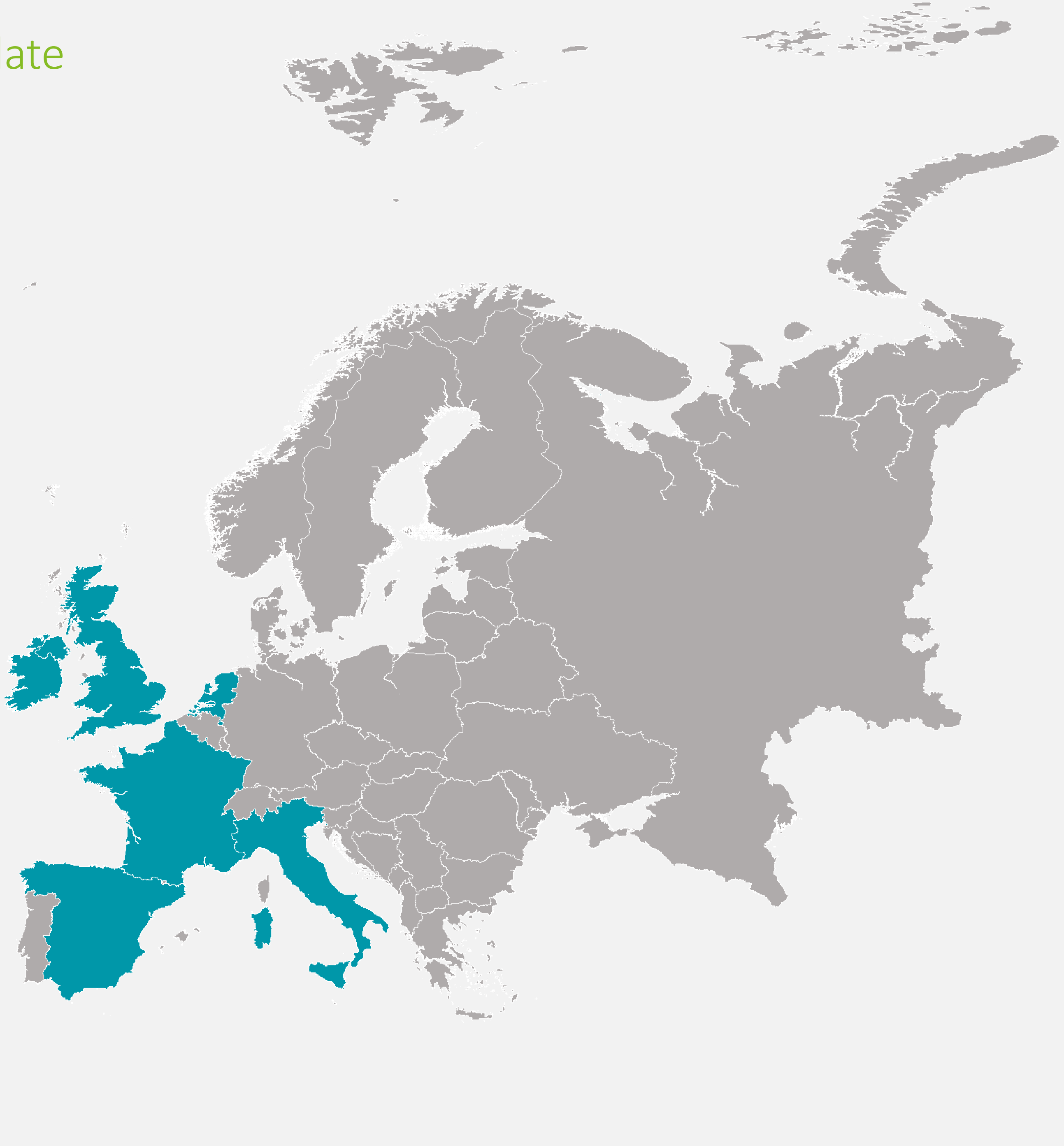
Deloitte.

Executive Compensation – Global Update

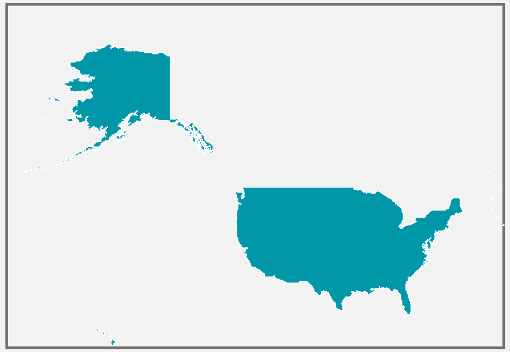
Q4 2023

Executive Compensation update

Q4 2023

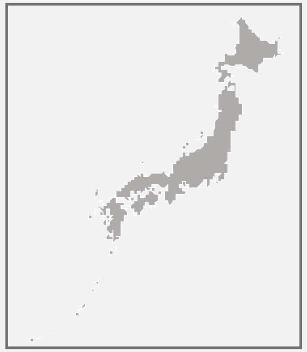


United States of America

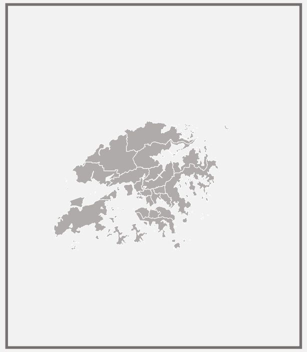


Canada

Japan



Hong Kong



Australia

United Kingdom

United Kingdom

Immediate removal of the bonus cap for banking sector firms

Impact	Event	Status	Scope	Impact	Comments
High impact	Following consultation, the UK financial regulators (the PRA and FCA) have announced the removal of the 'bonus cap' for banking sector firms, with immediate effect The bonus cap had previously limited the amount of variable pay that 'Material Risk Takers' could receive in respect of a given performance year to 100% of fixed pay (or 200% with prior shareholder or member approval)	Update	The bonus cap applied to banks, building societies, and the largest investment firms subject to the Remuneration Part of the PRA Rulebook and the FCA's Remuneration Code for dual-regulated firms The Policy Statement confirmed that the cap will no longer apply from 31 October 2023, meaning that firms are able to implement changes for performance years ongoing on this date and do not need to wait until their next performance year, as was originally proposed	While the cap is removed, firms will still be required to set an 'appropriate ratio' between the fixed and variable components of remuneration for MRTs order to ensure that these components are "*appropriately balanced*" and to allow the operation of a fully flexible policy on variable remuneration The ratio will need to be publicly disclosed within the firm's Pillar 3 disclosures. The regulators have provided some "principles-based guidance" on how to set an appropriate ratio, which includes the following factors to be considered: • The firm's business activities and associated prudential and conduct risks. • The role of the individual and impact that different categories of staff have on the risk profile of the firm.	From initial conversations with firms, we are not anticipating that there will be an increase in overall levels of remuneration and therefore any increases in variable pay opportunities will likely be accompanied by a reduction in fixed pay Within retail banking, we have seen limited appetite in discussions to date for there to be wholesale changes to pay structures as a result of the removal of the cap. Looking ahead, while the Policy Statement only covers removal of the bonus cap, it does make reference to the potential for a more wholesale review of the UK remuneration regulations in the future.

High impact | Medium impact | Low impact | Ongoing | Pending | Expected | Update

United Kingdom

Financial Reporting Council announce scaling back of changes to UK Corporate Governance Code

Impact	Event	Status	Scope	Impact	Comments
Medium impact	The UK Financial Reporting Council announced in November 2023 that it would be significantly scaling back the proposed changes to the UK Corporate Governance Code (on which they had been consulting)	Ongoing	The Code applies on a comply or explain basis to all companies with a premium listing on the London Stock Exchange, regardless of where incorporated	The revised Code will be published in January 2024, at which point the impact of any changes (or lack thereof) will become clearer *The changes on which the FRC had originally been consulting were relatively benign from a remuneration perspective – they focused on greater alignment of remuneration outcomes with corporate performance, including ESG objectives, strengthened reporting of malus and clawback provisions, and modest changes to disclosure requirements*	The new announcement is silent on whether the originally proposed changes to remuneration are 'in' or 'out' of the scale-back However, it is the broader change in tone from the regulator that is of most interest, particularly within the context of the wider debate on the competitiveness of UK business and the role that governance and remuneration play in this space (see market update slides) The announcement states that the FRC are "keen to explore ways of ensuring any guidance is proportionate and limits burdens whilst not weakening effective governance", recognising that "this is critical to our role in supporting growth and the UK's competitiveness".

High impact | Medium impact | Low impact | Ongoing | Pending | Expected | Update

United Kingdom

Key themes in executive remuneration

Salary increases

- In the context of the cost-of-living crisis, salary increases were a key area of investor focus in the UK.
- The vast majority of FTSE 100 companies awarded salary increases for executives below the average wider workforce increase, in line with updated guidance.
- The inter-quartile range of CEO salary increases was 3.0% to 4.5% with a median of 3.5%.

