



ICGN

International Corporate Governance Network

ICGN Non-executive Director Remuneration Guidelines and Policies

Published by the International Corporate Governance Network
16 Park Crescent
London W1B 1AH UK

© International Corporate Governance Network 2010

All rights reserved. Dissemination of the contents of this paper is encouraged. Please give full acknowledgement of the source when reproducing extracts in other published works.

ICGN, the contributors and the editor of this publication accept no responsibility for loss occasioned by any person acting or refraining from action as a result of any views expressed in these pages. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN 978-1-907387-02-9

ICGN Non-executive Director Remuneration Guidelines and Policies

About ICGN

The ICGN is a global membership organisation of around 470 leaders in corporate governance based in 45 countries with investors collectively representing funds under management of around US\$9.5 trillion. Our mission is to raise standards of corporate governance worldwide and the breadth and expertise of ICGN members from investment, business, the professions and policymaking extends across global capital markets. To join the ICGN and share your experiences with fellow decision-makers in corporate governance, contact the ICGN Secretariat by telephone: +44 (0) 207 612 7098 or email: Secretariat@icgn.org. For more information, visit www.icgn.org.

Preamble

Institutional investors have both a fiduciary responsibility and an economic interest in ensuring that non-executive director remuneration is well aligned with their interests. The ICGN maintains current and relevant guidelines (ICGN Remuneration Guidelines, 2006) regarding the process of director remuneration and related policies. These include key policy and design features to help communicate investors' perspectives on this critical issue. These new guidelines are primarily addressed to companies and their non-executive board members, and set out key remuneration principles which are recommended to be applied by companies regardless of their domicile. Since remuneration policies are set by the board, it is important that they be transparent, address shareholder expectations, and those setting them be held accountable.

The ICGN Non-executive Director Remuneration Guidelines and Policies have been developed by the ICGN Remuneration Committee in consultation with ICGN members. A consultation paper on the subject was sent to ICGN members for comment and a wide range of responses were received.

There was further consultation at a meeting of the ICGN Remuneration Committee with ICGN members at the 2009 ICGN Annual Conference and AGM in Sydney, Australia. ICGN members attending the AGM voted to approve the draft document, after which the final draft was ratified by the membership by email in November 2009. In March 2010, the ICGN Non-executive Director Remuneration Guidelines and Policies was published and launched at an ICGN conference in London, UK.

Contents

	Page
1.0 ICGN Guidance on Non-executive Director Remuneration	6
1.1 Introduction and purpose	6
1.2 Transparency	8
1.3 Accountability	9
1.4 Alignment	9
2.0 ICGN Policies on Non-executive Director Remuneration	10
2.1 Retainer / Annual Director Fee	10
2.2 Equity-based remuneration	10
2.3 Transparency	12
2.4 Performance-based remuneration	12
2.5 Perquisites	12
2.6 Re-pricing and exchange programmes	12
2.7 Employment contracts, severance and change of control payments	12
2.8 Retirement arrangements	12
2.9 Disgorgement	13
Annex 1: Acknowledgements	14
Annex 2: Contact	15
Annex 3: Other ICGN Best Practice Guidance	15

1.0 ICGN Guidance on Non-executive Director Remuneration

1.1 Introduction and purpose

The purpose of this section is to set out the ICGN's guidelines and key principles related to remuneration of non-executive directors of companies with a one-tier board structure, and to the extent the guidance is compatible with local regulation, companies with a two-tier board structure.

Given the vital importance of the responsibilities assigned to non-executive directors, the ICGN expects that they will devote significant time to their boardroom duties. Non-executive directors' primary role is to bring an independent view and oversight of the corporation on whose board they sit.

Three principles underpin these guidelines: **transparency**, so investors can clearly understand the programme and see total remuneration for non-executive directors; **accountability**, to ensure that boards maintain the proper alignment of interests in representing owners; and **alignment** of interest between non-executive directors and shareowners. The cornerstone of

non-executive director remuneration programme should be alignment of interests through the attainment of significant equity holdings in the company meaningful to each individual director.

The ICGN believes that policy issues related to non-executive director remuneration are fundamentally different from executive remuneration. The ICGN is supportive of non-executive director remuneration policies that accomplish the following goals:

- 1) Attract highly qualified candidates;
- 2) Retain highly qualified directors;
- 3) Align directors' interests with those of the long-term owners of the corporation;
- 4) Provide complete disclosure to shareowners regarding all components of director remuneration including the philosophy behind the program and all forms of remuneration; and
- 5) Provide for long-term stewardship of the corporation.

