

# CEO SHAREHOLDING GUIDELINES

How Europe is catching up



## INTRODUCTION

The general purpose of shareholding guidelines (SHG) is to promote an alignment of interests between Executives and shareholders. It promotes focus on long-term shareholder value creation and lessens short-term profit taking by minimising incentives to achieve short-term gains at the expense of long-term value creation.

### Shareholding guidelines oblige Executives to own an equity stake in companies they manage.

In simple terms, SHG ensure that Executives have enough “Skin in the game”. We have tracked developments of SHG in the Europe’s large Cap indices with focus on France, Germany, Netherlands, Spain and the United Kingdom. The analysis is built around SHG that are expressed as a percentage of base salary as this is the predominant method for SHG requirement.

### The general overview of SHG in some of the large European countries have shown that majority of the markets do not have clear guidelines as to what the minimum shareholding of Executives should be.

The United Kingdom and France have clear-cut guidelines on SHG spelt out in their Corporate Governance code, while Spain has policies that point towards shareholding guidelines. Germany and the Netherlands do not have such policies at all. From the foregoing, despite the fact that there is no or no near policies in some markets, some companies have adopted SHG policies and in markets where the policy is in place, the SHG have evolved over the years to the current level it is now.

## THE NETHERLANDS

In the Netherlands, we saw that out of the 25 companies in the AEX, 12 companies express SHG as a percentage of the base salary. This means that 13 companies do not have shareholding guidelines for their CEOs in the AEX. The Netherlands’ Corporate Governance Code does not explicitly mandate

Executive Directors to have shares in the companies however it states that the remuneration policy should be designed in such a way that it drives long term value creation. It also stipulates that if shares are awarded, they should be held for at least five years after they are awarded. In 2011 and 2012, 5 companies had shareholding guidelines for their CEOs expressed as percentage of the base salary. This number increased to 7 and 11 companies in 2013 and 2014 respectively. Data sampled by DirectorInsight indicates that the number of companies with shareholding guidelines for their CEOs currently stands at 12.

## FRANCE

The French Corporate Code is clear on the requirement for SHG. The code states that the Board of Directors should define a minimum number of registered shares that the company Officers must retain through to the end of their term of office. This decision must be reviewed at least on each extension of their term of office. The code went further to state that the SHG may be based on reference to the:

- annual compensation;
- defined number of shares; and
- a percentage of the capital gain net of taxes and social contributions and of expenses related to the transaction in the case of exercised options or performance shares.

Until this objective regarding the holding of shares has been achieved, the company Officers will devote a proportion of exercised options or awarded performance shares to this end as determined by the Board. This information must be presented in the corporation's annual report. Our analysis showed that 8 companies in the CAC 40 have shareholding guidelines expressed as a percentage of CEOs base salary, while 27 companies have shareholding guidelines expressed as a number of shares with the highest being 80,000 shares from BNP Paribas.

## GERMANY

Our findings in Germany showed that SHG are still picking grounds. In 2016, only 4 companies out of the 30 companies in the largest index (DAX) had shareholding guidelines expressed as a percentage of CEO base salary. The Corporate Governance Code is also silent on SHG, perhaps fuelling the trend.

## SPAIN

Spain's IBEX 35 also revealed a similar pattern with Germany's largest index. Again only 4 companies in 2016 disclosed SHG expressed as a percentage of CEO Base salary. The Spanish Corporate Governance Code however states that when shares are awarded from a current remuneration policy, the executive should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

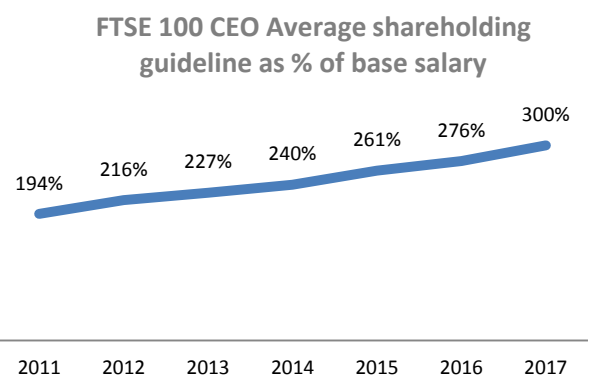
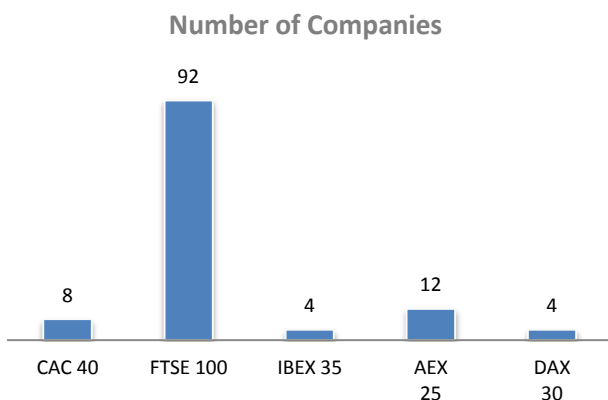


## THE UNITED KINGDOM

The United Kingdom's Corporate Governance Code recommends the remuneration committee to require Executives and Directors to hold minimum number of shares equal to 200% of base salary. Per data sampled, the FTSE 100 had the highest number of companies with SHG. In 2016, 92 companies had SHG expressed as a percentage of base salaries. Reckitt Benckiser and Standard Chartered for example had SHG expressed as a number of shares and were omitted from this analysis. TUI AG and Fresnillo are examples of companies that did not disclose SHG for the CEO's. In the analysis, we saw that Burberry expressed SHG for the CEO as 300% of the base salary in 2015, in 2016 the company expressed the same in number of shares.

