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KEY QUESTIONS FOR UK EXECUTIVE PAY IN 2025

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Key questions for UK executive pay in 2025



The debate about the competitiveness of executive pay for UK companies (in particular for those listed on the LSE's Main Market) continues, particularly given the role that this can play in the UK's ability to be seen an attractive place for both companies and executives.

New remuneration principles from the Investment Association (IA) and Glass Lewis (GL) and proposals by the Institutional Shareholder Services (ISS), a potential relaxation of remuneration rules in the financial services sector and discussions with companies and remuneration committees, herald more flexibility and nuance for UK executive pay.

But what does all of this mean for 2025? We have set out the key questions that UK listed companies should be considering ahead of the 2025 AGM season and investor expectations on the topics.

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The start of a UK market shift on executive remuneration?

CC comment:

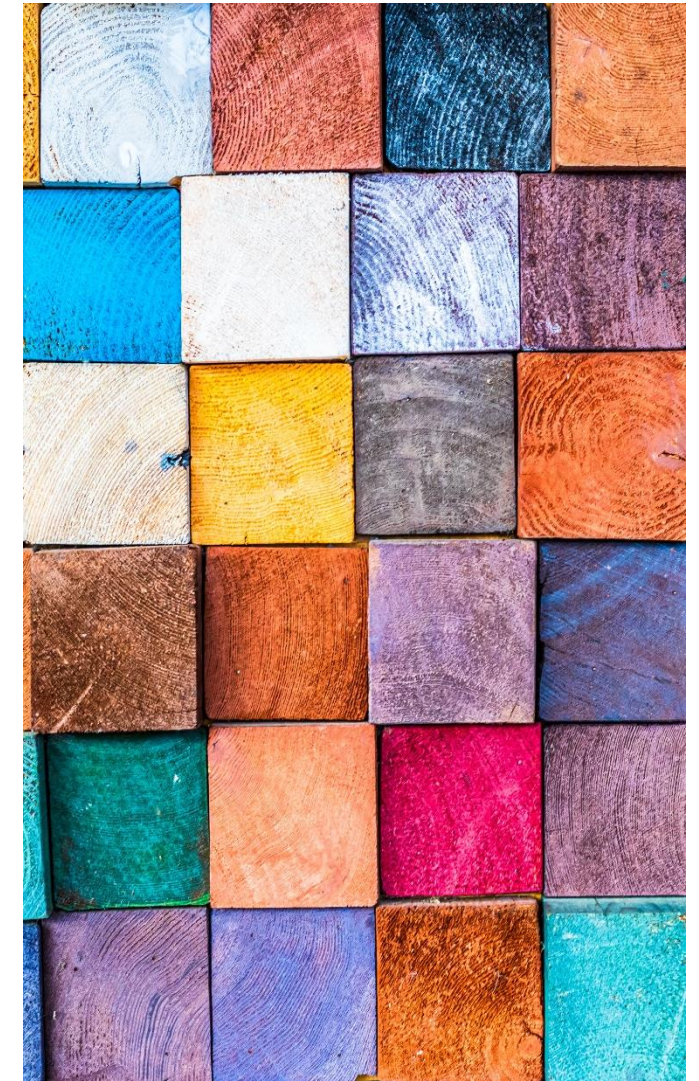
2024 did not see a marked change in the amount or structure of UK executive pay in the way some had predicted. The AGM season was relatively quiet, with few companies experiencing high levels of shareholder dissent on executive remuneration, aside from a small number of notable exceptions.

For most UK listed companies, particularly those that are more domestically focused, there was little change in either remuneration structures or packages for executives.

Several FTSE 100 companies put forward significantly changed executive pay policies and packages and where companies did that, it was interesting to see that:

- the levels of shareholder support for remuneration proposals varied widely as between companies, even for proposals which would work in a similar way;
- there was no one preferred structure. Interestingly, where some companies moved from LTIPs to hybrid schemes a number did the reverse;
- investor bodies were clear that pay quantum is not a matter for them to opine on but something for shareholders and companies to agree between themselves; and
- financial performance was an important factor as a strongly performing company or one that needs talent in a turnaround situation may well have more success in securing shareholder support for enhanced remuneration packages.

Looking ahead to the 2025 AGM season, we are expecting to see more of a shift as companies take advantage of flexibility offered by investor bodies and potentially other stakeholders.



