# Disclosure of remuneration

**MCCG Intended Outcome 7.0**

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

**MCCG Practice 7.1**
There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

**MCCG Practice 7.2**
The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

**MCCG Step Up 7.3**
Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

The internalisation and application of the content "Why" and "How" should be read in tandem with the line of sight outlined by the Intended Outcome.

## Why — The case for change

Directors' remuneration has often attracted fascination (or controversy) and public attention due to the somewhat opaque manner in which remuneration is determined and disclosed. In a world where transparency is being valued more and more, clarity in directors' remuneration has become the "new normal".

With regards to senior management, given that behind every successful company is a great management team (and vice-versa), stakeholders should also be allowed to determine if the senior management team is being appropriately compensated (or whether they are being paid excessively or their pay is commensurate with their performance). It is important to assure shareholders that the senior management team is also paid with a long-term view of the company's performance. Incentivised remuneration which includes stock options redeemable in different years is one of the common methods used to reward senior management over time.

By making the compensation of the senior management team transparent, it can also help make a meaningful comparison between teams in the same industry and across other industries. Companies can ensure that their senior management personnel are paid well within the industry norms, thus, preventing them from being lured away by competitors. More pertinently, the enhanced transparency will encourage a culture whereby executive remuneration is anchored to appropriate and defensible bases.

**What could go wrong:**

Disclosures are inaccurate, vague, irreconcilable or simply downright confusing. Some of the items below would also constitute a breach of **Bursa Securities Listing Requirements**.

Examples include the following:

- Lumping the remuneration of executive and non-executive directors;
- Omitting remuneration of certain directors, e.g. those appointed during the year or who have retired;
- Disclosing remuneration received from the company (listed issuer) but not its subsidiaries; and
- Choosing not to disclose the nature of "other emoluments".

### Point for reflection

Remuneration of directors and senior management have recently been under the "microscope" with a growing clamour for transparency. Incidences of high or excessive pay-outs have led to stakeholders increasingly questioning the legitimacy of company directors and senior management's level of pay, even more so when performance of the company is dipping and share price has remained flat or fallen. The disparity between the level of pay between those at the leadership level and an average employee's remuneration at the lower level in a company (commonly referred to as the **pay gap**) is another oft-cited contention.

This sentiment may be unfair, as external events over which the directors and senior management have limited control, may have caused the downswing in a company's performance and they too need to be compensated accordingly for their efforts. As such, regulatory reforms have tried to address their concerns by empowering stakeholders in various ways, such as by equipping them with detailed information, including the considerations involved in formulating the remuneration of directors and senior management.

**Commonly cited reasons for obscuring disclosure of directors' remuneration on an individual basis:**

#### Security

Companies often cite privacy and security as reasons for not disclosing.

However, it should be noted that the previous disclosure regime (in bands of RM 50,000)[1] already enabled a good estimate of a director's remuneration. As such, the need for greater transparency clearly outweighs any security concerns.

#### No added value

A commonly used catch-all reason given by boards in annual reports is that such disclosure does not add any value for the reader.

Shareholders pay attention, now more than ever, to the level of remuneration the directors are paid. Shareholders have been known to vote against payment of directors' fees in instances where the performance of the company has been poor.

It is also important for stakeholders to know that the senior management is adequately compensated in line with the company's long-term goals.

#### Avoiding the spiral effect

Less cited is the desire to avoid a culture of benchmarking, so as to drive remuneration levels upwards (the "Lake Wobegon effect")[2].

This argument, however, does not take into account of the fact that if remuneration becomes transparent, benchmarking would be done easily, thus, providing a standard level of remuneration within industries and curbing executives from drawing remuneration which is excessively higher than the industry average.

### Dos

- ✓ Ensuring that the disclosure in the corporate governance statement or report matches that in the financial statements.
- ✓ If there is an appreciable increase, outline the grounds behind such increase.
- ✓ In the case of a nominee director, disclose whether the director's remuneration is paid to the holding company or retained by the director.

### Don'ts

The following would render the application of this practice ineffective:

- × Being inconsistent in the categories of remuneration, thus, hindering comparability across periods of time.

