The Disclosure of UK Boardroom Pay: the March 2001 DTI proposals

Martin J. Conyon*

In March 2001 the government announced that new disclosure rules relating to UK boardroom pay would be introduced. This paper critically evaluates these proposals. The new proposals emerged from the government’s Directors Remuneration consultative document issued in July 1999. The current paper makes the following contributions to the governance literature. First, the new disclosure proposals are reviewed. I suggest that they are incomplete both in their detail and scope. I also suggest that the government has conceded that more US style executive compensation disclosure is required. Second, I describe US executive compensation disclosure practices. If convergence in disclosure practice is potentially desirable then a more systematic comparison and analysis of current disclosure policies in the two economies is warranted.

Keywords: Boardroom pay and information disclosure

Introduction

In July 1999 the government issued a consultation document on Directors’ Remuneration. It outlined a case for action supported by evidence from the professional services firm PricewaterhouseCoopers. Almost two years later, on Budget day, the Department of Trade and Industry signalled that secondary legislation was to be introduced regarding the disclosure of boardroom pay. The March 2001 announcement indicated that the government would introduce such legislation to strengthen the link between boardroom pay and performance.

This article provides a summary and critical analysis of these new proposals. It makes two substantive contributions to the UK corporate governance literature. First, the new executive compensation disclosure proposals are described. It is argued that these new proposals are incomplete both in detail and scope. For instance, the specific corporate performance measures that companies will be required to report are not signalled. Also, the economic impact of share option grants is not considered. Moreover, it is suggested that the government has conceded that more US style executive compensation disclosure is required. Second, US executive compensation disclosure practices are described. These practices are more systematic and generally more complete than their counterparts in the UK. If convergence in disclosure practice is desirable then a more systematic comparison and analysis of what is happening in the US is required.

The rest of the paper is organised as follows. The second section considers the current disclosure of UK boardroom pay. The third outlines the newly proposed secondary legislation, while the fourth outlines what is disclosed to shareholders in the United States. Finally, some concluding remarks are offered in the final section.

Disclosure of UK boardroom pay

The disclosure of executive compensation is a central governance issue (Conyon, 2000; Murphy, 1999). First, executive compensation contracts are used to motivate senior executives to take actions that promote value-
increasing activities for the owners of companies. Second, the corporate board is at the apex of the enterprise and is the final decision-making and ratification body within a firm. It needs to assure the owners of the firm that appropriate rewards and penalties have been instituted for senior management activities. This is especially important since a potential conflict of interests exists between shareholders (owners) and the board (managers). Shareholders (i.e., the owners) need to be assured that the corporate board has carried out its decision control functions (i.e., the monitoring and ratification of the management team) effectively. This is achieved in part by reporting to shareholders on matters relating to the reward/ remuneration structure in place for the senior management team. Murphy (1999) has reviewed the voluminous agency literature as it relates to executive compensation.

Current UK boardroom pay disclosure

The London Stock Exchange listing requirements govern the disclosure of UK boardroom pay for quoted companies. The rules are based heavily on the various corporate governance reports that emerged during the 1990s. The two most important governance reports relating specifically to directors’ pay are the Greenbury Report (1995) and the Hampel Committee Report (1998). Subsequent to the publication of the Hampel report a Combined Code was issued. The London Stock Exchange amended its listing requirements and appended the combined code to the rules.

The London Stock Exchange Listing rules require companies to make a disclosure statement in two parts. First, companies are required to report how the principles in the Combined Code are applied. Second, the company should confirm that it complies with Combined Code provision, or where it does not do so, should provide an explanation. It is important to stress that the Combined Code (1998) is appended to, but currently does not form part of, the London Stock Exchange’s Listing Rules. Conyon (2000), Conyon and Mallin (1997) and Conyon, Mallin and Sadler (2001) each consider the governance of executive compensation and UK disclosure.

