Guide to Directors' Remuneration 2021

KPMG Board Leadership Centre

December 2021

A wide-ranging overview of Executive and Non-Executive Directors' remuneration trends in FTSE 350 companies

Document Classification: KPMG Public

Summary findings

The table below summarises median market practice in FTSE 100 companies for Chief Executives, Finance Directors and Other Executive Directors.

FTSE 100	Chief Executive	Finance Director	Other Executive Directors
Salary increase	2%	3%	3%
Basic salary (£'000s)	786	526	459
Annual Bonus			
Maximum potential bonus (percentage of salary)	200%	180%	180%
Total bonus paid (percentage of salary)	120%	100%	117%
Long Term Incentive			
Maximum award (percentage of salary)[1]	250%	250%	250%
Actual pay out (percentage of salary)	250%	210%	247%
Pension			
Contribution limits for new hires (percentage of salary)		10%[(3)]	
Shareholding Requirements			
Minimum shareholding requirement (percentage of salary)	300%	238%	200%
Total earnings[2] (£'000s)	2,825	1,738	2,205

Notes: This guide is based on data gathered from external data providers (see methodology appendix for more information) and covers companies with financial year ends up to and including 30 June 2021.
(1) Face value of award.
(2) Includes benefits, total bonus and cash value of share awards vested in the year. (3) This is the median pension contribution limit across all roles.

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The table below summarises median market practice in FTSE 250 companies for Chief Executives, Finance Directors and Other Executive Directors.

FTSE 250	**Chief Executive**	**Finance Director**	**Other Executive Directors**
Salary increase	5%	5%	2%
Basic salary (£'000s)	561	374	363
Annual Bonus			
Maximum potential bonus (percentage of salary)	150%	150%	150%
Total bonus paid (percentage of salary)	106%	101%	100%
Long Term Incentive Plan			
Maximum award (percentage of salary)[1]	200%	200%	200%
Actual pay out (percentage of salary)	200%	175%	150%
Pension			
Contribution limits for new hires (percentage of salary)		9%[(3)]	
Shareholding requirements			
Minimum shareholding requirement (percentage of salary)	200%	200%	200%
Total earnings[2] (£'000s)	1,284	757	823

Notes: This guide is based on data gathered from external data providers (see methodology appendix for more information) and covers companies with financial year ends up to and including 30 June 2021.

(1) Face value of award.

(2) Includes benefits, total bonus and cash value of share awards vested in the year. (3) This is the median pension contribution limit across all roles.

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Highlights

Regulatory

Companies will be required to more clearly demonstrate adherence to the "comply or explain" principle of the FRC Code of Corporate Governance by providing clear explanations for any deviations.

Investors

2021 has been a record year for shareholder and investor dissent on remuneration matters with twelve (2020: 6) FTSE 100 companies and twenty-four (2020:16) FTSE 250 companies receiving a significant vote against their remuneration reports.

Environment, Social and Governance (ESG)

As anticipated, the topic of ESG has moved significantly up the agenda for the vast majority of investors and continues to gain momentum across the FTSE 350. As part of the outcome of COP 26, we are seeing companies announcing ambitious ESG targets and stating that executive bonuses and LTIPs will be linked to ESG and other "green targets".

Pensions

Pensions continue to be a focus area in 2021, with companies under pressure to align executive pensions with the majority of the workforce as soon as possible and by the end of 2022. Institutional investors are likely to red-top instances of non-compliance.

Proxy agencies

ISS and Glass Lewis released updates to their voting policies on executive remuneration related aspects to further strengthen corporate governance.

Diversity

Many shareholders, proxy agencies and regulators such as the FRC will vote or recommend votes against companies that do not meet the diversity targets of 33% female board representation in each company, as set out by the FTSE Women Leaders report (formerly Hampton-Alexander review).

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Contents

01	**Introduction**	**5**
02	**The remuneration landscape**	**7**
03	**Market data overview**	**20**
04	**Salary**	**24**
05	**Annual bonus plans**	**28**
06	**Long term incentive plan**	**33**
07	**Pensions**	**37**
08	**Shareholding requirements**	**41**
09	**Non-Executive Director**	**45**
10	**Diversity**	**52**
11	**Methodology & assumptions**	**56**

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01 Introduction

Use of this guide

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

This publication is designed to be a wide-ranging guide to you as a director or policy maker, to assist in remuneration planning at your company. Where possible we have categorised the data obtained from the FTSE 350 into groupings by market capitalisation to increase the relevance to you.

We recommend that this guide is used in conjunction with other information available and in consultation with your advisers to ensure the data is interpreted correctly and is relevant to your company.

While data provides a useful guide, it is important to note its historical nature, together with the personal circumstances that are attached to each role and benchmark.

This guide is designed to provide you with a wide- ranging picture of trends in market practice in remuneration for Executive and Non-Executive Directors in FTSE 350 companies.

The guide includes a detailed look at the market in terms of pay, together with information on the wider executive remuneration landscape, including analysis of shareholder activism and trends in new long term incentive plans.

This guide is structured to show information by position; namely Chief Executive, Finance Director, Other Executive Directors and Non-Executive Directors, to enable all the remuneration components of each position to be considered and discussed together.

Where we show total earnings figures we have based this on current disclosures, following the methodology for the single figure table for remuneration in Directors' Remuneration Reports. Additional information on pensions and plan design for short and long term incentives is shown separately.

This guide is based on data gathered from external data providers (see methodology appendix for more information) and covers companies with financial year ends up to and including 30 June 2021.

How KPMG can help

KPMG is one of the UK's leading advisers on employee incentives and executive remuneration. We are a member of the Remuneration Consultants Group (RCG) and signatory to its Code of Conduct. We have a multi-disciplinary team, able to advise on market practice, corporate governance, incentive plan design, tax, regulatory and accounting aspects of UK and global incentive plans.

We work regularly with clients ranging from Main Market and AIM listed companies to private equity- backed and larger unlisted companies, as well as multinational groups headquartered both in and out of the UK. We have significant experience in advising on all of the following matters:

Reward strategy and approach

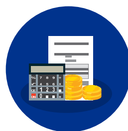
Mix of pay and remuneration benchmarking

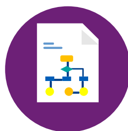
Remuneration Committee governance

Remuneration regulatory compliance

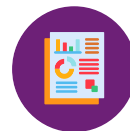
Design and implementation of incentive plans

Corporate transactions


Accounting, valuations and modelling


Ongoing operation of incentive plans

Job evaluation and grading


Directors' Remuneration Reports

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02

The remuneration landscape

In this section of our report, we provide our comments in relation to votes on the annual Remuneration Reports and Remuneration Policy in the 2021 AGM season. We then provide our analysis of the various remuneration related guidelines and papers from regulators such as the Financial Conduct Authority (FCA) and Financial Reporting council (FRC) in the past year. Finally, we will touch on other hot topics on executive remuneration such as Environmental, Social and Governance (ESG), Diversity & Inclusion and the Fair Pay agenda.

The investor perspective

Shareholders are continuing to demand more accountability on executive remuneration (as you will note from our analysis of shareholders voting in this section), with the 2021 AGM season recording a high number of revolt from shareholders. The economic impact of the pandemic means that remuneration committees need to ensure executive remuneration and incentive outcomes reflect the company and shareholders' realities. Inadequate shareholder engagement on executive remuneration remains an area of concern. Proxy agencies and institutional investors have continued to publish and define their expectations for executive remuneration, as discussed in subsequent pages of this report. Where shareholders engagement was carried out, the low uptake of investor recommendations have left shareholders side-lined. Recently, Legal and General Investment Management (LGIM), an asset manager, announced that it will not respond to company's consultation on executive remuneration as it is mostly ignored. The asset manager will now focus direct consultations to its policy document and only engage companies in exceptional cases for areas not covered in its policy.

We have assessed shareholder voting trends for companies who have held their 2021 AGM before this publication to determine the extent of shareholders' votes against the remuneration report or policy. In this context, a significant vote against is defined as more than 20% of the votes cast against a resolution.

Across the whole of the FTSE 350, 12 (2020: 6) FTSE 100 companies and 24 (2020:16) FTSE 250 companies received significant votes against their remuneration reports. Also, 2 FTSE 100 and 1 FTSE 250 company so far have failed to pass their remuneration reports in the 2021 AGM season. The average percentage of votes received in favour of the remuneration report reduced to 91% from 94% in 2020 for the FTSE 100 but stayed the same at 92% for FTSE 250 companies.

This year was not a regular remuneration policy shareholder approval year for most FTSE 350 companies, with only 84 companies across the FTSE 350 subjecting their remuneration policy to triennial shareholders' vote in 2021. Similar to last year, we still see significant investor concerns and votes against aspects of remuneration policy that are not in alignment with corporate governance expectations or may lead to outcomes that are not justified by the company's performance. Overall, 7 (2020:6) FTSE 100 and 11 (2020:10) FTSE 250 companies received a significant vote against their remuneration policy in 2021. One company failed to pass its remuneration policy after proposing significant changes to its LTIP terms and one-off awards. Another company withdrew its resolution to approve the directors' remuneration policy prior to the board meeting as there were major changes to its long term incentive plans through the introduction of time-based restricted share awards. We can see that investors are generally concerned about the introduction of one-off and unconventional remuneration and incentive elements.

In addition to the above, areas of significant concern for investors include the use of discretion by remuneration committees to adjust "in flight" incentive features, aligning executive pensions before the December 2022 deadline, post-cessation holding periods and lack of sufficient engagement on executive compensation.

With the introduction of a public register of AGM votes by the Investment Association, remuneration committees will now need to publish an update on engagement with shareholders where there were significant votes against the remuneration policy or remuneration reports within 6 months of the AGM. It is left to be seen how this update will capture engagement and concerns of shareholders.

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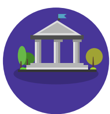
Proxy agencies perspectives

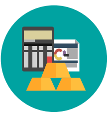
Investment Association (IA) - Principles of Remuneration

IA published its latest principles of remuneration in November 2021 together with a letter to the chair of remuneration committees. The letter to the remuneration committee chairs reemphasised the need to ensure that executive remuneration outcome reflect the experience of major stakeholders of the company. Also, companies are encouraged to continue showing restraint in executive remuneration where government support have been taken such that bonus payout are not expected in this instance. The updates to the principles of remuneration are discussed below.



Environmental, Social and Governance

As ESG measures continue to be incorporated in executive incentive plans, the IA provides guidance on what it will expect from companies. A major point from the IA is for companies to ensure that ESG measures are reflected in the entire executive remuneration structure rather than long term incentives only. The ESG measures that are selected should be quantifiable, stretching and align with overall ESG strategy of the company. A detailed explanation of the rationale for the ESG measure should also be provided by the remuneration committee.



Levels of remuneration

Remuneration committees need to provide clear explanation where an increase in executive remuneration has been awarded. Excessive remuneration is not considered favourably by investors and so boards must exercise caution and be transparent in their approach.

Grant size

Related to the above point, where share prices have fallen, the equity incentive award / grant sizes (as a percentage of salary) should be adjusted at the time of award (not until after vesting) to reflect the changes in share price. Retaining the award size will mean that more shares will be required to deliver the awards. An annual review of grant size together with the financial performance and share price of the company is recommended.

Value creation plans (VCPs)

An increase in the uptake of VCPs was noted by the IA. VCPs will be assessed on a case-by-case basis and should only be used in specific circumstances and with a clear rationale as it is not considered a standard type of arrangement. Given the significantly high opportunities provided by VCPs, targets should be more stretchy and number of shares and total value of award should be capped in monetary terms. This further demonstrates investor concerns about unconventional incentive plans.

Pension

The December 2022 deadline for companies to align pension contribution for executives with the rates for majority of the work force is fast approaching. Although it was noted that over 90% of the FTSE 350 are aligned, the IA will continue to “red top” any remuneration policy where executive pension to that of wider workforce and remuneration reports where there is no clear roadmap towards aligning executive pension by the December 2022 deadline.

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Proxy agencies perspectives

Institutional Shareholder Services (ISS)

In 2021, ISS published its report on Top Governance and Stewardship Issues and 2021 Global Benchmark Policy Survey. Executive remuneration remains one of the critical governance issues in these reports. ISS specifically notes that shareholders will be interested to know what changes have been made to executive remuneration in response to the impact of the pandemic. There are a number of recurring themes from these publications.

Use of discretion

Although the UK corporate governance code allow remuneration committees to apply discretion, where the application of such discretion lead to an upside in executive pay then this may be a concern for shareholders. The expectation from ISS is that executive remuneration should reflect the circumstances of general workforce where lay-off have occurred or government support was obtained.

Remuneration committees should state in proxy statements rationale for application of discretion and the pandemic related changes to executive remuneration. One-off awards to cushion executive pay during the 2020 pandemic are not perceived favourably by investors.