[1] Disclosure of directors' remuneration in bands of RM50,000 was required under the predecessor **paragraph 11, Part A, Appendix 9C of Bursa Securities Listing Requirements**.
[2] The Lake Wobegon effect is a term used to describe the natural human tendency to overestimate one's capabilities, and has been linked to a spiral effect on levels of remuneration as the median remuneration is pushed increasingly higher.

## How The practice in substance

Apart from the **MCCG**, the **Companies Act 2016** and **Bursa Securities Listing Requirements** have also enumerated the following prescriptions on disclosure of directors' remuneration.

**Paragraph 2, Part 1, Fifth Schedule of Companies Act 2016 – contents of directors' report**

The report shall state, in respect of the directors or past directors of the company, the amount of –

(a) fees and other benefits distinguished separately, paid to or receivable by them from the company or its subsidiary companies, inclusive of all fees, percentages, bonuses, commissions, compensation for loss of office, any contribution in respect of them under any pension or retirement benefit scheme and inclusive of commission paid or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in or debentures of the company or of its holding company or any subsidiary of the company:

Provided that where a director or any firm of which the director is a member, acts for the company in a professional capacity, the amount paid to the director or to his firm for services rendered to the company in that capacity shall not be included in all fees, percentages, bonuses, commissions, compensation for loss of office, any contribution in respect of them under any pension or retirement benefit scheme and inclusive of commission paid or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in or debentures of the company or of its holding company or any subsidiary of the company but shall be shown separately whether by way of note or otherwise;

(b) by the way of a note or otherwise, the estimated money of any other benefits received or receivable by them otherwise than in cash from the company or from any of its subsidiary companies;

(c) the total of the amount paid or receivable by any third party in respect of the services provided to the company or any of its subsidiary companies by any director or past director of the company; and

(d) the total amount, if any, of any indemnity given to or insurance effected for any director, officer or auditor of the company.

**Paragraph 11, Part A, Appendix 9C of Bursa Securities Listing Requirements**

The contents of the annual report should include:

The remuneration of directors of the listed issuer (including the remuneration for services rendered to the listed issuer as a group) for the financial year on a named basis, stating the amount received or to be received from the listed issuer and on a group basis respectively. The disclosure must include the amount in each component of the remuneration (e.g. directors' fees, salaries, percentages, bonuses, commission, compensation for loss of office, benefits in kind based on an estimated money value) for each director.

**Effects of enhanced disclosure**

Enhanced disclosure requirements have often been an "eye-opener" and have led to boards revisiting the remuneration policy, not only for the directors but for the management team and rank-and-file employees as well. The overall effect is to align the company's remuneration scheme (for both directors and employees) to a level that is reasonable with the market, where performance is linked and rewarded and where excessive pay-outs cannot be easily masked.

As for financial institutions, **Paragraph 5, Appendix 4 of Bank Negara Malaysia's Policy Document on Corporate Governance** requires disclosure of the total amount of remuneration awards for the chief executive officer and directors for the financial year, including a breakdown of fixed and variable remuneration; deferred and non-deferred remuneration; and the different forms of remuneration used (e.g. cash, shares and share–linked instruments).

All in all, it can be said that the disclosure prescription is straight-forward in practice (with information readily available internally), but as noted earlier, the barriers are not tangible; rather they are psychological hurdles that boards must overcome to truly claim that transparency is the order of the day.

**The disclosure of remuneration on a named basis may initially be uncomfortable, but once becomes widespread it will gradually be taken to be a business-as-usual disclosure and eventually form the "new normal".** In the absence of detailed remuneration disclosure, it would be easier to perpetuate an information environment that is characterised by anomalies, thus, leading to distortion of the remuneration system. Succinctly put, transparency fosters confidence in investors by allowing them to understand companies' basis and motivation behind their remuneration frameworks.

Key considerations relating to the application of **Practices 7.1 and 7.2** and **Step Up 7.3** are discussed below:

**Are there fixed categories of remuneration to disclose?**

The **MCCG** uses the terms "fees, salary, bonus, benefits in-kind and other emoluments". These are broadly speaking the main categories of remuneration. The classifications, however, are not cast in stone and the company can accommodate more categories as deemed appropriate (e.g. share-based payment).

An illustrative disclosure showing directors' remuneration on an individual or named basis with the different categories of remuneration is provided on the following page.

