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# *Executive and non-executive remuneration survey 2018*

## Overview of AEX, AMX and AScX market practice

*People and Organisation*
*September 2018*

# Contents



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# *Introduction*

*Dear reader,*

*In the recent AGM season, executive remuneration remained a topic of interest for stakeholders and continue to fuel public date. Increased shareholder activism combined with changing legislation have raised the bar for non-executives to gain support for executive remuneration policies. Transparency and establishing a clear connection between executive pay and the company's strategy and performance delivered remain key elements here. However, careful consideration should also be given to pay ratios and other pay fairness principles to ensure appropriateness and acceptability to a broad group of stakeholders. Especially given the increased involvement of the Works Council regarding executive remuneration going forward and the apparent more active role of institutional investors on executive pay topics.*

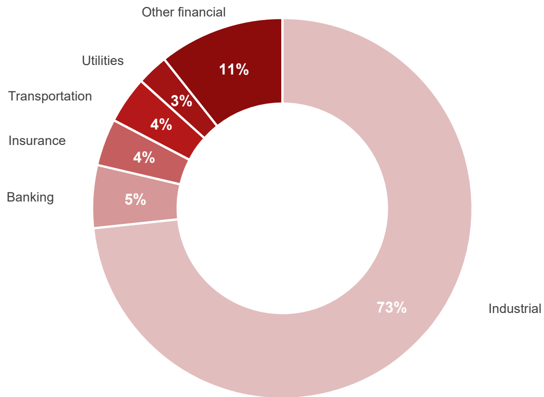
*To support you in your considerations we have analysed the remuneration of executives at Dutch listed companies (AEX, AMX and AScX) for the 2017 reporting year. This publication provides a summary of selected executive pay topics and relevant insights on these. These may be used to validate your current executive pay policies and assess whether these are fit-for-future. The survey may also help you to engage with internal and external stakeholders on this topic.*

*We trust you find this survey an interesting and thought-provoking read and look forward discussing this with you in further detail.*
*Yours sincerely,*

| | |
|---|---|
| *Janet Visbeen* | *Marieke Kees-van der Zwet* |
| PwC EMEA Reward Leader | Partner Reward Netherlands |

# *Survey information and definitions*

*This survey includes data from the companies included in the AEX, AMX and AScX Euronext Amsterdam stock exchange indices based on the composition of the indices in March 2018.*




*The industrial sector is by far the largest sector with 73% of the total market capitalisation, followed by other financial 11%, banking 5%, insurance 4%, transportation 4% and utilities 3%.*

***Figure 1*** *Market capitalisation per sector*

The following definitions are consistently applied in this publication.

**Base salary** All fixed salary and allowances payments excluding benefits and pension.

**Short-term incentive (STI)** All cash and equity-based payments accrued to an individual over a period shorter than 12 months.

**Long-term incentive (LTI)** All cash and equity-based payments accrued to an individual over a period longer than 12 months.

**Total Cash Compensation (TCC)** Base salary + STI.

**Total Direct Compensation (TDC)** TCC + LTI.

Remuneration levels rarely follow a normal distribution curve and tend to fluctuate. For this reason, we have used quartile ranges rather than averages and standard deviations that assume normality. The quartiles used are defined below.

**Lower quartile (25th percentile)** 75% of the population earn more and 25% earn less than this level.

**Median (50th percentile)** 50% of the population earn more and 50% earn less than this level.

**Upper quartile (75th percentile)** 25% of the population earn more and 75% earn less than this level.

*In this publication, the positions of Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Other Executive Director (OED) are analysed. Only the key findings are published. Other potentially interesting indicators on executive and non-executive remuneration can be made available via your contact at PwC.*

# Executive remuneration levels

## Executive remuneration versus company size

Executive remuneration levels are largely linked to the size of a company, as best reflected in market capitalisation, total assets and revenues. In addition to these size indicators, business complexity and industry specific considerations play a role in determining executive remuneration.

We recommend companies to balance the input gained from external benchmarking against a relevant labour market reference group, with the internal equity towards the total employee population. Furthermore, a clear link between executive remuneration levels and the achievement of strategic goals linked to long-term value creation remain of key importance to investors.

The table below reflects the annual average base salary and TDC of the CEOs of all AEX, AMX and AScX listed companies, as determined based on the companies' market capitalisation, total assets and revenue in 2017.

***Table 1*** *Average CEO annual base salary and TDC of AEX-, AMX- and AScX listed companies based on market capitalisation, total assets and revenue*

| Market capitalization, Total assets and Revenue Range in EUR billon | Market capitalization | | Total assets | | Revenue | |
|---|---|---|---|---|---|---|
| | Base salary (EUR '000) | TDC salary (EUR '000) | Base salary (EUR '000) | TDC salary (EUR '000) | Base salary (EUR '000) | TDC salary (EUR '000) |
| Up to 0.1 | 210 | 640 | 285 | 615 | 390 | 495 |
| From 0.1 up to 0.5 | 440 | 625 | 420 | 735 | 430 | 850 |
| From 0.5 up to 1.0 | 435 | 720 | 595 | 1,355 | 600 | 1,630 |
| From 1.0 up to 2.0 | 550 | 1,220 | 425 | 1,050 | 690 | 1,900 |
| From 2.0 up to 5.0 | 575 | 1,745 | 545 | 1,305 | 545 | 1,630 |
| From 5.0 up to 20.0 | 910 | 2,605 | 900 | 2,885 | 910 | 2,690 |
| From 20.0 up to 100.0 | 1,160 | 3,820 | 930 | 3,430 | 1,075 | 2,905 |
| Above 100.0 | 1,490 | 8,790 | - | - | 1,490 | 8,790 |

*Source: PwC analysis based on Annual Reports and Remuneration Reports over 2017. Market capitalisation, total assets and revenue from Datastream as at 31 December 2017.Remuneration amounts are rounded to the nearest EUR 5,000.*

***Table 2*** *Comparison of average CEO base salary and TDC for AEX, AMX and AScX*

| Index | Market capitalization (EUR billion) | Total assets (EUR billion) | Revenue (EUR billion) | CEO base salary (EUR '000) | CEO average annual TDC (EUR '000) |
|---|---|---|---|---|---|
| AEX | 26,155 | 104,975 | 28,638 | 1,001 | 3,415 |
| AMX | 2,480 | 5,608 | 3,010 | 534 | 1,213 |
| AScX | 689 | 1,380 | 627 | 458 | 817 |
| | | | | | |
| AEX: AMX | 10.5* | 18.7 | 9.5 | 1.9 | 2.8 |
| AEX: AScX | 38.0 | 76.1 | 45.7 | 2.2 | 4.2 |
| AMX: AScX | 3.6 | 4.1 | 4.8 | 1.2 | 1.5 |

**) Multiple of 10.5 means that the average market capitalisation of the AEX-index is 10.5 times the average market capitalisation of the AMX-index, whilst average base salary of the CEO is 1.9 times as high.*



# Executive remuneration mix

The table below details the lower quartile, median and upper quartile remuneration levels for the CEO, CFO and OEDs of all AEX, AMX and AScX listed companies, in terms of base salary, STI (as % of base salary), TCC, LTI (as % of base salary) and TDC.

