



2018 Update on EU Shareholder Rights Directive

Webinar – 16 May 2018

Prepared by Aon
Aon | Executive Compensation

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Introduction

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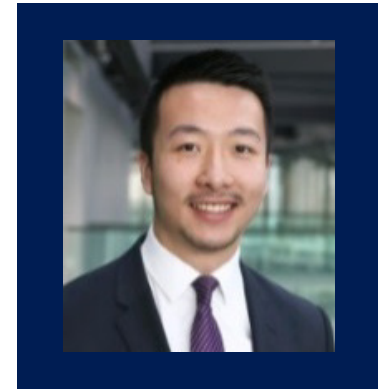
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Agenda

EU Shareholder Rights Directive

- Recap on Say on Pay requirements
- Recent developments and timeline
- Implications of Say on Pay

Market Practice Update

- Key drivers of executive pay in Europe
- 2018 AGM season so far
- Institutional shareholder views

How can Aon help you get ready?

- 2018 European Top Executive Survey
- 2018 EuroExec Survey



Questions?



2018 Update on EU Shareholder Rights Directive

Webinar – 16 May 2018

Prepared by New Bridge Street
Aon Hewitt | New Bridge Street



Chat

Q&A

All (0)

Type your questions
here!

Ask: All Panelists

Send

Connected

A black smartphone, a red pencil, and a white eraser are arranged vertically on a dark, textured wooden surface. The smartphone is in the center, with the pencil to its left and the eraser to its right.

SHAREHOLDER RIGHTS DIRECTIVE

2018 Update

EU Shareholder Rights Directive





Recap – who will be caught under the Directive?



EU Shareholder Rights Directive

Recap – Say on pay requirement at a glance



	Directions' Remuneration Policy	Directors' Remuneration report	Impact assessment
SRD requirement	Shareholders must have a vote but members states determine if this vote is binding or advisory	Shareholders have the right to an advisory vote	-
Vote frequency	At least every 4 years	Annual	
Summary of content required	<ul style="list-style-type: none"> Fixed and variable remuneration components How remuneration complies with policy Pay and employment conditions Performance criterion for variable and share-based remuneration Terms of directors' contracts 	<ul style="list-style-type: none"> Total remuneration split out by fixed and variable Information on the application of performance criteria Number of shares and share options granted Possibility of reclaiming variable remuneration 	
What happens if a company fails the vote?	<ul style="list-style-type: none"> Continue to pay remuneration to directors in accordance with its existing practices Company must submit a revised policy for approval at the next general meeting 	Where shareholders vote against the remuneration report, the company should explain in the next remuneration report how the shareholder vote has been taken into account	
Information availability	Date and vote published without delay on website. Policy info published as long as applicable	Report available on website for 10 years	

EU Shareholder Rights Directive

Recap – where are we in terms of implementation?



Directive published in the Official Journal of the European Union and came into force 20 days later.



First meeting of the implementation working group, bringing together representatives from the EU Commission and individual Member States.



The EU Commission have committed to publish detailed disclosure guidelines to promote consistency across all EU member states



Member states must implement the SRD into national law by 10 June 2019

Now

May 2017

October 2017

Autumn 2018

June 2019

Only a handful of member states have published information in relation to transposing SRD into local law.



NETHERLANDS

SRD consultation ended on 27th March 2018.



FINLAND

Draft legislation was released on 16 April 2018.



SWEDEN

Draft legislation is expected soon.



DENMARK

Draft legislation will be released in October 2018.



FRANCE

Publication date unknown.



GERMANY

Publication date unknown.

EU Shareholder Rights Directive

Increased remuneration disclosure requirements from FY19/20 onwards

Key:

Not
normally
disclosed

Practice
mixed

Cross-country assessment of the disclosure framework

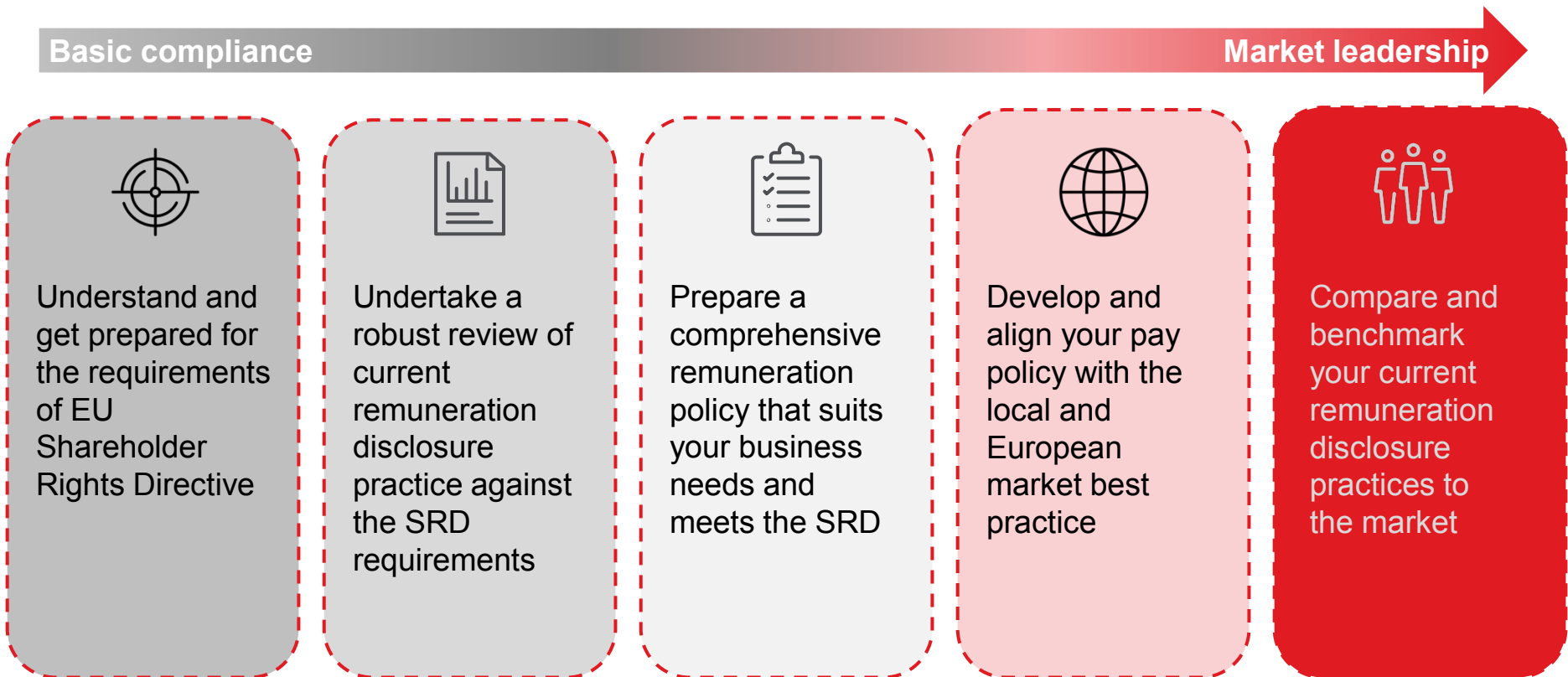
SRD REQUIREMENT

	European average	Area of focus					
		France	Germany	Denmark	Finland	Sweden	Netherlands
Separate policy report	Practice mixed	✓	✓				
Disclosure for individual directors	Not normally disclosed	✓		✓		✓	
Maximum STI opportunities	Practice mixed				✓		
Target STI opportunities	Not normally disclosed			✓	✓	✓	✓
Performance metrics and weightings (ex-post)	Practice mixed			✓	✓	✓	
Actual performance against targets	Not normally disclosed	✓	✓	✓	✓	✓	✓
Maximum LTI opportunities	Practice mixed	✓			✓		✓
Target LTI opportunities	Not normally disclosed		✓	✓	✓	✓	✓
Performance metrics and weightings (ex-ante)	Not normally disclosed			✓		✓	
Actual performance against targets	Not normally disclosed	✓	✓	✓	✓		✓

EU Shareholder Rights Directive

Okay – so what? What's next?

5 key actions to get ready:





LATEST REMUNERATION TRENDS IN EUROPE

2018 AGM season

2018 AGM season – voting on remuneration so far

Key themes



LTI measures and long-termism

There are concerns over the use of absolute and relative performance metrics and how the metrics link to the long-term success of the company.



Disclosure

Shareholders expect a sufficient level of disclosure (e.g. cap on variable pay, targets, pay philosophy etc.) in order to exercise their governance duties.



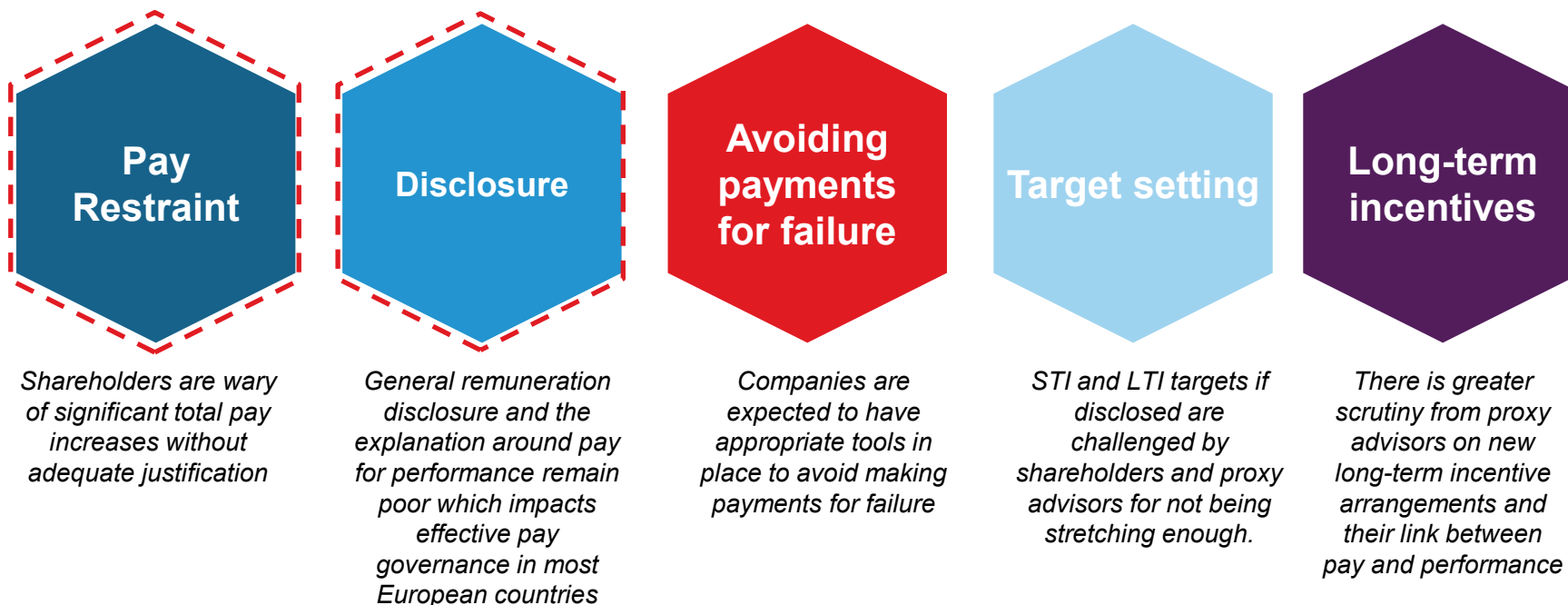
Quantum

Quantum issues include uncapped variable pay, excessive quantum in relation to peers and significant salary increase without business justification.

