Into focus
FTSE 350 Executive and Board remuneration report
January 2016
Introduction

Welcome and introduction
Welcome to our ‘Into focus’ report which looks at recently published Directors’ Remuneration Reports (DRRs) for the FTSE 350 and considers the implications of the trends emerging for 2016 and beyond.

This report analyses executive remuneration and board fee quantum and policy information for companies in the FTSE 350 as at 28 August 2015. The analysis is based on information disclosed in the 2014/15 annual reports and accounts of these companies.

Whilst this report is not intended to constitute a benchmarking tool, we have presented our data in four market capitalisation comparator groups to allow reflection on the most appropriate comparators.

Executive remuneration environment
In 2015 executive remuneration has remained on the Board agenda with the ongoing quest to demonstrate a clear link between pay achieved and performance delivered, not least to satisfy the scrutiny of various stakeholder groups and the media. Our research into annual reporting, published in September 2015, found that companies continue to struggle to make linkages throughout the various aspects of annual reports. Only 9% of annual report and accounts had a clear link all the way from strategy, to key performance indicators, to principal risks and through to remuneration.

Although the changes to the reporting regulations, which resulted in the introduction of the mandatory vote on policy, have now largely bedded down, the freedom of companies to act on their executive remuneration is facing further constraints. In its research paper published in March 2015, the Department for Business, Innovation and Skills (BIS) considered how companies have responded to the new reporting requirements. While compliance with the regulations was generally high, two particular findings were highlighted:

1. Many companies did not state a maximum opportunity for executive salaries. The BIS report suggests compliance can be achieved either by setting a level above which salary will not increase for the policy period, specifying salaries for the three years or setting one salary for the period.

2. When a particular disclosure was not applicable, many companies opted to omit the disclosure entirely whereas provision of a statement to the effect that it did not apply would be more helpful to shareholders.

Further, the latest version of the UK Corporate Governance Code contains a toughened requirement for all long and short term incentive plans to provide for withholding (malus) and recovery (clawback) and to specify when they will be applied (for accounting periods beginning on or after 1 October 2014 and applying to all companies with a premium listing of equity shares). Companies that do not have these provisions in place must justify the reasoning to their shareholders.

While a number of early adopters have already introduced such provisions, some practicalities surrounding their implementation remain yet to be resolved. One such issue, the taxation of clawback on share schemes, will become clearer in 2016 following the expected publication of guidance from HMRC. As companies begin to review policies in advance of their ‘second’ vote by shareholders, clarity on matters such as this will further expedite the inclusion of clawback and malus provisions.
In its letter accompanying the publication of its 2015 Principles of Remuneration, the Investment Association (IA) stated that executives should not expect regular salary increases but, where given, they should be limited to inflation or that of the general workforce. The IA has also created a new body, the Executive Remuneration Working Group, bringing together senior representatives from the investment community and the corporate world to ‘bring forward proposals for a radical simplification of executive pay’. The group will publish initial results in spring 2016.

Future focus for executive remuneration
This report shows a fall in the FTSE 100 Chief Executive Officers (CEOs) median salary for a second year, providing evidence of restraint in pay increases. However, executive salaries continue to increase and the median of 2015/16 proposed salary increases is 2.2%. In light of the above, we expect both further restraint in, and further scrutiny of, executive salaries to continue.

Although analysis shows that pensions and other benefits have not been a focus in the past year, employers will soon need to consider the wider impact that the reduction in annual allowance for registered pension schemes, beginning in the 2016/17 tax year, will have on employee reward. This includes potential revisions to both the pension policy and wider remuneration framework to ensure efficient reward spend.

This report also shows that although median bonus opportunity across the FTSE 350 remains unchanged, the median of increases in bonus earned among FTSE 350 CEOs was 4.8%. As economic conditions and business performance improve moving further into 2016, Remuneration Committees will be under greater pressure to set performance metrics and targets which investors perceive to be sufficiently stretching, executives perceive to be fair and which continue to enhance financial and non-financial drivers of business value.

