



# EXECUTIVE REMUNERATION DISCLOSURES IN ASIA

In light of 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.

The first article in our *Executive Rewards & Performance Effectiveness Perspective* series provided boards and management teams of Asian companies with six tips for enhancing their remuneration disclosures and, in doing so, satisfying or even going beyond their country's corporate governance requirements.

This *Perspective* article provides a comparative study of remuneration disclosure requirements across Asian jurisdictions and the steps necessary to become disclosure-ready. Figure 1 presents a comparative study of current remuneration disclosures requirements across Asia based on each country's corporate governance codes or stock exchange listing rules. It also lists the UK's compensation disclosure requirements to compare the differences between Asian and Western jurisdictions.

This article is the second in a series of three perspectives on executive remuneration disclosures in Asia. The first article in the series offered six tips for companies to enhance their executive remuneration disclosures, and the final article will cover realized and realizable pay — the definitions, applications, differences, and benefits.

Figure 1: Current Remuneration Disclosure Requirements in Asia

	ASEAN						EAST ASIA					SOUTH ASIA				UK	
	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	China	Hong Kong	Japan	South Korea	Taiwan	Bangladesh	India	Pakistan		Sri Lanka
Executive remuneration disclosed in the annual report and accounts	x		N/A	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Roles covered	B			D, T4	D, C, T5	B	B	D, 5M	D, 5M	D	D, NED	D	D	B	D, NED	D, NED	All
Executive remuneration provided only as an aggregated amount	x		N/A		x	x (D, T)		x	x						x	x	
Executive remuneration provided separately for each executive by name			N/A		x		x	x	x	x			x	x	x	x	x
Elements of remuneration disclosed in tabular format:																	
Salary			N/A		x	x			x	x	x			x	x	x	x
Bonus			N/A		x	x			x	x	x			x			x
Benefits			N/A		x				x	x					x		x
LTI			N/A		x				x	x	x			x	x		x
Other			N/A		Total	Total	Total	Total	Total	Total	Total	Total					Performance graph
Executive compensation philosophy	x	x	N/A		x	x			x	x		x				x	x
Detailed descriptions of compensation elements included:																	
Overview of bonus			N/A														x
Overview of LTI plans			N/A		x				x					x			x
Description of pension			N/A														x
Any payouts to departing executives			N/A														x
Disclosure of performance required			N/A		x												x
Relationship between pay and performance			N/A		x						x						x

Legend: B = board members; C = CEO; D = directors; LTI = long-term incentives; NED = non-executive director; N/A = not available; SM = senior management; STI = long-term incentives; T4 or T5 = Top 4 or 5 key management personnel

Note: The disclosure rules in each country typically relate to all listed companies on that country's stock market. There are separate, less onerous disclosure requirements in place for private companies. For South Korea, the new disclosure rules will be effective in 2014.

## ASEAN

### INDONESIA

The Indonesia Code of Good Corporate Governance was revised in 2006. It takes an ethics-based approach and encourages business practitioners to form healthy, long-term relationships with stakeholders. The code requires the disclosure of the remuneration policy and the amount of remuneration awarded to the board of commissioners and the board of directors at an aggregate level.

### MALAYSIA

The Securities Commission Malaysia issued a revised version of the Malaysian Code on Corporate Governance in 2012, superseding the 2007 version. The new code requires the board as a whole to oversee executive remuneration and the overall remuneration framework.

### MYANMAR

Myanmar's stock exchange will open in 2015, so it will likely not start considering the importance of a sound corporate governance code with relevant executive remuneration disclosure requirements.

### PHILIPPINES

The Philippines Revised Code of Corporate Governance was issued by the Securities and Exchange Commission in 2009. The code mandates that a company's annual report should disclose all fixed and variable compensation paid directly or indirectly to its directors and top four management officers. Corporations should establish formal and transparent procedures for policy development around executive remuneration or the remuneration level for individual directors.

### SINGAPORE

The Monetary Authority of Singapore (MAS)'s Code of Corporate Governance 2012 has one of the most advanced executive remuneration disclosure requirements in the Asia region. In principle, every listed company should provide clear disclosure of its remuneration policies, the level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. Each company should also provide disclosure relating to its remuneration policies to enable investors to understand the link between the remuneration paid to directors and key management personnel (KMP) and the company's performance. Besides the remuneration of each individual director and the CEO on a named basis, the annual remuneration report should also include the aggregate amount of any termination, retirement, and post-employment benefits that may have been granted to directors, the CEO, and the top five KMP. Listed companies should name and disclose the remuneration of at least the top five KMP (who are not directors or the CEO) in bands of SGD 250,000, but disclosure of individual pay levels on a named basis is encouraged.