**Illustrative disclosure**

Remuneration of executive and non-executive directors of BP:

| UK (£) | Director's fees | Salaries | Benefits* | Others** | Total |
|---|---|---|---|---|---|
| **Year ended 31 December 2016** ***Independent Non-executive Directors*** | | | | | |
| Mr. Carl-Henric Svanberg[a] | 785,000 | - | 58,000 | - | **843,000** |
| Mr. Nils Andersen[b] | 23,000 | - | 6,000 | - | **29,000** |
| Mr. Paul Anderson | 165,000 | - | 32,000 | - | **197,000** |
| Mr. Alan Boeckmann | 168,000 | - | 17,000 | - | **185,000** |
| Mr. Admiral Frank Bowman | 162,000 | - | 14,000 | - | **176,000** |
| Mr. Antony Burgmans[c] | 47,000 | - | 21,000 | - | **68,000** |
| Ms. Cynthia Carroll | 140,000 | - | 28,000 | - | **168,000** |
| Mr. Ian Davis | 136,000 | - | 2,000 | - | **138,000** |
| Professor Dame Ann Dowling[d] | 150,000 | - | 2,000 | - | **152,000** |
| Mr. Brendan Nelson | 130,000 | - | 30,000 | - | **160,000** |
| Ms. Phuthuman Nhleko[c] | 48,000 | - | 3,000 | - | **51,000** |
| Ms. Paula Rosput Reynolds[e] | 140,000 | - | 17,000 | - | **157,000** |
| Sir John Sawers | 148,000 | - | 19,000 | - | **167,000** |
| Mr. Andrew Shilston | 190,000 | - | 5,000 | - | **195,000** |
| **Total** | **2,432,000** | **2,166,000** | **378,000** | **10,808,000** | **15,784,000** |

*[a] Chairman of the Board.*
*[b] Appointed on 31 October 2016.*
*[c] Retired on 14 April 2016.*
*[d] In addition, Professor Dame Ann Dowling received £25,000 for chairing and being a member of the BP technology advisory council.*
*[e] The 2015 number has been restated to reflect tax treatment.*
**Benefits for Non-executive Directors include travel and other expenses relating to the attendance at board and other meetings. Amounts disclosed have been grossed up using a tax rate of 45%, where relevant, as an estimation of tax due.*
***Comprises of annual bonuses, share-based payments, and pension scheme contribution, other benefits and inducement fees.*

| UK (£) | Salaries | Benefits* | Bonuses | Share-based payments | Pension scheme contribution | Others** | Total |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2016** ***Executive Director*** | | | | | | | |
| Mr. Bob Dudley | 1,434,000 | 57,000 | 1,313,000 | 4,432,000 | 1,706,000 | - | **8,942,000** |
| Dr. Brian Gilvary | 732,000 | 67,000 | 669,000 | 2,433,000 | 256,000 | - | **4,157,000** |
| **Total** | **2,166,000** | **124,000** | **1,982,000** | **6,865,000** | **1,962,000** | **-** | **13,099,000** |

**Benefits for Executive Directors include car-related benefits, security assistance, insurance and medical benefits.*
***Comprises of director's fees, other benefits and inducement fees.*

*Source: BP Group Annual Report and Form 20-F 2016 (United Kingdom)*

**Material risk takers**

In addition to directors and senior management, there is also increased scrutiny on the remuneration of **material risk takers** in financial institutions.

A material risk taker refers to an officer who is not a member of senior management and who can materially commit/control significant amounts of the financial institution's resources or whose actions are likely to have a significant impact on the risk profile of the financial institution. Alternatively, material risk takers could also refer to those who are among the most highly remunerated officers within the financial institution.

As stated in **Standard 19.3 of Bank Negara Malaysia's Policy Document on Corporate Governance**, the remuneration of directors, member of senior management and other material risk taker must be approved by the board annually. In providing information relating to the design and structure of the remuneration system (**Paragraph 4**, **Appendix 4** of the said **Policy Document**), a description should also be provided on the types of officers who are considered as material risk takers.

**Who are members of the top five senior management team for which disclosure is propounded under Practice 7.2?**

The top five senior management team members refers to the **five highest paid senior management** members in the company.