Meanwhile executives must wait longer for their remuneration. Sixty eight percent of FTSE 350 companies now include deferral in their annual bonus plans, eighty percent of which require some bonus to be deferred for three or more years. We expect this number to increase in 2016 as more companies look to align their remuneration arrangements with good practice elsewhere and introduce malus and clawback in response to the UK Corporate Governance Code’s requirements.

The findings also show an increased prevalence, across all FTSE segments, of companies requiring executives to hold vested long-term incentive awards for an additional period. While this has not yet affected the median combined performance and holding period, for over 25% of companies the combined period is now five or more years. Over time we expect the market norm to move towards a five year period.

Summary
Overall, we expect that the executive remuneration environment will be as interesting and challenging as ever in 2016. Remuneration Committees and Reward Directors will continue to face the perennial challenge of attracting, retaining and motivating the calibre of talent required to deliver their performance goals without ‘over-paying’ or ‘over-complicating’ their reward framework, in a world where the scope for creativity feels increasingly limited.

Methodology
This report contains analyses of executive remuneration quantum and policy information disclosed in the most recent annual reports with year ends in the twelve months to 31 May 2015. The data has been analysed by four FTSE 350 segments, based on FTSE index and ranking as at 28 August 2015. The four segments are: FTSE 100, FTSE 250, FTSE 250 Top (i.e., companies in positions 101 to 225) and FTSE 250 Bottom (companies in positions 226 to 350).

Data is drawn from the Meis Executive Remuneration Database, a source of disclosed remuneration data. The report also provides commentary on the trends in executive remuneration and highlights year-on-year changes in practice and policy. Commentary and analyses have been undertaken for full year incumbents in three executive roles: CEO, Chief Finance Officer (CFO) and Other Directors. ‘Other Directors’ includes all other executive roles on the Main Board for which data has been disclosed in the annual reports and accounts.

Assessments include a range of statistical analyses of the underlying market data for the individual elements of compensation, including the lower quartile (25th percentile), median (50th percentile), upper quartile (75th percentile) and average (mean). Please note that the data analysis for each individual compensation element is independently arrayed and thus the median values of individual analyses may not sum to the median of combined elements (e.g., total remuneration).

Definition of statistical measures
Lower quartile (25th percentile): the data point at which 25% of the data is below and 75% is above that reported level
Median (50th percentile): the data point at which 50% of the data is below and 50% is above that reported level
Upper quartile (75th percentile): the data point at which 75% of the data is below and 25% is above that reported level
Average (arithmetic mean): the value obtained by dividing the sum of a set of quantities by the number of quantities in the set.

FTSE 350 Executive and Board remuneration report
Section 1 | Introduction
Section 2
Remuneration tables
## Remuneration tables

### Market remuneration

Median total remuneration of CEOs and CFOs of FTSE 100 companies was more than double that of FTSE 250 companies. This differential between FTSE 100 and FTSE 250 has become more pronounced for CEOs with total remuneration moving from double in 2014 to over 2.7 times that of FTSE 250 CEOs.

**Figure 1:** Total remuneration of FTSE 350 directors, by FTSE segment (median)

<table>
<thead>
<tr>
<th>FTSE 100 (000s)</th>
<th>Median</th>
<th>Salary</th>
<th>Benefits</th>
<th>Pension</th>
<th>Total bonus</th>
<th>LTI</th>
<th>Total remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>£837</td>
<td>£40</td>
<td>£250</td>
<td>£1,115</td>
<td>£2,089</td>
<td></td>
<td>£4,064</td>
</tr>
<tr>
<td>CFO</td>
<td>£510</td>
<td>£23</td>
<td>£131</td>
<td>£600</td>
<td>£1,173</td>
<td></td>
<td>£2,203</td>
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<tr>
<td>Other Directors</td>
<td>£441</td>
<td>£27</td>
<td>£112</td>
<td>£555</td>
<td>£1,041</td>
<td></td>
<td>£1,923</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>FTSE 250 (000s)</th>
<th>Median</th>
<th>Salary</th>
<th>Benefits</th>
<th>Pension</th>
<th>Total bonus</th>
<th>LTI</th>
<th>Total remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>£506</td>
<td>£22</td>
<td>£93</td>
<td>£481</td>
<td>£848</td>
<td></td>
<td>£1,504</td>
</tr>
<tr>
<td>CFO</td>
<td>£330</td>
<td>£17</td>
<td>£60</td>
<td>£276</td>
<td>£481</td>
<td></td>
<td>£926</td>
</tr>
<tr>
<td>Other Directors</td>
<td>£325</td>
<td>£18</td>
<td>£53</td>
<td>£297</td>
<td>£531</td>
<td></td>
<td>£982</td>
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</table>

