

CIRA-Jahreskonferenz – Panel 8:  
**Future Governance**



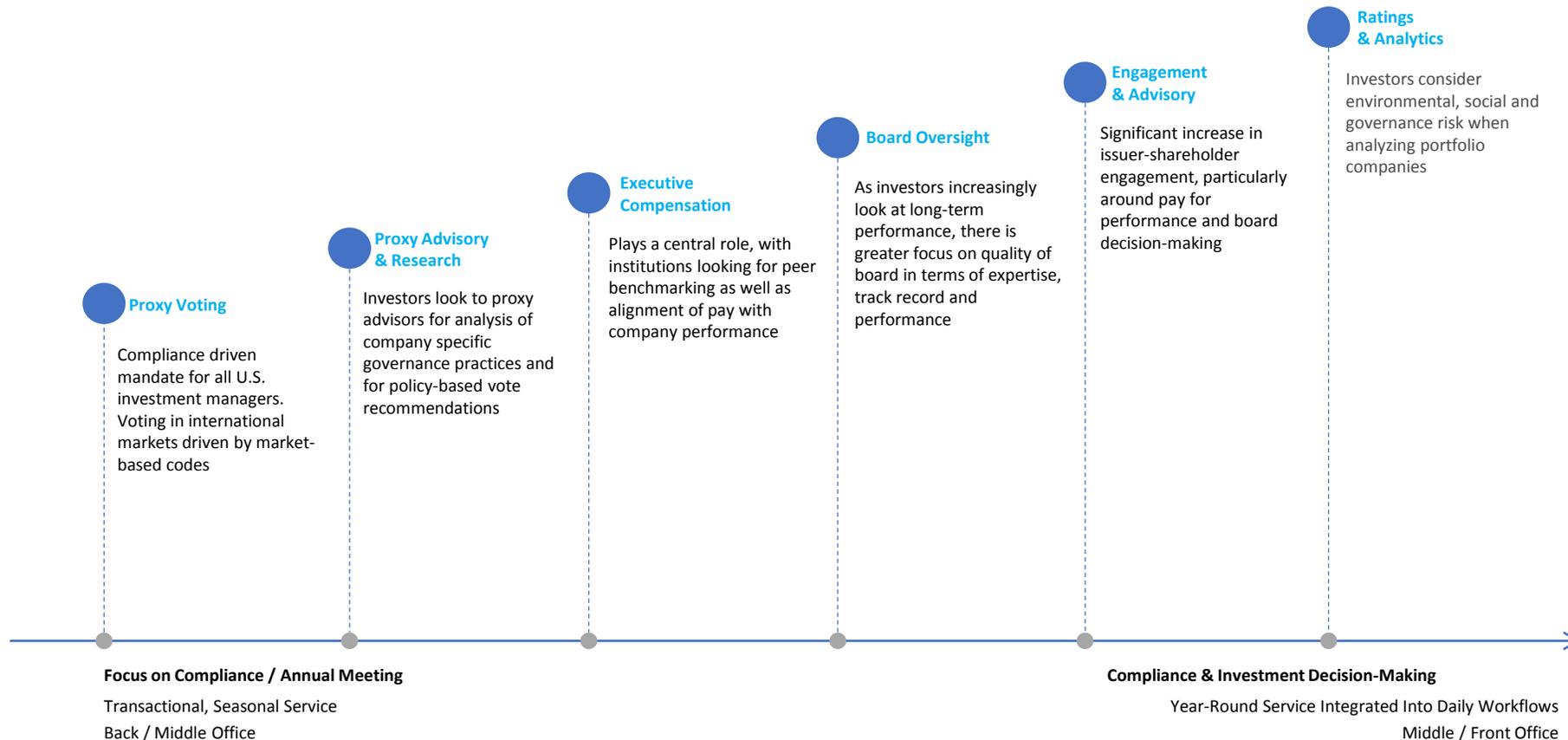
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THOMAS VON OEHSEN  
Associate Director, Research  
ISS | Institutional Shareholder Services

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# The Corporate Governance Industry Continues to Evolve

Governance moves from back office function to a front office and year-round focus



