

A European Perspective on Executive Remuneration

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EC recommendation fostering an appropriate regime for the remuneration of directors of listed companies

- Implementation by Member States (MS): by 30 June 2006 through legislation or best practice rules (comply or explain)
- 4 measures
 - Disclosure of information on companies' remuneration policy, its structure and performance criteria in annual accounts
 - Shareholders' vote on the remuneration policy at the general meeting: binding or advisory
 - Disclosure of individual directors' remuneration package
 - Prior approval of share option schemes

EC recommendation on the role of non-executive directors and of board committees

- Implementation by Member States (MS): by 30 June 2006 through legislation or best practice rules (comply or explain)
- 4 measures
 - Separation of the role of CEO and (supervisory board) chairman
 - A sufficient number of independent directors on the supervisory board; independence from the controlling shareholder
 - The creation of nomination, remuneration and audit committees
 - Strong presence of independent directors in board committees

EC reports on the application by Member States of its recommendations (July 2007)

- General outline of the stage of implementation

Overview

- Disclosure practices vary significantly across Europe
- Progress in improving governance standards
- Requirements on remuneration policy, individual directors' pay: applied by most MS
- Recommendations aimed at giving shareholders more influence: not implemented by the majority of the MS
- Wording of the corporate governance codes and the regulatory techniques reveal differences in the importance attached to different provisions

EC reports on the application by Member States of its recommendations (July 2007)

- Remuneration policy: followed by 60% of the MS; half endorse it only in part
- Individual disclosure: more than 2/3 of the MS require the disclosure of the remuneration of executive and non-executive board members
- Vote on remuneration policy: 1/3 of the MS
 - as part of annual reportor
 - as separate vote
- Shareholder approval of share-based incentive schemes, implementation varies:
 - for remuneration criteria only
 - limited to certain types of share-based remuneration
 - only for schemes involving new share issues

EC reports on the application by Member States of its recommendations (July 2007)

- All MS recommend the presence of independent directors on (supervisory) boards
- Differences in the definition of independence
- The majority of the MS require the creation of special committees
- A significant number of MS do not recommend the presence of independent directors on all board committees

Regulations and guidelines following the EC Recommendation

- United Kingdom & Ireland
 - Combined Code on Corporate Governance, 2006
 - Companies' Act, 2006
 - UK Listing Rules, 2005
 - Best practice revised guidelines: ABI/ NAPF Joint Statement on executive contracts and severance, 2008
- Germany
 - Disclosure of Board Compensation Act (“Vorstandsvergütungsoffenlegungsgesetz”), 2005
 - Cromme Code – full review-recommendation on 6 June 2008
- Austria
 - Companies Act, 2005
 - Code of Corporate Governance (revised, 2007)

Regulations and guidelines following the EC Recommendation

- Sweden
Swedish Code of Corporate Governance, 2007
- Denmark
Recommendations on Corporate Governance, 2005, revised 2008
- Finland
Statement by Finnish Cabinet Committee on Economic Policy, 29 May 2007
- France
Recommendations made by MEDEF / AFEP concerning the remuneration of corporate officers of listed companies, January 2007
Act of 21 August 2007 for labor, employment and purchasing power (the “TEPA” Act)
AFG Recommendations on Corporate Governance, 2008

Regulations and guidelines following the EC Recommendation

- Italy
 - Revised Code on Corporate Governance, 2006
 - Bank of Italy: Supervisory provisions concerning banks' organisation and corporate governance, 2008
- Spain
 - Unified Code on Corporate Governance, 2006
- Portugal
 - CMVM Regulation n.1/2007 (taking into account EC Recommendation)
 - CMVM Code on Corporate Governance (Recommendations on Corporate Governance), 2007

Regulations and guidelines following the EC Recommendation

- Luxembourg
The 10 principles of corporate governance of the Luxembourg Stock Exchange, 2006
- Hungary
Companies Act 2006
Corporate Governance Recommendations, 2008

MS: public regulation, comply or explain, recommendation



Countries/ Item	UK Ireland	Germany Austria	Nordic Sweden Denmark Finland	Mediterranean France Italy Spain Portugal Greece	Benelux The Netherlands Belgium Luxembourg	Eastern Europe Hungary Poland
Remuneration report		1	1	1	1	1
Remuneration policy statement						
Individual disclosure						
			Finland	Greece	Luxembourg	
Approval remuneration policy	2			3	4	
			Finland			
Approval share incentive schemes						
Remuneration committee						
				Greece (n/a)		

1 – as part of the annual report

2 – UK (law), Spain (code of corporate governance): advisory vote

3 – France, Portugal, Greece: approval of the annual report

4 – approval of the annual report

	Implemented
	Not implemented

MS: public regulation, comply or explain, recommendation

Remuneration policy

Definition

UK, France and Spain – enforcing most thoroughly

Vote on remuneration policy

EU standard?