<table>
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<th>FTSE 250 Top (000s)</th>
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<th>Salary</th>
<th>Benefits</th>
<th>Pension</th>
<th>Total bonus</th>
<th>LTI</th>
<th>Total remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>£539</td>
<td>£22</td>
<td>£109</td>
<td>£591</td>
<td>£1,053</td>
<td></td>
<td>£1,897</td>
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<tr>
<td>CFO</td>
<td>£359</td>
<td>£18</td>
<td>£70</td>
<td>£321</td>
<td>£683</td>
<td></td>
<td>£1,139</td>
</tr>
<tr>
<td>Other Directors</td>
<td>£337</td>
<td>£18</td>
<td>£59</td>
<td>£312</td>
<td>£671</td>
<td></td>
<td>£1,215</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FTSE 250 Bottom (000s)</th>
<th>Median</th>
<th>Salary</th>
<th>Benefits</th>
<th>Pension</th>
<th>Total bonus</th>
<th>LTI</th>
<th>Total remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>£476</td>
<td>£19</td>
<td>£76</td>
<td>£419</td>
<td>£656</td>
<td></td>
<td>£1,165</td>
</tr>
<tr>
<td>CFO</td>
<td>£313</td>
<td>£16</td>
<td>£50</td>
<td>£220</td>
<td>£426</td>
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<td>£723</td>
</tr>
<tr>
<td>Other Directors</td>
<td>£289</td>
<td>£18</td>
<td>£46</td>
<td>£229</td>
<td>£454</td>
<td></td>
<td>£814</td>
</tr>
</tbody>
</table>

Data sourced from Single Total Figure of Remuneration tables published in company annual report and accounts. As such total bonus figures reflect actual bonus awarded (including deferred components not subject to further performance testing) and LTI figures reflect amount realised in year (or appropriate estimation). Note: Market data percentiles and averages are independently arrayed, therefore, they should not be expected to sum to the market data percentiles and averages for total remuneration.
Section 3

Fixed pay
Fixed pay

Base salary

Generally, executive base salaries continue to be correlated with company market capitalisation, although care should be taken when benchmarking against market capitalisation alone, due to its volatility.

Figure 2: Median base salary of FTSE 350 directors (by FTSE segment)

The 2014/15 reported median FTSE 100 CEO base salary fell for a second year whereas the median FTSE 250 CEO base salary is higher, but increased at a lower rate than between 2013 and 2014.

Figure 3: Year on year change in reported median CEO base salary (by FTSE segment)
Fixed pay

Salary increases
Overall the median of the increase, from 2013/14 to 2014/15, in salaries paid to executives ranged from 2.5% to 3%, with the median of CEO increases lower than the other two positions.

*Figure 4:* Year on year (2013/14 to 2014/15) change in FTSE 350 directors’ base salary paid (by FTSE segment)

<table>
<thead>
<tr>
<th></th>
<th>CEO</th>
<th>CFO</th>
<th>Other Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 350</td>
<td>2.5%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

According to reported salary levels for 2015/16, base salary increases continue to be modest for executive directors in FTSE 350 companies. Overall, lower or the same median increases in base salary were seen in 2015/16 compared to 2014/15.

*Figure 5:* Median change in FTSE 350 directors’ base salary (by incumbent, by role)

The 2015/16 median increase in FTSE 350 base salary was 2.2% for CEOs, 2.5% for CFOs and 3.0% for Other Directors. CEOs continue to lead by example with smaller base salary increases compared to other board members. This trend continues from the 2013/14 financial year.

