The Corporate Governance Barometer — Europe

AN ETHICS & BOARDS / ECODA SURVEY DATA NARRATIVE

NOVEMBER 2022

INDEX

00 INTRODUCTORY REMARKS

ESG issues are making inroads into European board committees, according to a new survey from ecoDa/Ethics&Boards. Despite not being legally required, ESG committees have increased by 54 percent during the last three years.

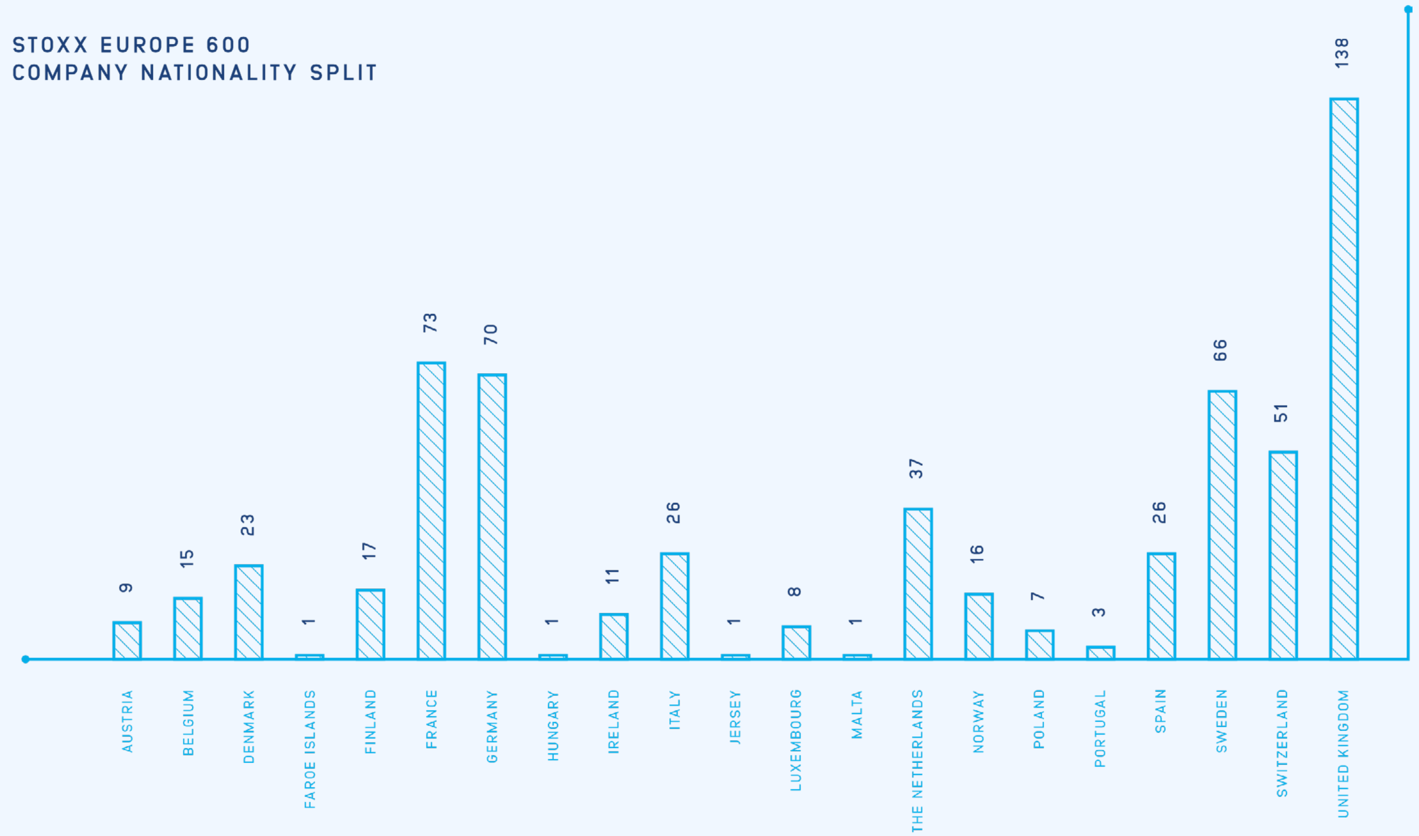
ESG has also emerged as an important renumeration criteria when designing CEO short term incentives. In 2020, a majority of European companies had ESG indicators account for almost ten percent of total performance in the incentives plan.

This barometer is based on information published by Stoxx Europe 600 companies in their annual reports or on their official websites.

STOXX EUROPE 600 SCOPE 16 COUNTRIES

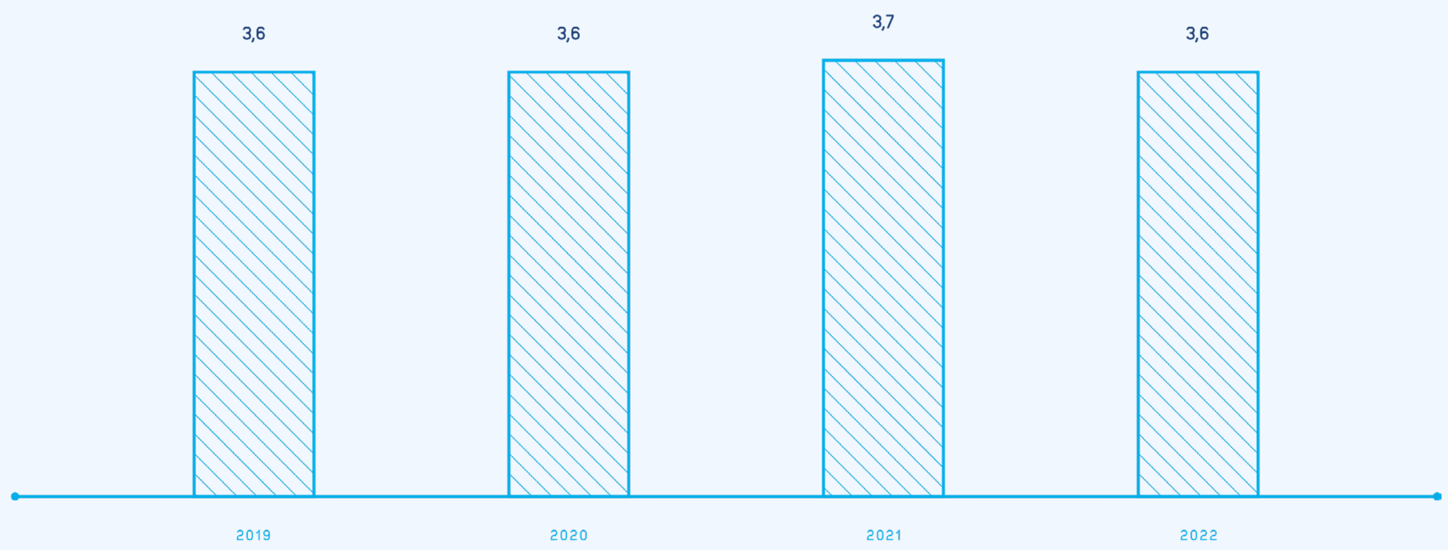
STOXX EUROPE 600 INDEX COMPOSITION AS OF JULY 2022 INCLUDES ALSO FAROE ISLANDS (1 COMPANY), JERSEY (1), HUNGARY (1), MALTA (1) AND PORTUGAL (3). DUE TO INSUFFICIENT SAMPLE, THEY ARE INCLUDED IN THE GLOBAL PANEL BUT NOT IN THE COUNTRY BENCHMARK.