Incentive outcomes

- Continued to see strong incentive outcomes, with some examples of discretion.
- Bonuses lower than the high-water market set in 2021, but slightly higher than pre-pandemic levels (median CEO bonus of 80% of maximum in the FTSE 40).
- LTIP vesting outcomes in line with historical norms – median of 56% of maximum (2022: 54% of maximum).

Remuneration policies

- In line with the three-year cycle in the UK, this year was a remuneration policy year for many, including 18 FTSE 40 companies.
- While around half are proposing only minor changes/governance updates, there are examples of new incentive plans, increased opportunity levels, and changes to bonus deferral.

Global talent pressures

- Five FTSE 100 companies have proposed significant increases in quantum, with a rationale focused on the global talent market.
- Proxy agency and shareholder reaction has been mixed, but with increased debate on the subject of UK competitiveness in general, this topic is gaining traction.

ESG measures

- Incorporation of ESG measures into incentives continues to be a key trend in the UK listed environment.
- Over two-thirds of FTSE 100 companies now have an ESG measure in the bonus and over half in the LTIP.
- Investors views are evolving as they upskill, with an expectation that firms use robust and measurable metrics which are aligned with overarching strategy and drive genuine value creation.

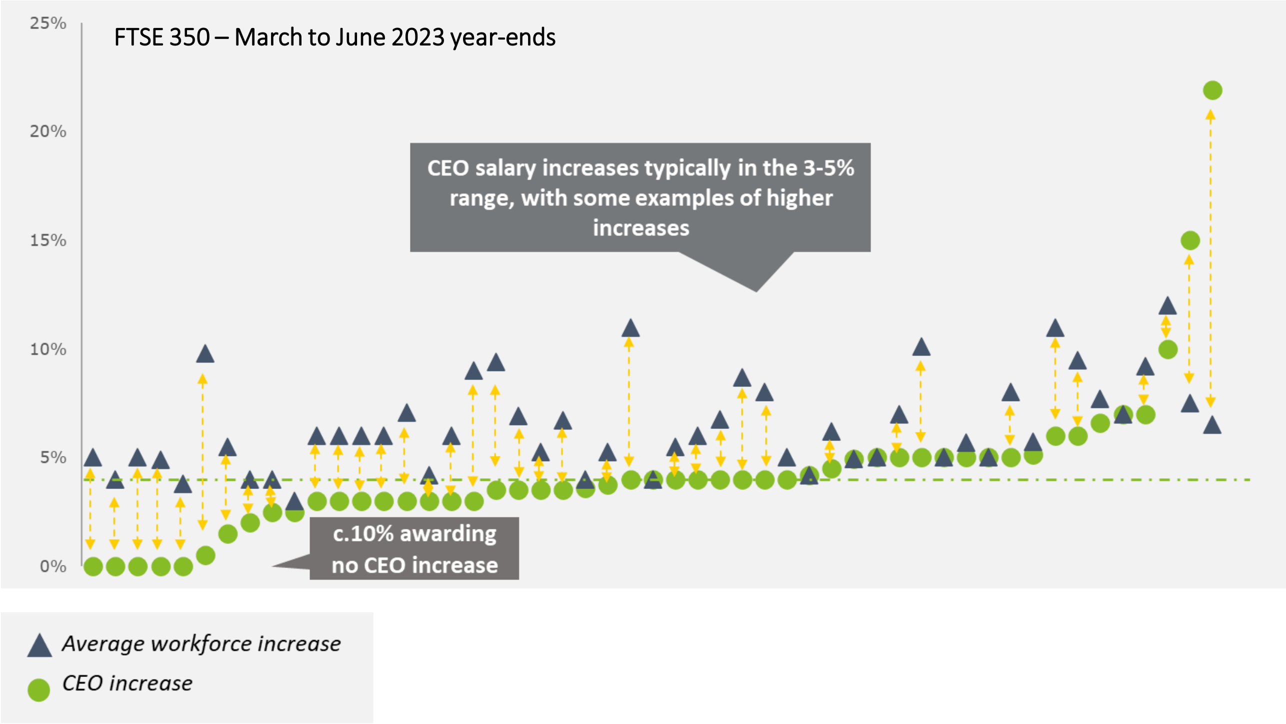
United Kingdom

Salary increases

Key area of investor focus in the UK

In recent years, investors have generally expected executive director salary increases to be in line with increases across the broader workforce. However, this year, in the context of the cost-of-living crisis in the UK, which disproportionately impacted lower earners, we have seen a shift in tone from investors. Updated guidance, published in late 2022 ahead of the 2023 AGM season, made it clear that salary increases for executives should be lower than increases for the wider workforce. That said, where increases have been in line with (rather than below) the workforce rate, this has not been a stand-alone voting issue to date.

What is the latest picture?



"If salary increases are needed, IA members encourage Committees to consider increases below the rate of salary increases given to all employees [for executive directors]."

Investment Association, November 2022

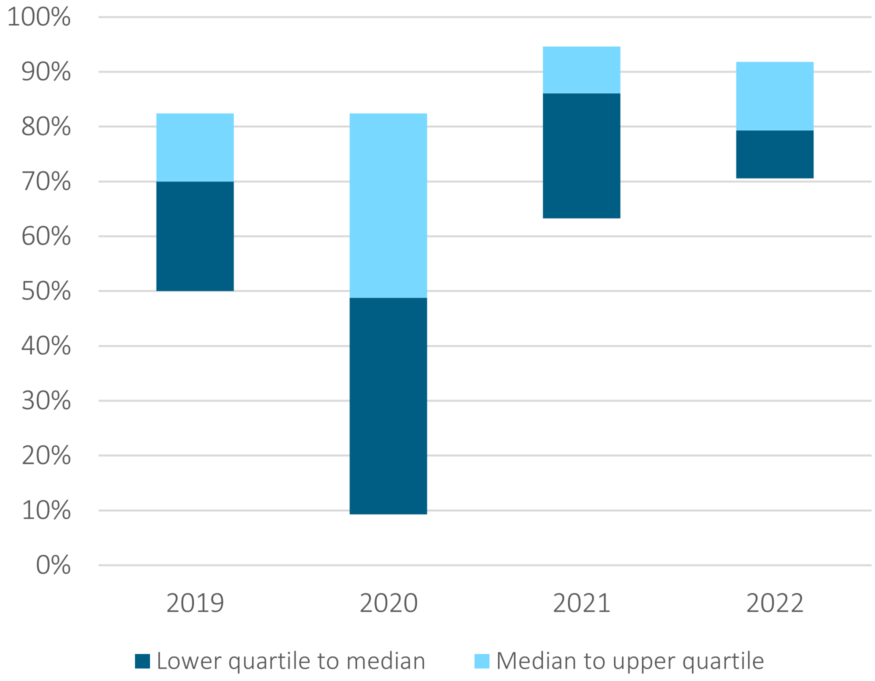
"Annual increases in salary are expected to be low and ideally lower proportionally than general increases across the broader workforce."

Updated ISS guidance, December 2022

United Kingdom

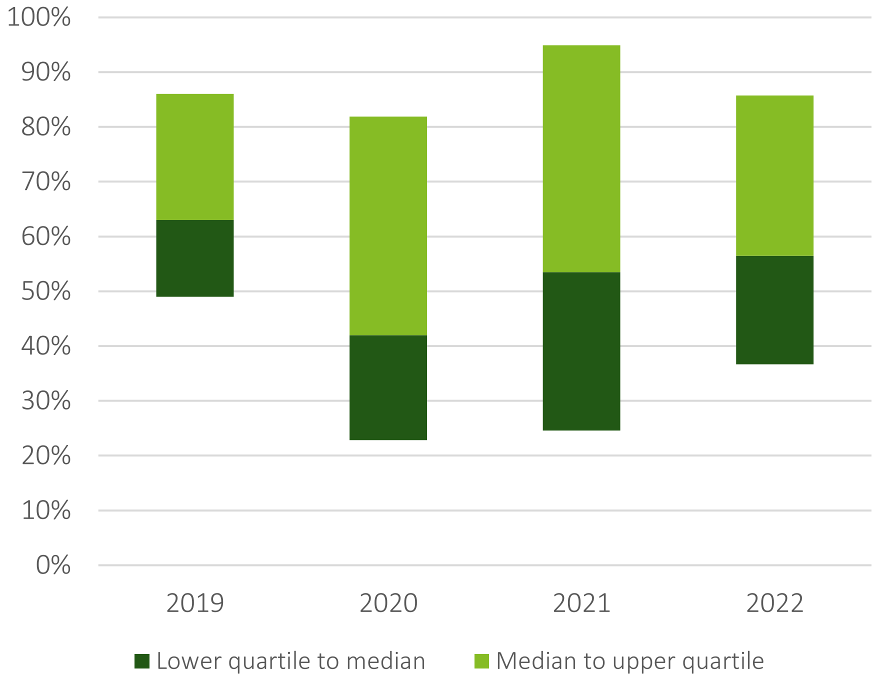
Incentive outcomes

Annual bonus outcomes – continued prevalence of strong annual bonus outcomes slightly above pre-pandemic levels



	2019	2020	2021	2022
No pay-out	5%	15%	2%	2%
Maximum pay-out	5%	5%	15%	8%

Performance share plan vesting – wide range of outcomes, with median vesting outcome of 56% of maximum within historical range (40% - 60%)



	2019	2020	2021	2022
No vesting	5%	12%	12%	10%
Maximum vesting	10%	8%	18%	12%

United Kingdom

Proxy recommendations and voting outcomes

Remuneration reports – ISS and Glass Lewis recommendations in respect of remuneration reports are generally in line with past years, with each recommending shareholders vote against c.10% of FTSE 100 companies.