Any significant increases in pay levels would attract comment from investor representative bodies, especially in light of the Investment Association’s comment that there are a “growing number of investors who consider that executive directors should not receive regular salary increases, given the overall structure of their remuneration packages”.

*Figure 6:* Year on year (2014/15 to 2015/16) change in reported level of FTSE 350 directors’ base salary (by FTSE segment, by incumbent, median)

<table>
<thead>
<tr>
<th></th>
<th>CEO</th>
<th>CFO</th>
<th>Other Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 100</td>
<td>2.2%</td>
<td>2.1%</td>
<td>2.9%</td>
</tr>
<tr>
<td>FTSE 250</td>
<td>2.2%</td>
<td>2.5%</td>
<td>2.9%</td>
</tr>
<tr>
<td>FTSE 250 Top</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.9%</td>
</tr>
<tr>
<td>FTSE 250 Bottom</td>
<td>2.0%</td>
<td>2.4%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

The salaries of a quarter of FTSE 350 CEOs did not increase in FY14/15.
Salary freezes

25% of FTSE 350 companies did not increase the salary of the CEO in 2014/15, with this percentage increasing to 32% for 2015/16.

Figure 7: The percentage of CEO and CFO base salaries that did not increase in 2014/15 and 2015/16 (by FTSE segment)

Pensions and other benefits

The salaries of a third of FTSE 350 CEOs have not or will not increase in FY15/16

The salaries of a third of FTSE 350 CEOs have not or will not increase in FY15/16.

Median CEO CFO Other Directors

<table>
<thead>
<tr>
<th>FTSE 100</th>
<th>30%</th>
<th>25%</th>
<th>25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 250</td>
<td>20%</td>
<td>18%</td>
<td>15%</td>
</tr>
<tr>
<td>FTSE 250 Top</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>FTSE 250 Bottom</td>
<td>16%</td>
<td>15%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Overall there have been marginal increases in the median value of benefits for CEOs. However, on a same incumbent basis the median change in benefits value is zero, suggesting that the benefits proposition for executive directors has not been a focus this year.

Although the market data shows little change in pension provision this year, employers will soon need to consider the wider impact that the reduction in annual allowance for registered pension schemes, beginning with the 2016/17 tax year, will have on employee reward. This includes potential revisions to both the pension policy and wider remuneration framework to ensure efficient reward spend.
Section 4

Annual incentives
Annual incentives

Annual bonus outcomes
Overall, the increases from 2013/14 to 2014/15 in annual bonus earned were larger for CEOs than for other executives. The negative lower quartile figures for CEO, CFO and Other Directors demonstrate that at least a quarter of FTSE 350 executives earned smaller bonuses in 2014/15 than in the previous year.

Figure 9: Year on year change in annual bonus outcomes (FTSE 350 by incumbent)

Bonus opportunity – maximum
Overall, the median levels of maximum bonus have remained static, with the exception of the FTSE 250 Bottom segment for which the median has increased by 25% of salary to 125%. The median level of maximum bonus among FTSE 250 companies has also reflected this change, increasing to 150%.

However, there is still considerable differentiation between bonus opportunity at FTSE 100 companies and those further down the FTSE index. The median FTSE 100 CEO maximum bonus remains at 180% of salary, although the monetary value equivalent decreased by 3% to £1.43m.

Changes to maximum bonus opportunity
Across the FTSE 350, only 16% of companies changed the level of maximum bonus in the last year. However, there was a distinct difference in the type of changes by FTSE segment. The majority (78%) of FTSE 100 companies implementing changes decreased their maximum bonus levels whereas the majority (65%) of FTSE 250 companies implementing changes increased maximum opportunity.

Figure 11: Ratio of FTSE 100 and FTSE 250 companies which modified their annual bonus maximums

For those companies that changed their maximum bonus levels, the median of the increases was 50% of salary and the median of the decreases was 38%.
Annual incentives

Bonus opportunity – target
Median target bonus remains consistent across all FTSE segments at 50% of maximum.