Examples of high votes against pay resolutions this year:

Company	Country	Resolution	% votes against	Reasons										
				One-off awards	Poor disclosure	Salary/Fee increase	LTI quantum	LTI measures	STI quantum	STI measures	Pension increase	Short-termism	Severance terms	Conflicts of interest
AIB	Ireland	Remuneration Policy	76.2				●							
Inmarsat	United Kingdom	Annual Advisory	58.0						●			●		
Teleperformance	France	Annual Advisory	49.1		●			●		●		●	●	
El Towers SpA	Italy	Directors Fees	47.4		●	●								
		Annual Advisory	36.0	●	●						●			
Vinci SA	France	Binding Policy	45.7			●	●							
		Annual Advisory	43.7		●		●	●					●	
Aryzta AG	Switzerland	Annual Advisory	44.8	●										
Aurubis AG	Germany	Annual Advisory	44.1					●	●	●				●
Merlin Properties	Spain	Annual Advisory	42.9											
ABB Ltd	Switzerland	Annual Advisory	37.6				●				●			
Genmab	Denmark	Directors Fees	42.7			●								
Technicolor	France	Binding Policy	42.4		●									●
		Annual Advisory	36.5		●									
GAM Holdings	Switzerland	Annual Advisory	42.4	●	●				●					
Essilor International	France	Annual Advisory	41.2	●	●									
Georg Fisher	Switzerland	Annual Advisory	40.6				●	●						

2018 pay agenda - key drivers of executive pay in Europe going forward

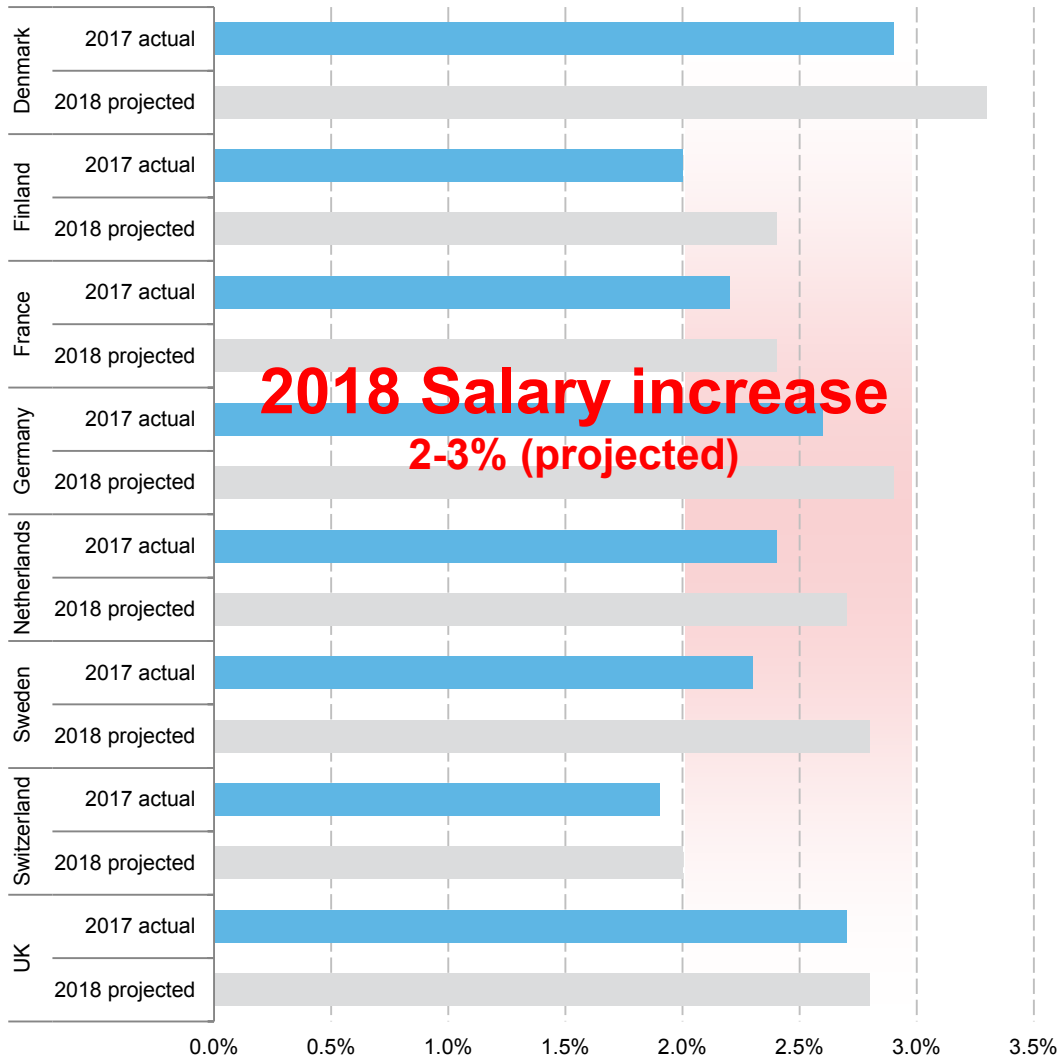


So what? What's next?

1	If salary increase/a new LTIP is expected in the coming year, what level is considered to be market reasonable or justifiable?
2	How can the remuneration disclosure (philosophy, challenges and target setting etc.) be improved to ensure effective communications to the shareholders?