New boardroom pay proposals (2001)

The Department of Trade and Industry issued a consultative document on directors’ pay in 1999 (http://www.dti.gov.uk/clc/condocs.htm). It contained a number of important proposals that would result in yet further involvement by policy makers in company affairs. The UK government has now signalled its intention to introduce secondary legislation in relation to boardroom pay disclosure (http://www.dti.gov.uk). The DTI announced: “The Government is to introduce new disclosure requirements on boardroom pay to improve linkage between pay and performance and strengthen the position of shareholders”. Moreover, the DTI statement indicates that secondary legislation will require quoted companies to accomplish the following:

1. “Publish a report on directors’ remuneration as part of the company’s annual reporting cycle;” DTI, March, 2001
2. “Disclose within the report details of individual directors’ remuneration packages, the role of the board’s remuneration committee, and the board’s remuneration policy as well as specific requirements relating to the disclosure of information on performance. Companies will in particular be required to provide a performance graph along the lines of the existing US requirement.” DTI, March, 2001

This initial statement by the DTI contains important features. First, the view is expressed that disclosure is the way to link executive pay more effectively to corporate performance. Second, the report stresses that comparative performance indicators along the lines currently existing in the USA will be introduced into the UK. The DTI declaration issued by Mr. Byers (Secretary of State) indicates such a willingness to converge to US style disclosure. Mr. Byers concedes that: “Companies and shareholders around the world increasingly recognise the importance of a proper link between pay and performance in the boardroom. In the US, companies are already required to publish performance measurement comparisons. I believe we should do the same.” However, as I indicate in the following section, US quoted companies disclose more information, and in a more systematic way, than current UK practice or the DTI proposals. This is particularly true in the case of share options where US companies are required to disclose the expected value of option grants.

The Secretary of State has indicated that pay for performance is the crucial issue when establishing boardroom compensation. Mr. Byers reiterates the Government view that: “UK companies must be able to attract and retain the best executives in the world to run their businesses and be able to pay world
class pay for world class performance. But rewarding poor performance is bad for companies and shareholders”. He continues by stating that “Linkage to performance is a matter for the members of the board’s remuneration committee, but it is also rightly a matter of concern to shareholders.”

For these reasons, then, the DTI has seen fit to expand the amount of information disclosed and to underpin this through secondary legislation. “Boards of directors face an obvious conflict of interest in relation to directors’ remuneration. This is an area where it is important that shareholders are actively engaged. This significant package of new disclosure rules will help to ensure that shareholders have the necessary information to enable them to assess a company’s policy on boardroom pay.”

The specific DTI proposals (2001)
The DTI has indicated that the “new provisions under the Companies Act 1985 would require companies to make disclosures on all aspects of directors’ remuneration, including performance linkage, within a single report which formed part of the company’s annual reporting cycle.” The DTI has signalled that the report would contain the following four main elements:
1. Consideration by the Board of matters pertaining to directors’ remuneration;
2. A statement of the company’s policy on directors’ remuneration;
3. Details of each director’s remuneration in the preceding financial year;
4. Performance graphs.

Consideration by the Board of matters pertaining to directors’ remuneration
So far, the government has indicated that remuneration committees should be made up entirely of independent non-executive directors. The DTI indicates that the disclosure requirement could (not will) require information on the following: (i) membership of the remuneration committee; (ii) whether the board had accepted the committee’s recommendations without amendment; (iii) the name of each firm of remuneration consultants which had advised the committee.

There are two important observations here which cast doubt on the completeness and scope of the proposals. First, the phrase “independent non-executive” is used frequently within corporate governance debates, and is of course important. However, little guidance on the meaning of what constitutes “independent” is offered. In the USA there are various corporate governance guidelines that address this issue and centre on matters as to whether the (outside) non-executive director was a recent executive employee or has business links with the company etc. Second, there is a potential danger that the proposed information to be disclosed becomes simply a long and arbitrary “wish-list” rather than economically useful information to shareholders and other interested bodies. For instance, in the USA information on whether the corporate board is “interlocked” or not is contained within proxy statements. So far, such a proposal has not been raised in the UK context, and whether it should be or not ought to depend on whether the economic benefits of such disclosure outweigh the costs.

