

# Early insights from FTSE 100 Directors' Remuneration Report publications - 2022



**As of 1 April, 56 FTSE 100 companies had published their 2021 annual report and accounts. This update, the first in our 2022 series, provides an analysis of key insights so far.**

Like last year, this has not been a “typical” year for remuneration policy renewal: only 21% of companies have so far published a new policy for approval (2021: 25%).

Our annual investor outreach exercise at the end of 2021 highlighted two major concerns going into the 2022 season:

- Potential for significant increases in quantum: after a prolonged period of restraint, will Remuneration Committees continue to limit executive salary increases to those of the wider workforce and will incentive opportunities increase?
- Use of discretion: notwithstanding the generally positive investor view of Remuneration Committees' decision-making during COVID-19, there is concern that some committees may be uncomfortable with continuing to exercise discretion and there may be more latitude to exercise positive discretion.

## Implementation for 2022

### Base salary

UK inflation rates are over 6% (the highest rate since 1992) and median salary increases for the wider workforce are 3%.

Median CEO/CFO salary increase:

**3.0%**

in line with wider workforce increases



**11%** of CEOs/CFOs received no salary increase (2021: 50%/40% respectively)

Of the dozen or so CEOs that have received increases above 3%, three-quarters ranged from 3.1% to 5% and were in line with or lower than those provided to the wider workforce.

### Annual bonus



**6** companies have increased bonus opportunities (one has reintroduced a bonus plan), **0** have decreased



**34** have changed measures or weightings




Changes to metrics vary widely. However, **68%** of companies making such changes are either introducing or, more typically, changing/expanding on their **ESG metrics**.

**2** are introducing and **1** is increasing the proportion of annual bonus deferral.

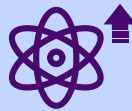


## Long-term incentives (LTIs)



**10** companies have increased LTI opportunities, **1** has decreased (alongside the reintroduction of an annual bonus plan)

**35** have changed target or payout calibration



**6** of the 10 companies increasing LTI opportunities are doing so within previously approved policy limits. For those companies increasing their policy limits, the typical CEO opportunity increase is around **27%** of LTI opportunity, eg from 275% to 350% of salary.



**19** companies are making changes to their measures or weightings. These vary but **68%** include either introductions or, more typically, changes/expansions to existing **ESG metrics**.

## Environment, Social, Governance



**Annual bonus:** around 65% of companies already include ESG metrics in their annual bonus. **23** companies have disclosed either the introduction (17%) or further expansion (83%) of ESG metrics in their 2022 plan. These new and expanded metrics are diverse, but most frequently (**48%** of companies) include **environmental objectives**.



**Long-term incentives:** ESG metrics are less prevalent in LTI plans (38%). **13** companies have disclosed either the introduction (38%) or further expansion (62%) of ESG metrics for their 2022 awards. These new and expanded metrics all (**100%** of companies) include **environmental objectives**, in particular carbon/emissions reductions.

## Other elements of remuneration

The majority of FTSE100 companies have now aligned executive pension levels with those of the wider workforce and introduced post-cessation share ownership guidelines in line with IA guidance.

## Continued uncertainty

Such has been the impact of Russian sanctions on the operations of many companies and global equity markets, that the IA recently reaffirmed its guidance that LTIP grants should be scaled back following a share price fall. In addition, the IA said that where – but only where – a company receives material revenues or profits from Russian operations, members are willing to support a delay in setting LTIP targets. However, the IA was clear in its view that the ongoing macroeconomic impact of the Russian invasion, including the increase in energy costs, should not in itself be a reason for delaying target setting.

Most companies' share prices recovered within a couple of weeks of the significant share price falls experienced following the Russian invasion of Ukraine. As a result of continued uncertainty, whether related to COVID-19 or Russia-Ukraine, two companies have delayed setting LTI targets and two have made changes to their metrics/targets. No companies have yet disclosed a related reduction in LTI grants.

