



## REMUNERATION OF EXECUTIVES

### KEY MESSAGES

- 1** Remuneration policy should be based on certain self-regulation principles:
  - ⇒ transparency;
  - ⇒ reference to a corporate governance code;
  - ⇒ on a comply or explain basis;
  - ⇒ linked to performance;
- 2** Legislation is not usually the best tool to deal with this matter.
- 3** Remuneration policy should be aligned with sound risk management and long-term objectives.
- 4** BUSINESSEUROPE opposes reward for failure.

### BACKGROUND

In April 2009 the European Commission adopted two recommendations on directors' remuneration. Commission Recommendation 2009/385/EC complemented and strengthened the 2004 and 2005 recommendations addressed to listed companies. Recommendation 2009/384/EC focuses on remuneration policies exclusively in the financial services sector.

In July 2009 the Commission published a proposal for amendments to the Capital Requirements Directive. They enable supervisory authorities to impose sanctions on financial institutions whose remuneration policies generate unacceptable risk, and impose further principles regarding financial institutions' remuneration policy. Adoption of the report by the rapporteur MEP Arlene McCarthy's (S&D, UK) is expected on 28 June 2010, whilst the Plenary vote (1st reading) will take place on 20 September 2010.

In September 2009, in Pittsburgh, the G20 has agreed to act together to implement strong international compensation standards aimed at ending practices that lead to excessive risk-taking. For example, some of these standards aim at:

- ⇒ avoiding multi-year guaranteed bonuses;
- ⇒ requiring a significant portion of variable compensation to be deferred, tied to performance and subject to appropriate clawback;
- ⇒ ensuring transparency and disclosure and ensuring independence of compensation committees.

There are two own-initiative reports currently waiting to be adopted in the JURI and ECON Committees regarding director's remuneration both addressing directors' remuneration not only in financial institutions. The JURI report is being drafted by MEP Karl Lehne (EPP, DE) whilst the ECON report is being drafted by MEP El Khadraoui (S&D, BE).

Commissioner for Internal Market, Mr Michel Barnier mentioned in his written reply during the EP hearings that he intended to present a report on implementation of the 2009 recommendations and give a follow-up 'if necessary, by appropriate proposals'.

A Study on Corporate Governance Codes from September 2009, for which BUSINESSEUROPE was a co-contractor, shows promising data regarding the use of those codes to regulate director remuneration policies. 23 member states' codes require the disclosure of remuneration policy. The majority of these require the linking of variable remuneration to some identifiable performance criteria. 77% of the respondent companies analysed disclose the existence of at least one variable remuneration component. Remuneration committees are set up by 88% of large-cap respondent companies and by 67% of mid-cap respondent companies.

In accordance with the 2010 European Commission Work Plan, a green paper on corporate governance practices in financial institutions will be published soon, also focusing on remuneration.

## **WHAT DOES BUSINESSEUROPE AIM FOR?**

- Avoiding legislation, in particular at EU level.
- Opposing reward for failure.
- Promoting more transparency through corporate governance codes under a comply-or-explain basis.
- Promoting international coordination on this topic.