STOXX EUROPE 600 COMPANY NATIONALITY SPLIT

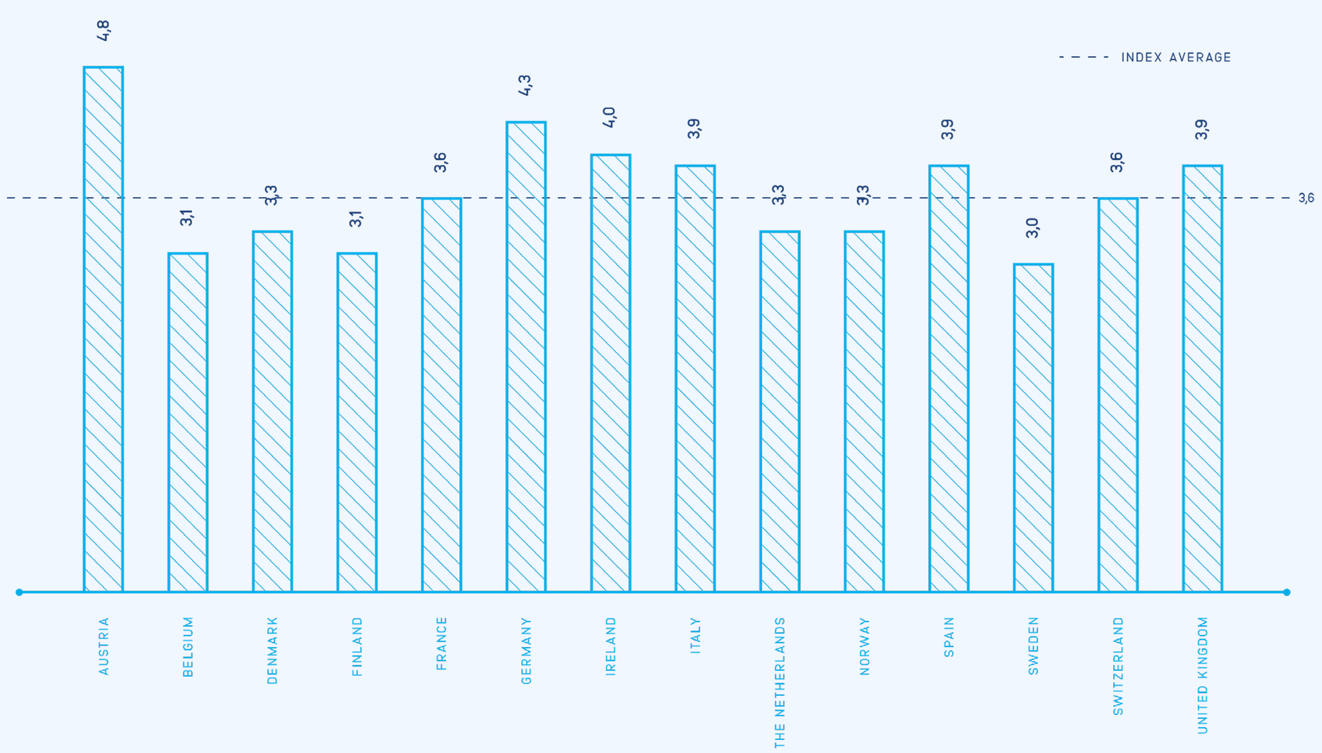


01 BOARD COMMITTEES

AVERAGE NUMBER OF BOARD COMMITEES



AVERAGE NUMBER OF BOARD COMMITEES RANGING FROM 3 TO 4,8



On average, the number of board committees varies from three to close to five in Europe.

- Boards retain great freedom in determining the number of committees according to their sectors of activity and their strategic objectives, despite a certain convergence favored by the regulators' requirements.
- The limited size of the boards in the Nordic countries explains the lower number of committees. The fear of fragmented thinking and of losing sight of the big picture contribute to this situation.

Extra elements:

- While the tendency is to create a dedicated committee as soon as a new topic emerges, one could wonder whether this approach makes sense for all companies in Europe (pros: greater expertise/experience, more efficiency as the committee focuses on one topic / cons: less accountability, unclear mandate...);
- Dedicated committees allow board members to collect and select the most relevant information in their field of expertise in order to prepare for the decision making of the board. But the risk is fragmented thinking with a lost overview as a result. Specialists could lose sight of the bigger picture. In addition, for the board to get the full picture, much more 'reporting' needs to be done to secure that all board members can make an informed decision;
- Flexibility is needed to let companies organize themselves in the best way based on the character of the company (size, sector, country, objectives...), except when regulated;
- It is important to use the specialized committees of the board to ensure a rigorous and professional preparation for the meetings of the board. However, it is also important to acknowledge that certain countries have different traditions in terms of boards' size. Smaller boards do not allow for the creation of an extensive number of committees. Likewise, it does not always make sense to have separate committees (on audit and risk/compliance for example) depending on the country and sector in which companies operate.

Even for mandatory committees, boards retain some leeway when deciding whether to make them dedicated committees or to make committees dealing with a range of subjects.

- The 'traditional' board committees in governance such as Audit, Remuneration and Nomination committees are well integrated into the landscape of European boards. However, it is not uncommon for those committees to extend their responsibilities. Some committees like the Remuneration Committees are indeed starting to have a wider scope embracing topics such as HR and people management;
- The existence of committees dealing with certain subjects are interesting indicators of the strategic choices made by the boards.

Extra elements:

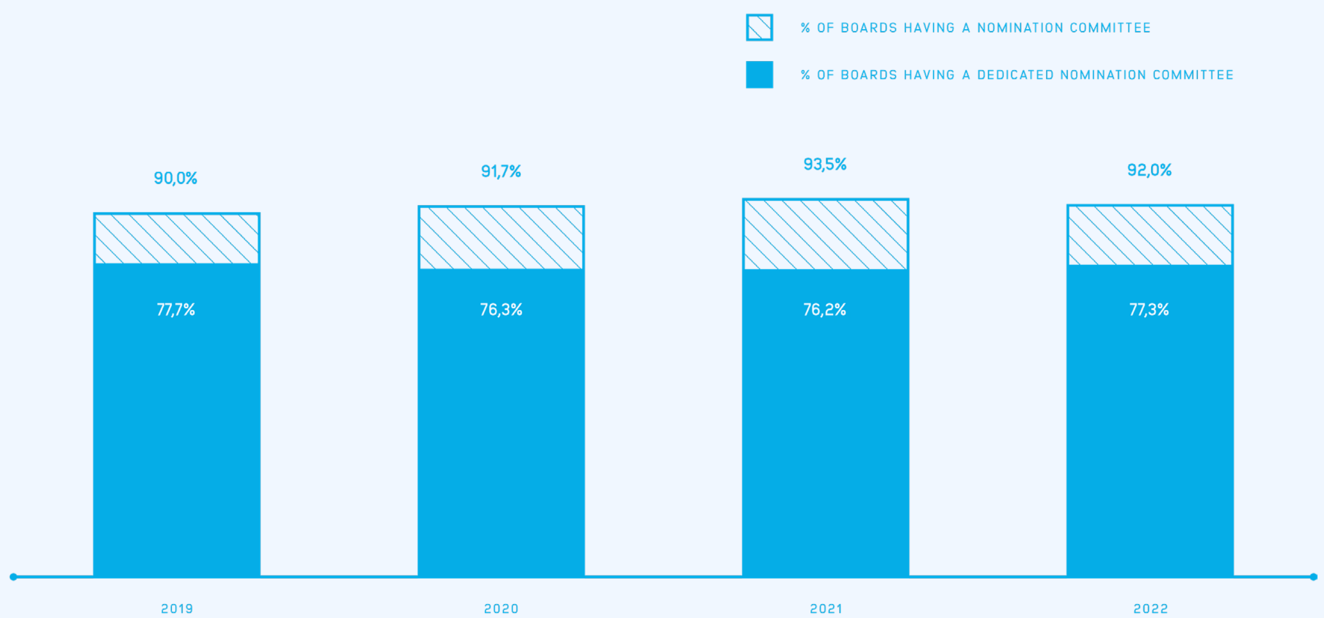
- Not to be too prescriptive in naming the committees as long as the missions identified as important by the board are properly dealt with;
- The per country difference can be explained by law requirements. If we take the example of Belgium, the creation of a nomination committee is not required by law, but recommended in the Corporate Governance Code. Most companies choose therefore to combine it with the remuneration committee. On the other hand, setting up a remuneration committee is a legal obligation for Belgian listed companies, which explains why 100% of listed companies have it. In Ireland and in the UK, the Corporate Governance Code stipulates that the board should establish a remuneration committee of independent non-executive directors.

