

Investing in the boardroom: Pay, alignment and UK plc performance

Enhancing the ability of FTSE 100 boards to support long-term value creation

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Introduction

The challenges facing UK public equity markets are well understood. Capital has continued to flow out of UK-oriented equity funds; domestic pension allocations to UK equities remain near historic lows; and low valuations have left many FTSE-listed companies vulnerable to opportunistic approaches from private equity and strategic bidders. New listings have slowed materially. The result is a self-reinforcing cycle that the UK urgently needs to break. This is critical for UK plc to thrive again and for the listed company sector to contribute to UK economic growth.

To date, much of the response has focused on the mechanics of the market itself: simplifying listing rules, adjusting the FCA's disclosure regime, exploring dual-class share structures and pursuing other reforms designed to make London more competitive as a listing venue. These changes matter. But they address the architecture of the market rather than its foundation: the performance of the companies within it.

Markets do not thrive because their rules are well-crafted. They thrive because the companies within them grow, generate returns and attract capital.

Ultimately, the single most powerful determinant of the health of an equity market is the performance of the companies that comprise it.

When companies consistently deliver long-term value, capital comes and valuations rise. Higher valuations protect companies from fire-sale takeovers and gives them an acquisition currency of their own. And when a market attracts capital and supports competitive valuations, it becomes more attractive for new listings.

This is the virtuous cycle visible today in a small number of globally leading markets. It is also a cycle the UK can rebuild. But doing so requires more than incremental reform. It requires tangible change aimed at improving corporate performance.

This brings us to a lever that has been almost entirely absent from the reform conversation:

Enhancing the ability of UK plc boards to support long-term value creation.

That is the focus of this report.



This report is divided into three parts.

The first presents the perspective of Cevian, a long-term investor in European public companies with a proactive and hands-on approach to value creation, on why change to the UK non-executive director (NED) proposition is necessary.

The second is by WTW, a leading remuneration adviser to FTSE 100 companies and companies listed in many other major equity markets. In it, WTW shares its assessment of UK NED pay and provides benchmarking analysis of NED pay and equity ownership across comparable international markets.

The third describes Cevian's proposed Enhanced Board Approach for NEDs in more detail, the core elements of which are simple: more competitive pay, materially stronger share ownership and clearer expectations on time devoted to long-term value creation.

The appendix includes questions and answers.

None of the changes proposed in this report require new rules or regulation. The power to advance them lies with companies and their investors. By acting together, they can give boards the mandate, alignment and capacity to contribute more fully to the long-term performance of the companies they oversee. This can have a meaningful, systemic impact on UK plc.

Strengthening the ability of boards to support long-term value creation is not only a market concern. Listed companies are among the UK's largest employers, a critical destination for the nation's savings and a major source of investment and output. Improving the performance of listed companies is central to improving national economic growth.

From the many conversations that informed this report, it is clear that key stakeholders across UK plc recognise the need for change.

By airing the issues and proposing a concrete way forward, this report is intended to help companies and investors act on that recognition.

Harlan Zimmerman
Senior Partner, Cevian

Richard Belfield
Senior Managing Director, WTW

Paul Townsend
Managing Director, WTW

Why is change necessary? Comment from Cevian

The UK is rightly proud of its corporate governance tradition, which remains one of the most respected in the world.

But just as markets do not thrive simply because they have the best rules, companies do not thrive simply because their boards are the best in the world at doing things properly.

We also need UK plc boards to be among the best in the world at helping create long-term value.

Some already are. But today that is not easy or widespread. The role of a FTSE 100 NED has become materially more demanding in recent years. The companies they oversee operate in a world that is more complex, more volatile and more scrutinised than at any point in recent memory. Boards have responded by working harder. But much of that additional effort has been absorbed by the proliferation of specific oversight responsibilities, including compliance, risk, remuneration, sustainability, cyber security and AI. Each is legitimate and requires serious time and attention.

But what often gets squeezed is the time boards spend on the issues that matter most for long-term value creation — strategy, capital allocation and the quality of execution. These are not committee subjects. They require the full board, at its best, with enough time and depth of engagement to ask the questions management cannot easily ask itself.

The issues and a concrete proposal to address them

Over the past year, Cevian has engaged in more than a hundred conversations with FTSE 100 chairs, senior NEDs, large institutional investors in UK equities and leading board remuneration and search consultants. We approached those conversations with a simple question: what would need to change for UK boards to contribute more fully to long-term corporate performance?

A broad consensus emerged: if we were designing the system from scratch, the principles would be straightforward.

- We would want NED pay set at a level that attracts and retains the best available talent — not just domestically, but internationally, ensuring boards can draw on the full range of skills, experience and geographical expertise that global companies require
- We would want NEDs to be genuinely aligned with the long-term success of the companies they oversee
- And we would want to ensure that boards have sufficient time and focus to engage deeply with the issues that drive long-term value — strategy, capital allocation and the quality of execution

The approach that has evolved in the UK today falls short on all three counts.

- **UK NED pay is too low.** It has fallen in real terms over the past decade and is not competitive with comparable NED positions in the U.S., Switzerland and private markets
- **UK NEDs have too little alignment with the long-term success of their companies.** With rare exceptions, UK NEDs are effectively salaried professionals with insignificant shareholdings. Current NED pay is not high enough to support meaningful share purchase requirements
- **UK NEDs are spread too thin.** In many companies, boards are unable to engage in value-creation work as deeply as they would like or as stakeholders should expect. There is not time for this. Board agendas have expanded much more quickly than expectations of NED time commitment. More than 50 FTSE 100 NEDs hold four or more public company board seats, in addition to other professional commitments. That reflects a market convention in which formal time expectations have not kept pace with the practical demands of the role

These three issues are connected. Pay, alignment and time commitment cannot sensibly be addressed in isolation.

Incremental change will produce incremental results.



