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By email: consultation@nzx.com

Submission On Consultation Paper regarding Review of Corporate Governance Reporting Requirements Within NZX Main Board Listing Rules

Relationship of Submitter

The New Zealand Shareholders Association is the only nationwide organisation representing the “buy side” of the market. As such our submission is written from the perspective of a retail or smaller investor. This view is important. Clear, transparent and effective corporate governance is the framework for the interaction between all those active in the market, be they regulators, issuers or (retail) investors and has a direct effect on public perception of, and investor confidence in the capital markets.

Summary of Submission

Basis of the review

NZSA commends the general thrust of the NZX review of corporate governance guidelines and broadly agrees with the proposals. We believe they largely address the issues and provides outcomes that are a balance between disclosure, complexity and resourcing. We also agree that adopting the FMA principles as a basis for the new guidelines will aid the development of a common approach and simplify issuer compliance. While we have not changed our initial views in any material way, we have included some additional items and added greater detail in some areas. **We have taken the approach that our original comments stand except where modified by this submission.**

Purpose

We agree with some other submitters that the NZX Code should commence with a Purpose Statement. There seems no point in having a code if it is not addressing a particular need or purpose. Such a statement presents as an opportunity to broaden the Companies Act requirement for directors and management to “act in the best interests of the company”. Implicit in this requirement is the concept that actions should also be “in the best interests of all existing shareholders”.

Retail investors often feel aggrieved that actions that they perceive disadvantage them, such as inequitable capital raising. These may be justified as being in the best interests of the company, when in fact they are in the best interests of a few existing or potential shareholders, and any value to the company is secondary. It is difficult to challenge such unfair actions, even when the situation seems clear, because disadvantage to shareholders is not a reason of itself, and "best interests of the company" frequently requires an extended passage of time to determine.

Consequently, we would like the code Principle to extend the Company's Act requirement to include reference to acting in the best interests of shareholders.

Broader Shareholder Rights

This begs the question of whether the Code should set parameters for shareholder rights more broadly. While a number of rights are included in NZX listing rules, we consider that some specific matters should be enshrined as recommendations rather than commentary in the Code.

Tiered Approach

We agree with the tiered approach that is proposed. In particular, we consider that where guidelines are expressed as recommendations, the "comply or explain" process will frequently be enough to encourage compliance while at the same time allowing a degree of flexibility for those issuers who have specific reasons for taking a different approach.

Some submitters have pressed for comply or explain to apply to every part of the code, arguing that this gives issuers sufficient flexibility. We do not agree. For such matters such as environmental and social factors, there is great diversity of requirement between different businesses. In our view, requiring potentially complex explanations will consume too much issuer resource with little benefit to investors. We continue to believe that the greater flexibility of the "commentary" option is more appropriate in this area. Our own enquiries show that expectations on issuers from investors vary greatly both in need and in format required. Where an issuer does operate in sectors generally requiring reporting to specific standards, these will be forthcoming as a result of demand by investors, and can be accommodated via commentary.

Remuneration reporting

In regard to remuneration reporting, NZSA submits separately (as referred to in Appendix One), a template for CEO Remuneration reporting that we have developed in conjunction with our Auckland University PhD Scholarship holder. This satisfies the need for a concise and easy to understand format which is meaningful to investors. Where additional information is required, this can be referenced to the issuers website.

Answers to specific Questions

Principle 1. Ethical Standards

Q1. Do stakeholders agree that a more detailed recommendation about ethics is useful?

Yes. The proposed statement is useful, but does not go far enough.

1.1D As detailed above, this should be extended from the Companies Act requirement and include not only a requirement to act in the best interests of the issuer, but also in the best interests of its shareholders. We consider it important that shareholders rights

are not undermined where the issuer truly acts in the best interests of the company. This could be addressed by a recommendation that commentary on reasons for the decision should be given where measurable disadvantage accrues to some or all existing shareholders. Obviously any statement would also need to extend to act in accordance with any other laws and regulations that may apply.

1.1e and **1.1f** require adherence with procedures, but importantly fail to give any guidance to the principles on which those procedures are based. For example, we consider that whistle blowing should have an ethical undertaking to protect and support the whistleblower where their actions in questioning an activity are found to be reasonable, whether or not any action is taken.

Q2. Is there anything further that should be recommended in the code of ethics or discussed in commentary?

There could be reference to other stakeholders including, suppliers, regulators and community.

Principle 2. Board Composition and Performance

Q1. Are there any further matters in relation to board composition that stakeholders would like covered?

Recommendation 2.1 commentary talks about the board overseeing "*management's implementation of the issuer's strategic objectives and performance*" but nowhere does it indicate who decides on what these should be. We suggest a further paragraph clarifying that it is the board ultimate responsibility to decide these in conjunction with, and with input from management.

