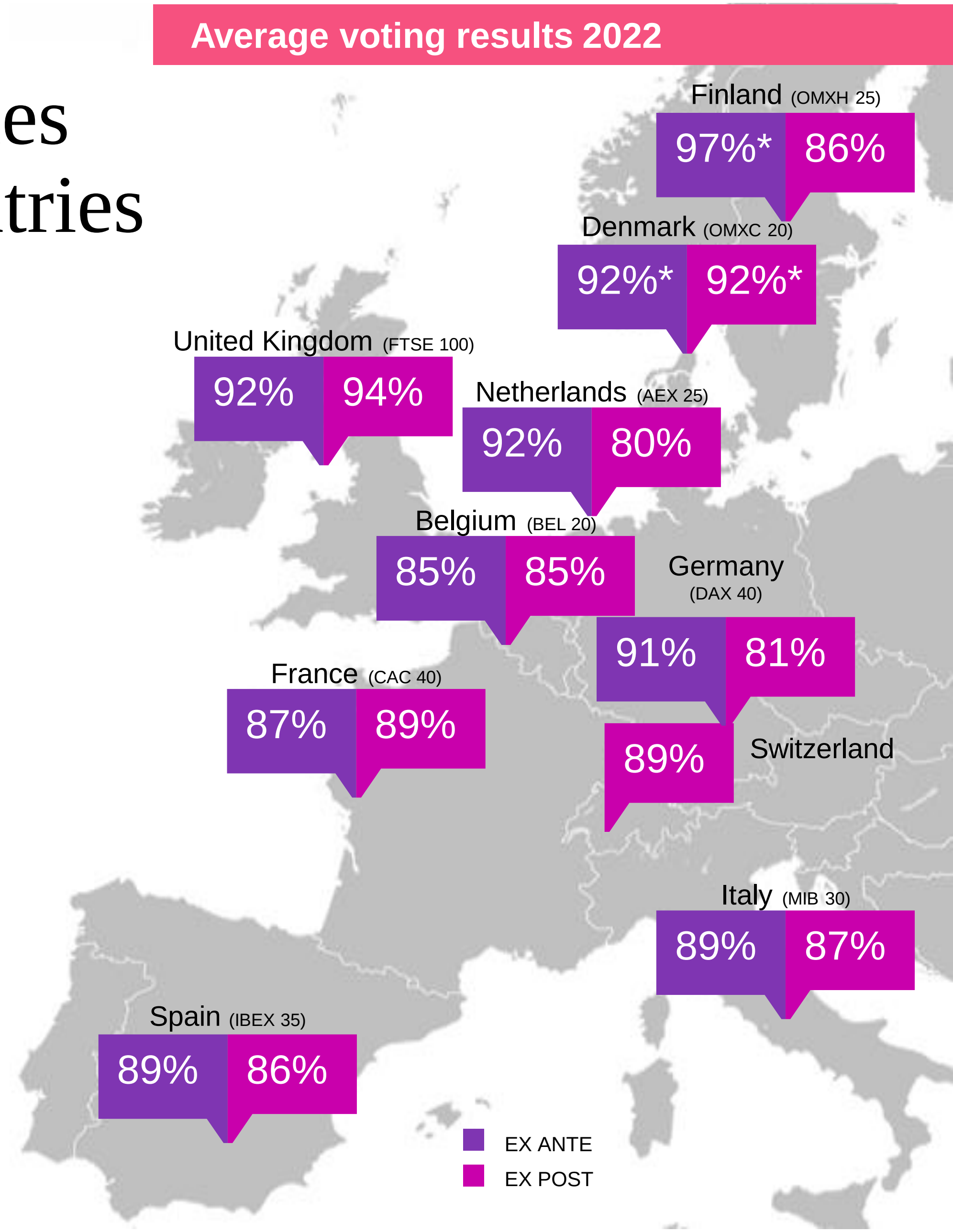
Say-on-pay across Europe

December 2022

2022 was the first year remuneration policies and reports were put to vote in all EU countries

Country	Remuneration policy (ex ante vote)		Remuneration report (ex post vote)
	vote	every	annual vote
Belgium	binding	4 years	advisory
Denmark	binding	4 years	advisory
Finland	advisory	4 years	advisory
France	binding	annual	binding
Germany	advisory	4 years	advisory
Ireland	advisory	4 years	advisory
Italy	binding	3 years	advisory
Netherlands	binding	4 years	advisory
Norway	binding	4 years	advisory
Spain	binding	3 years	advisory
Sweden	binding	4 years	advisory
Switzerland	other requirements in place: annual vote on aggregate remuneration and voluntarily on report		
UK	binding	3 years	binding