## FTSE 100: HOW SHG HAVE EVOLVED

Data from DirectorInsight indicated that from 2011 to 2016, the average CEO SHG increased quite significantly. In 2011, the average FTSE 100 CEO SHG was 194% as a percentage of base salary, which climbed to 216% of base salary in 2012. From 2012 to 2013, the average SHG gained an increase of 11 percentage points to 227%. Average SHG have been on a steady rise across the years. In 2016, the average SHG was 278% up from 262% in 2015. In 2017 it is already expected to climb to 303%, per the remuneration policies collected and analysed by DirectorInsight.

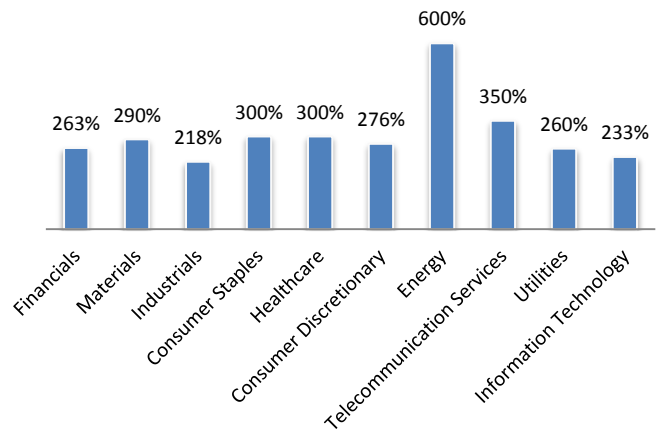


The number of companies that have SHG disclosures in the FTSE 100 have increased over the years from 2011-2016. In 2011, 74 companies disclosed SHG expressed as a percentage of the base salary. 22% of the 74 companies had 100% of the base salary as the minimum, 55% of them had 200% of the base salary as the minimum shareholding guideline for their CEOs and 18% of the companies also disclosed minimum shareholding guideline as 300% of the base salary. In 2009, 71 companies disclosed a minimum shareholding guideline expressed as the base salary for the CEO. The notable trend we saw was the use of 200% expressed as a percentage of base salary as a minimum CEO shareholding guideline in the FTSE 100. In 2009, of the 71 companies that disclosed minimum shareholding guideline for their CEOs, 54% of them set the minimum CEO shareholding guideline at 200% of the base salary.

In 2015, 86 companies disclosed their minimum shareholding guideline for the CEOs. Again the use of 200% was prominent in the analysis as 41% of the companies set their minimum shareholding guideline at 200% of the base salary for the CEO. The use of 100% of the base salary as a minimum shareholding guideline for the CEO has also dropped significantly.

For example, the 55% in 2009 has dropped significantly and currently in 2016, only 6% of the companies set minimum shareholding guideline at 100% of the base salary. It must be noted that some companies do not express minimum shareholding guideline as a percentage of the base salary and were excluded from this part of the analysis. For example Reckitt Benckiser has set their CEO minimum shareholding guideline at 500,000 ordinary shares and as such for the purpose of this analysis, they were excluded.

**CEO Average shareholding guideline as % of base salary per industry**

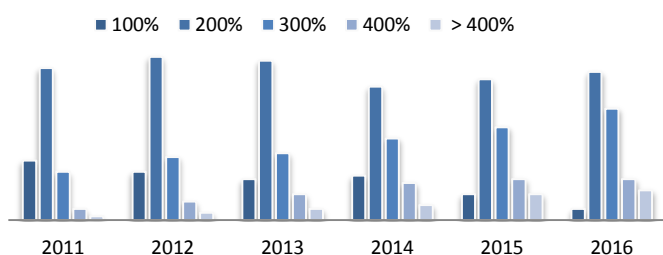


## OUTLOOK

It is expected that the adoption of SHG will continue to grow as markets and particularly shareholders in the European markets have become more alive with their roles in the Corporate Governance space.

We expect that the United Kingdom will continue to set the pace and others will adopt a clear cut policy that will enhance the adoption of SHG by companies. It is also expected that in the event that Corporate Governance codes do not adopt SHG, companies within these markets will take initiative to adopt SHG policy mainly due to the awakening of shareholder activism in the market.

**FTSE 100 CEO number of shareholding guideline as % of base salary (rounded to nearest 100%) within FTSE 100**



**This article is produced by:**

Edna Twumwaa Frimpong, Governance Research Analyst, DirectorInsight

Folorunsho Atteh, Governance Research Analyst, DirectorInsight

Aniel Mahabier, CEO, DirectorInsight

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