The point is not that UK NEDs should be paid more for doing the same job. The point is that the job itself needs to evolve. If boards are to contribute more to long-term value creation, NEDs need to have more time, stronger alignment and a level of remuneration that reflects the calibre, time commitment and ownership expected of them. Higher expectations, more competitive pay and stronger alignment via share ownership should come together.

Historic concerns about share ownership and independence should no longer stand in the way. The Financial Reporting Council updated its guidance to the UK Corporate Governance Code in November 2025 to clarify that 'Boards may choose to pay non-executive directors a portion of their fees in shares' or indeed by other approaches including options or similar rights to shares (see Appendix two). In the same month, the Investment Association's letter to Remuneration Committee Chairs reiterated that shareholders 'encourage independent NEDs to align their interests with those of shareholders by owning shares in the company' and that a 'portion of the director fee could be paid in shares'. Together, these interventions make clear that appropriately structured share-based NED remuneration need not compromise independence, provided it is not performance-related and preserves independent judgement.

This creates an opportunity that UK plc has yet to seize.

An Enhanced Board Approach

We therefore believe that, starting with the 2027 AGM season, leading companies should propose to shareholders a three-pronged set of changes:

- Current cash base fees would remain unchanged
- Share awards would be introduced with a value equal to current base fees, so that total annual NED remuneration would comprise existing cash fees plus an equivalent amount in shares, immediately addressing both pay and alignment
- Companies would explain, alongside their remuneration proposals, how the new approach would enable them to create the additional time and focus for NEDs to engage more deeply with the issues that drive long-term value. This would be reinforced by tightened overboarding policies applicable to their NEDs

Together, these changes form the Enhanced Board Approach set out in section 3 of this report. To provide context for these proposals, the following section presents WTW's in-depth analysis of the UK plc NED proposition through a global lens.

How the UK plc NED proposition compares with European and North American peers – WTW data and analysis

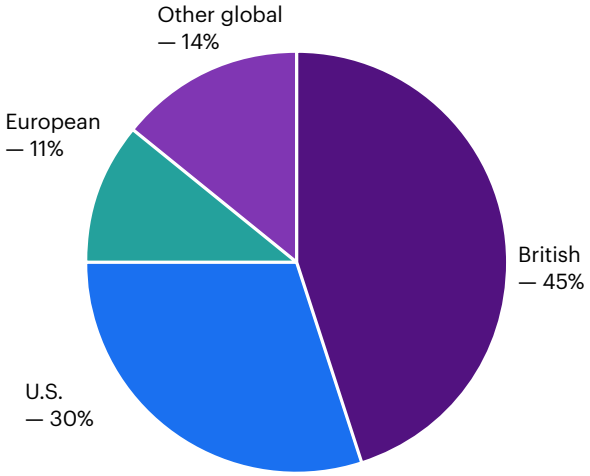
For the world's largest companies, the market for NEDs is increasingly global. Yet UK board pay practices remain largely local. As boards become more international and their need for tech and other specific expertise grows, governance demands are intensifying and competing markets offer materially higher compensation. Consequently, an important question emerges: can UK-listed companies continue to attract and retain world-class NEDs under the current model? Based on WTW research and public disclosures,[1] this report argues that the gap between board expectations and board remuneration is widening – and that governance and shareholder thinking is beginning to evolve in response.

The competition for board talent is global

The largest UK-listed companies no longer recruit NEDs primarily from a UK talent pool. A typical FTSE 20[2] board is majority international, with more than half of NEDs coming from outside the UK and almost one-third having North American backgrounds. Many of these companies are also listed internationally, making them direct competitors for global board talent.

Internationality of FTSE 20 Boards (NEDs only)[3]

Company-weighted average



This matters because NED pay is ultimately determined by the market in which talent is sourced. As boards globalise, UK remuneration practices are increasingly being judged against international alternatives rather than domestic norms.

The role has changed, but pay has not

Over the past decade, NED responsibilities have expanded dramatically. NEDs face greater regulatory scrutiny, increasing expectations from shareholders, more complex risk oversight requirements and substantially heavier committee workloads. More than nine in ten NEDs surveyed by WTW reported that role complexity and time commitment have increased materially in recent years.[4]

1. Unless otherwise specified, all figures taken from WTW's Global Executive Compensation Analysis Team research of publicly disclosed data
2. Largest 20 companies, by market cap, as at the 23 March 2026 quarterly review of FTSE 100 constituents
3. Dual/triple nationalities categorised from most to least 'local', i.e., British first, then European, then North American, then Other Global
4. WTW, Non-executive directors' remuneration in Europe, 2024

Yet fees have barely moved. Median FTSE 100 NED fees increased by only 23% between 2015 and 2025, compared with 43% for broader employee pay and 38% inflation over the same period. In real terms, NED fees have gone backwards, falling by 11% over the last ten years.

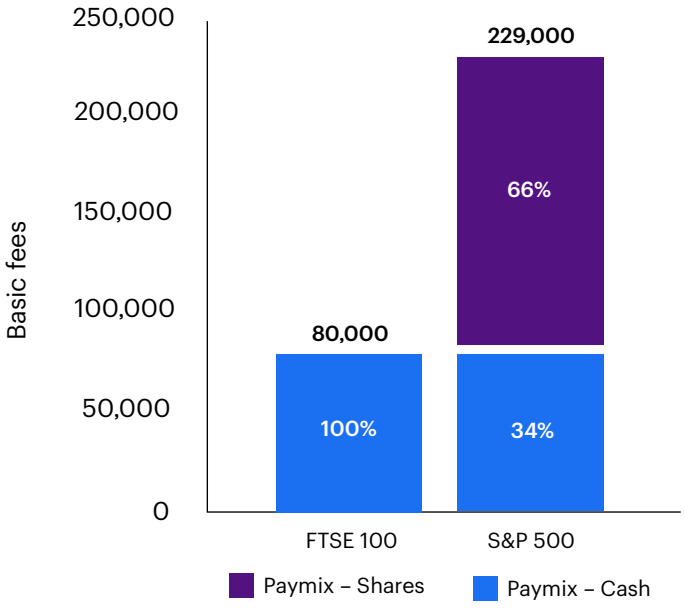
The result is a growing disconnect between what boards expect from NEDs and what the market pays them.