<table>
<thead>
<tr>
<th>FTSE 100</th>
<th>FTSE 250</th>
<th>FTSE 250 Top</th>
<th>FTSE 250 Bottom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median</td>
<td>% of salary</td>
<td>% of maximum</td>
<td></td>
</tr>
<tr>
<td>FTSE 100</td>
<td>100%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>FTSE 250</td>
<td>64%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>FTSE 250 Top</td>
<td>70%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>FTSE 250 Bottom</td>
<td>63%</td>
<td>50%</td>
<td></td>
</tr>
</tbody>
</table>

Bonus deferral

Compulsory bonus deferral
The prevalence of compulsory deferral has increased in all FTSE 350 segments. Executives at 68% of FTSE 350 companies were required to defer some portion of their annual bonus, an increase of three percentage points since the previous year.

The biggest increase in the use of compulsory deferrals occurred in FTSE 250 Bottom companies moving from 43% to 50%.

However, compulsory deferral is still most prevalent among FTSE 100 companies with 83% requiring their executives to defer some portion of their bonus.

We expect the prevalence of bonus deferral to increase in the coming years as more companies look to align their remuneration arrangements with good practice elsewhere and introduce malus and clawback in response to the UK Corporate Governance Code’s requirements.
For most executives in the FTSE 350 (73% of those required to defer), the longest that any portion of their annual bonus will be deferred is three years.

Deferral for three or more years remains more prevalent in FTSE 100 (83%) than the FTSE 250 (76%) although longer deferral periods are slightly more prevalent among the smaller of the FTSE 250 companies.

Six percent of those in the FTSE 350 required to defer must wait more than three years, in some cases up to six years, before they receive their entire bonus.

Across the FTSE 350, there has been an increase in the use of compulsory bonus deferral periods of five or more years. The prevalence of such longer periods increased by between three and five percentage points across the FTSE segments.

**Deferral amount**

Among the FTSE 350, the median proportion of annual bonus which is compulsorily deferred is 50%. As shown in figure 15 this is true of both the FTSE 100 and FTSE 250, but not the FTSE 250 Bottom for which the median is only 40% of bonus. However, this figure represents an increase in percentage of bonus deferred of seven percentage points from the previous year. This suggests that the deferral policies of the smaller FTSE 250 companies are becoming more aligned with those of the FTSE 100.
Section 5

Long-term incentives
Long-term incentives

Change in long-term incentive payments

Across the FTSE 350 the median increase in value of long-term incentive vested ranged from 5.8% (CEO) to 6.9% (Other Directors). The negative lower quartile figures for CEO, CFO and Other Directors show that 2014/15 long-term incentive outcomes reflect a broad range of business performance.

**Figure 16:** Year on year change in long-term incentive outcomes (FTSE 350 by incumbent)

There was also variation in the median across the range of FTSE segments. While the median of all other segments showed an increase in CEO long-term incentive vested, the median of the FTSE 250 Bottom segment showed a decrease of 1%.

**Figure 18:** Median of year on year change in CEO long-term incentive outcomes by FTSE segment (by incumbent)
Long-term incentives

Maximum opportunity

The median level of maximum long-term incentive award across the FTSE 350 is 200% of salary. However, despite increases in the median of each FTSE segment in the range of 25% of salary to 50% of salary compared to the previous year, there remains a degree of variation between the median values of the FTSE 100 and other segments.

Figure 17: Face value of maximum long-term incentive award (by FTSE segment)

<table>
<thead>
<tr>
<th>Median % base</th>
<th>Face value of maximum long term incentive award</th>
</tr>
</thead>
<tbody>
<tr>
<td>% base</td>
<td>CEO</td>
</tr>
<tr>
<td></td>
<td>Other executives</td>
</tr>
<tr>
<td>FTSE 100</td>
<td>250%</td>
</tr>
<tr>
<td></td>
<td>223%</td>
</tr>
<tr>
<td>FTSE 250</td>
<td>200%</td>
</tr>
<tr>
<td></td>
<td>175%</td>
</tr>
<tr>
<td>FTSE 250 Top</td>
<td>200%</td>
</tr>
<tr>
<td></td>
<td>200%</td>
</tr>
<tr>
<td>FTSE 250 Bottom</td>
<td>175%</td>
</tr>
<tr>
<td></td>
<td>163%</td>
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</table>

Performance conditions

The use of both total shareholder return (TSR) and earnings per share (EPS) as performance metrics in long-term incentive plans remains common practice for a large number of FTSE 350 companies, but there is also evidence of the use of a range of other metrics.

