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KPMG's Guide to Non- Executive Directors' Fees 2010

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Introduction

This guide analyses the latest trends in FTSE 350 non-executive directors' fees. This Guide follows on from and should be used in conjunction with KPMG's Guide to Executive Remuneration 2010.

The analysis in this guide is based on published annual report and accounts of each company as of 30 June 2010.

FTSE constituents and market capitalisation figures are as at 31 May 2010 and turnover figures used for the analysis are as at the relevant reporting date for each company.

Data sources

Unless otherwise stated, all graphs and tables in this guide have been created by KPMG from data provided by Incomes Data Services (IDS). The data provided by IDS has been further analysed by KPMG, using the methodology outlined in the Appendix.

Fee increases

Traditionally, non-executive director fees were not reviewed annually; it was more common to review fee levels every two or three years. As we noted last year, anecdotal evidence suggests that some companies have begun to conduct annual reviews, in line with the practice for executive directors. However, this still appears to be a minority practice.

Despite the growing responsibilities of non-executive directors and the increasing scrutiny of the role, difficult economic conditions appear to have influenced company practice on fee levels. Many companies which froze basic pay for executive directors also froze fee levels for non-executives. More than 65% of FTSE 350 companies that have been in the same index for both 2009 and 2010 have not increased fee levels over the period.

Unchanged fee (% of companies)		
	Chairman	Other non-executive director
FTSE 100	66%	68%
FTSE 250	67%	75%

Where increases have been given, these often reflect the fact that a review may not have been carried out for one or two previous years, and as such they may be higher than those for executives.

The following tables show the fee increases for the FTSE 100 and FTSE 250 for companies which did increase fee levels. The figures are based on matched samples of individuals as a percentage of base fees.

		Lower quartile	Median	Upper quartile
FTSE 100	<i>Non-executive Chairman</i>	8%	21%	27%
	<i>Other non-executive directors</i>	5%	11%	24%
FTSE 250	<i>Non-executive Chairman</i>	2%	8%	20%
	<i>Other non-executive directors</i>	3%	6%	14%

Non – executive chairman

The chairman is responsible for the leadership of the board, ensuring effectiveness in all aspects of its role and setting its agenda. The chairman has ultimate responsibility for the board and so has a role distinct from that of the other non-executive directors. In some companies this may be close to a full-time role. Consequently there is typically a significant fee differential between the chairman and other non-executive directors.

The following tables show the total non-executive chairman fees broken down by market capitalisation, turnover and industry, inclusive of any committee fees and irrespective of time commitment. As would be expected, those chairing the largest companies are paid significantly more than those in companies in lower bands.

Chairman fees by market capitalisation

	Market capitalisation	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	400	575	670
	£5bn - £10bn	275	335	461
	<£5bn	215	268	333
	All FTSE 100	245	300	420
FTSE 250	>£1.5bn	204	240	355
	£500m - £1.5bn	150	180	235
	<£500m	124	144	162
	All FTSE 250	141	165	208

Chairman fees by turnover

	Turnover	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	361	495	665
	£2.5bn - £10bn	246	300	341
	<£2.5bn	200	250	347
	All FTSE 100	245	300	420
FTSE 250	>£2.5bn	197	245	300
	£500m - £2.5bn	150	173	208
	<£500m	119	150	173
	All FTSE 250	141	165	208

Median chairman fee differentials by sector

	FTSE 100		FTSE 250	
	Median fee (£000s)	Median fee differential relative to all sectors	Median fee (£000s)	Median fee differential relative to all sectors
Chemicals and pharmaceuticals	343	14%	155	(6%)
Construction and building materials	361	20%	200	21%
E-business, software and computer services	185	(38%)	208	26%
Engineering, electrical and other manufacture	300	0%	160	(3%)
Finance	370	23%	158	(4%)
Food, drink and tobacco	410	37%	179	8%
Media, marketing and telecommunications	450	50%	200	21%
Oil, gas and minerals	239	(20%)	150	(9%)
Other services	230	(23%)	150	(9%)
Property	349	17%	150	(9%)
Retail and distribution	300	0%	173	5%
Transport and leisure	306	2%	177	7%
Utilities	268	(11%)	180	9%
All	300	0%	165	0%

Deputy chairman and senior independent director

Most companies now identify a senior independent director (SID) which role generally attracts an additional fee. The SID is responsible for leading the non-executives in their review of the chairman's performance as well as being available to shareholders so as to gain a balanced understanding of the issues and concerns they may have.

In some organisations the deputy chairman fulfils the role of the SID and over recent years the differences between the two roles have become blurred. However, based on information disclosed, the role of deputy chairman is still more likely to attract a higher premium than the role of SID. If the two roles are combined and the deputy chairman is also the SID then it is standard practice that no additional fee is paid for the SID role.

Deputy chairman fees

The following table show the total fees for the position of non-executive deputy chairman for the FTSE 100 and FTSE 250.

		Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	Deputy Chairman	80	113	165
FTSE 250	Deputy Chairman	50	60	100

Senior independent director additional fees

The table below shows the additional fees paid to SIDs for the FTSE 100 and FTSE 250. It should be noted this is in addition to the basic non-executive directors' fee.

		Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	Senior Independent Director	10	13	20
FTSE 250	Senior Independent Director	5	5	10

Other non-executive directors

The following tables show the fees for non-executive directors who are not classified as being a chairman, deputy chairman and/or senior independent director. The figures are broken down by market capitalisation, turnover and industry, and are inclusive of any committee fees and irrespective of time commitment.

