



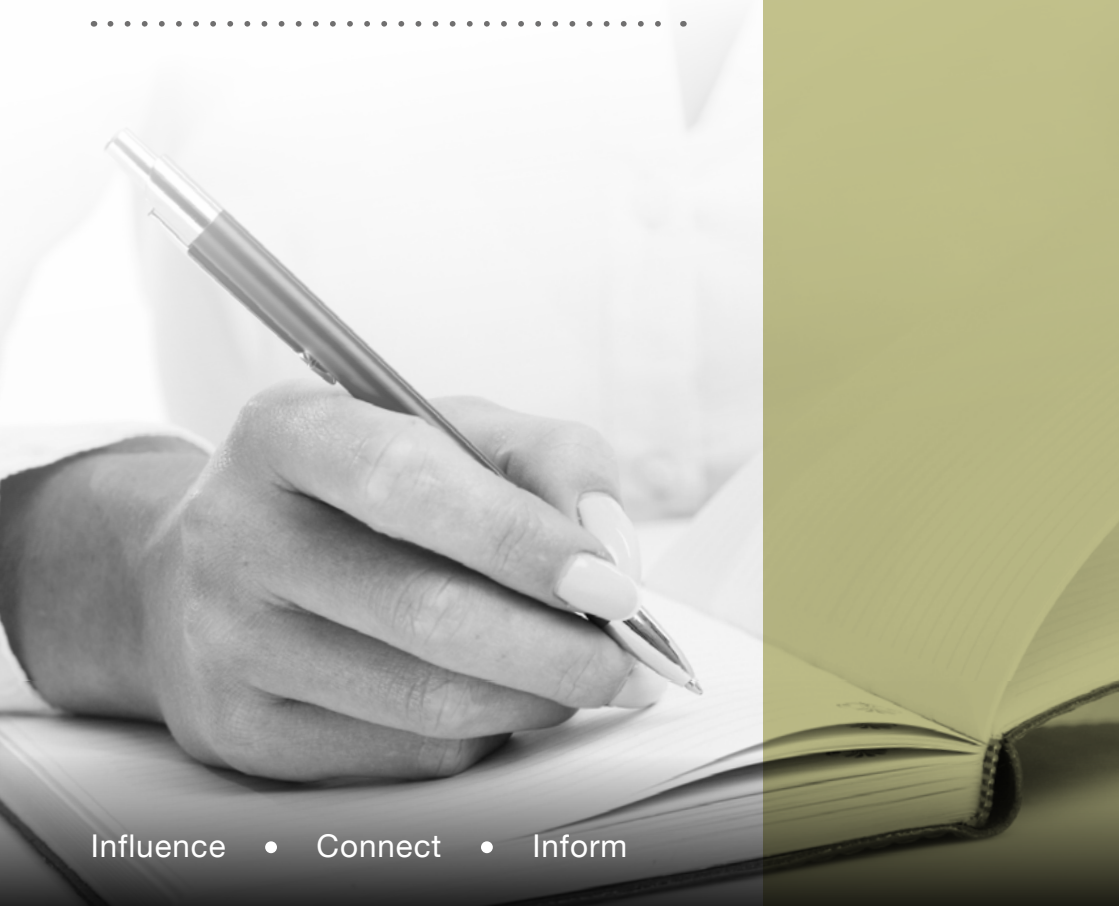
ICGN

International Corporate Governance Network

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ICGN Guidance on Non-executive Director Remuneration

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ICGN
Guidance on
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Preamble

In recent years, much emphasis has been placed on the importance of effective boards in terms of their influence on the long-term viability, sustainability and success of companies. From the perspective of investors, non-executive directors play a vital role in the oversight and control of a company's activities and can provide expert guidance on specific matters. It is essential that the remuneration of non-executive directors is not structured in a way that jeopardises this vital role.

While non-executive director remuneration is often immaterial to a company's bottom line in absolute terms and may be small relative to executive remuneration, non-executive director remuneration is an important aspect of a company's governance.