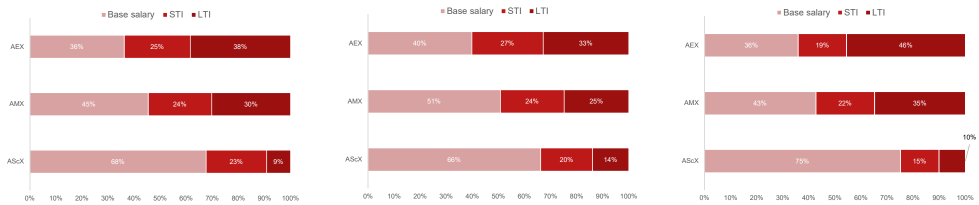
***Table 3*** *CEO, CFO and OEDs remuneration levels of AEX-, AMX- and AScX-listed companies (in EUR thousands)*

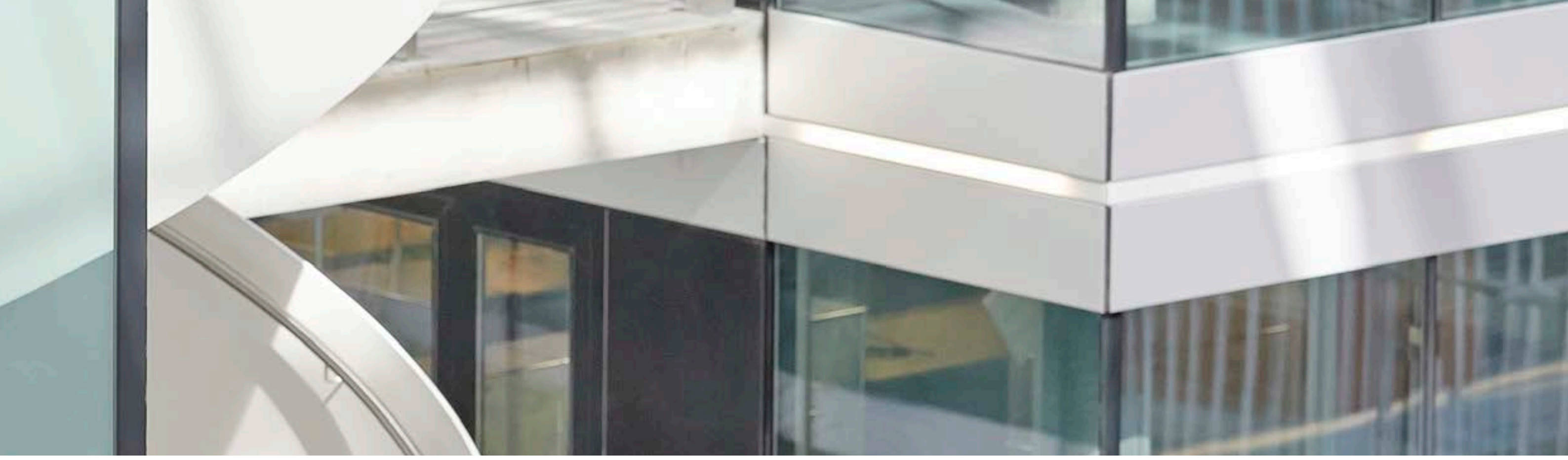
| Index | Position | Pay level | Base salary (EUR '000) | STI (as % of base salary) | TCC (EUR '000) | LTI (as % of base salary) | TDC (EUR '000) |
|---|---|---|---|---|---|---|---|
| AEX | CEO | lower quartile | 750 | 60% | 1,475 | 100% | 1,985 |
| | | median | 1,000 | 90% | 1,700 | 135% | 2,765 |
| | | upper quartile | 1,205 | 120% | 2,285 | 270% | 4,580 |
| | CFO | lower quartile | 570 | 50% | 900 | 85% | 1,205 |
| | | median | 650 | 65% | 1,095 | 115% | 1,630 |
| | | upper quartile | 730 | 100% | 1,350 | 175% | 2,410 |
| | OED | lower quartile | 480 | 40% | 770 | 85% | 1,105 |
| | | median | 585 | 60% | 890 | 100% | 1,630 |
| | | upper quartile | 660 | 70% | 1,110 | 135% | 1,950 |
| AMX | CEO | lower quartile | 450 | 40% | 645 | 50% | 935 |
| | | median | 560 | 50% | 855 | 80% | 1,230 |
| | | upper quartile | 640 | 75% | 1,055 | 105% | 1,545 |
| | CFO | lower quartile | 375 | 35% | 510 | 40% | 710 |
| | | median | 420 | 50% | 625 | 60% | 830 |
| | | upper quartile | 480 | 60% | 750 | 90% | 1,100 |
| | OED | lower quartile | 245 | 15% | 475 | 65% | 590 |
| | | median | 415 | 50% | 630 | 75% | 970 |
| | | upper quartile | 445 | 60% | 750 | 80% | 1,040 |
| AScX | CEO | lower quartile | 355 | 10% | 455 | 5% | 585 |
| | | median | 460 | 30% | 620 | 30% | 680 |
| | | upper quartile | 555 | 50% | 760 | 85% | 850 |
| | CFO | lower quartile | 260 | 10% | 345 | 10% | 375 |
| | | median | 310 | 30% | 400 | 35% | 465 |
| | | upper quartile | 350 | 45% | 550 | 55% | 635 |
| | OED | lower quartile | 310 | 0% | 340 | 5% | 380 |
| | | median | 360 | 10% | 430 | 20% | 480 |
| | | upper quartile | 460 | 15% | 570 | 100% | 885 |

*Remuneration amounts are rounded to the nearest EUR 5,000, remuneration percentages are rounded to the nearest 5%.*

*The graphs below show the mix between base salary, STI and LTI for CEOs, CFOs and OEDs per index.*

***Figure 2*** *CEO, CFO and OEDs pay mix of AEX, AMX and AScX listed companies*

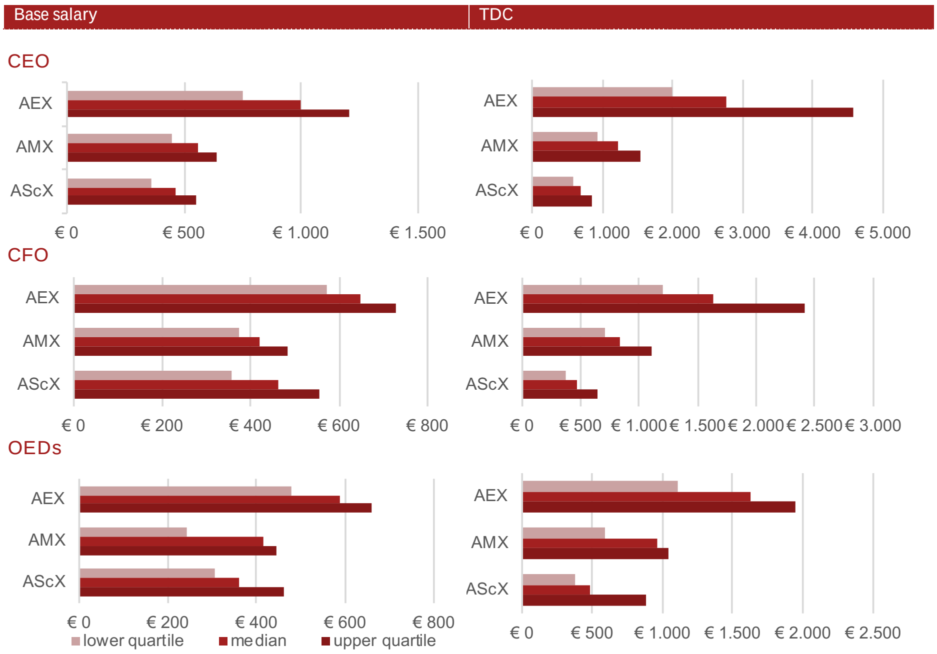




# Executive remuneration levels **Remuneration mix**

The graphs below illustrate the base salary and TDC levels of CEO, CFO and OED positions per index.