### MERCER PERSPECTIVE ON REVISED CODE OF CORPORATE GOVERNANCE ISSUED BY MAS

MAS had issued a revised Code of Corporate Governance, accepting the recommendations made by the Corporate Governance Council. Mercer has released a perspective summarizing the revised principles and guidelines as well as our observations on potential implications for Singaporean companies. This Perspective provides insights with particular focus on board composition and performance, remuneration practices, and other disclosure requirements. To download a complimentary copy of the perspective, visit: [www.mercer.com/articles/MAS-issues-revised-code-of-corporate-governance](http://www.mercer.com/articles/MAS-issues-revised-code-of-corporate-governance).

## THAILAND

The Stock Exchange of Thailand issued a revised version of the Principles of Good Corporate Governance for Listed Companies in 2006. The principles were initiated to ensure sustainable development and state that companies must disclose the remuneration policies, including the amount and form of remuneration, for the board of directors and executives. In 2006 and 2008, the Securities and Exchange Commission revised the rules, conditions, and procedures on disclosure for listed companies. The policies require individual monetary remuneration disclosure for boards and aggregate disclosure for top executives.

## VIETNAM

The Vietnam Law on Enterprises was revised in 2005 and requires that the remuneration and salary of the board members' council, the director or general director, and other senior management must be recorded as separate items in a company's annual financial statements.

## EAST ASIA

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### CHINA

The regulations issued by the China Securities Regulatory Commission in 2012 require that companies disclose the pay levels of directors, supervisors, and senior management. It also requires the disclosure of total pay in tabular format. However, it does not require the disclosure of the LTI element, which can be approximated based on type of vehicle, number of shares/options granted, and the cost per unit of the vehicle. This is because regulations require the disclosure of the grant number, exercise price, and market price of shares for each director and senior manager from the equity incentive plan. The regulation also does not require the disclosure of the compensation philosophy, principle, or framework.

### HONG KONG

The Hong Kong Stock Exchange Rules and Guidance on Listing Matters outlines detailed requirements for executive remuneration disclosure similar to that of Singapore. The rules dictate that a listed company should disclose its remuneration policy for directors and other remuneration-related matters. The procedure for setting policy on executive and non-executives directors' remuneration should be formal and transparent, and a significant proportion of executive directors' remuneration should link rewards to corporate and individual performance.

### JAPAN

The Japan Cabinet Office Ordinance on Disclosure of Corporate Affairs was revised in 2010 and requires listed companies to disclose detailed information about remuneration for directors and statutory auditors whose remuneration for the relevant fiscal year was JPY 100 million or more. For other directors earning less than JPY 100 million, the remuneration information is provided only as an aggregated amount of total compensation as well as each compensation element. For certain companies, the position/role of executive officer is regarded as a target for disclosure requirement. Listed companies must also disclose the total remuneration paid to internal

directors, internal statutory auditors, external directors, and external statutory auditors, along with a breakdown by type of payment for each category. Other compensation elements such as annual accrual of retirement allowance and housing allowance should also be disclosed. The ordinance also requires companies to explain its remuneration policies.

## SOUTH KOREA

Currently, South Korean companies provide only a rough estimate of the total amount of compensation paid to executives on the board of directors. However, the National Assembly approved a bill requiring all listed companies to disclose how much their executives are paid for the relevant year. The new disclosure rules come into effective in 2014. If the annual salaries of registered executives and auditors exceed KRW 500 million, their pay information should be disclosed on an individual basis in the annual report, including commentary on the link between pay and performance.

## TAIWAN

The Taiwan Corporate Governance Best-Practice Principles for Listed Companies 2010 requires that companies disclose the remuneration paid to directors, supervisors, general managers, and vice general managers for the most recent fiscal year. It also requires the disclosure of the analysis of the percentage of total remuneration to net profit after tax; the policy, standards, and package of remuneration payments; the procedure for determining remuneration; and the link to operational performance.

## SOUTH ASIA

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### BANGLADESH

The Code of Corporate Governance for Bangladesh 2004 requires disclosure of compensation in the annual director's report and in the annual report, when appropriate. Information about the incentive structure of banks — including remuneration policies, executive compensation, bonuses, and stock options — must be disclosed to shareholders.

### INDIA

The Companies Act and the Securities and Exchange Board of India (SEBI) are the two prescriptive sources for corporate governance around executive compensation in India. The listing agreement with SEBI requires companies to disclose the remuneration paid to executive directors. Listed companies are also required to publish the criteria for making payments to non-executive directors and the number of shares/convertible instruments held by them. Additionally, the Corporate Governance Voluntary Guidelines 2009, published by the Ministry of Corporate Affairs, lays down best practices regarding corporate governance. These guidelines advise that the remuneration policy for the members of the board and key executives should be clearly disclosed. The code states that remuneration packages should involve a balance between fixed and incentive pay, reflecting short- and long-term performance objectives appropriate to the company's circumstances and goals. The new draft of Companies Act adds a requirement that the rationale for performance-based variable pay be detailed and that the relationship between pay increases and company performance be explained. Besides



disclosing the ratio of top management pay to median pay of all employees, companies will have to publish a comparison of pay increases. On finalization of the draft rules in the Companies Act 2013, it is also expected that SEBI will publish a consolidated revised set of guidelines, aligned with the Companies Act.

