

Remuneration of directors of listed companies and remuneration policies in the financial services sector

2010/2009(INI) - 22/06/2010

The Economic and Monetary Affairs adopted the own-initiative report drafted by Saïd EL KHADRAOUI (S&D, BE) on remuneration of directors of listed companies and remuneration policies in the financial services sector.

Members welcome the initiatives taken by the Commission and the FSB on remuneration policies in the financial sector and listed companies in general. They take the view, however, that the financial undertaking's size, and thus its activity's contribution to the systemic risk, should be taken proportionally into account when imposing additional regulation in matters of remuneration policy and capital requirements on financial institutions.

Effective governance of compensation: the report stresses that supervisory authorities should decide whether a financial institution or a listed company should have a remuneration committee and that they should do so in a way that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

Members take the view that where the supervisor has deemed it appropriate, remuneration policy should be determined by the remuneration committee, which must be independent and accountable to shareholders and supervisors, and should work closely with the firm's risk committee in the evaluation of the incentives created by the compensation system.

The report underlines that a remuneration committee must have access to the subject matter of contracts, with contracts under the scrutiny of this committee designed in a way that makes it possible to punish acts of gross negligence by payment deductions. Furthermore, the report considers that financial institutions should be urged to make use of a malus, i.e. a return of performance-related compensation as a result of the discovery of poor performance.

Effective alignment of compensation with prudent risk-taking: the report underlines that remuneration should be adjusted for all types of risks, symmetrical with risk outcomes, and sensitive to the time horizon of current and potential risks that have an impact on the overall performance and stability of the firm.

Members believe that compensation systems should be proportionate to the size, internal organisation and complexity of financial institutions and should reflect the diversity between different financial sectors such as banking, insurance and fund management. They consider that the levels of variable remuneration should be based on predetermined and measurable performance criteria, which should promote the long-term sustainability of the company.

Considering that the personal financial interest of directors linked to variable remuneration is, in many cases, in conflict with the long-term interests of the company, the report stresses that policy on the remuneration of directors and other staff who bear responsibility for risky decisions should be consistent with a balanced and properly functioning system of risk management, and that there should be an appropriate ratio between fixed and variable pay.

Members are of the opinion, not only for ethical reasons but also in the interests of social justice and economic sustainability, that the difference between the highest and the lowest remuneration in a company should be reasonable.

Balanced structure of the remuneration package: Members stress that there must be an appropriate balance between variable and fixed remuneration. They suggest that variable remuneration should be paid only if it is sustainable in the light of the financial situation and capital base of the institution, and justified in the light of the long-term performance of the firm.

The report underlines that a substantial proportion of the variable remuneration component should be deferred over a sufficient period. The size of the proportion and the length of the deferral period should be established in accordance with the business cycle, the nature of the business, its risks and the activities of the staff member in question. The report states that remuneration payable under deferred arrangements should become a vested right no faster than that payable on a pro-rata basis. At least 40% of the variable remuneration component should be deferred. In case of a variable remuneration component of a particularly high amount, at least 60% of the amount should be deferred and the deferral period should be no less than 5 years.

Members suggest setting an upper limit of the equivalent of two years of the fixed component of directors' pay on severance pay ('golden parachutes') in cases of early termination, and banning severance pay in cases of non-performance or voluntary departure.

Effective supervisory oversight and involvement by stakeholders: Members consider that firms should disclose clear, comprehensive and timely information about their compensation practices and that supervisory authorities should have access to all the information they need to evaluate compliance with the applicable principles. They call for state enterprises, like other companies, to exercise complete transparency concerning their pay and bonus policies.

Members call on the Commission and Member States to promote a common international structure for disclosure of the number of individuals in pay brackets from EUR 1 million upwards, to include the main elements of salary, bonus, long-term award and pension contribution. The report stresses that variable remuneration should not be paid through vehicles or methods that facilitate the avoidance of payment of income taxes on this remuneration.

The report calls on the Commission to clarify in its legislative proposals the role of the supervisory authorities in remuneration policy and to set up an EU crisis management framework in order to avoid a new financial crisis.

Lastly, Members call for the development of a European strategy to combat tax havens in order to implement the pronouncements made by the G20 in London and Pittsburgh.