Remuneration policies – ISS have recommended shareholders vote against only two FTSE 100 remuneration policies (InterContinental Hotels Group and Pearson). This is lower than in prior years, where ISS have typically recommended voting against c.10 FTSE 100 remuneration policies a year. Glass Lewis have recommended voting against five FTSE 100 remuneration policies (Associated British Foods, Flutter, Melrose Industries, Next and Pearson).

95.2% Median voting outcome in respect of FTSE 100 remuneration reports *(2022: 94.3%)*

95.5% Median voting outcome in respect of FTSE 100 remuneration policies *(2022: 92.0%)*

One lost vote in the FTSE 100 – Unilever received only 42% support for their remuneration report.

Perceived lack of 'contrition' – Some evidence of ISS recommending a vote against the remuneration report where a company is enacting incentive increases included in a policy that ISS had previously recommended a vote against.

Key issues leading to a vote 'Against' or 'Red Top' recommendation

Remuneration reports	ISS	IA	GL
Lack of response to shareholder dissent	●		●
Windfall gains	●		●
Recruitment arrangements	●		●●
Increase in incentive quantum	●	●	●
Pay for performance and pay outcomes	●		●
Safety event			●●●
Use of positive discretion	●		
Pension not aligned to workforce		●●	
Reduction or lack of stretch in targets	●		

Remuneration policies	ISS	IA	GL
Increase in incentive quantum	●●	●	●●
Remuneration structure			●●
Pension not aligned to workforce		●	●
Lack of response to shareholder dissent			●
Change of control provisions			●

United Kingdom

ESG – Evolution and upskilling

Evolution of environmental metrics, in particular Scope 3

To date carbon reduction targets have largely focussed on Scope 1 and 2 emissions, but we are starting to see more examples of Scope 3 (where measurable). With changes expected around standardised global sustainability reporting which will include Scope 3 emissions reporting requirements, it is expected this trend will continue.

Evolution of business specific metrics

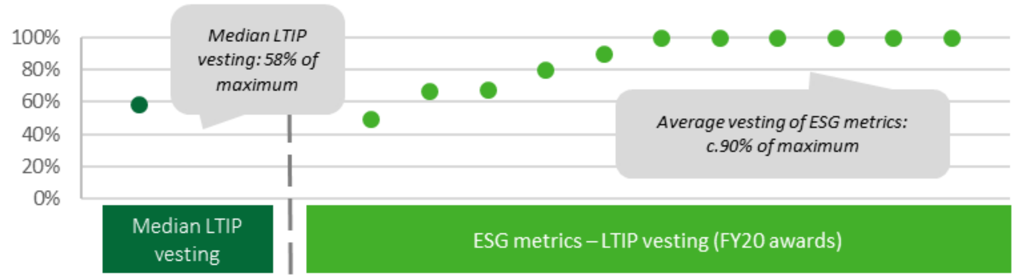
Looking beyond decarbonisation and gender and ethnicity representation targets, companies at the forefront of the ESG agenda are looking at metrics related specifically to their business – making metrics more bespoke and meaningful to the organisation (e.g., the direct ESG impact of company products and solutions).

We are also starting to see companies consider other DE&I targets – e.g., looking at particular employee populations or other factors such as social mobility.

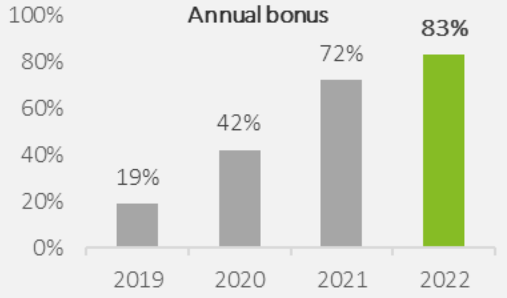
Focus on stretch of targets

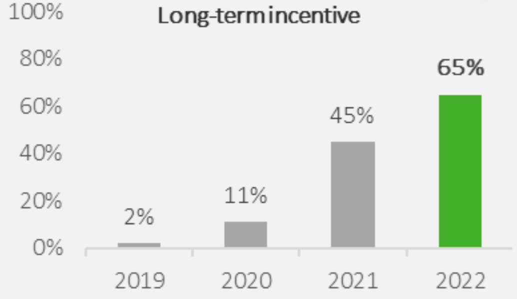
Looking at the vesting of 2020 LTIPs which included ESG measures, there was higher vesting in respect of ESG metrics – *see chart below*. That said, since 2020, measures have become more quantifiable particularly with emission reduction targets.

It is anticipated that focus on robustness of target-setting and validity of pay-outs under ESG metrics will continue to increase.

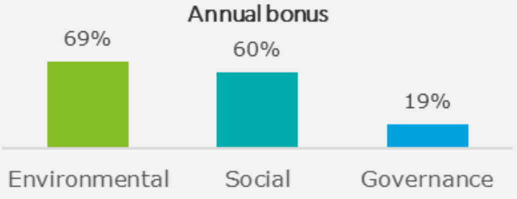


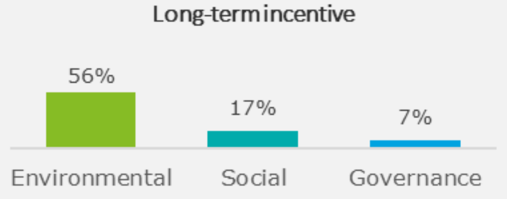
Continued momentum in adoption of ESG metrics...





Types of measure





Annual bonus

E	S	G
Scope 1 & 2 emissions	Gender representation	Risk management
Other environmental	Health & safety	Other governance
Other decarbonisation	Ethnic representation	Internal controls
Energy reduction	Communities	Compliance
Plastic / waste reduction	Inclusion	Cyber security

Long-term incentive

E	S	G
Scope 1 & 2 emissions	Gender representation	Risk management
Other environmental	Ethnic representation	Other governance
Other decarbonisation	Communities	
Scope 3 emissions		
Energy reduction		

United Kingdom

Remuneration Policy changes

In line with the three-year cycle in the UK, 2023 was a remuneration policy year for many FTSE companies. Of those companies that proposed material changes, many were in part driven by an **argument of ensuring continued market competitiveness**, particularly where there were **pressures from a US perspective**.

Reduction in deferral (where shareholding guidelines met)

BP, Prudential and IHG adjusted bonus deferral where shareholding guidelines were met:

- **BP** reduced bonus deferral from 50% ➔ 33%, citing 'high portfolio concentration exposure' and that the shareholding requirement '[is the] control mechanism for ensuring alignment with shareholder's interests [rather than bonus deferral specifically]'
- **Prudential** moved to deferring bonus into cash rather than shares, citing "creating greater alignment with... Asian peers and the need to attract talent in key markets"
- **IHG** reduced bonus deferral from 50% ➔ 30%, to "enable [offering] attractive remuneration packages to individuals based in the US market". (Also increased CEO LTI from 350% ➔ 500%).