While the proportion of committees dedicated to ESG topics has increased by 54% during the last three years, it points to an even larger number of boards dealing with these topics in existing committees or at board level. The results demonstrate that in countries where the topic of ESG is quite new, boards tend to start with a dedicated committee.

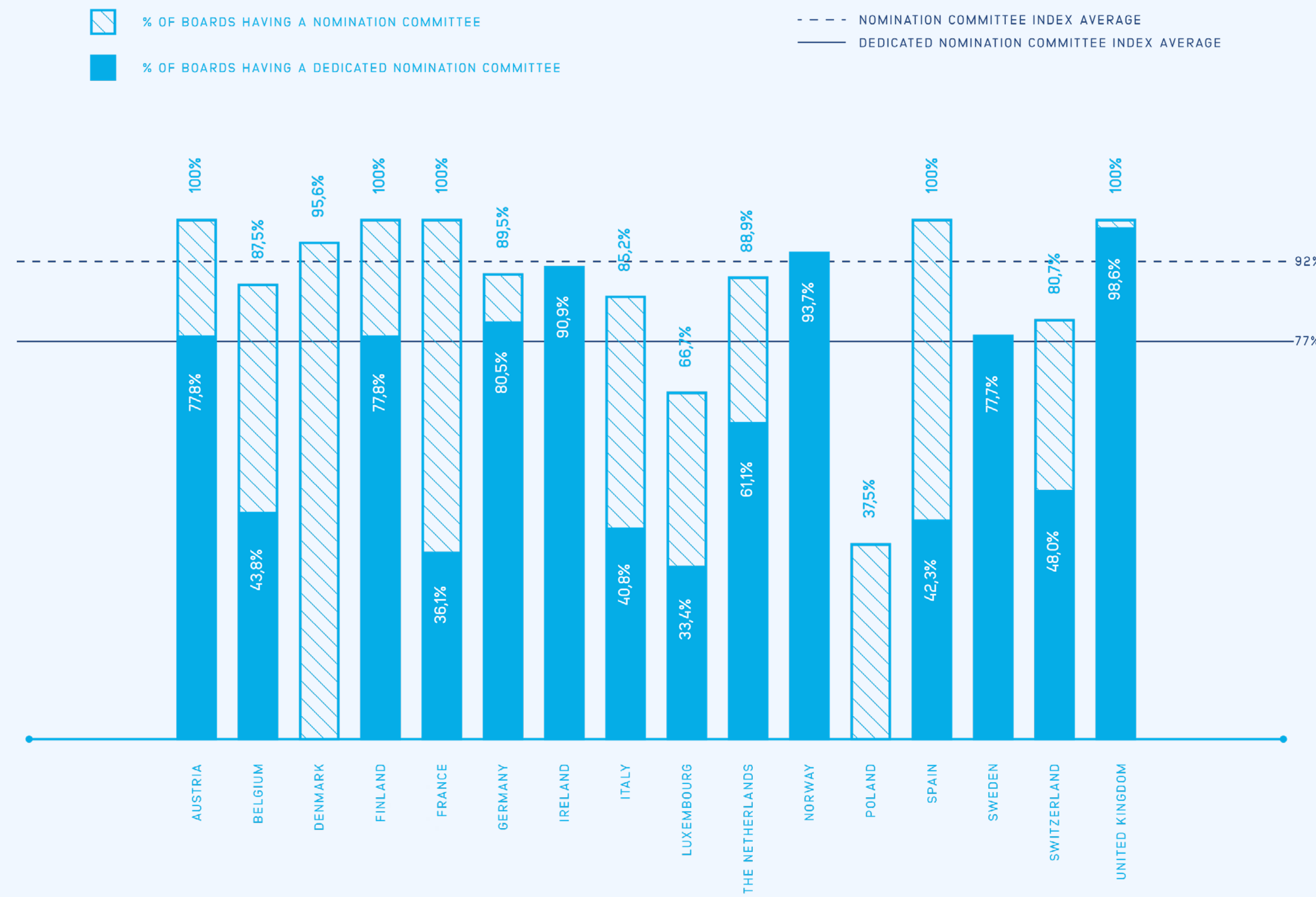
Extra elements:

- Some boards prefer to make ESG a topic that should be addressed by the entire board. Having a specific committee dealing with ESG is no guarantee of a better result.
- The creation of a sustainability / CSR committee is not required by any national law or any soft law. The increase in the number of dedicated CSR / ESG Committees proves that companies adapt to their stakeholders/shareholders' concerns and that they are not waiting for the legislators to act (=better to issue guidance/best practices rather than mandatory requirements - change is already happening).