Application of the Shareholders' Directive (SRD) II

Although many of the updates already embedded in UK laws, 2021 is the year that the updates to the SRD II regulations applies to many companies in the UK. Companies are specifically expected to follow the format of presentation executive remuneration in the single figure table to ensure transparency.

Diversity

ISS has noted that a third of FTSE 350 companies have not met the gender diversity target from the FTSE Women Leaders report (formerly Hampton-Alexander Review) to ensure 33% female representation onboards. Whilst not directly in relation to remuneration, it is of note that ISS will recommend a vote against the Nominations Chair for companies who have not met this target.

Environmental, Social and Governance (ESG) Measures in executive remuneration

ESG continues to be a central focal point for businesses and investors want to ensure that executive officers are accountable by reflecting the extent to the which ESG strategy is achieved. More than half of respondents to the ISS Global Policy Survey agreed to using ESG metrics to incentivise executives, through short-term and long-term incentives.

On page 15, we have provided further analysis on ESG and our commentary on the outcome of the United Nations Climate Change Conference (COP 26) meeting held in Glasgow between 31st October and 12th November, 2021.

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Proxy Agencies Perspectives

Glass Lewis 2021 Policy Update

Glass Lewis published its updated policy guidelines in November 2021. Below are the major changes to the policy that relate to board remuneration. Follow this link for more detailed information.

Board and workforce diversity

Similar to the ISS, Glass Lewis have updated the policy to reflect that they will vote against the Chair of FTSE 350 companies that have not met the 33% target for female board representation. In addition, there should be meaningful disclosure on ethnic diversity, in line with targets set in the Parker review.

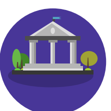
Beyond board diversity, Glass Lewis may recommend votes against where there are concerns on general workforce diversity that have not been addressed.

Human capital management

With increased focus on employee welfare since 2020, Glass Lewis have now stated that they may recommend a vote against the committee chair responsible for governance practices or the board chair where there are major concerns on Human Capital Management practices, beyond diversity.

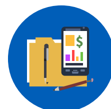
Environmental and social risk oversight

Starting January 2022, Glass Lewis have stated that FTSE 100 companies should provide clear disclosures on the boards oversights and responsibilities for environmental and social Risks and how theses issues are being managed. This is to ensure accountability and prevent financial, legal, reputational and regulatory risks in these large companies.



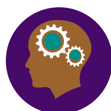
Environmental social and governance (ESG) initiatives

Shareholders proposal on environmental, social and governance initiatives will be considered by Glass Lewis, on the basis of the financial materiality of the ESG initiatives. These ESG initiatives should be in place to protect the shareholders and make the board accountable.



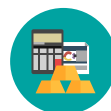
Virtual shareholders' meetings

Virtual shareholders meeting should be conducted with guidelines that foster meaningful communication and participation of shareholders at the meeting. This include clear instruction on requirements to particate in the virtual meeting and a formal means to submit questions to the board and answers in an accessible format. Also, the policy was updated to allow for amendments to articles to be done virtually and to allow virtual attendance of directors at the meetings, only in exceptional circumstances.



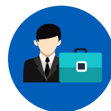
Alignment of remuneration with stakeholder experience

Executive remuneration should align with company performance, shareholders and employee experiences. Where executive pay continue to defy stakeholder experiences, shareholders are encouraged to disapprove this. To ensure this, remuneration committees should continue to retain discretion but define the scope of any potential discretion and any discretions used in the year should be disclosed and justified.



Smaller premium-listed companies

In line with the revised UK Code of Corporate Governance, beginning in 2021, Glass Lewis expect premium-listed companies outside the FTSE 350 to meet the UK Code's provisions to be at least 50% independent and hold annual rather than staggered director elections.



Investment company boards

With more limited scope for non-executive directors of investment companies, exceptions can be granted to allow for commitments on the board of multiple investment companies and affected companies will be required to disclose the level of commitment.

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Regulators Perspectives

Financial Reporting Council

The Financial Reporting Council (FRC) continues to build on the framework and provide guidance to listed companies on the implementation of the UK code of corporate governance ("UK Code"), through its various research and publications. Where companies cannot comply with any aspect of the UK code, then they are encouraged to explain in detail reason for any non-compliance and plans to comply in the future. In this section, we explore the salient points from the FRC publications in 2021, as they relate (directly or indirectly) to directors' remuneration.

FRC paper on improving quality of 'Comply and Explain' reporting

In February 2021, the FRC published a paper aimed at helping companies improve their transparency in reporting and disclosure in line with the UK Code provisions. Companies are required to provide clarity on aspects of the UK Code that they have departed from and users of annual reports should be able to clearly see where there have been non-compliance together with meaningful explanation.

It was particularly noted that stakeholder and workforce engagements is one area where companies need to be more clear and improve their transparency, including stating how effective these engagements have been. Other areas of improvement include alignment of executive pension to workforce, post-employment shareholding and describing the work of the nomination, audit and remuneration committees.

From the FRC guidance in this publication, a good explanation should set the context and background, give a convincing rationale, consider any risks and mitigations, set out the timescales for compliance and ensure explanations are understandable and persuasive.

FRC report on changes in remuneration reporting following the UK Code 2018[1]

This report, published May 2021, discussed the major changes that have happened, especially for companies that reviewed their remuneration policies in 2019/20 for the three-year cycle. Key findings from a sample of 80 of the FTSE 350 companies assessed for compliance with various Principles of the UK Code principles are:

— **Inadequate evidence of workforce policies being consistent with company values (Principle E):** Most companies are still not showing evidence of how workforce policies are linked to company values and support long term business needs. Also, there wasn't sufficient evidence to show that input from wider workforce were considered beyond an annual employee survey. Employee engagement is one area for remuneration committees to get right by opening the lines for a two-way consultation and receive feedback from employees through various channels.

— **Alignment of executive pay to corporate strategy (Principle P):** There have been significant improvement in the disclosures of how executive remuneration are aligned with long term sustainable success, company purpose and values and corporate long term strategy, with an average of 94% of the sample being in alignment with this aspect of the UK Code.

— **Linking of executive pay and incentives to culture (Provision 33)**: Remuneration committees are doing better on aligning executive pay to culture but compliance with this aspect is still considered lower (74%) when compared to how many companies are aligning with other aspects of Provision 33 such as the remuneration committee responsibility to review of workforce remuneration (91%).

— **Long term shareholdings to support long term shareholders' interest (Provision 36)**: 90% of companies have a formal postemployment shareholding policy but some companies are yet to comply for various reasons. As at the time of the survey, over 40% of companies were yet to comply with the total LTIP vesting and holding period of five years, we believe that they are significant improvements since the time of this report. Also, the research noted that more work can be done to ensure that shares awarded for executive LTIPs are released for sale on a phased basis as compliance with this aspect is low.

— **How risk is addressed (Principle 40):** There is minimal evidence in the directors remuneration policies to show that targets that could lead to behavioural and reputational risks are removed from incentives.

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1. Report published by the FRC based on research done by faculties of the University of Portsmouth from a sample of 80 FTSE 350 companies. Follow link for details

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Regulators Perspectives

Financial Reporting Council

FRC report on board diversity and effectiveness in FTSE 350 companies

A major highlight of this report published in July 2021 is the evidence of a strong relationship between financial results (EBITDA) and gender diversity, which strengthens the case for having a diverse board.

Women remain underrepresented in executive director and chair roles with the report stating that only 3% of women of women occupy these roles. The proportion of women on boards for FTSE 100 and FTSE 250 companies were 36% and 33% respectively, as at the time of this report.

Ethnic diversity still remain very low with only 7% of board members being ethnic minorities. In 2020, 59% of companies did not meet the target set by the Parker Review to have at least one ethnic minority board member.

The FRC recommends various methods for nominations committees to improve diversity, including:

— Giving clear instructions to search companies with a diverse talent pool

— Ensuring nomination committee themselves are diverse

— Giving sufficient time for searching and building relationships with potential board members.

Also, the FRC acknowledges that achieving board diversity, both in terms of gender and ethnicity, is a long term journey and requires careful consideration. The board chairs, directors, nominations committees, board evaluators, educators and regulators all have specific roles to play in ensuring board diversity. Benefits of a diverse board as noted in the report include:

— Boardroom culture becomes more collaborative and relationship focused

— Higher stock returns where diversity is well managed

— Less likelihood of the board to get shareholders dissent

FRC statement of intent on ESG challenges

Increased pressure from shareholders, regulators and customers mean that companies need to take ESG reporting more seriously. Already many shareholders agree that ESG should be included in executive incentives. For remuneration committees, the above means that ESG metrics should be defined at levels that meaningfully impact incentive outcomes and align with the overall ESG strategy of the company. In July 2021, the FRC proposed a framework for dealing with the current ESG reporting challenges. Although these are not requirements, however, we believe that investors and proxy agencies may soon make this a reference point for assessing ESG reporting and may influence future changes to the UK Code.

— **Production:** FRC recognises that stakeholders need more robust and objective data obtained through consistent internal methods. Disclosure of the impact of ESG issues on financial statements beyond climate change should be more robust in the annual strategic report to include other ESG aspects.

— **Audit and Assurance:** FRC notes that there is more work to do in the development of internal methodologies and a framework for ESG Audit and Assurance.

— **Distribution:** This points to areas of improvement for companies to ensure digitalisation and visibility of ESG reports for public use.

— **Consumption:** The information provided for investor consumption should be material and reasonable to support decision making. The usefulness of ESG reports depend on quality information and so companies should seek to provide objective and useful information.

— **Supervision:** Within its remit, the FRC will continue to assess and monitor auditors, professional associations and hold to account those that do not meet requirements.

— **Regulation:** FRC will seek to enhance regulatory coherence and support movement to a global reporting alignment and efficiency.

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Regulators Perspectives

Financial Conduct Authority

The Financial Conduct Authority (FCA) has provided specific updates for financial services firms caught under the various regimes and remuneration codes. Also, the regulator made an announcement regarding board diversity.

FCA Updates to the dual-regulated firms remuneration code to reflect CRD V changes

The policy update, expected to kick-in on or after 29 December 2020, is for companies covered by the dual-regulated firm regime including credit institutions (banks and building societies), designated investment firms, EEA firms that could be considered credit institutions if they were domestic firms.

The changes also be of interest to solo-regulated companies that are part of a group to which the FCA dual-regulated firms remuneration code apply on a consolidated basis.

Some of the specific updates in relation to the fifth Capital Requirement Directive (CRV) are:

- **Gender neutral remuneration policies:** Remuneration policies should be gender neutral and firms are reminded of the provision of the Equality Act 2010 prohibiting discrimination on the basis of protected characteristics
- **Remuneration code staff**: The coverage of staff now extends to both senior management and lower management staff with managerial responsibilities over firm's control functions and material business units i.e. Material Risk Takers (MRTs).
- **Proportionality and threshold:** There are amendment to the proportionality and introduction of threshold for application of the remuneration requirements for MRTs. The revised threshold for variable pay is approximately £40,000 (EUR50,000) and one-third of total remuneration.
- **Deferral period:** Introduction of revised minimum deferral period for variable pay from 3-7 years to 4-7 years, depending on whether the staff are classified as "higher paid" or "not higher paid" MRTs.
- **Clawback:** Clawback periods have ben reviewed up to 7 years (6 years for deferred and 1 year for undeferred portions) or 10 years in certain circumstances.
- **Use of share-linked instruments:** Changes have been made to allow listed firms to use both shares and equivalent share-linked (non-cash) instruments for awarding variable remuneration, depending on legal structure of the firm.
- **Ex-post risk adjustments (performance adjustment):** It is expected that variable pay takes into account adverse performance. FCA set out guidelines to implement this, including that adjustment should be applied at the bonus pool level and more focus on individual basis rather than on a collective basis. The updates also state the procedure to follow for applying the adjustment.

FCA announcement on board diversity

FCA have announced a consultation for a proposed amendments to Listing Rules which would require listed companies to publish a 'comply or explain' statement on whether they have achieved certain targets on board diversity. The targets proposed are as follows:-

- At least 40% of the board to be women;
- At least one senior board position to be held by a woman; and
- At least one board member to be from a non-white ethnic minority background

These targets are designed to provide a 'positive benchmark', but will mean that boards will need to take affirmative and clear action to improve board diversity.

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Environmental Social and Governance

ESG has climbed on the top of board room conversations and as you will observe in the previous pages with regulators and proxy agencies providing some guidelines on ESG targets, disclosures and reporting for listed companies. In this section, we explore some of the conversations with regards to ESG and executive remuneration. Shareholders and investors are looking to invest in companies that demonstrate an effective ESG agenda. In addition, customers are also demanding more sustainability from businesses.

