This commentary published March 2014.

Stewardship

The 2012 Persimmon Long Term Incentive Plan (LTIP) was announced 24/9/12 and approved at a general meeting four weeks later (17/10/12). Alerted by UKSA members (but not, unfortunately, in time to influence the AGM), the UKSA policy group carried out a technical analysis of the scheme presented in a report to the Directors on 13/11/12.

UKSA wrote to Chairman Nicolas Wrigley with specific questions and received a courteous answer that evaded all the questions asked.

UKSA wrote to the five leading institutional shareholders with its analysis.
• Only one had voted against the proposal, stating that 'Our voting position was informed by our house view that the LTIP does not incentivise management to create additional value for shareholders, but is designed to reward management for distributing for distributing existing shareholder value'
• One gave a detailed response supporting their decision to approve the LTIP
• Two gave boilerplate replies
• One did not reply

All replies indicated that there had been substantial 'engagement' with the Chairman and other directors. This raises, once again, the nature and effectiveness (for the shareholder) of such engagement. Major institutions had 'engaged' and come to a demonstrably wrong conclusion. (One found the 'simplicity' of the scheme attractive, which raises a number of questions about the way in which it was explained to them).

This situation will not change until real independent investors are allowed a say in the governance of their companies. UKSA has in the past prepared detailed proposals for Shareholder Committees and continues to support them.

Regulatory

Writing to Vince Cable, Secretary of State for Business (BIS), UKSA drew attention to a major flaw in the LTIP disclosure requirements in Remuneration Reports laid down in the regulations he issued in 2013. Instead of requiring disclosure now of the value in money terms of what has been awarded, the regulation requires the monetary value of LTIP awards to be disclosed only when awards have vested. The Persimmon expense will be reported in 2021.

This is a flaw which escaped the notice of those involved in a Financial Reporting Council study on which the new BIS regulations are based. UKSA has been calling for the study to be revisited and the regulations amended. The Persimmon report, which, in accordance with the regulations, includes precisely zero for the 2012 LTIP in all its monetary figures, is a stark wake-up call in this respect.

Accounting

There must also be questions, once again, about accounting standards. UKSA has campaigned against the damaging concepts of IFRS in the context of the abandonment of the prudence principle and its contribution to the overstatement of bank profits prior to the banking crisis. Here we seem to have a situation where £400million of distributed value is simply ignored (£250million+ being granted to current executives below board level, and therefore not mentioned in the remuneration report or anywhere else as far as we can see).

To be fair to Persimmon and the reporting standards, the word 'ignored' is an exaggeration. The annual report noted £10.3million of 'equity settled share-based payment transactions'. So they only missed £390million.

Analysis

Unlike the requirements of the regulations, we are not afraid to expose our analysis to scrutiny. It's heavy going but it's here

Conclusion

After reading this you might ask:
• What was the nature of the 'consultation' that went on with institutional shareholders when this scheme was approved?
• How are the next generation of executives(say in five years' time) to be 'incentivised'? With another 9% of the company?
• Why have the economic consequences of the LTIP been concealed from shareholders?
• What reason is there not to vote against both the Directors' Remuneration Policy and the Annual Report on Remuneration at the Persimmon AGM?