Base salary trends in Europe

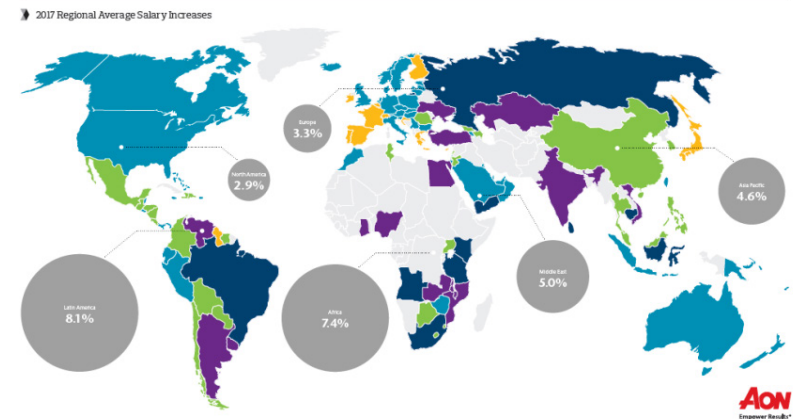
A snapshot from our Global Salary Increase Survey



Sources: Global Salary Increase Survey 2017/18

- 30th edition of Global Salary Increase Survey
- Data collected from 14,706 organisations across 128 countries in services, manufacturing and multi service industries.
- Provides an overview of actual salary budgets in 2017 as well as current projections for 2018

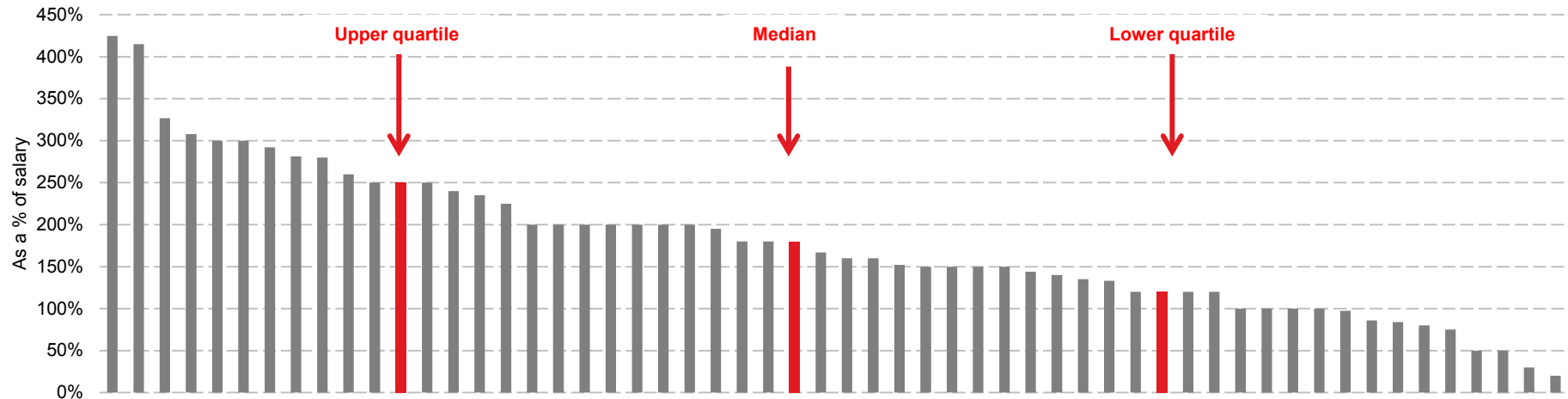
Global Salary Increase 2017



STI trends - quantum

A snapshot from our Eurotop 100 pay database (excluding UK) and 2017 European Top Executive Survey

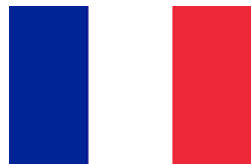
Maximum annual bonus quantum – Highest Paid Directors in Eurotop 100 (excl. UK)



Country specific analysis (bonus maximum as % salary)



