2018 Update on EU Shareholder Rights Directive

Webinar – 16 May 2018
Introduction

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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
2018 Update on EU Shareholder Rights Directive

Webinar – 16 May 2018

Prepared by New Bridge Street
Aon Hewitt | New Bridge Street
SHAREHOLDER RIGHTS DIRECTIVE
2018 Update
EU Shareholder Rights Directive

Recap – who will be caught under the Directive?

1. **Listed**
   A company whose shares are admitted to trading on a regulated market within a member state.

2. **European headquartered**
   A company whose registered office is in a member state.

3. **Non exempt**
   Member states may exempt certain collective investment undertakings and co-operative societies from SRD.
### EU Shareholder Rights Directive

#### Recap – Say on pay requirement at a glance

<table>
<thead>
<tr>
<th>SRD requirement</th>
<th>Directions’ Remuneration Policy</th>
<th>Directors’ Remuneration report</th>
<th>Impact assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders must have a vote but members states determine if this vote is binding or advisory</td>
<td>Shareholders have the right to an advisory vote</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Vote frequency</th>
<th>At least every 4 years</th>
<th>Annual</th>
<th></th>
</tr>
</thead>
</table>

#### Summary of content required

- Fixed and variable remuneration components
- How remuneration complies with policy
- Pay and employment conditions
- Performance criterial for variable and share-based remuneration
- Terms of directors’ contracts
- 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?

- 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

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EU Shareholder Rights Directive
Recap – where are we in terms of implementation?

Directive published

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

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

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

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.
### Cross-country assessment of the disclosure framework

<table>
<thead>
<tr>
<th>European average</th>
<th>Area of focus</th>
<th>France</th>
<th>Germany</th>
<th>Denmark</th>
<th>Finland</th>
<th>Sweden</th>
<th>Netherlands</th>
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</thead>
<tbody>
<tr>
<td>Separate policy report</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disclosure for individual directors</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Maximum STI opportunities</td>
<td>Yes</td>
<td>Yes</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Target STI opportunities</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Performance metrics and weightings (ex-post)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Actual performance against targets</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Maximum LTI opportunities</td>
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<td>Yes</td>
<td>Yes</td>
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<td>Performance metrics and weightings (ex-ante)</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Key:**
- Red: Not normally disclosed
- Orange: Practice mixed

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**SRD REQUIREMENT**

**EU Shareholder Rights Directive**

*Increased remuneration disclosure requirements from FY19/20 onwards*
EU Shareholder Rights Directive
Okay – so what? What’s next?

5 key actions to get ready:

1. Understand and get prepared for the requirements of EU Shareholder Rights Directive
2. Undertake a robust review of current remuneration disclosure practice against the SRD requirements
3. Prepare a comprehensive remuneration policy that suits your business needs and meets the SRD
4. Develop and align your pay policy with the local and European market best practice
5. Compare and benchmark your current remuneration disclosure practices to the market
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.

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Examples of high votes against pay resolutions this year:

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Resolution</th>
<th>% votes against</th>
<th>Reasons</th>
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<tbody>
<tr>
<td>AIB</td>
<td>Ireland</td>
<td>Remuneration Policy</td>
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<td>Inmarsat</td>
<td>United Kingdom</td>
<td>Annual Advisory</td>
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<td>Genmab</td>
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<td>GAM Holdings</td>
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<tr>
<td>Georg Fisher</td>
<td>Switzerland</td>
<td>Annual Advisory</td>
<td>40.6</td>
<td>●</td>
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</tbody>
</table>

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

Pay Restraint
Shareholders are wary of significant total pay increases without adequate justification

Disclosure
General remuneration disclosure and the explanation around pay for performance remain poor which impacts effective pay governance in most European countries

Avoiding payments for failure
Companies are expected to have appropriate tools in place to avoid making payments for failure

Target setting
STI and LTI targets if disclosed are challenged by shareholders and proxy advisors for not being stretching enough.

Long-term incentives
There is greater scrutiny from proxy advisors on new long-term incentive arrangements and their link between pay and performance

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

2018 Salary increase
2-3% (projected)

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
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)

- **Nordics**: 75%
- **France**: 150%
- **The Netherlands**: 160%
- **Germany**: 180%
- **Switzerland**: 200%
- **EuroExec**: 212%
STI trends – performance metrics

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

Prevalence of annual bonus performance metrics

- Profit
- Personal Performance
- Non-Financial Measures
- Cashflow
- Strategic Measures
- EPS
- Revenue
- Customer Satisfaction
- Health, Safety & Environment
- Employee Engagement
- Return-Based Measures
- Divisional Performance
- Risk
- TSR

Key consideration in STI

A majority of EuroTop 100 companies use multiple performance measures in their annual bonus with profit and personal measures remaining the most common.
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

Key consideration in LTI
TSR and EPS/profit-based measures remain the most common metrics in EuroTop 100.

An increasing number of companies are using other measures such as ROCE and cashflow, sometimes at the expense of TSR and EPS.
Share Ownership Guidelines v Total Variable Pay
A snapshot from our Eurotop 100 pay database

SOG versus total variable pay

SOG (% of salary)

Total variable pay opportunity (% of salary)
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

- **Hard-line**
  - AXA IM
  - Capital Group
  - Vanguard
  - Norges IM
  - BNP Paribas
  - Allianz Global
  - Swedbank
  - Nordea
  - PGGM
  - BlackRock

- **Relaxed**
  - Union investment
  - Vanguard

Key:
- Significant influence over most European countries
- Influence limited to one or few markets

How easy to please the institutional investors?

How easy to engage the institutional investors?
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
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:

Base ETES Membership
Participation in our survey will include a standard report free of charge with a complimentary country survey.

Online Gap-to-market Analysis
Online access to database to compare incumbents to market median (compa-ratio analysis).

Access to CG Pro
Access to line-by-line executive pay data from public disclosure of FTSE350, Eurotop 100 and Russell 3,000 companies.

Corporate Governance Report
CG Report contains key country-specific pay trends, changes to executive remuneration policies and updates in investor/proxy advisor views for available markets.

Best Disclosure Report
Contain country-specific best disclosure practice and example. Also include a high-level review of your publicly disclosed remuneration report/statement/policy for available markets.

EuroExec Club
Our exclusive invitation only membership for companies over €10bn revenue.

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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

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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.