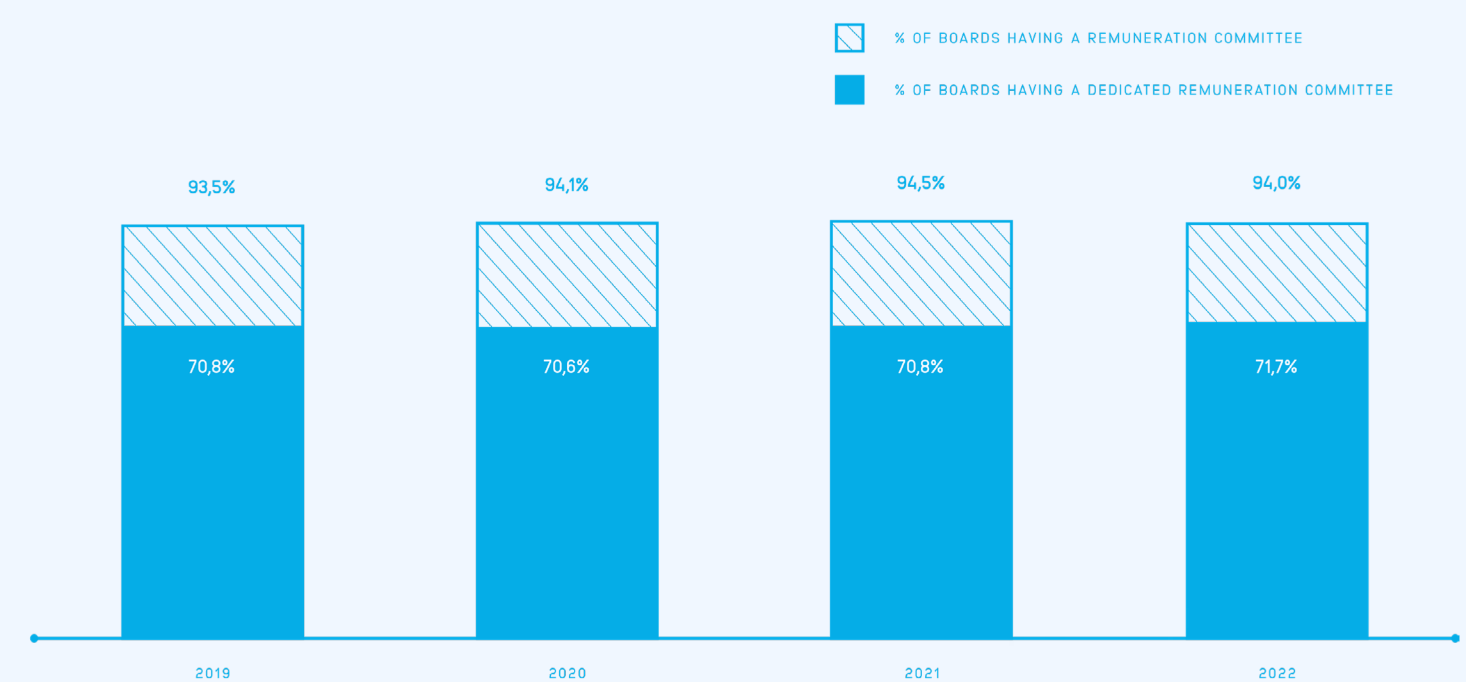
NOMINATION COMMITTEE: A STANDARD PRACTICE



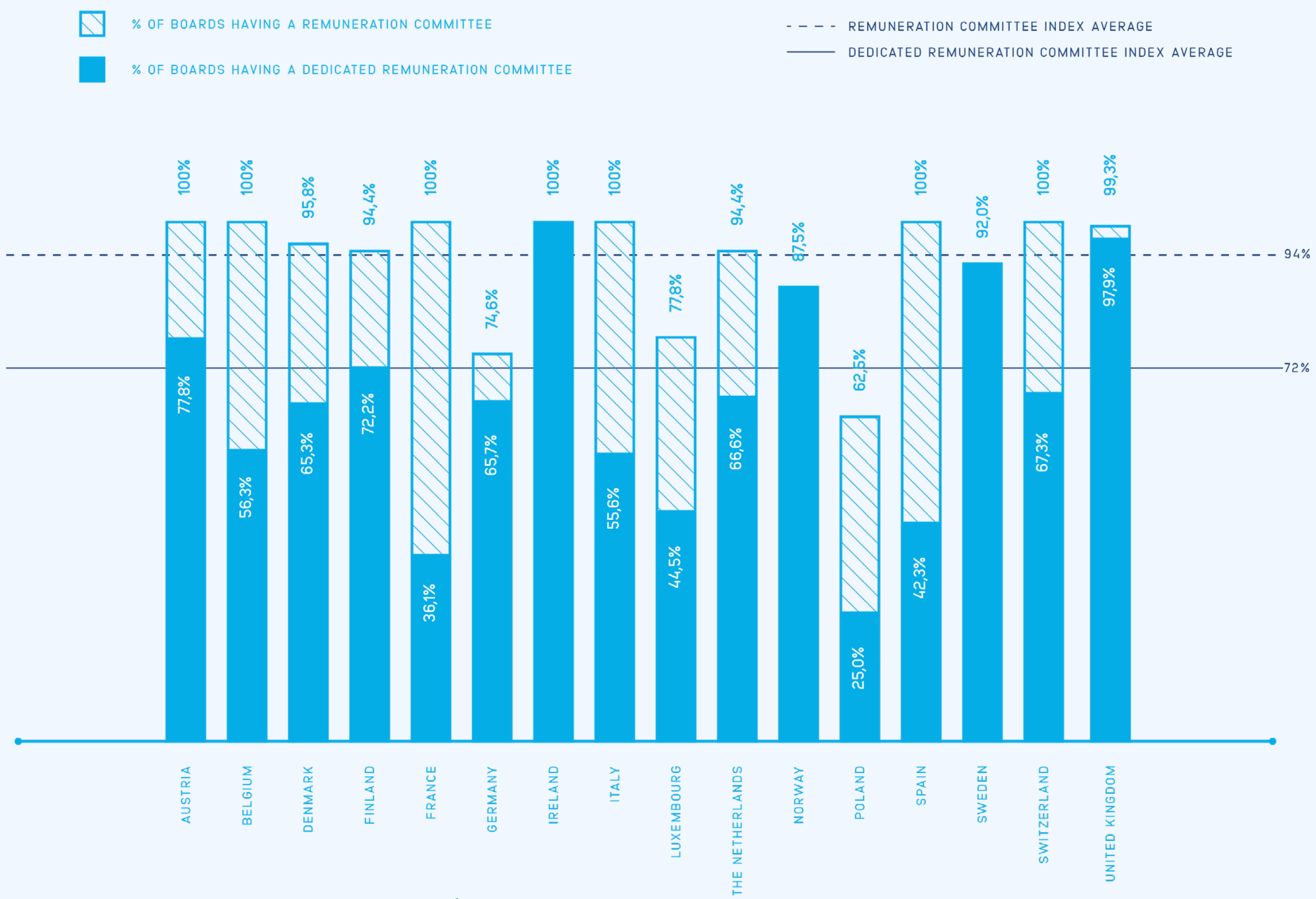
NOMINATION COMMITTEES PER COUNTRY: A VARIETY OF PRACTICES



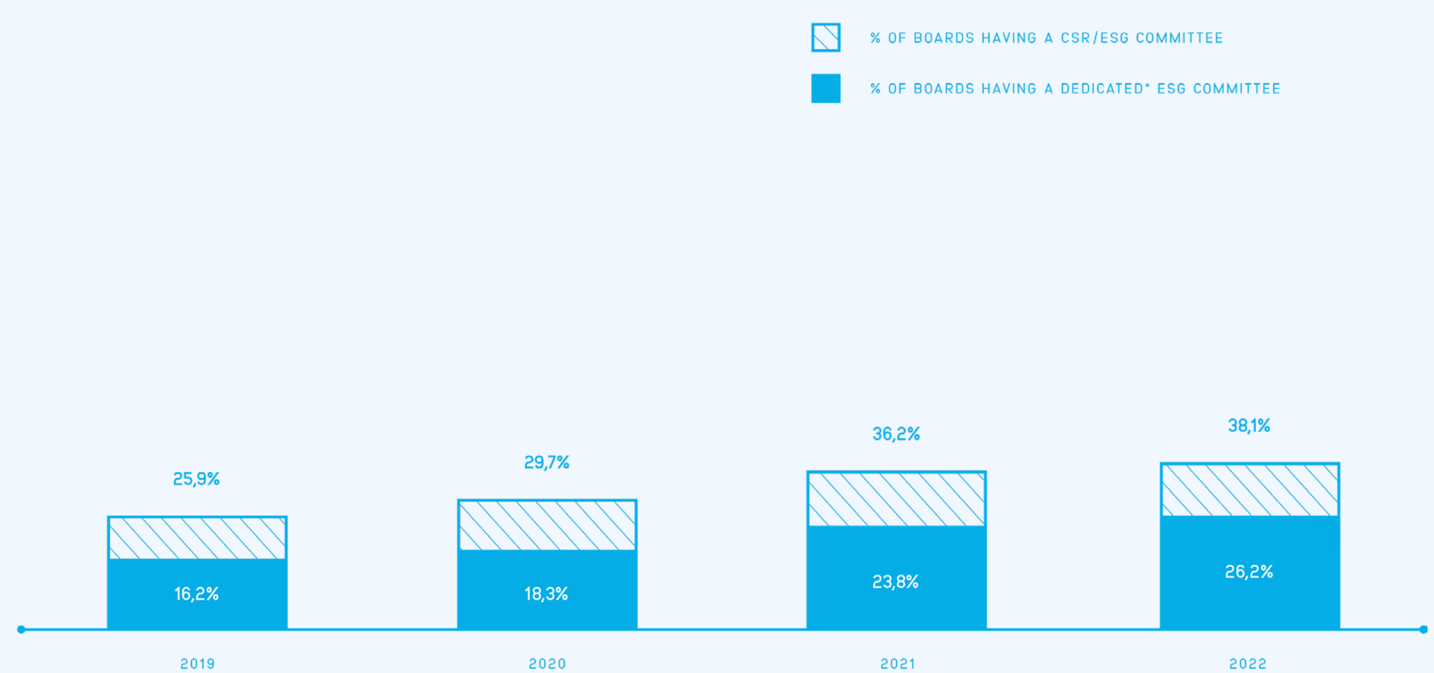
REMUNERATION COMMITTEE: A STANDARD PRACTICE



REMUNERATION COMMITTEES PER COUNTRY: A VARIETY OF PRACTICES

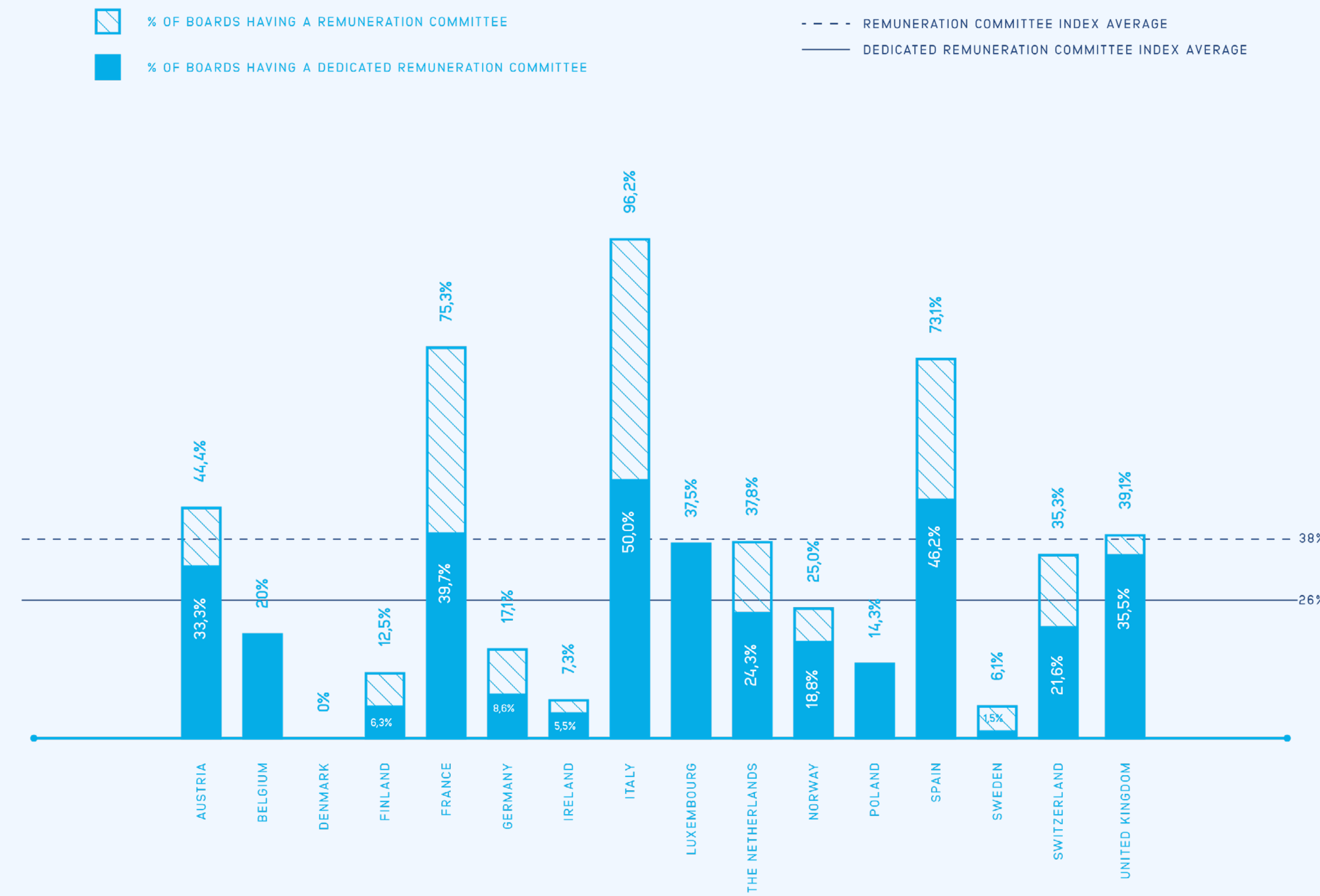


CLOSE TO 40% OF BOARDS HAVE A CSR/ESG COMMITTEE