We do not accept the statement in the NZX discussion paper that New Zealand has an inadequate pool of skilled and experienced directors and therefore the status quo should be maintained. We note that people being placed under the Future Directors programme, a joint venture between NZSA, IOD and Stephen Tindall are rated exceptionally highly, but none have prior public company director experience.

The comment in the Consultation document that NZSA said "*this could create problems for a number of issuers given the challenges finding suitably skilled and experienced directors, particularly given a perception that New Zealand has a limited pool of directors currently*" is absolutely refuted as even the most cursory examination of our original submission will show. We actually said "*there are some situations with more closely held companies where one or other may present difficulties - for example family controlled or relatively recently retired very high performing executives joining the board who may not be considered independent. So some flexibility is necessary. We think this can be addressed by a comply or explain requirement.*"

It should be a recommendation that a formal skills matrix be prepared to identify and ensure appropriate directors are obtained. A summary of sitting directors skill set in the annual report would be helpful to investors who commonly look at who is running the company on their behalf.

We would like to see a stronger statement about what constitutes "independence" in reference to directors. The current listing rules are unhelpful and while these are to be reviewed, we think

the concept and its application should be in the governance guidelines as well. For example, some boards consider a former CEO is independent after one year out of that role. Others claim that a director who has served for 15 years remains independent. We consider both situations are an unsatisfactory application of the black letter rule and would benefit from clearer guidance.

Recommendations should also make it clear that the Chair and CEO roles cannot be held by the same person simultaneously. We also consider that having more than one executive director should be discouraged and this could be made a recommendation. We would accept grandfathering for current situations where this applies.

We would like to see a move toward a greater proportion of independent directors. Preferably this should be a clear majority as this is more likely to protect the interests of all shareholders rather than just a few. Exceptions may be needed for issuers that already have a majority owner although this is arguable for listed issuers.

Q2. Do stakeholders consider a recommendation that directors undertake training to be important?

Yes. But we question if this should be a direct cost to the issuer except where specialised technical knowledge is required to carry out the role.

Q3. Do stakeholders consider that the board should establish a formal procedure to regularly assess director, board and committee performance?

Yes and the general process followed should be disclosed to shareholders.

Principle 3. Board Committees.

Q1. Do stakeholders consider it is still appropriate to include a recommendation that directors who are not members of the audit committee, and employees, should only attend audit committee meetings at the invitation of the audit committee? Alternatively, is this something that would be better as commentary?

Partially agree. We consider that the Audit committee should not be exposed to subtle pressure by executive directors or other employees. The recommendation still means their input can be obtained, but in a controlled manner.

Q2. Do you consider that the level of overlap between the mandatory Listing Rules and the Code is appropriate? Would submitters prefer some of the other committee related matters to be covered in the NZX Code as opposed to the mandatory Listing Rules? Note that this would have the impact of making these requirements non-mandatory

Yes. The status quo is appropriate.

Principle 4 Reporting and disclosure.

Q1. Do you agree with the proposed recommendations?

4.1 Yes, but note that this requirement is covered in listing rules and limited additional information may be required in a policy.

4.2 Yes Either in full in the Annual Report, or summarised with a link to the full detail on the issuers website.

4.3 Yes. Non financial disclosure is issuer specific and may not have "measurable targets" as such, so should be covered by commentary. Where targets for non financial information are able to be measured, these should be disclosed.

Q2. Do you agree with the proposal to address ESG reporting within commentary?

Yes, for the reasons outlined in the summary and our earlier submission.

Q3. Do you agree NZX should develop its own ESG reporting guidance based on the SSEI's model guidance or alternatively allow for issuers to use the GRI framework?

No. Issuers should be free to choose the most appropriate framework for their own circumstances, and the requirements of their investors.

Q4. Do you think another framework should be used instead?

Refer to Q3

Q5. Do you agree that issuers should make key governance documents available to interested investors and stakeholders?

In principle, but the question is ill defined with no indication of which documents NZX has in mind.

Principle 5. Remuneration

Q1. Do you agree with the proposals outlined above?

Yes. As outlined in our earlier submission, we believe that investors expect to see a strong degree of alignment between remuneration and performance (particularly for the CEO). By publishing a policy, it is much easier to see if the reality matches the rhetoric.

We support the proposed IOD template for the remuneration of directors.

We consider an addition to the commentary to the effect that targets must be set in advance and disclosed would be helpful. We acknowledge that issuers may claim that this is market sensitive information at times and suggest that the targets be lodged with an independent entity (FMA for example) and disclosed at the time remuneration payments are disclosed to avoid this.

Commentary should also state that targets once set should not be altered prior to the next reset date. to do so (always to the advantage of the recipient) is to reward under performance.

We would like to see a recommendation that where remuneration consultants are engaged, they should be briefed by, and report directly to the Remuneration Committee. We see far too many instances where this process is handled by management which potentially creates a conflict of interest.

