

## 15. Remuneration

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Issue: In light of the financial turmoil and gathering political interest in the subject, the European Commission is reviewing remuneration measures at a European level.

Status: *Remuneration of Directors (of listed companies):* The Commission came forward with an amended version of its 2004 Recommendation on 21<sup>st</sup> April. The aim is to strengthen the existing Recommendation and to make it more effective. It includes recommendations to have a balance between variable and flexible pay, limits on severance pay, the promotion of long and short term performance criteria, and to allow companies to use clawback. It also outlines the need for greater shareholder oversight of remuneration policies and a stronger role for remuneration committees.

*Remuneration in financial services:* The Commission has published a set of new Recommendations on remuneration applicable across the financial services sector (both public/private companies). While the ABI believes high level principles can be a good guide and be applicable to sectors other than banks, we believe it is essential that if they go into any detail they must be properly tailored to the needs of different financial sectors. For example, incentives in the insurance sector are much more long term focussed and less susceptible to short-termism. Member States have been invited to take the necessary measures to promote the application of the Recommendation by 31 December 2009.

*Remuneration in banks:* The Commission recognises that this is a regulatory issue insofar as the approach taken by banks can make their business more or less risky. CEBS (Committee of European Banking Supervisors) has revised its remuneration guidelines and the Commission has proposed legislative amendments to the Capital Requirements Directive (24<sup>th</sup> June 2009) to ensure remuneration policies do not encourage excessive risk taking and support the long term interests of the credit institution. Discussions on CRD3 began in the European Parliament with an exchange of views on 2<sup>nd</sup> December. Remuneration and the need to strengthen the Commission proposals was a common theme amongst ECON MEPs. Council discussions have progressed and a general approach was adopted by ECOFIN in November. The text takes on board G20 considerations, including that bonuses should not be guaranteed and at least 50% should be in shares.

*Alternative Investment Fund Managers (AIFM):* The Swedish Presidency introduced a series of articles on remuneration into its compromise text on AIFM. This text was a read across from that proposed for bankers under CRD, which have not translated well for fund managers. Remuneration is one of four issues that remains open for further discussion on AIFM as the Swedes hand over the Presidency to the Spanish.

The Parliament's AIFM rapporteur Jean Paul Gauzes (FR,EPP) has also introduced amendments on remuneration in his draft report. However, these are far more high-level principles.

ABI Action: As a member of the European Corporate Governance Forum, which feeds into the European Commission, and chair of the International Corporate Governance Network (ICGN), Peter Montagnon has been at the centre of discussions. The Secretariat has met separately with senior Commission officials and the ABI also submitted a response to the Commission's consultation on the CRD review and possible remuneration changes on 6<sup>th</sup> May. We are also actively engaged with MEPs, HMT/FSA on the AIFM proposal.

Background: Remuneration: In 2004, the Commission produced two recommendations for guidance: 1) on disclosure and shareholder control on directors' pay; 2) the importance of a strong role for independent directors.

In July 2007, the European Commission reported back on how these Recommendations had been applied in Member States. They concluded that while there had been some improvements, there remained some a number of weaknesses, for example that some Member States still do not require sufficient numbers of independent board members on remuneration and audit committees, and in case it is still not recommended that shareholders vote on directors' remuneration (although transparency standards are widely followed).

G20 leaders have also signed up to a commitment to secure long-term focus and reward in financial institutions remuneration policy, as proposed by the Financial Stability Board, including the use of clawbacks and deferrals. The FSB was tasked with monitoring the implementation of these standards and proposing any necessary additions by March 2010.

**Useful documents:**

[CEBS principles](#)

[Commission 2009 Recommendation on Remuneration for Directors](#)

[Commission 2009 Recommendation on Remuneration policies of the financial sector](#)

[Commission draft proposal on CRDIII](#)