The global comparison is increasingly difficult to ignore

The gap becomes even more apparent when viewed through a global lens. The U.S. and Switzerland constitute two key points of reference – the U.S. already representing 30% of FTSE 20 board talent and a critical source of tech expertise and large Swiss listed companies arguably being the most similar in profile across Europe to their large FTSE peers.

If we begin by comparing FTSE companies with their U.S. counterparts, we see that median cash retainers for S&P 500[5] NEDs are broadly comparable with FTSE 100 NED fees. However, U.S. companies typically complement cash pay with substantial equity awards. As a result, median total NED compensation in the S&P 500 is almost three times higher than in the FTSE 100.

UK versus U.S. basic NED fees (GBP; median)



For companies competing internationally for NEDs with deep sector expertise, global operating experience and capital markets credibility, this is a significant differential. The implications extend beyond traditional board credentials. As demand grows for NEDs with experience of scaling high-growth businesses, navigating digital disruption and overseeing the deployment of AI and other emerging technologies, UK companies are increasingly reporting that they are finding it difficult to compete for a relatively scarce pool of specialist talent.

The debate around global competitiveness has transformed executive pay practices in many large UK companies. Curiously, a similar debate has yet to take hold in relation to NEDs, despite pay gaps of a comparable scale.

Governance thinking is moving ahead of market practice

Historically, UK governance frameworks have discouraged the use of equity-based NED remuneration because of concerns around independence. However, recent guidance from key institutions makes clear that things have changed. The FRC[6] and IA[7] have each clarified that share-based fee delivery can strengthen shareholder alignment without compromising independence, provided performance conditions are not attached and transparency is maintained.

In other words, the question is no longer whether FTSE 100 NEDs can hold meaningful equity exposure. The question is how to do so appropriately.

Yet corporate behaviour remains cautious. While many FTSE 100 companies have amended policy wording to permit share-based fee delivery, very few have actually adopted the approach in practice. Typical fee increases have also remained modest.

The result is a growing gap between what is permissible and what is done (governance flexibility and market action).

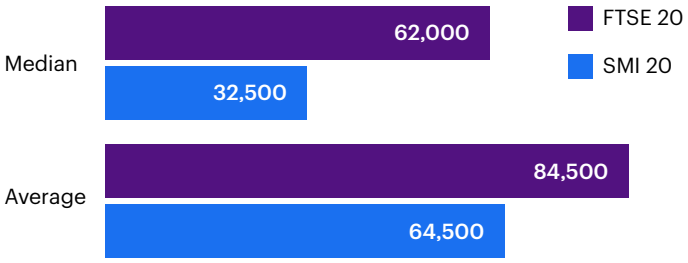
Switzerland offers an interesting comparison and practical blueprint

It is interesting to note similarities and differences between the largest UK and largest Swiss companies. Like FTSE 100 companies, most Swiss companies have highly international businesses, boards and shareholder bases. Unlike in countries such as Sweden, France, Germany and Italy, most FTSE 100 and SMI 20 companies have fragmented shareholder registers without large anchor shareholders. Furthermore, the average market capitalisation of an SMI 20 company is significant, though smaller than that of the average FTSE 20 company, with the median SMI market capitalisation being lower still than the median FTSE 20 market capitalisation.

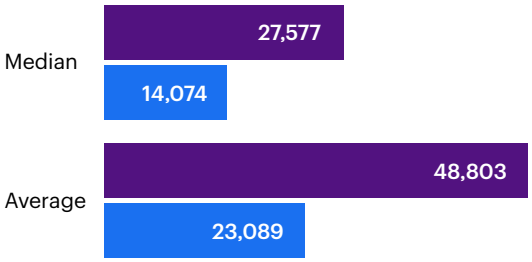
5. S&P 500 constituents as at 31 December 2024
6. Financial Reporting Council, Corporate Governance Code Guidance, 2025
7. The Investment Association, Dear Remuneration Committee Chair Letter and Principles of Remuneration for 2026, 12 November 2025

FTSE 20 versus SMI 20[8] – key scoping factors

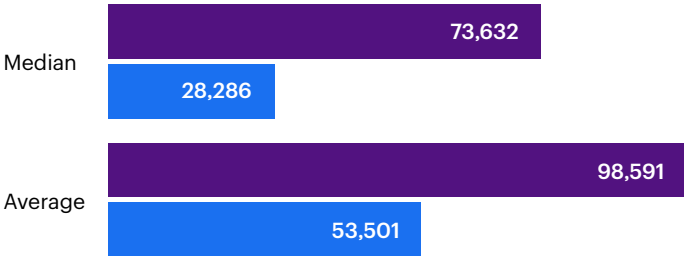
Market capitalisation (GBPm)



Total revenues (GBPm)



Total employees



Non-domestic* revenues (% of total)