Is it now easier to increase executive pay?

Investor body	Expectation
IA	More focus on considering levels of pay on a case-by-case basis, appreciating the need to attract, retain and motivate talent and for there to be a clear link between pay and performance.
GL	Will review significant changes on a case-by-case basis and unless particularly egregious, will not immediately recommend a vote against but will first consider the rationale.
ISS	Updated in line with the IA. RemCos are discouraged from the use of benchmarking alone to justify an increase.

CC comment:

There may be more flexibility to make more significant increases to executive pay where this is needed and can be justified than in the past. Before making changes, companies will need to:

- have a clear rationale linked to company strategy and values (beyond simply comparing to peers);
- have consulted with key shareholders ahead of publishing the new updated directors' remuneration policy, especially if this is a material increase;
- if the increase has been benchmarked, give shareholders details on which peers you chose and why; and
- give shareholders comfort in your disclosures about your process for deciding on the increase being needed and why the level of increase was chosen.

We saw a handful of companies in the 2024 AGM season successfully increase quantum in terms of bonus and LTIP opportunity where they were able to provide shareholders with comfort on these points.

Does the new flexibility mean companies can now match UK pay to US pay?

Investor body	Expectation
IA	If a company has a US (or global) footprint, and wants to change or increase pay to move closer to US structures and rates, set out the impact of attracting global talent on the positioning of remuneration
ISS	Informally, they have said they still prefer performance-based structures for the UK market, recognising that this may be different to their approach in the US market

CC comment:

As you would expect, the recognition that there may be situations in which US structures and rates are justified is not carte blanche to match US pay and there still tends to be caution in the market on any move towards US pay levels and pay structures. The guidance from investor bodies does, however, support more meaningful discussions with shareholders on this and less of a concern that voting recommendations will be a simple “vote against”.

See above on quantum.

On structure, investors have been very clear that there is still a preference for a simple performance-based incentive structure in the UK, regardless of how they are voting in the US market. For companies (especially those with a US footprint), investors are though more open to a proposal for time-based incentives.

Are performance-based share awards a thing of the past?

Investor body	Expectation
IA	<p><u>Restricted Share Plans</u>: concern that these may not deliver pay for performance but softened approach as they suggest these are considered based on list of factors (rather than expectations).</p> <p><u>Hybrid Plans</u>: new section as they recognise that these might be used by companies with a US footprint. Companies should follow RSP guidance for time-based portion and explain why this more complex structure is needed.</p> <p><u>Value Creation Plan</u>: new section - concern that it can result in significant payouts with reduced flexibility to adapt to changing circumstances. Suggest investors could be sceptical and resistant so early and constructive consultation needed.</p>
GL	<p><u>Restricted Share Plans</u>: softened approach in line with IA.</p> <p><u>Hybrid Plans</u>: new section – in line with IA. Will assess on a case-by- case basis, looking for a specific rationale as to why it is needed. If a company includes competing with US for talent as the rationale, explain consideration of relevant peers.</p>
ISS	<p>For any structure different to market standard, they will consider specific company circumstances.</p> <p>Any long-term structure should be appropriate for the company and take into account wider workforce remuneration.</p>

CC comment:

No. Performance-based incentives are still the preferred choice for investors and the majority of UK listed companies continue to grant them. However, tolerance for time-based incentives has increased, especially where these are discounted as a percentage of salary at grant (compared to performance awards), subject to an underpin and accompanied by a shareholding requirement.

Investor views on different structures are evolving and we expect to see guidance and market practice on this developing over time.

How do companies ensure incentives are effective?

Investor body	Expectation
IA	Companies may be able to reduce the level of deferral where a shareholding requirement as long as malus and clawback still apply.
GL	Similar position to IA on bonus deferral – key is ensuring there is adequate long-term alignment with shareholders.

CC comment:

There has been concern from some companies that restrictions and conditions placed on incentives as a matter of good corporate governance and UK market practice can devalue them in the eyes of executives.

As well as looking at quantum and structure of pay, companies can consider the levers that the Corporate Governance Code (Code) introduced e.g. shareholding requirement, post-termination shareholding requirement, malus and clawback and whether they all remain appropriate. If the cumulative impact of these undermines the extent to which incentives are motivating and retaining executives, investors are open to companies considering taking a different approach where this can be justified.