75%
Nordics



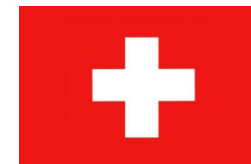
150%
France



160%
The Netherlands



180%
Germany



200%
Switzerland

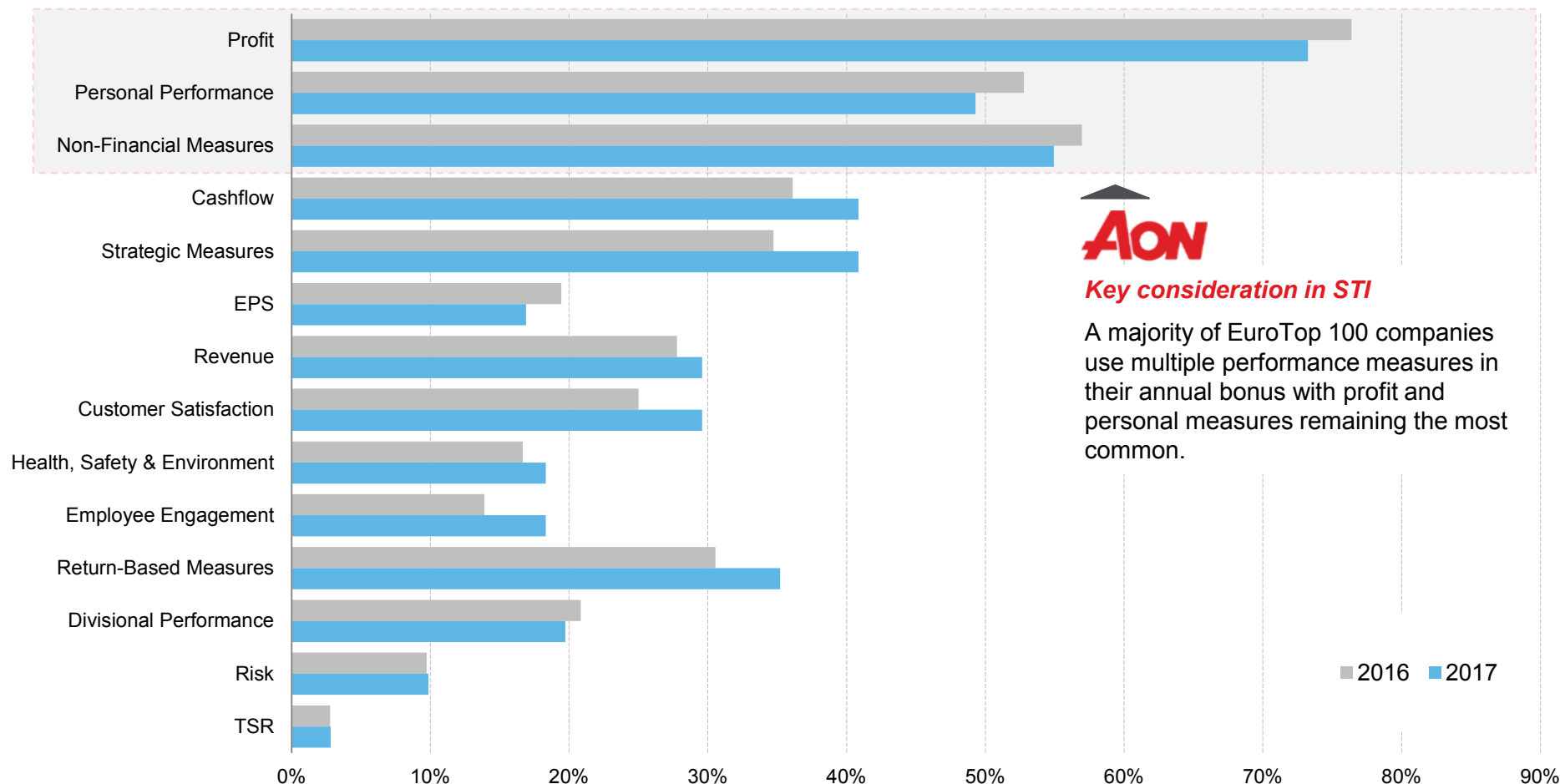


212%
EuroExec

STI trends – performance metrics

A snapshot from our Eurotop 100 pay database (excluding UK)

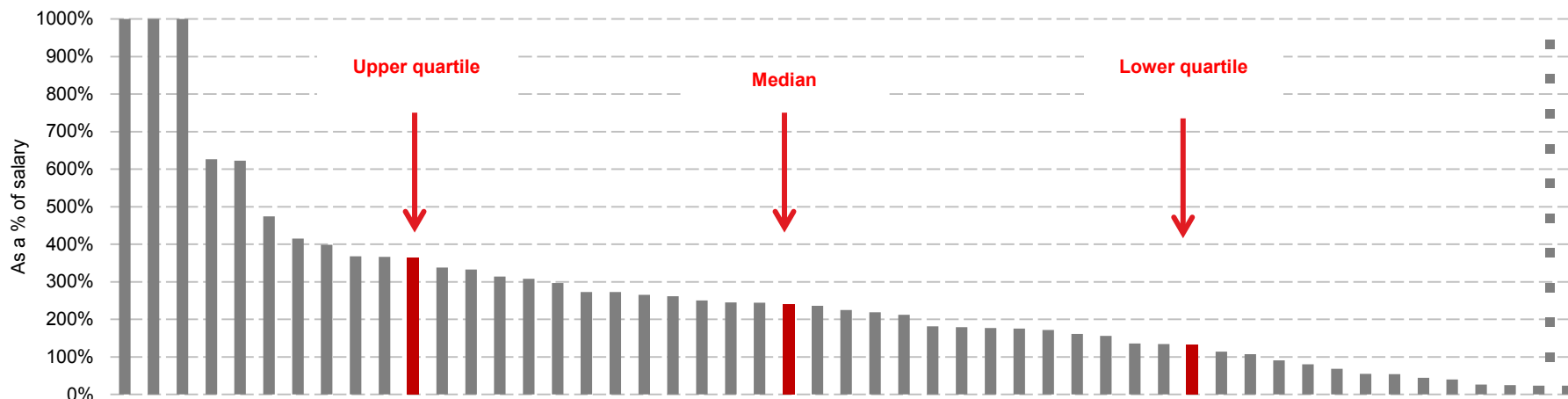
Prevalence of annual bonus performance metrics



LTI trends - quantum

A snapshot from our Eurotop 100 pay database (excluding UK) and 2017 European Top Executive Survey

Maximum long-term incentive quantum – Highest Paid Directors in Eurotop 100 (excl. UK)



Country specific analysis (maximum LTI grant as % salary)