To accomplish these goals, non-executive director remuneration should consist solely of a combination of a cash retainer and equity-based remuneration. The ICGN does not support the use of options or option-like equity remuneration for non-executive directors.

The cornerstone of non-executive director remuneration programmes should

be alignment of interests through the attainment of significant equity holdings in the company meaningful to each individual director. The ICGN believes that equity obtained with an individual's own capital provides the best alignment of interests with other shareowners. However, remuneration plans can provide supplemental means of obtaining long-term equity holdings through equity remuneration, long-term holding requirements (defined as a specified holding period for all equity awards) and ownership requirements (defined as a specified level of ownership).

The ICGN believes that companies should have flexibility within certain broad policy parameters to design and implement non-executive director remuneration plans that suit their unique circumstances. To support this flexibility, investors must have complete and clear disclosure of both the philosophy behind the remuneration plan as well as the actual remuneration awarded under the plan. Without full disclosure, it is increasingly difficult to earn investors' confidence and support for remuneration plans, including both non-executive director and executive plans.

Although non-executive director remuneration is generally immaterial to a company's bottom line and small relative to executive pay, the ICGN believes that non-executive director remuneration

is an important aspect of a company's governance. Because director pay often is set by the board and has inherent conflicts of interest, care must be taken to ensure there is no appearance of impropriety. Companies should pay particular attention to managing these conflicts.

As with the ICGN Remuneration Guidelines (2006) for executives, these guidelines are primarily addressed to companies and their non-executive board members, and set out key remuneration principles which should be applied by companies regardless of their domicile. They cannot address every issue related to remuneration. Rather, they reflect the overall policy and philosophical approach to remuneration that leading institutional investors and their associations expect from companies. In this regard, the guidelines set out general principles that reflect best international practice. They should be applied pragmatically, taking into account the specific circumstances of each company and the economic and legal environment in which it operates.

The ICGN's guidelines are intended to serve as a communication tool from investors to companies in any domicile and any industry. Remuneration programmes should be carefully designed and implemented with the unique situation of each company in mind, which may reflect cultural and economic differences in various markets. However, certain broad

principles and guidelines are universal. Within this framework, the need for flexibility to tailor remuneration programmes to meet the challenges and opportunities each company faces is recognised. With this flexibility, it is incumbent upon the company to properly structure a remuneration committee, develop and implement processes for setting remuneration programmes, and provide full disclosure of remuneration programmes, including all aspects ranging from the philosophy to details of individual non-executive director pay elements. In cases where local practice may differ from ICGN guidelines, companies are recommended to take extra care to disclose why their non-executive remuneration philosophy and practice differs, and how their programme provides appropriate alignment with long-term owners.

1.2 Transparency – Proxy statements

Tabular disclosure

Companies should provide comprehensive and clear disclosure describing the Non-executive Director Remuneration Plan. The ICGN suggests tabular disclosure as a means to easily summarise the components of the remuneration plan and demonstrate total pay. To accomplish this, annual proxy statement disclosure

should include a table covering a multi-year period with columns valuing each component of remuneration paid to each director during the previous year. The table should also include a column estimating the total value, including the grant date present value of equity awards during the applicable periods, and any other relevant information. The table should include the number of board meetings and committee meetings attended by the director. Upon nomination of new board candidates, companies should also provide information of proposed non-executive director's equity holdings broken down by the shares to be bought by the candidate and the shares granted by the company, if any.

Remuneration Committee Report

The annual director remuneration disclosure included in the proxy and or other appropriate disclosure materials should include a discussion of the philosophy for non-executive director pay and the processes for setting non-executive director pay levels. Reasons for changes in non-executive director pay programmes should be explained clearly, with emphasis on why the new structure provides the best alignment with long-term owners. Peer groups used to compare non-executive director pay packages should be fully disclosed, along with differences, if any, from the peer groups used for executive pay or other

measurement purposes. While the ICGN recognises the value of peer analysis, we do not believe that peer-relative justification should dominate the rationale for higher pay levels. Rather, remuneration programmes should be appropriate for the circumstances of the company.

1.3 Accountability – Remuneration Committee

The Remuneration Committee (or alternative committee comprised solely of independent directors) is responsible for structuring non-executive director pay, subject to approval of all the independent directors, so that it is aligned with the long-term interests of shareowners. The unique fact that non-executive directors often are setting their own remuneration necessitates additional emphasis on the following practices.