There is a balance to be achieved in ensuring that non-executive directors are remunerated adequately while, at the same time, ensuring their remuneration structure does not incentivise behaviours that could inhibit the long-term sustainability and success of the underlying company. The roles of non-executive directors can differ from country-to-country and from company-to-company. A company's stage in its life cycle can dictate in part the structure of non-executive directors' remuneration and plans should suit their unique circumstances..

The ICGN supports non-executive director remuneration policies that:

- attract, reward and retain highly qualified candidates;
- align the interests of non-executive directors with the interests of the company's long-term shareholders;
- provide comprehensive disclosure regarding the components of director remuneration including the philosophy behind the structure.

The ICGN Non-Executive Director Remuneration Guidelines (2016) replaces earlier guidance published in 2013 and sets out the ICGN's position regarding remuneration structures for non-executive directors, including board chairs.

The updated Guidance has been developed, by the ICGN Remuneration Committee in consultation with ICGN members. This latest version contains two main changes including: expectations of non-executive directors to attain a significant shareholding are more clearly defined; and explicit reference to the remuneration of board chairs.

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Part 1: Structure

Remuneration arrangements should be carefully designed and implemented with the unique situation of each company in mind, which may reflect cultural and economic differences in various markets. However, certain broad principles and guidelines are universal. Within this framework, the need for flexibility to tailor remuneration programmes to meet the challenges and opportunities each company faces is recognised.

1.1 Annual fee / retainer

Non-executive directors and chairs (both committee chairs and the overall board chair) should be awarded fees that reflect individual experience and qualifications whilst also reflecting the expected time commitment. Additional fees for taking further responsibilities such as senior independent director, deputy chairman, committee chairs may be warranted.

Meeting attendance fees or special one-off awards should be discouraged.

1.2 Equity-based and performance-based awards

For companies in the early stage of their

life cycle where financial stability is yet to be established, it is appreciated that the award of cash fees may be problematic. Part or all of this award may be granted in the form of nil-cost or fully paid non-performance-based shares. This may be a viable alternative when seeking to attract and retain individuals that possess the desired qualities.

Cash fees are considered the most suitable form of remuneration but it is also understood that a mixture of cash and shares may be desirable.

The use of share options or any form of performance-based remuneration for non-executive directors or chairs should be discouraged. Performance-based remuneration has significant potential to conflict with a non-executive director's primary role as an independent representative of shareholders.

1.3 Shareholding

Non-executive directors and chairs should purchase company shares to the extent that they are aligned with shareholders' long-term interests whilst not hindering

their independent judgement. In achieving this balance, it is appreciated that the level of shareholding will differ according to the individual non-executive director's personal situation. Companies may wish to consider introducing formal shareholding guidelines and, in turn, adopt anti-hedging policies.

Any shares owned should be retained beyond retirement or resignation from the company's board with a suggested retention period of two years post the date of departure.

1.4 Benefits or perquisites

It is reasonable to expect a company to pay for or reimburse appropriate travel and accommodation expenses together with Director & Officer Insurance. However, further benefits including, without limitation, charitable donations, financial planning and automobiles are not considered appropriate.

1.5 Employment contracts, severance and change of control

Non-executive directors should agree service contracts with the company that details, inter alia, their remuneration, whilst also describing the roles and responsibilities expected of them. Non-executive directors should not be eligible to receive change-in-control payments or severance arrangements.

1.6 Retirement arrangements

As elected representatives of shareholders and not company employees, non-executive directors should not receive retirement benefits such as defined benefit plans or deferred stock awards nor should they be entitled to special post-retirement benefits. The deferral of cash fees via a deferred remuneration plan is acceptable however, such plans should mirror those offered to employees in broad-based deferral plans. Non-executive directors should not receive "sweeteners" for deferring cash payments into company shares.

1.7 Disgorgement / malus and clawback

Non-executive directors should be required to re-pay remuneration to the company in the event of malfeasance or a breach of fiduciary duty involving the director.

1.8 Peer groups

Peer analysis can be valuable however peer-relative justification should not dominate the rationale for remuneration levels. Rather, remuneration programmes should be appropriate for the circumstances of the company.

Part 2: Accountability

Owing to non-executive director remuneration often being decided by the board, which brings inherent conflicts of interest, care must be taken to ensure there is no appearance, or reality, of impropriety. Companies should pay particular attention to managing these conflicts.