Comparative TSR is still the single most prevalent measure among FTSE 100 and FTSE 250 companies (59% and 30% of plans respectively). The use of EPS growth measures (absolute and real growth) also remains very popular, as they are used in 34% and 24% of FTSE 100 plans and 18% and 13% of FTSE 250 plans, respectively.

However, a number of other metrics are also prevalent, which suggests an increased use of a more diverse range of performance metrics in FTSE 350 long-term incentive plans. These metrics are typically more tailored towards the performance of individual businesses as opposed to performance benchmarks against industry peers. Return on Capital Employed (35% of FTSE 100 and 18% of FTSE 250) is the most popular of such metrics while cash flow measures (15% of FTSE 100 and 8% of FTSE 250) are the next most prevalent of this type. Other examples include profit measures, strategic metrics and Net Asset Value.
Performance and holding periods

As the majority of companies in the FTSE 350 measure executive performance in their long-term incentive plans over a period of three years the median performance period remains at three years for each FTSE segment.

Although there has been little change in performance periods of long-term incentive plans, the prevalence of post-vesting holding periods among FTSE companies continues to increase. In such instances, executives are required to retain any shares gained from vested long-term incentive awards for an additional period of time. Across the FTSE 350, 41% of companies operate a holding requirement (37% mandatory, 4% discretionary), an increase from 18% in the previous year.

Fifty percent of FTSE 100 companies and 35% of FTSE 250 companies now operate a post-vesting holding requirement.

The median performance period of FTSE 350 long-term incentive plans is three years, whereas the median post-vesting holding period is two years. Despite the increased prevalence of post-vesting holding periods in the FTSE 350, the median of total vesting and holding period is also three years, however, the upper quartile is now five years. Analysis of only those plans with an additional holding period reveals a median of five years.

Performance period

- **渗透率**: Three in twenty

- **渗透率**: Ten in twenty

- **渗透率**: Seven in twenty

- **渗透率**: Two in twenty

Post-vesting holding period

- **渗透率**: Five in twenty

Total period (plans with post-vesting holding period)

- **渗透率**: Five years

While the median combined performance and holding period remains three years, for over 25% of companies this period is now five or more years. Over time we expect the market norm to move towards a five year period.
Section 6
Total remuneration and remuneration ratios
Total remuneration and remuneration ratios

Changes in total remuneration

As the design and make-up of executive remuneration packages varies by company, analysis of changes in total remuneration provide insight into how changes in fixed, short-term variable and longer-term variable pay combine in the round.

The median of changes in total remuneration calculated on a same incumbent basis show an increase across all roles and all FTSE segments. However, with the exception of the FTSE 250 Bottom (where median is similar to the previous year) increases in CEO total remuneration were smaller than in the previous year.

Across the FTSE 350 the median and upper quartile of increases in CEO total remuneration were larger than those of CFOs and Other Directors. As at least a quarter of executives earned smaller bonuses and the value of vested long-term incentive awards was also smaller for at least a quarter of executives, it is not surprising that the lower quartiles of changes in CEO, CFO and Other Director total remuneration are also negative.

Data sourced from Single Total Figure of Remuneration tables published in company annual report and accounts. As such total remuneration figures include actual bonus awarded (including deferred components not subject to further performance testing) and LTI figures representing the total amount realised in year (or appropriate estimation).

Figure 22: Median of year on year change in CEO total remuneration by FTSE segment (by incumbent)

Figure 23: Median of year on year change in FTSE 350 total remuneration by role (by incumbent)
Directors’ remuneration as a percentage of the CEO’s remuneration

- Base salary ratios between CEOs and CFOs were broadly consistent across the FTSE 100 and FTSE 250, at around 65%. Total remunerations of CEOs and CFOs across the FTSE 250 were more closely aligned compared to FTSE 100.
- FTSE 100 CEO pay is more closely aligned to CFO pay (65% of base pay and 55% of total remuneration), than Other Director pay (62% of base pay and 51% of total remuneration).
- A similar picture is seen in the FTSE 250, with higher base salary and total remuneration ratios between the CEO and CFO (67% of base pay and 64% of total remuneration) than the CEO and Other Directors (62% of both base pay and total remuneration).

