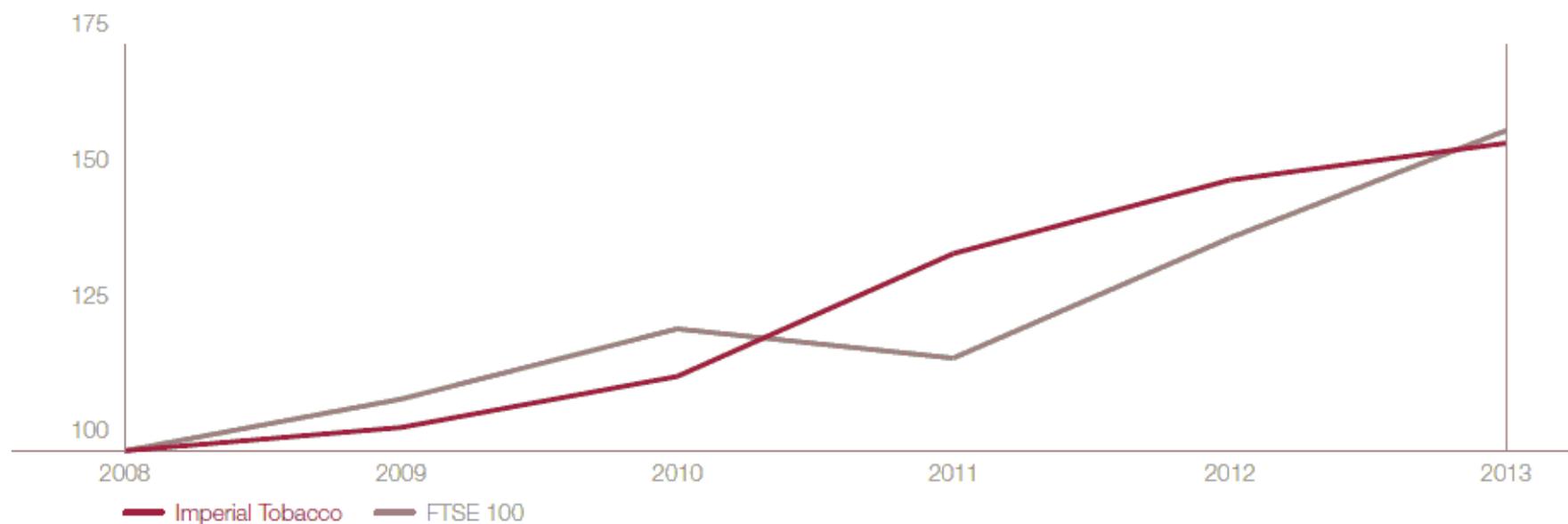
- None of the companies appeared to have a problem with disclosing the vesting targets for performance periods ending in the relevant year
- Mostly these were EPS growth and relative TSR
- So companies were fully compliant here

## Performance graph

- This area was rather disappointing
- All companies did the minimum to comply
- Companies missed an opportunity of telling the story with a couple of critical KPIs over the five year period
- CEO remuneration in many cases was laid out vertically. No attempt was made to align remuneration with the years on the graph
- Aberdeen Asset Management provided a 5-year KPI history to its bonus 'relevant details' rather than to the performance chart
- One company put in some extra one year performance charts to offset poor performance in the earlier years
- Worth visiting? None really. We'll continue to monitor reports as they are published

# Performance graph – example Imperial Tobacco

Total Return Indices – Imperial Tobacco and FTSE 100



## Change in Chief Executive Remuneration

	2013 Alison Cooper	2012 Alison Cooper <sup>1</sup>	2011 Alison Cooper <sup>1</sup>	2010 Alison Cooper <sup>1</sup>	2010 Gareth Davis <sup>2</sup>	2009 Gareth Davis
Total remuneration £'000	2,011	2,793	2,737	1,347	5,453	5,099
Annual Bonus as a percentage of maximum	34	51.2	33.1	84.7	84.7	85.2
Shares vesting as a percentage of maximum	nil	58.0	71.6	80.8	46.9 <sup>3</sup>	74.5

## Share scheme interests and awards

- The new Regulations ask less than the old regulations
- Some companies chose to provide full information about historical grants, market price, face value at grant and vesting period
- Worth visiting for thoroughness: Diploma; easyJet; Grainger

## Implementation statement (for coming year)

- 3 companies included a single sentence (eg the same as last year; it's in the policy table; no change)
- 3 companies provided no statement
- 9 companies provided a full statement
  - All included salary changes
  - All included bonus measures and weighting, but no targets (on the grounds of confidentiality)
  - All included the planned long-term incentive grant with vesting measures and targets for the coming year's grants

## Other considerations

### **Percentage change in remuneration**

- Generally this was presented as a table
- Two companies failed to give a breakdown by salary, benefit and bonus as required by the Regulations. One missed off benefits
- One company (Avon Rubber) used a management population for the comparison with the CEO, rather than all employees
- One company did not report at all
- The rest complied fully

### **Relative importance of spend on pay**

- All complied
- Some used charts – but most used a table
- A few gave a comprehensive breakdown of the allocation of funds

## A shareholder view

*Threadneedle questions for reviewing remuneration reports  
(from Iain Richards, Head of Governance and Responsible  
Investment)*

- Are they clear, simple and understandable?
- Are the package and its elements balanced and proportionate?
- Is remuneration aligned with strategy?
- Are payments subject to stretching performance conditions?
- Do the policies mitigate the risk of rewards for failure?
- Most importantly of all, does the policy produce a payout which matches the returns to our own clients

## Questions for discussion

*Please first describe to your table if you are involved in preparing for/drafting/consulting on your company's remuneration policy and remuneration report and the timing of your shareholder circular/AGM*

- What are you finding is the toughest issue in preparing the Annual Report on Remuneration and how are you addressing it?
- Are you planning to put any additional information in the 5 (to 10) -year graph to 'tell the story'? What, and how are you presenting it?
- What is your thinking on reporting last year's targets and targets for the coming year, with an eye on commercial sensitivity?