



Proposed UK Disclosure Rules

Top Eight Executives below the Board

22 December 2011

By Julian Ingleby and Lex Verweij

BOSTON

33 Railroad Avenue
 Duxbury, MA 02332
 Tel: +1 781 934 8400

CHICAGO

Aon Center
 200 East Randolph Street, 10th Floor
 Chicago, IL 60601-6421
 Tel: +1 312 381 9700

DUBAI

Dubai International Financial Centre
 Currency House | Tower 2, Level 5
 P.O. Box 506706
 Dubai, United Arab Emirates
 Tel: +971 (4) 389 6444

HONG KONG

2601-05 Shell Tower, Times Square
 1 Matheson Street
 Causeway Bay, Hong Kong
 Tel: +852 2840 0911

LONDON

Lloyds Chambers, 5th Floor
 1 Portsoken Street
 London E1 8BT, England
 Tel: +44 207 680 7400

MINNEAPOLIS

3600 American Boulevard West
 Suite 110
 Minneapolis, MN 55431
 Tel: +1 866 280 3720

NEW YORK

199 Water Street, 12th Floor
 New York, NY 10038
 Tel: +1 212 441 2000

SHANGHAI

36/F, Shanghai Central Plaza
 381 Huai Hai Road Middle
 200020 Shanghai, China
 Tel: +86 21 2306 6688

STAMFORD (Headquarters)

1600 Summer Street, Suite 601
 Stamford, CT 06905
 Tel: +1 203 359 2878

TOKYO

Akasaka Twin Tower, 16th Floor
 17-22, Akasaka 2-chome
 Minato-ku, Tokyo 107-0052
 Japan
 Tel: +813 3237 4300

www.mclagan.com

The UK Treasury is consulting on proposed regulations to require larger banks to publish anonymous remuneration details for each of the top eight UK-based executives below the board “to enhance the transparency of the relationship between risk and reward for the highest paid senior executives in the largest banking institutions.” The consultation runs until 14 February 2012.

If implemented as drafted the first disclosure would be remuneration for performance-years beginning on or after 1 January 2011, which would be required by the end of 2012. For subsequent years disclosure is required by the normal accounting deadlines.

Firms in Scope – “Relevant Banking Institutions”

The proposals target banks and BIPRU 730k firms (in essence, banks / building societies that carry out certain activities such as underwriting, brokerage or dealing on its own account) based in the UK, plus the UK subsidiaries or branches of firms outside the European Economic Area. Any such firm with UK-attributable assets exceeding £50 billion is included. Firms from within the EEA are exempt under “passporting” arrangements that mean their home country requirements apply to their UK operations, rather than the UK’s.

Non-EEA firms with multiple UK-based branches / subsidiaries must test against the £50 billion asset threshold by looking across the aggregate balance sheet of all UK-based banking branches / subsidiaries.

People in Scope – “Relevant Executives”

The highest-paid eight employees in “managerial” positions. For UK-listed firms, main board directors are excluded (as their remuneration is already disclosed in the Directors’ Remuneration Report). For non-EEA firms, the eight highest-paid managers in the UK are covered (though a single disclosure by the parent across all the firm’s in-scope UK operations is permissible).

Guidance talks about individuals with significant managerial responsibility and budgetary control, most likely reporting directly to the CEO and with the highest level of operational decision-making responsibility outside the board-room.



BOSTON

33 Railroad Avenue
Duxbury, MA 02332
Tel: +1 781 934 8400

CHICAGO

Aon Center
200 East Randolph Street, 10th Floor
Chicago, IL 60601-6421
Tel: +1 312 381 9700

DUBAI

Dubai International Financial Centre
Currency House | Tower 2, Level 5
P.O. Box 506706
Dubai, United Arab Emirates
Tel: +971 (4) 389 6444

HONG KONG

2601-05 Shell Tower, Times Square
1 Matheson Street
Causeway Bay, Hong Kong
Tel: +852 2840 0911

LONDON

Lloyds Chambers, 5th Floor
1 Portsoken Street
London E1 8BT, England
Tel: +44 207 680 7400

MINNEAPOLIS

3600 American Boulevard West
Suite 110
Minneapolis, MN 55431
Tel: +1 866 280 3720

NEW YORK

199 Water Street, 12th Floor
New York, NY 10038
Tel: +1 212 441 2000

SHANGHAI

36/F, Shanghai Central Plaza
381 Huai Hai Road Middle
200020 Shanghai, China
Tel: +86 21 2306 6688

STAMFORD (Headquarters)

1600 Summer Street, Suite 601
Stamford, CT 06905
Tel: +1 203 359 2878

TOKYO

Akasaka Twin Tower, 16th Floor
17-22, Akasaka 2-chome
Minato-ku, Tokyo 107-0052
Japan
Tel: +813 3237 4300

www.mclagan.com

Though disclosure is anonymous, given the existing requirement for UK-listed companies to report, on a named basis, all share-based remuneration to “Persons Discharging Managerial Responsibility”, it may be possible to deduce the names of those for whom Executive Remuneration Report disclosure is made.