***Figure 3*** *CEO, CFO and OEDs lower quartiles, median and upper quartiles of base salary and TDC of AEX, AMX and AScX listed companies (in EUR thousands)*




AEX lower quartile base salary levels exceed upper quartile AMX base salary levels, for CEO, CFO as well as OED positions.

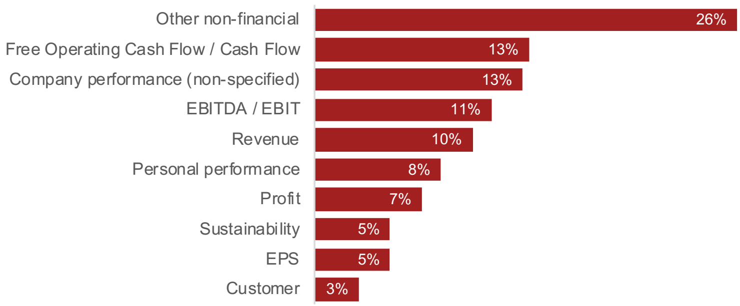
The quartile total direct compensation range for the AEX is notably larger than that of the AMX and AScX indices.

When comparing TDC levels, there is a large difference between the AEX and the AMX/AScX. This implies a greater focus on pay-for-performance within AEX listed companies by using variable pay. It is important that a proper balance between remuneration level and sustainable long-term performance is ensured.

## Short-term incentives

Companies should ensure variable pay performance targets are aligned to the goals and business strategy of the organisation. Performance targets should therefore be tailored based on each company's specific circumstances to ensure that pay-for-performance is achieved. As an institutional investor advisor, Eumedion explicitly addresses the link between executive remuneration target setting and the company strategy in its revised overview of principles for an appropriate executive remuneration policy[1]. The overview below illustrates the most prevalent STI performance conditions applied as a percentage of the total number of companies.

***Figure 4*** *Top 10 STI performance conditions (as % of companies): AEX, AMX and AScX*

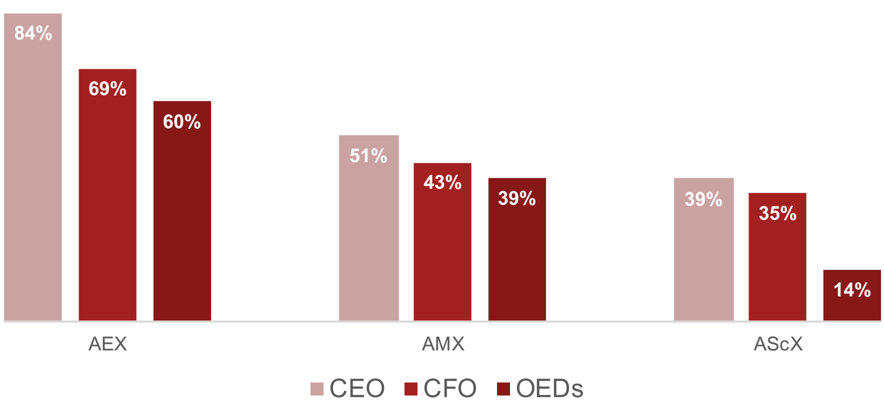



The observed non-financial STI performance conditions are mainly related to risk and compliance, people, strategy, technology, and health and safety.

Cash flow and company performance related to debt or cost reduction (included in the category 'Company performance (non-specified)' are increasingly used as performance conditions.

The median target STI levels as % of base salary per index are shown below:

***Figure 6*** *Median target STI levels as % of base pay of AEX, AMX and AScX companies*




[1] *'Eumedion Uitgangspunten verantwoord bezoldigingbeleid van het bestuur van Nederlandse beursvennootschappen', as of 1 January 2018.*

**Balancing performance targets**

*Performance targets such as revenues and cash flow are prevalent in both STI and LTI plans. Careful consideration should be given when using similar performance targets in both the STI and the LTI plans. Variable pay should be awarded for sustainable value creation, rather than as a reward for volatility.*

- **STI:** *Targets are set annually and reward contribution to the company during the year.*
- **LTI:** *Targets are set per award to reward sustainable performance measured over multiple years consistent with the company's strategy.*

The majority of the STI plans are paid out in cash. The pay-out of STI, partly in cash and partly in shares, is mainly observed in the financial services sector.

***Figure 5*** *STI plans by settlement type. AEX, AMX and AScX (as % of plans)*

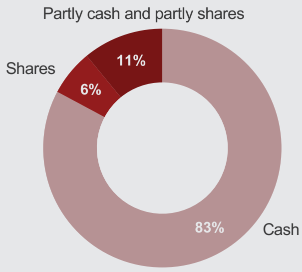
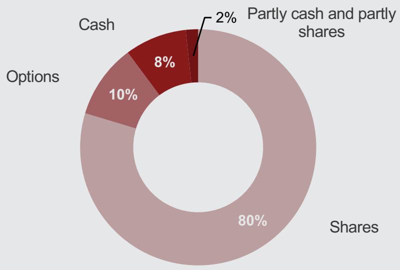
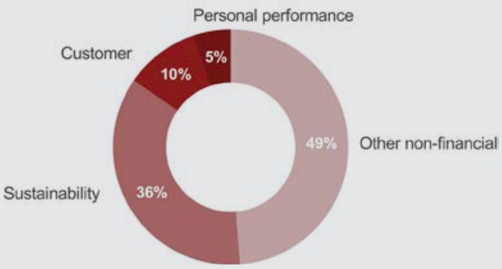



***Figure 7*** *Type of instruments granted by AEX, AMX and AScX (as % of the LTI plans observed)*




The graph illustrates the top LTI non-financial performance conditions of AEX, AMX and AScX listed companies.

***Figure 9*** *Top LTI non-financial performance conditions (as applied by % of plans): AEX, AMX and AScX*



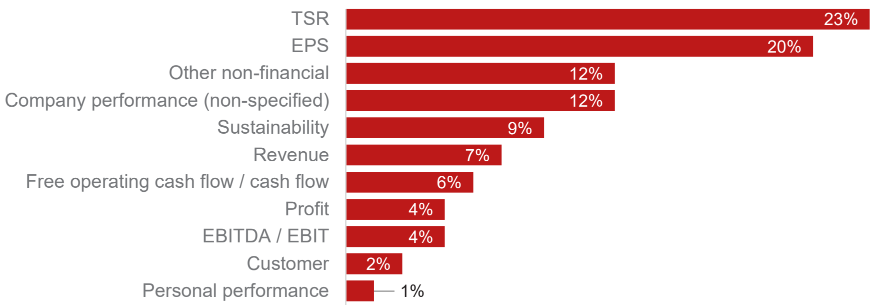

## Long-term incentives

Long-term incentives should align the interests of executives with those of shareholders and should link reward to performance and value created over the longer term.

**Settlement method:** 80% of LTI plans are paid out in shares, 10% in options, 8% in cash and 2% partly in cash and partly in shares.

The graph below illustrates the most common LTI performance conditions as applied by AEX, AMX and AScX listed companies.

***Figure 8*** *Top LTI performance conditions (as % of companies). AEX, AMX and AScX*




TSR and EPS remain the most-used LTI performance conditions. The use of non-financial performance conditions remains on the rise, such as strategy and leadership targets.

Although financial performance conditions are still most popular due to their perceived objectivity and apparent link to value creation, the use of non-financial performance conditions has significantly increased over the past years. **24% of the LTI performance targets used are based on non-financial conditions.**

The type of performance conditions and the balance between financial and non-financial performance conditions selected should match the company's strategic objectives and align the long-term interests of the employees with that of shareholders and other stakeholders.