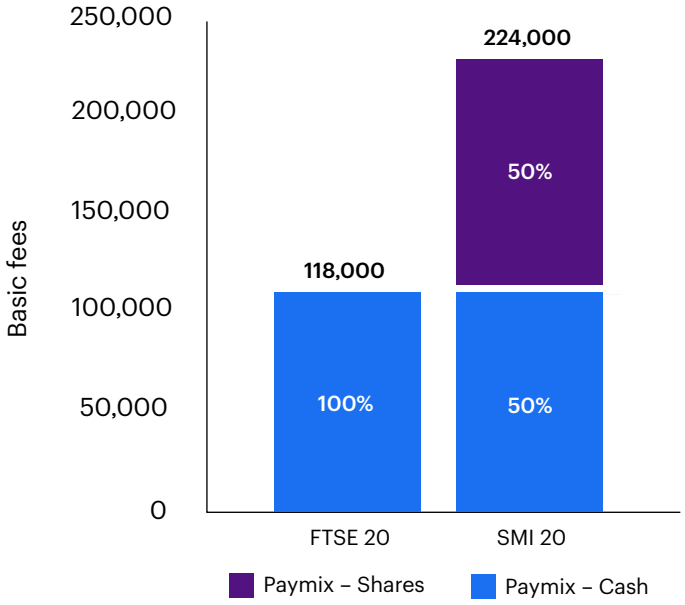
*Non-Europe/EMEA where Swiss revenues are not disclosed separately

And yet, despite generally smaller companies, which would typically suggest lower levels of pay, leading Swiss firms pay NEDs significantly more than their FTSE 20 counterparts and make far greater use of share awards.

At median, the largest 20 Swiss companies pay their NEDs 90% more than the largest 20 FTSE companies pay theirs, despite the average SMI 20 company being smaller than the average FTSE 20 company. Notably, a typical Swiss remuneration structure pays 50% in cash and 50% in shares, rather than relying exclusively on cash.

FTSE 20 versus SMI 20 basic NED fees (GBP; median)

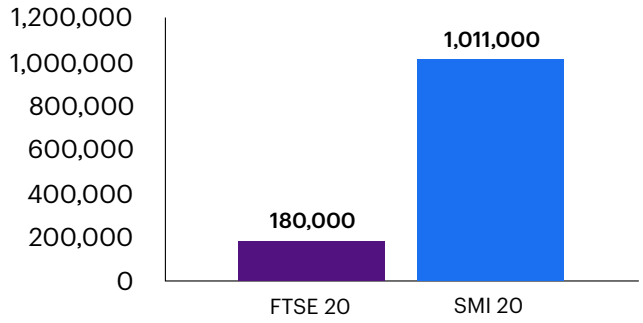
Non-executive director



NEDs of Swiss companies also generally have substantially larger shareholdings in their own companies than their counterparts in the FTSE 20 despite shareholding guidelines being less prevalent.

FTSE 20 versus SMI 20 – Value of actual shareholdings per NED (GBP; median)

Company-weighted median



Importantly, this model provides for stronger shareholder alignment than is typically seen in the UK and many other European markets, while still supporting NED independence by its avoidance of performance conditions and its commitment to transparency.

8. Constituents of the SMI 20 effective 23 March 2026



Shareholder alignment: A governance benefit, not just a pay mechanism

Emerging evidence suggests that the debate around NED equity ownership is not solely about competitiveness or remuneration levels. A recent FCLTGlobal and MSCI study of more than 2,100 global public companies found that companies where independent NEDs held more meaningful and sustained equity stakes were associated with stronger long-term shareholder returns, higher risk-adjusted performance, lower share price volatility and greater investment in innovation. The relationships were particularly pronounced where ownership was maintained over extended periods and where independent NEDs held material equity relative to executives. Importantly, the study asserts that ownership is most effective not as a short-term incentive but as a governance mechanism that aligns NEDs with the long-term consequences of board decisions. While the findings do not establish causation, they reinforce the view that appropriately structured equity ownership can strengthen alignment between NEDs and shareholders without diminishing effective board oversight.[9]

WTW perspective

The issue facing leading UK companies is not whether the NED role has become more demanding – it clearly has. Nor is it whether international alternatives are more attractive – they demonstrably are. The more important question is how UK companies and shareholders should respond.

Possible responses range from selective fee increases to broader adoption of share-based fee delivery and a more fundamental rethinking of the NED value proposition. Whatever path companies choose, maintaining the status quo may become increasingly suboptimal as competition for internationally experienced board talent intensifies.

Cevian's proposals, which follow, speak to the heart of these challenges.

9. FCLTGlobal and MSCI Institute, Holding the Long View: Board Equity Ownership and Its Impact on Corporate Performance, 2026

Cevian's proposed Enhanced Board Approach

WTW's analysis confirms what many in the market already know. UK NED pay has not kept pace with inflation and it has fallen behind that of comparable international markets. In addition, UK NEDs have very limited share ownership in the companies they oversee. Coupled with the increased complexity, broadened board agendas and increased demands on their time, there are three clear issues: quantum of pay, lack of alignment and ensuring NEDs have the time and focus to help drive the long-term performance and value of their companies.

The issues are also connected. A board cannot expect yet more time from NEDs without addressing pay. Higher pay without increased ownership does nothing for alignment. And increased ownership without making more time available for NEDs to work on long-term value creation will not do much to improve corporate performance. Tackling any one of these in isolation will produce incremental results. The Enhanced Board Approach addresses all three together.

This part of the report describes the approach and variations that would further strengthen alignment with no meaningful additional cost.

The Appendix one of this report addresses questions that chairs and investors have raised most often in our discussions over the last year.

Components of the Enhanced Board Approach for FTSE 100 companies

The Enhanced Board Approach is a package of measures which companies may choose to adopt.

There are five main components:

- Annual cash base fees remain at their current level
- Starting at AGMs in 2027, NEDs receive a new layer of share-based remuneration equal in value to their annual base fee. This is awarded annually
- All awarded shares are held until six months after the NED leaves the board, subject to an absolute minimum holding period of five years
- Companies wishing to adopt this approach should explain to shareholders how doing so will enable them to ensure that NEDs will commit meaningful additional time to long-term value creation. Each company should set out what this will mean in practice for its own set of circumstances
- To support the enhanced focus of NEDs of such companies, overboarding policies should be tightened. Investors will expect companies that adopt this approach to ensure that, over time, their NEDs do not hold more than three seats at public companies. Investors themselves are encouraged to tighten their overboarding policies to reflect this. This should be communicated to proxy advisors

The mechanics are deliberately simple. No performance conditions. No new valuation methodology. No change to how base fees are set. No changes to corporate governance guidelines. A company that adopts the approach immediately increases alignment, increases the competitiveness of NED pay and increases the ability of its board to contribute to long-term value creation.