Environment

In the past, conversations on the impact of business operations on the environment were typically left for more obvious sectors like oil & gas and mining. The conversation has since evolved and involves every business and how they directly and/or indirectly impact the environment. Many organisations are now more conscious of how their operations and the activities of their vendors, supplier and other stakeholders impact the environment. Reduction of green house gases and decarbonisation is top agenda in terms environmental considerations. Other aspects like ecology, biodiversity, waste and pollution, deforestation and extinction are also important to keep the environment clean and safe for the current and next generation, especially with regards to sourcing of raw materials.

From Q1 2021, all UK premium listed companies have been required to report on a ‘comply or explain’ basis in line with the recommendations of the Taskforce on Climate related Financial Disclosures (TCFD). The same requirement is extended to PRA regulated firms. The Treasury has also released a roadmap to mandatory disclosures for most listed companies and financial services firms with an endpoint of 2023.

The concern for many organisations is that the effect of changes made today to support environmental sustainability may not manifest in the short term and so the question is how do you reward executives for their effort in ensuring a safe environment. This calls for action in terms of target setting when including Environmental targets in executive bonuses and LTIP, to ensure that they are measurable and attainable as well as relevant to that company.

United Nations Climate Change Conference (COP 26) held in Glasgow between 31st October and 12th November, 2021. COP 26 saw a number of companies revealing their science-based Net Zero decarbonisation plans. A large number of UK companies also took the opportunity to announce that executive bonuses will be linked to meeting “green targets”.

Social

The social aspect of ESG is more pronounced with the aftermath of Covid-19. Starting internally with employee health, safety, welfare and diversity to ensure that companies have the right workforce for the future. Also, looking at the communities in which businesses operate, there is a great deal more for companies to do. Targets linked to corporate responsibility are part of the social agenda and metrics around them can be incorporated in executive remuneration.

Governance

Governance relates to how companies are managed and held accountable for their actions. The governance aspect is also important for the “how” of achieving the environmental and social agenda. Companies can include targets around risk management, ensuring no corporate failures or reputational damages as part of their Governance measures.

Overall, each organisation need to assess what is critical, important and prioritise items on its ESG agenda to ensure that targets are well-defined, specific, measurable and realistic - as well as relevant to that company.

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Environmental Social and Governance

ESG – paying for sustainable growth

It is very clear that remuneration committees need to ensure that ESG measures are included in executive pay through incentive plans that payout based on ESG metrics that are material and impactful.

In KPMG's report from November 2021, titled "Paying for sustainable growth", we looked at trends and practices of FTSE 350 companies from this report with regards to incorporating ESG measures in executive remuneration.

Among FTSE 100 companies, 61% incorporated ESG measures in their bonus and/or LTI plans, an increase from 32% from last year.

Within the FTSE 250, the prevalence was much lower, with only 32% of companies incorporating ESG measures in their bonus and/or LTI plans.

The most common category of ESG for incentive measures is Environmental, followed by Social and finally Governance.

Almost half (46%) of the FTSE 100 companies incorporated ESG measures in their bonus plan, with only 31% choosing to include it in their LTIP. 17% of companies incorporated ESG measures in both bonus and LTIP.

Within the FTSE 250, the pattern is much the same, with bonus the most likely to incorporate ESG with 26% of plans including such a measure, followed by LTIP on 13% and both at 8%.

In terms of implementing ESG measures into incentive plans, companies typically choose between introducing actual ESG measures with weightings or, using an underpin that affects overall outcomes. From our report, the most popular method is the use of a weighting for ESG measures with a collective weighting of around 10% -15% but range from 3% to 33.3% in the FTSE 350. Few companies incorporate ESG measures into a balanced scorecard instead or review ESG matters when exercising discretion.

By linking performance related pay to ESG, businesses are showing their commitment to long term sustainability and their intention to encourage their executives to be the driving force in advocating ethical behaviours, creating an ESG aligned culture from the top down, and ensuring that they personally take into account the ESG impact of any decisions they make.

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Diversity and inclusion at board level and within the workforce

Diversity and inclusion is also a critical lens through which shareholders, regulators and the public view the effectiveness of an organisation's governance structure. Many organisations are making steady progress and taking steps to enhance the diversity of both their board and across the general workforce. For companies that have set targets for various diversity indicators, this is the right direction in terms of ensuring accountability and monitoring of progress against target. However, the true test of success is about creating a culture which embraces the inclusion of diverse employees. Attracting diverse talent across all level is one thing and retaining them to benefit of the company is another critical aspect. We discuss below the topic of diversity and inclusion from a board and wider workforce perspective.

Board diversity and inclusion

From a gender perspective, the FTSE Women Leaders have been championing the course of diversity and gender balance in FTSE leadership. Since 2016, the gender diversity report (formerly known as the Hampton-Alexander Review) has been published annually by the FTSE Women Leaders. In the latest report published February 2021, there are 37 FTSE 100 and 48 FTSE 250 companies that have achieved or exceeded the one-third gender diversity target. Key functional roles like CEOs and CFOs still require more female representation, with only 17% of CFOs being female. Overall, women on boards represent 36.2% and 33.2% of total board population of FTSE 100 and FTSE 250, respectively.

One notable improvement for the FTSE 100 is that female representation in the executive committee and direct reports increasing by 2% to 30.6%, albeit most of the improvement was at the executive committee level than direct reports. FTSE 250 companies are slower in meeting the target as in previous years. with 28.5% of combined executive committee and direct reports of the FTSE 250 being female.

One aspect for remuneration committees to pay attention to is the difference in pay between female and male executive directors. As you will note on page 53 of this report, median total earnings for women in the CEO and 'Other Executive Director' roles within the FTSE 100 are significantly lower than for men. Interestingly, the reverse is true of female CEOs within the FTSE 250, although the salary element is higher for men.

Workforce Diversity and Inclusion

Beyond the board level, diversity and inclusion is also a burning issue for wider workforce. Companies are beginning to modify their recruitment sources and strategies to diversify their talent pool. Effective employer branding and employee value proposition, both of which fall under the remit of the remuneration committee, are critical to attract diverse talent. The deadline for gender pay gap reporting in 2021 was pushed from April to October due to Covid-19. Broadly speaking, there are further improvements in the gender pay gap that have been published as seen so far.

There are other aspects of diversity that companies need to take cognisance of including sexual orientation, social-economic and neurodiversity. Fair remuneration, variety of benefits and workplace policies can be used to ensure an inclusive environment for everyone.

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Driving the fair pay agenda

Executive Remuneration fair pay agenda

Remuneration committees need to carefully consider the fair pay agenda. While good intentions may underly some executive pay decisions, the optics may not look very good from the point of view of other internal and external stakeholders. Investors have been seen to push back significantly and withhold votes when executive pay outcomes are not justified. Shareholders want to see clear action being taking to drive the fair pay agenda and demand accountability on this.

Therefore, in terms of executive remuneration, we believe that fair pay agenda is ensuring that remuneration meet the following criteria:

— **Aligned to shareholders experience**: Where shareholders are impacted by harsh economic realities, the expectation is this should also be seen in executive remuneration outcome, especially incentive payments. With the pandemic being beyond everyone's control, the argument is that executives should be compensated for other strategic KPIs achieved, however, this should not be at the expense of shareholder value.

— **Reflects the circumstances of other employees across the company:** Where employees have experienced reduced pay, been furloughed or have not received any bonus payout, similar treatment should be considered for executives too. It is well understood that executives are more experienced, responsible for strategic direction and take on more risks by virtue of their role and should be rewarded higher in actual values. However, this should be done in context of reasonability and harmony across all levels. For example, if a cost restraining approach is used for wider workforce pay this should also be the approach for executives pay.

— **Reward performance in a sustainable manner and risk:** Reward should be aligned to level of performance achieved. It is therefore important that the metrics that underly payment should be stretchy enough to drive corporate performance in a way that create long term value and sustainability for both the company and shareholders. From a fair pay perspective, metrics that achieve short term goals and erode value in the long term are not fair performance indicators. Also, remuneration that lead to a windfall or motivates excessive risk behaviours does not support the fair pay agenda.

— **Adhere to regulatory requirements and reflect market practices:** The UK Code, Listing Rules and Company's Act 2006 are the major regulations impacting executive remuneration. One-off and standout remuneration element may raise eye brows of shareholders, where they have not seen similar trends in other companies. There may be certain circumstances where deviation from what is considered the norm from a regulatory and market perspective are implemented, however, appropriate engagement with shareholders and robust disclosure should be used in these circumstances.

Taking the fair pay agenda to the wider workforce

The tone set at the top leadership on fair pay and transparency filters to every level. Remuneration Committees should monitor workforce remuneration to ensure that people are paid within the minimum and living wage requirements. Beyond wages, the criteria for eligibility for other reward and benefits elements should be clearly communicated and performance criteria for incentive plans should be defined at the start of the performance period. Lack of clarity on any aspects remuneration may bring wrong perception of unfair pay practices. In addition, consistent communication of reward policies should available for employees in accessible formats to improve transparency.

Through the principle of "equal pay for equal work", the EU intends to strengthen equality through the transparency directive. Among other requirements, this will require employers to provide information on pay ranges for job applied. While this does not directly affect UK companies, UK companies with operations within the EU and vice versa may find themselves aligning across board to these requirements.

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Preparing for the 2022 AGM season

2021 has been a record year for the number of shareholder and investor revolt, therefore as businesses and economies start to recover, Remuneration Committees will have to carefully look at their policies and decisions around remuneration with restraint and engage with shareholders ahead of the 2022 AGM season.

Materiality of Environment, Social and Governance (ESG) metrics

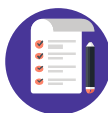
With at least half of the FTSE 100 companies having implemented an ESG metric in their executive bonus or LTIP, the focus will begin to shift to the materiality of the ESG metric in determining executive incentive outcomes. Low ESG weighting will be scrutinized and shareholders will want to understand whether the remuneration committees have carefully considered and prioritised the most appropriate ESG metrics.

Taking it one step further will be how to bring in the wide workforce into the ESG agenda and embed this in the culture for everyone.

Innovative incentive arrangement

The debate around more innovative incentive ideas continues to develop and has only been enhanced by the need for fresh thinking on delivering executive compensation and long term incentives.

We have discussed previously the gaining momentum over Restricted Share Plans (RSPs), but these continue to have a mixed reception from investors.



Reputational dangers and the fairness agenda

As we have previously discussed, being in the news for excessive executive pay does not send the right message to potential investors and the public. Whilst the reputational impact of executive pay issues may not be immediately quantified, the remuneration committee and other key officers will spend significant amount of time on issues which are not core to the business itself.

The fairness agenda is not a new topic, but its importance continues to increase and shows the need for continued restraint to be shown in respect of executive pay, but also the growing remit the remuneration committee has to ensure that its pay decisions are reflective of the pay philosophy applied to all employees.

Inclusion, Diversity and Social Equality (IDSE)

IDSE should be considered as part of the broader ESG agenda and metrics in determining executive remuneration outcomes.

Beyond gender, conversations around other diversity indicators such as ethnicity will begin to happen. Some companies are beginning to report on the socio-economic diversity of their workforce. A standard approach to this is yet to be seen but more conversations are expected.

Expanded remit of remuneration committees

We are also seeing a growing need to ensure that decisions on executive remuneration are linked to wider workforce pay and people strategies.

Again this can be linked to the rise of ESG strategies and the need to have effective change management in terms of corporate culture becoming more focused on a fully inclusive environment and employee engagement and wellbeing. It is also important in terms of ensuring a strong succession strategy and ensuring that pay policies are encouraging strong career development for a diverse workforce.

Improving 'comply or explain' reporting

More focus on 'comply or explain' reporting mean that remuneration committees will need to provide clear information about the reason for non-compliance, any interim measures being put in place to make up for it and the plans to ensure compliance. Overall, the FRC is encouraging companies to take advantage of the flexibility the 'comply or explain' approach offers to develop high quality reporting of good governance and transparency .

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03 Market data overview

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Total earnings

The following tables show the median basic salary, total cash and total earnings in the year for FTSE 100 and FTSE 250 companies.

Median basic salary for Chief Executives and Finance Directors has either decreased or remained stagnant when compared to 2020. This indicates the impact of Covid-19, which has seen salary cuts and freezes across the FTSE 350, and we are now having a more complete view of the effect on executive remuneration.

If we look at total earnings, which takes into account variable pay as well as cash, we are seeing a significant decrease from 2020 total earnings. The median total earnings for Chief Executives and Finance Directors in the FTSE 100 decreased by 11% and 1%, respectively. The reduction in total earnings is more significant in the FTSE 250, with the median total earnings for Chief Executives and Finance Directors decreasing by 13% and 21%, respectively.

The pandemic has resulted in some companies delaying, reducing or cancelling incentive payments for the year, which combined with the effects on salary and continuation of the trend to reduce pension benefits, has led to an overall decrease in total earnings.