A statement of the company’s policy on directors’ remuneration
The DTI has indicated that the company “board of directors would be required to make some specific disclosures as part of the policy statement.” The specific disclosure requirements would include:
1. “Details of, and an explanation of, performance criteria for long-term incentive and share option schemes, or of any amendments, or proposed amendments, to the terms and conditions of such schemes”;
2. “Details of, and an explanation of, comparator group(s) of companies”;
3. “An explanation of the balance between elements in the package which are and are not related to performance”;
4. Details of, and an explanation of, the company’s policy on contract and notice periods for executive directors, and on compensation to former directors.

Most of these proposals seem sensible and, I suspect, many companies would claim that in large part they are already providing much of this information in the remuneration committee report. The devil is, as is often remarked, in the detail. Exactly how are “details of, and an explanation of, performance criteria for long-term incentive and share option schemes, or of any amendments, or proposed amendments, to the terms and conditions of such schemes” to be reported to shareholders? Is the information to be provided in the same way by all companies and in the same format? If so, then relevant cross company comparisons can be made with ease.

Details of each director’s remuneration in the preceding financial year
The DTI envisions that “this would broadly replicate the current requirements in the
Listing Rules, but companies would be required to present the information in a prescribed, tabular format to facilitate comparison between companies. This section would also require boards to provide a post hoc justification of compensation payments.” This recommendation is to be welcomed. Investors, academics and other interested parties who have wanted to scrutinise UK accounts and compare different companies have often been left bewildered by the number of heterogeneous ways that similar information is recorded. However, the details of the disclosure table are yet to be signalled. For instance, are they to be directly comparable to the US case? Or will new disclosure tables be developed for the UK?

Performance graphs

The DTI has signalled that these “graphs would provide historic information on the company’s performance which would complement the forward-looking policy statement in (b) above [the statement on company remuneration policy]. The requirement would be modelled on the current requirement set by the US Securities and Exchange Commission (SEC)”.

This proposal mimics disclosure policy in the USA. Within corporate proxy statements a US listed company will indicate how the stock performance has evolved historically, how it compares with a leading index (e.g. S&P 500) and how it compares with a company-chosen list of comparator firms. Accordingly, investors and interested parties can compare the performance of the company with (hopefully) similarly situated firms. But again, the devil is in the detail. For instance, which performance metric is to be used? Is it total shareholder returns, as in the USA, or other measures such as EPS performance? If company A chooses one metric and company B another then this creates a comparability problem. In addition, companies may have an incentive to choose a measure that puts them in the best light (e.g. if EPS growth rates are outstripping shareholder returns). Can companies use one metric in one year and another the next? If LTIP / share option awards are based on multiple performance measures, which should the company reveal? Further clarification of these issues is required.

US executive compensation disclosure

The new DTI proposals represent yet another step on the road to full compensation disclosure for UK quoted companies. Unfortunately, this is a slowly travelled road. Back in 1992, the Cadbury committee considered some issues of boardroom compensation, while in 1995 there was the comprehensive commission chaired by Sir Richard Greenbury. In 1998, the Hampel committee “consolidated” matters. But, in 1999 the DTI set up its own consultation and review process. Now, nearly two years later further proposals are on the table. It is perhaps timely, therefore, for UK policy makers to compare UK disclosure with US executive pay disclosure policy. Whether UK quoted companies should adopt US style executive compensation disclosure should rest upon the benefits and costs to such a change. However, it does seem sensible to consider what is disclosed in the US and the appropriateness of such arrangements for the UK. After all, the compensation / governance debate took place at an earlier time period compared with the UK and so useful lessons may be drawn.

Compensation disclosure in the US

Executive compensation is disclosed in the Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934. Quoted companies are required to provide the information required by item 402 (specifically Reg. §229.402) of Regulation S-K.12 I will only highlight some of the more important features of US executive compensation disclosure under the following headings.

A. Summary compensation table;
B. Options / SAR table;
C. Aggregated options / SAR exercises and fiscal year-end options / SAR value table;
D. Performance graphs.