UK – advisory vote (law)

Spain – advisory vote (corporate governance recommendation)

Individual disclosure

Most MS introduced the requirement

Approval of share-based incentive schemes

More compliance recently

Remuneration committees

Generally recommended by best practice guidelines

European listed companies: disclosure of remuneration policy

UK, France, Germany

Common aspects

- Explanation of the objectives of remuneration
- Alignment with performance
- Detailed information on principles and terms of long-term incentive plans
- Provide information on benchmarking

Main differences

UK:

- More detailed explanations on principles and strategy of remuneration
- More information on performance measures
- More detailed structure of pay (% fixed / variable)
- Lists peer companies in the comparator group

European listed companies: disclosure of remuneration policy

UK, France, Germany

Compliance with the EC Recommendation

“The statement”

UK: nearly all companies provide a comprehensive policy statement

Germany, France

- several companies do not provide a clear policy statement
- remuneration principles are described within the remuneration report

Term

UK: forward looking policy

France, Germany: policy based on year in review

Performance criteria of variable element

Companies from all three countries give detailed information on quantitative and qualitative measures

European listed companies: disclosure of remuneration policy

UK, France, Germany

Compliance with the EC Recommendation

Linkage between remuneration and performance

UK:

- detailed explanations on performance targets (base target, stretch target)
- performance graphs

France and Germany:

- level of explanation varies between companies
- seems more detailed at multinational companies

Rationale for performance measures

Generally provided only in the UK

European listed companies: disclosure of remuneration policy

UK, France, Germany

Compliance with the EC Recommendation

Contracts and termination packages

Varies between companies

UK, Germany: detailed information

France:

- few companies provide information on termination packages
- some describe the provisions only for corporate officers and not for all executives

Remuneration setting process: role of remuneration committee, external consultants, general meeting

Companies from all three countries provide detailed information

Only UK companies provide information on external consultants

European listed companies: disclosure and pay practices

General observations

- The disclosure by companies of the policy and components varies from country to country
- Disclosure appears to be strongly dependent on the existence of corresponding regulations or best practice guidelines in the home country
- When deviating from best practice recommendations, companies generally provide explanations; the level of information in the explanations vary
- European comparison of remuneration is still difficult to make, due to the limited disclosure of individual executive remuneration and of the remuneration criteria

European listed companies: disclosure and pay practices

Trends

- Shareholder voice, as a result of the “say-on-pay” legislation: greater levels of dissent in shareholder votes
- A clear shift from the traditional stock option plans to other forms of equity-based compensation – increased use of performance share plans
- Performance measures: increase in the use of individual objectives and qualitative performance criteria; non-financial indicators (e.g. customer satisfaction)
- Individual disclosure of pay, more transparency on policies and incentives is expected to be required by law

United States / Europe

- **Say-on-pay**

Most EU jurisdictions already have a “say-on-pay” law

- Setting board remuneration: common practice
- Vote on the remuneration policy: most common vote on the annual report
- Vote on the long-term incentive plans
- Dialogue pre-AGM

Advisory vote on the remuneration policy: UK (introduced in 2003)

Caused by:

- high levels of incentive pay
- no disclosure of performance criteria for individual bonuses

No uniformity between levels of disclosure and whether vote is binding

Increasing policy in the US

Political support from democrats and republicans

United States / Europe

- **SEC New Rules on Executive Compensation Disclosure**

Improve clarity and presentation

- Director compensation table
- Value of equity compensation
- Directors' share ownership
- Non-executive officer compensation

- **European current remuneration topics debates / US current debates**

EU: Golden parachutes (France, Germany, Switzerland)

Excessive managers pay (Switzerland)

Link: share option plans – performance (The Netherlands)

US: Backdating of options

Pay differentials

Conclusive remarks

- Disclosure is needed, as a corporate governance function
- Say-on-pay
Necessary, as a corporate governance function
Not sufficient for the purpose of improving the ‘pay for performance’ link
- The success of the implementation of EC Recommendations
Shareholders assuming a more active role
Transparency

Research on remuneration practices of FTSEurofirst 300 currently being conducted by Prof. Guido Ferrarini and Maria-Cristina Ungureanu – University of Genoa