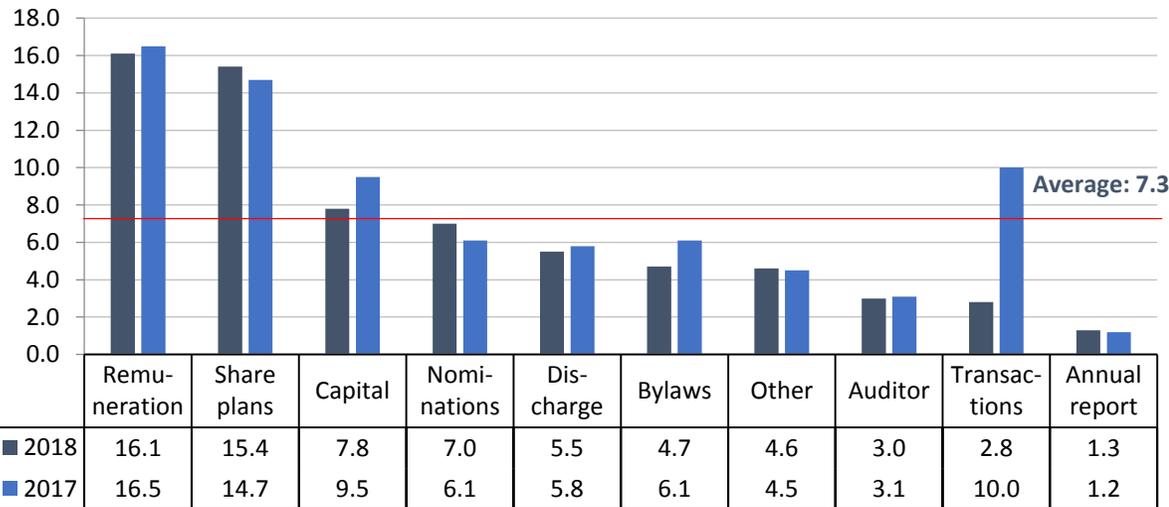
# Executive Remuneration

## European trends and ISS' approach

- In Austria, no say-on-pay resolutions so far; however, this will change in 2020 at the latest.

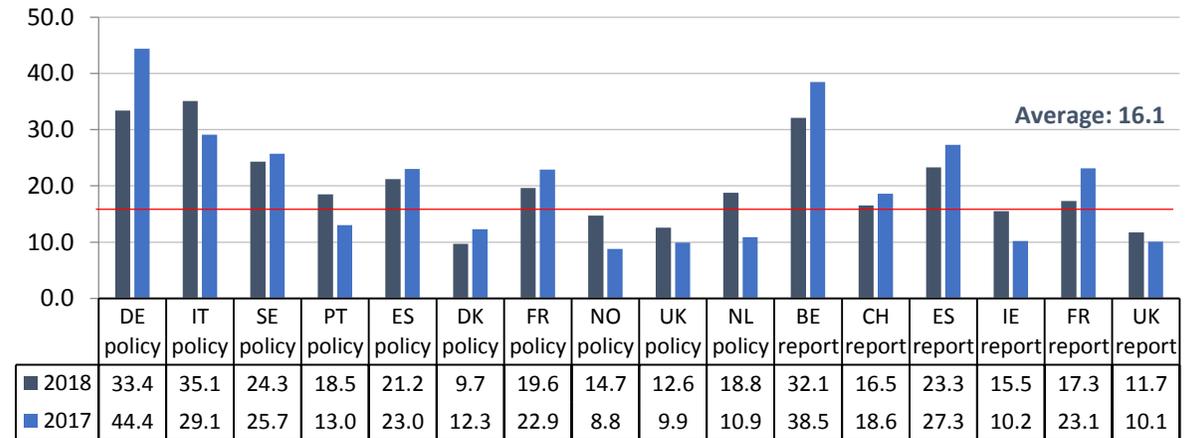
### Remuneration proposals remain the most contested ones

Average free-float dissent (%) per type of proposal and per year - All markets but Sweden



### Average free-float dissent on say-on-pay votes decreases in some markets but increases in others

Average free-float dissent (%) per market and type of votes and per year - All markets with such votes



- ISS will analyze Austrian companies under its European policy that incorporates relevant market-specific factors based on a market's local best practice and also retains a baseline that considers international corporate governance standards.