As noted above, companies adopting the Enhanced Board Approach should explain to shareholders how it will enable NEDs to devote meaningful additional time to long-term value creation. As implementation will vary according to each company's circumstances, boards should clearly articulate what the approach will mean in practice and how it will result in more board time focused on long-term value creation activities. Examples of these activities may include:[1]

- Dedicated strategy sessions outside the regular board calendar
- Deeper reviews of capital allocation, portfolio choices, M&A opportunities and post-acquisition performance
- More structured oversight of innovation, technology and AI deployment
- Increased engagement with high-potential talent and succession pipelines below executive committee level
- Periodic board visits to key operations, growth markets and major investment programmes

Some boards may also introduce an annual review of long-term value creation priorities, with explicit discussion of whether board agendas, committee structures and director time allocation remain aligned to the opportunities and risks most likely to shape shareholder value over the next five to ten years. Such measures would not be intended to expand governance processes for their own sake, but to create more capacity for the board to support, challenge and oversee the decisions that have the greatest influence on long-term corporate performance.

Variations to enhance alignment

Companies may wish to consider three variations that can be used to strengthen alignment meaningfully. All are operable within current FRC guidance and each costs companies essentially the same as the base approach. They can be adopted separately or in combination.

Use cash fees to settle tax on shares to maximise ongoing alignment

Under the base approach for a NED who pays tax in the UK, income tax is ordinarily due on shares without any restrictions or conditions when they are received. At a current 47% marginal rate of income tax and employee national insurance, an £80,000 award results in £37,600 of arising tax liability. Companies could determine that all or a portion of cash fees should be used to settle all or a portion of the tax due on shares received, so that the NED retains the full number of shares received (rather than shares being sold to pay the associated tax liability). It would be possible to require this until a meaningful share ownership threshold had been reached, such as 5x base fees.

Batching to accelerate alignment

Rather than making annual awards, companies could grant the share awards in three-year batches: at implementation, then after three and six years respectively. NEDs take ownership of one third of each batch per year of service, so nothing vests sooner than under a purely annual approach. However, from day one, the NED is aligned with three years' worth of awards, not one. Using the current average base fee, that means immediate alignment via an award of £240,000 rather than £80,000 (prior to tax).

Enhanced alignment via tax deferral

An approach that permits tax deferral means that NEDs would be aligned during their tenure around the full pre-tax value of share awards, rather than on the post-tax residual. It should be possible to defer taxation by entirely legitimate means that would deliver the same economic value as whole shares. These means could include awarding NEDs nil-cost options (which represent the right to receive shares in the future, with no exercise price and no performance conditions) or nominal cost options (whereby new issue shares are used and NEDs pay only the nominal value). These approaches are consistent with current FRC guidance, which precludes performance-related pay for NEDs, but explicitly allows for the use of options that are not performance-related and are simply a right to receive shares at nominal or no cost. Tax would be due when the rights are converted to actual shares in the future. Under this variation, NEDs would be granted share awards annually in the form of nil-cost options, converting mandatorily into shares once the NED has left the board and the six-month cooling-off period has passed, subject to a five-year minimum holding period. The awards would be adjusted so that, like whole share awards, they would carry the value of dividends paid. The structuring details (including whether use of restricted stock is preferable to options) would need to be developed specifically for each company to secure the intended advantages of this approach.

WTW has modelled scenarios using each of the three above enhancements; these are available separately to interested parties.

1. Examples are informed by leading governance literature on long-term value creation, including FCLTGlobal's Board Playbook: Winning Strategies for Long-Term Value Creation (2025) and the NACD Blue Ribbon Commission report The Board and Long-Term Value Creation (2015).

Appendix one:

Questions and answers in relation to Enhanced Board Approach

We set out below questions that were asked repeatedly in discussions with Cevian on this topic, as well as summary answers.



Regulation and practical matters

What does the FRC say about payment in shares? And rights to shares?

The UK Corporate Governance Code and the FRC's guidance have changed materially in recent years and there is now no regulatory provision against paying NEDs in shares or, with the right structure, rights to shares or nil-cost options.

In November 2025, the FRC updated its Corporate Governance Code Guidance to state explicitly:

> **Boards may choose to pay non-executive directors a portion of their fees in shares (for example, purchased at market price). In such circumstances, a description outlining the rationale and process for allowing a portion of non-executive director fees to be paid in shares, along with any associated restrictions on the sale of the shares, helps to ensure clarity for stakeholders.**

The same update addresses options and the conditions determining when they are acceptable or not acceptable and these would apply to deferred-tax share awards:

> **If companies consider offering independent non-executive directors options or similar rights to acquire shares, they should not be performance related (for example, they should not have a meaningful exercise price which would impair director independence). In all circumstances, care should be taken to ensure the structure does not incentivise short-term decision making, create conflicts of interest or impair independence.**

The FRC's full current guidance on NED remuneration, as at 3 June 2026, is set out in Appendix two. The Enhanced Board Approach, and its variations, have been designed to be fully consistent with that guidance.

What about the Investment Association?

The IA's principles of remuneration (issued in October 2024 and reiterated in November 2025) state that shareholders encourage independent NEDs to align their interests with those of shareholders by owning shares and that a portion of NEDs fees could be paid in shares purchased at market rates. That is a clear endorsement of share-based NED pay as a concept and supportive of the alignment objective at the heart of this Enhanced Board Approach.