A member of the senior management team would generally refer to an individual who holds the highest level of management responsibility and decision-making authority within the company. As a rule of thumb, this would include the chief executive officer (who is not a director), other members of the C-suite or direct reports to the chief executive officer.

An illustrative disclosure showing the detailed remuneration of the top five members of the senior management team (on a named basis) is provided below:

**Illustrative disclosure**

Summary compensation table for the other top five key management and senior management for the financial year ended 31 March 2016:

| Name | | Fixed Remuneration | Variable Bonus | Provident Fund | Benefits | Total Cash & Benefits |
|---|---|---|---|---|---|---|
| Bill Chang CEO Group Enterprise | Earned | S$909,996 | S$2,341,249 | S$14,960 | S$66,072 | S$3,332,277 |
| | Paid Out | | S$1,698,580 | | | S$2,689,608 |
| Hui Weng Cheong COO, AIS | Earned | S$663,000 | S$1,198,625 | S$7,570 | S$446,002 | S$2,315,197 |
| | Paid Out | | S$1,080,922 | | | S$2,197,494 |
| Allen Lew CEO Consumer Australia | Earned | A$1,540,933 | A$3,451,390 | S$7,992 | A$490,712 | A$5,490,884 |
| | Paid Out | | A$3,366,356 | | | A$5,405,851 |
| Jeann Low Group Chief Corporate Officer | Earned | S$909,996 | S$1,403,332 | S$13,540 | S$62,163 | S$2,389,031 |
| | Paid Out | | S$1,327,711 | | | S$2,313,410 |
| Yuen Kwan Moon CEO Consumer Singapore | Earned | S$720,000 | S$1,470,000 | S$14,960 | S$61,948 | S$2,266,908 |
| | Paid Out | | S$1,093,265 | | | S$1,890,173 |
| **Total** | **Earned** | **S$4,771,756** | **S$9,926,931** | **S$59,022** | **S$1,135,759** | **S$15,893,468** |
| | **Paid Out** | | **S$8,627,634** | | | **S$14,594,171** |

*Source: Singapore Telecommunications Ltd Annual Report 2016*

**Do listed issuers have to provide disclosures on a listed issuer level or group level?**

As enumerated in **paragraph 11, Part A, Appendix 9C of Bursa Securities Listing Requirements**, listed issuers have to produce disclosures on **both levels**, namely, at the listed issuer level and group[3] level. An example of disclosure in this regard is outlined below *(note: categories of remuneration outlined below are non-exhaustive)*:

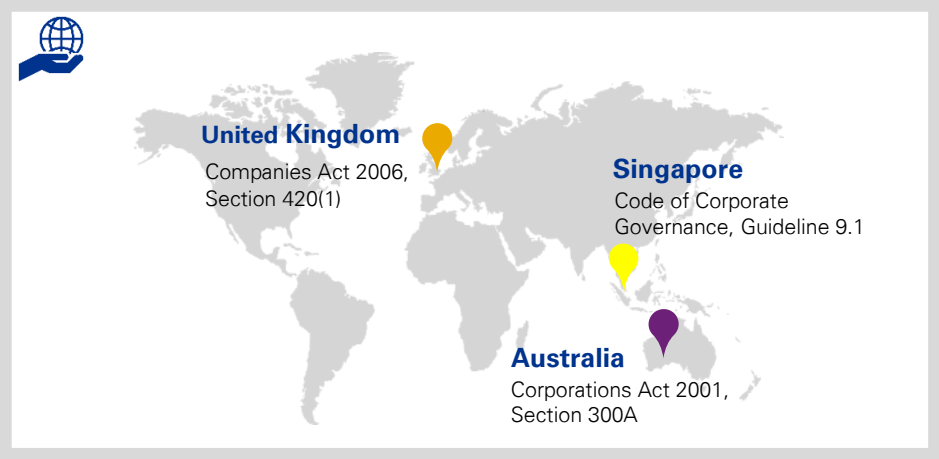
| **Group** | | | | | |
|---|---|---|---|---|---|
| | **Fees** (RM '000) | **Meeting Allowance** (RM '000) | **Salaries** (RM '000) | **Bonus** (RM '000) | **Other emoluments** (RM '000) |
| **Non-Executive Directors ("NEDs")** | | | | | |
| NED I | | | | | |
| NED II… | | | | | |
| **Executive Directors ("EDs")** | | | | | |
| ED I | | | | | |
| ED II…. | | | | | |
| **Listed issuer** | | | | | |
| | **Fees** (RM '000) | **Allowance** (RM '000) | **Salaries** (RM '000) | **Bonus** (RM '000) | **Other emoluments** (RM '000) |
| **Non-Executive Directors ("NEDs")** | | | | | |
| NED I | | | | | |
| NED II… | | | | | |
| **Executive Directors ("EDs")** | | | | | |
| ED I | | | | | |
| ED II… | | | | | |

