
STATUTORY INSTRUMENTS

1997 No. 570

COMPANIES

**The Company Accounts (Disclosure of
Directors' Emoluments) Regulations 1997**

Made - - - - *4th March 1997*
Coming into force - - *31st March 1997*

The Secretary of State in exercise of the powers conferred on him by section 257 of the Companies Act 1985(1) and of all other powers enabling him in that behalf hereby makes the following Regulations of which a draft has been laid before Parliament in accordance with section 257(2) of that Act and approved by a resolution of each House of Parliament:—

Citation, commencement and interpretation

1.—(1) These Regulations may be cited as the Company Accounts (Disclosure of Directors' Emoluments) Regulations 1997.

(2) These Regulations shall come into force on 31st March 1997 and shall have effect as respects companies' financial years ending on or after that date.

(3) In these Regulations—

“the Act” means the Companies Act 1985;

“Schedule 6” means Schedule 6 to the Act (disclosure of information: emoluments and other benefits of directors and others)(2).

Aggregate amount of directors' emoluments etc.

2. For paragraph 1 of Schedule 6 there shall be substituted the following paragraph—

“Aggregate amount of directors' emoluments etc.

1.—(1) Subject to sub-paragraph (2), the following shall be shown, namely—

(a) the aggregate amount of emoluments paid to or receivable by directors in respect of qualifying services;

(1) 1985 c. 6; section 257 was substituted by sections 1 and 20 of the Companies Act 1989 (c. 40).

(2) Schedule 6 was substituted by section 6(4) of, and Schedule 4 to, the Companies Act 1989 (c. 40) and subsequently modified in a manner not material to these Regulations.

- (b) the aggregate of the amount of gains made by directors on the exercise of share options;
 - (c) the aggregate of the following, namely—
 - (i) the amount of money paid to or receivable by directors under long term incentive schemes in respect of qualifying services; and
 - (ii) the net value of assets (other than money and share options) received or receivable by directors under such schemes in respect of such services;
 - (d) the aggregate value of any company contributions paid, or treated as paid, to a pension scheme in respect of directors' qualifying services, being contributions by reference to which the rate or amount of any money purchase benefits that may become payable will be calculated; and
 - (e) in the case of each of the following, namely—
 - (i) money purchase schemes; and
 - (ii) defined benefit schemes,the number of directors (if any) to whom retirement benefits are accruing under such schemes in respect of qualifying services.
- (2) In the case of a company which is not a listed company—
- (a) sub-paragraph (1) shall have effect as if paragraph (b) were omitted and, in paragraph (c)(ii), 'assets' did not include shares; and
 - (b) the number of each of the following (if any) shall be shown, namely—
 - (i) the directors who exercised share options; and
 - (ii) the directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes.
- (3) In this paragraph 'emoluments' of a director—
- (a) includes salary, fees and bonuses, sums paid by way of expenses allowance (so far as they are chargeable to United Kingdom income tax) and, subject to paragraph (b), the estimated money value of any other benefits received by him otherwise than in cash; but
 - (b) does not include any of the following, namely—
 - (i) the value of any share options granted to him or the amount of any gains made on the exercise of any such options;
 - (ii) any company contributions paid, or treated as paid, in respect of him under any pension scheme or any benefits to which he is entitled under any such scheme; or
 - (iii) any money or other assets paid to or received or receivable by him under any long term incentive scheme.
- (4) In this paragraph 'long term incentive scheme' means any agreement or arrangement under which money or other assets may become receivable by a director and which includes one or more qualifying conditions with respect to service or performance which cannot be fulfilled within a single financial year; and for this purpose the following shall be disregarded, namely—
- (a) bonuses the amount of which falls to be determined by reference to service or performance within a single financial year;
 - (b) compensation for loss of office, payments for breach of contract and other termination payments; and

(c) retirement benefits.

