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ENHANCING CORPORATE GOVERNANCE IN ASIA THROUGH BETTER EXECUTIVE REMUNERATION DISCLOSURES

Executive remuneration issues are closely scrutinized by shareholders, proxy advisors, and the business media. However, shareholders often express concerns about the amount and clarity of information provided on this subject. This executive remuneration perspective suggests six effective tips for boards of Asian companies to enhance their remuneration-related disclosures.

This article is the first in a series of three perspectives on executive remuneration disclosures in Asia. The next article will be a comparative study of executive remuneration disclosure requirements across all Asian jurisdictions, followed by the final article on disclosing realizable and realized pay – the definitions, applications, differences, and benefits.

TIP 1: LETTER FROM THE REMUNERATION COMMITTEE CHAIRMAN TO SHAREHOLDERS

First, and probably the easiest to implement, is a letter from the remuneration committee chairman to shareholders. These opening remarks should introduce the remuneration report and provide shareholders with important information such as business context, executive remuneration, and the governance areas that the committee explored over the past year and likely focus areas for the next year. It should also provide an overview of key decisions made during the year along with the rationale for any changes to the executive remuneration framework. This is also an opportunity for the board to reiterate to shareholders that it believes the current remuneration philosophy/framework is reasonable. Most shareholders are interested in knowing that the remuneration committee is actively monitoring executive pay. Not only does such a letter add a personal touch, but it also sets the scene for reading the remainder of the remuneration report.

Figure 1 Highlights:

- Overview of compensation philosophy.
- Changes made to framework in past year.
- Focus for next year.
- Risk management and pay-for-performance summary.
- Comments that the board believes that executive pay framework is appropriate.
- Welcomes feedback from shareholders.

Figure 1: Illustrative Example of a Letter from a Remuneration Committee Chairman to Shareholders

REMUNERATION REPORT

Introduction from the Chairman of the Remuneration Committee

Dear Shareholder,

We are pleased to present the company's 2013 remuneration report.

Over the past year, the board has continued to refine the remuneration policies and practices following the changes made last year. These take into account the changing landscape of executive remuneration and, shareholder and regulatory expectations. It is in this context that the board reviewed the executive reward policy during the year and made further changes to components of our executive reward framework.

Our Philosophy

We believe that executive reward packages are designed to:

- Motivate executives to deliver against short- and long-term performance measures.
- Appropriately manage risk.
- Link pay to shareholder interests.
- Attract and retain high-performing executives.

Our Framework

We made two important changes to components of the framework that will apply to the 2014 performance year:

1. We have established a policy to align the target pay mix for the CEO and senior executives such that fixed pay will comprise 30% of the total package. Short-term incentives (STI) will comprise 30% and long-term incentives (LTI) will comprise 40% of the total package.
2. We have reduced the maximum opportunity available under the STI plan from 300% to 250% of target.

The realignment of the STI and LTI opportunities and the reduction of the STI plan maximum will rebalance executive rewards going forward and provide an even stronger alignment with the long-term interests of shareholders.

Executive Pay

We did not increase the fixed remuneration or incentive targets in 2013 for the CEO or senior executives, except where there was a change in role or a significant market anomaly.

We have made this decision acknowledging the continued challenges of delivering sustainable performance in a low-growth environment across our industry. We are confident that the existing "at risk" incentive arrangements allow us to recognize and reward high performance across our business.

Risk Management

In 2013, we maintained our active engagement with regulators, contributing to the consultation process and industry forums.

The board is confident that the company's remuneration framework positions us well to respond to the evolving legislative and regulatory environment.

Pay for Performance

In preparing this report, we have aimed to further improve the clarity of presentation of our remuneration policies, practices, and outcomes. We have included a section in which we outline the performance highlights for the year and the resulting remuneration outcomes for the CEO and senior executives. We have also provided a relative comparison of pay and performance against other peer companies.