The Other Executive Directors have seen an increase in total cash and total earnings in both the FTSE 100 and FTSE 250.

As variable pay makes up a significant proportion of total earnings, bonus pay outs and vesting outcomes can distort year on year comparisons and care should be taken when using this benchmark information.

Chief Executive	Basic Salary (£'000)	Total Cash (£'000)	Total Earnings (£'000)
FTSE 100 (£'000)	786	1,775	2,825
FTSE 250	561	999	1,284

Finance Director	Basic Salary (£'000)	Total Cash (£'000)	Total Earnings (£'000)
FTSE 100	526	1,053	1,738
FTSE 250	374	632	757

Other Executive Director	Basic Salary (£'000)	Total Cash (£'000)	Total Earnings (£'000)
FTSE 100	459	1,099	2,205
FTSE 250	363	656	823

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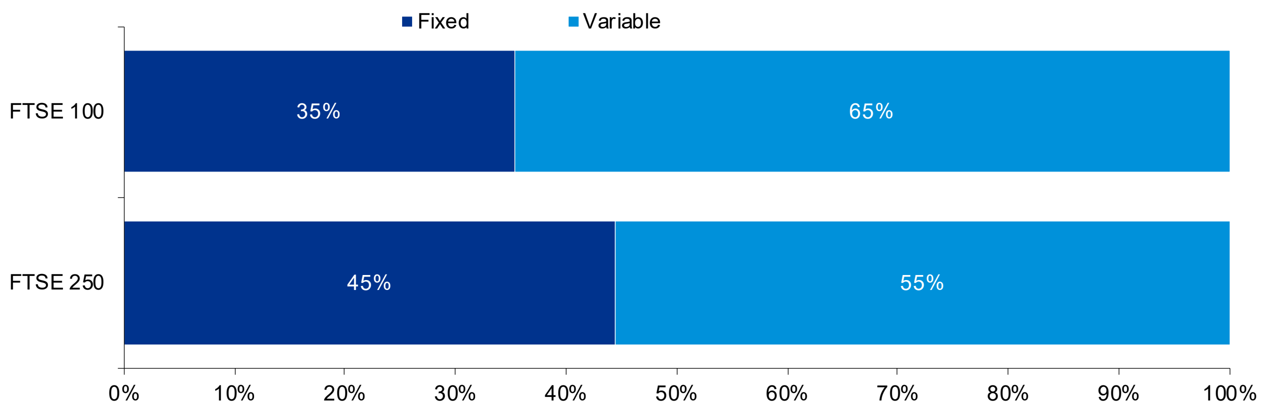
Remuneration mix

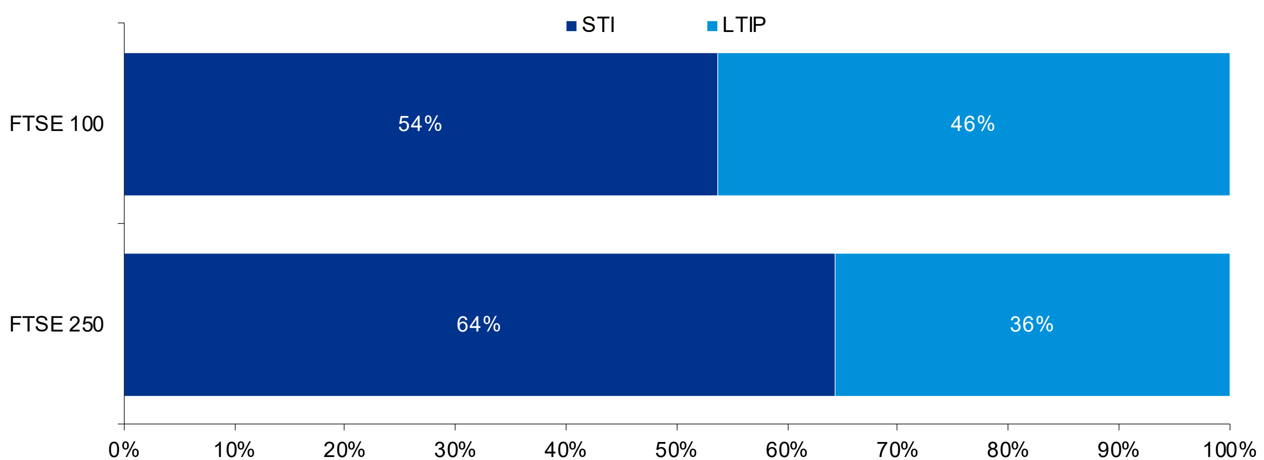
The charts below show the mix between fixed and variable remuneration as well as the short term: long term remuneration mix for Chief Executives. These are based on median total earnings received during the year.

The mix of 'fixed to variable' and 'short to long term' remuneration for Chief Executives in the FTSE 350 this year is largely unchanged from prior years. Variable pay continues to comprise the majority of total earnings and short term incentives make up a larger portion of remuneration than long term incentives. As companies recover from the economic effects of Covid-19 (and equities do the same), we expect the LTIP element to be a more significant proportion of total earnings.

Total earnings mix



Remuneration mix



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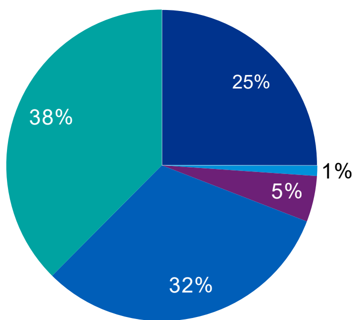
The charts below show the median remuneration mix for Chief Executives split by pay elements, as reported in the single figure table.

When compared to last year, the remuneration mix within the FTSE 100 is largely the same, although there has been a slight increase (3%) in total bonus due to slightly lower salary and pension elements.

Within the FTSE 250, however, we have been some significant changes. Last year, the LTIP made up the largest portion of the remuneration mix, closely followed by basic salary and total bonus. This year, total bonus is the largest of the three, having increased by 7%. This could be an indicator of reduced vesting outcomes for LTIP due to the impact of the pandemic although pensions and other fixed pay remain low, as expected.

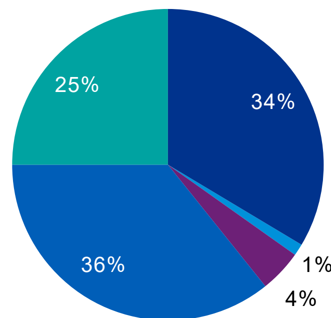
Chief Executive Remuneration mix

FTSE 100



- Basic Salary
- Other Fixed Pay
- Pension
- Total Bonus
- LTIP

FTSE 250



- Basic Salary
- Other Fixed Pay
- Pension
- Total Bonus
- LTIP

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04

Salary

Basic salary increases

The table below shows the median basic salary increase in the FTSE 100 and FTSE 250 for the Chief Executive, Finance Director and Other Executive Director (for both 2021 and the previous year).

As in prior years, companies remain cautious in their approach to basic salary increases for incumbents and continue to take into account the level of pay increases across the broader employee population.

More than half of the FTSE 350 had reported a freeze or reduction in the base salary for Chief Executives and Finance Directors. For the companies where executive base salary were increased, there has been an overall drop in rate of base salary increases across the FTSE 100, while there have been slight increase in the rate for the FTSE 250 companies.

	Chief Executive		Finance Director		Other Director	
	2021	2020	2021	2020	2021	2020
FTSE 100	2%	3%	3%	3%	3%	6%
FTSE 250	5%	3%	5%	3%	2%	3%

Salary differentials by reference to role

The table below shows the ratio between the salaries of the Finance Director and Other Executive Director positions as a percentage of the Chief Executive's salary. These percentages remain broadly consistent with previous years.

Salary differentials by reference to role

	Position	Lower quartile	Median	Upper quartile
FTSE 100	Finance Director	61%	67%	72%
	Other Executive Director	60%	64%	73%
FTSE 250	Finance Director	61%	67%	73%
	Other Executive Director	56%	65%	79%

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Salary position and pay comparator groups

The assumption that the size of a company is highly correlated with basic salary levels for executive directors is supported by the data below, which shows basic salary levels by market capitalisation.

Many companies use market capitalisation as a key criteria when comparing salary levels, but the volatility in the stock markets has shown that this can lead to unintended consequences.

For example, if pay is benchmarked to a group of peer companies selected by market capitalisation in one year, subsequent falls in market capitalisation for the company concerned will then mean it appears out of line with its revised peer group.

The tables below show basic salary levels by market capitalisation.

Basic salary by market capitalisation

CEO	Market Capitalisation	Lower quartile (£'000)	Median (£'000)	Upper quartile (£'000)
FTSE 100	>£15bn	967	1,092	1,282
	£7.5bn - £15bn	510	669	858
	<£7.5bn	513	729	786
	All FTSE 100	649	786	1,050
FTSE 250	>£2bn	515	610	696
	£1bn - £2bn	464	558	655
	<£1bn	438	493	611
	All FTSE 250	463	561	656
FTSE 350	All FTSE 350	488	612	791

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CFO	Market Capitalisation	Lower quartile (£'000)	Median (£'000)	Upper quartile (£'000)
FTSE 100	>£15bn	622	735	786
	£7.5bn - £15bn	431	476	560
	<£7.5bn	395	445	508
	All FTSE 100	443	526	692
FTSE 250	>£2bn	355	397	461
	£1bn - £2bn	319	382	426
	<£1bn	304	334	382
	All FTSE 250	320	374	425
FTSE 350	All FTSE 350	345	410	501

Other Directors	Market Capitalisation	Lower quartile (£'000)	Median (£'000)	Upper quartile (£'000)
FTSE 100	>£15bn	470	571	719
	£5bn - £15bn	418	459	490
	<£5bn	335	364	443
	All FTSE 100	390	459	573
FTSE 250	>£2bn	435	480	535
	£1bn - £2bn	300	344	442
	<£1bn	376	376	400
	All FTSE 250	300	363	480
FTSE 350	All FTSE 350	337	434	560

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05 Annual bonus plans

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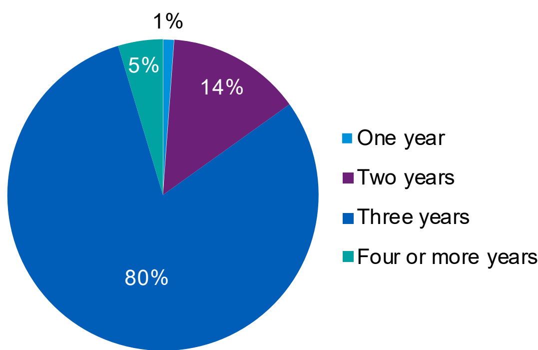
Deferral periods

A deferred annual bonus plan involves the compulsory or voluntary deferral of some or all of an annual bonus into company shares, which the participant is restricted from disposing of for a period of time.

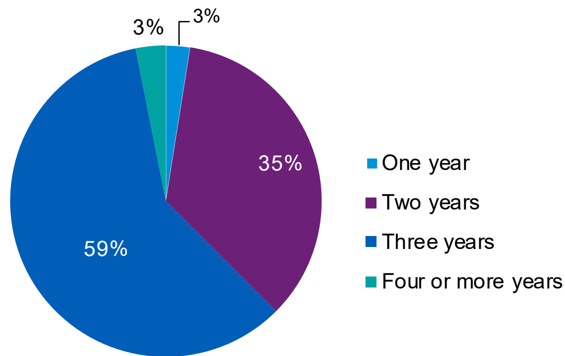
The chart below shows the length of deferral period used by FTSE 100 and FTSE 250 companies which have disclosed this information. The most common deferral period remains 3 years, followed by 2 years.

The typical proportion of a bonus which is deferred into shares in the FTSE 350 is 50%.

FTSE 100



FTSE 250

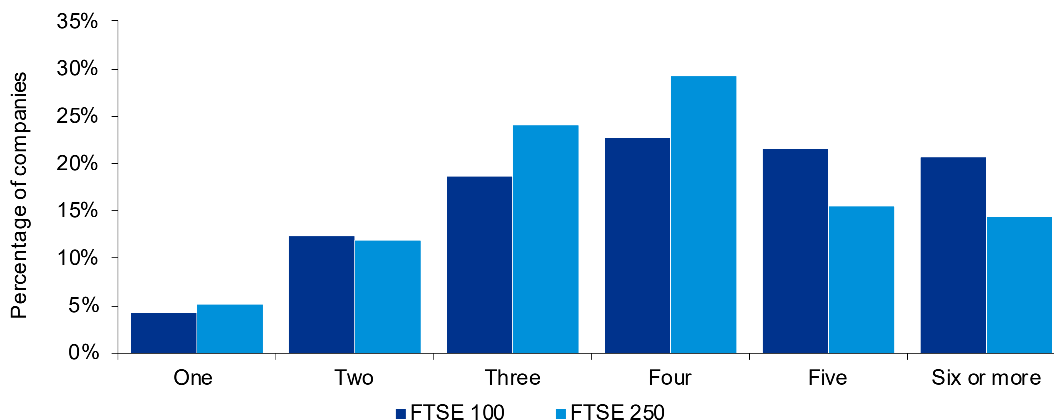


Performance measures

The chart below shows the number of performance conditions applied at FTSE 100 and FTSE 250 companies

The most common number of performance conditions used in annual bonus plans within the FTSE 350 is four, consistent with last year. There have been slight changes in the popularity of each choice but the trend is largely the same.