75% - 100%
Nordics



180%
France



200%
The Netherlands



225%
Germany



250%
Switzerland

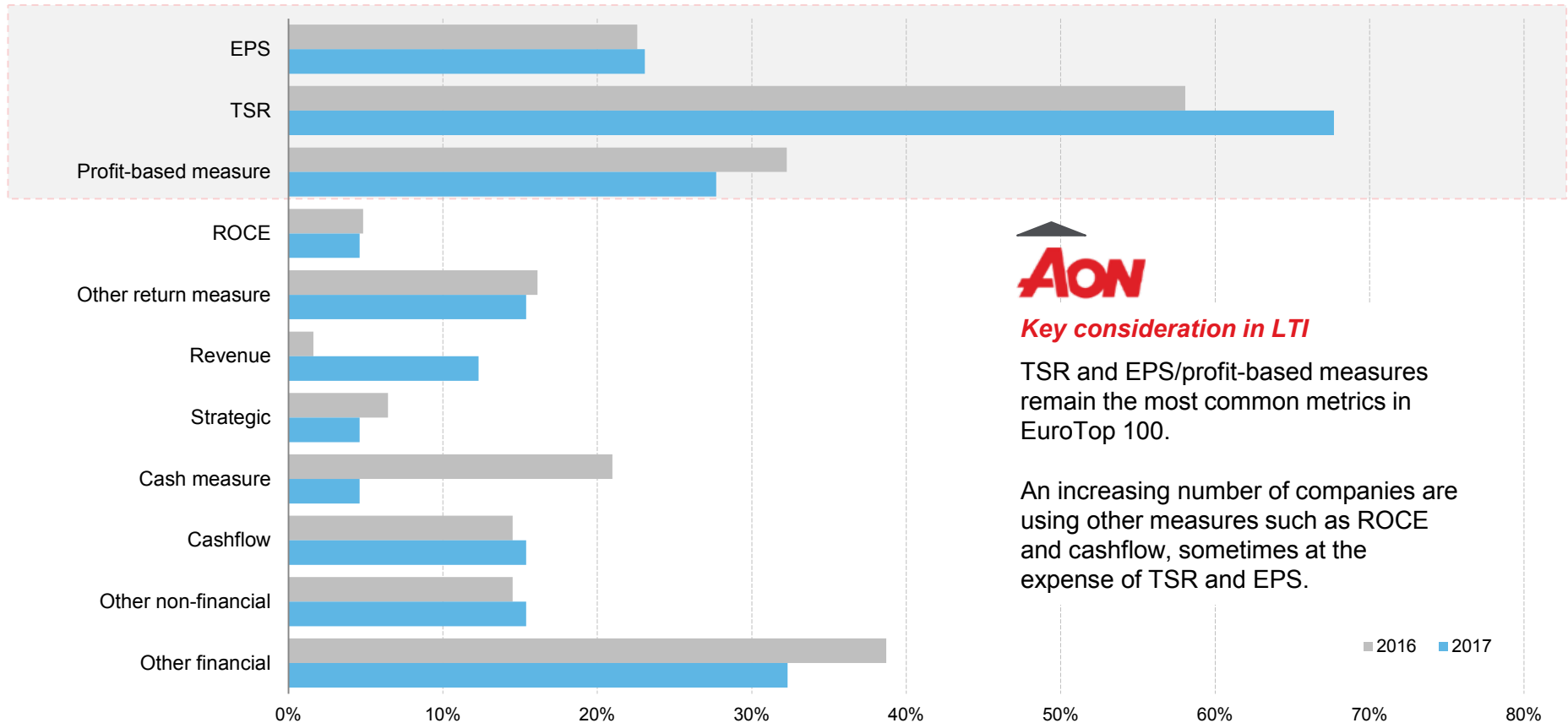


300%
EuroExec

LTI trends – performance metrics

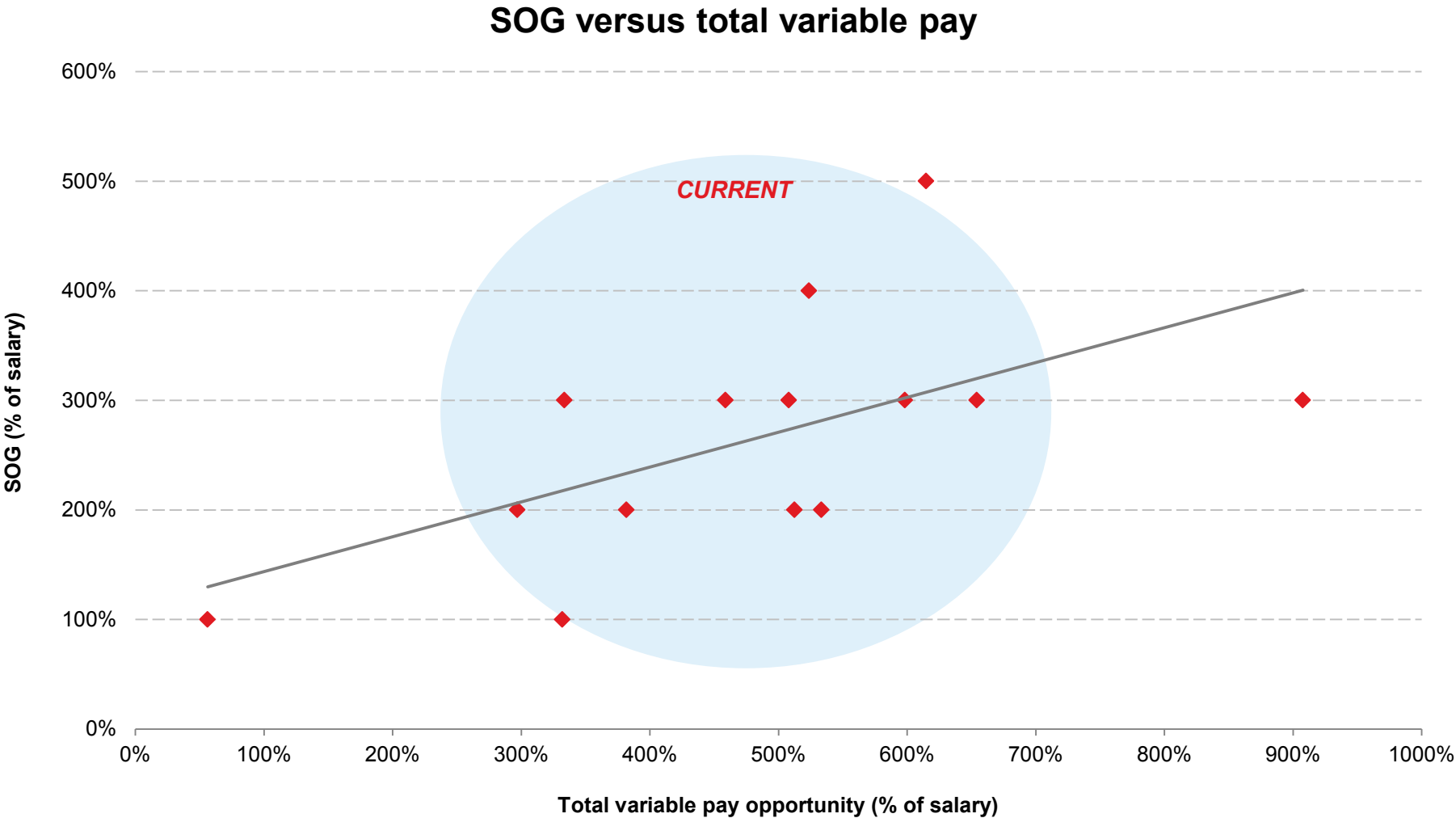
A snapshot from our Eurotop 100 pay database (excluding UK)