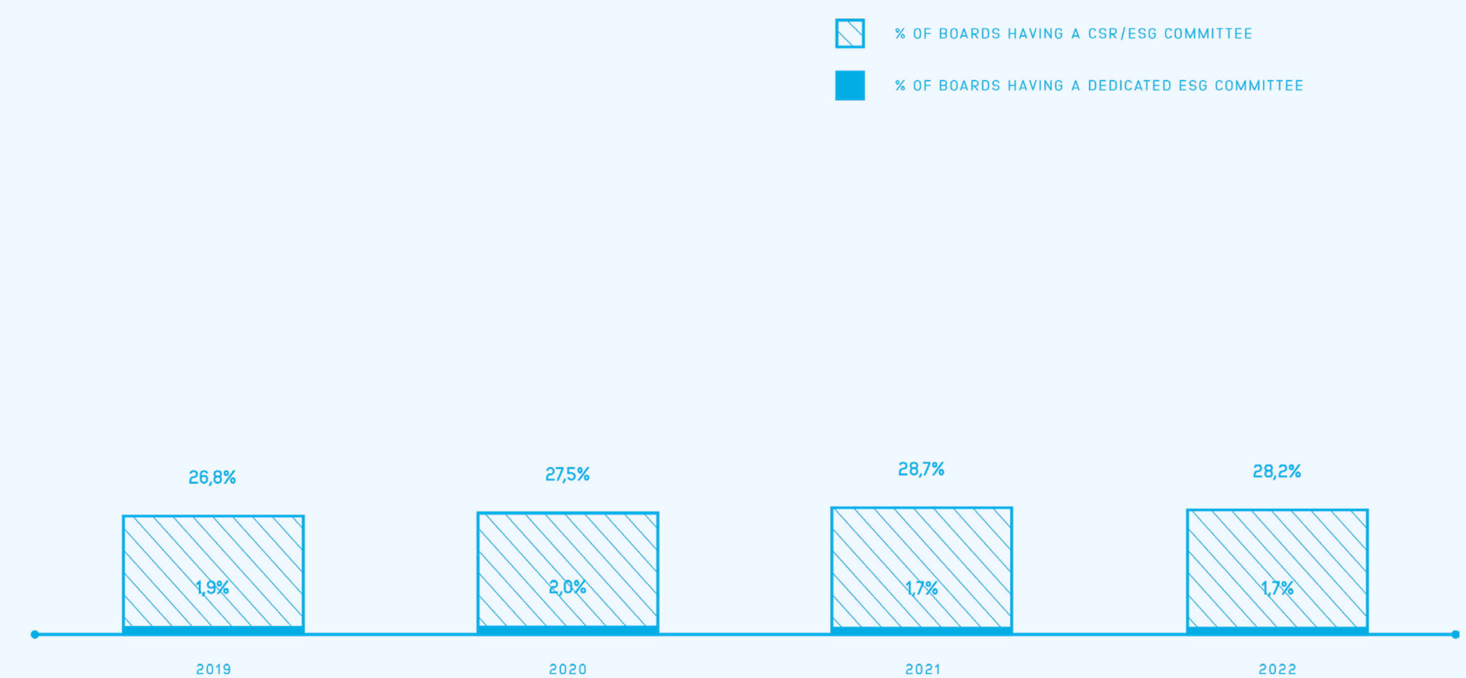


*WHEN CSR / ESG COMMITTEE IS NOT COMBINED WITH NOMINATION / REMUNERATION, STRATEGY OR AUDIT / RISK COMMITTEE

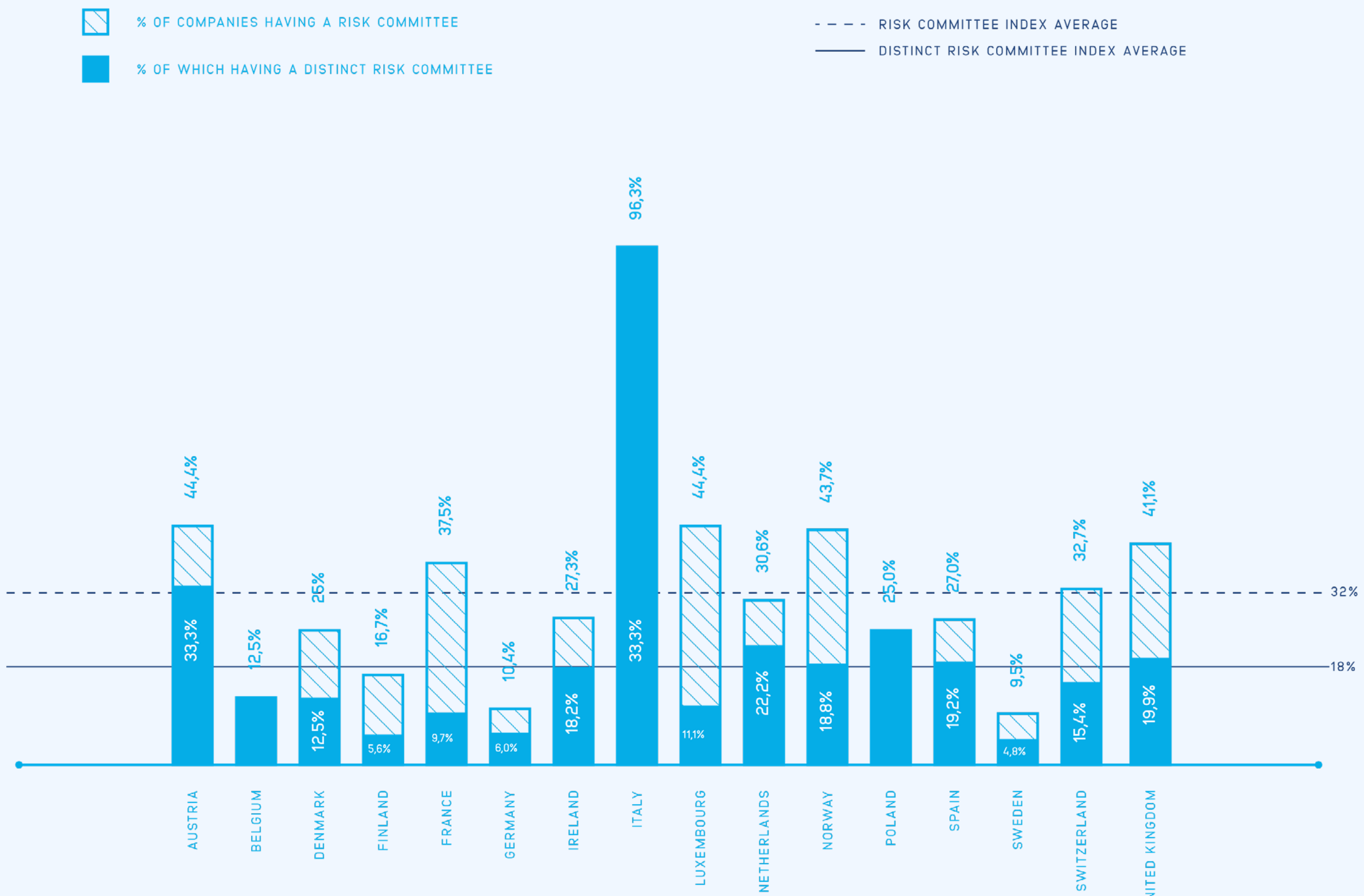
REMUNERATION COMMITTEES PER COUNTRY: A VARIETY OF PRACTICES



GOVERNANCE COMMITTEE REMAINS STABLE



NEARLY 1/3 OF BOARDS HAVE A COMMITTEE IN CHARGE OF RISK



02 FOCUS ON DIRECTORS' SKILLS