* Finland: based on only 2 companies put their system to vote in 2022; Denmark: only 4 companies put their system to vote in 2022; not all companies disclose voting results



Local differences in voting results exist

EX ANTE – POLICY (prevalence of vote results by index & cluster)

	AEX 25	BEL 20	CAC 40	DAX 40	FTSE 100	IBEX 35	MIB 30	OMXC 20	OMXH 25	SMI
> 90%	86%	36%	50%	68%	70%	62%	60%	77%*	100%*	
70% - 90%	14%	55%	44%	32%	13%	33%	37%			
< 70%		9%	6%		17%	5%	3%	33%*		

EX POST – REPORT (prevalence of vote results by index & cluster)

	AEX 25	BEL 20	CAC 40	DAX 40	FTSE 100	IBEX 35	MIB 30	OMXC 20	OMXH 25	SMI
> 90%	47%	35%	62%	49%	80%	47%	60%	92%*	50%	59%
70% - 90%	35%	53%	35%	38%	15%	29%	23%		38%	41%
< 70%	18%	12%	3%	13%	5%	24%	17%	8%*	13%	

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Voting results for remuneration reports are usually lower than for remuneration policies.

- Investors tend to be less willing to vote negatively in the binding vote on the remuneration policy, whereas they are more ready to express their dissatisfaction clearly in the consultative vote on the remuneration report.
- A contributing factor is that underlying issues with policies may not be apparent to investors until they have been implemented and led to unwelcome outcomes that are revealed via the remuneration report.
- Low approval rates on remuneration policies in countries where say-on-pay is already well-established are usually only the case when material changes are made that are viewed as controversial by investors.
- In other countries, e.g., Belgium, voting results are in many cases still quite low, often due to what investors perceive as a relatively low level of transparency.

Across Europe ISS criticism focuses on the following topics

EX ANTE - POLICY

1

Quantum and design of the remuneration package

- High payout opportunities of incentive schemes, at target and/or maximum level
- Restricted share grants, i.e. no performance conditions apply to long-term incentives (LTI)
- Combination of multiple LTI plan types leading to an increase of complexity

2

Ability for remuneration committees to go outside the policy/system framework

- Possibility of (uncapped) exceptional remuneration
- Possibility of high discretionary adjustments to target achievement or payouts without adequate underlying framework for justification

3

Lack of transparency about pay for performance relationship

- Insufficient disclosure in describing STI and /or LTI performance metrics / conditions
- Insufficient disclosure of incentive payout curves, especially caps
- Increasing push to disclose ex ante LTI target setting

EX POST - REPORT

1

Application of discretionary adjustments

- Partly connects with the missing underlying framework in the remuneration policy/system, as proxy advisors and investors are often surprised by the level of discretionary adjustment once payouts occur

2

Focus on fixed pay

- Base salary increases that cannot be justified by role changes or changes in scope of responsibility
- “Excessive” pension contributions (e.g. 50% of base salary)

3

Insufficient disclosure to demonstrate the link between pay and performance

- Disclosed ex post information on payout curves, target setting and achievement is not sufficient to assess the pay for performance relationship

A look into the crystal ball based on the UK experience

Proxy advisors and investors will specify and raise their expectations

- Since 2014 only minor adjustments to the regulatory requirements in the UK happened, nevertheless, the scope and quality of remuneration reports and the design of Executive Board remuneration have continued to evolve.
- The reason for this is the immense pressure from investors and proxy advisors, but also from auditors. The first signs are also evident in the ISS assessments across Europe.

Current economic environment might lead to say-on-pay failures

- Discretionary measures and pay-for-performance are likely to be at the top of the list again
- Recent US voting results show that investors review pay decisions in the light of recession and inflation quite critically

Design – "keep it simple"

- Focus on **one LTI plan**
- Almost all companies in the FTSE 100 have **deferral schemes** in place, but deferred bonus matching plans disappeared
- **Post-cessation share ownership guidelines** – share ownership guidelines require executives to be invested in company shares beyond the duration of their employment
- According to the Investment Association (IA) plans must be established by 2022 that ensure that **pension contributions** of board members are aligned with those granted to the broader workforce

Disclosure – "go into details"

- The "**Chair Letter**" is a must – it summarises not only the remuneration year but also provides a holistic view of the company performance. The use of the chair letter significantly expanded during the COVID-19 crisis and it will be helpful to explain remuneration decisions during the current economic climate
- **Ex ante disclosure** of remuneration levels, structure and KPIs is standard
- **Detailed disclosure of individual non-financial/strategic** objectives
- **Extended context given in case of use of discretion**
- **Scenario calculations** – threshold / target / max and implications of +50% share price increase
- **Differences and similarities** in structure and design of remuneration packages for Executive Directors and the workforce