- Total remuneration review: The remuneration committee should understand and value each component and annually review total remuneration potentially payable to each non-executive director.
- Outside advice: Committees should have the ability to utilise a remuneration consultant for assistance on non-executive director remuneration plans. In cases

where the committee does utilise a consultant, it should always retain an independent remuneration consultant or any other advisors as deemed appropriate to assist with the evaluation of the structure and value of non-executive director remuneration. A clear summary of the pay consultant's advice may be provided in the annual proxy statement in an effort to enhance disclosures. The remuneration committee should disclose all instances where the consultant is also retained by the committee to provide advice on executive remuneration. In no circumstances should the committee utilise a consultant for non-executive director or executive remuneration who is also retained by management.

1.4 Alignment – Shareowner approval

Some legal rules or listing standards require shareowner approval of remuneration packages and/or of equity-based remuneration plans and material amendments to plans (with limited exceptions). The ICGN strongly supports this concept and advocates that companies adopt conservative interpretations of approval requirement when confronted with choices. For example, this may include material amendments to the plan.

2.0 ICGN Policies on Non-executive Director Remuneration

The following sections provide the ICGN policy positions on specific components of non-executive director remuneration.

2.1 Retainer / Annual Director Fee

The annual retainer or fee should be the preferred form of cash remuneration paid to non-executive directors. Ideally, it should reflect an amount appropriate for a director's expected duties, including attending meetings, preparing for meetings and performing due diligence on operations (which should include routine communications with a broad group of employees.) The ICGN recognises that in some combination, the retainer or fee and the equity component combined also reflect the director's contribution from experience, quality of input, and leadership.

The ICGN does not favour meeting attendance fees, whether for board meetings or committee meetings, since meeting attendance is the most basic expectation of a non-executive director. In cases where companies provide meeting attendance fees, the role of these fees within the remuneration programme should be clearly disclosed.

Retainer or fee amounts may be differentiated to recognise that certain non-executive directors, possibly including independent board chairs, independent lead directors, committee chairs or members of certain committees, are expected to spend more time on board duties than other directors.

The board should have a clearly defined attendance policy. In cases where the committee utilises any form of financial consequences (loss of a portion of the retainer or equity) as part of the director remuneration program, this should be fully disclosed. Financial consequences for poor attendance, while perhaps appropriate in some circumstances, should not be considered in lieu of examining the attendance record, commitment (time spent on director duties) and contribution as integral criteria in non-executive director performance and re-nomination decisions.

2.2 Equity-based remuneration

As part of annual remuneration, and to align non-executive director-shareowner interests, non-executive directors may receive stock awards. Equity-based remuneration to non-executive directors should be fully vested on the grant date, but still subject to applicable holding periods. This point is a marked difference to the ICGN's policy on executive remuneration which calls for performance-

based vesting of equity-based awards. While views on this topic have been mixed, the ICGN believes that the benefits of immediate alignment of interests with shareowners and the maintenance of independence and objectivity for the director are of primary importance.

Equity-based remuneration can be an important component of non-executive director remuneration. These tools are perhaps best suited to accomplish optimal long-term perspective and alignment of interests with shareowners. To accomplish this objective, non-executive director remuneration should contain an ownership requirement or incentive to build ownership through guidelines and minimum holding period requirements.

The ICGN suggests companies establish share ownership guidelines for non-executive directors, these may be stated as a multiple of annual remuneration as one example of a methodology. However, the ICGN is sensitive to situations where qualified non-executive director candidates may not have financial means to obtain immediate ownership thresholds. For this reason, companies may adopt unique approaches to providing either a minimum threshold for ownership or incentive to build ownership. This concept should be an integral component of the committee's disclosure related to the philosophy of non-executive director pay. It is appropriate

to provide a reasonable period of time for non-executive directors to meet ownership requirements or guidelines.

Separate from ownership requirements, companies should adopt holding requirements for a significant majority of equity-based grants. These policies should require that non-executive directors retain a significant portion of equity grants until a specified period following retirement from the board. Optimal alignment will be achieved with a multi-year holding period.

These policies should also prohibit the use of any transactions or arrangements that mitigate the risk or benefit of ownership to the non-executive director. These transactions and arrangements will inhibit the alignment of interests obtained from providing equity remuneration and ownership requirements. Companies should have procedures in place to monitor compliance with ownership requirements and prohibitions against hedging.

The ICGN does not advocate a specific split between equity-based and cash remuneration. Rather, companies should have the flexibility to set and adjust this ratio as may be appropriate for the circumstances. Accordingly, the rationale behind this decision is an important element of disclosures related to the overall philosophy of non-executive director remuneration.

