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Confédération Européenne des Associations d'Administrateurs  
European Confederation of Directors' Associations

## **The 15<sup>th</sup> European CG Conference in Milan, 27 & 28 October 2014**

### **Session on remuneration: Introduction**

**Lars-Erik Forsgårdh, chairman ecoDa**

Good afternoon ladies and gentlemen!

As representative of ecoDa I have been asked to begin this session on remuneration by commenting on the EU proposal for a Shareholders' Rights Directive. I will do this by presenting ecoDa's reaction to the part of the proposal that concerns remuneration matters.

But first a few words about ecoDa:

ecoDa, The European Confederation of Directors' Associations is a non-profit organization founded in 2004. ecoDa represents 16 national institutes of directors with more than 50.000 members. Our objectives are:

to promote the role of directors and to develop professionalism and European corporate governance standards

to represent the views of company directors from EU member states to corporate governance policy-makers at EU level

to support the development of our members and facilitate the development of new national director institutes

The proposal for the Shareholders' Rights directive includes two main proposals concerning remuneration:

1. Improved information on directors' remuneration:

#### **Remuneration policy**

A clear and understandable policy in line with values and long term interests of the company

Maximum amount of total remuneration

Ratio between directors' pay and workers' pay

Variable pay performance criteria & contribution to the long term interests of the company

**Remuneration report**

All remuneration components granted to individual directors

Application of performance criteria & link between pay and performance

Evolution of directors' pay & evolution of the ratio directors'/workers' pay

2. Shareholder say on pay: Right to vote on remuneration policy and remuneration report

**Ex ante vote on the remuneration policy**

Policy submitted for approval at least every three years

Remuneration paid only in accordance with an approved policy

**Ex post vote on the remuneration report**

Report submitted for approval each year

Next report explains whether or not, and how, the shareholders' opinion has been taken into account

As a general remark to the proposal ecoDa would prefer to see a regulatory approach from the EU Commission that is less detailed, less prescriptive and more based on principles, leaving more detailed regulation to be designed according to the prevailing circumstances in each Member state.

A high degree of transparency should be part of a modern corporate governance framework. Therefore ecaDa supports in principle the information requirements in the remuneration policy and in the remuneration report with the exception that companies should not be obliged to set a maximum executive pay and to publish the ratio of executive pay to average employee remuneration. These two proposals are too far reaching and there will be practical difficulties in the calculation and interpretation of a pay ratio.

On the other hand the list of required information lacks one very important piece of information, i.e. to what extent and how incentive schemes have been subject to serious evaluation and if so, the outcome of such evaluations. This, indeed, would be highly significant information for the shareholders and the capital market at large.

The key challenge for executive remuneration is to develop a distinct link between pay and performance and develop a remuneration policy that fosters the long term interests and sustainability of the company. ecoDa doubts whether the directive's proposal on shareholders say on pay will really meet this challenge. There is an obvious risk that the proposal will influence, in a negative way, the delicate equilibrium between the respective roles and duties of the shareholders' meeting versus the board of directors and at the same time not cure the intrinsic problem of accountability of the board towards the shareholders.

What is important, is to allow the shareholders to exercise their power to dismiss the members of the board if they are not acting according to the shareholders expectations. ecoDa therefore would like to see a change in the governance rules to ensure that the shareholders really have a say on the nomination and dismissal of directors and on the obligation of directors to be accountable towards shareholders. This will correctly position the governance bodies in their respective roles.

Against this background ecoDa can not support the say on pay proposal. A large number of shareholders will not have the resources or the interest to decide on technical details of a remuneration policy. It is not realistic to turn inactive shareholders into micro-managers. And if the board is not performing its duties the shareholders should dismiss the board, not take over the management of the company. However ecoDa welcomes discussions on remuneration with shareholders in the general meetings. A possible compromise would thus be to allow the general meeting to have an advisory role on the remuneration policy.

Designing the remuneration structure and setting the levels of remuneration is first and foremost a matter for the board. It is important that boards keep the leadership in defining the level and the structure of the management remuneration while the remuneration of non executive directors has to be decided by the shareholders. It is the responsibility of the board to ensure that executive pay is really in line with corporate performance (to what extent performance criteria have been fulfilled; explaining how the total remuneration is linked to long-term performance and value creation over the last 3 years).

ecoDa would like to point out that an independently-minded board is uniquely well placed to oversee the interests of the company. The board is the body where the company's interest (and all stakeholders' interests) is considered while at the General Meeting the opinion and individual interests of shareholders can prevail. At the General Meeting, the majority opinion rules. Unlike the shareholders the board has access to the company's management, information and resources. Furthermore an effective and well-balanced board consists of directors with a significant amount of relevant knowledge, experience and good judgement. Thus directors are well prepared to take on the challenge to design a credible and efficient remuneration policy. There are no rules or directives that can replace knowledgeable, experienced directors with good judgement!

To improve the design of remuneration programmes, one of the key factors will therefore be more competent or more professional boards. To increase the quality of the board selection process is hence crucial. This is also an objective to which ecoDa is fully committed.

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