

Corporate governance: long-term shareholder engagement

2014/0121(COD) - 08/07/2015 - Text adopted by Parliament, partial vote at 1st reading/single reading

The European Parliament adopted by 556 votes to 67, with 80 abstentions, **amendments** to the proposal for a directive of the European Parliament and of the Council amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement and Directive 2013/34/EU as regards certain elements of the corporate governance statement.

The matter had been **sent back for consideration to the competent committee**. The vote had been set back for a later session.

The main amendments adopted in plenary were as follows:

Purpose: Members felt that the amended directive should:

- establish specific requirements in order to **facilitate shareholders' engagement in the long term**, including the identification of shareholders, the transmission of information and the facilitation of the exercise of shareholder rights;
- create **transparency on the engagement policies** of institutional investors and asset managers and on the activities of proxy advisors and
- lay down certain requirements with regard to **directors' remuneration** and related party transactions.

Transparency and dialogue: Member States shall ensure that companies have the right to **identify their shareholders**, taking account of existing national systems. On the request of the company, the intermediary must communicate without undue delay to the company the information regarding shareholder identity. Companies shall in any case be allowed to give third parties an overview of the shareholding structure of the company by disclosing the different shareholder categories.

The companies and the intermediaries must not store the information regarding shareholder identity transmitted to for longer than necessary.

Intermediaries must facilitate the exercise of shareholder rights by the latter, including the **right to participate and vote in general meetings**. Companies must publicly disclose, via their website, the minutes of the general meetings and the results of votes.

Furthermore, Member States may allow intermediaries to **charge the costs of the service** to be provided by the companies. Intermediaries shall **publicly disclose prices**, fees and any other charges separately for each service

Any differences in the charges levied between domestic and cross-border exercise of rights shall only be permitted where duly justified and shall reflect the variation in actual costs incurred for delivering the services.

Engagement policy: institutional investors and asset managers must develop a policy on shareholder engagement which shall determine how they conduct the following actions: (i) integrate shareholder

engagement in their investment strategy; (ii) monitor investee companies, including on their non-financial performance, and reduction of **social and environmental risks**; (iii) conduct dialogue and cooperate with other stakeholders of the investee companies; (iv) exercise voting rights.

Transparency of asset managers: institutional investors must disclose to the public how their investment strategy is aligned with the profile and duration of their liabilities and how it contributes to the **medium to long-term performance** of their assets. Moreover, asset managers should publicly disclose the **portfolio turnover**, whether they make investment decisions on the basis of judgements about medium to long-term performance of the investee company, and whether they use proxy advisors for the purpose of their engagement activities. Further information should be disclosed by the asset managers directly to the institutional investors, including information on the portfolio composition, on the portfolio turnover costs, on conflicts of interest that have arisen and how they have been dealt with.

Right to vote on the remuneration policy: companies must establish a remuneration policy as regards directors and submit it to **a binding vote of the general meeting of shareholders**. Any change to the policy shall be voted on at the general meeting of shareholders and the policy shall be submitted in any case for approval by the general meeting at least every three years.

However, Member States may provide that the votes by the general meeting on the remuneration policy are **advisory**.

Directors' remuneration policy must:

- be clear, understandable, in line with the business strategy, objectives, values and long-term interests of the company and shall incorporate measures to avoid conflicts of interest.
- explain how it contributes to the long-term interests and sustainability of the company;
- set clear criteria for the award of fixed and variable remuneration, including all bonuses and all benefits in whatever form;
- indicate the appropriate relative proportion of the different components of fixed and variable remuneration. For variable remuneration, the policy shall indicate the financial and non-financial performance criteria, including, where appropriate, consideration for programmes and results relating to corporate social responsibility;

Member States shall ensure that (i) **the value of shares does not play a dominant role in the financial performance criteria**; (ii) share-based remuneration does not represent the most significant part of directors' variable remuneration.

The remuneration policy shall also:

- indicate the main terms of the contracts of directors, including its duration and the applicable notice periods and terms of termination and payments linked to termination of contracts and the characteristics of supplementary pension or early retirement schemes;
- specify the company's procedures for the determination of the remuneration of directors, including the role and functioning of the remuneration committee;
- explain the specific decision-making process leading to its determination.

Related party transactions: in order to ensure adequate safeguards for the protection of companies' interests Member States should ensure that material related party transactions should be **approved by the shareholders or by the administrative or supervisory body of the companies**, in accordance with procedures which prevent a related party from taking advantage of its position and provide adequate protection for the interest of the company and of shareholders which are not related parties, including minority shareholders. Related parties companies should publicly announce such transactions at the latest at the time of conclusion.

Additional disclosure for large undertakings: Members added large undertakings must provide a **report by country** on their businesses. This includes turnover; number of employees on a full time equivalent basis; value of assets and annual cost of maintaining those assets; sales and purchases; profit or loss before tax; tax on profit or loss; public subsidies received;

Large undertakings shall, In the notes to the financial statements, publicly **disclose essential elements of and information regarding** tax rulings, providing a breakdown by Member State and by third country in which the large undertaking in question has a subsidiary.

Undertakings of which the average number of employees on a consolidated basis during the financial year does not exceed 500 and which, on their balance sheet dates, have on a consolidated basis either a balance sheet which does not exceed a total of 86 million euros or a net turnover which does not exceeds EUR 100 million shall be exempt from this obligation.