Performance targets that are included in the 'other non-financial' in the figure aside are largely related to strategic goals, leadership development, technology and reputation.

# Non-executive remuneration levels

## Time and responsibilities

*The revised Dutch Corporate Governance Code that has entered into force as of 1 January 2017, stipulates that remuneration for supervisory board members should reflect the time spent on and the responsibilities of their role. Further, the supervisory board members may not be awarded remuneration in the form of shares and/or rights to shares when complying with the Code.*
*The table below displays the total amount of fees for all non-executive directors of a company, as well as the total chairperson fee and the total member fee. The chairperson fee and the member fee are both including the base fee as well as committee fees.*

***Figure 4*** *Non-executive remuneration of AEX, AMX and AScX listed companies*

| Index | Pay level | Total amount spent on NED fees (EUR '000) | Chairperson fee (EUR '000) | Member fee (EUR '000) |
|---|---|---|---|---|
| AEX | lower quartile | 580 | 100 | 65 |
| | median | 745 | 130 | 80 |
| | upper quartile | 945 | 165 | 85 |
| AMX | lower quartile | 245 | 60 | 35 |
| | median | 285 | 70 | 40 |
| | upper quartile | 335 | 75 | 45 |
| AScX | lower quartile | 150 | 50 | 30 |
| | median | 200 | 55 | 35 |
| | upper quartile | 235 | 65 | 40 |

*Remuneration amounts are rounded to the nearest EUR 5,000.*

A non-executive director within an AEX listed company earns approximately twice the amount of a non-executive director within an AMX listed company and about 2.4 times compared to an AScX listed company.
*) Based on median level

Based on the recent annual reporting cycles and media publications, it is evident that companies are reviewing their supervisory board fee levels and structure, leading to proposed fee level increases.

Although it is broadly recognized that both the time commitment and responsibilities of mainly the chairperson position have increased, there is recently more push-back observed to proposals of companies to significantly increase the chairperson fee. The criticism relates to the (international) comparison of chair positions in a supervisory board to chair positions in a one-tier board and the related difference in responsibilities.

Supervisory board fees should be tailored based on the extent and nature of the supervisory board responsibilities and required knowledge and experience.

# Relevant developments

## Governance

*Below we have outlined some recent Dutch regulatory and legislative developments that may have an impact on executive and non-executive remuneration. Companies should consider what changes are required to their remuneration policies and practices in light of these developments.*

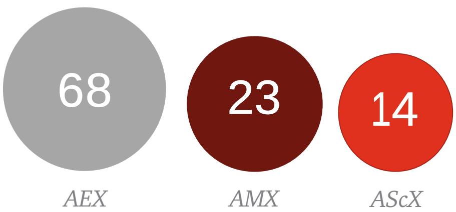
**Internal pay ratio**

The new Dutch Corporate Governance Code, effective as per 1 January 2017, has introduced a new provision on the internal pay ratio. The provision prescribes remuneration committees to consider the pay ratio within the company and its affiliated companies when drafting the executive remuneration policy. The internal pay ratio, as well as changes to this ratio compared to the previous financial year, should be addressed in the annual report.

2017 was the first year over which companies had to disclose their internal pay ratio. 76% of the companies in the AEX, AMX and AScX have reported their internal pay ratio. As the Dutch Corporate Governance Code does not prescribe a specific calculation method to determine this ratio, there are differences in how companies calculate and report on the internal pay ratio. The most common calculation method is:

$$\frac{\text{Annual pay level CEO}}{\text{Average annual pay level all employees excl. the CEO (on FTE basis)}}$$

***Figure 10*** *Internal pay ratio (average pay ratio as disclosed in annual reports per index)*




- Overall, all remuneration elements are included in the calculation, i.e. base salary, short-term incentives, long-term incentives, benefits and pension.

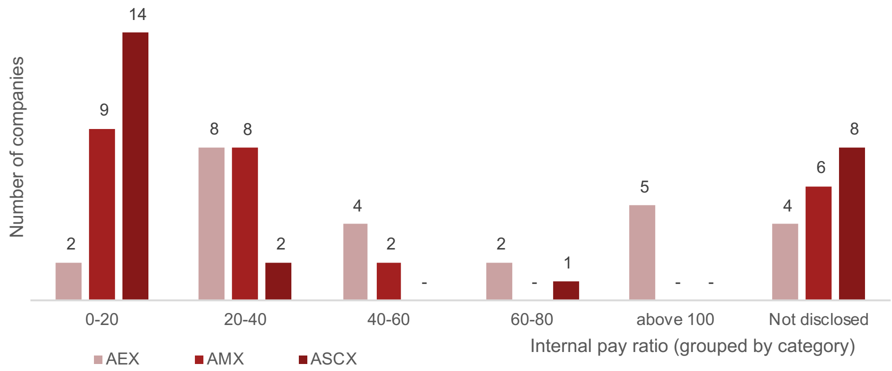
  Some companies disclose the pay ratio towards the CEO as well as towards other executive directors.

  Most companies use the average employee levels, but the use of median employee pay levels is also observed.

## Relevant developments **Governance**

The pay ratio aims to provide a picture on the development of the relationship between executive remuneration levels and those of employees. Rather than the outcome itself, the relevance of the ratio can be found in the development of the ratio over time and as input for the remuneration committee to take the responsibility to demonstrate how pay levels align across the company.

***Figure 11*** *Number of companies within the different internal pay ratio ranges*




**Equal pay versus the gender pay gap**
The gender pay gap is, at its simplest, the difference between the average wages of men and women, regardless of their seniority. Equal pay is a different, but connected issue, which is about pay differences between men and women for 'like work', 'work of equal value', or 'work rates as equivalent'. This has been prohibited under Dutch law since 1980.

**Equal pay for equal work – legislative proposal**
Next to the disclosure requirements on the internal pay ratio, the attention towards transparency around gender pay and gender diversity has significantly increased over the past years, amplified by the broader themes of equality and fairness in society.

In 2017, new legislation came into effect in the UK that requires companies to publish key information on their gender pay gap. In January 2018, Iceland became the first country in the world to put in place a law that requires companies to prove that they are paying men and women equally.

Following the UK and Iceland, a new legislative proposal on equal pay for equal work was presented in the Netherlands in March 2018 ('Wet gelijke beloning vrouwen en mannen'). It includes the requirement for all Dutch companies with more than 50 employees to prove that they pay men and women equally for the same job. Furthermore, it requires companies to disclose the pay gap between men and women, including planned actions to close this gap.

## Relevant developments **Governance**

***Table 5*** *Overview Dutch legislative proposal on equal pay among women and men*

| **Legislation** | **'Wet gelijke beloning vrouwen en mannen'** |
| --- | --- |
| ***Company size*** | >50 employees |
| ***Reporting obligations*** | Gender pay gap within similar job functions<br>In case of a gender pay gap, this would need to be justified and the organisation should explain how this gap will be closed |
| ***Compliance*** | Non-compliant until an official certificate has been issued. This certificate has to be renewed every three years |
| ***Who measures*** | An institute authorised to issue these certificates |
| ***Sanctions*** | Withdrawal or suspension of the certificate<br>Financial penalty and administrative costs up to 10% of a company's revenue |

The first year of disclosures under the new UK gender pay gap reporting requirements shows stark results – more than 85% of the 10,000 companies that have disclosed their figures, disclose a pay gap in favour of men. Although the exact reasons for this gap vary by company, in the majority of cases, the key factor appears to be the relatively high number of men in more senior (and so more higher paid) roles.