It is also important to note that in the event the directors do not receive any additional remuneration for services rendered in the subsidiaries (apart from that received at the listed issuer level), a statement to that effect should be reflected in the annual report of the listed issuer.

## Where — Regional/international perspectives

As in the case of Malaysia, enumerations on disclosure of directors' remuneration (and to some extent, remuneration of the senior management team) have been established in numerous jurisdictions.

[3] Refers to the listed issuer and its subsidiaries




| Country | Provision(s) |
|---|---|
| Singapore | The company should report to the shareholders each year on the remuneration of directors, the CEO and at least the top five key management personnel (who are not also directors or the CEO) of the company. The company should fully disclose the remuneration of each individual director and the CEO on a named basis ***(Guideline 9.1)***. |
| Australia | The directors' report for a financial year for a company must also include (in a separate and clearly identified section of the report):<br>(a) discussion of board policy for determining, or in relation to, the nature and amount (or value, as appropriate) of remuneration of the key management personnel;<br>(b) discussion of the relationship between such policy and the company's performance; and<br>(c) the prescribed details in relation to the remuneration of each member of the key management personnel.<br>***(Section 300A)***<br><br>*Note: Only an extract of Section 300A is outlined above.*<br>*Section 9 of the Corporations Act 2001 stipulates that "key management personnel" for an entity has the same meaning as in the accounting standards. The Australian Accounting Standards Board (AASB) defines key management personnel as "those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity"* ***(AASB 124 – Related Party Disclosures)***. |
| United Kingdom | The directors of a quoted company must prepare a directors' remuneration report for each financial year of the company ***[Section 420(1)] augmented by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008)***. |

**United Kingdom's Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008**

**Part 3 - Annual Report of Remuneration**

**Paragraph 4**
The directors' remuneration report must, for the relevant financial year, for each person who has served as a director of the company at any time during that year, set out in a table in the form set out in paragraph 5 ("the single total figure table") the information prescribed by paragraphs 6 and 7 below.

**Paragraph 5**
The form of the table required by paragraph 4 is –

| Single Total Figure Table | | | | | | |
|---|---|---|---|---|---|---|
| | a | b | c | d | e | Total |
| Director 1 | xxx | xxx | xxx | xxx | xxx | xxx |
| Director 2 | xxx | xxx | xxx | xxx | xxx | xxx |

**Paragraph 6**
(1) In addition to the columns described in paragraph 7, columns –

(a) must be included to set out any other items in the nature of remuneration which are not set out in the columns headed "(a)" to "(e)"; and

(b) may be included if there are any sub-totals or other items which the directors consider necessary in order to assist the understanding of the table.

(2) Any additional columns must be inserted before the column marked "Total".

**Paragraph 7**
(1) the sums that are required to be set out in the columns are –

(a) in the column headed "a", the total amount of salary and fees;

(b) in the column headed " b", all taxable benefits;

(c) in the column headed "c", money or other assets received or receivable for the relevant financial year as a result of the achievement of performance measures and targets relating to a period ending in that financial year[4];

(d) in the column headed "d", money or other assets received or receivable for periods of more than one financial year where final vesting is determined as a result of the achievement of performance measures or targets relating to a period ending in the relevant financial year and is not subject to the achievement of performance measures or targets in a future financial year;

(e) in the column headed "e", all pension related benefits; and

(f) in the column headed "Total", the total amount of the sums set out in the previous columns.

*Note: The above only represents an extract.*

[4] Excluding those which result from awards made in a previous financial year and where final vesting is determined as a result of the achievement of performance measures or targets relating to a period ending in the relevant financial year or those receivable subject to the achievement of performance measures o targets in a future financial year.