However, as of this writing, the IA's formal guidance is not as encompassing as the FRC's and could be read as being inconsistent with certain aspects of the Enhanced Board Approach and its variants. We understand that the IA regards its guidance as accommodating structures of this kind and it is possible additional guidance on these points will be provided.

What changes to regulation or law are required?

None. The proposal is designed to sit entirely within the authority of companies and their shareholders. Provided the relevant plan rules and shareholder approvals are in place, no change to regulation, law or FRC guidance is needed. That is why implementation can be quick — where companies and shareholders agree, nothing else stands in the way.

What shareholder approvals are required?

Most FTSE 100 companies already operate share-plan structures. Some will be able to extend existing plans, subject to shareholder approval; others will need new provisions. Shareholders would also approve the new approach to NED remuneration itself. Nothing requires this to wait for the three-year remuneration policy cycle, though each company should confirm the position against its own governing documents and listing requirements. In short: there is no structural impediment to implementing at the 2027 AGMs.

What supporting change is needed from investors?

Investors should pair their support for the remuneration change with clearer expectations on NED time commitment. Those with overboarding policies may wish to reduce the acceptable number of public board seats to three, for example, when companies adopt the Enhanced Board Approach. They should communicate these changes to the market, to search firms, to remuneration advisers and to proxy advisors.

How should companies think about timing?

WTW is clear: there is no need to wait for a scheduled policy renewal. Approval for a specific payment or a policy amendment can be sought at any AGM or, where the articles permit, at a general meeting. Companies considering the move should engage their major shareholders and the proxy advisors before tabling the proposal and come prepared to explain how the increase in total remuneration is matched by increased time commitment and alignment. Should companies find their shareholder base supportive in principle, it seems likely that shareholder consultations on these changes will be significantly less onerous and contentious than is common for meaningful changes to executive pay.



Practical and technical questions

Boards have no problem hiring NEDs. Is remuneration really an issue?

It is true that companies rarely struggle to fill board seats. Plenty of people will serve at current pay and some outstanding NEDs do excellent work today with modest fees and little alignment. But that does not mean the approach is correct. As noted in our report, UK companies are increasingly reporting that they are finding it difficult to compete for specialist talent. Further, across more than a hundred conversations, current remuneration was cited again and again as an obstacle to attracting the calibre, breadth and international experience that FTSE 100 boards need. The cash cost of fixing it is modest: less than £1 million per company per year on average (eight NEDs at an £80,000 increase each). And because the entire increase is delivered in shares, that single change addresses two problems at once: internationally uncompetitive pay and NEDs' limited alignment with the long-term success of their companies.

Are there companies that are performing so well that they do not need to change anything? Will they just adopt the new approach anyway due to the remuneration changes?

All companies, regardless of their performance, will need to put the proposals to their shareholders with an explanation of why it makes sense for them to adopt the changes. While there may be companies that are performing so well that they don't expect to benefit from changing anything, those are arguably the companies where NED pay most undervalues their contribution.

What about the opposite? Companies that should change, say they will do so to adopt the compensation aspects of the Enhanced Board Approach, but fail to do anything else differently.

This possibility cannot be excluded. However, like in other cases where chairs and boards make commitments but fail to deliver, UK governance has well developed accountability mechanisms. Ultimately, when companies do not uphold commitments, it is the responsibility of shareholders to use engagement and voting to hold the companies to account.

Why must NEDs hold everything until they leave the board? Is there an alternative?

Holding all share-based remuneration until departure ensures the NED's economics track the company for their entire term. A softer version is possible — permitting sales once exposure exceeds some threshold, say five times the base fee — but it adds complexity for little gain.

Why a five-year minimum holding period and a six-month post-departure cooling-off?

Both serve the same purpose: to remove any suggestion or perception, that a NED might time a resignation to a high share price. The six-month post-departure requirement is similar to the two-year period now typical for a departing CEO. However, given the longer tenure of the average NED and the lower likelihood of NEDs joining competitor firms, a shorter cooling-off period seems appropriate. The precise periods should be settled with market practitioners and written into each company's plan rules.

Could the minimum holding period be shorter?

Yes, if investors judge a shorter period appropriate.

What about non-UK-resident NEDs?

The proposals have been developed with UK tax in mind, since UK residents make up the majority of FTSE 100 NEDs. Companies with U.S., European or Asian tax residents on their boards should take advice on the treatment in the relevant jurisdictions.

Why not include committee fees?

Committee fees vary too much — by company, by committee, by individual role — to serve as a clean reference point. Base fees are standardised by company size, with sector adjustments where warranted, as in banking. Anchoring the awards to base fees keeps the framework simple and comparable across the index. Committee fees can be revisited once the core approach is established.

Why start with the FTSE 100?

Because that is where precedent gets set. To a large extent, the underlying issues also apply to the FTSE 250 and in time the approach should be extended and adapted for it.

Should chairs be included?

Yes. Chairs should participate in the same approach, though the case for immediate change, in general, is less acute for chairs than for the NEDs. As a general approach, the chair receives the same share award as a standard NED — one times the base NED fee. Where the gap between chair and NED cash pay is modest, an award of twice the standard NED level may be more appropriate. Each company should assess its own situation, discuss it with shareholders and propose accordingly.

What about proxy advisors?

ISS and Glass Lewis assess NED pay company by company, against local market practice and peers. Neither objects in principle to paying UK NEDs in shares. It is expected that they will be prepared to support the Enhanced Board Approach when investors signal their support and accept significantly higher pay where companies are able to explain why it is warranted and necessary.

UK proxy advisor frameworks have resisted option-like instruments for NEDs on the grounds that they create asymmetric incentives that could compromise independence. The deferred-tax share awards variation is tailored to avoid conflict with the guidance of FRC and proxy advisors: no performance conditions, no exercise price and thus economics equivalent to owning shares.