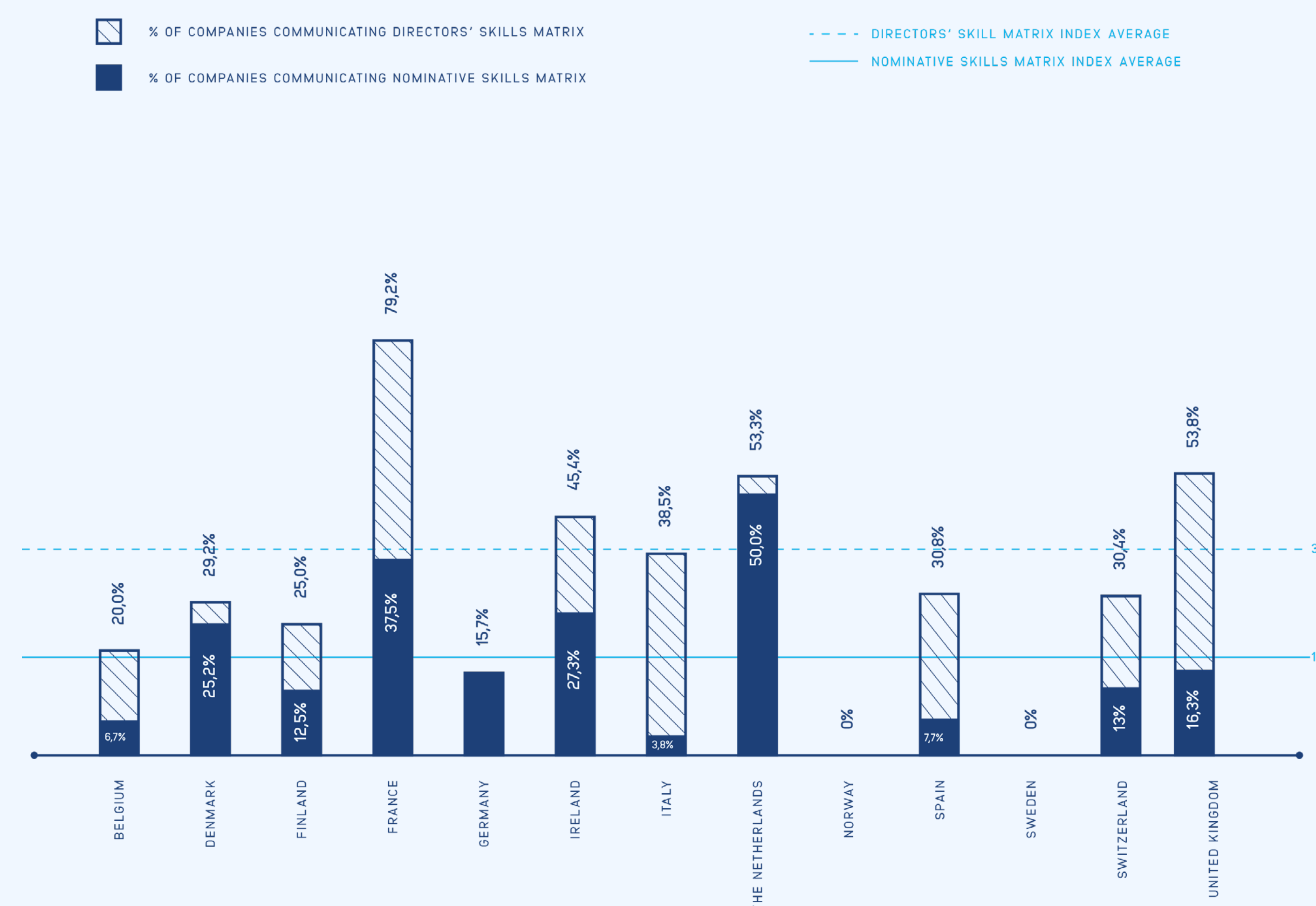
In their annual report less than 40% of European companies publish a matrix with directors' skills. This is driven by governance codes that anticipate market demands. In itself the matrix does not provide any information on what a good mix is, but can support a dialogue with shareholders.

With the exception of France and the Netherlands, less than 30% of companies declared Directors' CSR/Sustainability skills in 2021.