The analyses and disclosure requirements under the Dutch legislative proposal focus on equal pay – comparable pay levels for comparable jobs, which is different from the gender pay gap as disclosed under the UK legislation which represents the difference between the average (and median) wages of men and women, regardless of their seniority.

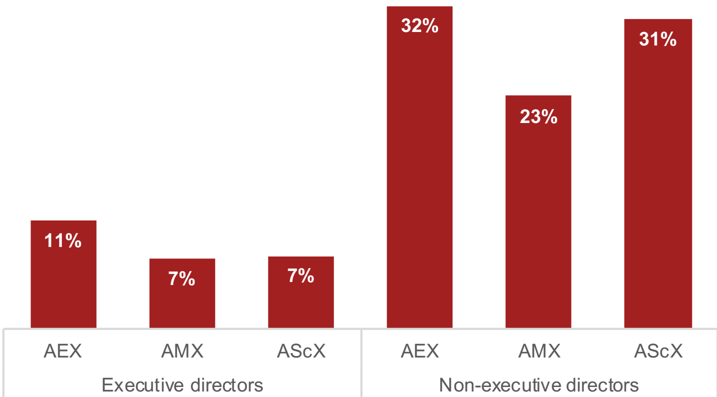
However, it is expected that such analyses will show similar results for Dutch companies in terms of the representation of women in senior roles within the organisation. Based on research of the 'Commissie Monitoring Streefcijfer Wet bestuur en toezicht', the percentage of women holding an executive director position in the Netherlands is currently 10.7%. For non-executive director positions it is 15%. Both numbers are far away from the desired 30% of female representation in Dutch boards.

## Relevant developments **Governance**

The average percentage of women in executive director and non-executive director positions for the AEX, AMX and AScX are displayed below.

The monitoring committee has expressed to advocate for an enforceable quota as of the year 2020. In the meantime, the committee recommends to increase focus on compliance with the legislation.

***Figure 12*** *Percentage of women in executive and non-executive positions*




**Pay fairness – how to act**
The internal pay ratio, the gender pay gap, equal pay for equal work and equal representation are all dimensions of fairness of pay.

As the disclosure requirements around fair pay increase, we recommend that companies develop a clear view of what dimensions of fairness are relevant to their business, workforce and culture.

The answers will be different for different companies and need to be supported by clear and proactive pay fairness reporting, which explains how fairness is viewed and measured, sets out plans to achieve these aims and tracks progress against objectives.

## Relevant developments **Governance**

### Amendment Dutch Works Council Act

On 12 June 2018, the legislative proposal amending the Dutch Works Councils Act has been adopted by Dutch parliament. This amendment to the Dutch Works Councils Act increases the authorities of Works Councils, and prescribes for a more transparent discussion between the Works Council and the shareholders about the compensation package of the board of directors. This comes on top of the obligation of the shareholder to inform Works Council in writing on the employment conditions and compensation package of the board of directors.

The amendment to the Dutch Works Councils Act is a response to the fierce, public debate around executive remuneration and the disproportionate differences in the development of compensation of the overall workforce. According to the Dutch government, disproportionate pay differences can lead to disturbed labour relations within a company. In order to prevent this, companies need to provide more transparency on the development of the internal pay ratios.

Works Councils of companies employing more than 100 employees and their owners/ shareholders must discuss the compensation of the board of directors annually. This mandatory meeting is intended to stimulate an upfront discussion around compensation and internal pay ratios as well as benefit the dialogue between the Works Council and owner/shareholders around objectives underlying the compensation of directors. Ultimately, the owners/shareholders of the company will determine the level of compensation, however the Works Council is an important stakeholder to take on-board.

### Shareholders' Rights Directive

On 20 May 2018, the European Parliament published a revision of the Shareholders' Rights Directive. This directive aims to further promote active and transparent shareholder engagement in EU listed companies to strengthening the shareholders 'say on pay'. The deadline for all EU Member States to implement the provisions of the directive in their national law is 10 June 2019. This means that the first disclosure requirements will apply to the remuneration report over 2019.

| June 2017 | June 2018 | June 2019 | June 2020 |
| --- | --- | --- | --- |
| Revised SRD in force as published by European Parliament | Standardised guidance for implementation expected | Deadline to implement SRD in national laws | Remuneration report over 2019 in line with SRD |

## Relevant developments **Governance**

**Regarding remuneration, the following topics are relevant:**

***Shareholders' right to vote on the remuneration policy***
Upon every material change and at least every four years, shareholders are entitled to give a binding vote on the remuneration policy at the general meeting of shareholders. EU Member States may provide for the vote to be advisory. In exceptional circumstances, it is possible to deviate from this rule, such as when it is necessary to serve the long-term interests and sustainability of the company as a whole or to serve its viability. In case the general meeting rejects the proposed policy, the company shall submit a revised policy to a vote at the following general meeting.

**Dutch governance situation**
As shareholders are already entitled to give a binding vote on the introduction of new remuneration policies or on significant changes to existing policies, the additional element in the Shareholders' Rights Directive is that companies need to put their remuneration policy up for a binding vote every four years.

***According to the directive, the remuneration policy has to meet the following requirements:***
- It should contribute to the company's business strategy, its long-term interests and sustainability, and it has to explain how it does so;
- It should be clear and understandable, and it has to describe the different components of fixed and variable remuneration;
- It should explain how the payment of the employees in the company has been taken into consideration when the remuneration of the directors was determined.

Immediately after shareholders' approval, the remuneration policy or the explanatory notes to this policy and the outcome of the shareholders' voting have to be published on the company's website.

***Remuneration report subject to advisory vote of shareholders***
The remuneration report has to provide at least a comprehensive overview of the remuneration, including all benefits in whatever form, awarded or paid to individual directors in the most recent financial year. But also the annual change in remuneration, the number of shares and share options granted, information on the use of the possibility to reclaim variable remuneration and on any deviations from the procedures as mentioned in the remuneration policy.

Just like the remuneration policy, the annual remuneration report has to be made public. The entire remuneration report must be available on the company's website for a period of 10 years.

In addition, EU Member States must provide for the annual general meeting to have a right to give an advisory vote on the remuneration report of the most recent financial year. Companies should explain in the remuneration policy how the votes of the annual general meeting are taken into account.

## Relevant developments **Financial services**

### Review Act on Remuneration Policies of Financial Undertakings ('Wbfo') and proposed additional measures

***The Dutch Minister of Finance presented the following key findings of the review of the effectiveness of the Wbfo to Dutch Parliament on 17 July 2018***