Some excluded areas of discussion include the LTIP awards table, pension plan tables, compensation of directors, and the report on repricing of options. The SEC rules appended to this document outline disclosure in this regard. To help the discussion I shall illustrate executive compensation disclosure for the officers at Walt Disney for fiscal year 1996.14 The example serves to illustrate the limited scope of the current DTI proposals in relation to share option disclosure.

A. Summary compensation table:

Compensation disclosure in the US is provided for each of the following named executive officers: the chief executive officer and the four most highly compensated executive officers other than the CEO. Most
elements of executive pay, such as salary, bonuses, other annual compensation, the value of restricted stock awards, payouts from long-term awards are contained in the summary compensation table. The information is to be provided for the last three complete fiscal years. Table 1 provides the summary compensation table for Walt Disney.

As indicated there is information supplied separately for the CEO and four other named executives of the company for a three-year period. Information is given on the salary, bonus, and other annual compensation. Also, the long-term compensation arrangements for the company are summarised. This includes the number (but not the value) of stock options, and value of restricted stock awards and all other compensation. There are typically detailed notes provided immediately after the compensation table. Importantly, and in contrast to the UK, this information is supplied by companies in a set format which enables comparability.

### Table 1: Annual compensation, Walt Disney Inc

<table>
<thead>
<tr>
<th>Name and principal positions (1)</th>
<th>Fiscal year</th>
<th>Annual compensation</th>
<th>Long-term compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Salary (C)</td>
<td>Bonus (2) (C)</td>
</tr>
<tr>
<td>Michael D. Eisner</td>
<td>1996</td>
<td>$750,000</td>
<td>$7,900,000</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>1995</td>
<td>750,000</td>
<td>8,024,707</td>
</tr>
<tr>
<td>and Chairman of the Board</td>
<td>1994</td>
<td>750,000</td>
<td>7,268,807</td>
</tr>
<tr>
<td>Roy E. Disney</td>
<td>1996</td>
<td>$459,614</td>
<td>$700,000</td>
</tr>
<tr>
<td>Vice Chairman of the Board</td>
<td>1995</td>
<td>350,000</td>
<td>500,000</td>
</tr>
<tr>
<td>1994</td>
<td>350,000</td>
<td>500,000</td>
<td>–</td>
</tr>
<tr>
<td>Sanford M. Litvack (5)</td>
<td>1996</td>
<td>$650,000</td>
<td>$1,100,000</td>
</tr>
<tr>
<td>Senior Executive Vice President</td>
<td>1995</td>
<td>647,115</td>
<td>1,600,000</td>
</tr>
<tr>
<td>and Chief of Corporate Operations</td>
<td>1994</td>
<td>500,000</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Richard D. Nanula</td>
<td>1996</td>
<td>$552,577</td>
<td>$750,000</td>
</tr>
<tr>
<td>Senior Executive Vice President</td>
<td>1995</td>
<td>450,000</td>
<td>500,000</td>
</tr>
<tr>
<td>and Chief Financial Officer</td>
<td>1994</td>
<td>382,212</td>
<td>800,000</td>
</tr>
<tr>
<td>Lawrence P. Murphy</td>
<td>1996</td>
<td>$522,308</td>
<td>$650,000</td>
</tr>
<tr>
<td>Executive Vice President</td>
<td>1995</td>
<td>475,769</td>
<td>550,000</td>
</tr>
<tr>
<td>and Chief Strategic Officer</td>
<td>1994</td>
<td>436,173</td>
<td>800,000</td>
</tr>
</tbody>
</table>
alternative companies can report how much the options granted within the year would be worth upon exercise if the stock price appreciated by five per cent and ten per cent annually throughout the term of the option.

Table 2 shows that Walt Disney reports the hypothetical value of the options granted using the Black-Scholes method. Importantly, note (2) following this table indicates the risk-free rate, the stock market volatility and the dividend yield. With this information it is possible for investors to use the table and independently calculate the expected value of the option grant. This important aspect of executive compensation disclosure has not yet been fully addressed by UK policy makers. The granting of options reflects an economic cost to the company and a benefit to the option recipient. US disclosure ensures that companies report the expected value of the grant and that investors can observe it. In contrast to the UK, then, US companies are required to report the economic impact of granting share options. This serves to illustrate that the scope of UK disclosure is more narrowly defined, in this regard, compared with the US.

