Six tips for better remuneration-related disclosures

By Shai Ganu, Market Business Leader – ASEAN Talent Consulting, Mercer

The corporate governance environment is changing dramatically and executive remuneration issues are being closely scrutinised by shareholders, proxy advisors and the business media. In light of this increased focus on executive pay practices, shareholders and regulators in Asia are demanding more comprehensive disclosure on the pay levels, compensation package designs, and performance assessments for key executives. However, shareholders often express concerns about the amount and clarity of information provided on this subject.

Here are six tips on how remuneration disclosures could be enhanced and, in doing so, satisfying or even going beyond corporate governance requirements.

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Tip 1: Letter from the Remuneration Committee Chairman to Shareholders

First and probably the easiest to implement, is a letter from the remuneration committee chairman to shareholders.

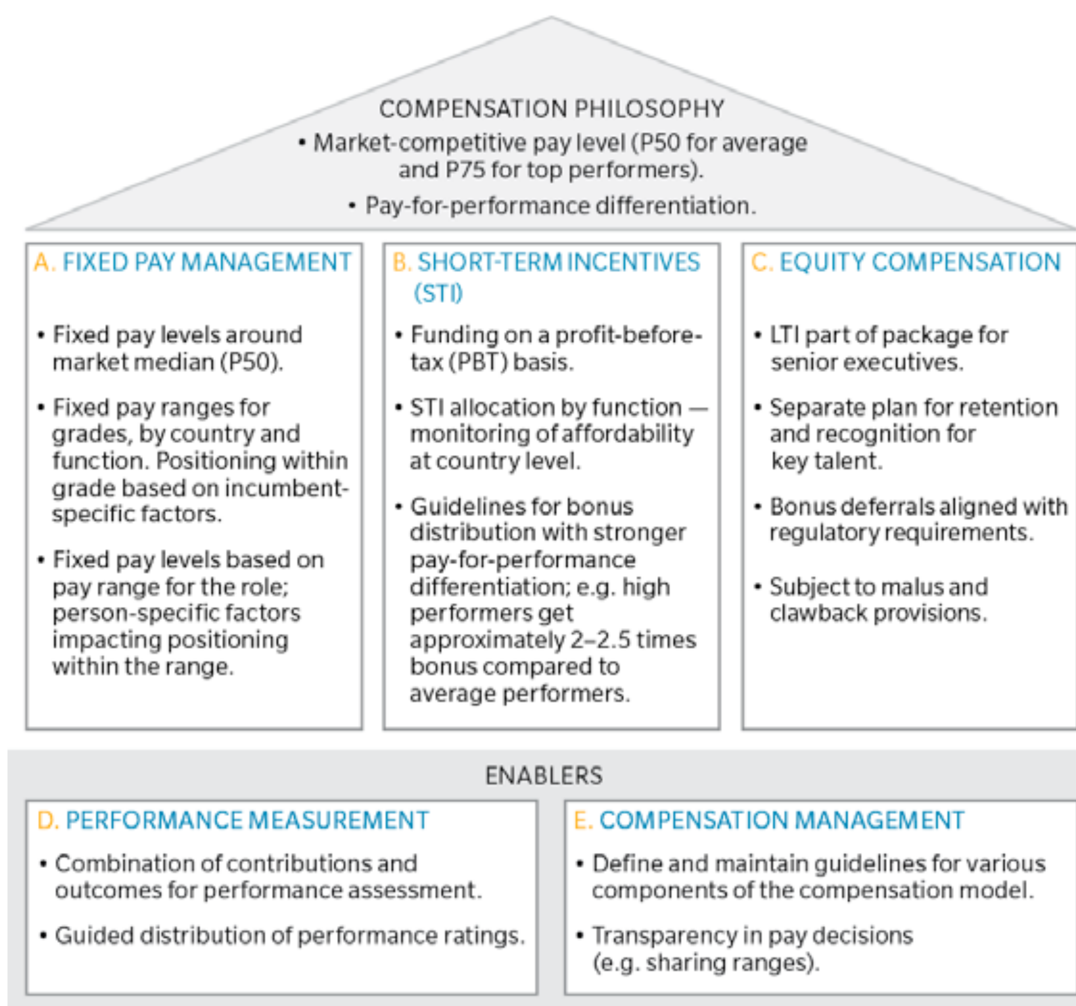
The opening remarks should introduce the remuneration report and provide shareholders with important information such as business context, executive remuneration, and the governance areas that the committee explored over the past year and likely focus areas for the next year. It should provide an overview of key decisions made during the year along with the rationale for any changes to the executive remuneration framework. This is also an opportunity for the board to reiterate to shareholders that it believes the current remuneration philosophy/framework is reasonable. Most shareholders are interested in knowing that the remuneration committee is actively monitoring executive remuneration.

Not only does such a letter add a personal touch, but it also sets the scene for reading the remainder of the remuneration report.

Tip 2: Discussion of the Company's Executive Remuneration Framework

Second – and this logically follows the committee chairman's comments – is a discussion on the company's executive remuneration framework. Most companies do this in some shape or form, but progressive companies provide detailed information on their remuneration philosophy – the role of each remuneration element and the package as a whole, plus how this is aligned to (or intended to drive) the company's business objective.