Number of measures in annual bonus plan



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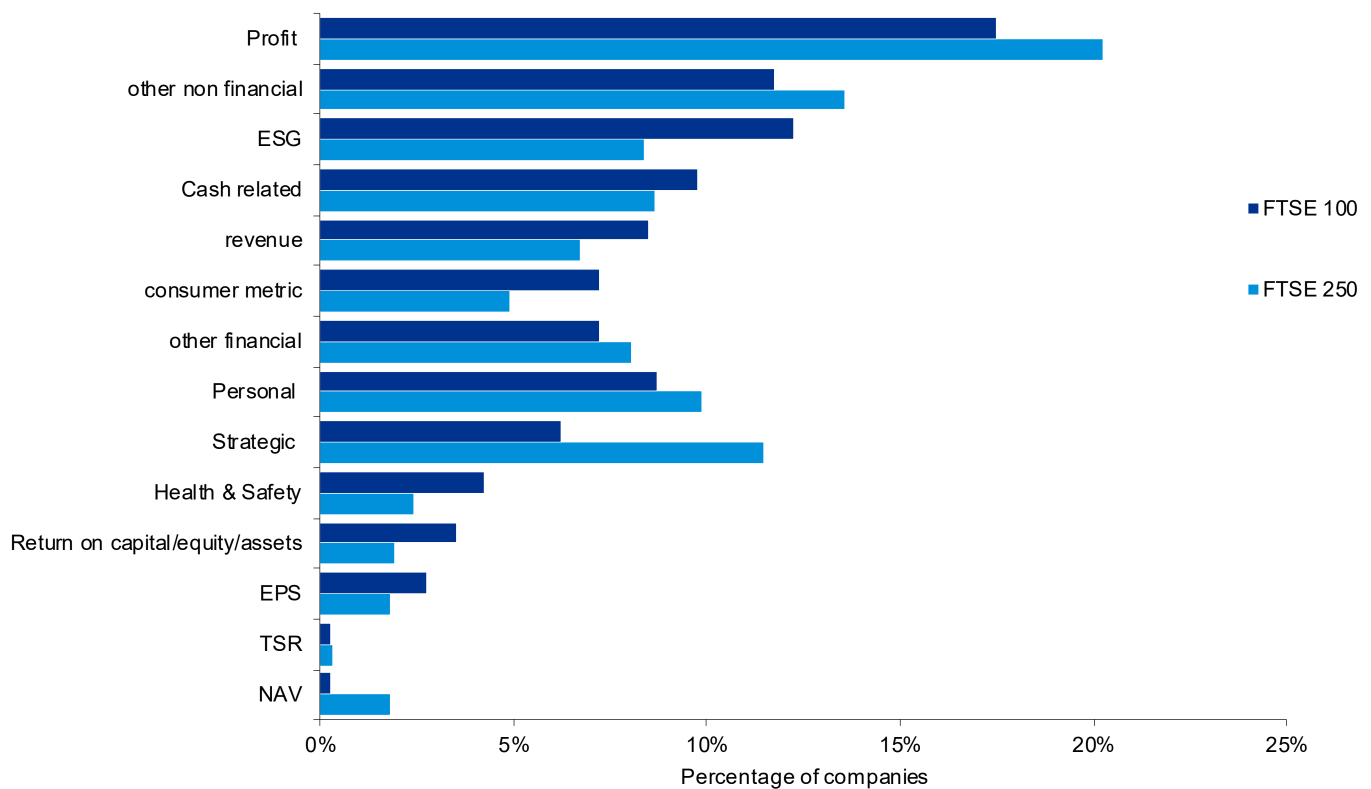
Performance measures

The chart below shows the performance measures typically used in FTSE 100 and FTSE 250 companies. The totals are greater than 100 percent given the frequent use of multiple performance measures. The most common combination is some form of profit measure in conjunction with a non-financial metric and individual personal objectives. 86% of the FTSE 100 and 84% of the FTSE 250 have a non-financial target applied to their annual incentives. The most common non-financial metrics differ by sector and typically relate to strategic targets, a customer target, an employee metric or an HSE (Health, safety and environment) target. ESG (Environmental, social and governance) measures have continued to grow in popularity, reflecting the ongoing focus from investors and other stakeholder groups, as discussed in the section on ESG in this report.

Performance measures in annual bonus plans



The table below summarises, where disclosed, the pay-out levels for 'threshold' and 'target' performance for annual bonuses across the FTSE 350. From the table below, we can see that 'on target' and 'threshold' performance typically delivers around 50% and 0% of the maximum opportunity respectively, which is unchanged from last year. For the FTSE 100, the Upper Quartile 'threshold' has decreased by 9%, an indication that more companies are delivering lower pay-out for 'threshold' performance. The figures in the table are for the Chief Executive role (but are typical for all Executive Director positions).

Annual bonus – threshold and 'on target' awards for CEO

	On target		Threshold award	
	FTSE 100	FTSE 250	FTSE 100	FTSE 250
Upper Quartile	50%	50%	16%	20%
Median	50%	50%	0%	0%
Lower Quartile	50%	50%	0%	0%

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Bonus levels

The tables below provide an overview of the bonus opportunity and actual bonus provided to Chief Executives, Finance Directors and Other Executive Directors in FTSE 100 and FTSE 250 companies. In comparison with 2020, median maximum bonus opportunities across the FTSE 350 have remained largely similar, except for some small fluctuations. Actual bonus paid as a percentage of salary is also broadly similar, with the exception of Other Directors, for whom there has been a slight increase within the FTSE 100 and a more significant increase within the FTSE 250.

	FTSE 100			FTSE 250		
CEO	**Lower Quartile**	**Median**	**Upper Quartile**	**Lower Quartile**	**Median**	**Upper Quartile**
Maximum Bonus opportunity (% of Salary)	150%	200%	225%	150%	150%	200%
Actual Bonus (% of salary)	69%	120%	179%	85%	106%	150%
Actual Bonus (% of maximum bonus)	42%	71%	92%	51%	76%	92%
Actual Bonus (£'000)	486	992	1,638	417	605	873

	FTSE 100			FTSE 250		
Finance Director	**Lower Quartile**	**Median**	**Upper Quartile**	**Lower Quartile**	**Median**	**Upper Quartile**
Maximum Bonus opportunity (% of Salary)	150%	180%	200%	125%	150%	158%
Actual Bonus (% of salary)	71%	100%	147%	68%	101%	143%
Actual Bonus (% of maximum bonus)	43%	61%	82%	43%	67%	87%
Actual Bonus (£'000)	361	618	883	223	356	529

	FTSE 100			FTSE 250		
Other Director	**Lower Quartile**	**Median**	**Upper Quartile**	**Lower Quartile**	**Median**	**Upper Quartile**
Maximum Bonus opportunity (% of Salary)	150%	180%	200%	128%	150%	170%
Actual Bonus (% of salary)	90%	117%	148%	91%	100%	134%
Actual Bonus (% of maximum bonus)	49%	66%	75%	65%	85%	93%
Actual Bonus (£'000)	472	658	968	194	309	442

The figures in the table exclude data from companies with no bonus payout in the year.

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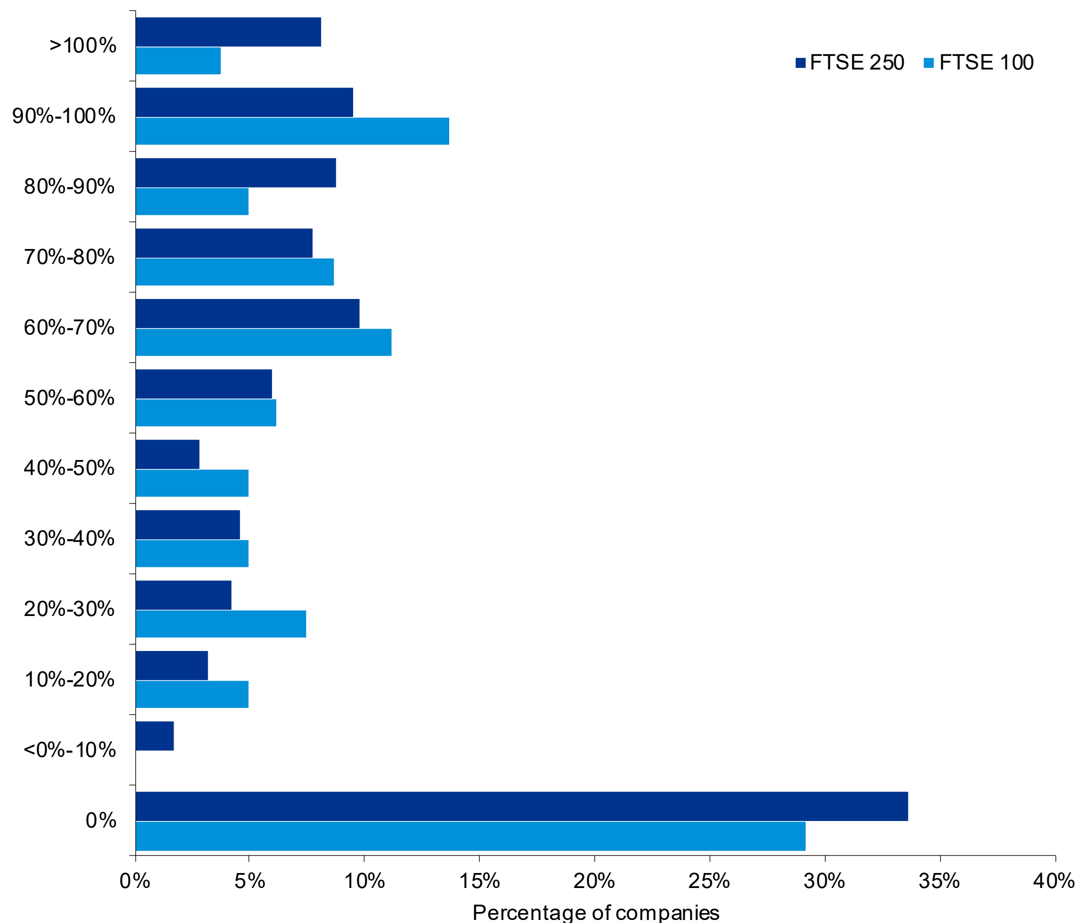
Bonus levels

Bonus payout for directors across the FTSE 350 has changed significantly in the year, with the number of companies making no bonus payouts doubling in the FTSE 100 and almost tripling in the FTSE 250. We first saw an upward shift in the number of companies paying no bonus last year, when the economic implications of the pandemic began to materialise. As predicted, there has been a further drop in bonus payouts.

On the other end of the scale, there was a slight increase in the number of companies paying over 100% of maximum opportunity. Some companies did report exceptional performance in the year, potentially due to the nature of business aligning with the needs that arose during the pandemic.

Bonus payout for all directors across the FTSE 350



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06

Long term incentive plan

Structure

Performance Share Plans (PSPs) remain the most prevalent form of LTIP operated by FTSE 350 companies and we expect this to continue for the foreseeable future. There is, however, a growing debate that traditional LTIP structures are not working as effectively as they could. The focus of this section of our report remains on PSPs but there is no doubt that alternative LTIP structures including Restricted Share Plans (RSPs), Value Creation Plans and so-called 'performance on grant' schemes are an area of emerging interest which we will return to in the future.

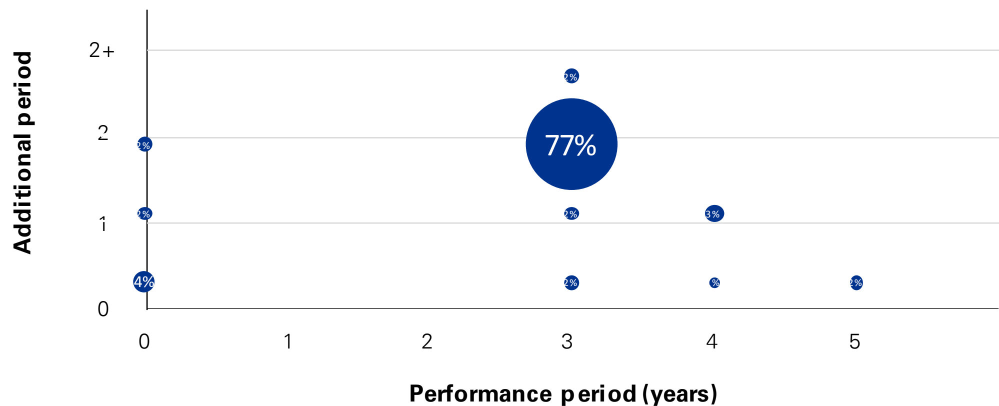
Time horizons

A total vesting and holding period of five years (or more) is now a requirement of the UK Corporate Governance Code. This year we have continued to see companies in the FTSE 350 introduce or strengthen their post-vesting holding periods.