	ISS	IVIS	GL	Vote
BP	●	●	●	94.2%
Prudential	●	●	●	95.7%
IHG	●	●	●	74.9%

Significant incentive increases

Flutter

Key changes:

- LTIP increased from 180% to 400% of salary for the CEO and 150% to 300% of salary for the CFO
- Making a single consolidated LTIP grant of four cycles in 2023 (worth 1,600% and 1,200% of salary). Four separate performance periods apply.
- Reduced vesting for threshold performance (25% to 12.5% of max)
- Award based 100% on relative TSR with sustainability underpin
- Rationale focussed on exposure to US markets and US listing

IVIS – ISS – GL			AGM
●	●	●	90.3%

Entain

Key changes:

- LTIP increased from 300% to 450% of salary for the CEO and 250% to 400% of salary for the CFO
- Threshold vesting reduced from 25% to 16.7%
- Rationale of needing to remain competitive, particularly in the US

IVIS – ISS – GL			AGM
●	●	●	93.6%

IHG InterContinental Hotels Group

Key changes:

- LTIP increased from 350% to 500% for the CEO, from 275% to 500% for US Executive Directors and from 275% to 300% for other EDs
- As shown on the left, also reduced bonus deferral from 50% to 30% where shareholding guidelines met

IVIS – ISS – GL			AGM
●	●	●	74.9%

Pearson

Key changes:

- Prior to the announcement of the new CEO, Pearson had increased the CEO's bonus opportunity from 200% to 300% of salary and the LTIP opportunity from 350% to 450% of salary, citing the need to remain globally competitive

IVIS – ISS – GL			AGM
●	●	●	74.9%

United Kingdom

Are remuneration and governance hampering the competitiveness of UK PLC?

Global competitiveness / 'Big Tent' discussion

Over the past year or so, we have seen **increased debate and political focus** on whether the UK governance regime, including the focus on executive pay restraint, **restricts the competitiveness of the UK market**.

This debate intensified in May with the CEO of the London Stock Exchange, Julia Hoggett, publishing a statement calling for a "constructive discussion" about the UK's approach to executive pay as part of broader **efforts to increase the attractiveness of London's capital markets**. This sentiment has been echoed by various City figures, including the Economic Secretary to the Treasury & City Minister, Andrew Griffith – *"Remuneration [in the UK] needs to be competitive… We want to – we need to – attract the brightest and best to the shores, and the last thing we want to do is to drive them away."*

"Attracting and retaining domestic and international talent to create that value is something that UK listed company boards and their executive leadership teams strive to do every day. And yet, very often, this talent objective is hampered by the advice and analysis of the proxy agencies and some asset managers voting against executive pay policies even when those pay levels are significantly below global benchmarks…. This lack of a level playing field for UK companies is often not discussed, or if it is, the downside risks to our companies, our economy and our competitiveness are not part of the conversation."

Julia Hoggett, CEO of the London Stock Exchange, 3 May 2023

LSE chief calls for higher UK executive pay to retain listings

Financial Times, May 2023

The war over CEO pay in the UK

Financial Times, May 2023

Remuneration perspective

- 5 FTSE 100 companies have increased quantum significantly this year in response to global talent pressures – mixed shareholder response. Only applicable to minority of UK-listed companies.
- Governance features (e.g., bonus deferral, in- and post-employment shareholding requirements, two holding periods) – has the UK gone too far?
- Lack of consistency across jurisdictions in relation to incentive frameworks (e.g., use of hybrid long-term incentives) and 'red line' issues (e.g., discretion).

Potential for gradual evolution of views of shareholders and policy makers over the next 12-24 months on some aspects?

Importance of the Remuneration Committee considering their risk appetite re. voting outcomes?

Appetite to take advantage of potential loosening up of governance at next policy review?
e.g., bonus deferral vs shareholding guidelines

'Big Tent' – Deloitte's suggested interventions for change

- Simplification of executive share ownership requirements
- Greater recognition of exposure to US talent markets and / or high growth sectors, including acceptance of alternative incentive structures and incentive increases, where supported by a rationale of growth and / or specific talent markets
- Reduce the 'low vote' threshold from 80% to 70% on remuneration resolutions
- Evolve the 'checks and balances' on pay
- Make discretion a true two-way street

Ireland

Ireland

Key observations on 2022 remuneration reports

Analysis based on 33 Irish companies listed on Euronext Dublin that have published their remuneration report over 2022 (up to 14 July 2023)

Target Setting

- Where companies included data on target setting in their annual incentive plans, 40% disclosed their full target setting metrics, 5% did not disclose and 55% partly disclosed their target setting metrics
- Where companies included data on target setting in their long-term incentive plans, 76.5% disclosed their full target setting metrics and 23.5% did not disclose any metrics

Discretionary adjustments

- 5 companies have made a discretionary adjustment to the STI pay-out. Three of these companies reduced their pay-out due to the context of the current uncertain economic climate
- 3 companies have made a discretionary adjustment to their LTI, one of which was due to 'windfall gains'. Dalata Hotel Group and Glanbia made discretionary adjustments in both their STI and LTI plans.

Executive director base salary increases

- Median CEO salary was 2% in 2022 and 3% in 2023
- 2023 CEO salary increases range from 0% to 16%
- The broader median Executive Director base salary increase was 3% in 2022 and 2023, with a range of 0% to 14%.

Workforce Trends

- On average, the CEO base salary increase is generally below the (average) wider workforce increase.
- This is evidenced by Willis Towers Watson in their 2023 Salary Budget Trends Report where they forecasted that in 2023 the average increase for the wider workforce in Ireland would be 4.6%

ESG Trends

- 15 of the listed companies operate ESG-related metrics in their annual incentive plan and 7 of the companies in their long-term incentive plan. Social metrics such as health and safety and diversity targets are overall more common in annual incentive plans, environmental
- metrics are more prevalent in long-term incentive plans such as sustainability-related metrics (such as biodiversity carbon emission targets.

NED and Chair fees

- Chair fees increased 3% on average in 2022 with the median being €176,000
- NED base fees increased 2% on average in 2022 with the median being €65,000

Ireland

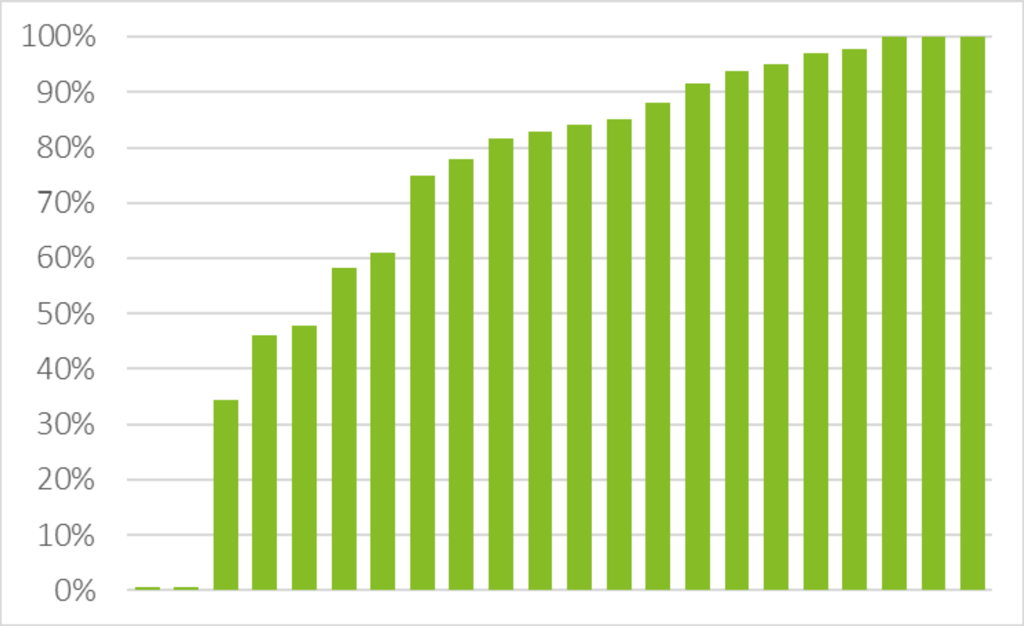
Key observations on 2022 remuneration reports

In 2022:

- The average CEO STI pay-out was 73% as a % of max (median 83%)
- The average CEO LTI vesting level was 62% as a % of max (median 68%)

CEO STI pay-out – company by company

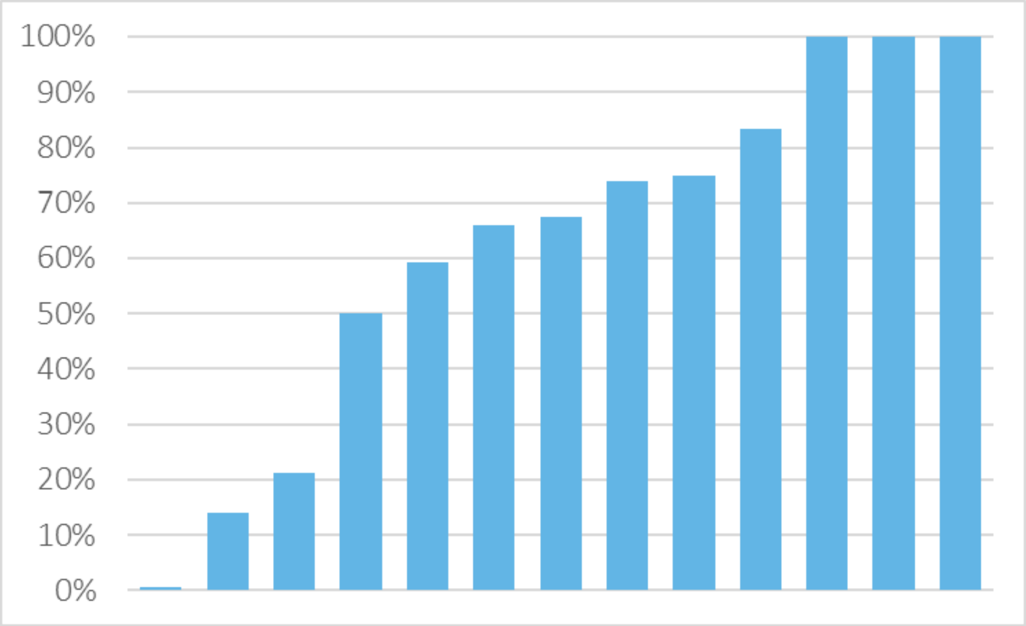
(as % of max)