Q2. Do you agree that it is appropriate to require heightened disclosure in respect of CEO remuneration as proposed?

Yes. See the response above. Additionally, we strongly support the concept that CEO remuneration reporting should be succinct and understandable. **NZSA has commissioned a template that we believe is appropriate and this is attached as detailed in Appendix One.** This template has provision for explanation of the key metrics and measures used in determining STI and LTI payments which we consider essential. We do not accept that the general descriptions required would result in commercially sensitive information becoming available to competitors, but if that was a real risk, it is easily covered off by the "explain" component of comply or explain.

We note that two large corporates have used the NZSA general format in their 2016 annual reports and would like to see this extended.

We do not agree with the proposition put forward by some submitters that remuneration bands are adequate and that CEO remuneration can be worked out by default. The failing is that this format gives no indication of STI and LTI payments which are essential in establishing the CEO remuneration relative to performance.

Principle 6. Risk Management

Q1. *Are there any other risk concerns you think should be specifically addressed in commentary?*

NZSA does not think NZX guidelines need cover the specific risks such as Health and Safety or Cyber risk. As currently proposed, the guideline almost begins to cross the threshold from governance to management, something we do not believe is appropriate.

There is such variability on what constitutes key risks for each issuer (for example, various types of regulatory risk) that we believe issuers themselves are best placed to determine them. In our view the principle as written is adequate with no further commentary necessary.

However, we do see value in the company identifying the key risks it faces in its annual report so that they are visible and periodically updated for investors benefit. This could reasonably take the form of a recommendation.

Principle 7. Auditors

Q1. *Are there any other concerns you think should be specifically addressed in commentary about audit requirements?*

We are comfortable with the proposals. We note that XRB changes now require auditors to comment on key audit matters and do not believe this needs to be taken further in the NZX guidelines.

We consider that directors as the highest governance level should continue to sign off financial statements. If nothing else it will retain a strong focus on compliance in the minds of the Audit and Risk Committee.

Principle 8. Shareholder rights and Relations.

Q1. *Do you have any concerns about principle 8 and 9 being merged into a single recommendation regarding shareholder interests?*

In principle they can be merged. We agree that shareholders rights should be the dominant theme, but the lack of any mention of other stakeholders means that there is no merger as such - these considerations have actually been removed. We would like a reference to the need to consider other stakeholders in addition to the company and the shareholders.

Although our earlier submission considered this to be unnecessary as it was implicit in the requirements to act in the best interests of the company and in ESG reporting, we now consider that it deserves specific mention, either here or in the ESG context. For example, regulators or changing public perception may play a critical role in a company's success, quite apart from commercial considerations such as suppliers and line staff..

Q2. *Are there any other concerns you think should be specifically addressed in relation to shareholder rights and relations?*

Both the principle and the accompanying commentary are lacking force in regard to this important topic.

The code should state clearly that shareholders beneficially own the company and that directors and management are ultimately answerable to them.

While we agree with the need to have a website and electronic communications options, the principle should recognise that not all shareholders yet have access or skills to utilise these. There should be a clause requiring issuers to provide other options for communications such as by mail, and that at least annually this should be communicated to shareholders.

Further to our earlier submission, we think that rather than including them in commentary, the Code should make recommendations on adequate notice of meetings (15 or 20 working days is more appropriate than the legal minimum) and that all resolutions be decided by poll. The same applies to attendance at the Annual Meeting by the CEO.

The overriding purpose of the Code is to promote better information and comfort to investors via a clear set of expectations. This should be a prime consideration in the review. With limited exceptions where commentary may be more useful due to greatly varying application, we think guidance should be by recommendation - comply or explain. NZX should not be swayed by overly conservative views that want to leave all matters to the issuer, nor should the Code guidelines become so prescriptive that they lose relevance to an issuers business. Other than the matters detailed above, we consider the current balance is fair and should achieve this outcome.

The NZSA is happy for this submission to me made public.

This submission was prepared by:

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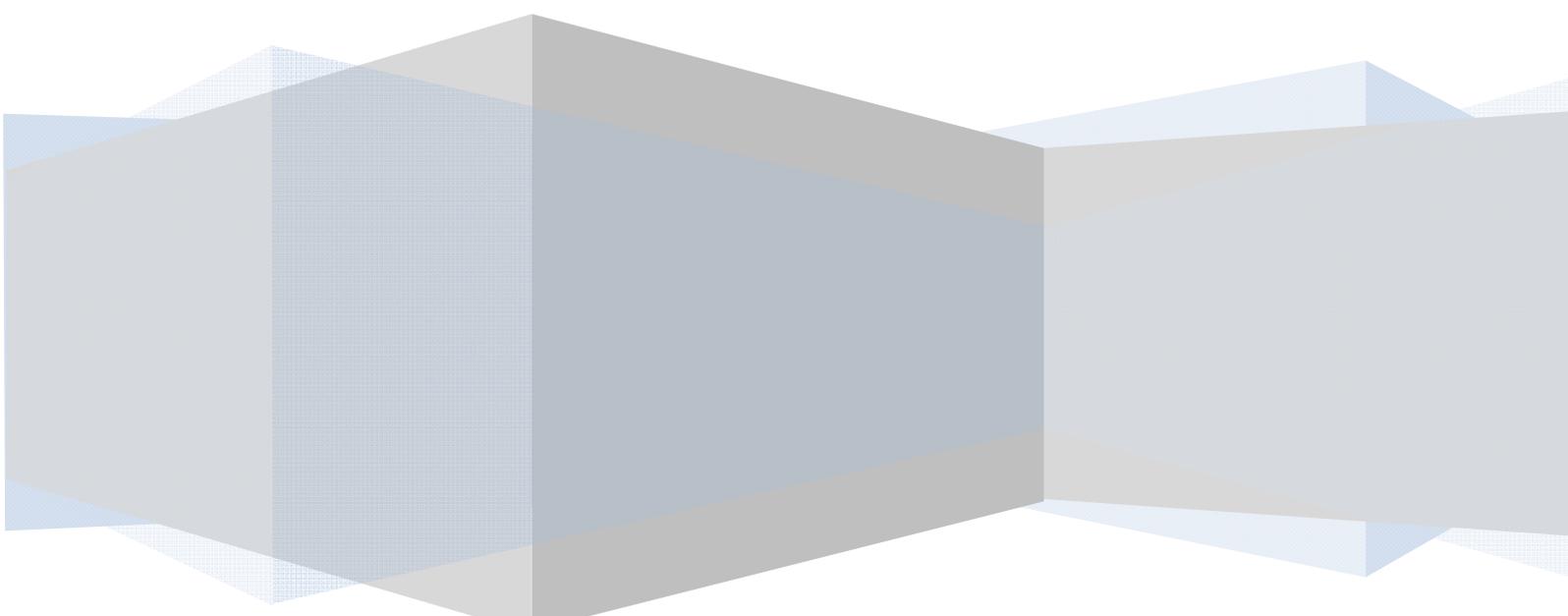
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Appendix A. a template for CEO remuneration reporting

A framework for reporting of CEO remuneration in New Zealand companies

Report prepared for the New Zealand Shareholder's Association by Jeremy Beckham



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Introduction

The purpose of this report is to introduce a template for reporting total remuneration received by CEOs of New Zealand listed companies.

Many other jurisdictions have already developed clear and prescriptive regulations for the detailed reporting of executive remuneration. New Zealand it seems has failed to keep pace with international standards. The template is intended to provide investors with a baseline understanding into what our CEOs are being paid and how this figure is arrived at.

A key concern is to avoid the lengthy and often complicated disclosures that sometimes result from legal compliance with reporting requirements. As such, it is proposed that the reporting template will operate as a self-regulatory tool on a comply-or-explain basis. The objective is assist an informed but not expert investor understand in comprehensive terms just how remuneration is aligned with value creation at shareholder level.

It is not a purpose of this report to provide guidance on the amount or composition of CEO remuneration which is a matter for the boards of each company to decide. The focus is on transparency of the terms negotiated and appropriate disclosure of information so that shareholders are informed and directors can be made accountable for the remuneration decisions they make.

Remuneration template

Total remuneration for 2015

Single figure CEO remuneration (2015)

2015 \$000	Salary and fees	Taxable benefits ¹	Subtotal	Pay for performance			Total remuneration
				STI	LTI	Subtotal	
CEO 2	xxx	xx	x,xxx	xx	xxx	x,xxx	x,xxx

Single figure CEO remuneration (2014)

2014 ² \$000	Salary and fees	Taxable benefits	Subtotal	Pay for performance			Total remuneration
				STI	LTI	Subtotal	
CEO 2	xxx	xx	x,xxx	xx	xxx	x,xxx	x,xxx
CEO 1	xxx	xxx	x,xxx	xxx	xxx	x,xxx	x,xxx

Five year summary – CEO remuneration

		Single figure remuneration \$000	Percentage STI against maximum	Percentage vested LTIs against maximum	Span of LTI performance period
2015	CEO 2	x,xxx	xx%	xx%	2012 – 2015
2014	CEO 2	x,xxx	xx%	xx%	2011 – 2014
	CEO 1	x,xxx	xx%	xx%	...
2013	CEO 1	x,xxx	xx%	xx%	...
2012	CEO 1	x,xxx	xx%	xx%	...
2011	CEO 1	x,xxx	xx%	xx%	...