That argument should be made to the proxy advisors explicitly and in advance. Both firms routinely support NED share-based pay in the U.S. at multiples of current UK levels. The case here is not that the UK should copy U.S. practice. It is that deferred-tax share awards, structured as proposed, are consistent with the independence principles the proxy advisor frameworks seek to ensure.

Does the value of the share award rise when the base fee rises?

Yes. The award is set at one times the annual base fee, so each fee increase flows through to new awards proportionally. For three-year batch awards, the reference fee is the fee at the time of grant. Prior awards are not adjusted retrospectively; only awards made after a fee increase reflect the new level.

Boards have NEDs at various stages of tenure. How does implementation handle that?

Every NED in post at adoption receives their first award at implementation, regardless of service to date. There is no catch-up for prior years: a NED six years into their tenure receives the same initial award as one who joined last month and will simply accumulate fewer awards before departure. The five-year minimum holding period runs from each grant or allocation date, not from appointment. Companies should confirm the mechanics with their legal and tax advisers — particularly for NEDs approaching the nine-year tenure limit, whose holding periods may extend beyond their board service.

Some NEDs would immediately breach tightened overboarding limits. What then?

The limits should apply prospectively, not retroactively. A NED holding five roles today is not required to resign tomorrow; the expectation is that most companies should manage board rotation and appointments within the next one to two years.

How many NEDs would be in violation of the updated overboarding rules?

Cevian analysis has identified (as of July 2026):

- Eight FTSE 100 NEDs with five or more board seats at publicly listed companies
- 47 FTSE 100 NEDs with four board seats at publicly listed companies
- 767 individual FTSE 100 NEDs

Thus 55/767, or 7.2%, of all NEDs would be seen as overboarded if updated overboarding rules applied to all FTSE 100 companies.

What happens to unvested awards if a NED departs early?

For batch awards vesting in annual tranches, vested tranches are retained and unvested tranches lapse. The departing NED receives value for time served; there is no windfall for leaving early. Vested awards remain subject to the six-month post-departure requirement and the five-year minimum holding period from the original vesting date. In principle, good-leaver and bad-leaver treatment — death, incapacity, removal for cause — should be specified in each company's plan rules although tax and legal advice should be sought before implementation to mitigate any surprises on a leaver event.

Does the approach apply where a government, sovereign wealth fund or controlling shareholder holds a significant stake?

The approach is designed for independent NEDs. Directors appointed to represent a specific shareholder sit within a different framework — their obligations and the nature of their role differ materially — and the approach is not intended to apply to them. Companies with a significant shareholder should assess the approach against their particular board composition and discuss the approach with that shareholder directly.

How does the proposal interact with the UK's disguised remuneration rules?

The deferred-tax share award approach is designed to defer income recognition until exercise. However, HMRC's disguised remuneration rules and the relevant provisions of ITEPA 2003 must be worked through for each company and each individual. No company should implement the structure without written confirmation from tax counsel that the intended deferral is achievable in its circumstances. Non-UK residents will also need advice on the treatment in their home jurisdiction, which may differ materially.

What about companies domiciled outside the UK but listed in London?

They are generally within scope. Companies incorporated abroad with a premium London listing are subject to the Code on a comply-or-explain basis and the alignment objectives apply to them with equal force. They face additional complexity — the law of their place of incorporation governs directors' rights and obligations, local tax treatment may differ and non-UK shareholders may bring different expectations — so local legal and tax advice is essential before adoption. But there is no reason of principle to exclude them.



Structure and cost

How much would this cost shareholders?

The costs are small in relation to company values. The average FTSE 100 board has eight NEDs, so the annualised cost is an average of £80,000 times eight or roughly £640,000 per company per year plus any associated employer national insurance obligations. The cash cost is effectively the same under the base approach, batch awards or deferred-tax share awards. Each company will need to consider whether new issue shares are preferable to market purchase and any associated impact on dilution, as well as making sure that limits in a company's Articles can accommodate such an increase.

Why not simply raise cash fees and require share purchases?

Cash fees are taxed on receipt, so only the post-tax remainder is available to buy shares. A NED building equity ownership from post-tax cash builds shareholder alignment at roughly half the rate of one receiving the deferred-tax share awards or whose cash fee is used to pay associated tax.

What is the logic of three-year batches rather than annual awards?

The batch approach gives the NED economic exposure to three years of awards from the outset — roughly £240,000 at the current average fee, rather than £80,000 (prior to tax) — with returns compounding on the full amount. Ownership still transfers only one-third per year of service, so nothing vests early.

How are dividends handled?

Dividends are handled differently under each structure. A NED who holds shares receives dividends as any shareholder does — cash arrives and their alignment includes the company's distribution decisions, not just its share price.

A deferred-tax share award carries no such right, so plan rules include a dividend-equivalent mechanism. This is designed to ensure that a NED is aligned with total shareholder return, not share price alone.

What is the logic of deferred-tax share awards rather than simple share awards?

The deferred-tax share award is designed to defer tax on the award, so that the full award value is exposed to the company's performance from day one and compounds. Given a 47% tax rate, this nearly doubles the initial value of the alignment.

What about RSUs versus deferred-tax share awards?

RSUs would work, but less well. RSUs convert to shares on vesting and tax falls due at that point — so exposure compounds on post-tax amounts from vesting onwards. Deferred-tax share awards are taxed on conversion to shares, which under this approach comes only after departure. Exposure compounds on pre-tax amounts throughout.

What are the tax considerations of the deferred-tax share awards?

The intended treatment is that no UK income tax falls due until the deferred-tax share awards convert into shares. This relies on the deferred-tax share awards constituting a right to acquire securities under ITEPA 2003, with the employment income charge arising on conversion rather than grant — at income tax rates, not capital gains rates. RSUs and direct share awards are likewise taxed as income on vesting or receipt, with subsequent gains subject to capital gains tax. Whether deferral is achieved turns on the precise structuring of the instrument, so this analysis must be confirmed with specialist tax counsel for each company and each individual.