Average: 73% | Median: 83%

CEO LTI vesting – company by company

(as % of max)

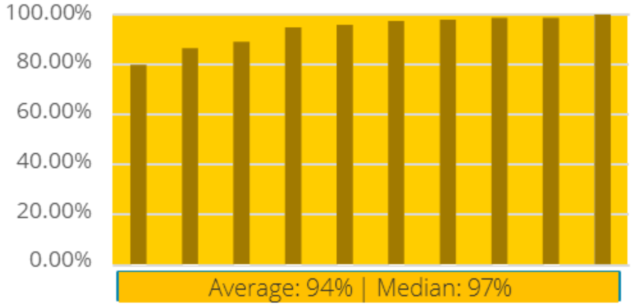


Average: 62% | Median: 68%

Ireland

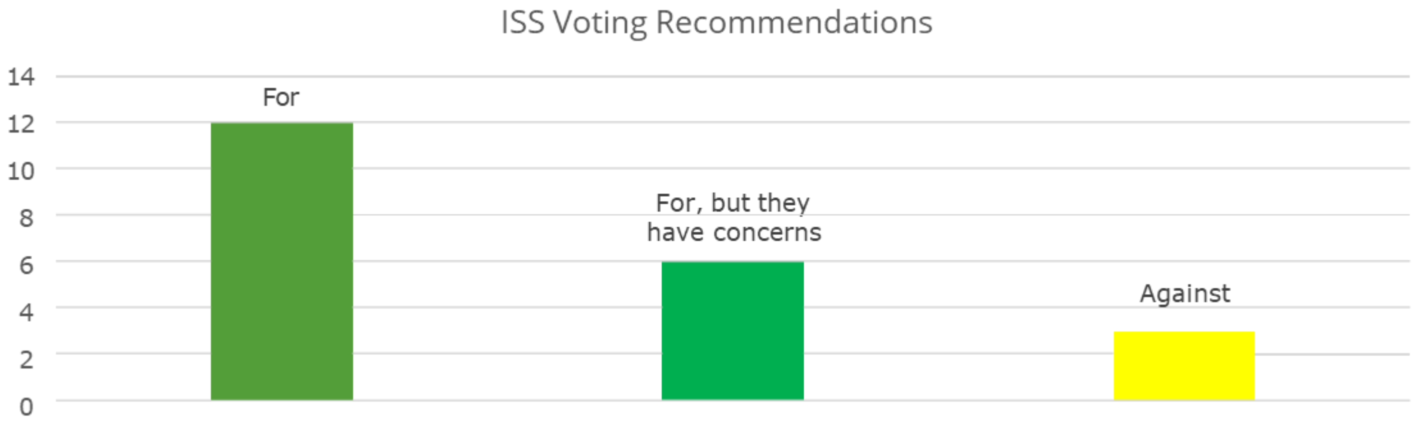
Key observations on 2022 remuneration reports

Despite the challenging external environment with economic pressures, high inflation levels and media (increasingly) scrutinizing large companies, we observe significant shareholder support levels on the remuneration reports brought to vote thus far.



- Shareholder support levels for the 2022 remuneration reports are slightly above last years' support levels (on average 94% "for" votes vs 93% last year).

ISS Voting Recommendations



Reasons ISS voted against a DRR
"The Remuneration Committee has exercised discretion to adjust in-flight LTIP awards, resulting in a negative performance target range"
"Concerns with the nature of the CEO's bonus, and lack of disclosure of the EPS targets which determine the pay-out"
"Overall remuneration for FY2022 represents a significant increase over the prior year, particularly given the larger bonus and LTIP award opportunities available to Executives"

Details on when ISS voted for a DRR but with concerns
"Remuneration outcomes are not consistent with the performance of the Company during FY2022 and the overall shareholder experience"
"Performance targets for LTIP awards have not been clearly disclosed, offering shareholders little transparency"
"Given recent Company performance, questions may be raised on the appropriateness of bonus outcomes for the year"

United States

United States

The SEC issues first round of guidance on Pay versus Performance

Impact	Event	Status	Scope	Impact	Comments
Low impact	The SEC recently provided the first round of comments since the SEC adopted new rules implementing the pay versus performance disclosure In conjunction, the SEC also issued new interpretations to provide additional guidance These interpretations address various issues related to award inclusion, fair value calculation timing and approach, vesting conditions, and the disclosure of assumptions	Update	The SEC provided their first round of comments to 10 companies across multiple industries. In their comments, the SEC focused on six key areas: • Summary Compensation Table to Compensation Actually Paid Table Reconciliation • Calculation of Company Selected Measures • Clear Description Between Compensation Actually Paid and Financial Metrics • Tabular List and Disclosure of Financial Performance Metrics • Identification of Covered Individuals • Footnotes, Graphics, and Tables	While the new C&DIs provide insights into the details of valuation techniques and the calculation of actual compensation, the SEC's comments primarily focus on the absence of essential information and formatting issues rather than scrutinizing the accuracy of the calculations	As companies start planning their 2024 disclosure tables, the first round of guidance and interpretations may provide useful clarity on aspects of the approach and specific points of detail *Please contact Claire Kitz in the US practice if you would like further information (a document with a more detailed breakdown of the guidance is available)*

High impact · Medium impact · Low impact · Ongoing · Pending · Expected · Update

United States

Human Capital Management Disclosure

Impact

Low impact

Event

In August 2020, the Securities and Exchange Commission (the "SEC") adopted rules to modernize the disclosure of human capital. The update required companies to disclose human capital risks and resources in addition to the former total headcount requirement.

In September 2023, the SEC Investor Advisory Committee proposed additional items as investors still need fundamental HCM metrics to anchor industry- and company specific information to seize opportunities and mitigate risks as current information available information is not consistent, verified, or comparable across companies.

Status

Ongoing

Scope

The ***proposed*** additions are as follows:

1. The number of people employed by the issuer, broken down by whether those people are full-time, part-time, or contingent workers;
2. Turnover or comparable workforce stability metrics;
3. The total cost of the issuer's workforce, broken down into major components of compensation; and
4. Workforce demographic data sufficient to allow investors to understand the company's efforts to access and develop new sources of talent, and to evaluate the effectiveness of these efforts.
5. A narrative disclosure, in the Management Discussion & Analysis, of how the firm's labor practices, compensation incentives, and staffing fit within the broader firm strategy.

Impact

Historically, investors have not been able to clearly identify the level of investment a firm makes in its workforce from the financial disclosures

These proposals seek to increase the available set of information, and ensure that it is more reliable, verifiable, consistent, comparable, and timely

From the SEC's perspective, the aim is that this will allow investors to more efficiently direct capital

Comments

Market data reflect that organizations with effective human capital management perform better than those that manage their human capital poorly

Investments in human capital are associated with measures of profitability such as higher risk-adjusted returns, return on assets, and return on invested capital. Investments are further associated with increased workforce productivity and higher customer satisfaction

With the growing importance and focus on effective human capital management, it is likely that disclosure obligations in this space will continue to increase

High impact | Medium impact | Low impact | Ongoing | Pending | Expected | Update

United States

Pay Transparency

Pay transparency laws have now been passed in 10 states, with several additional states considering passing their own bills. The scope of the law in each state differs, however, the overall **aim is to address unequal pay and help close the racial and gender pay gaps**.

As an example, pay transparency laws may require:

- Employers to disclose wage rates and salary ranges in a job advert, or for a promotion or transfer opportunity.
- Employers to file annual reports that disclose salary and wage compensation.
- Employers to list pay ranges internally to existing employees and externally in job postings.

Deloitte observations:

This legislation has **triggered the need to review salary bands** to make sure organizations are comfortable with the pay ranges that will be disclosed publicly.

