

# TRANSATLANTIC CORPORATE GOVERNANCE DIALOGUE

**The Realities of Stewardship for Institutional Owners, Activist Investors and Proxy Advisors**

Tuesday, 3 December 2013

Securities and Exchange Commission

Washington DC

## **Say-on-Pay: a European issuer point of view**

**Francesco Chiappetta**

**General Counsel**

**and head of general and institutional affairs**

**Pirelli**



# European framework

---

## COMMISSION RECOMMENDATION 2004/913/EC fostering an appropriate regime for the remuneration of directors of listed companies

- *“Each listed company should disclose a statement of the remuneration policy of the company (the remuneration statement). It should be part of an independent remuneration report and/or be included in the annual accounts and annual report or in the notes to the annual accounts of the company. The remuneration statement should also be posted on the listed company's website”.*

## COMMISSION RECOMMENDATION 2009/385/EC complementing Recommendations 2004/913/EC and 2005/162/EC as regards the regime for the remuneration of directors of listed companies

- *“Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration”*

# Contents of the remuneration policy in the European recommendations

---

- Explanation of the relative importance of the variable and non-variable components of directors' remuneration
- Sufficient information on the linkage between remuneration and performance and an explanation how the choice of performance criteria contributes to the long-term interests of the company
- An explanation of the methods applied in order to determine whether performance criteria have been fulfilled
- The main parameters and rationale for any annual bonus scheme and any other non-cash benefits
- Sufficient information on deferment periods with regard to variable components of remuneration
- Sufficient information on the policy regarding termination payments
- Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned
- Sufficient information on the performance criteria on which any entitlement to share options, shares or variable components of remuneration is based
- Sufficient information with regard to vesting periods for share-based remuneration
- Sufficient information on the policy regarding retention of shares after vesting
- A description of the main characteristics of supplementary pension or early retirement schemes for directors

# The 2012 EU Commission Action Plan on company law and corporate governance

---

- **Currently, not all EU Member States give shareholders the right to vote on remuneration policy and/or the report**, and information disclosed by companies in different Member States is not easily comparable
- **Shareholders should be able to express their views on the matter**, through a mandatory shareholder vote on the company's remuneration policy and the remuneration report, providing an overview of the manner in which the remuneration policy has been implemented

**The Commission has to propose in 2013 an initiative, through a modification of the shareholders' rights Directive, to improve transparency on remuneration policies and individual remuneration of directors, as well as to grant shareholders the right to vote on remuneration policy and the remuneration report**

# Say-on-Pay in European Countries

Country	Binding/Advisory	Legislation/Self-regulation
Belgium	Advisory	Legislation
Denmark	<b>Binding</b>	Legislation
France	Advisory	<b>Self-regulation</b>
Germany	Advisory	Legislation
▶ Italy	Advisory	Legislation
Netherlands	<b>Binding</b>	Legislation
Norway	<b>Binding</b>	Legislation
Spain	Advisory	Legislation
Switzerland	<b>Binding</b>	Legislation
United Kingdom	Binding	Legislation

SAY-ON-PAYS AS A GOOD APPLICATION  
OF THE  
“**RISK-POWER PROPORTIONALITY**”  
PRINCIPLE

1. The shareholder vote does not impact “directly” on the managing of the company
2. Better Managers'-Shareholders' interests alignment

# The lesson from Say-on-Pay experience for an issuer

---

It does not matter:

- if it's an advisory vote or a binding vote but rather that the vote exists at all
- if it's a legislative provision or a self-regulation provision
- whatever the companies ownership model is

**It is crucial «to listen» to the market applying  
“Best practices” and, consequently, making securities  
more “attractive”**

# The Italian experience

---

- In 2012, the advisory vote on the Remuneration Policy was introduced by law
- In the first two years of application:
  - All the remuneration policies were approved by the AGM
  - The majority of foreign institutional investors voted against the remuneration policies of 1/3 out of the 30 largest market cap companies
  - In 2012, ISS voting instruction was “vote for” for 12 out of the 30 largest market cap companies
  - In 2013, ISS voting instruction was “vote for” for 19 out of the 30 largest market cap companies
  - In 2012, the approval rate of Pirelli’s Remuneration Policy was 83%
  - In 2013, the approval rate of Pirelli’s Remuneration Policy was 99%



Company	ISS 2013	% vote for	ISS 2012	% vote for
A2A	Against	93,0%	Against	89,9%
Ansaldo	For	94,1%	For	98,4%
Atlantia	Against	78,2%	Against	86,8%
Autogrill	For	99,7%	For	99,0%
Campari	Against	84,6%	Against	85,6%
CNH Industrial	Against	60,3%	Against	60,8%
Enel	For	96,3%	Against	76,7%
Enel G.P.	For	99,6%	Against	96,3%
ENI	For	96,2%	For	92,6%
Exor	For	96,6%	For	96,9%
FIAT	Against	73,2%	Against	73%
Finmeccanica	For	88,3%	Against	73,5%
Generali	Against	86,0%	For	82,4%
Intesa Sanpaolo	For	93,4%	For	96,2%
Lottomatica	Against	85,4%	Against	91,7%

Country	ISS 2013	% vote for	ISS 2012	% vote for
Luxottica	For	97,4%	Against	93,8%
Mediaset	For	99,0%	For	99,5%
Mediobanca	n.a.	84,1%	For	97,9%
Mediolanum	Against	93,8%	Against	95,0%
Montepaschi	Against	91,7%	Against	89,7%
Parmalat	For	99,5%	For	99,6%
Pirelli	For	98,6%	Against	83,1%
Prysmian	For	95,6%	For	99,0%
SAIPEM	For	92,0%	Against	79,6%
SNAM	For	96,5%	For	99,2%
Telecom Italia	Against	67,9%	Against	67,8%
Terna	For	96,1%	Against	81,4%
Tod's	For	97,2%	Against	88,0%
Unicredit	For	91,8%	For	96,0%
Unipol	Against	93,6%	Against	98,0%

# Conclusions

---

What will be important in the near future :

- an **effective enforcement of the Remuneration Policy**
- to **strengthen the transparency**: the single specific targets, related weights and the pay mix should be clearly disclosed to the market.