Investors' focus remains (a) pay for performance (individual and company); (b) alignment with company strategy and purpose; and (c) alignment with shareholders so it continues to be important for a company to explain how incentive structures deliver in line with these factors if they want to move away from strict compliance with the Code requirements.

Does the change to dilution limits help companies in practice?

Investor body	Expectation
IA	<p>Removed the 5% dilution limit for executive plans meaning that share plans only need to include dilution limits of 10% in 10 years for all plans.</p> <p>The IA informally confirmed that if companies have a share buyback, any shares that go into treasury from the buyback will still count towards the 10% dilution limit when they are issued from treasury under employee share plans. If a company needs additional headroom, this will need a separate shareholder resolution to increase the dilution limit as in the past.</p>
GL	Same as IA.
ISS	Retained 5% dilution limit for executive plans but added that if this is exceeded, companies should explain why this is appropriate. ISS view is that many investors still consider 5% limit as good market practice.

CC comment:

It may do.

For companies that use newly issued shares for share plans, removing the 5% limit for executive plans will make tracking the headroom more straightforward and create additional headroom. To take advantage of the change, share plans should be reviewed to check whether the change can be approved internally or if it needs shareholder approval (it will depend how the plan is drafted and also on the company's risk appetite in some cases).

For any company that wanted to change the 10% limit, the IA confirmed that the 10% is "guidance not a rule" and it remains possible to seek shareholder approval for an increase. However, all investor bodies have re-iterated that dilution is a key issue for them, meaning that any company desiring a dilution limit of more than 10% would need a cogent rationale, as has always been the case.

Finally, the ISS was still of the view that the 5% limit is good practice so whether companies can take advantage of the IA's new flexibility will depend in part on their shareholder base.

How is disclosure of remuneration impacted by the guidance?

Investor body	Expectation
IA	RemCo chair report is the key part of disclosure. Companies should use this to provide details on what they have done, their rationale and why this delivers alignment with shareholders and with company objectives. Increased disclosure expectations on rationale for pay increases, how performance metrics were chosen, and how increases relate to value creation and reflect stakeholder experience.
GL	In line with IA – increased expectation on disclosure around shareholder consultation process and now expect (rather than welcome) disclosure on peers used to benchmark where benchmarking has been done. New requirement to disclose where new hire has a higher salary than a predecessor.

CC comment:

Investors have commented on the fact that the length and complexity of disclosure and it being generic in nature can make it difficult to assess proposals. We would encourage companies to consider whether reports and policies can be made more concise and tailored.

Companies should check last year's remuneration report and previous policy to remove repetitive drafting and boiler plate language and consider cross referring to other parts of the annual report. For example, when explaining how remuneration is aligned with company strategy, cross refer to the strategic report. The Financial Reporting Council (FRC) has encouraged companies to cross refer to their websites or other parts of the annual report where possible too.

There is an increased focus by investors on giving shareholders meaningful information so the challenge will be to make it sufficiently detailed but also concise. Clearly, shareholders need to rely on the disclosures to get comfort that the process and outcomes on remuneration are working to deliver pay for performance and long-term alignment.

How should companies approach discussions with shareholders?

Investor body	Expectation
IA	<p>Consult with shareholders if proposing to: (a) increase overall quantum; (b) introducing RSP/hybrid/VCP structure; (c) exercise discretion that will have a material impact on remuneration outcomes or perception of governance and reputation; or (d) make any strategic remuneration decisions.</p> <p>Explain consultation process - how shareholder views were taken into consideration, how consultation process was conducted, the number of shareholders consulted, the outcomes, main feedback from shareholders and how the company responded to it.</p> <p>Explain how proposals evolved as a result of feedback.</p>
GL	In line with IA – increased expectation on disclosure around consultation process.

CC comment:

It is helpful to start shareholder consultation early in the process and to view any consultation exercise as a part of developing proposals.

To make consultation meaningful, companies should provide full context and details on the proposals and, where the changes are significant or complex, expect several rounds of consultation with shareholders. (Many shareholders will be sensitive about blessing a proposal at a first meeting and will want time to consider).

As with disclosure, it is useful if consultation documentation and discussions can link the proposals with what shareholders are looking for - (a) pay for performance (individual and company); (b) alignment with company strategy and purpose; and (c) alignment with shareholders.

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