How companies are responding

Key highlights from recent surveys [2,3]

- By far the **biggest challenge** organizations report encountering (80%) **is cultural readiness.** Cultural implications and norms play a significant role in compensation practices. Organizations need to consider these factors when determining pay ranges and communicating them to employees.
- **Most organizations, while compliant, are taking a wait-and-see approach** based on how the regulatory environment unfolds regarding pay transparency.
- Most companies see pay transparency reducing pay inequities but also **see it as disruptive and diminishing pay-for-performance relationships**.
- Pay transparency has most organizations **rethinking how much discretion managers should have in employee pay**.

Complicated Effects of Pay Transparency[4]

Pay Equity

- **Reduces pay inequities** across gender, ethnicity, sexual orientation, and other dimensions
- However, it reveals employer's salary expectations which **may lower employees' relative bargaining power**

Turnover

- When employers compress or flatten pay in response to pay transparency, rendering pay less performance based, **top performers are more likely to exit**, as they search for organizations more willing to reward their higher performance.

Productivity

- This has possibly **weakened the relationship between pay and performance** which can lead to **lower employee productivity**
- For example, if pay transparency revealed to an employee that they had been **underpaid**, they became **less productive,** or
- If pay transparency revealed **inequitable overpayment** (i.e., an employee earned more than their performance merited), that employee somewhat surprisingly **elevated productivity**

[1] *Place in the Orders of the Day for Thursday, October 19, 2023. Bill H.4109 (malegislature.gov)*

[2] *Deloitte & Empsight Pay Transparency Disclosure Practices Survey*

[3] *Korn Ferry Global Total Rewards Pulse Survey. Compensation Practices & Pay Transparency.*

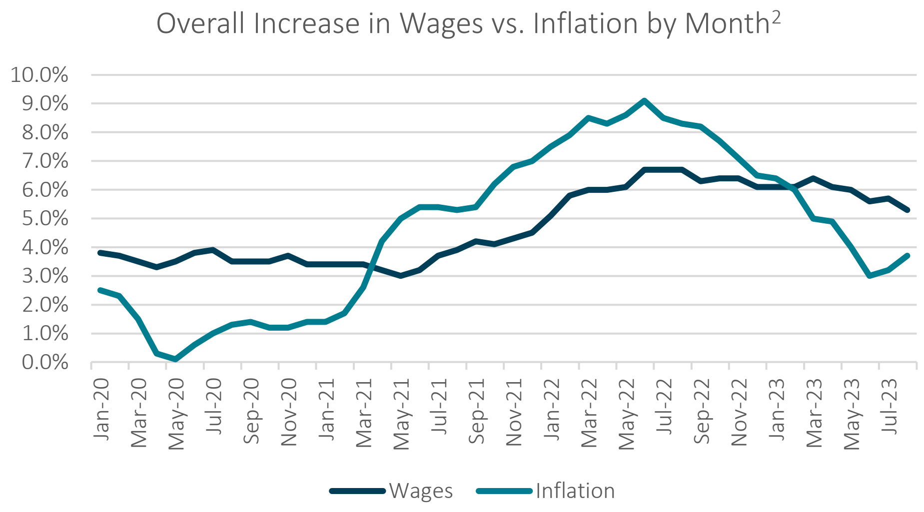
[4] *Research: The Complicated Effects of Pay Transparency*, HBR

United States

Workforce salary increases

Wages have begun to outpace inflation again [1]

- From 2013 to 2019, on average, wages grew faster than inflation
    - Typically, employees would receive an annual 3.5% merit increase (2% for inflation and 1.5% for increased productivity)
- However, post-pandemic, the US experienced a period of sustained high inflation, which quickly began to outpace wage growth
- Recently, the gap between wage growth and inflation has closed

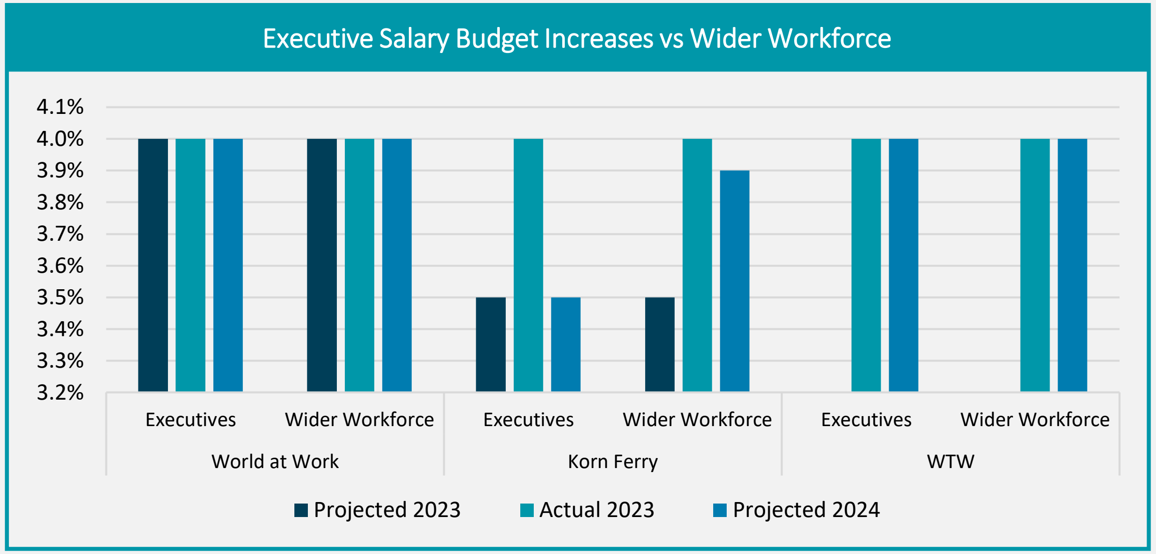


[1] The gap between wage growth and inflation is narrowing, CNBC

[2] Difference between the inflation rate and growth of wages in the US from January 2020 to August 2023, Statista

Highest salary increase budgets in 20 years

- From 2011 to 2019, salary increases were flat around 3%.
- The average dipped in 2020 to 2.9% and then began to rise, with 2022's average up at 4.1%.



- Over the past year, as inflation has decreased, salary budgets have begun to renormalize.
- **In general, 2024 base salary increases are expected to be consistent with 2023.**
- Organizations that reported higher 2023 actual salary budgets versus 2023 projected cited inflation, management concerns around a tight labor market and concerns related to cost.

United States

Other developments

ESG in incentive plans

- The US was **initially supportive of incorporating ESG in incentive plans**.
- Most companies that were incorporating ESG were doing so in their annual bonus rather than long-term incentive plan.
- The rate of adoption (although slower than other countries), had been increasing gradually year-over-year (57% of S&P 500 companies included ESG metrics in their incentives in 2023).
- However, the latest data shows that **there has been a levelling-off**, as companies are **now focused on growth and profitability** in a challenging macroeconomic environment.

Talent market

- The **talent market has been shifting rapidly over the past few years** as the long-term effects of the pandemic are still being felt.
- The US labor market has remained tight, but there have been signs of cracks beginning to form.
- Around 20,000 job postings on ZipRecruiter's website reflect **lower starting pay rates in 2023, when compared to starting pay for the same position in 2022**.

A shareholder's perspective – Vanguard

"We look for all metrics utilized in compensation plans – whether financial or non-financial – to be rigorously designed, thoroughly disclosed, and tied to the long-term performance goals related to strategic objectives or material risks.

We caution against using ESG metrics to signal a commitment to sustainability values.

Although we understand the appeal of a test-and-learn approach to the inclusion of ESG metrics, we look for portfolio companies to map key ESG opportunities and material ESG risks for their business and develop relative internal and external reporting before ESG metrics are included in executive compensation plans."

The Netherlands

The Netherlands

Autumn 2023 update

Preparing for the year end & reporting season

The year ahead

In our Autumn 2022 Remuneration Committee update, we opened with saying that the economic circumstances had never been so challenging and volatile before. While we seem to have moved past most of the economic difficulties related to the pandemic, the ongoing war in Ukraine, recent developments in the Middle East and geopolitical tensions show no signs of the circumstances becoming any easier.

Economic outlook

A year on, economic volatility less acute - but sluggish global growth and continued risks of financial and geopolitical shocks

Increasing interest rates

Threats emerging from (re-) financing against increased interest rates, deferred tax liabilities and further changes in (international) monetary policies

Shifting ESG landscape

Changing international political narratives around net zero goals and complex (mandatory) reporting landscape

Notwithstanding any of the above, RemCos are expected to navigate these challenges and continue to make (and explain) decisions reflecting all stakeholder's interests. In this briefing, we explore three RemCo hot topics for this autumn based on latest market and investor insights:

Remuneration policy updates / 2024 AGM season
4 years after SRD implementation – moving from compliance to fit-for-purpose

Remuneration decision-making and disclosure
Expanding the narrative in the remuneration report on decisions made

Preparing for sustainability-related EU Directives that impact remuneration
Taking a long-term view on the implications on remuneration

4 years after SRD implementation – moving from compliance to fit-for-purpose

Following the implementation of the Shareholder Rights Directive II, many listed companies have adopted a new remuneration policy at the 2020 AGM. For these policies, compliance with the new regulation was the primary focus. As the four-year mandate for these policies is running out, many will be seeking new adoption in the spring of 2024. Four years later, we see that the focus has shifted to designing policies that are future proof, flexible, authentic, simpler, seamlessly integrate ESG ambitions and align shareholder-, stakeholder- and broader societal interests. In addition, we see companies updating governance provisions to comply and align with evolving market best practice (such as malus / clawback, derogation, share ownership guidelines and predefined discretion frameworks).