Non-executive director fees by market capitalisation

	Market capitalisation	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	65	70	76
	£5bn - £10bn	55	60	61
	<£5bn	45	54	57
	All FTSE 100	50	55	65
FTSE 250	>£1.5bn	-	52	-
	£500m - £1.5bn	40	45	50
	<£500m	34	37	40
	All FTSE 250	39	41	50

Non-executive director fees by turnover

	Turnover	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	60	65	75
	£2.5bn - £10bn	46	55	60
	<£2.5bn	47	54	60
	All FTSE 100	50	55	65
FTSE 250	>£2.5bn	40	47	50
	£500m - £2.5bn	40	41	48
	<£500m	36	40	50
	All FTSE 250	39	41	50

Median non-executive director fee differentials by sector

	FTSE 100		FTSE 250	
	Median fee (£000s)	Median fee differential relative to all sectors	Median fee (£000s)	Median fee differential relative to all sectors
Chemicals and pharmaceuticals	65	18%	41	0%
Construction and building materials	62	13%	48	17%
E-business, software and computer services	88	60%	40	(2%)
Engineering, electrical and other manufacture	54	(2%)	40	(2%)
Finance	63	15%	50	22%
Food, drink and tobacco	68	24%	40	(2%)
Media, marketing and telecommunications	60	9%	48	17%
Oil, gas and minerals	61	11%	48	17%
Other services	53	(4%)	40	(2%)
Property	50	(9%)	44	7%
Retail and distribution	54	(2%)	40	(2%)
Transport and leisure	58	5%	42	2%
Utilities	51	(7%)	39	(5%)
All	55	0%	41	0%

Committee fee practice

Over recent years we have seen a continuing increase in the number of companies paying additional fees for membership and chairmanship of the main board committees. This is to compensate non-executives for the increasing responsibilities and requirements attributed to their roles.

Principally this is seen with the audit and remuneration committees. In the FTSE 350, 77% of companies disclose an additional audit committee chair fee and 71% a remuneration committee chair fee.

Around a quarter of companies disclose a committee membership fee.

The tables below show the additional fees disclosed for chairing the main committees in FTSE 100 and FTSE 250 companies.

Company size again has an influence over the level of additional fees. The audit committee still commands the highest fee, although we have seen an increase in the level of remuneration committee fees over the last couple of years.

It should be noted that the nomination committee is often chaired by the company chairman, and in this situation the role is unlikely to attract additional committee fees.

Committee chairmanship fees

FTSE 100: Committee chairmanship fee levels

	Lower quartile	Median	Upper quartile
Remuneration	10	13	20
Audit	12	18	25
Nomination	6	10	13
Other	10	13	20

FTSE 250: Committee chairmanship fee levels

	Lower quartile	Median	Upper quartile
Remuneration	5	8	10
Audit	6	9	10
Nomination	5	6	10
Other	5	10	13

Committee membership fees

FTSE 100: Committee membership fee levels

	Lower quartile	Median	Upper quartile
Remuneration	5	8	13
Audit	5	10	15
Nomination	4	5	10
Other	5	6	10

FTSE 250: Committee membership fee levels

	Lower quartile	Median	Upper quartile
Remuneration	3	5	6
Audit	3	5	7
Nomination	0	2	5
Other	2	3	5

Appendix - Methodology

Median and quartile points

For the purposes of this guide, median information has been provided where there are four data points or more.

Inter-quartile ranges have been provided where there are nine or more data points. Quartiles have been calculated according to the conventional algorithm $K = (n+1) \times 0.25$ for lower quartile and $K = (n+1) \times 0.75$ for upper quartile where n is the number of observations. It should be noted that this may differ from the Excel® algorithm (Excel is a registered trademark of Microsoft Corporation in the United States and other countries).

Market capitalisation and turnover bands

These bands broadly cover the ranks of the FTSE 100 and FTSE 250 as follows:

Market capitalisation (as reported in the Financial Times Top 500 list, May 2010)

- >£10bn 1 to 30;
- £5bn to £10bn 31 to 60;
- <£5bn 61 to 100;
- >£1.5bn 101 to 130;
- £500m to £1.5bn 131 to 250;
- <£500m 251 to 350.

Turnover (as reported in the relevant annual accounts consolidated income statement)

- > £10bn 1 to 30;
- £2.5bn to £10bn 31 to 60;
- <£2.5bn 61 to 100;
- >£2.5bn 101 to 130;
- £500m to £2.5bn 131 to 250;
- <£500m 251 to 350.

How KPMG can help

KPMG is one of the UK's leading advisers on employee incentives and executive compensation.

We have a multi-disciplinary team, able to advise on the tax, regulatory, accounting, design, market practice and corporate governance aspects of UK and global incentive plans.

We have significant experience in advising on all of the following matters:

- design and implementation of incentive plans;
- executive compensation;
- corporate transactions;
- accounting, valuations and modelling;
- ongoing operation of incentive plans.

For further information please contact:

London

Chris Page

T +44 (0)20 7311 3319

E chris.page@kpmg.co.uk

Midlands

Renu Birla

T +44 (0)121 232 3585

E renu.birla@kpmg.co.uk

North

Martin Landells

T +44 (0)113 231 3355

E martin.landells@kpmg.co.uk

Scotland

Edward Norrie

T +44 (0)131 527 6724

E edward.norrie@kpmg.co.uk

Editor

Caroline Johnson

T +44 (0)20 7694 1296

E caroline.johnson@kpmg.co.uk

or your usual KPMG contact.

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