Finally, as a board, we believe our role is to balance the competing priorities of managing against a changing external remuneration environment while still attracting and retaining high-caliber executives to ensure the company's ongoing success. We are confident that our current policies, framework, and outcomes presented in this report are appropriate.

As ever, we welcome your feedback as we strive to make the report simpler and easier to understand.

Peter Tan
Chairman — Remuneration Committee

TIP 2: DISCUSSION OF THE COMPANY'S EXECUTIVE REMUNERATION FRAMEWORK

Second — and this logically follows the committee chairman's comments — is a discussion on the company's executive remuneration framework. Most companies do this in some shape or form, but progressive companies provide detailed information on their remuneration philosophy — the role of each remuneration element and the package as a whole, plus how this is aligned to (or intended to drive) the company's business objectives.

Discussion regarding the peer groups used for compensation benchmarking, the committee's assessment of the executive talent pool (that is, where they hire people from or lose people to), and the construction and execution of incentive arrangements all provide shareholders with a better understanding of the company's remuneration philosophy. This helps contextualize the numbers in the compensation disclosures section.

Figure 2: Illustrative Example of a Discussion of an Executive Remuneration Framework

COMPENSATION PHILOSOPHY
- Market-competitive pay level (P50 for average and P75 for top performers).
- Pay-for-performance differentiation.

A. FIXED PAY MANAGEMENT
- Fixed pay levels around market median (P50).
- Fixed pay ranges for grades, by country and function. Positioning within grade based on incumbent-specific factors.
- Fixed pay levels based on pay range for the role; person-specific factors impacting positioning within the range.

B. SHORT-TERM INCENTIVES (STI)
- Funding on a profit-before-tax (PBT) basis.
- STI allocation by function — monitoring of affordability at country level.
- Guidelines for bonus distribution with stronger pay-for-performance differentiation; e.g. high performers get approximately 2–2.5 times bonus compared to average performers.

C. EQUITY COMPENSATION
- LTI part of package for senior executives.
- Separate plan for retention and recognition for key talent.
- Bonus deferrals aligned with regulatory requirements.
- Subject to malus and clawback provisions.

ENABLERS

D. PERFORMANCE MEASUREMENT
- Combination of contributions and outcomes for performance assessment.
- Guided distribution of performance ratings.

E. COMPENSATION MANAGEMENT
- Define and maintain guidelines for various components of the compensation model.
- Transparency in pay decisions (e.g. sharing ranges).

Figure 2 Highlights:
- Compensation philosophy and role of each element.
- Framework governing last year's payout.
- Framework governing recent year's targets.

TIP 3: DISCLOSING ACTUAL COMPENSATION LEVELS FOR THE CEO AND SENIOR EXECUTIVES

Third is the issue of disclosing actual compensation levels for the CEO and senior executives. Regulators in most jurisdictions suggest that companies should disclose pay levels for the CEO and at least the top five executives. Progressive companies, however, disclose remuneration details for all key management personnel (KMP). There has been reluctance on the part of some companies to disclose individual executive remuneration, as it is deemed sensitive information. We believe that increased remuneration disclosures do not pose any commercial disadvantage; as such information is usually available through other channels anyway.

Based on our experience, the most important compensation driver from an executive's perspective is a sense of fairness (not greed, as is popular belief). Increased remuneration disclosures may actually help with the assessment of fairness — particularly if companies start disclosing actual take-home pay — which is the next point.

Figure 3 Highlights:

- Individual compensation levels for CEO and key management personnel on a named basis.
- Breakdown of total remuneration.
- Disclosure of statutory/ accounting remuneration values.