C. Aggregated option/ SAR exercises and value table:

For the stock of share options held by executives at the financial year-end, US companies are required to report the total

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of options granted (1)</th>
<th>% of total options granted to employees in fiscal year</th>
<th>Exercise price ($/share)</th>
<th>Expiration date (1) (3) (4)</th>
<th>Hypothetical value at grant date (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael D. Eisner ......</td>
<td>5,000,000</td>
<td>16.3%</td>
<td>$ 63.31</td>
<td>9/30/08</td>
<td>$134,096,924</td>
</tr>
<tr>
<td></td>
<td>1,000,000</td>
<td>3.3%</td>
<td>79.14</td>
<td>9/30/11</td>
<td>25,390,861</td>
</tr>
<tr>
<td></td>
<td>1,000,000</td>
<td>3.3%</td>
<td>94.97</td>
<td>9/30/11</td>
<td>21,194,406</td>
</tr>
<tr>
<td></td>
<td>1,000,000</td>
<td>3.3%</td>
<td>126.62</td>
<td>9/30/11</td>
<td>14,901,090</td>
</tr>
<tr>
<td>Roy E. Disney ..........</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Sanford M. Litvack .....</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Richard D. Nanula ......</td>
<td>212,000</td>
<td>0.7%</td>
<td>64.25</td>
<td>3/26/06</td>
<td>4,962,920</td>
</tr>
<tr>
<td>Lawrence P. Murphy ..</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

(1) Mr. Eisner’s options become exercisable in stages over an extended period, with the option for 5,000,000 shares vesting on September 30, 2003 and the three options for 1,000,000 shares each vesting on September 30, 2004, 2005 and 2006, respectively. See “Employment Agreements—New Employment Agreement with Michael D. Eisner” above for the material terms of these options. Mr. Nanula’s options become exercisable with respect to 26,000 shares annually from 1997 through 2000, with 28,000 shares vesting in 2001 and 80,000 shares vesting in 2002. These options were granted under the Company’s 1995 Stock Incentive Plan.

(2) The estimated present value at grant date of options granted during fiscal year 1996 has been calculated using the Black-Scholes option pricing model, based upon the following assumptions: estimated time until exercise: eight years in the case of Mr. Eisner’s option for 5,000,000 shares, ten years in the case of his three other options and 6.7 years in the case of Mr. Nanula’s option; a risk-free interest rate of 6.78% for Mr. Eisner’s 5,000,000 share option, 6.89% for his other options and 6.14% for Mr. Nanula’s option, representing in each case the interest rate on a U.S. Government zero-coupon bond on the date of grant with a maturity corresponding to the estimated time until exercise; a volatility rate of 22.5%; and a dividend yield of 0.69%, representing the current $0.44 per share annualized dividends divided by the fair market value of the common stock on the date of grant. The approach used in developing the assumptions upon which the Black-Scholes valuation was done is consistent with the requirements of Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation.”

(3) After termination of employment, Mr. Nanula’s options remain exercisable for periods ranging up to 18 months, depending on the cause of termination, and may continue to vest for up to three months after termination.
number of unexercised options held by each
director (or top five executives). This is split
between those options that are currently
exercisable and those that, at the year-end,
still remained unexercisable. In addition,
again splitting the options into these two
categories, they must also report the end of
year intrinsic value of the stock of options,
calculated as the aggregate value of the
difference between the exercise price of the
options and the year end stock price. In
addition US companies report the number
of shares received upon exercise of options
and the aggregate dollar value received upon
exercise.