(5) In this paragraph—

‘amount’, in relation to a gain made on the exercise of a share option, means the difference between—

- (a) the market price of the shares on the day on which the option was exercised; and
- (b) the price actually paid for the shares;

‘company contributions’, in relation to a pension scheme and a director, means any payments (including insurance premiums) made, or treated as made, to the scheme in respect of the director by a person other than the director;

‘defined benefits’ means retirement benefits payable under a pension scheme which are not money purchase benefits;

‘defined benefit scheme’, in relation to a director, means a pension scheme which is not a money purchase scheme;

‘listed company’ means a company—

- (a) whose securities have been admitted to the Official List of the Stock Exchange in accordance with the provisions of Part IV of the Financial Services Act 1986 (3); or
- (b) dealings in whose securities are permitted on any exchange which is an approved exchange for the purposes of that Part;

‘money purchase benefits’, in relation to a director, means retirement benefits payable under a pension scheme the rate or amount of which is calculated by reference to payments made, or treated as made, by the director or by any other person in respect of the director and which are not average salary benefits;

‘money purchase scheme’, in relation to a director, means a pension scheme under which all of the benefits that may become payable to or in respect of the director are money purchase benefits;

‘net value’, in relation to any assets received or receivable by a director, means value after deducting any money paid or other value given by the director in respect of those assets;

‘qualifying services’, in relation to any person, means his services as a director of the company, and his services while director of the company—

- (a) as director of any of its subsidiary undertakings; or
- (b) otherwise in connection with the management of the affairs of the company or any of its subsidiary undertakings;

‘shares’ means shares (whether allotted or not) in the company, or any undertaking which is a group undertaking in relation to the company, and includes a share warrant as defined by section 188(1);

‘share option’ means a right to acquire shares;

‘value’, in relation to shares received or receivable by a director on any day, means the market price of the shares on that day.

(6) For the purposes of this paragraph—

- (a) any information, other than the aggregate amount of gains made by directors on the exercise of share options, shall be treated as shown if it is capable of being readily ascertained from other information which is shown; and

(b) emoluments paid or receivable or share options granted in respect of a person's accepting office as a director shall be treated as emoluments paid or receivable or share options granted in respect of his services as a director.

(7) Where a pension scheme provides for any benefits that may become payable to or in respect of any director to be whichever are the greater of—

- (a) money purchase benefits as determined by or under the scheme; and
- (b) defined benefits as so determined,

the company may assume for the purposes of this paragraph that those benefits will be money purchase benefits, or defined benefits, according to whichever appears more likely at the end of the financial year.

(8) For the purpose of determining whether a pension scheme is a money purchase or defined benefit scheme, any death in service benefits provided for by the scheme shall be disregarded.”

Details of highest paid director's emoluments etc.

3.—(1) For paragraphs 2 to 6 of Schedule 6 there shall be substituted the following paragraph—

“Details of highest paid director's emoluments etc.

2.—(1) Where the aggregates shown under paragraph 1(1)(a), (b) and (c) total £200,000 or more, the following shall be shown, namely—

- (a) so much of the total of those aggregates as is attributable to the highest paid director; and
- (b) so much of the aggregate mentioned in paragraph 1(1)(d) as is so attributable.

(2) Where sub-paragraph (1) applies and the highest paid director has performed qualifying services during the financial year by reference to which the rate or amount of any defined benefits that may become payable will be calculated, there shall also be shown—

- (a) the amount at the end of the year of his accrued pension; and
- (b) where applicable, the amount at the end of the year of his accrued lump sum.

(3) Subject to sub-paragraph (4), where sub-paragraph (1) applies in the case of a company which is not a listed company, there shall also be shown—

- (a) whether the highest paid director exercised any share options; and
- (b) whether any shares were received or receivable by that director in respect of qualifying services under a long term incentive scheme.

(4) Where the highest paid director has not been involved in any of the transactions specified in sub-paragraph (3), that fact need not be stated.

(5) In this paragraph—

‘accrued pension’ and ‘accrued lump sum’, in relation to any pension scheme and any director, mean respectively the amount of the annual pension, and the amount of the lump sum, which would be payable under the scheme on his attaining normal pension age if—

- (a) he had left the company's service at the end of the financial year;
- (b) there were no increase in the general level of prices in Great Britain during the period beginning with the end of that year and ending with his attaining that age;
- (c) no question arose of any commutation of the pension or inverse commutation of the lump sum; and

- (d) any amounts attributable to voluntary contributions paid by the director to the scheme, and any money purchase benefits which would be payable under the scheme, were disregarded;

‘the highest paid director’ means the director to whom is attributable the greatest part of the total of the aggregates shown under paragraph 1(1)(a), (b) and (c);

‘normal pension age’, in relation to any pension scheme and any director, means the age at which the director will first become entitled to receive a full pension on retirement of an amount determined without reduction to take account of its payment before a later age (but disregarding any entitlement to pension upon retirement in the event of illness, incapacity or redundancy).