Prevalence of LTI performance metrics



Share Ownership Guidelines v Total Variable Pay

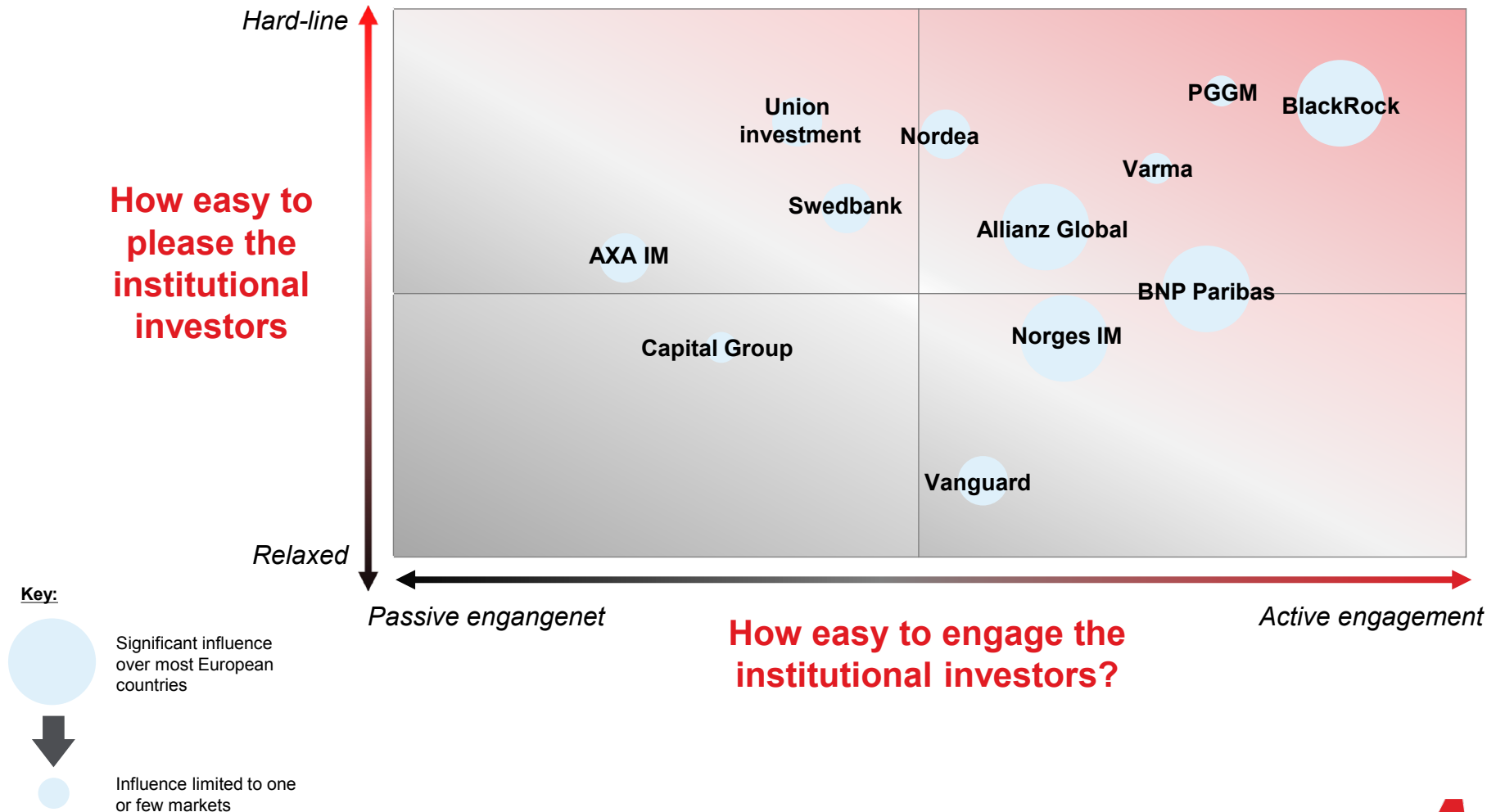
A snapshot from our Eurotop 100 pay database



Latest views on executive pay of institutional investors

Investors have mixed views and can be difficult to engage with...

Overview of views of institutional investors



Investor influence from proxy advisors

How influential are their voting recommendations?



Proxy advisors can be very **influential to overseas institutional investors** who do not have the knowledge to monitor local market practices in depth. Well known advisors include ISS, Glass Lewis and Ethos.



There is a high correlation between ISS Against vote and the actual high votes against pay resolutions.



ISS published an update on the Europe Proxy Voting Guidelines in January 2018 which provides country specific guidelines on pay elements. ISS has also focus on the use of P4P analysis which identifies mis-alignment between pay and performance

Source: Financial Times

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Glass Lewis urges vote against Deutsche Boerse board actions at AGM

