

Danish Executive Remuneration Trends

The outcomes from the 2018 annual general meetings for Danish companies have indicated some trends in the design of executive remuneration plans.

We reviewed ISS voting guidance across the OMX C25, for annual general meetings held in 2018. 29% of the 17 resolutions in respect of management remuneration received a vote against from ISS.

The concerns identified can be grouped into three key themes as summarised in the table below.

ISS Voting Recommendation on AGM Resolutions		
	Board Fee (23 Resolutions)	Incentive Guidelines (17 Resolutions)
 For	92%	53%
ForX	0%	18%
Against	8%	29%

The ability of the Remuneration Committee to exercise discretion in different scenarios was the dominating focus. Danish remuneration policies generally have higher levels of discretion available to the Remuneration Committee compared to most other European countries. The pronounced focus on this is indicative of a growing trend among investors and proxy advisers towards more defined limits to use of discretion within remuneration policies.

Guidelines for Incentive-Based Compensation for Executive Management and Board	
Key Themes	Issues identified
Long-term incentives	<ul style="list-style-type: none"> • Introduction of restricted stock. • Increases to individual incentive limit. • Cessation of a post vesting holding period for former employees.
Board discretion	<ul style="list-style-type: none"> • Discretion was a recurring theme identified. • This related to discretion to: <ul style="list-style-type: none"> • award uncapped sign-on remuneration; • exceed severance pay limits in undefined circumstances; • exceed bonus caps for retention recruitment or other reasons. • award severance pay in excess of limits set in the policy.
Disclosure	<ul style="list-style-type: none"> • Limited or no disclosure of performance conditions ex ante in equity plans. • Limited disclosure of bonus metrics ex poste.

Interestingly, quantum increases were not the focus of concern, with the exception of a few companies – particularly those that were viewed as increasing quantum in the absence of detailed disclosure of incentive plan measures.

Rather, the 2018 findings indicate that there is pressure on Danish companies to enhance the disclosure of short and long-term incentive metrics. This issue has been evolving over the last two years and will continue to be an area of focus for shareholders and proxy advisers.

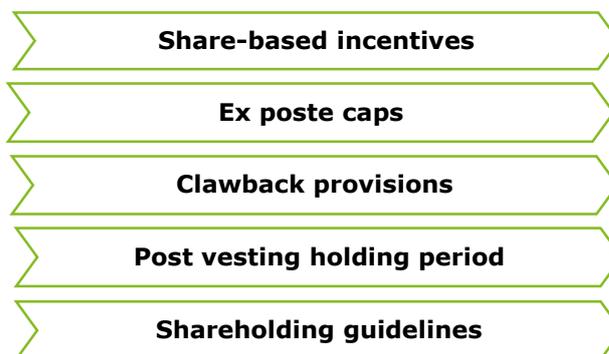
As shareholders take a more European view of remuneration practices and levels, it is likely that ex ante disclosure of the measures determining vesting of long-term incentive plans will represent the expected standard in Danish disclosures. Other markets, such as the UK, have rapidly evolved in the last three years or so to the current expectation of full ex ante disclosure of measures and targets for long-term incentive metrics.

Our analysis of the remuneration related resolutions also indicated some interesting trends in the types of incentive approaches being introduced by Danish companies for the first time. We explore these in brief over the page.

New remuneration elements

The 2018 annual general meetings saw some interesting changes to remuneration practices. This included a number of practices that are new to the Danish market as shown to the right.

The Nordic countries, unlike broader European practice, generally have a bias towards option or warrant plans as the prevalent long-term incentive vehicle. However, 2018 saw the introduction of RSU plans for five companies across the C25. This represents a marked shift from traditional practice.



Ex poste caps, whereby the value at vesting of a long-term incentive award is capped at a pre-defined level (say three times the salary at award) were introduced by three companies in 2018. This is not a common practice in Europe and their introduction in 2018 suggests that Danish Remuneration Committees are mindful of shareholder reactions to incentive gains driven largely by rising share markets.

Several companies also introduced, or clarified, their position on reclaiming remuneration for misstatement and or misconduct. One company also introduced a holding period, whereby shares cannot be sold for a further two years post vesting. Finally, shareholding guidelines are also gaining in prevalence with five companies across the C25 specifying a minimum shareholding that executives must retain during their tenure.

Taken together, these practices speak to a broader European approach to remuneration. The above five remuneration practices have not been typical of Danish practice but are (with the exception of ex poste caps) common in the rest of western Europe as well as the US. This broader remuneration perspective is driven, at least in part, by the increasingly international focus of larger Danish companies' Remuneration Committees as well as the impending Shareholder Rights Directive.

We anticipate the pace of change in remuneration practices to accelerate in the short-term with more companies reviewing the fundamental drivers of their remuneration policy to ensure that reward is in line with emerging practice.

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