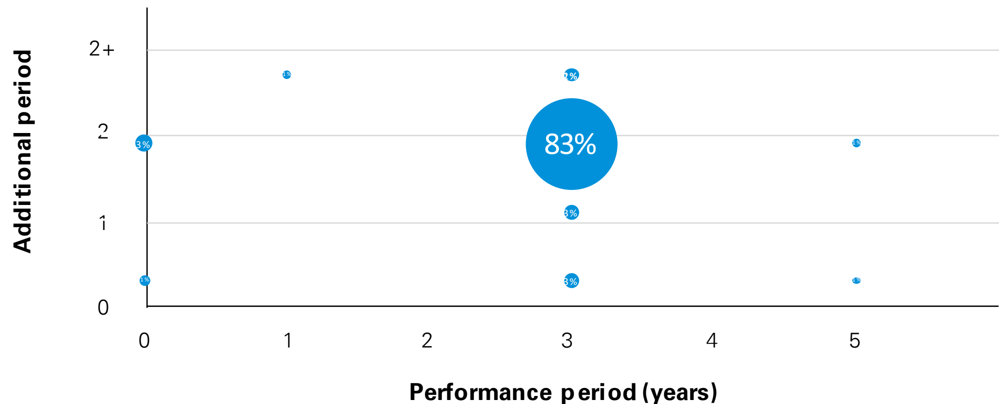
The chart below shows the time period over which companies in the FTSE 350 operate their LTIPs. For these purposes, we have included PSPs, RSPs and performance on grant schemes. The 'Performance Period' is the period over which performance is measured and the 'Additional Period' reflects the aggregate of any further holding period and/or any additional service period during which awards vest. Please also note that for RSPs we have reflected a performance period of '0' years (on the basis that any performance measure is an underpin only).

A performance period of three years and a holding period of two years is the most prevalent combination for LTIPs operated by both FTSE 100 and FTSE 250 companies.

FTSE 100



FTSE 250



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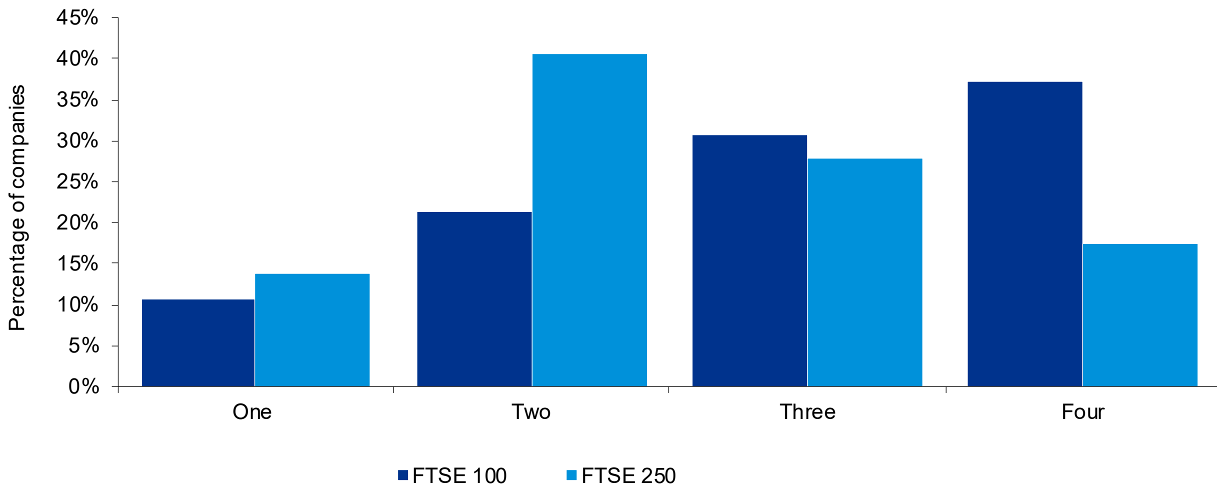
Performance share plans

The following chart shows the number of measures that are currently in use. In the FTSE 250, two is the most popular choice, unchanged from last year. In the FTSE 100, however, there has been a significant increase in the number of companies using four measures and this has become the most prevalent option, with last year's most popular choice of three measures now in second place. This could be associated with the high increase in the adoption of ESG measures by FTSE 100 companies compared to last year.

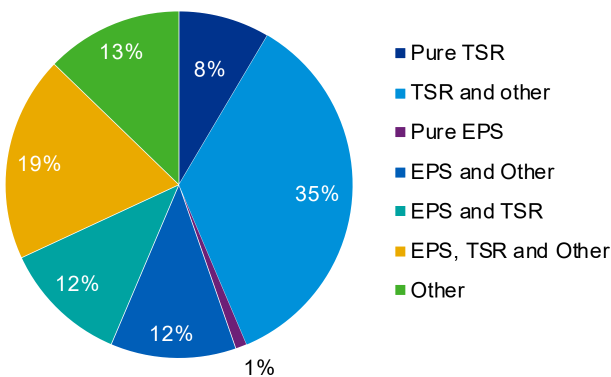
Number of measures in performance share plans

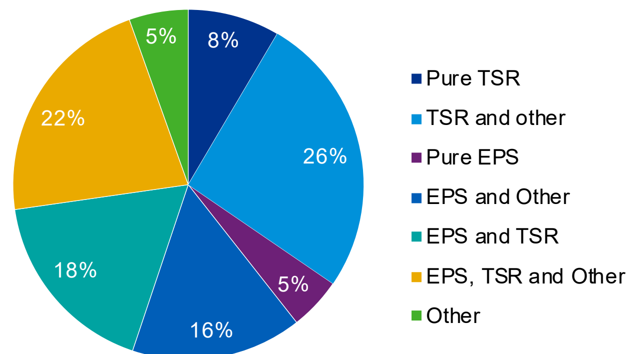


The following charts show the measures that are currently in use.

The use of some form of Total Shareholder Return (TSR) measure, either as a single measure or in conjunction with another metric, continues to be the most popular measure across the FTSE 350.

Performance measures





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LTIP opportunity & payout

	FTSE 100			FTSE 250		
CEO	**Lower Quartile**	**Median**	**Upper Quartile**	**Lower Quartile**	**Median**	**Upper Quartile**
Maximum Award (% of salary)	200%	250%	350%	150%	200%	231%
Actual Award (% of salary)	200%	250%	350%	150%	200%	205%
Actual award (£'000)	1,467	1,946	3,361	780	1,017	1,543
Actual payout (% of salary)	65%	231%	355%	38%	79%	160%
Actual Gains (£'000)	643	1,374	2,939	203	444	957

	FTSE 100			FTSE 250		
Finance Director	**Lower Quartile**	**Median**	**Upper Quartile**	**Lower Quartile**	**Median**	**Upper Quartile**
Maximum Award (% of salary)	200%	250%	335%	150%	200%	200%
Actual Award (% of salary)	175%	210%	280%	150%	175%	200%
Actual award (£'000)	698	1,175	1,547	495	607	765
Actual payout (% of salary)	28%	120%	261%	30%	63%	154%
Actual Gains (£'000)	196	723	1,436	88	256	643

	FTSE 100			FTSE 250		
Other Director	**Lower Quartile**	**Median**	**Upper Quartile**	**Lower Quartile**	**Median**	**Upper Quartile**
Maximum Award (% of salary)	200%	250%	328%	150%	200%	200%
Actual Award (% of salary)	200%	247%	263%	144%	150%	200%
Actual award (£'000)	1,016	1,198	1,712	442	570	796
Actual payout (% of salary)	92%	259%	443%	46%	67%	153%
Actual Gains (£'000)	536	1,280	3,384	52	245	424

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07 Pensions

Executive pensions in the spotlight

Executive pensions have been in the spotlight since 2019 and a large number of companies have announced a reduction in rates for incumbents and set new rates for new hires over the past couple of years. Compared to last year, there have been a reduction in the pension contribution limits for new hires in the table below, with the median pension rates falling by 2% and 1% in the FTSE 100 and FTSE 250, respectively. Upper quartile pension rates reduced more significantly by 2% and 4% in the FTSE 100 and FTSE 250, respectively.

Whilst many have taken the step to align pensions in a single sweep across all roles, there are still a few companies who, due to contractual obligations or other reasons, have chosen to either reduce contributions incrementally or wait until the December 2022 deadline to make the cut. As highlighted above, these companies must ensure that they provide a detailed plan for the alignment of executive pensions or they will face receiving a 'red-top' from IVIS. ISS and Glass Lewis also support this position, with both updating their guidelines to reiterate that the alignment of executive pensions with the wider workforce must be followed.

Looking forward to the 2022 AGM season, it will be important for companies who have not already aligned their pensions to determine the plan for reduction, as well as a clear rationale behind their plans.

Contribution limits for new hires

	FTSE 100			FTSE 250		
	Lower Quartile (%)	Median (%)	Upper Quartile (%)	Lower Quartile (%)	Median (%)	Upper Quartile (%)
DC pension maximum	8	10	13	5	9	11
Pension supplement maximum	8	10	13	5	9	11

The table above summarises the cap on defined contribution rates and cash in lieu of contributions for new directors in the FTSE 100 and FTSE 250.

Across the FTSE 350, the median cap on pension contributions and cash in lieu of contributions for new hires is now 10% for the FTSE 100 and 9% for the FTSE 250.

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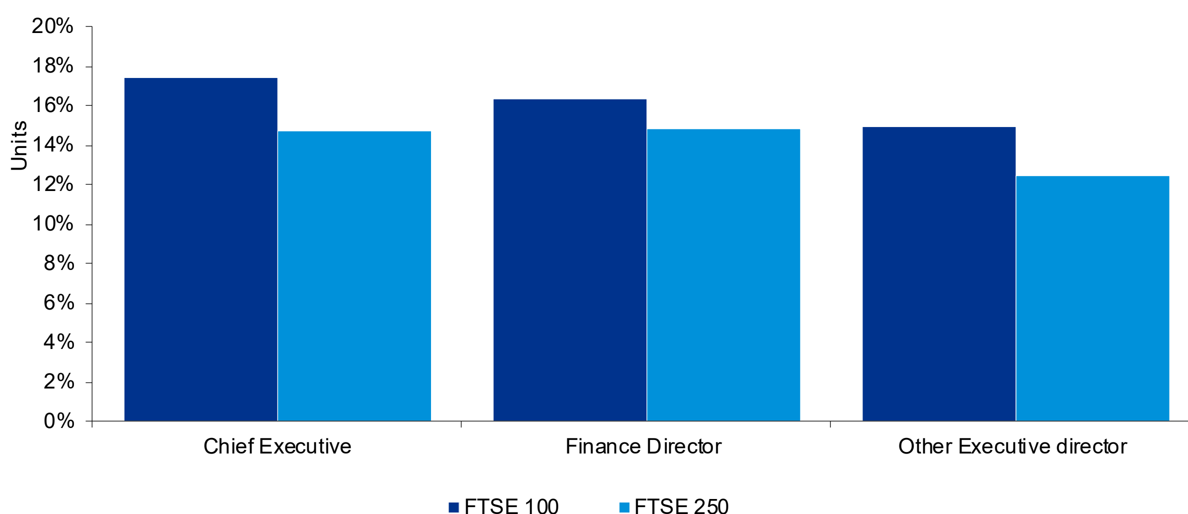
Contribution levels - FTSE 350

The chart below shows the median pension contributions (and cash in lieu payments) expressed as a percentage of basic salary. It is important to note that this data is 'backwards looking' as it is taken from single figure table data for the most recent year and, taken in isolation, should be treated with some caution.

Median pension contributions/'cash in lieu' for all schemes as a percentage of base salary



As noted above, the drive towards greater pension alignment between executives and the workforce affects both new hires and incumbents. Whilst offering lower contribution rates to new directors is relatively straightforward, the position for incumbents is less so, particularly where a director may have a pre-existing contractual entitlement.

Pension contribution levels for all types of Director listed above have seen significant reductions across the FTSE 100, bringing levels more in line with FTSE 250 firms. The FRC had noted in its publication this year that quite a number of companies had not aligned their executive pension or provided a timeline to do so. It is important for companies to provide clear explanations for this and a clear timeline for aligning the pension.