Figure 3: Illustrative Example of a Disclosure of Actual Compensation Levels for CEO and Key Executives

Monetary values in SGD	Fixed remuneration	STI cash payment	Non-monetary benefits	Post-employment benefits	Value of restricted shares	Total
Chief executive officer Grace Kho	2,019,567	1,994,218	4,985	87,681	1,377,513	**5,483,964**
Chief financial officer Jiawen Zheng	1,310,511	954,878	3,547	63,125	725,122	**3,057,183**
Chief operating officer Kevin Ruiz	1,341,688	809,157	8,128	54,589	625,253	**2,838,815**
Chief risk officer Shawn Shen	1,245,685	689,188	2,954	43,856	545,255	**2,526,938**
Chief human resources officer John Luo	1,040,210	736,194	2,158	37,859	345,155	**3,201,786**
Chief information officer Sonalika Tyagi	1,234,522	877,122	2,485	43,574	422,100	**2,579,803**

TIP 4: DISCLOSING REALIZED PAY

Fourth is the practice of disclosing realized pay. Under the accounting standards, companies are required to disclose the accounting values of certain pay components, such as equity-based payments. These accounting values usually reflect the probability of achieving future performance conditions and are not guaranteed. These values could be different to the amount actually vested that is available for the executive to spend (that is, realized pay).

Realized pay includes the executive's annual base salary, the cash component of the bonus plan paid out during the year (that is, non-deferred element), and the value of any equity that may have vested from prior years' awards. It is different from target pay levels, which are intended to indicate the earning opportunity if certain performance conditions are met. Companies are beginning to disclose realized or take-home pay for their senior executives, as this is more representative of what the executive actually earns each year. It also allows for better comparisons of pay and performance over a long period of time.

Realized-pay disclosures can also help quell perceptions of egregious pay levels, particularly in cases where the accounting disclosures are much higher than actual take-home pay. However, companies should carefully consider the implications of realized pay disclosures and maintain them in both good and bad years.

Figure 4 Highlights:

- STI cash payable for the year.
- STI outcomes as percentage of target.
- Value of prior-year equity awards value (Long-term incentives [LTI] and STI deferred).
- Total take-home pay, which is lower than the statutory value in Figure 3.

Figure 4: Illustrative Example of a Disclosure of Realized Pay

Monetary values in SGD	Fixed Remuneration (A)	STI cash payment (B)	STI outcome as percentage of target	Prior year equity awards vested (C)	Total (take home pay for the year) (A+B+C)
Chief executive officer Grace Kho	2,019,567	1,994,218	100%	577,020	**4,590,805**
Chief financial officer Jiawen Zheng	1,310,511	954,878	90%	425,122	**2,690,511**
Chief operating officer Kevin Ruiz	1,341,688	809,157	95%	340,210	**2,491,055**
Chief risk officer Shawn Shen	1,245,685	689,188	95%	324,398	**2,259,271**
Chief human resources officer John Luo	1,040,210	736,194	100%	175,348	**1,951,752**
Chief information officer Sonalika Tyagi	1,234,522	877,122	95%	257,131	**2,368,775**

TIP 5: EXPLAINING THE LINKAGE BETWEEN PAY AND PERFORMANCE

Fifth is demonstrating the alignment between pay and performance. While many companies claim that "pay for performance" is a foundation of their philosophy, it is important to understand where performance truly lies. Generally, shareholders want to understand two things: what impact the actions of the executive team had on the value of their shareholding, and whether they would have been better or worse off investing in a peer company instead. The remuneration report can help address these questions in the following ways:

- Better disclosure of key performance indicators (KPIs) — Without necessarily divulging commercially sensitive targets or strategic objectives, companies can talk about which value drivers are key for their businesses and why. Companies should share how they fared against targets for key KPIs. Provided shareholders have confidence in the board's ability to set appropriately stretched targets, understanding actual performance against said targets helps shareholders assess the effectiveness of the executive team. Leading companies share a version of the CEO's scoreboard — with all the measures, targets, and actual achievement against targets, along with commentary regarding reasons driving the results.

- Detailed peer comparisons of relative pay and performance — assessments of executive pay and corresponding performance indicators in relation to the company's peers. For instance, relative ranking of fixed pay against company size (market cap, revenue); annual short-term incentives against one-year performance measures (revenue growth, economic value, profits), and long-term incentives against long-term shareholder value measures (three- or five-year relative total shareholder return, earnings per share, wealth added, or return on equity).