The Walt Disney example of this disclosure
phenomenon is contained in Table 3. The
number of shares acquired upon exercise is
reported along with the dollar value, where
relevant. In addition, for the five officers the
number of unexercised options is reported
along with the value of un-exercised in-the-
money options. Although the amount of
information disclosed for the non-current
grants of options is less than complete (for
example the maturity term and exercise
prices for the securities are not observed by
the investigator) it is possible to calculate
expected values for these tranches of options.
Murphy (1999) outlines such a method.
Conyon and Sadler (2001) evaluate the pro-
cure and conclude, that currently at least,
the Murphy procedure yields no appreciable
biases in deriving the expected value of the
aggregate option holding.

D. Performance graphs:
Companies in the US are required to provide
a line graph comparing the yearly percentage
change in company cumulative total share-
holder return with total returns on a broad
equity index. If the company is a constituent
of the Standard and Poor’s 500 stock index
then the company must use that index. In
addition, the company must compare its
performance with peer companies that have
been selected in “good faith”.

Table 4 shows the performance figures for
Walt Disney. It compares the returns for Walt
Disney, the S&P 500 and a Group Index of
selected companies. Currently, in the UK
there is no requirement for companies to
provide this information but the DTI pro-
posals will expand disclosure in this area
(see above). However, in the US companies
publish shareholder returns figures that are
comparable across firms. However, as indi-
cated above, it is not clear exactly what per-
formance metric will be specified for the UK.

Conclusions
In this article I provide a critical appraisal of
the March 2001 DTI disclosure proposals
relating to boardroom pay in UK quoted
companies. I make two substantive contribu-
tions to the UK corporate governance litera-
ture. First, I describe the new executive
compensation disclosure proposals. I argue
that these new proposals are incomplete both

Table 3: Aggregate options and option exercises: Walt Disney Inc
Aggregated option exercises during fiscal 1996 and option values on September 30, 1996

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of shares acquired upon exercise of option</th>
<th>Value realised upon exercise</th>
<th>Number of unexercised options 9/30/96</th>
<th>Value of unexercised in-the-money options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael D. Eisner</td>
<td>16,666,668</td>
<td></td>
<td>6,333,332 (2)</td>
<td>$303,633,392 $60,726,608</td>
</tr>
<tr>
<td>Roy E. Disney</td>
<td>160,000</td>
<td>$6,356,944</td>
<td>40,000</td>
<td>160,000</td>
</tr>
<tr>
<td>Sanford M. Litvack</td>
<td>100,000</td>
<td>3,243,800</td>
<td>350,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Richard D. Nanula</td>
<td>148,000</td>
<td></td>
<td>148,000</td>
<td></td>
</tr>
<tr>
<td>Lawrence P. Murphy</td>
<td>332,000</td>
<td></td>
<td>332,000</td>
<td></td>
</tr>
</tbody>
</table>

(1) In accordance with the S.E.C.’s rules, values are calculated by subtracting the exercise price from the fair market value of the underlying common stock. For purposes of this table, fair market value is deemed to be $63.31, the average of the high and low common stock price reported for the New York Stock Exchange on September 30, 1996.
(2) Includes options to purchase an aggregate of 8,000,000 shares granted in connection with Mr. Eisner’s new employment agreement. See “Employment Agreements–New Employment Agreement with Michael D. Eisner.”
in detail and scope. For instance, the specific performance measures that companies will be required to report are not signalled. Also, unlike the US the economic impact of share option grants is not considered. Moreover, I suggest that the government has conceded that more US style executive compensation disclosure is required. The DTI decision to compel disclosure of a company performance metric was explicitly rationalised by reference to the United States disclosure policy. Second, I describe US executive compensation disclosure

Table 4: Performance graphs Walt Disney Inc

Comparison of five- and twelve-year and cumulative total returns

The following two graphs compare the performance of the Company’s common stock with the performance of the Standard and Poor’s 500 Composite Stock Price Index and a peer group index over the periods from, respectively, October 1, 1991 and October 1, 1984 (shortly after Mr. Eisner became the Company’s Chairman and Chief Executive Officer). The graphs assume that $100 was invested on, respectively, October 1, 1991 and October 1, 1984 in the Company’s common stock, the S&P 500 Index and the peer group index, and that all dividends were reinvested.