2.1 Remuneration committee

The remuneration committee (or alternative committee comprised solely of independent board directors) is responsible for structuring non-executive director pay, subject to approval of all the independent board members, so that it supports the interests of long-term shareholders. The unique fact that non-executive directors often determine their own remuneration necessitates particular emphasis on the remuneration reviews, access to external advice and shareholder approval.

2.2 Review

The remuneration committee should understand and value each component of pay and review annually the appropriateness of the elements of remuneration potentially payable to each non-executive director. This should include the aggregated total of all potential remuneration and not only focusing on the incumbent parts.

2.3 External advice

The remuneration committee should have the ability to utilise a remuneration consultant or other outside advisor for assistance on non-executive director remuneration arrangements. In cases where the committee does utilise outside advice, the consultant should be independent of the company, its management and directors.

2.4 Shareholder approval

In certain jurisdictions, shareholder approval is required of remuneration arrangements and material amendments to equity-based remuneration plans. The ICGN strongly supports this practice and recommends companies seek shareholder approval irrespective of any legal requirement.

Part 3: Transparency

Investors must have comprehensive disclosure of both the philosophy behind non-executive director remuneration plan as well as the actual remuneration awarded under the plan. Without full disclosure, it is difficult to earn investors' confidence and support for remuneration plans.

3.1 Clarity

Subject to legal requirements in certain jurisdictions in relation to remuneration disclosure, tabular disclosure is helpful as a means to easily summarise the components of the remuneration plan and describe total remuneration. The annual proxy statement or annual report should include a table covering a multi-year period showing the value of each component of remuneration paid to each director during the relevant years. If shares are awarded, the value of the shares on the day of grant should be used. The table should also include the number of board meetings and committee meetings attended by each director, including the maximum number of meetings that could have been attended.

3.2 Explanations

Reasons for changes in non-executive director remuneration programmes should also be explained, with emphasis on why the new structure provides the best alignment with long-term owners.

3.3 Equity holdings

Upon nomination of new board members, companies should provide information of proposed non-executive director's equity holdings broken down by the shares to be purchased by the candidate and the shares granted by the company, if any.

3.4 Peer groups

Should peer groups be used to compare non-executive director remuneration packages, these should be disclosed, along with differences, if any, from the peer groups used for executive pay.

3.5 Advice

If a consultant has been employed, it is recommended that the terms of engagement and a summary of the advice received be provided within the necessary disclosure documents.

Annex 1: Acknowledgments

The ICGN acknowledges and is grateful to the ICGN Remuneration Committee: Pru Bennett, Ian Burger, Francesco Chiappetta, Andrea Di Segni, Natacha Dimitrijevic, Catherine Jackson, Andrew Johnston, Escher Luanda, Jadi Manurung-, Aeisha Mastagni, Mike McCauley, Rebecca Vine, George Dallas and Kerrie Waring.

Annex 2: About ICGN

Established in 1995, ICGN Members include investor's responsible for assets under management of US\$26 trillion. ICGN's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide. This sets the tone for our work programme which is centered around:

- Influencing policy by providing a reliable source of investor-led opinion and experience around governance and stewardship;
- Connecting peers at global events to provide a forum for dialogue between companies, investors and other stakeholders; and
- Informing debate through knowledge and education to enhance the professionalism of corporate governance and investor stewardship.

For more information, contact the ICGN Secretariat by telephone: +44 (0) 207 612 7011, email: secretariat@icgn.org or visit www.icgn.org.

Annex 3: ICGN Principles & Guidance

Principles

Global Stewardship Principles (2016)

Global Governance Principles (2015)

Guidance

Anti-corruption Practices (2012)

Corporate Risk Oversight (2015)

Diversity on Boards (2016)

Executive Remuneration (2016)

Gender Diversity on Boards (2013)

Integrated Business Reporting (2015)

Model Mandate: Contract Terms between Asset Owners and Managers (2012)

Non-executive Director Remuneration (2016)

Political Lobbying and Donations (2012)

Securities Lending (2016)



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