Extra elements:

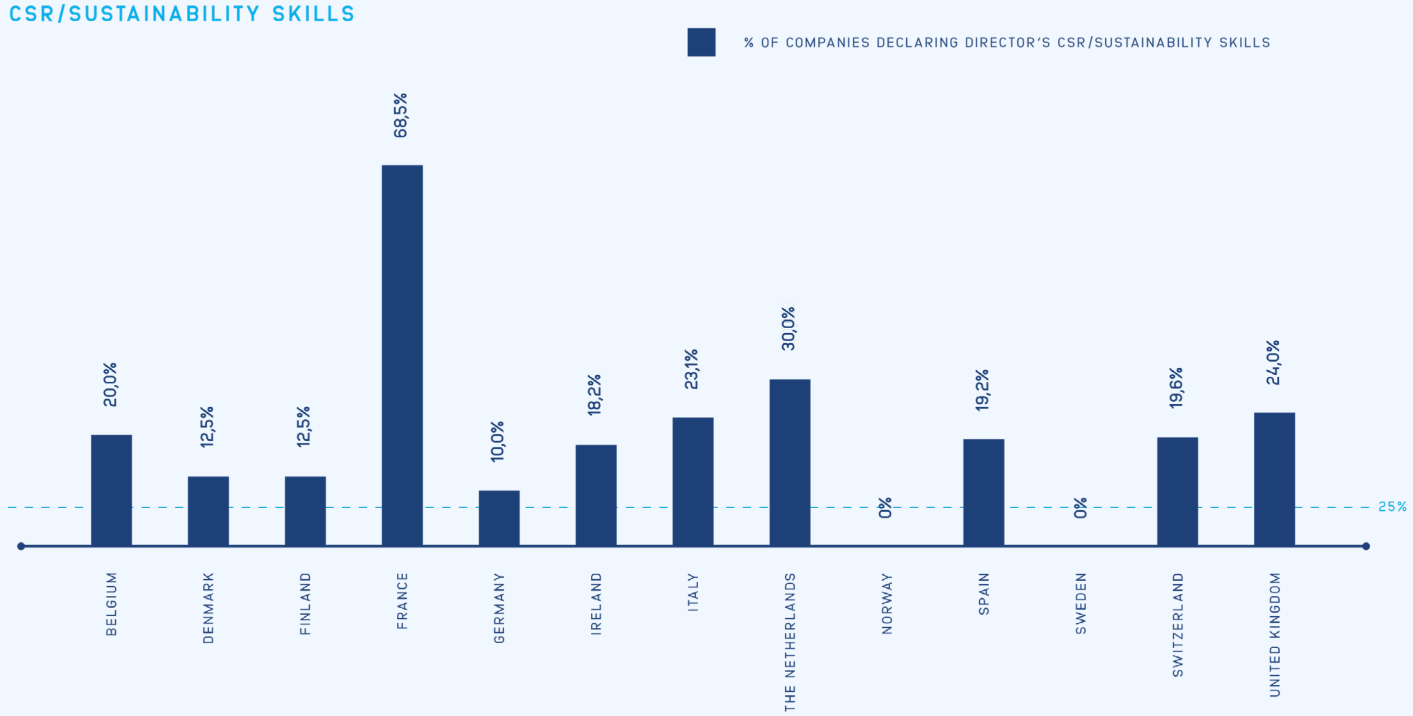
- It is common practice in many companies to make disclosure of skills only for internal use;
- In countries with Corporate Governance Codes, practices evolve faster due to codes ability to anticipate market demands. National Corporate Governance Codes usually provide faster adaptation and new best practices (example: France).

