



UK Executive Pay & Governance

Drafting the Directors' Remuneration Report

All UK incorporated fully listed PLCs must comply with the Directors' Remuneration Report Regulations (the "DRR Regs"). Under the DRR Regs, companies with shares listed on the main market in the UK are required by law to:

- Prepare a Remuneration Report that forms part of the company's published Annual Report and which provides significant levels of detail on all elements of pay received by directors (executive and non-executive) in the prior year, together with an indication of pay levels in the forthcoming year
- Put this Remuneration Report to an advisory shareholder vote at the AGM every year
- At least once every three years seek – via a binding resolution – shareholder approval for the underlying remuneration policy which sets out the parameters within which directors can be paid over the following three years

Producing this Report is an onerous undertaking for companies, as it must contain (amongst other information) the following:

- The value of base salary, benefits, pension, annual bonus and long-term incentives ("LTIs") received in the prior year, both separately and on an aggregated basis (often referred to as "the single figure")
- Details of the targets used in both annual bonus and LTI awards
- Payments to past directors
- Payments for loss of office
- Directors' share interests
- A graph comparing the company's Total Shareholder Return performance compared to an index of other companies
- How certain elements of the CEO's pay has changed compared to the prior year, and in turn how that compares to the change in general workforce pay
- How total aggregate pay compared to dividends and other distributions to shareholders
- The Committee's advisors and their fees
- The voting result of pay resolutions at the last AGM (and, if there were significant votes against, what the company has done to address the issues raised)
- As stated above, how the company intends to pay its directors in the forthcoming year
- The full remuneration policy that currently applies, or an indication of where this can be found

Furthermore, if the company is seeking shareholder approval for a new/revised remuneration policy, full details of that policy must be provided, including:

- For each element of pay:
 - How that element supports the company's short and long-term strategy
 - How it operates
 - The maximum payable under that element



- The approach to setting performance targets in the annual bonus and LTI
- The policy on recruitment and terminations
- The approach to service contracts
- A graph showing how pay varies with different performance outcomes
- How the views of shareholders and employment conditions elsewhere in the company are taken into account when setting directors' pay
- The changes being made to the existing policy

In addition, companies are now seeing the Remuneration Report as a way of explaining exactly how pay is linked to strategy and performance, rather than merely as a compliance exercise. Also, the context and decisions taken when any discretions are exercised are key messages to convey in the Report. Therefore, the Committee chair's introductory letter is now carefully crafted - often with the use of graphics – so that key messages are delivered.

Given the scrutiny executive remuneration attracts, it is important that companies have access to expert consultants who can guide them through all the issues that are raised when preparing a Remuneration Report. At Korn Ferry Hay, we have a highly experienced team who ensure that our clients' Reports are not only technically compliant with the DRR Regs, but (perhaps equally importantly) provide a clear and concise summary of the details of and rationale for the remuneration policy and practices, with the link between pay and strategy positively articulated. We also advise our clients as to whether there are any aspects of the Remuneration Report that may warrant a consultation exercise with major shareholders, which is particularly relevant if the underlying policy is being reviewed.

Want to know more?

Please contact:

Rob Burdett

m: 07979 537 326

rob.burdett@kornferry.com

Simon Garrett

m: 07748 328 560

simon.garrett@kornferry.com

Deborah Hall

m: 07495 796 619

deborah.hall@kornferry.com

Jonathan Hutchings

m: 07408 802 787

joanthan.hutchings@kornferry.com

Chris Niland

m: 07779 270 334

chris.niland@kornferry.com

Andrew Udale

m: 07770 720 888

andrew.udale@kornferry.com

OR visit our webpage www.kornferry.com/rewards-benefits-overview/executive-pay-governance

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