Figure 24: Directors’ remuneration as a percentage of the CEO’s remuneration
Section 7
Share ownership requirement
Share ownership requirement

It is now commonplace for FTSE 350 companies to require their executive directors to build and hold a set amount of the company’s equity during their tenure and the amount required to be retained is increasing.

- The prevalence of share ownership requirements in the FTSE 350 has remained static at 91%.
- There has been a 4% increase in the percentage of FTSE 100 companies with share ownership requirements, compared to a 2% decrease in FTSE 250 companies.

Quantum

- Although the median FTSE 350 shareholding requirement continues to be 200% of salary, median practice decreases in line with company size, as detailed in Figure 27.
- Overall, 10% of FTSE 350 companies with existing shareholding requirements increased the level of share ownership required in the year. Increases were more prevalent among companies in the FTSE 100 (12% increased level of share ownership required) and among companies in FTSE 250 Top segment (9% of companies increased).
- Across the FTSE 350 the median of increases in requirement was 100% of base salary.
- There were increases in the reported median shareholding requirement of at least 50% of base salary in all FTSE segments. The highest increase occurred in the FTSE 250 overall where the median increased by 62% of base salary to 200%.

Figure 25: Prevalence of share ownership requirement by FTSE segment

<table>
<thead>
<tr>
<th>FTSE 100</th>
<th>FTSE 250 Top</th>
<th>FTSE 250 Bottom</th>
</tr>
</thead>
<tbody>
<tr>
<td>97%</td>
<td>93%</td>
<td>81%</td>
</tr>
</tbody>
</table>

Figure 26: Median increase in share ownership requirement

- 100% of base
- 100% of base

Figure 27: Median share ownership requirement as a percentage of base salary (by FTSE segment)

<table>
<thead>
<tr>
<th>Median</th>
<th>Share ownership requirement (% base)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CEO</td>
</tr>
<tr>
<td>FTSE 100</td>
<td>250%</td>
</tr>
<tr>
<td>FTSE 250</td>
<td>200%</td>
</tr>
<tr>
<td>FTSE 250 Top</td>
<td>200%</td>
</tr>
<tr>
<td>FTSE 250 Bottom</td>
<td>150%</td>
</tr>
</tbody>
</table>
Section 8

Board fees
Non-Executive Director fees

This section contains analyses of Non-Executive Director (NED) fee policy information. Analyses were undertaken for Chairman, NED, Senior Independent Directors (SIDs), chairman of Board committees and committee members in 2014/15. Four market capitalisation comparator groups (FTSE 100, FTSE 250, FTSE 250 Top and FTSE 250 Bottom) were again analysed.

Base fees

Chairman and NED fees generally increase with market capitalisation, similar to the relationship between executive remuneration quantum and market capitalisation.

**Figure 28: Chairman and Non-Executive Director base fee (000s)**

<table>
<thead>
<tr>
<th>Comparator Group</th>
<th>Chairman Fee</th>
<th>NED Base Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 100</td>
<td>£412.0</td>
<td>£70.0</td>
</tr>
<tr>
<td>FTSE 250</td>
<td>£191.5</td>
<td>£50.4</td>
</tr>
<tr>
<td>FTSE 250 Top</td>
<td>£228.0</td>
<td>£52.5</td>
</tr>
<tr>
<td>FTSE 250 Bottom</td>
<td>£165.0</td>
<td>£47.7</td>
</tr>
</tbody>
</table>

Committee fees

Committee fees are typically paid in addition to base fees in respect of performing a particular role.