Appendix two:

FRC guidance on NED remuneration (as at 3 June 2026)

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Many companies encourage non-executive directors to build a personal shareholding in the company. This practice is intended to foster alignment between independent non-executive directors and shareholders, reinforcing long-term commitment and engagement. This approach to shareholding expectations may vary depending on the specific nature of the role, time commitment, company size, sector and board composition and should be considered within the broader context of governance and wider remuneration arrangements.

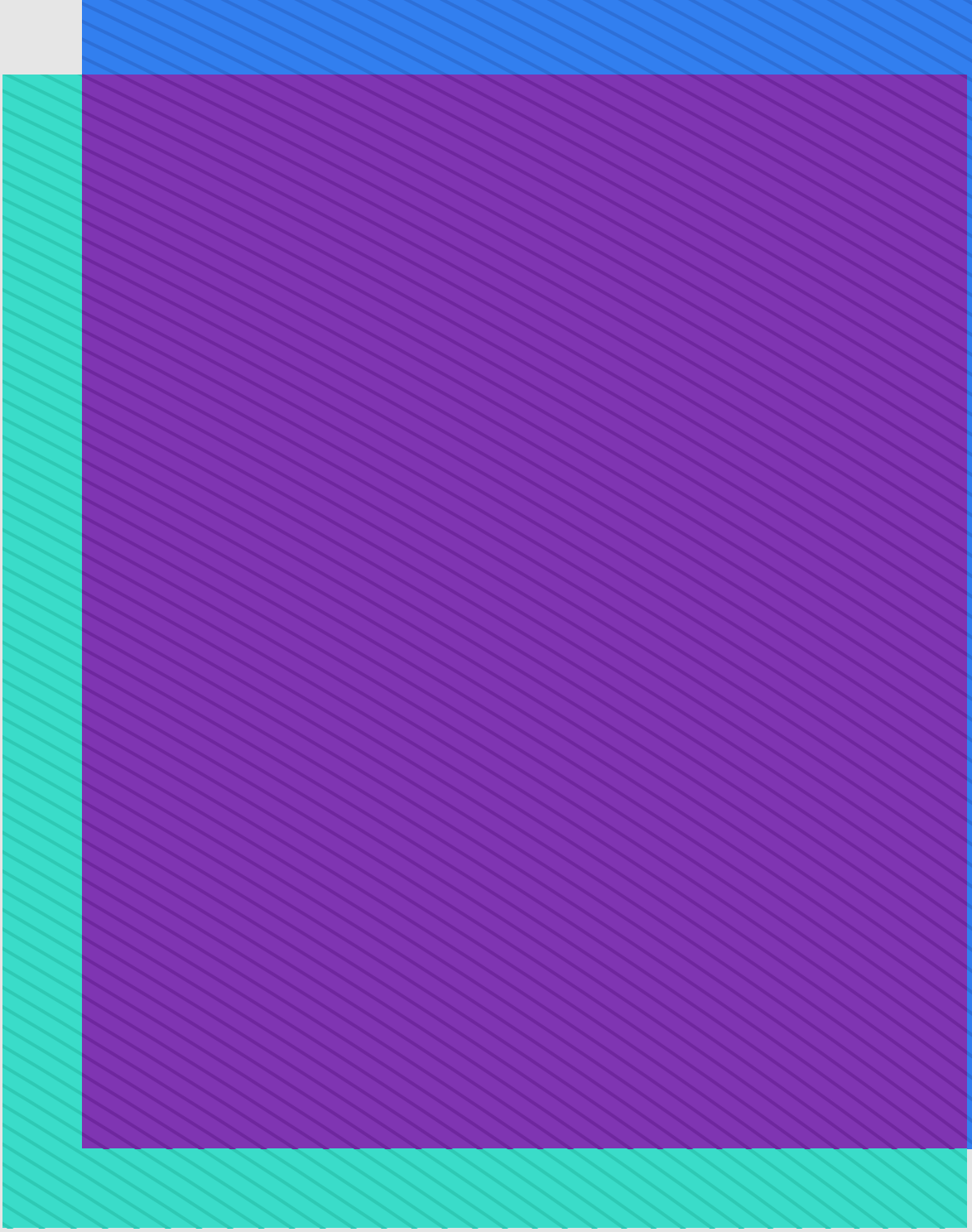
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Provision 34 of the Code recommends that non-executive directors' remuneration is established in line with the Articles of Association or, alternatively, by the board. Boards may choose to pay non-executive directors a portion of their fees in shares (for example, purchased at market price). In such circumstances, a description outlining the rationale and process for allowing a portion of non-executive director fees to be paid in shares, along with any associated restrictions on the sale of the shares, helps to ensure clarity for stakeholders.

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In some circumstances boards may consider that alternative approaches to remuneration of independent non-executive directors are desirable. In doing so, they should take care to preserve director independence. For this reason, performance related remuneration is not appropriate, as it may compromise the director's ability to provide oversight and challenge when considering executive decisions. If companies consider offering independent non-executive directors options or similar rights to acquire shares, they should not be performance related (for example, they should not have a meaningful exercise price which would impair director independence). In all circumstances, care should be taken to ensure the structure does not incentivise short-term decision making, create conflicts of interest or impair independence, in line with Provision 10 under Section 2 — division of responsibilities. Companies are encouraged to set out the approach in their annual report.

Source: Financial Reporting Council, Corporate Governance Code Guidance, paragraphs 322–324.



About Cevian
Cevian is a long-term, long-only investor in European public companies with a proactive and hands-on approach to value creation. It has executed the same strategy since its founding in 2002. Learn more at Cevian.com.

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