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## Executive Compensation and Global Uncertainty

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# Global regulation trends

- Post-banking crisis – increased regulation and tax
- Popular backlash
- Say on pay
  - Dodd-Frank, CRD IV, Minder
  - Europe - advisory votes (binding / non-binding)
  - Banker's pay restriction



# Global regulation trends (cont.)

- Data Protection
  - General Data Protection Regulation
    - applies from 25 May 2018. Fines - €20m or 4% of worldwide annual turnover
- Has regulation peaked?
  - repatriation – Italy, France
  - Brexit
  - Trump to repeal Dodd-Frank?



# Say on pay

Country	Vote
Canada	Issuers may voluntarily adopt say-on-pay with non-binding vote
Denmark	Binding
France	Proposed
Germany	Advisory
Italy	Advisory
Netherlands	Binding
Norway	Binding
Sweden	Binding
Switzerland	Binding
United Kingdom	Binding
United States	Advisory



# Global tax trends

- Global tax avoidance theme
- Greater disclosure requirements
- Increase in penalties and risk
- Increase in sharing between tax authorities
  - FATCA



## Global tax trends (cont.)

- US
  - gap between income tax rates and CGT declining
  - tax simplified
    - disproportionately in favour of execs V populist background
- UK
  - gap between income tax rates and CGT still wide
    - encourages exec comp to be delivered as capital
- P/E and high growth companies V public companies
  - carry



# The human impact on Brexit

Research published by Mercer in September 2016 (survey involved HR, Talent and Reward Directors at 180 organisations) found that:

- 74 percent of organisations reported that their employees were “somewhat concerned” by the impact of Brexit; and
- 82 per cent of companies feel under a duty to communicate the impact of Brexit to their employees but only 11 per cent have started doing so openly.



# Agenda

We will examine the possible outcomes and their impact, to inform our internal decision making to enable effective communication with our staff.

- What might Brexit look like?
- How to retain our staff and access to the widest possible talent pool post Brexit?
- How might Brexit impact the way we look at managing and rewarding our staff?





# Implications for reward

1. Pay flexibility – impact on talent pool
2. Financial volatility
3. Employee value proposition
4. inequality



# Pay flexibility

## TIGHTENING OF TALENTPOOL

- Low unemployment at 4.9%, ONS
- Upward pressure on pay



## AFFORDABILITY IS AN ISSUE

- companies already dealing with Auto-enrolment & National Living Wage costs
- Low UK productivity
- 2017 GCP growth forecasts are unpredictable



## EMPLOYEE VALUE PROPOSITION

- Need to use pay/bonus to differentiate & create a unique employee
- Make benefits more attractive
- Purpose and culture – maximise employee value proposition



# Responding to financial volatility

## PENSIONS

More DB schemes may close due to funding risk  
Volatility affects value of DC funds and affordability of retirement

## PERFORMANCE PAY

Market and exchange rate volatility affect bonus/LTIP/share plan metrics

## MOBILITY

Value of £ will affect value of assignee packages

## WELLBEING

Financial wellbeing becomes more complex and valuable, especially on retirement

## PERCEPTIONS OF VALUE

Pay-outs from performance pay, pensions and share plans carry more risk and so valued less



# Some practical actions

## DEVELOP AGILE SALARY PLANS

- Based on different workforce scenarios
- Accounts for changing costs e.g. pensions, NLW

## REFRESH YOUR REWARD STRATEGY

- Focus on achieving more with less as affordability and value decreases
- Develop employee skills as part of wider deal
- Focus on employee communication and wellbeing

## REVIEW PAY & BONUS

- Differentiate through pay/bonus towards critical talent
- Review bonus metrics and mechanics
- Implement any regulatory changes e.g. bonus cap

## TAKE ACTION ON INEQUALITY

- Calculate your gender pay gap and share plans to address it
- Calculate your executive pay gap and review decision-making process
- Make plans to fund NLW through increased skills and productivity



## Financial volatility

- Forecasting and setting performance measures for both short and long term measures
  - Widen performance
  - Series of short performance periods
  - Focus on strategic measures
- Volatility of outcomes
  - Discretion



# Executive summary 2014 award: TSR performance 1 January 2014 to 31 December 2016

- The table below summarises the relative TSR performance across six different scenarios throughout the performance period from 1 January 2014 to 31 December 2016

Measurement period	Averaging period	Currency	Rank	Projected Vesting
1 January 2014 to 31 December 2016	Three months	Local	9 of 20	51.84%
		Euros	12 of 20	0%
	Six months	Local	7 of 20	81.52%
		Euros	10 of 20	37.28%
	Twelve months	Local	4 of 20	100%
		Euros	8 of 20	66.68%

- We recommend the Remuneration Committee considers the following when reviewing these scenarios:
  - Institutional investors' representative bodies, such as the IA in the UK, do not favour long averaging periods
  - Such bodies have also stated that the use of a common currency is preferred
- In addition, we recommend consistency in approach with the final scenario that was used for the 2011, 2012 and 2013 LTIP awards

Share price and dividend information are from our data provider, Thomson Reuters Datastream



# FATCA and CRS: effect on type of structures

- Transparency drive has had no fundamental impact on how companies design plans. The major impact is obviously on the plan management compliance processes. A few points to note:
  - 'Unintended' effect of regulations on benign structures
  - Available exemptions – influence on jurisdiction of choice for certain plans



## Implications of global uncertainty on contracts

- It's a good time to audit existing contracts and consider more specific carve outs in new contracts. Examples of terms for negotiation/consideration include:
  - Cross border contractual enforcement
  - Governing law
  - Currency risk
  - Change of control
  - Data protection (eg European General Data Protection Regulation (GDPR))
  - Termination provisions
  - Viability of performance targets





# Thank You

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