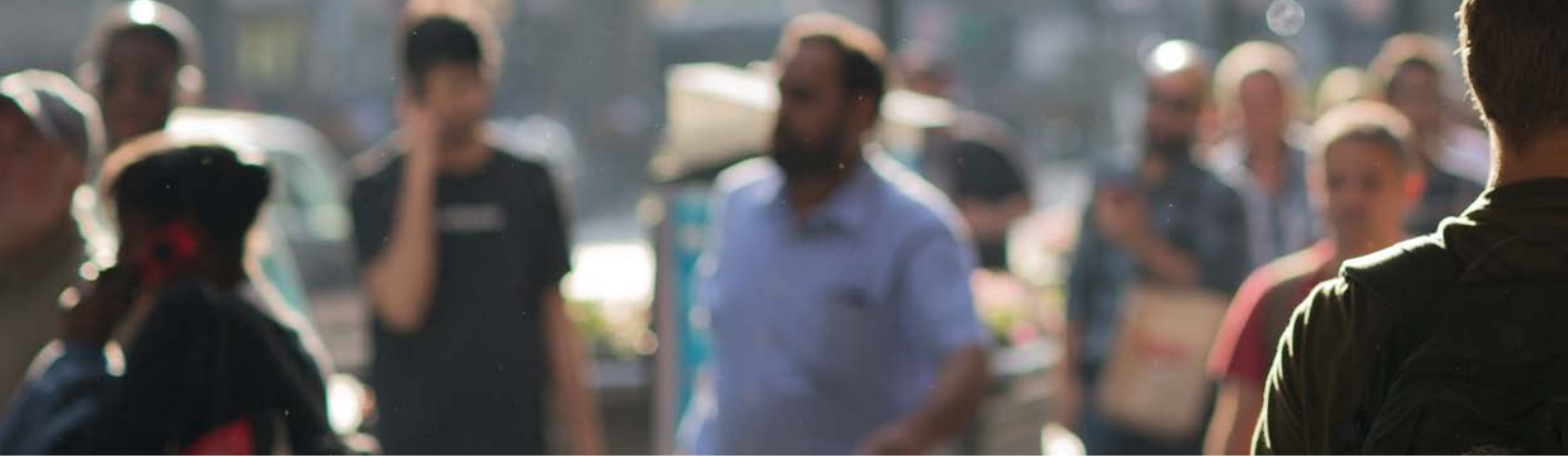
- The Wbfo will remain effective in its present form and will be reviewed again in five years in order to assess long(er)-term impact.
- A dialogue with the financial sector is proposed to discuss the application of the averaging out rule with the view to inform parliament on possible amendments by the end of 2018.
- A consultation is started on possible additional measures regarding fixed remuneration in the financial sector. In order to foster trust in the sector, it is investigated what additional measures are further required. Considered here are:

**1** ability to reclaim part of the fixed remuneration of board members in case of state aid;
**2** application of a retention period to shares or instruments awarded as part of fixed pay;
**3** the requirement for institutions to consider the societal impact and acceptability of the remuneration of board members and employees.

***Response of the financial sector***

***In August 2018, the financial has responded to the above via a memo of the Dutch Banking Association ('NVB') in which the banking sector clarifies and tightens its own Banking Code on the following points:***

- The Supervisory Board will explain how the expectations of shareholders, customers, employees and the society have been taken into account if remuneration proposals for the bank's Executive Board are on the agenda for the shareholders' meeting. This ensures that important stakeholders are involved in the process at an early stage.
- When, on the agenda for the shareholders' meeting of remuneration proposals for the bank's Executive Board, the Supervisory Board explains which reference group has been used for comparison and how the international context has been taken into account.
- All banks involve the executive vision on his/her own remuneration when formulating remuneration proposals for the director.
- All banks apply a remuneration policy for executives, whereby in case of payment of fixed remuneration in instruments (such as, for example, shares), a retention period of at least five years applies.
- All banks publish the internal pay ratios in the annual report.



## Relevant developments **Financial services**

***Possible broader implications and considerations***
Earlier this year it was discussed in the parliament whether to exclude the possibility of awarding shares as part of fixed remuneration. Not only has this proposal not been adopted, the use of shares and instruments as part of fixed remuneration is even explicitly addressed in the proposed consultation. However, the social acceptability when amending the compensation package with shares as part of fixed remuneration should be considered, even with a five-year retention period.

The requirement to consider social acceptability of the remuneration policy is consistent with current requirements already considered best-practice under the Dutch corporate governance code. As this is a difficult area given the many different stakeholders in society with different agendas, it can be considered to embed this in a broader pay fairness review that in addition to pay ratios also includes equal pay, equal opportunity and similar concepts. This to ensure a balanced view and discussion on the social acceptance of remuneration practices and support the substantiation of the executive vision on the executive remuneration.

### European Guidelines and Dutch improvements in suitability assessments for management bodies and key function holders

New joint European Guidelines by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) are in place by 30 June 2018 to ensure the suitability of the management bodies and key function holders. These Guidelines aim to harmonise and improve suitability assessments within EU financial sectors, and to ensure sound governance arrangements in financial institutions.

When appointing members of the management body, institutions should ensure that the members have the reputation, knowledge, experience and skills necessary to safeguard proper and prudent management of the institution.

These joint Guidelines specify the notions of (a) sufficient time commitment, (b) adequate collective knowledge, skills and experience, (c) honesty, integrity and independence of mind, (d) adequate human and financial resources for induction and training of members of the management body and (e) diversity, which is to be considered in the selection process.

In addition, the Authority for the Financial Markets (AFM) and the Dutch Central Bank (DNB) have taken steps to further improve the suitability review process for the Netherlands. They have started a pilot in which external experts will be involved in the suitability review process. The external experts have been appointed to improve independence, professionalism and support for the assessment process of directors as the institutions are partly responsible for promoting diversity in the sector. The new European guidelines give institutions extra direction about how this can be considered.

## Relevant developments **Financial services**

The figures below show that currently, the knowledge and skills are not balanced for both executive directors and non-executive directors. Technology and governance are still underrepresented while digital development has increased in importance in most strategies and governance requirements have been expanded.

*tain expertise*

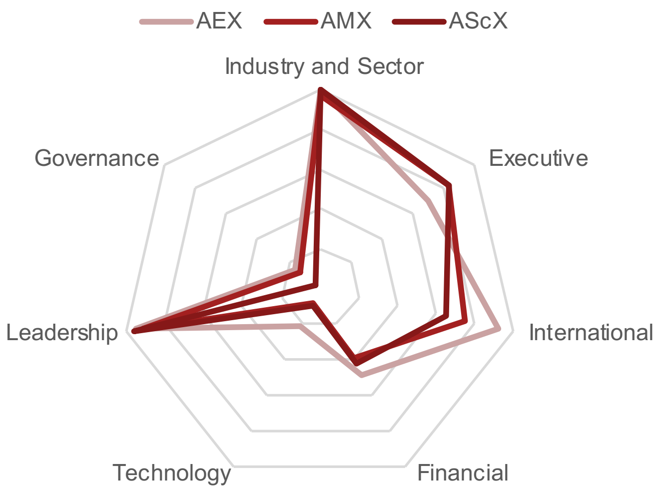
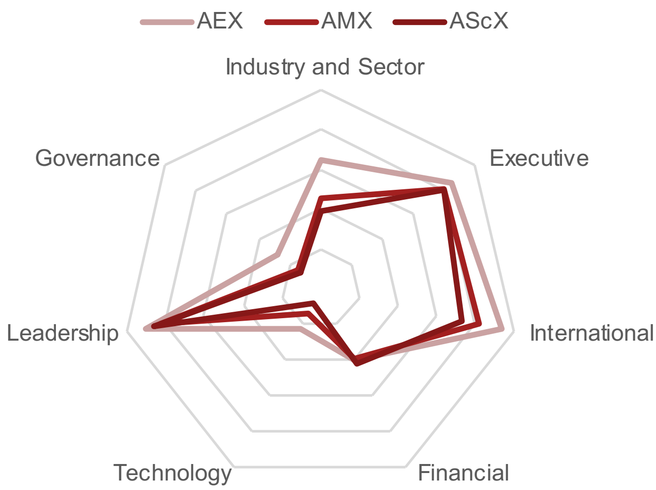



***Figure 14*** *Percentage of non-executive directors of AEX, AMX and AScX companies with a certain expertise*



Relevant developments **Tax and accounting**

### Accounting update – amendments to IFRS 2

As indicated earlier in this survey, the vast majority of the LTI plans operated by Dutch listed companies are equity-based plans. Accordingly, these plans are for accounting purposes in scope of IFRS 2, Share-based Payment. In 2016, the International Accounting Standards Board issued a narrow-scope amendment to IFRS 2. The effective date of this amendment is 1 January 2018, subject to EU endorsement, which took place on 26 February 2018.