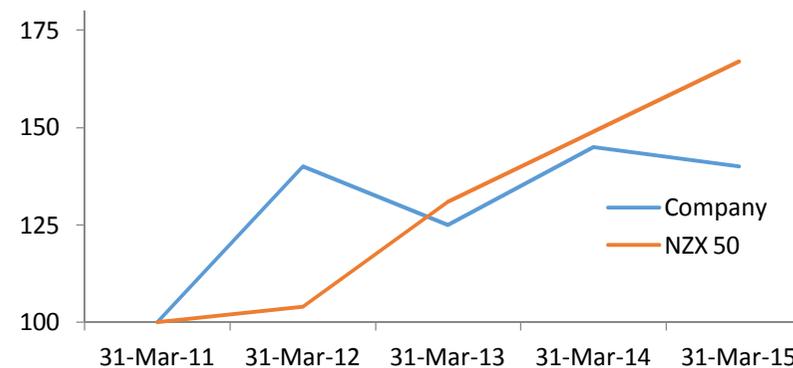
Explanation of the above items

Note	Explanation
1	Taxable benefits include the use of a company car and provision of a low interest loan. During the year ended 31 March 2014 the Company made a loan with a face value of \$3.28m to CEO 1
2	On 18 October 2014 the Company appointed CEO 2 to take over the running of ...
3	...
4	...
5	...

Breakdown of pay for performance (2015)

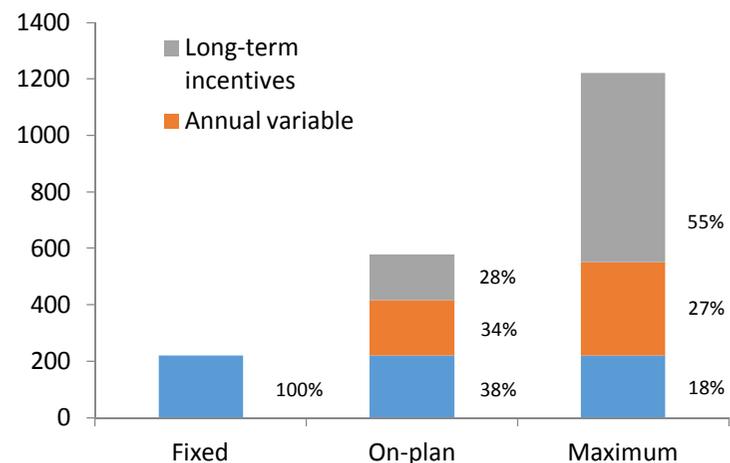
	Description	Performance measures	Percentage achieved
STI	Set at 30% of at-risk pay. Based on a combination of financial and non-financial performance measures.	75% weighting operating profit before tax. Threshold for vesting (25%) at 5% increase from FY14 and maximum vesting at 50% increase from FY14; pro-rata vesting in between.	xx%
		25% weighting increase in market share. Maximum vesting at 25% increase in market share, no vesting for decrease in market share and pro-rata vesting in between.	xx%
LTI	Conditional awards of shares under the long-term incentive scheme	50% weighting relative TSR performance against NZX 50 (fixed at date of grant) with 25% vesting at median and 100% at upper quartile; pro-rata vesting in between.	xx%
		50% weighting EPS growth 3% per annum over RPI for threshold vesting (25%) and 8% per annum for maximum vesting – pro rata vesting in between.	xx%