Performance graph
Comparison of five-year cumulative total return among the company, S&P 500 index and peer group index

<table>
<thead>
<tr>
<th>Measurement Period (Fiscal Year Covered)</th>
<th>Walt Disney Company</th>
<th>S&amp;P 500 (R)</th>
<th>Peer group index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement Pt-09/1991</td>
<td>$100</td>
<td>$100</td>
<td>$100</td>
</tr>
<tr>
<td>FYE 09/1992</td>
<td>$128</td>
<td>$111</td>
<td>$119</td>
</tr>
<tr>
<td>FYE 09/1993</td>
<td>$134</td>
<td>$125</td>
<td>$174</td>
</tr>
<tr>
<td>FYE 09/1994</td>
<td>$138</td>
<td>$130</td>
<td>$163</td>
</tr>
<tr>
<td>FYE 09/1995</td>
<td>$206</td>
<td>$169</td>
<td>$206</td>
</tr>
<tr>
<td>FYE 09/1996</td>
<td>$229</td>
<td>$203</td>
<td>$226</td>
</tr>
</tbody>
</table>

Performance graph
Comparison of twelve-year cumulative total return among the company, S&P 500 index and peer group index

<table>
<thead>
<tr>
<th>Measurement Period (Fiscal Year Covered)</th>
<th>Walt Disney Company</th>
<th>S&amp;P 500 (R)</th>
<th>Peer group index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement Pt-09/1984</td>
<td>$100</td>
<td>$100</td>
<td>$100</td>
</tr>
<tr>
<td>FYE 09/1985</td>
<td>$145</td>
<td>$114</td>
<td>$138</td>
</tr>
<tr>
<td>FYE 09/1986</td>
<td>$275</td>
<td>$151</td>
<td>$186</td>
</tr>
<tr>
<td>FYE 09/1987</td>
<td>$543</td>
<td>$216</td>
<td>$270</td>
</tr>
<tr>
<td>FYE 09/1988</td>
<td>$456</td>
<td>$189</td>
<td>$251</td>
</tr>
<tr>
<td>FYE 09/1989</td>
<td>$855</td>
<td>$252</td>
<td>$397</td>
</tr>
<tr>
<td>FYE 09/1990</td>
<td>$644</td>
<td>$228</td>
<td>$255</td>
</tr>
<tr>
<td>FYE 09/1991</td>
<td>$815</td>
<td>$300</td>
<td>$300</td>
</tr>
<tr>
<td>FYE 09/1992</td>
<td>$1,043</td>
<td>$333</td>
<td>$357</td>
</tr>
<tr>
<td>FYE 09/1993</td>
<td>$1,092</td>
<td>$376</td>
<td>$523</td>
</tr>
<tr>
<td>FYE 09/1994</td>
<td>$1,128</td>
<td>$390</td>
<td>$489</td>
</tr>
<tr>
<td>FYE 09/1995</td>
<td>$1,682</td>
<td>$506</td>
<td>$620</td>
</tr>
<tr>
<td>FYE 09/1996</td>
<td>$1,867</td>
<td>$608</td>
<td>$678</td>
</tr>
</tbody>
</table>
practices. These practices are more systematic and generally more complete than exists in the UK. If such convergence in disclosure practice is potentially desirable then a more systematic comparison and analysis of current disclosure policies in the two economies is warranted. I have provided examples of the type of information that US quoted companies produce regularly. It would be beneficial for policy makers to critically evaluate executive pay disclosure in the two economies and then assess the potential benefits and costs of introducing US style disclosure for UK companies.

Acknowledgements

I would like to thank Christine Mallin (the editor), Simon Peck, Graham Sadler and two anonymous referees for comments and suggestions on this paper.