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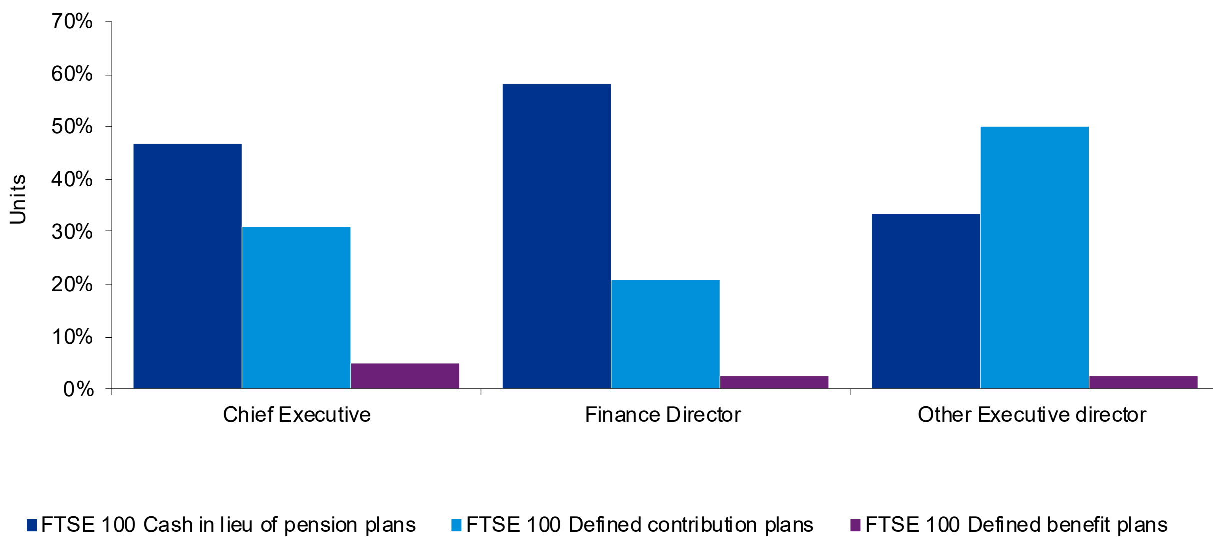
Pension arrangements

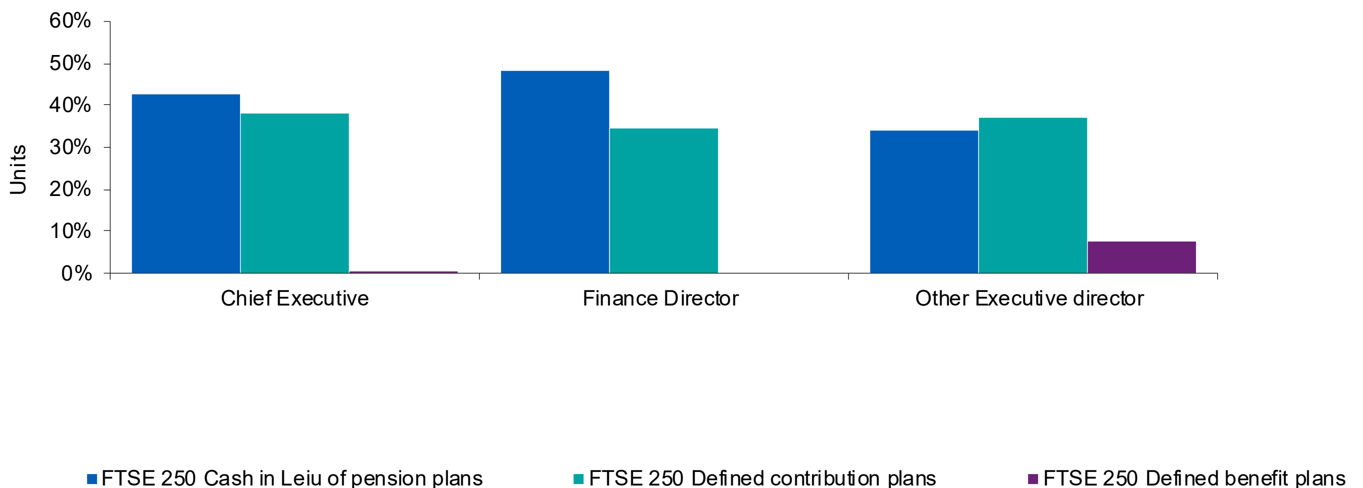
The following charts show that the use of cash in lieu of pension is generally the most popular arrangement for Chief Executives and Finance Directors, followed by defined contribution plans. This is unchanged from last year. For Other Executive Directors, defined contribution plans are the most common, while participation in defined benefit plans continues to diminish.

FTSE 100 pension arrangements



■ FTSE 100 Cash in lieu of pension plans ■ FTSE 100 Defined contribution plans ■ FTSE 100 Defined benefit plans

FTSE 250 pension arrangements



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08

Shareholding requirements

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Median shareholding requirements

Having a minimum shareholding requirement is now an expected practice for FTSE 350 companies. Executive Directors are encouraged to build up significant holdings in their company's shares to demonstrate alignment with shareholders. To further strengthen this alignment, the Code now includes a requirement for remuneration committees to develop a post employment shareholding requirement.

The table below sets out the median 'in service' shareholding requirement for companies in the FTSE 350 by role.

Minimum Shareholding Requirements (% of salary)

	FTSE 100	FTSE 250
Chief Executive	300%	200%
Finance Director	238%	200%
Other Executive Director	200%	200%

Median number of years to build shareholding requirements

The time limit which remuneration committees set for executives to meet this level of shareholding is typically 5 years. This figure is the same for companies in both the FTSE 100 and FTSE 250.

Median executive shareholding

The current median shareholding for a CEO in the FTSE 350 is 381% of their annual salary. This figure falls to 199% of annual salary for the median shareholding held by a Finance director in the FTSE 350.

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What counts towards the holding?

In its Principles of Remuneration, the Investment Association provides guidance on what should count towards the minimum shareholding requirement:

- Shares should only count towards the requirement if vesting is not subject to any further performance conditions;
- Unvested shares, which are not subject to a further performance condition, may count but on a net of tax basis;
- Shares which have vested but remain subject to a holding period or clawback may count towards the shareholding; and
- Shares vested from a long term incentive award but still in the holding period can also be used to meet the shareholding requirement.

With the negative impact of Covid-19 on share prices, some executives may find it difficult to maintain these requirements as they could potentially be required to purchase more shares in order keep on track with accumulating shares in the specified time period. Therefore, companies need to be prepared to address these difficulties in their remuneration reports and acknowledge that executives may have not met the target increases for the year due to a downturn in share price. The hope for many is that share prices will return over the longer term and therefore executives will be able to take remedial actions to increase their shareholding in line with requirements, without the need to be forced to purchase more shares now.

Retention of incentive shares

Whilst executives are encouraged to purchase company shares with their own resources, there is inevitably a link between executive share plans and minimum shareholding requirements. Companies are increasingly specifying a proportion of incentive gains which must be retained until the minimum shareholding requirement is achieved. Where there is such a requirement, the typical proportion which must be retained is around 50% of the shares which vest (net of tax).

Again, we expect this to be impacted by the Covid-19 pandemic due to missed performance targets as a result of the economic downturn.

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Post-employment shareholding requirements

The IA's guidelines state that the post employment shareholding requirement should apply for at least two years at a level equal to the lower of:

- The shareholding requirement immediately prior to departure; or
- The actual shareholding on departure.

Currently, the majority of FTSE 350 require the normal shareholding level to be held for two years after employment. However, a significant minority do still have less stringent approaches representing either a fraction of their normal shareholding requirement or a shorter period than two years, or both. Additionally, where companies are not IA compliant, many are implementing a phased approach allowing a director who has left the company to reduce shareholding incrementally over a specified time period. The Investment Association expect post-shareholding requirements to be established at the earliest opportunity and at a minimum by the company's next policy vote, to avoid receiving a red-top.

Policing the requirements

Where shareholding and, in particular, post-employment shareholding requirements apply, it is important that the company puts in place arrangements that will help it to monitor and police those holdings. Such arrangements should be established and agreed with each director before any shares vest and are acquired under any share plan to which a holding period applies.

One of the most administratively straightforward ways of holding and monitoring a director's shareholding both pre- and post-employment is to set up a nominee arrangement either with the trustees of the company's EBT or with the company's registrars under which shares acquired following the vesting or exercise of share awards are automatically held by the nominee (as legal owner) on behalf of the director (as beneficial owner). Once the director is free of any holding requirements, the legal title can be transferred to the individual.

Market practice is yet to emerge on the preferred way of policing these rules. However, as we have outlined above, in their updated guidelines the IA have highlighted that Remuneration Committees should be providing clear details on the structure or policy which detail how companies will enforce the post-employment shareholding requirement.

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09 Non-Executive Director

Fee increases

This section provides information on remuneration for the role of Non-Executive Chairman and Non-Executive Director

The table below shows the percentage of FTSE 100 and FTSE 250 companies that increased fee levels for the Non-Executive Chairman and other Non-Executive Directors. Over a third of FTSE 350 companies increased fee levels for the Non-Executive Chairman and other Non-Executive Directors, which is in line with the previous year.

Percentage of companies increasing fees

	Non-executive chairman	Other non-executive director
FTSE 100	28%	43%
FTSE 250	29%	35%

Fees are not typically reviewed or increased on an annual basis and as such increases may initially appear to be higher than those for executive directors.

The following table shows the fee increases for the FTSE 100 and FTSE 250 for companies which increased fee levels.

Median fee increases

The following table shows the median fee increases for the FTSE 100 and FTSE 250 for companies which increased fee levels.

		Median
FTSE 100	Non-executive chairman	3.00%
	Other non-executive directors	4.76%
FTSE 250	Non-executive chairman	2.86%
	Other non-executive directors	2.62%

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Non-Executive Chairman

The Non-Executive Chairman is responsible for the leadership of the board, ensuring effectiveness in all aspects of its role and setting the agenda.

The Non-Executive Chairman has ultimate responsibility for the board and so has a role distinct from that of the other Non-Executive Directors. In some companies this may be close to a full-time role. Consequently, there is typically a significant fee differential between the Non-Executive Chairman and other Non-Executive Directors.

The following tables show the total Non-Executive Chairman fees broken down by market capitalisation and turnover. As would be expected, those chairing the largest companies are paid significantly more than those in smaller companies.

Compared with last year, the fees are broadly in line for all companies except for FTSE 100 companies with a market capitalisation of less than £6bn, where fees have slightly decreased.

Non-Executive Chairman fees by market capitalisation

	Market capitalisation	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£10bn	410	625	723
	£6bn-£10bn	309	373	439
	<£6bn	292	328	376
	All FTSE 100	325	406	575
FTSE 250	>£2bn	213	250	342
	£1bn-£2bn	180	217	272
	<£1bn	160	200	255
	All FTSE 250	180	225	282

	Turnover	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£10bn	523	650	728
	£2.5bn-£10bn	326	387	450
	<£2.5bn	284	325	378
	All FTSE 100	325	406	575
FTSE 250	>£2.5bn	236	289	350
	£500m-£2.5bn	200	239	300
	<£500m	150	180	220
	All FTSE 250	180	225	282

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Deputy Chairman and Senior Independent Director

Most companies now identify a Senior Independent Director (SID) which generally attracts an additional fee. The SID is responsible for leading the Non-Executive Directors in their review of the Non-Executive Chairman's performance as well as being available to shareholders so as to gain a balanced understanding of the issues and concerns they may have.

As reported last year, we have seen the number of Deputy Chairman positions on boards reduce in recent years, with the SID in a number of organisations fulfilling duties which in the past may have been carried out by the deputy chairman.

Based on the information disclosed, where a company has a Deputy Chairman the role is still more likely to attract a higher premium than the role of SID. If the two roles are combined and the Deputy Chairman is also the SID then it is standard practice that no additional fee is paid for the SID role.

Deputy chairman fees

	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	105	106	180
FTSE 250	68	108	125

The table below shows the additional fees paid to SIDs for the FTSE 100 and FTSE 250. It should be noted this is in addition to the basic Non-Executive Directors' fee.

Senior independent director additional fees

	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	14	20	30
FTSE 250	10	10	15

Workforce engagement - Designated NED

Following the introduction of the 2018 Corporate Governance Code, in which there is a strong focus on boards considering the views of the wider workforce before making decisions, we are seeing an increasing number of designated Non-Executive Directors who are responsible for workforce engagement. The role of a designated Non-Executive Director will typically attract an additional fee and the table below shows the fees paid to designated Non-Executive Directors for the FTSE 100 and FTSE 250 (30 companies in total reported fees for a Designated NED).