April 25, 2018 admin Business News Comments Off

BUSINESS

Shareholder advisors ISS urge vote against Unilever remuneration policy

By REUTERS last updated: 13/04/2018

BUSINESS

Proxy adviser ISS backs Credit Suisse pay proposals

By REUTERS last updated: 10/04/2018

BUSINESS NEWS APRIL 14, 2018 / 11:58 PM / 11 DAYS AGO

Proxy adviser ISS recommends against five Equifax directors over cyberbreach

Reuters Staff

3 MIN READ



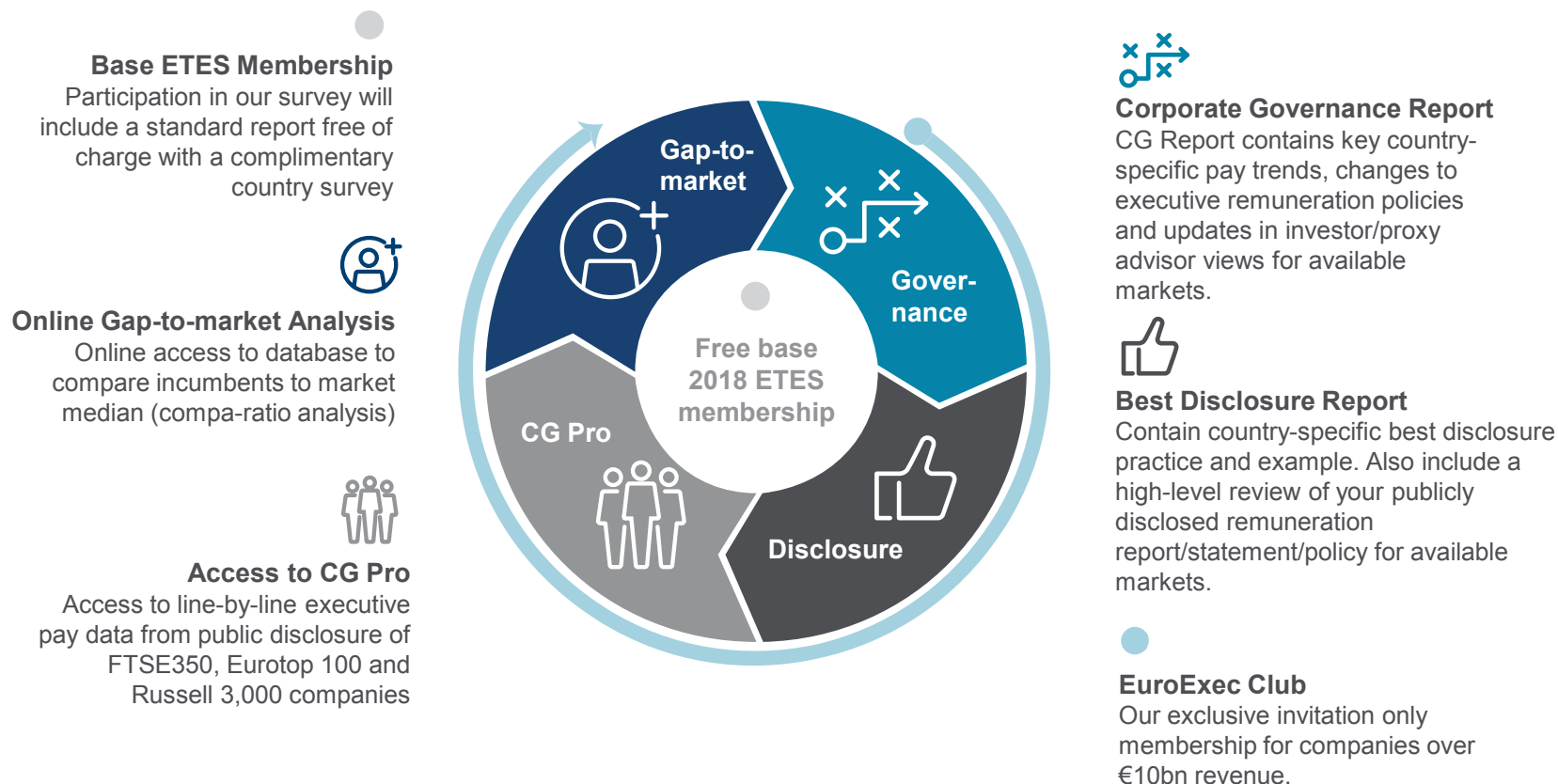


HOW CAN WE HELP YOU GET READY?

2018

2018 Aon European Top Executive Survey (ETES)

It is with immense pleasure we invite you to join our ETES this year:



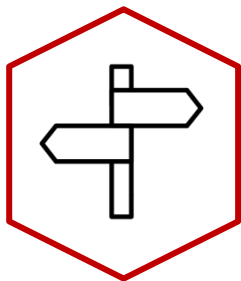
For more information and order form, please contact executivesurvey.mailbox@aon.com

2018 Aon EuroExec Survey

Aon's EuroExec Survey provides a valuable compensation point of reference for top executive roles among organisations in Europe with annual revenue above €10 billion:

EuroExec Survey 2018

In 2017, our EuroExec survey included 41 participating companies with a median market capitalisation of €31.84 billion.



Cross-border

Complimentary cross-border analysis for the EuroExec Survey for your primary reporting country will be provided



Roundtable meeting

All participants will be invited to an exclusive roundtable/event this autumn during which we will discuss the EuroExec survey outcome, trends and governance developments in Europe.



Complimentary report

- European Top Executive Survey
- European Corporate Governance Report
- European Best Practice Report

For more information and order form, please contact executivesurvey.mailbox@aon.com

Q&A

Q: What is the “Director” definition used by the EU Shareholder Rights Directive?

- The definition of directors covers both the supervisory Directors of the company, so the independent non-executive directors, and executive directors.
- The executive directors are defined as those members of the administrative and management body of the company and will need to include, as a minimum, the Chief Executive Officer and Deputy CEO, should the role exist.
- Where local governance practices already encourage disclosure of a wider group of executives on an individual or aggregate basis, for example, members of the wider management board, this is likely to continue but won't necessarily be caught by the legislation.

Q: Is there any requirement for companies to publish CEO to employee pay ratio as now required in the US?

- We are seeing a lot of interest both politically and from shareholders on the concept of pay ratios. There is no specific requirement under the Directive to publish a CEO pay ratio, although the directive does require companies to set out the annual change in CEO remuneration together with the details on the performance of the company and the average employee remuneration over at least five year period.
- However, even if the publication of a pay ratio is not required under the directive, it may well come into force through the revisions to local corporate governance codes and/or investor best practice guidelines. For example, the Dutch corporate governance code recommends companies publish a CEO to employee pay ratio and mandatory pay ratio reporting is about to be introduced in the UK.

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