Five year summary – TSR performance



Remuneration policy and disclosures

Scenario charts – CEO remuneration performance pay



Explanation of remuneration policy and items in scenario charts

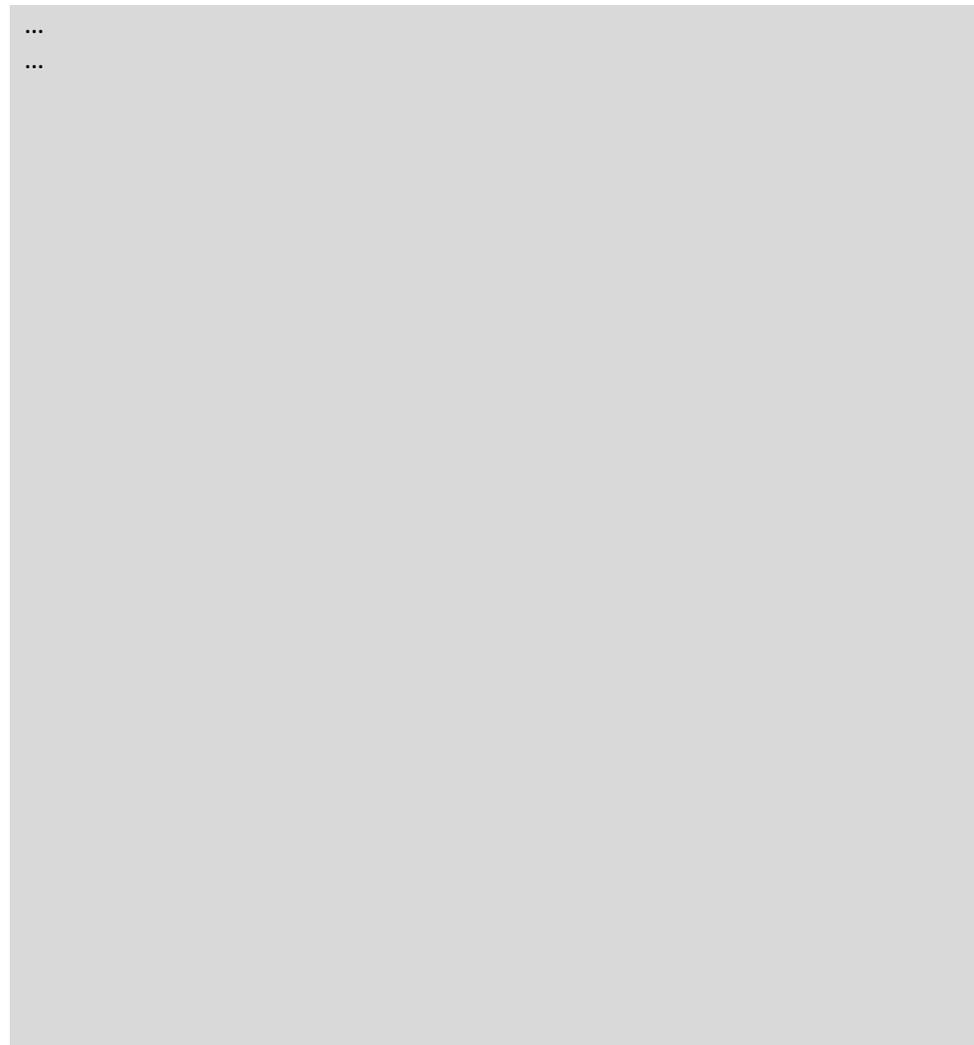
Fixed remuneration comprises of salary and taxable benefits and is based on amounts reported in the single figure remuneration breakdown as there are no anticipated changes. Base salary is set at \$220,000 per annum. The annual variable element pays out at 90% of base salary for on-plan performance or ...

Scheme interests awarded to CEO in 2015

Type of scheme interest	Basis of award	Face value of award and % of award vesting at threshold	Length of vesting period	Summary of performance measures and targets
e.g. shares, options	X times base salary, x number of shares at market price on date	\$x,xxx face value, 20% vesting at threshold performance	Date performance period ends e.g. 31 March 2017	Short narrative of performance criteria <ul style="list-style-type: none"> ▪ criteria one ▪ criteria two

Required disclosures per guidelines

...



The elements of total CEO remuneration

This section of the report provides guidelines as to the measurement and reporting of items included in the remuneration template. The guidelines are in place to promote comparability as they ensure consistency between companies using the remuneration template as a reporting tool.

Single figure for CEO remuneration

An investors' key interest is not in knowing the single total figure remuneration but in understanding what this figure is comprised of and how it was arrived at. It is important that the single total figure remuneration include all types of reward that accrue to the CEO and that these are broken down into their various components.

Salary and fees

Salary and fees will include all cash paid to or receivable by the CEO in respect of the financial period in relation to periodic remuneration.

Taxable benefits

Taxable benefits will apply to most other elements of compensation that are not at risk and not included within salary and fees above. It will include:

- The taxable value of attributed fringe benefits provided to the CEO in relation to which the Company is liable to pay Fringe Benefit Tax (FBT);
- The settlement of tax liabilities on behalf of the CEO that may arise in relation to any other component of remuneration (for example on share options);
- Cash value of any employer contributions to KiwiSaver or other superannuation contributions made before any employer superannuation contribution tax (ESCT) or PAYE has been withheld;
- Any cash payments made directly to the CEO in lieu of retirement benefits;

- Any other taxable benefit within the charge to income tax not dealt with under the foregoing categories (for example recruitment payments or compensation for loss of office).

Where a taxable benefit has been received but the CEO is not yet economically entitled to that benefit because it is connected to performance measures or targets then it will be appropriate to exclude this item until such time as those performance measures or targets have been met. This may for example be the case with certain dividends connected to LTI arrangements.

Short-term incentives (STIs)

STIs in the reporting period will reflect the cash value or cash equivalent of amounts or other assets receivable where entitlement is determined by the achievement of performance measures or targets that relate only to the current period and is not the result of an award made in a previous period. This will include amounts that are deferred provided that deferral is not subject to the achievement of further performance measures or targets in a future period. In borderline cases, companies may wish to explain in the notes their classification of deferred amounts as either a deferred short-term incentive or an unvested long-term incentive in the breakdown of the single figure for remuneration.

Long-term incentives (LTIs)

LTIs will include the cash value or cash equivalent of amounts or other assets received where entitlement is determined by the achievement of performance measure or targets across more than one period. The notes should also disclose whether any LTI awards settled in equity have been met via the issue of new shares or with equity bought on market.

