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UK'S EXECUTIVE PAY RATIO DISCLOSURE RULES TAKE EFFECT

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UK incorporated companies listed on the London Stock Exchange (SEDOL), New York Stock Exchange, NASDAQ or regulated stock exchanges in the European Economic Area with more than 250 employees in the UK must each year disclose and explain the ratio between their CEO's pay and the median, lower quartile and upper quartile pay of their UK employees. These requirements in the new Companies Act regulations are effective for accounting periods beginning on or after 1 Jan 2019. The first pay ratio reports are due in 2020, but the UK Investment Association is encouraging companies to "early adopt" after confirmation of the methodology. The regulations, together with the revised UK corporate governance code, aim to tackle excessive boardroom pay and improve transparency and accountability.

REQUIRED DISCLOSURES

In the first reporting year, the directors' remuneration report must include:

- Information on the pay ratio presented in a predetermined tabular format. Companies must select one of the three specified options for calculating the pay ratio and set out their reasons for choosing that option and any estimates and assumptions used.

- Salary and total remuneration details for the UK employee at the median, 25th and 75th percentile.

In later years, the report must include the following information:

- Any changes in the calculation methodology used in the previous financial year

- An explanation of any reduction or increase in the pay ratio compared with the preceding financial year, and reasons for the pay ratio change

- An explanation of any trend in the median pay ratio over the financial years included in the pay ratio table (this will cover the current year and nine years' history), and a statement of whether the company believes that its median pay ratio is consistent with the pay, reward and progression policies for its UK employees as a whole

The regulations also require disclosure of the following:

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- ***In the remuneration committee chair's statement.*** A summary of any discretion exercised by the remuneration committee in relation to directors' remuneration outcomes

- ***In the directors' remuneration report.*** Disclosure of how much of a director's variable pay for that year is attributable to share price appreciation and, if applicable, how discretion was exercised regarding the amount of the awards due to share price appreciation or depreciation

- ***In the next new directors' remuneration policy.*** An illustration of the possible impact of share price growth on executive remuneration outcomes for long-term incentive plans and, specifically, the impact of a 50% share price increase. (This requirement isn't restricted to companies with more than 250 UK employees and is effective for new remuneration policies from 1 Jan 2019.)

A company's strategic report and directors' report must also describe how directors have fulfilled their duty to promote the company's success. These disclosures must include the long-term impact of decisions on (i) the interests of the company's employees and wider stakeholders (for example, suppliers, customers, the community and the environment); (ii) the maintenance of high standards of business conduct; and (iii) the duty to act fairly between members of the company.

RELATED RESOURCES

- The Companies (Miscellaneous Reporting) Regulations 2018 (UK government, 17 Jul 2018)

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