#### PAKISTAN

The Securities and Exchange Commission of Pakistan revised the 2012 Code of Corporate Governance to state that a company's annual report must contain details of the aggregate remuneration of executive and non-executive directors separately, including salary/fees, benefits, and performance-linked incentives.

#### SRI LANKA

In principle, the Sri Lanka Code of Best Practice on Corporate Governance 2008 states that a company's annual report should contain a statement of remuneration policy and details of the remuneration of the board as a whole. The code also dictates that the total salary of executive and non-executive directors must also be disclosed.



## CONCLUSION

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Within the region, the Monetary Authority of Singapore's revised Code of Corporate Governance and the Hong Kong Stock Exchange's Rules and Guidance on Listing Matters are perhaps the most comprehensive. Japan also has raised the bar since 2010 by requiring the disclosure of executive compensation levels for executives and the aggregate compensation of each category of executives. Governance codes in Indonesia, Thailand, Taiwan, and Sri Lanka require companies to disclose their compensation philosophy and framework, as well as pay levels for directors and, in some cases, senior executives. The Malaysian code encourages the disclosure of compensation principles, whereas China, Vietnam, India, Pakistan, and Bangladesh recommend disclosure of executive pay levels. South Korea will require the disclosure of pay levels and relationship between pay and performance in 2014.

It is important to note that Asian countries follow the "comply or explain" approach rather than the legislative route adopted by their western counterparts, which, while difficult to enforce, does minimize the risk of unintended consequences.

In contrast, disclosure requirements in the UK are slightly more transparent compared to Asia's best practices, especially in the areas of long-term incentives (LTI) and pensions that form a significant component of total remuneration. It is expected that Asian companies will need to focus more on equity-based compensation and pensions in the coming years.

There are two specific ideas that Asian companies could learn from the UK and other western jurisdictions. The first is splitting remuneration reports into two sections: (a) future policy changes, and (b) implementation of policy in the year reported. This would aid greater transparency and provide shareholders with a tracking tool for executive remuneration. The second idea is the requirement of increasing board diversity.

In a recent Mercer snapshot survey (see sidebar) on executive compensation practices across Asia, nearly two-thirds of participating companies said they wanted to enhance their annual report disclosures — explaining the rationale behind pay decisions, elaborating on incentive plan arrangements, and disclosing individual executive and non-executive director pay levels. Implementing the six tips outlined in the first article of our *Perspective* series will help Asian companies achieve the same, and also satisfy (and in most cases exceed) their relevant disclosure requirements. Greater disclosure requirements for executive compensation practices will require companies to provide higher levels of transparency and allow them to stand up to external scrutiny more effectively.

We recommend that companies take the following steps to ensure that they will be ready for greater disclosure requirements:

- Choose and implement a disclosure strategy before new requirements take effect. This may be especially prudent for companies in the banking and financial services industries, which have the highest levels of disclosure requirements. All companies should plan to meet the minimum disclosure requirements.
- Ensure that your remuneration committee has experienced members and receives data and support from relevant executive remuneration experts.
- Identify peer groups for both scale and design of remuneration.
- Make sure that performance-related award elements of pay can be clearly explained and justified.
- Review the design and value of pension plans and equity plans.
- Provide complete compensation data in the form required for disclosure, and ensure that the content of the annual report and accounts meets at least the minimum disclosure requirements.

The third and final installment of our *Perspective* series will present our view on the likely evolution of remuneration disclosures; that is, realized and realizable pay — the definitions, applications, differences, and benefits. If you would like to receive an e-copy, please write to the author at [shai.ganu@mercer.com](mailto:shai.ganu@mercer.com).

Article 1: [Enhancing Corporate Governance Through Better Executive Remuneration Disclosures](#)

Article 3: [Likely Evolution of Remuneration Disclosures — Realized and Realizable Pay](#)

#### MERCER'S 2012/2013 ASIA EXECUTIVE REMUNERATION SNAPSHOT SURVEY

To help understand current and emerging trends, Mercer regularly conducts an executive remuneration survey in the region. For the 2012/2013 survey, we received participation from 670 respondents across Asia. To download a complimentary copy of the executive summary or to purchase the report, visit [www.mercer.com/asia-executive-remuneration-snapshot-survey-2012-2013](http://www.mercer.com/asia-executive-remuneration-snapshot-survey-2012-2013).



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