2.3 Transparency

The grant date present value of equity awards paid to each director during the previous year and the philosophy and process used in determining non-executive director pay should be fully disclosed in the proxy statement.

2.4 Performance-based remuneration

While the ICGN is a strong advocate of performance-based concepts in executive remuneration, we do not support performance measures in non-executive director remuneration, including cash bonus schemes and equity vesting requirements. Performance-based remuneration for non-executive directors has significant potential to conflict with their primary role as an independent representative of shareowners.

2.5 Perquisites

Aside from meeting-related expenses such as air-fare and other transportation, hotel accommodations and modest insurance, directors should receive no other perquisites.

Health, life and other forms of insurance (not including D&O insurance), matching grants to charities, financial planning, automobile allowances and other similar

perquisites cross the line as benefits offered to employees. Charitable awards programmes are an unnecessary benefit; directors interested in posthumous donations can do so on their own via estate planning. Infrequent token gifts of modest value are not considered perquisites.

2.6 Re-pricing and exchange programmes

Under no circumstance should non-executive directors participate in or be eligible for share or option re-pricing or exchange programs.

2.7 Employment contracts, severance and change of control payments

Non-executive directors should not be eligible to receive any change-in-control payments or severance arrangements of any kind.

2.8 Retirement arrangements

Since non-executive directors are elected representatives of shareowners and not company employees, they should not be offered retirement benefits such as defined benefit plans or deferred stock awards nor should they be entitled to special post-retirement perquisites.

The ICGN does not object to allowing non-executive directors to defer cash pay via a deferred remuneration plan for directors. However, such investment alternatives offered under deferred remuneration plans for directors should mirror those offered to employees in broad-based deferral plans. Non-executive directors should not receive “sweeteners” for deferring cash payments into company stock.

2.9 Disgorgement

Non-executive directors should be required to repay remuneration to the company in the event of malfeasance or a breach of fiduciary duty involving the director.

Annex 1:

Acknowledgements

The ICGN is grateful to the members of the Remuneration Committee in developing the Non-executive Director Remuneration Guidelines. This includes:

Ted White (Chair), Knight Vinke Asset Management LLC, USA

David Anderson, The Anderson Group, Canada

Vincent Cappucci, Entwistle & Cappucci LLP, USA

George Diehr, CalPERS, USA

Sandy Easterbrook, CGI Glass Lewis, Australia

Hans-Christoph Hirt, Hermes Fund Management, UK

Catherine Jackson, Ontario Teachers' Pension Plan, Canada

Florian Schilling, Board Consultants International, Germany

Carl Rosén, ICGN, UK (ex-officio)

The ICGN would also like to thank members who responded to the ICGN consultation which helped in the development of these guidelines and policies:

Peter Butler, Governance for Owners (UK), John Colvin, Australian Institute of Company Directors (Australia), Catherine Jackson, Ontario Teachers Pension Plan (Canada), Mark Jobling, Association of British Insurers (UK), Aisha Mastagni, CalSTRS (USA), Gayle McDade & Peter Waite, Pension Investment Association of Canada (Canada), Selvarany Rasiah & Josephine Edward, Bursa Malaysia (Malaysia), Michael Robinson, Guerdon Association (Australia), Vegard Torsnes, Norges Bank Investment Management (Norway), Anthony Williams (UK), Christy Wood, formerly Capital Z Asset Management now ICGN Chairman (USA),

Annex 2: Contact

For more information about the work of the ICGN Remuneration Committee, please visit the ICGN website (www.icgn.org/advocacy/remuneration-committee) or contact Carl Rosén, ICGN Executive Director :

By email: Carl.rosen@icgn.org

By telephone: +44 (0) 207 612 7098

By post : ICGN, 16 Park Crescent, London, W1B 1AH

Annex 3: Other ICGN Best Practice Guidance

Other ICGN Best Practice guidance available:

- ICGN Global Corporate Governance Principles: Revised (2009)
- ICGN Statement and Guidance on Anti-Corruption Practises (2009)
- ICGN Statement and Guidance on Non-financial Business Reporting (2008)
- ICGN Securities Lending Code of Best Practice (2007)
- ICGN Statement of Principles on Institutional Shareholder Responsibilities (2007)

ISBN 978-1-907387-02-9



£25.00

INTERNATIONAL CORPORATE GOVERNANCE NETWORK

16 Park Crescent, London, W1B 1AH, United Kingdom

Phone: +44 (0) 207 612 7098 Fax: +44 (0) 207 612 7085 Email: secretariat@icgn.org Web: www.icgn.org