



Remuneration Governance

SAPA Breakfast

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Outline

1. What is remuneration governance?
2. Remuneration as a system
3. Why is remuneration governance important?
4. What are the remuneration governance requirements?
5. Guidance on next steps
6. In summary
7. Closing comments

What is remuneration governance?

- ▶ Oxford dictionary definition of governance
 - ▶ “*governing, control.*”
- ▶ Good governance is effectively about leadership
- ▶ Leadership is characterised by the ethical values of
 - ▶ Fairness
 - ▶ Accountability
 - ▶ Responsibility
 - ▶ Transparency
- ▶ Internal and external perspective

What is remuneration governance?

- ▶ Corporate governance mainly involves the establishment of structures and process that enable directors to discharge their responsibilities
- ▶ Remuneration can be seen as one of the many systems to help in this
- ▶ Remuneration governance can therefore be seen as a system that sees that the design and operation of reward programmes occur as intended, for the whole firm, so that desirable outcomes (pay practices) are achieved

Remuneration as a system

- ▶ Companies are too large to be managed solely by the direct knowledge and action of senior executives
- ▶ Systems inform senior management and governing bodies of the position and activities of the organisation
- ▶ A reward system helps management set employee incentives to steer the organisation toward the pursuit of profit, and other goals, within the selected risk appetite

Remuneration as a system



Remuneration as a system



Why is remuneration governance important?

- ▶ Financial crisis?
- ▶ Unequal society
- ▶ Stakeholder frustration - more inclusiveness required
 - ▶ Shareholders
 - ▶ Government
 - ▶ Public at large
 - ▶ Employees
 - ▶ Unions
- ▶ Pay programmes too aggressive
 - ▶ Challenge: Keeping the business out of trouble
 - ▶ Opportunity: making the business better

What are the requirements?

- ▶ KING III
- ▶ Companies Act, 2008
- ▶ JSE listing requirements
- ▶ IFRS
- ▶ Industry specific

What are the requirements? KING III principles

1. Explain how applied, and if not the reasons
2. Principles override specific practices/rules
3. Applies to all entities
4. Effective for years ending on or after 28 February 2011
5. Principles, recommendations, and practice notes

What are the requirements?

KING III

#1 2.25: “Companies should remunerate directors and executives fairly and responsibly”

- ▶ Base pay & bonuses
- ▶ Employment contract, severance and retirement benefits
- ▶ Share based and other long term incentive schemes

What are the requirements?

KING III, cont'd

#2 2.26 “Companies should disclose the remuneration of each individual director and certain senior executives”

- ▶ Details as required in the Act

What are the requirements?

KING III, cont'd

#3 “Shareholders should approve the remuneration policy”

- ▶ “Say on pay”
 - ▶ UK since 2002
 - ▶ US last year (every three years?)
- ▶ Presumption
 - ▶ Informed → Engaged → Active

What are the requirements?

KING III, cont'd - Remuneration report

- ▶ Remuneration policies
- ▶ Salary and benefits to directors and three highest paid
- ▶ Use of benchmarks
- ▶ Policy on executive employment contracts
- ▶ Salaries above the median
- ▶ Material ex gratia payments
- ▶ Incentive schemes and employment contracts
- ▶ Mix of fixed and variable payments and link to KPIs
- ▶ Above average increases
- ▶ Dilution from share based payments

What are the requirements?

The Companies Act, 2008

- ▶ Disclosure requirement
 - ▶ Section 30(4) in the annual financial statements
 - ▶ Only if audited
 - ▶ Prescribed officer
 - ▶ For each individual director or prescribed officer
- ▶ Approval requirements
 - ▶ Section 66(9): special resolution, approved by shareholders within the last 2 years (fees for services as director)
 - ▶ Section 41: Shareholder approval for issuing certain shares
- ▶ Effective 1 May 2011
- ▶ No transitional arrangements

What are the requirements?

The Companies Act, 2008, cont'd

- ▶ Prescribed officer: Regulation 38
 - ▶ Exercises general executive control over and management of the whole or a significant portion of the business and activities of the company, or
 - ▶ Regularly participates to a material degree in the exercise of general executive control over and management of the whole or a significant portion of the company
 - ▶ Irrespective of any given title

What are the requirements?

The Companies Act, 2008, cont'd

Disclosure requirement - annual financial statements

- ▶ Remuneration and benefits received
- ▶ Expense allowances
- ▶ Pensions payouts
- ▶ Pension contributions
- ▶ Compensation for loss of office
- ▶ Number , class and value of securities issued and consideration received
- ▶ Details of service contracts
- ▶ Financial assistance

What are the requirements?

JSE Listing Requirements

- ▶ Schedule 14: Share schemes
 - ▶ Shareholder approval
 - ▶ Required provisions
- ▶ Statement in the financial statements
 - ▶ How principles have been applied
 - ▶ Extent of compliance
 - ▶ Reasons for non-compliance

Summary of the frameworks

	Entity Type	
	Listed	Unlisted
KING III	√	√
Companies Act	√	X ₁
JSE Listing requirements	√	X

Notes

1. Unless audit required in terms of MOI

Guidance on next steps

Step 1: Determine your requirements (What and when)

- ▶ Listed
 - ▶ KING III
 - ▶ Companies Act 2008
 - ▶ JSE Listing requirements
 - ▶ Memorandum of incorporation
- ▶ Unlisted and audited?
 - ▶ KING III
 - ▶ Companies Act

Step 2: Build a team/work with your existing initiatives

1. Remuneration committee/Chairman
2. Company secretary
3. CFO (Integrated Reporting)

Guidance on next steps

Step 3: Decide on response: “Apply or explain”

- ▶ Are you consistent with KING III principles, e.g.
 - ▶ Do your NEDs receive share options?
 - ▶ Does your remuneration policy link into your strategic objectives?
 - ▶ Do you fully disclose remuneration as required?
 - ▶ Is your annual bonus plan linked to performance objectives that create long term value for shareholders?

Step 4: Source the data

- ▶ Ensure your rem system is in place and responsive

In summary

- ▶ KING is aspirational
- ▶ Journey
- ▶ What's really new?
 - ▶ Reporting: Remuneration report
 - ▶ Pay disclosure: “Prescribed officer”/“three highest paid”
 - ▶ “Say on pay”
 - ▶ Active stakeholder engagement
 - ▶ Good specific guidance on pay especially share schemes

Closing comments

- ▶ Danger of standardising pay plans with “say on pay”?
- ▶ Do you reflect sustainability in your reward structures?
- ▶ The ultimate compliance officer is the public
- ▶ Governance (form) over substance?
- ▶ Assurance of the remuneration report?

Closing comments

- ▶ Need a more robust performance management system
- ▶ Be more transparent not just about pay
 - ▶ Have broader conversations with your people
- ▶ Wholly owned subsidiaries?
 - ▶ Foreign holding company
 - ▶ Local holding company

Closing comments