**Figure 29: Committee chairman and member fees (000s)**

<table>
<thead>
<tr>
<th>Comparator Group</th>
<th>Senior Independent Director</th>
<th>Remuneration Committee Chairman</th>
<th>Audit Committee Chairman</th>
<th>Nomination Committee Chairman</th>
<th>Committee Member</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 100</td>
<td>Median £20.0</td>
<td>£20.0</td>
<td>£25.0</td>
<td>£12.5</td>
<td>£11.0</td>
</tr>
<tr>
<td></td>
<td>Average £23.9</td>
<td>£23.3</td>
<td>£26.9</td>
<td>£15.6</td>
<td>£12.9</td>
</tr>
<tr>
<td>FTSE 250</td>
<td>Median £7.0</td>
<td>£10.0</td>
<td>£10.0</td>
<td>£6.3</td>
<td>£5.0</td>
</tr>
<tr>
<td></td>
<td>Average £8.8</td>
<td>£10.5</td>
<td>£12.0</td>
<td>£6.9</td>
<td>£6.7</td>
</tr>
<tr>
<td>FTSE 250 Top</td>
<td>Median £7.5</td>
<td>£10.0</td>
<td>£10.0</td>
<td>£6.3</td>
<td>£5.0</td>
</tr>
<tr>
<td></td>
<td>Average £9.5</td>
<td>£11.6</td>
<td>£12.8</td>
<td>£6.6</td>
<td>£6.9</td>
</tr>
<tr>
<td>FTSE 250 Bottom</td>
<td>Median £6.0</td>
<td>£9.0</td>
<td>£10.0</td>
<td>£6.1</td>
<td>£5.0</td>
</tr>
<tr>
<td></td>
<td>Average £7.7</td>
<td>£9.0</td>
<td>£10.8</td>
<td>£7.3</td>
<td>£6.2</td>
</tr>
</tbody>
</table>

Within FTSE 100 and FTSE 250 Bottom comparator groups, the Audit Committee Chair receives the highest fee compared to the Remuneration Committee Chair and Nomination Committee Chair. Within FTSE 250 and FTSE 250 Top comparator groups, the fee levels for Audit Committee Chair and Remuneration Committee Chair are broadly in line with each other.

When compared to the previous year, the data shows a slight increase in the median (five percent) FTSE 100 remuneration committee chairman fee, but more significant increases in the median FTSE 100 audit committee chairman fee (25%) and the median FTSE 250 Bottom remuneration committee chairman and audit committee chairman fees (20% and 25%, respectively).
Number of Non-Executive Directors

The number of Non-Executive Directors on the main board increases in line with market capitalisation. The median number of Non-Executive Directors in the FTSE 100 is seven compared to five in the FTSE 250.

**Figure 30:** Median number of Non-Executive Directors

**FTSE 100**

**FTSE 250**

**FTSE 250 Top**

**FTSE 250 Bottom**

**Figure 31:** Median number of Non-Executive Directors

<table>
<thead>
<tr>
<th>Median</th>
<th>Number of NEDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE 100</td>
<td>7</td>
</tr>
<tr>
<td>FTSE 250</td>
<td>5</td>
</tr>
<tr>
<td>FTSE 250 Top</td>
<td>5</td>
</tr>
<tr>
<td>FTSE 250 Bottom</td>
<td>4</td>
</tr>
</tbody>
</table>
How we can help

Executive Compensation
- Executive and Non Executive Director pay benchmarking
- Remuneration governance
- Initial Public Offering readiness advice
- Director’s remuneration reporting
- Remuneration committee effectiveness workshops
- Research and thought leadership on C-suite management and best practice
- Investor view and voting analysis as well as stakeholder management

Incentives
- Long-term incentive and share plan design
- Short-term and long-term incentive modelling
- Tax efficient incentive design
- Incentive plan drafting, implementation and communication
- Performance metric review and measurement
- Sales incentive plan review and design
- Transaction advice and financial due diligence
- Retention and transaction incentives design

Broad-based reward
- Reward strategy design that reinforces business objectives
- Pay structure design
- Job evaluation review measuring the size and accountability of roles
- Total reward benchmarking against market peers
- Gender pay gap preparation, reporting and equal pay reviews
- Review and mitigation of the impact of regulatory changes, e.g., National Living Wage, holiday leave
- Performance management process design and review
- Annual pay reviews
- Recognition plan design and review
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