LESS THAN 40% OF COMPANIES COMMUNICATE THEIR DIRECTOR'S SKILLS MATRIX



FULL SCOPE & NUMBER OF COMPANIES EXCEPT NETHERLANDS (30), SWEDEN (31), SWITZERLAND (46), UK (104)

1/4 OF COMPANIES HAVE DECLARED DIRECTORS' CSR/SUSTAINABILITY SKILLS



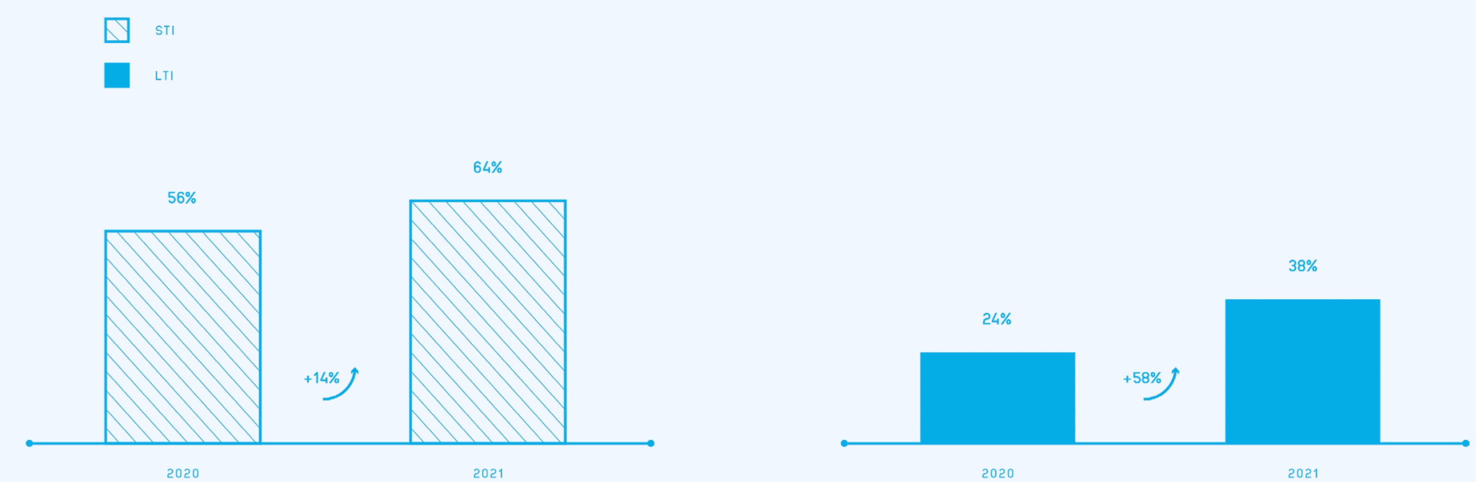
FULL SCOPE & NUMBER OF COMPANIES EXCEPT NETHERLANDS (30), SWEDEN (31), SWITZERLAND (46), UK (104)

03 ESG MATERIALITY IN CEO REMUNERATION POLICY

- The trend already observed in 2020 is largely confirmed in 2021: nearly 2/3 and 40% of companies have integrated at least one ESG criteria in their CEO's STI/LTI plan, an increase of 14% and 58%.
- This results in a larger proportion of ESG criteria in the weight of performance condition, respectively +24% in the CEO's STI plan and 64% in the LTI plan in only one year.

IN 2021, NEARLY 2/3 AND 40% OF COMPANIES HAVE INTEGRATED AT LEAST 1 ESG CRITERIA IN THEIR CEO'S STI/LTI PLAN, AN INCREASE OF 14% AND 58%

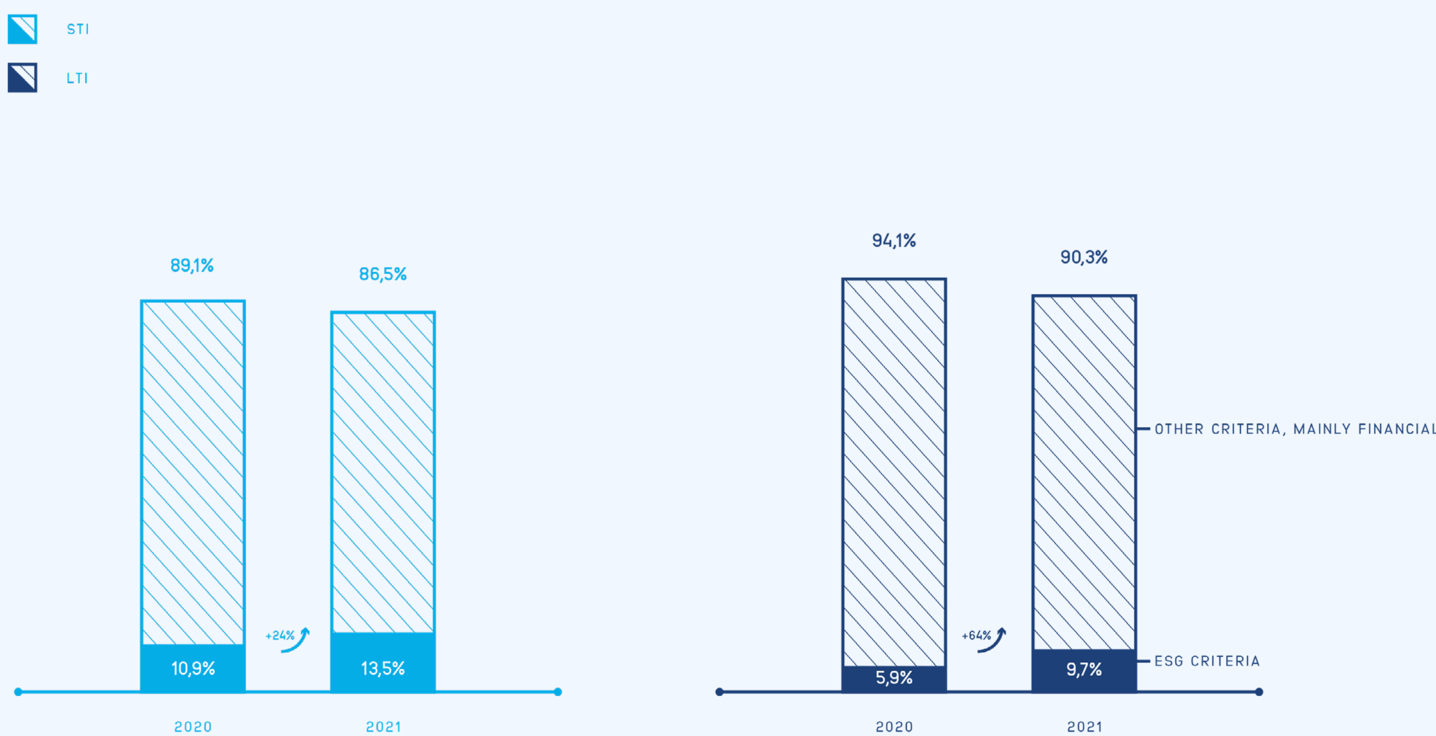
% OF COMPANIES INTEGRATING AT LEAST 1 ESG CRITERIA IN THEIR CEO STI OR LTI PLAN



SCOPE: 380 LARGEST STOXX EUROPE 600 COMPANIES

SIGNIFICANT INCREASE IN WEIGHT OF PERFORMANCE CONDITIONS LINKED TO ESG CRITERIA, BOTH IN THE CEO'S STI AND LTI PLANS, RESPECTIVELY +24% AND +64% IN 1 YEAR

SPLIT PERFORMANCE CONDITIONS IN THE CEO STI/LTI PLAN



SCOPE: 380 LARGEST STOXX EUROPE 600 COMPANIES

04 NOTE ABOUT THE DATA SOURCES

It must be noted that is not possible to use the figures presented in this document without reference to the Ethics & Boards / ecoDa Governance Barometer.

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Make informed decisions

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