Notes

1. See the consultative document published at: http://www.dti.gov.uk/cld/condocs.htm
3. The Greenbury (1995) report was concerned wholly with directors’ remuneration. The associated Code of Best Practice outlined 12 proposals in the area of disclosure. Importantly, the company annual report should contain complete and full details of each director’s remuneration. It should disclose details of each element of the remuneration package for each director by name. This includes salary, benefits in kind, annual bonuses and long-term incentive schemes including share options (including number and maturity term but importantly not the expected value of the awards). See Conyon (2000) and Conyon and Murphy (2000).
5. The Combined Code (1998) contains both principles and detailed code provisions embracing the work of the Cadbury, Greenbury and Hampel committees. As indicated in the text, the principles and provisions of the combined code have been incorporated into the London Stock Exchange Listing requirements. See the Combined Code principles B1 to B3 and the analysis by Conyon (2000).
6. This paper differs by focusing on the March 2001 proposals and contrasting these with US style executive compensation disclosure.
7. The DTI document contains the following. Firstly, all quoted companies should be required to set up a remuneration committee comprised of independent non-executive directors (DTI, 1999, 3.15). Secondly, best practice is strengthened, and conflicts of interest are avoided, by the company stating that a) the chairman of the board should not be a member of the committee, b) the chairman of the board should ensure that the remuneration committee has access to professional advice from outside the company, c) if the committee wishes to seek advice from other consultants, the committee itself should appoint the consultants, d) the committee should not employ remuneration consultants who are also employed by the company’s executive management. (DTI, 1999, 3.16). See Conyon (2000) for more details.
9. It is important to note also, that the government has not finished with the matter of the shareholder-board relation. For instance, the government is still considering the separate and important issue of whether shareholders should be allowed to vote on compensation matters. In the meantime it urges institutional investors and shareholder bodies to become more active.
10. These proposals are in line with the DTI consultative document which stated that remuneration reports should also include: a) Full details of all elements in the packages of each individual director by name, b) the names of the chairman and members of the remuneration committee, c) a statement as to whether the board has accepted the remuneration committee’s recommendations in full, d) the name of the external consultancy (if any) employed by the remuneration committee. All disclosures relating to remuneration, including full details of individual directors’ packages should be brought together as part of a single remuneration report within the annual report and accounts.
11. For instance, the proposed requirement for companies to signal “whether the board had accepted the committee’s recommendations without amendment” is interesting and its underlying rationale somewhat ambiguous. Such amendments may reflect important and efficient changes to proposed compensation contracts. Alternatively, cynics might suggest that amendments reflect fundamental disagreements in the boardroom. It is not clear, then, what this extra information is supposed to signal to the users of compensation committee reports.
compensation. Item 402 can be located at the following web site: http://www.sec.gov/divisions/corpfin/forms/regsk.htm#sation

13. SAR refers to stock appreciation rights. They are performance plans that make awards payable in cash or stock for certain share price performance. See Conyon (2000)

14. US boardroom compensation information is primarily contained in the company's annual Proxy Statement (otherwise referred to as form Def 14A). As with all other reporting forms, US companies must submit these to the Securities and Exchange Commission (SEC). These forms are then freely available to the general public via the EDGAR (the Electronic Data Gathering, Analysis, and Retrieval system) database at the SEC's website (www.sec.gov). The example to follow is based on the SEC filed report: http://www.sec.gov/Archives/edgar/data/1001039/0000898430-97-000058.txt


16. In practice companies electing this disclosure procedure use Black-Scholes, but other methods such as the binomial option-pricing model are appropriate.

References


Conyon, M., 2000, Directors' Pay at UK Plcs, published by Chartered Institute of Personnel and Development, C.


Martin Conyon is an Assistant Professor of Management at the Wharton School, University of Pennsylvania. Previously, he was a Professor at Warwick Business School, UK and a lecturer in Economics at the Queen’s College, University of Oxford. His research interests include corporate governance, boards of directors, and executive compensation. His work has appeared in a number of UK and US journals including the Economic Journal, the Academy of Management Journal and the Strategic Management Journal. He has also acted as an advisor to many leading companies and policy bodies on governance matters.

“We are used to recommending the good governance practices found in the maturer capital markets, such as the UK or US, but we need to be sensitive about applying these concepts in other business cultures”. Graham Gilmour, PricewaterhouseCoopers, WorldWatch March 2001.