These items will be reported in the period where final vesting is determined i.e. as a result of the achievement of performance measures or targets within the current period and not contingent on the satisfaction of performance measures or targets in a future period. It is the value of shares or share options at vesting that is important for reporting purposes. Any gain or loss on the value of shares that have vested and any increase or decrease on the subsequent exercise of a share option after vesting is not recorded in the single figure of remuneration.

Measurement will depend on the type of interest that has vested:

- Any monetary award will be reported at cash value;

- The value of shares or options will be reported by first multiplying the original number of shares or options awarded by the actual number that vest (or is estimated to vest if the amount is not yet known). The result then will be multiplied by the market value of the interest on the date of vesting.

The value of vested shares determined above must include any accumulated dividends rolled up into the shares and the value of vested options will be less any exercise price the CEO is required to pay. Where the value returned is negative then the value is deemed to be nil. Investors will expect an explanation of the methodology used to determine market value on the date of vesting to be disclosed in the notes. If estimates are needed to support the valuation then this should also be disclosed and the figures adjusted in future periods when full information relating to the attainment of performance conditions is available.

Five year summary – CEO remuneration

The five year summary is a table that will present in simple terms historic levels of CEO pay alongside an indication of the relative attainment of performance pay against maximum opportunity over a five year period. The five year period will assist investors in understanding the relationship between performance and pay over a longer term and will make use of information reported elsewhere in the template. This may need to be calculated retrospectively for previous years at least initially until prior period figures are available to draw upon.

The amount reported in the single figure remuneration column should be consistent with the guidelines and totals disclosed in the single figure remuneration breakdown discussed above. A percentage total of the annual variable element achieved against maximum opportunity will need to be reported for each of the at-risk components:

- The STI achieved for each period will be expressed as a percentage of the maximum bonus that could have been earned in respect of that period;
- The vesting of LTIs in each period will be expressed as a percentage of the maximum number of shares that could have vested in that period or as a percentage of the maximum amount that could have been paid in that period where settlement takes place in cash or other assets.

In relation to LTIs that have vested in the period an additional column has been added to provide investors with information on the relative span of the performance period across which vesting has been determined.

Breakdown of pay for performance

The breakdown of pay for performance will provide further information on performance related pay in the most recent period. The total percentage award achieved should match amounts reported in the five year summary. A description and breakdown of the relative performance measures related to the STI and LTI components of remuneration should be included with sufficient detail to allow an investor to understand the process of how at-risk pay has been calculated. A key reason for including this breakdown is transparency regarding the company's remuneration policy. It will allow the investor to form an assessment of whether the setting of remuneration is appropriately aligned with performance.

If full information is not available and estimates are required then this should be disclosed in the notes. Where the performance measures selected are commercially sensitive then omission is acceptable provided the company makes a commitment to disclose these measures when it is no longer the case that they are commercially sensitive and the company explains its reasons for omitting this information. Performance measures that are based on publicly available information are preferred and these will not normally be accepted as being commercially sensitive.

Five year summary – TSR performance

The aim of the five year total shareholder return (TSR) performance graph is to aid comparability between company performance and the remuneration information presented elsewhere in the template. It is expected to complement the five year summary of CEO remuneration and provide useful insight into the past remuneration decisions of the company.

A line graph will depict the TSR for a holding of the company's shares for the previous five years alongside the TSR of an appropriate comparator group of shares of the same kind and number belonging to a specified broad equity market index. The graph is expected to represent the greatest benefit for retail shareholders who will not always have access to market data to readily assess company performance. These guidelines do not seek to prescribe a particular TSR methodology although it is preferable that this be consistent with performance measures that make use of TSR to assess performance as far as possible. Key elements such as assumptions regarding the reinvestment of income and whether averaging is used in calculating TSR will need to be explained in the required disclosures. The company's reasons for selecting a particular index or comparator group will also need to be disclosed.

If a company's shares have only recently been publically traded then it may not be possible to ascertain share price information. In these circumstances it would be reasonable to plot the graph from the earliest point where this information is available provided that disclosure is made.

Remuneration setting and policy framework

This section of the report deals with the forward-looking element of the remuneration template and has been included to provide details of the company's remuneration policy and how the components of the remuneration package for the CEO have been set for the upcoming period.

Scenario charts – CEO remuneration performance pay

The scenario charts are essentially a visual representation in the form of a bar graph of a company's policy for CEO remuneration. This format is expected to provide some indication of the expectations of the remuneration committee when setting CEO remuneration although is not intended to be a prediction of future remuneration. The bar graph will present three alternative scenarios illustrating remuneration payable where performance meets, exceeds or falls short of target performance. The graph should state in percentage terms what proportion of total remuneration is comprised of fixed, annual variable and LTI components in each of the three scenarios described in further detail below.