(6) Sub-paragraphs (4) to (8) of paragraph 1 apply for the purposes of this paragraph as they apply for the purposes of that paragraph.”

(2) Nothing in paragraph 58(2) of Schedule 4 to the Act (corresponding amounts to be shown for previous financial year) shall apply to any amount which, in relation to a financial year of a company ending before 31st March 1998, is shown by virtue of paragraph 2(2) of Schedule 6 as substituted by paragraph (1) above.

Excess retirement benefits of directors and past directors

- 4. For paragraph 7 of Schedule 6 there shall be substituted the following paragraph—

“Excess retirement benefits of directors and past directors

7.—(1) Subject to sub-paragraph (2), there shall be shown the aggregate amount of—

- (a) so much of retirement benefits paid to or receivable by directors under pension schemes; and
- (b) so much of retirement benefits paid to or receivable by past directors under such schemes,

as (in each case) is in excess of the retirement benefits to which they were respectively entitled on the date on which the benefits first became payable or 31st March 1997, whichever is the later.

(2) Amounts paid or receivable under a pension scheme need not be included in the aggregate amount if—

- (a) the funding of the scheme was such that the amounts were or, as the case may be, could have been paid without recourse to additional contributions; and
- (b) amounts were paid to or receivable by all pensioner members of the scheme on the same basis;

and in this sub-paragraph ‘pensioner member’, in relation to a pension scheme, means any person who is entitled to the present payment of retirement benefits under the scheme.

(3) In this paragraph—

- (a) references to retirement benefits include benefits otherwise than in cash; and
- (b) in relation to so much of retirement benefits as consists of a benefit otherwise than in cash, references to their amount are to the estimated money value of the benefit;

and the nature of any such benefit shall also be disclosed.”

Compensation to directors for loss of office

5.—(1) In sub-paragraph (2)(b) of paragraph 8 of Schedule 6 (compensation to directors for loss of office), the words from “and shall distinguish” to the end shall be omitted.

(2) For sub-paragraph (4) of that paragraph there shall be substituted the following sub-paragraphs—

“(4) In this paragraph, references to compensation for loss of office include the following, namely—

- (a) compensation in consideration for, or in connection with, a person’s retirement from office; and
- (b) where such a retirement is occasioned by a breach of the person’s contract with the company or with a subsidiary undertaking of the company—
 - (i) payments made by way of damages for the breach; or
 - (ii) payments made by way of settlement or compromise of any claim in respect of the breach.

(5) Sub-paragraph (6)(a) of paragraph 1 applies for the purposes of this paragraph as it applies for the purposes of that paragraph.”

Minor and consequential amendments

6.—(1) For subsection (3) of section 246 of the 1985 Act (special provisions for small companies)(4) there shall be substituted the following subsection—

“(3) The company’s individual accounts for the year—

- (a) may give the total of the aggregates required by paragraphs (a), (c) and (d) of paragraph 1(1) of Schedule 6 (emoluments and other benefits etc. of directors) instead of giving those aggregates individually; and
- (b) need not give the information required by—
 - (i) paragraph 4 of Schedule 5 (financial years of subsidiary undertakings);
 - (ii) paragraph 1(2)(b) of Schedule 6 (numbers of directors exercising share options and receiving shares under long term incentive schemes);
 - (iii) paragraph 2 of Schedule 6 (details of highest paid director’s emoluments etc.); or
 - (iv) paragraph 7 of Schedule 6 (excess retirement benefits of directors and past directors).”

(2) In paragraph 10 of Schedule 6 (supplementary)—

- (a) in sub-paragraph (1), for the words “paragraphs 1, 7, 8 and 9” there shall be substituted the words “this Part of this Schedule”, and
- (b) sub-paragraph (3) shall be omitted.

(3) In paragraph 11(1) of that Schedule, for the words “paragraphs 1, 7, 8 and 9” there shall be substituted the words “this Part of this Schedule”.