Although every company has its own characteristics and challenges, we have identified the following key trends that seem to transcend company specifics:

I Creating a future proof remuneration policy

Most policies are intended to last for another four years. This means looking for ways to reinforce the corporate strategy, while introducing sufficient flexibility to keep up with dynamic (talent) market developments; both in quantum and in remuneration structure. It proves to be challenging to design policies that are simple and flexible, while investors/proxy advisors are pushing for standardization, alignment with local market practice, increased upfront transparency and constrained use of discretion/derogation.

II Using principles and frameworks to improve flexibility

To improve flexibility, companies are moving towards using principles and frameworks instead of explicit rules – for example around (changes to) peer group design, metric selection, incentive levels and application of governance provisions. Required transparency is upheld through committing to explaining and disclosing decision-making in the annual report.

III Gradual emergence of push back on importance of non-financial performance

While investor and proxy agencies push for financial and non-financial metrics that are material, quantifiable and measurable, (some) Anglo-Saxon investors have begun to push back on further increasing the focus on non-financial performance. This is starting to create tension with Dutch & European (societal) views on the importance of non-financial/ESG performance.

IV Elevated expectations to engage with a broadening set of stakeholders

Evolving stakeholder expectations requires more pro-active interaction – especially when expectations do not match with the companies' beliefs around remuneration. Works councils are taking a firmer approach and there is increased public scrutiny around how the societal context has been considered when making remuneration decisions. For most companies, this means the list of stakeholders to engage with is longer than ever before (includes e.g., various investment associations, activists, political parties).

Key insights on the review of Supervisory Board remuneration policies

Fee levels are reviewed against increasing market rates, partly resulting from internationalisation of Board composition and the convergence in responsibilities and time commitment between two-tier and one-tier boards. Furthermore, several companies consider submitting a proposal for indexation of fees to allow for incremental increases instead of larger one-off market driven increases.

The Netherlands

Autumn 2023 update

Expanding the narrative in the remuneration report on decisions made

Most Dutch listed companies have transitioned the remuneration report from a fact-based, compliance-driven section in the annual report to a standalone communications document.

In our recent Autumn and Spring updates we shared our observations on increased transparency, disclosure of backward-looking target setting becoming the new standard and incorporation of AGM- and wider stakeholder feedback accompanied with a set of cosmetic changes to the look- and feel.

In the upcoming reporting season, we expect companies to further improve their reports. Particularly by using visuals to improve readability, introducing 'at-a-glance' sections, further improving transparency around the performance assessment of non-financial KPIs, expanding their narrative on overall decision remuneration decision making including the link between pay and performance and providing a separate outlook on next year's remuneration structure.

When assessing the appropriateness of decisions made, focus points for the upcoming reporting season are:

Pay fairness

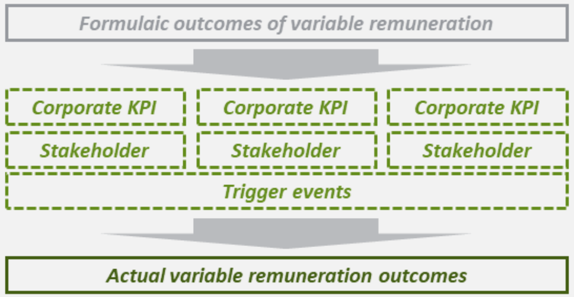
- *Constructs such as pay-ratios and comparative overviews have been part of disclosures for many years. But increased scrutiny is expected on the narrative of executive pay decision-making in the context of wider workforce and the company's societal context.*
- *This will be further catalysed by the effect of upcoming legislation such as the CSRD (and associated ESRS) and the EU Pay Transparency Directive (see also the next page).*

Balancing financial and non-financial performance

- *Investors have seen companies significantly overperforming on non-financial KPIs in comparison with financial KPIs with subsequent impact on variable remuneration outcomes – prompting questions around the rigor in target setting.*
- *Investors will continue to challenge the quality of non-financial ESG KPIs, measurability, rigor of target setting and alignment with the most material aspects of the company's strategy. Further explanation on outcomes of non-financial KPIs, beyond the disclosure of numerical outcomes only, should assure outcomes are fair in the context of delivered performance.*

Holistic assessment

- *Target setting remains challenging under continued volatile (macro-)economic circumstances and increased stakeholder scrutiny on pay outcomes.*
- *Therefore, Remuneration Committees are increasingly expected to assess the appropriateness of formulaic outcomes against stakeholder experiences and overall company performance.*
- *A pre-defined discretion framework can help RemCos assessing formulaic outcomes and showing rigour of decision making.*



Preparing for sustainability-related EU Directives that impact remuneration

Following the EU's ambition to make Europe climate neutral by 2050 and the commitment to achieving a union of equality, a series of regulatory reforms is introduced.

These European directives will have a major impact on governance and reporting practices of a wide range of European companies (considering the scope and threshold criteria, thousands of companies will be affected). Although the scope of these Directives is much broader than remuneration-related matters only, both executive and other employee remuneration procedures and disclosures will be impacted by the directives. Below, we provide high-level insight on the purpose and timelines of these directives and highlight what the key implications on remuneration related matters are.

	Background	Purpose & description	Key implications on remuneration
2024 *adopted*	**Corporate Sustainability Reporting Directive**	Modernizing and strengthening sustainability-related disclosures *Reporting in accordance with European Sustainability Reporting Standards (ESRS)*	Disclosure of information such as: ▪ Integration of sustainability related performance in incentive schemes ▪ Pay gap and pay ratio ▪ Adequate wages and social protection ▪ Training and skills development ▪ Work-life balance
2026 *adopted*	**EU Pay Transparency Directive**	Increased pay transparency & enhancement of the right and obligations relating to equal pay to drive equal pay between men and women	Increase pay transparency: ▪ Right to information for employees ▪ Pay transparency for job-seekers ▪ Prohibition to request pay history ▪ Reporting on gender pay gap *(incl. trigger for formal pay assessment)* Introduction of enforcement mechanisms: ▪ Workers can receive compensation ▪ Shift of the burden of proof ▪ Sanctions will include fines
>2027	**Corporate Sustainability Due Diligence Directive**	Identification of adverse impact of activities on human rights and environment across own operations, subsidiaries and full value chain	Requirement to have a relevant and effectively policy in place to ensure that a part of the directors' variable remuneration is linked to the achievement of the targets of the company's transition plan for combating climate change