	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	10	13	20
FTSE 250	5	8	10

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Other Non-Executive Directors

The following tables show the fees for Non-Executive Directors who are not classified as being a Chairman, Deputy Chairman and/or SID.

The figures are broken down by market capitalisation and Turnover.

Non-Executive Director fees by market capitalisation

	Market capitalisation	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£10bn	75	81	95
	£6bn-£10bn	61	67	79
	<£6bn	62	66	70
	All FTSE 100	65	74	85
FTSE 250	>£2bn	56	60	65
	£1bn-£2bn	50	56	64
	<£1bn	51	55	61
	All FTSE 250	51	58	65

Non-Executive Director fees by Turnover

	Turnover	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£10bn	75	85	95
	£2.5bn-£10bn	62	70	80
	<£2.5bn	59	65	74
	All FTSE 100	65	74	85
FTSE 250	>£2.5bn	60	63	67
	£500m-£2.5bn	53	58	65
	<£500m	49	53	60
	All FTSE 250	51	58	65

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Committee fee practice

Over recent years we have seen a continuing increase in the number of companies paying additional fees for membership and chairmanship of the main board committees. This is to compensate Non-Executives for the increasing responsibilities and requirements attributed to their roles. The Corporate Governance Code published by the government in July 2018, which took effect from 1 January 2019, states that "before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months".

Company size again has an influence over the level of additional fees. In line with previous years, the risk committee still commands the highest additional fees for members which may be related to the increased pressure on large companies to be socially responsible.

The chairman and membership fees have broadly remained the same as the previous year on both the FTSE 100 and FTSE 250.

It should be noted that the nomination committee is often chaired by the company Non-Executive Chairman albeit certain companies may appoint a different Non-Executive Director based on their own specific circumstances. Where the Non-Executive Chairman does take on the role, it would typically not attract additional committee fees.

The tables below show the fees disclosed for chairing the main committees in FTSE 100 and FTSE 250 companies.

FTSE 100 Committee chairmanship fee levels

	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
Remuneration	16	21	30
Audit	17	23	32
Nomination	10	15	19
CSR Committee	14	20	32
Risk Committee	21	30	68
Other	19	21	35

FTSE 250 Committee chairmanship fee levels

	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
Remuneration	10	11	15
Audit	10	12	16
Nomination	10	15	20
CSR Committee	10	12	18
Risk Committee	10	14	20
Other	8	11	15

The tables below show the fees disclosed for being a member of the main committees in FTSE 100 and FTSE 250 companies.

Almost all FTSE 350 companies pay additional fees for membership of the main board committees.

FTSE 100 Committee membership fee levels

	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
Remuneration	9	15	20
Audit	10	15	20
Nomination	6	10	15
CSR Committee	6	15	17
Risk Committee	10	17	31
Other	10	15	20

FTSE 250 Committee membership fee levels

	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
Remuneration	5	5	10
Audit	5	5	10
Nomination	4	5	9
CSR Committee	5	5	6
Risk Committee	3	5	11
Other	5	6	10

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Time commitment

There is insufficient disclosure in companies' annual reports with respect to the time commitment required of a Non-Executive Chairman or Non-Executive director role to perform any robust analysis. However, prior experience tells us that a Non-Executive Chairman role typically demands around two full days a week. This will vary depending on the size of the company.

Other Non-Executive Director roles will normally require less time commitment, and this is reflected in the reduced fees. However, due to increased scrutiny of boards and directors, the time commitment required by a Non-Executive Director has increased in recent years. The number of board meetings will vary depending on company size and complexity. Most Non-Executive Directors will be chairs or members of at least one committee as well and these meetings will be in addition to the board meetings.

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10 Diversity

Women on Boards

In 2016, an independent review of the FTSE 350, initiated by the Government, by Sir Philip Hampton and the late Dame Helen Alexander concluded that a third of FTSE 350 boards should be filled by women by the end of 2020. The final report, following 5 years of campaigning, was released February 2021 and now referred to as the FTSE Women Leaders report on diversity.

The final report found that women now comprise women on boards represent 36.2% and 33.2% of total board population of FTSE 100 and FTSE 250, respectively, exceeding the set target of 33%. In 2020, the FTSE 100 recorded its largest annual increase in the representation of women at boardroom level and in senior leadership positions since the review began in 2016. All-male boards have also been eradicated in the FSTE 350, showing significant progress.

The chart to the right shows the composition of Boards in the FTSE 350 by gender.

Whilst the progress reported above is encouraging, the report also highlighted areas of ongoing concern. The list of poorest performing companies is mostly unchanged from the previous year, showing an unwillingness amongst those companies to seriously tackle the issue. Some companies still have all-male executive committees and almost one third of the FTSE 100 has not yet met the 33% female board representation target. Furthermore, progress within the FTSE 250 has halted, with 66% of all available leadership roles still going to men.

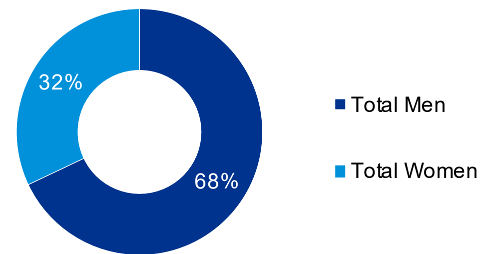
Going forward, Sir Philip Hampton recommends that companies should have a woman in at least one of the 4 roles of Chair, CEO, SID and CFO, and that investors should support such best practice.

Diversity in leadership is good for business, with research suggesting that companies with an inclusive culture are six times more likely to be innovative as well as being strongly linked to increasing performance and profitability.

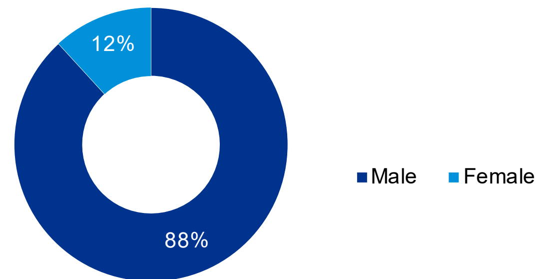
The findings of the report show that companies are moving in the right direction. However, having more women in leadership positions is only part of the solution to gender inequality in the workplace. Hiring and promoting women at the highest levels is a good first step but the issue needs to be treated as more than a simple numbers game.

The charts to the right show that the vast majority of Executive and Non Executive positions are held by Men, however, the proportion of women that are on boards have increased from 28% in our last report to 32%. Specifically, female representation in the Executive Directors and Non-executive Directors category have increased by 3% and 4%, respectively.

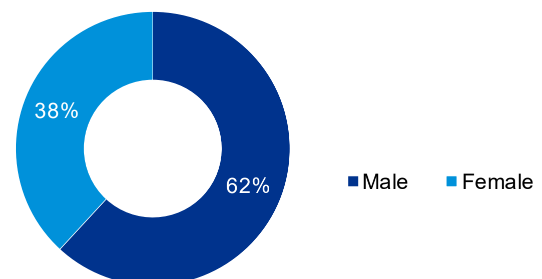
Board diversity by gender



Executive Director positions



Non Executive Director positions



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Executive Director remuneration levels

The following tables, segmented by company turnover, show basic salary, bonus pay outs and total earnings for male and female executive directors. The number of females holding executive director roles on FTSE 350 boards remains low and changes to individual circumstances may have a disproportionate impact on the data. Therefore caution must be exercised when drawing conclusions from this data set.

Overall, it appears that the remuneration provided to female executive directors is lower in some areas and higher in others. In the FTSE 100, total remuneration for female Chief Executives and Other Executive Directors are significantly less than their male equivalents, meanwhile female Finance Directors earn almost at par with their male colleagues. In the FTSE 250, total remuneration is significantly higher for women in the Chief Executives role but lower for Finance Directors and Other Executive Directors.

Earnings

The table below, segmented by company turnover, shows median basic salary by gender in the latest reported financial year.

		Chief Executive		Finance Director		Other Executive Director	
		Male (£'000)	Female (£'000)	Male (£'000)	Female (£'000)	Male (£'000)	Female (£'000)
FTSE 100	Salary	787,000	613,250	524,000	535,000	474,500	459,000
FTSE 100	Bonus	570,000	116,048	360,700	363,000	562,150	246,000
FTSE 100	Total	3,011,000	1,223,408	1,762,000	1,771,000	2,418,500	1,281,000
FTSE 250	Salary	569,000	485,500	375,000	370,000	356,500	376,000
FTSE 250	Bonus	408,500	464,387	238,000	73,912	267,000	10,000
FTSE 250	Total	1,271,000	2,467,000	770,000	598,000	883,404	555,800

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The investor and regulatory perspective

Equality continues to be a key strategic focus for a number of regulatory and advisory bodies, including the Investment Association, ISS and the FCA.

The Investment Association continue with the policy that IVIS will 'red-top' companies with no or only one woman on their board, those with 20% or less female representation on the board or women representing 20% or less of the Executive Committee and their Direct Reports.

Meanwhile the ISS and Glass Lewis have updated their voting guidelines to state that companies who have not met the target set by the FTSE Women Leaders (formerly Hampton-Alexander review) to have at least one-third female representation on their should receive an adverse vote unless there are specific mitigating factors.

Diversity represents a key area of improvement for many companies, not just as a tick box exercise to make up the numbers but to also drive inclusiveness. Embracing a diverse board is important because this also reflects on the culture among the wider workforce. Beyond gender, other diversity indicators should be considered such as ethnicity, sexual orientation, social mobility and neurodiversity.

The focus for many organisations, investors and regulatory bodies has been on gender. A government consultation to rollout legislation to mandate ethnic reporting was published in 2018. However, this is yet to be enacted. In the meantime, companies are encouraged to report on all aspects of their diversity and to hold themselves accountable.

The information on ethnic and other diversity reporting is insufficient and so this section has focused only on gender diversity. As the importance of ESG-related matters becomes increasingly apparent, we hope to see improvements in diversity across all dimensions, both in terms of actual representation and reporting, and look forward to discussing these matters more in the future.

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11

Methodology & assumptions

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Data sources

Unless otherwise stated, all graphs and tables have been created by KPMG, from data provided by E-reward. The data provided by E-reward has been further analysed by KPMG, using the methodology outlined below.

Data sample

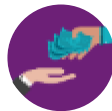
FTSE constituents and market capitalisation figures are as at 30 June 2021 and turnover figures used for the analysis are as at the relevant reporting date for each company.

The positions included in the data sample are: Chief Executive, Finance Director, Other Executive Directors and Non-Executive Directors. Other Executive Directors includes any main board position other than the Chief Executive, Finance Director, executive chairman and the Non-Executive Directors. This typically includes operational directors, functional directors, chief operating officers, and executive deputy chairmen.

To enable the remuneration components of each position to be analysed they have been split in to the following categories:

Basic salary

Annual salary received over a 12 month period as shown in the accounts and in the single figure pay table (not necessarily set at annual review)

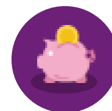


Total bonus

Actual annual bonus paid shown in the single figure pay table plus any deferred portion of the annual bonus

Total cash

The sum of basic salary, benefits and total bonus as shown in the single figure pay table



Pensions

The value of all pension related benefits including payments in lieu of retirement benefits and all retirement benefits in year from participating in pension schemes

Total earnings

The sum of total cash, the value of any share based awards vested during the year and the cash value of pension arrangements. The final figure may also include some miscellaneous payments such as special payments for pensions, one-off bonuses for particular projects and profit share

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Unless stated otherwise, LTIP awards are considered for the purpose of the guide to be awards where the vesting/performance period is longer than one year and have been categorised in the guide as performance share plans – a type of long term incentive in which participants are allocated free shares or nil cost options or, more commonly, rights to shares, the vesting of which is subject to the satisfaction of performance targets over a period of more than one year.

Median and quartile points

For the purposes of this guide, median information has been provided where there are four data points or more. Inter-quartile ranges have been provided where there are nine or more data points.

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Contact us

Chris Barnes
Partner
0207 694 2738
chris.barnes@kpmg.co.uk

Joanne Brien
Partner
0161 246 4553
joanne.brien@kpmg.co.uk

Scott Cullen
Associate Partner
0203 197 1098
scott.cullen@kpmg.co.uk

Edward Norrie
Associate Partner
0131 527 6724
edward.norrie@kpmg.co.uk

Lorna Jordan
Director
0118 373 1442
lorna.jordan@kpmg.co.uk

Liz Hunter
Director
0207 311 8084
liz.hunter@kpmg.co.uk

Edward Groves
Director
0207 896 4931
edward.groves@kpmg.co.uk

Busola Farinmade (Editor)
Manager
0203 306 4155
busola.farinmade@kpmg.co.uk

James Greenwell
Assistant Manager
0113 231 3810
james.greenwell@kpmg.co.uk

Markha Abdul
Associate
0203 197 1240
Markha.abdul@kpmg.co.uk

kpmg.com/uk

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