Corporate governance: long-term shareholder engagement

2014/0121(COD) - 12/05/2015 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Legal Affairs adopted the report by Sergio Gaetano COFFERATI (S&D, IT) on the proposal for a directive of the European Parliament and of the Council amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement and Directive 2013/34/EU as regards certain elements of the corporate governance statement.

The Committee on Economic and Monetary Affairs, exercising its prerogatives as an associated committee under Parliaments Rule 54 of the Rules of Procedure was consulted to give an opinion on the report.

Purpose: Members stipulated that the amended Directive shall: (i) establish specific requirements in order to facilitate shareholders' engagement in the long term, including the identification of shareholders, the transmission of information and the facilitation of the exercise of shareholder rights; (ii) create transparency on the engagement policies of institutional investors and asset managers and on the activities of proxy advisors and; (iii) lay down certain requirements with regard to directors' remuneration and related party transaction.

Support for long-term shareholding: in order to provide more stability for companies, Member States shall put in place a mechanism in order to promote shareholding on a long-term basis and foster long-term shareholders. The qualifying period in order to be considered a long term shareholder shall not be less than two years.

The mechanism shall include one or more of the following advantages for long term shareholders: additional voting rights; tax incentives; loyalty dividends; loyalty shares.

Transparency of asset managers: asset managers should be required to publicly disclose annually how their investment strategy and the implementation thereof is in accordance with the asset management arrangement and how the investment strategy and decisions contributes to medium to long-term performance of the assets of the institutional investor. Moreover, information on the portfolio composition, on the portfolio turnover costs, on conflicts of interest which have arisen and how they have been dealt with should be disclosed.

Transparency of proxy advisors: proxy advisors should adopt and follow a code of conduct. Departures from the code should be declared and explained, together with any alternative solutions which have been adopted. Proxy advisors should report on the application of their code of conduct on a yearly basis.

Approval of the remuneration policy by stakeholders: the remuneration policy for company directors should also contribute to the long-term growth of the company so that it corresponds to a more effective practice of corporate governance and is not linked entirely or largely to short-term investment objectives. Companies should establish a remuneration policy as regards directors and submit it to a binding vote of the general meeting of shareholders. Any change to the policy shall be voted on at the general meeting of shareholders and the policy shall be submitted in any case for approval by the general meeting at least every three years.

Directors performance should be assessed using both financial and non-financial performance criteria, including environmental, social and governance factors.

The remuneration policy shall set clear criteria for the award of fixed and variable remuneration, including all bonuses and all benefits in whatever form.

For variable remuneration, the criteria also include consideration of programmes relating to corporate social responsibility and the results achieved in this regard should be taken into consideration. Member States shall ensure that share-based remuneration does not represent the most significant part of directors' variable remuneration.

In addition, the remuneration policy shall:

- indicate the main terms of the contracts of directors, including its duration and the applicable notice periods and terms of termination and payments linked to termination of contracts and the characteristics of supplementary pension or early retirement schemes;
- specify the company's procedures for the determination of the remuneration of directors, including the role and functioning of the remuneration committee;
- explain the specific decision-making process leading to its determination.

Member States shall ensure that relevant stakeholders, in particular employees, are entitled, via their representatives, to express a view on the remuneration report before it is submitted to the shareholders.

Additional disclosure for large undertakings: in the notes to the financial statements, large undertakings shall, in addition to the information required under the Directive, publicly disclose non-essential information in respect of the following matters, specifying by Member State and by third country in which it has a subsidiary.

Undertakings whose average number of employees on a consolidated basis during the financial year does not exceed 500 and, on their balance sheet dates, do not exceed on a consolidated basis either a balance sheet total of 86 million or a net turnover of 100 million shall be exempt from the obligation.

Additional disclosure for issuers: Member States shall require each issuer to publicly disclose annually, specifying by Member State and by third country in which it has a subsidiary, the following information on a consolidated basis for the financial year: (i) name(s), (ii) nature of activities and geographical location; (iii) turnover; (iv) number of employees on a full time equivalent basis; (v) tax on profit or loss; (vii) public subsidies received.