* Timelines as applicable for large listed companies

France

France

AFEP MEDEF: French Corporate Governance Code – ESG perspectives

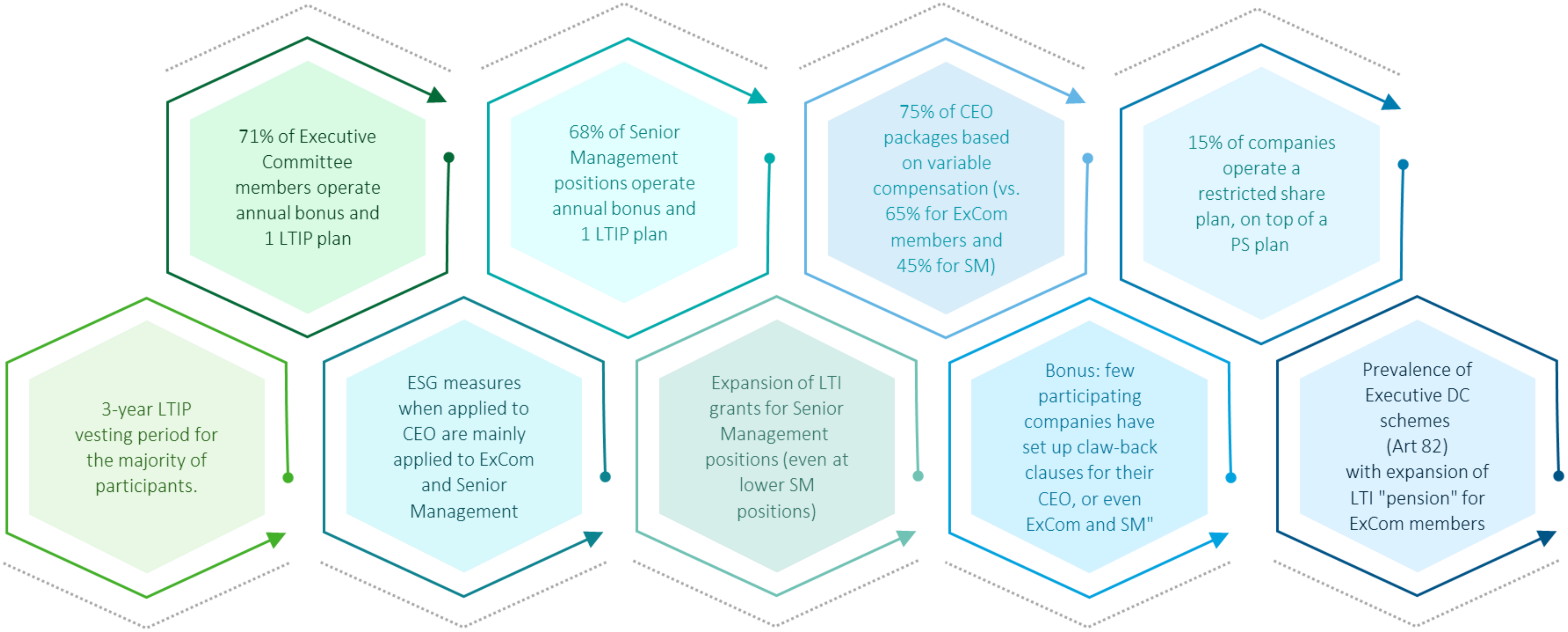
Impact	Event	Status	Scope	Impact	Comments
	Changes to the Code aimed at strengthening the Board's role with respect to ESG strategy, training directors in this area, and integrating Climate Criteria in ESG		Modest changes proposed from a remuneration perspective Recommended that the remuneration of Executives should include, among the ESG criteria, at least one criterion linked to climate	1. Strengthened reporting on ESG Strategy by the Board 2. Companies likely to increasingly include climate and/or environmental criteria within STI and LTI plans 3. The Board will be responsible for determining strategic guidelines related to ESG 4. ESG topics should be subject to preparatory work by a specialized committee, and the Directors must be trained in ESG	Revised Code intended to apply to accounting years starting after December 2022 The impact of the proposed changes will become more apparent when company reports start emerging in 2024 Most companies already include ESG criteria among STI and LTI KPIs measures – which frequently environmental metrics – so may be limited need for immediate change in many cases

High impact | Medium impact | Low impact | Ongoing | Pending | Expected | Update

France

Overview of executive and senior management remuneration trends

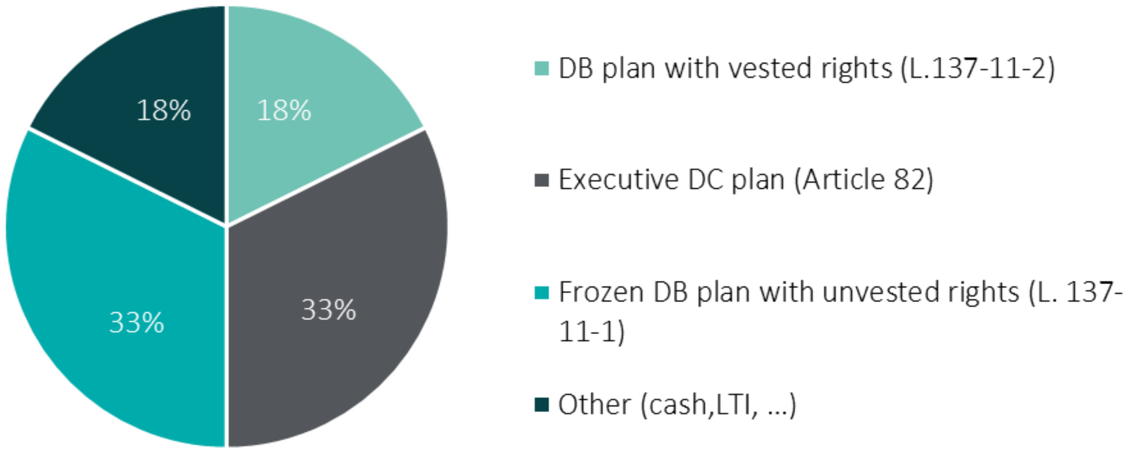
Key takeaways from the 2023 Deloitte Executive Compensation Survey conducted with half of the French SBF120 companies



France

Market trends on supplementary pension schemes

CAC40 – Market practice



Most companies implement a collective Defined Contribution plan, where all levels are eligible. The median employer contribution rate is about 2,77% at median for the CEO, 4,02% for Executive Committee members and 2,91% for Senior Management.

Executive DC plan are mostly limited to Executive Committee members or even only CEO with median annual contribution of 20% of total Cash Compensation (including gross-up of tax impacts).

The new defined benefit schemes with vested rights are mostly limited to Executive Committee members among the participants with a median pension annuity acquisition right of c.1% per year.

Collective DC plan
(as % of base salary)

CEO – **2.8%**
ExCo – **4.0%**
ExCo -1 – **2.9%**

Executive DC plan
(as % of total cash compensation)

20%

DB plan with vested rights
(as % of total cash compensation)

26%
(corresponding to an annual acquisition rate of c.1%)

Spain

Spain

Case law update on employees' bonus rights

Impact	Event	Status	Scope	Impact	Comments
Medium impact	The Supreme Court of Justice of Catalonia has determined that where employees are dismissed for labor offences, they remain entitled to receive a pro rata annual bonus payment for their final year *Superior Court of Justice of Catalonia, Labor Chamber, Judgment 4439/2023 of 10 July 2023, Rec. 7539/2022)*	Update	Applicable to Spanish employment contracts, so will cover both Spanish and international businesses where the employee in question is located in Spain	This **case law clarification will need to be considered when determining the treatment of remuneration for leavers** Even in cases of 'at fault' dismissal (where an assumption might be made that no variable pay is due given significant conduct and/or performance issues), there would seem to be an obligation to pay accrued annual bonus	For context, in the case under judgement the employee had been terminated for making improper payments of c. €20m While it was not disputed that the offences justified the employee's dismissal, the Court found that this did not affect their right to receive the bonus achieved during the year

High impact | Medium impact | Low impact | Ongoing | Pending | Expected | Update

Italy

Italy

Summary of compensation requirements for Italian companies

For reference, the chart below sets out the spectrum of compensation requirements applicable to Italian companies, which varies based on listing and sector.

1. ALL COMPANIES

For **all companies**, what is provided for in the **Italian Civil Code, Article 2389 c.c.**, is applicable.

This article defines the procedures for determining the compensation of the directors, stating that:

a) COMPENSATION OF DIRECTORS is established at the time of their appointment or by the assembly.

b) COMPENSATION OF DIRECTORS HOLDING SPECIFIC POSITIONS in accordance with the bylaws is determined by the board of directors, after hearing the opinion of the board of statutory auditors.

c) THE ASSEMBLY can determine a total amount for the remuneration of all directors, including those holding specific positions.

2. COMPLETE DISCLOSURE FOR LISTED COMPANIES

Pursuant to Article 123 of the TUF (Italian Consolidated Financial Act), **publicly traded companies must** prepare and make public their **Remuneration Policy -** according to the requirements of the **Issuers Regulation** (Regolamento Emittenti)

The Remuneration Policy is subject to approval with a binding vote by the Assembly

They also provide a **Compensation Report**, which is subject to a **consultative vote** by the Assembly

In this context, the guidelines established by the **Corporate Governance Code** become relevant

These guidelines define principles and recommendations for the formulation of clear and transparent Remuneration Policies that companies choose to voluntarily adhere to

3. SPECIFIC REQUIREMENTS FOR THE FINANCIAL SECTOR

Companies operating in the financial sector are subject to the application of specific sector regulations, which, with varying degrees of detail, require institutions to define their Remuneration Policies, at least for directors and personnel identified as relevant under the same reference regulations.

Therefore, at the national level, the following regulatory sources apply:

- BANKING SECTOR: Circular 285/2013 37th update
- INSURANCE SECTOR: IVASS Regulation No. 38
- INVESTMENT FIRMS (SIM) AND ASSET MANAGEMENT COMPANIES: Regulation of the Bank of Italy for the implementation of Articles 4-undecies and 6, paragraph 1, letters B) and c-bis) of the TUF.

Companies operating in these sectors, based on their organizational structure, establish within the Board of Directors a Remuneration Committee and a Risk Committee, which, with varying degrees of involvement and within their respective areas of competence, support the Board of Directors in defining Remuneration Policies for approval by the Assembly.

Contacts

The contacts below have been provided for specific questions on these materials – for general queries or broader support, please refer to the Global Community mailing list.

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