The amendment to IFRS 2 clarifies (i) the accounting for cash-settled share-based payment transactions that include a performance condition; (ii) the classification of share-based payment transactions with net settlement features; and (iii) the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

In practice, we believe the amendment relating to share-based payment arrangements with net settlement features will have the most significant impact. This amendment is relevant when (i) the statutory tax-withholding obligation is determined by law and (ii) a company deducts a number of shares with a monetary value equal to this withholding obligation from the total number of vested or exercised shares. When using such a net settlement, the company pays the amount withheld to the tax authorities from its own cash while the arrangement remains classified and reported as equity settled. Prior to the amendment to IFRS 2, such a net settlement affected the accounting since any portion of an award not settled in shares had to be classified and reported as cash-settled.

The amendment is introduced to reduce the operational complexity and avoid undue burden when applying the requirements of IFRS 2. Prior to the amendment, companies usually were required to operate a “sell-to-cover” arrangement in order to achieve classification of the total awards as equity-settled. When using sell-to-cover, the total number of shares is transferred to the employee upon vesting/exercise of an award but sufficient shares are then sold on the market on behalf of the employee to cover taxes.

A net settlement procedure is easier to operate than a sell-to cover procedure. After implementation of the amendment to IFRS 2, a company can use net settlement and still classify the total arrangement as equity-settled. This means that the share-based payment expenses for the total arrangement will be based on the grant date fair value of an award also when net settlement is used.

For companies that have recognised a liability related to awards with net settlement features, the application of the amendment will not affect the income statement since the liability at the application date is reclassified to equity without any adjustment.

## Relevant developments **Tax and accounting**

### Tax position of Non-Executive Directors and Supervisory board members

In the past, supervisory board members and non-executives were deemed to have an employment relationship with the company. The listed company was obliged to withhold Dutch wage tax and social security contributions, if due.

As from 1 January 2018, the Dutch wage tax act is clear: supervisory board members as well as non-executive board members of listed companies are not considered to have an employment relationship with the company. As a consequence, there is no withholding obligation for the company to withhold Dutch wage tax and social security contributions. This change may have impacted the payment of fees, the withholding obligations for the company and, possibly, the taxation of the board fees. With this amendment in the law, supervisory board members and non-executive directors are treated equally.

There is a possibility for the non-executive (and supervisory board) members to continue to be treated as (deemed) employees for Dutch wage tax purposes. It is recommended to opt for this treatment if a non-executive director/supervisory board member benefits from certain tax free reimbursements, like the 30%-ruling. If opted, the company needs to withhold Dutch wage tax (and social security contributions, if due).

This change should not have affected the VAT position of the supervisory board members. Supervisory board members who are resident in the Netherlands, continue to qualify as Dutch entrepreneurs. Hence, VAT obligations continue to exist for registration, invoicing and administrative purposes. If the supervisory board members are non-residents of the Netherlands, they need to consider the VAT rules in both the Netherlands and in their home country.

We recommend investigating the individual tax, social security and VAT position of the non-executives and discuss the potential consequences.

*Table 6 Overview withholding obligations for director positions*

| Board structure | Director position | Withholding obligation |
|---|---|---|
| One-tier board | Executive director | Yes |
| | Non-executive director | No |
| Two-tier board | Board member | Yes |
| | Supervisory board member | No |


Technip

# *Appendix*

## *Companies included in this survey*

*The companies included in this publication is based on the March 2018 Euronext listing of AEX, AMX and AScX companies, which comprises of 75 companies. The analyses presented are based on information as disclosed in Annual Reports and Remuneration Reports over 2017. Companies with insufficient remuneration disclosures for a specific topic were excluded from the analysis for this topic. All data included in this presentation is publicly available and represents the full 12-month financial period.*

Aalberts Industries
ABN AMRO
Accell Group
Advanced Metallurgical Group
Aegon
Ahold Delhaize Koninklijke
Air France-KLM
Akzo Nobel
Altice
Amsterdam Commodities
Aperam
Arcadis
ArcelorMittal
ASM International
ASML Holding
ASR Nederland
Avantium
BAM Groep Koninklijke
Basic-Fit
BE Semiconductor Industries
Beter Bed Holding
BinckBank
Boskalis Westminster Koninklijke
Brunel International
Corbion
DSM Koninklijke
Eurocommercial Properties
Fagron
Flow Traders
ForFarmers
Fugro
Galapagos
Gemalto
GrandVision
Heijmans
Heineken
Hunter Douglas
ICT Automatisering
IMCD
ING Groep
Intertrust
Kas Bank
Kendrion
KPN Koninklijke
Lucas Bols
Nedap
NN Group
NSI
OCI
Ordina
Philips Koninklijke
PostNL Koninklijke
Probiodrug
Randstad
Refresco Group
RELX
Royal Dutch Shell A
SBM Offshore
Sif Holding
Signify
Sligro Food Group
Stern Groep
Takeaway.com
TKH Group
TomTom
Unibail-Rodamco
Unilever
Van Lanschot
Vastned
VolkerWessels
Vopak Koninklijke
WDP
Wereldhave
Wessanen
Wolters Kluwer


LA COUPOLE
LA COUPOLE
VENINI

# Read more

## *Remuneration practices and trends*

| Title and source | Country | Year of appearance |
|---|---|---|
| **ISS Proxy Voting guidelines 2018**<br>*https://www.issgovernance.com/file/policy/executive-summary-of-key-2018-updates-and-policy.pdf* | Global | 2018 |
| **Eumedion Uitgangspunten verantwoord beloningsbeleid**<br>*https://www.eumedion.nl/nl/public/kennisbank/aanbevelingen/2018-uitgangspunten-verantwoord-beloningsbeleid.pdf* | Netherlands | 2018 |
| **EU Shareholders' Rights Directive**<br>*http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018L0828* | EU | 2018 |
| **Executive directors report**<br>*https://www.pwc.co.za/en/assets/pdf/executive-directors-report-2018.pdf* | South-Africa | 2018 |
| **Executive Compensation & Corporate Governance Insights**<br>*https://www.pwc.ch/de/publications/2018/executive-compensation_17_part-01.pdf* | Switzerland | 2018 |
| **20th CEO Survey**<br>*https://www.pwc.com/gx/en/ceo-survey/2018/pwc-ceo-20th-survey-report-2018.pdf* | Global | 2018 |
| **Building trust through clear and candid reporting**<br>*http://www.pwc.co.uk/services/human-resource-services/insights/building-trust-through-clear-and-candid-reporting.html* | UK | 2016 |
| **Alternative remuneration structures for FTSE 250 and Small Cap companies**<br>*http://www.pwc.co.uk/services/human-resource-services/insights/alternative-remuneration-structures-in-ftse250-small-cap.html* | UK | 2016 |
| **The Investment Association Principles of Remuneration**<br>*https://www.ivis.co.uk/media/12445/Principles-of-Remuneration-2016-Final.pdf* | EU | 2016 |
| **Time to listen – Executive pay and inequality**<br>*https://www.pwc.co.uk/services/human-resource-services/insights/time-to-listen.html* | UK | 2016 |