What is required for these people under these proposals?

- Preparation of an Executive Remuneration Report each year;
- The Executive Remuneration Report must be approved by the board of directors of the responsible institution, signed by a director or secretary and published on the website and via a regulated information service;
- For each individual, the Executive Remuneration Report must show the information shown overleaf:

	Individual 1	
Fixed Remuneration		X
Upfront Variable Remuneration - Cash	X	
Upfront Variable Remuneration - Equity	X	
Upfront Variable Remuneration - Other	X	
Deferred Variable Remuneration - Cash	X	
Deferred Variable Remuneration - Equity	X	
Deferred Variable Remuneration - Other	X	
Total Variable Remuneration		X
Long Term Incentive Plan Awards		X
Pension Awards		X
Total Remuneration		X
Sign-on Award		X
Severance Award		X

Where

- **Long Term Incentive (LTI)** – the value vesting. LTI defined as deferred compensation subject to conditions that cannot be satisfied in a single financial year (not bonuses determined by reference to a single financial year, and excludes compensation for loss of position etc., pension benefits)
- **Pensions** – Defined benefit: change in the value accrued benefits in the year; Defined contribution: company contributions.



BOSTON
33 Railroad Avenue
Duxbury, MA 02332
Tel: +1 781 934 8400

CHICAGO
Aon Center
200 East Randolph Street, 10th Floor
Chicago, IL 60601-6421
Tel: +1 312 381 9700

DUBAI
Dubai International Financial Centre
Currency House | Tower 2, Level 5
P.O. Box 506706
Dubai, United Arab Emirates
Tel: +971 (4) 389 6444

HONG KONG
2601-05 Shell Tower, Times Square
1 Matheson Street
Causeway Bay, Hong Kong
Tel: +852 2840 0911

LONDON
Lloyds Chambers, 5th Floor
1 Portsoken Street
London E1 8BT, England
Tel: +44 207 680 7400

MINNEAPOLIS
3600 American Boulevard West
Suite 110
Minneapolis, MN 55431
Tel: +1 866 280 3720

NEW YORK
199 Water Street, 12th Floor
New York, NY 10038
Tel: +1 212 441 2000

SHANGHAI
36/F, Shanghai Central Plaza
381 Huai Hai Road Middle
200020 Shanghai, China
Tel: +86 21 2306 6688

STAMFORD (Headquarters)
1600 Summer Street, Suite 601
Stamford, CT 06905
Tel: +1 203 359 2878

TOKYO
Akasaka Twin Tower, 16th Floor
17-22, Akasaka 2-chome
Minato-ku, Tokyo 107-0052
Japan
Tel: +813 3237 4300

www.mclagan.com

How does this fit with existing disclosure requirements?

Last year, the four largest UK banks (Barclays, HSBC, LBG, RBS) agreed with the UK Government to publish similar details for the five highest paid "senior executive officers" below the main board. The proposals under consultation build on those disclosures and extend them to more firms.

	Source of disclosure requirement	Level of remuneration disclosure	Full requirements
Board Directors	UK Companies Act 2006 / FRC Listing Rules	Individual, named	www.legislation.gov.uk/ukxi/2002/1986/schedule/made
"Relevant executives"	This current Treasury consultation	Individual, anonymous	www.hm-treasury.gov.uk/d/condoc_bank_executive_remuneration_disclosure_6122011.pdf
Code staff	UK FSA interpretation of Pillar 3 requirements	Collective	http://fsahandbook.info/FSA/html/handbook/BIPRU/11/5(11.5.18)

ABOUT THE AUTHORS

Julian Ingleby is a Vice President in McLagan’s London office who consults with UK and international Banking & Capital Markets clients on executive compensation, compensation strategies and design, the regulatory environment and the alignment of reward to performance. Julian has a broad range of international reward experience in consulting and corporate HR.

He can be reached at +44 20 7680 3832 or julian.ingleby@mclagan.com.

Lex Verweij is Head of Europe for McLagan, consulting around regulatory compliance, executive compensation and performance management globally. He has previous experience as a consultant and an HR Director, as well as advising international regulatory bodies to help improve international alignment and significant experience working with global and regional firms on regulatory developments and compliance.

He can be reached at +44 20 7680 3809 or lverweij@mclagan.com.