\* Charts taken from the 2018 ISS Voting Results Report that includes 17 European markets, covering shareholder meetings that took place between Jan. 1 and June 30 at main index companies (AT: ATX 20)

# Executive Remuneration

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## Investors' expectations of a company's pay system (examples)

- Pay reports and systems should be transparent and **well disclosed** (if not, ISS recommends against).
- **Appropriate quantum** (and increase, if applicable) of board and executive remuneration; increases should be justified by improved company results rather than market comparison.
- Remuneration systems should be designed **as simply as possible** with three components: (1) fixed salary, (2) annual variable bonus, (3) multi-year/long-term incentive plan.
- Companies should set **absolute caps** that include all pay components. **Special bonuses** and one-off payments outside the remuneration system should be **avoided**.
- Performance criteria and **targets should be transparently presented** to verify company's performance and to justify remuneration amounts (e.g. every components' underlying KPIs, target levels, weightings, and the achievement of objectives for the past year).
- **Executives should acquire and hold company shares** of at least one year's gross fixed salary (institutional investors even expect a multiple of this amount up to five years and this post-mandate).

# Director Elections

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## Independence, overboarding, diversity, and more

- 1/3 of all AGM resolutions concern board and committee elections (5 out of 15.2 items on average)
- ISS focuses on **board independence** and would recommend a vote against any non-independent nominee if a board with employee representation consists of less than 1/3 independent members (a list of ISS' classification of directors can be found under: <http://www.issgovernance.com/policy>). Some investors are adding more behavioral considerations such as **board responsiveness**.
- It is problematic if candidates hold an excessive number of board appointments (**overboarding**) of more than five mandates at listed companies (a non-executive directorship counted as one mandate, a non-executive chairmanship = two mandates, and a position as executive director = three mandates).
- ISS custom clients are very keen to see more **women on boards** with possible sanctions to the board chairman or the nomination committee. This trend is developing and there is an appetite for looking at **diversity** in terms of women in senior management, diversity of skills as well as geographic diversity.
- Finally, there is an increasing focus on the **role of the audit committee**, its independence and the quality of the audit (mainly of UK clients, but expected to become a Pan-European focus soon).

# ESG No Longer Optional

## From niche and narrow to a necessary part of institutional investing and asset management

- Increasing environmental and social (E&S) considerations into investors' proxy voting policies. This varies from developing guidelines that favor E&S shareholder proposals to looking at factors such as disclosure of a climate change policy, GHG emissions, sustainability policies or requiring E&S criteria in executive pay systems.

### ESG a millennial mindset

**93%** Of millennials agree that E&S impact is important to investment decisions

### ESG in the public eye

News coverage and public attention to sustainability issues is increasing

### Investors as ESG champions

**13%** Average 2018 growth in PRI signatories globally from 2017

**\$89,654 B** Total AUM of PRI Signatories

- Growth of Responsible Investment assets & strategies
- Increasing use of UN Sustainable Development Goals as roadmap to align investments with broader societal objectives
- 1 in 6 PRI signatories report that they invest in assets with a focus on environmental and/or social issues
- Explosion of ESG-based products, particularly on climate change
- Move to science-based targets

*Source: The PRI in Numbers 2018*

# Transparent and Inclusive Policy Development Process

ISS' process includes ongoing market feedback, surveys, roundtables, and an open comment period

- **Annual policy review** brings in perspectives from institutional investors, corporate issuers and governance experts; offers all market constituents the opportunity to participate in ISS' policy development process.
- **Extensive in-person discussion forums** and roundtables augment the policy process.
- **Balanced viewpoints** through guidelines to strike the right balance between shareholder interests and economic value.
- **Engagement - dialogue with companies** ensures a full understanding of the policy issues and facts, enriching our research for shareholders.



# Contact Details & Disclaimer

**Thomas von Oehsen**

Associate Director & Head of Research  
Germany, Austria & Switzerland

Marburger Str. 17  
D - 10789 Berlin

+49 30 549 086 927

[thomas.vonoehsen@issgovernance.com](mailto:thomas.vonoehsen@issgovernance.com)

[www.issgovernance.com](http://www.issgovernance.com)

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