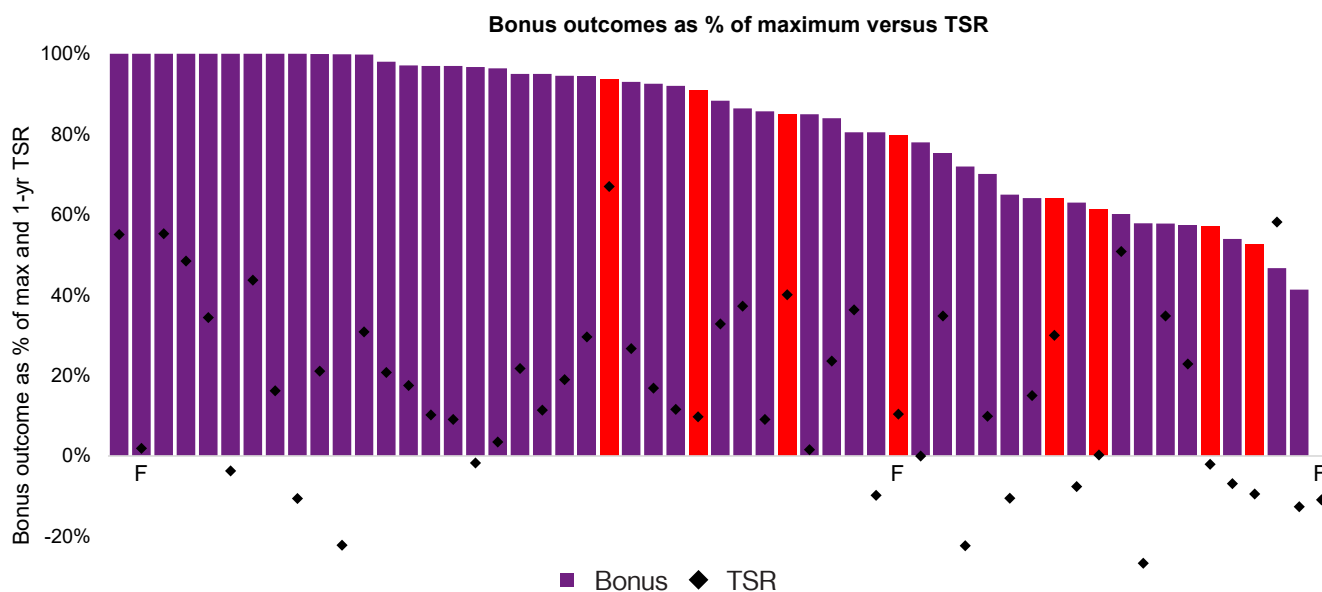


## Incentive outcomes for 2021

### Summary of incentive outcomes

- The median annual bonus payout so far is **88%** of maximum, versus 48% across the whole FTSE 100 for 2021.
- The median LTI payout so far is **49%** of maximum, in line with **48%** across the whole FTSE 100 for 2021; this includes eight companies' LTIs vesting at 0%.
- Interventions were less prevalent overall than last year and remained somewhat **more likely for the annual bonus than LTI**:
  - Bonuses at **16%** of companies were either reduced by the RemCo or waived by EDs (2021: 42%).
    - Of these reductions, **89%** were through RemCo discretion and **11%** were through ED waiver.
  - By comparison, **11%** of companies altered formulaic LTI outcomes (2021: 6%).
    - Of these alterations, **83%** increased and **17%** reduced the vesting outcome.
- 3 companies continued to receive “direct” support (ie UK government funded furlough).
  - One company paid a bonus (no application of discretion) and exercised positive discretion to permit a portion of the LTI to vest.
  - Another company paid a bonus, exercising negative discretion to reduce the formulaic outcome, but the LTI lapsed.
  - EDs at one company did not wish to be considered for a 2021 annual bonus and the LTI lapsed.

## Annual bonus

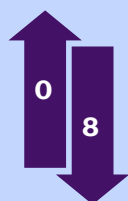


**Red bar** – overall downwards discretion, **F** – took furlough support from UK Job Retention Scheme

TSR is measured point to point, 1 Jan 21 - 31 Dec 21.

**88%** **Median bonus outcome as % of maximum**

2% of companies have not paid a bonus (2021: 35%)



**8** RemCos used their discretion to **reduce** formulaic outcomes: reductions range from 3% to 48% with a median of **7%**.

There was **1** additional case of Executives waiving bonus entitlements entirely.

There have been no cases of upwards discretion to date.

## Long-term incentives



**Green bar** – overall upwards discretion, **Red bar** – overall downwards discretion

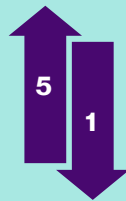
**F** – took furlough support from UK Job Retention Scheme

TSR is measured point to point, 1 Jan 19 - 31 Dec 21.

# 49%

**Median LTI outcome as % of maximum**

14% of companies' LTIs vested at 0% of maximum (2021: 11%)



There have been **6** cases of discretion, only one of which was downwards.

Of the other **5** companies, 2 changed their targets and 3 exercised discretion, all resulting in a higher than formulaic vesting outcome. Two were increased from a formulaic outcome of 0%, and the other three increases ranged from 16% to 226%.

### Further information

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This report includes data sourced from WTW's **Global Executive Compensation Analysis Team**. This report is based on the FTSE 100 as at 1 April 2022.

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