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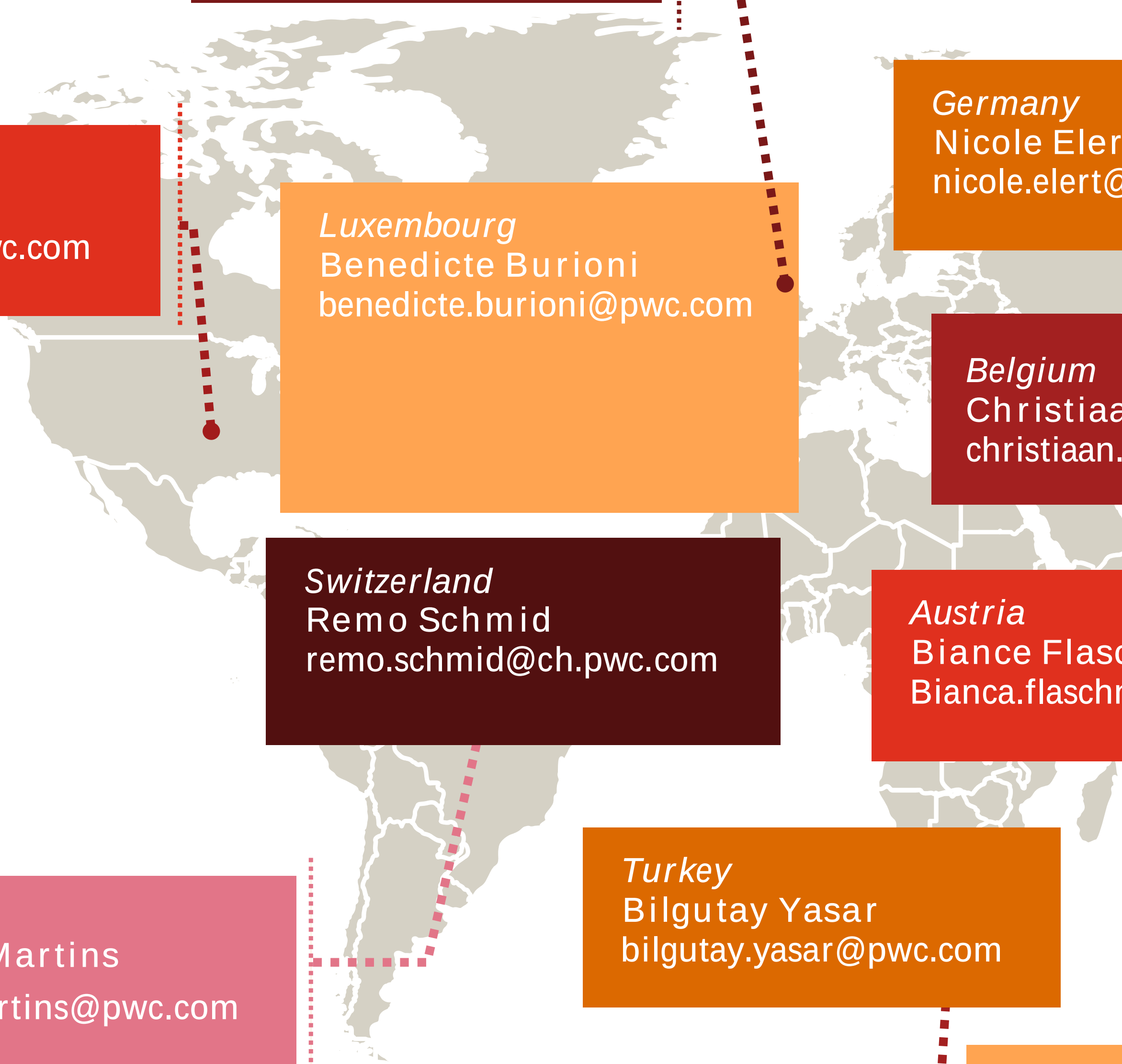

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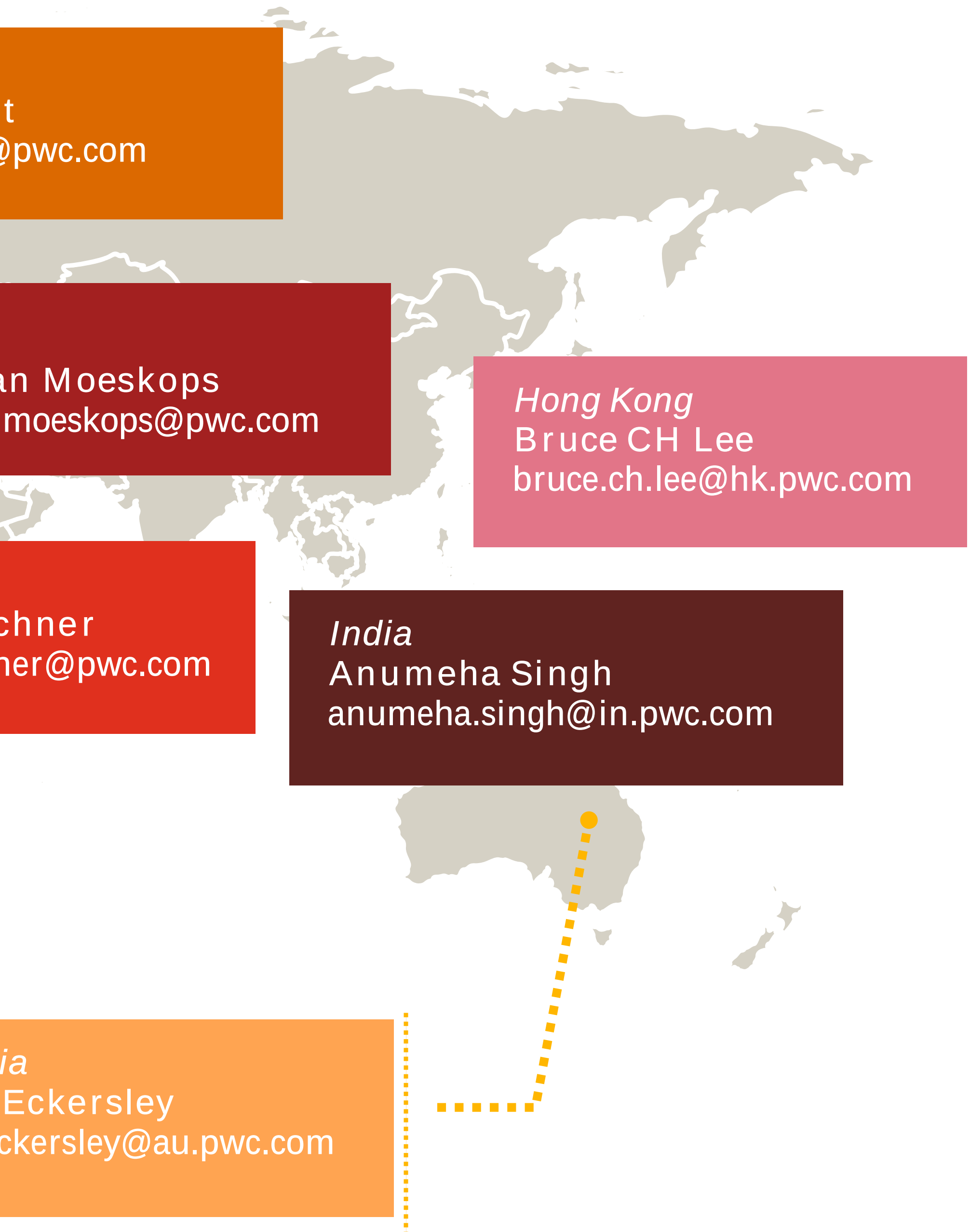


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