- Risk assessments — explaining the link between risk assessments and executive reward. The board risk committee and chief risk officer should review any material risk issues prior to vesting of deferred/unvested compensation, ensure appropriate risk measures in performance scorecard (for example, risk-adjusted financial measures, adherence to risk-appetite statements), and make recommendations regarding application of clawback or malus provisions.

- Time-orientation of executive pay — assessment relative to peers regarding what proportion of the total package is delivered as equity or deferred bonuses versus the length of the deferral or vesting period.

Proxy advisors are increasingly using such pay-for-performance analyses to inform their voting decisions. Leading companies are being proactive and including these analyses in their remuneration reports.

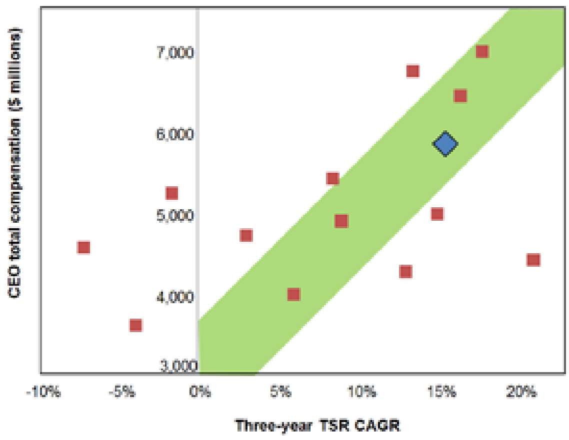
Figure 5 Highlights:

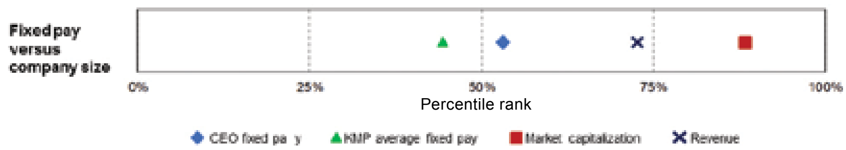
- Key performance indicators (KPIs) and achievement against them — without compromising commercial sensitivity.
- Performance and pay relative to peers.
- Alignment between pay and performance vis-a-vis peers.
- Relative to peers, company's executive pay positioned more conservatively compared to its size and performance.

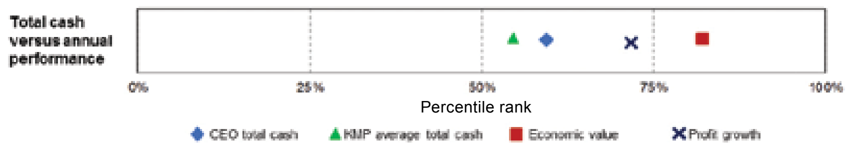
Figure 5: Illustrative Examples of Linking Pay and Performance

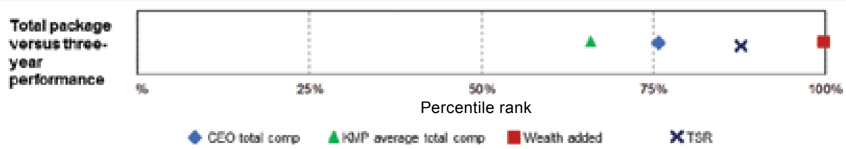
The group uses a balanced scorecard to measure performance in relation to its main incentive programs. The scorecard provides a framework whereby a combination of measures can be applied to ensure a broader long-term strategic focus on driving shareholder value, as well as a focus on annual priorities. The following table provides examples of some of the key measures used in 2012 for assessing performance for the purpose of determining STI pools.

