



Non-Executive Directors' Fees: The State Of Play

By Jon Robinson, Managing Director, Freshwater Advisers Pte Ltd

Overview

In our article for the SID Directors' Bulletin – Issue No. 02/2012, we confidently predicted that “over the next two years, the fees paid by most Singapore listed companies to their non-executive directors will increase by twenty percent or more”. The results are now in and we can rate our forecasting ability. But first, a look at the current state of play.

An Update

We have reviewed and analysed disclosed fee information in 295 Singapore listed companies with a market capitalisation of over S\$100 million at the end of last year. The first, and most important, set of numbers concerns the amounts paid for years ending in 2012. Larger companies do tend to pay higher and it is helpful to look the figures in terms of company size

The first set of figures that we look at is the total cash fees paid to all directors. This is, essentially, the cost of

	Total Fees Paid in Cash			
	Large Cap (> S\$1 billion)	Mid-Cap (< S\$1 billion; > S\$300m)	Others (< S\$300m ; > S\$100 m)	All companies
Lower Quartile	314,014	171,875	159,625	174,375
Median	562,423	271,086	210,125	272,336
Upper Quartile	952,757	413,170	295,000	461,667

governance. Shareholders would want to be comfortable that they are not paying more than necessary but also be cognisant that if fees are low then they might get corresponding levels of care and oversight.

We have then assessed the average cash

fees paid to those directors who received them. From a director's perspective, these numbers are more relevant as they indicate whether a director is being paid fees at a level which is fair and reflects responsibilities and the amount of work expected.

Average Fees Paid in Cash				
	Large Cap (> S\$1 billion)	Mid-Cap (< S\$1 billion; > S\$300m)	Others (< S\$300m ; > S\$100 m)	All companies
Lower Quartile	56,796	44,026	36,816	40,964
Median	85,669	58,650	50,000	58,750
Upper Quartile	127,939	78,564	66,208	82,975

The median level of total fees paid in cash (i.e. not including equity or option grants) was S\$272,000 with the median average fee for each NED was S\$58,750.

Fees have continued to increase with the table below showing how 2012 fees have increased over 1 year and 3 years.

	Total Fee Increase			Average Fee Increase	
	1 yr	Avg 3 Yrs		1 yr	Avg 3 Yrs
Lower Quartile	0%	1% p.a.		-2%	1% p.a.
Median	3%	6% p.a.		2%	6% p.a.
Upper Quartile	14%	12% p.a.		16%	13% p.a.

The median rates of increase are in-line with general increases in salaries. However, the upper quartile increase is substantially higher. This indicates that companies have a tendency to give infrequent but large increases.

We have looked at market practices for

Value per NED	2009	2010	2011	2012
Lower Quartile	20,520	20,520	23,749	15,226
Median	35,454	36,112	36,248	32,536
Upper Quartile	67,600	94,162	48,746	58,751

some current issues:

Lead Independent Director

In many cases, companies will be appointing a lead independent director who, amongst other duties, will lead separate meetings of all the independent

directors. We expect that many companies will make a specific payment for this role. However, the practice on this has yet to fully develop.

Initial indications are that an additional fee will be paid to the lead independent with that fee being in the range 20-40% of base board fees.

Using Equity

Shares can be provided as an alternative to paying fees in cash or as an additional grant to recognise particular achievements. However, this practice is diminishing with only 11% of companies providing some form of equity to their non-executives. The median value of this equity is about half the median of average cash fees. Moreover, we have seen the value of equity grants generally declining.

Advance Approvals

Some companies ask their shareholders for advance approval of fees. This allows fees to be paid regularly through the year, typically quarterly after board meetings. The number of companies doing this has been consistently increasing and is now up to 31%.

So, how did our prediction turn out? Whilst fees have generally been increasing faster than in previous years, they did not reach our, with hindsight, bullish forecast. Over the last 2 years, only 28% of companies increased their average fees by 20% or more. The fundamental reasons for raising fees have not changed and we expect to see some catch up in 2013. This time, we won't make a bold forecast. However, we will continue to monitor practices and report our findings. ■