(4) In sub-paragraph (2) of paragraph 13 of that Schedule (interpretation), the words “(including any provision of this Part of this Schedule referring to paragraph 1)” shall be omitted.

(5) For sub-paragraph (3) of that paragraph there shall be substituted the following sub-paragraph—

“(3) The following definitions apply—

(4) Section 246 was substituted by regulation 2 of S.I. 1997/220.

- (a) ‘pension scheme’ has the meaning assigned to ‘retirement benefits scheme’ by section 611 of the Income and Corporation Taxes Act 1988⁽⁵⁾;
- (b) ‘retirement benefits’ has the meaning assigned to relevant benefits by section 612(1) of that Act.”

4th March 1997

John M. Taylor,
Parliamentary Under-Secretary of State for
Corporate and Consumer Affairs,
Department of Trade and Industry

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend provisions in Part I of Schedule 6 to the Companies Act 1985 (c. 6) (“the 1985 Act”) relating to the disclosure of directors' emoluments or other benefits in the notes to a company's annual accounts in respect of any financial year. They also make amendments to section 246 of the 1985 Act, as amended by the Companies Act 1985 (Accounts of Small and Medium-sized Companies and Minor Accounting Amendments) Regulations 1997 (S. I. 1997/220).

Regulation 1 provides for the citation, commencement and interpretation of the Regulations.

Regulation 2 substitutes a new paragraph 1 of Schedule 6 (aggregate amount of directors' emoluments etc.) which makes the following provision:—

- (a) Companies are required to show, separately, the aggregate amount of directors' emoluments, the aggregate amount of gains made by directors from share options, the aggregate amount of money or other assets (other than share options) paid to or received by directors under long term incentive schemes and the aggregate value of company contributions in respect of directors to pension schemes where those contributions are in respect of money purchase benefits;
- (b) Companies are also required to state the number of directors who are accruing benefits under, respectively, money purchase pension schemes and defined benefit pension schemes;
- (c) An unlisted company is exempted from the requirement to show share option gains by its directors and the value of any shares receivable by them under long term incentive schemes, but must show the number of directors who exercised share options and who received or became entitled to shares under long term incentive schemes;
- (d) Under paragraph 1(6)(a) a company need not show any information, other than that relating to share option gains, if it is readily ascertainable from other information which is shown.

Regulation 3 substitutes a new paragraph 2 (details of highest-paid director's emoluments etc.) for paragraphs 2 to 6 of Schedule 6. Firstly, the paragraph fixes the aggregate emoluments threshold above which disclosure in respect of the highest paid director is required at £200,000. Where those aggregates exceed £200,000 there shall be disclosed the proportion attributable to the highest paid director. Secondly, there is a requirement to disclose the amount of the highest paid director's accrued retirement benefits, if he is a member of a defined benefit scheme, other than money-purchase benefits or those benefits arising from voluntary contributions made by that director. Where the company is unlisted, whether the highest paid director exercised share options or received, or became entitled to shares, under long term incentive schemes, is also to be shown. The requirements previously imposed under paragraphs 2 to 6 of Schedule 6 are repealed.

Regulation 4 substitutes a new paragraph 7 of Schedule 6 (excess retirement benefits of directors and past directors). The effect of the paragraph is to require companies to disclose increases in the amount of retirement benefits paid to directors or past directors in excess of the amounts to which they were entitled when the benefits became payable unless those excess benefits were paid to all members of the relevant scheme on the same basis and were paid without recourse to additional contributions.

Regulation 5 makes amendments to paragraph 8 of Schedule 6 (compensation to directors for loss of office). The effect of the amendments is to include payments in respect of breach of contract within the scope of the meaning of the term “compensation for loss of office”.

Status: *This is the original version (as it was originally made). This item of legislation is currently only available in its original format.*

Regulation 6 contains amendments to section 246 of the 1985 Act (special provisions for small companies) applying Schedule 6 as amended by these Regulations to small companies. It also makes other minor and consequential amendments to paragraphs 10, 11 and 13 of Schedule 6.

An assessment of compliance costs for companies is to be placed in the libraries of both Houses of Parliament. Copies can be obtained by post from the Company Law Directorate, Department of Trade and Industry, 5.M. 15, 1 Victoria Street, London SW1H 0ET.