Category	Measure	Outcome
Finance	Profit	**Exceeded target:** Record operating profit of 700 million was achieved; total dividend of 2012 was $3.55 per share
Customer	Customer satisfaction	**Slightly above target:** Based on external surveys, customer satisfaction scores increased by 5% in 2012
Shareholder returns	Total shareholder returns (TSR)	**Exceeded target:** Record 45% TSR placed the group in a strong position in the top quartile of its peers









TIP 6: DISCLOSURE OF NON-EXECUTIVE DIRECTOR FEES

Sixth is regarding disclosures of non-executive director (NED) fees. While some companies disclose the base and committee fees paid to NEDs, only a few disclose the philosophy behind NED pay — for example, peer group for compensation benchmarking, desired positioning after considering the workload and reputational risks, delivery of fees via shares to help increase NED shareholding etc. In addition to total emoluments received by NEDs, leading companies also disclose the NED fee policy and target fees for chairing and membership of the board and committees. This helps in assessing the company's total cost of governance.

Figure 6 Highlights:

- Disclosure of fees for individual NEDs.
- NED fee policy, including base and committee fees, and allowances/benefits.
- Disclosure of total fees and cost of governance.

Figure 6: Illustrative Example of a Disclosure of NED Fees

REMUNERATION REPORT

Non-executive Director Remuneration

Structure and Policy

Remuneration Policy

Non-executive director (NED) remuneration strategy is designed to attract and retain experienced, qualified board members and remunerate them appropriately for their time and expertise. As the board's focus is on strategic direction, long-term corporate performance, and the creation of shareholder value, fees for NEDs are not directly related to the group's short-term results and NEDs do not receive performance-based remuneration.

NED remuneration consists of the following components:

Remuneration component	Paid as	Detail
Base fee	80% cash 20% shares	This fee is for service on the group board. The base fee for the chairman covers all responsibilities.
Committee fee	Cash	Additional fees are paid to NEDs for chairing or participating in board committees.
Subsidiary board and advisory board fees	Cash	Fees are for service on subsidiary boards and advisory boards. These fees are paid by the relevant subsidiary company.

Fee Framework

This section details the current NED fee framework.

Base and committee fees: The following table sets out the board and standing committee fees payable from 1 January 2013:

Appointment	Annual rate (SGD)
Chairman	500,000
Non-executive director	200,000
Chairman of audit committee	50,000
Chairman of other committees	40,000
Member of audit committee	25,000
Member of other committees	20,000

Subsidiary board and advisory board fees: Throughout the reporting period, additional fees were payable to certain directors for membership on subsidiary boards or advisory boards. These fees vary according to the position held; the size, level, and nature of activity in the division; and the time commitment required.

The second installment of our perspective series will present a comparative study of remuneration disclosure requirements across Asian jurisdictions. The third installment provides further insights on realized pay and explains realizable pay disclosures.

If you would like to receive an e-copy, please write to the author at shai.ganu@mercer.com.

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CONCLUSION

On the whole, these six tips will help Asian companies improve the quality of their compensation disclosures — which can enhance the company's reputation as an organization with robust corporate governance mechanisms. A good remuneration report isn't necessarily the longest; nor one that discloses the most information. Rather, it is more important to have the right disclosures in the right format, to set the context for shareholders, and to clearly demonstrate linkages to performance.

Implementing these tips will also help Asian companies satisfy, and in most cases exceed, the disclosure requirements included in their jurisdiction's listing rules or corporate governance codes. Within the region, the Monetary Authority of Singapore's revised Code of Corporate Governance and the Hong Kong Stock Exchange's listing rules and Corporate Governance Code are perhaps the most comprehensive. It is important to note that Asian countries follow the "comply or explain" approach rather than the legislative route adopted by some of their Western counterparts, which while difficult to enforce, does minimize the risk of unintended consequences.

In summary, we note that a lot of Western companies are a long way down some of these paths — however, there is room for improvement for Asian companies. A concise, well-structured report with the enhancements discussed in this article will go a long way toward bridging the gap, complying with regulatory requirements, and bolstering shareholder confidence regarding the governance of Asian companies.

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