STIs will be measured at face value of the cash value or cash equivalent of amounts or other assets receivable. Long-term incentives will be measured at face value at the time the award is made with no allowance for share price appreciation or dividends prior to vesting. Where options are granted these should be measured at the time of the award using an appropriate valuation methodology with a sufficient explanation of the valuation method provided in the notes. An explanation of the remuneration policy should also state as a percentage of salary the amount of STIs that will be paid or the proportion of long-term incentives awarded that will vest in each of the three scenarios.

Fixed

Fixed components of CEO remuneration such as salary and benefits will represent the minimum remuneration receivable in a given period. Because the scenario charts are an indication of future remuneration the amounts may differ from those reported in the single figure for CEO

remuneration. For example, the amounts may be adjusted to reflect a confirmed change to salary entitlement or to exclude non-recurring items reported under the taxable benefits column. Where there are no expected changes to amounts reported in the prior period it will be appropriate to use prior period amounts as the last known figures.

On-plan

On-plan remuneration reported in the bar graph should be a reflection of remuneration receivable by the CEO at target performance. This is an important signal to investors regarding what percentage of at-risk pay is expected to accrue to the CEO if the company performs in line with expectations and may align with vesting at threshold performance.

Maximum

Maximum reported CEO remuneration should reflect the maximum level of remuneration that may be payable to the CEO if all set performance hurdles were exceeded. This will come down to the particulars of each remuneration policy although amounts reported should assume that the CEO makes all the decisions or elections available to him/her to increase the size of the award.

[Table of scheme interests awarded to CEO](#)

A table has been included in the remuneration template to provide details of scheme interests that have been awarded to the CEO in the current period but where vesting has yet to occur. The level of detail included should be sufficient enough to help investors understand the nature of the scheme interest as well as the criteria by which vesting will be determined. This will depend on the particulars of each scheme but may include:

- Type of scheme interest e.g. performance shares, market value options;
- An indication of the basis of the award or policy by which the award is set;
- An indication of the face value of the award and amount that will vest at threshold performance (if applicable). Companies should consider disclosing further information where appropriate. Examples include the maximum award that may vest if greater than face value and fair value of the award in circumstances where face value is not a reasonable indication of value (e.g. discounted options are used);
- Length of the performance period or a vesting schedule where an award has multiple performance periods that need to be explained;

- An indication of the performance measures and targets that need to be satisfied for vesting to occur including the relative weightings of each measure.

Required disclosures

In addition to the above information these guidelines prescribe a number of additional disclosure items to be reported in the template. Companies are expected to respond to any of the following items that are applicable to their remuneration practices and provide an appropriate level of disclosure or explanation to investors:

1. Disclosure of the pay gap between CEOs and employees expressed as a multiple of the single figure for CEO remuneration over the median pay of all the company's employees. CEO remuneration should be consistent with the remuneration report however sampling will be permitted to estimate the median pay of workers if it is expected this information may be difficult to ascertain;
2. Explanation of the key elements of the TSR methodology adopted in the five year summary performance graph and reasons for selecting a particular index or comparator group to indicate relative performance;
3. Details of any discretion that has been exercised by the Board or the remuneration committee in respect of any award and what result this has had on the level of award that has been determined;
4. Explanation of any information that has been omitted on the basis that it is commercially sensitive including reasons for the omission and an indication of when the company expects this information can be made known;
5. Any items in the nature of remuneration or indirect benefits that are not included in any category of the single figure for total remuneration. This may include items where no taxable benefit arises due to an available exemption or items that cannot be attributed directly to the CEO because the benefit accrues to a wider group of employees (such as company contributions to certain defined benefit schemes);
6. Key terms of any benefit that accrues to the CEO because of a loan made, guaranteed or secured by the Company or any related party;
7. An explanation of amounts withheld, recovered or clawed back in relation to items of remuneration paid or awarded that have been reported in previous periods and how these have been recognised in the remuneration report;

8. A brief summary of any estimates used in the remuneration report and disclosure of any amounts that have changed from prior periods when actual figures are known;
 9. Details of any remuneration arrangement that involves the use of related parties or subsidiary entities making awards available to the CEO or involves awards made to a close family member of the CEO or entity over which the CEO has control or influence. This should include an explanation of how this has been reflected in the remuneration report;
 10. Details of any payments made to past CEOs, payments for loss of office or termination payments that are not already included and separately disclosed in the reported single figure for CEO remuneration. This should extend to all amounts that would be included in the remuneration report were the person still the current CEO of the company. It is expected that these will already have been reported under the “taxable benefits” component of CEO remuneration if they are received by the CEO in the year of exit and therefore only residual disclosure of items is needed where there has been some deferral of payment;
 11. Disclosure of where measures based on fair value are used in the determination of scheme interests awarded to the CEO in the current year. Where this is the case, a separate disclosure should also be made that indicates the value of the award in terms of current market value (this disclosure can be made either in the table of scheme interests awarded to CEO under ‘basis of award’ or in the notes).
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