Discussion regarding the peer groups used for compensation benchmarking, the committee's assessment of the executive talent pool (that is, where they hire people from or lose people to), and the construction and execution of incentive arrangements all provide shareholders with a better understanding of the company's remuneration philosophy. This helps contextualise the numbers in the compensation disclosures section.



Tip 3: Disclosing Actual Compensation Levels for the CEO and Senior Executives

Third is the issue of disclosing actual compensation levels for the CEO and senior executives. Regulators in most jurisdictions suggest that companies should disclose pay levels for the CEO and at

least the top five executives. Progressive companies, however, disclose remuneration details for all key management personnel. There has been reluctance on the part of some companies to disclose individual executive remuneration, as it is deemed sensitive information. We believe that increased remuneration disclosures do not pose any commercial disadvantage; as such information is usually available through other channels anyway.

Based on Mercer's experience, the most important compensation driver from an executive's perspective is a sense of fairness (not greed, as is popular belief). Increased remuneration disclosure may actually help with the assessment of fairness – particularly if companies start disclosing actual take-home pay – which is the next point.

Tip 4: Disclosing Realised Pay

Fourth is the practice of disclosing realised pay. Under the accounting standards, companies are required to disclose the accounting values of certain pay components, such as equity-based payments. These accounting values usually reflect the probability of achieving future performance conditions and are not guaranteed. These values could be different to the amount actually vested that is available for the executive to spend (that is, realised pay).

Realised pay includes the executive's annual base salary, the cash component of the bonus plan paid out during the year (that is, non-deferred element), and the value of any equity that may have vested from prior years' awards. It is different from target pay levels, which are intended to indicate the earning opportunity if certain performance conditions are met. Companies are beginning to disclose realised or take-home pay for their senior executives, as this is more representative of what the executive actually earns each year. It also allows for better comparisons of pay and performance over a long period of time.

Realised-pay disclosures can also help quell perceptions of egregious pay levels, particularly in cases where the accounting disclosures are much higher than actual take-home pay. However, companies should carefully consider the implications of realised pay disclosures and maintain them in both good and bad years.

Monetary values in SGD	Fixed Remuneration (A)	STI cash payment (B)	STI outcome as percentage of target	Prior year equity awards vested (C)	Total (take home pay for the year) (A+B+C)
Chief executive officer Grace Kho	2,019,567	1,994,218	100%	577,020	**4,590,805**
Chief financial officer Jiawen Zheng	1,310,511	954,878	90%	425,122	**2,690,511**
Chief operating officer Kevin Ruiz	1,341,688	809,157	95%	340,210	**2,491,055**
Chief risk officer Shawn Shen	1,245,685	689,188	95%	324,398	**2,259,271**
Chief human resources officer John Luo	1,040,210	736,194	100%	175,348	**1,951,752**
Chief information officer Sonalika Tyagi	1,234,522	877,122	95%	257,131	**2,368,775**

Tip 5: Demonstrating Alignment between Pay and Performance

Fifth is demonstrating the alignment between pay and performance. While many companies claim that "pay for performance" is a foundation of their philosophy, it is important to understand where performance truly lies. Generally, shareholders want to understand two things: what impact the actions of the executive team had on the value of their shareholding; and whether they would have been better or worse off investing in a peer company instead. The remuneration report can help address these questions in the following ways:

- Better disclosure of key performance indicators (KPIs)
- Detailed peer comparisons of relative pay and performance
- Risk assessments
- Time-orientation of executive pay

Proxy advisors are increasingly using such pay-for-performance analyses to inform their voting decisions. Leading companies are being proactive and including these analyses in their remuneration reports.

Tip 6: Disclosure of Non-executive Director Fees

The last tip is regarding disclosures of non-executive director (NED) fees. While some companies disclose the base and committee fees paid to NEDs, only a few disclose the philosophy behind NED pay – for example, peer group for compensation benchmarking, desired positioning after considering the workload and reputational risks, delivery of fees via shares to help increase NED shareholding etc. In addition to total emoluments received by NEDs, leading companies also disclose the NED fee policy and target fees for chairing and membership of the board and committees. This helps in assessing the company's total cost of governance.

Conclusion

The above tips will help Asian companies improve the quality of their compensation disclosures — which can enhance the company's reputation as an organisation with robust corporate governance mechanisms. A good remuneration report is not necessarily the longest or the one that discloses the most information. Rather, it is more important to have the right disclosures in the right format, to set the context for shareholders, and to clearly demonstrate linkages to performance.

Implementing these tips will also help Asian companies satisfy, and in most cases exceed, the disclosure requirements included in their jurisdiction's listing rules or corporate governance codes. It is important to note that Asian countries follow the "comply or explain" approach rather than the legislative route adopted by some of their Western counterparts, which while difficult to enforce, does minimise the risk of unintended consequences.

In summary, we note that a lot of Western companies are a long way down some of these paths — however, there is room for improvement for Asian companies. A concise, well-structured report with the enhancements discussed in this article will go a long way toward bridging the gap, complying with regulatory requirements, and bolstering shareholder confidence regarding the governance of Asian companies. ■