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AUDIT COMMITTEE LEADERSHIP NETWORK
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Executive remuneration

On 28 June 2013, members of the European Audit Committee Leadership Network (EACLN) met in Paris to discuss executive remuneration, among other topics.[1] For the session on executive remuneration, members were joined by Piia Pilv, a partner at remuneration consultants New Bridge Street/AonHewitt. For a short biography of Ms Pilv, see Appendix 1 on page 10.

This document summarizes the key points that Ms Pilv and members raised in the discussion, along with background information and perspectives that Ms Pilv, the members and other experts shared before the meeting.[2] For further information about the network, see "About this document" on page 9. For a list of participants, see Appendix 2 on page 11.

Executive summary

Ms Pilv and the members engaged in a wide-ranging discussion of executive remuneration that touched on issues involving public debate and policy on the topic and companies' attempts to address these issues. Three key themes emerged:

- **Pressures on pay may have negative consequences** *(page 2)*

  Remuneration remains a major topic of debate in Europe, and though institutional investors have a range of views, the misgivings of the public and policymakers are driving a variety of regulatory initiatives, including caps on pay and binding say on pay. Ms Pilv and the EACLN members saw the possibility of unintended and adverse consequences resulting from these initiatives. Many of them are attempts to transfer power from boards to shareholders in a way that is unlikely to add value to the companies concerned, given the inclinations and capabilities of shareholders.

- **Companies should avoid simplistic remuneration policies** *(page 5)*

  Ms Pilv and the members noted that linking pay to company performance is a complex challenge that ultimately requires the use of discretion and judgment, even if boards are sometimes reluctant to stray from formulaic approaches. Judgment is especially important where long-term targets are used. Relative total shareholder return (TSR) should be supplemented with other performance metrics, such as profitability and cash flow. Ms Pilv said that while some aspects of remuneration, such as the proportion paid as fixed salary, still vary among countries, the benchmarks for determining variable pay are being harmonized across Europe.

- **The audit committee can help oversee remuneration** *(page 7)*

  While remuneration (or compensation) committees typically take the lead on decisions on pay, audit committees can help define and review performance metrics, ensure that the numbers driving payout are subject to rigorous control, assess remuneration risk, review disclosures and oversee remuneration audits. The two committees can coordinate their activities through reporting arrangements and cross-memberships. Several EACLN members noted, however, that the importance of executive remuneration

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[1] In another session members discussed Ethics and compliance. See European Audit Committee Leadership Network, "Ethics and compliance," *ViewPoints*, 1 August 2013.

[2] *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants.

ultimately makes it the responsibility of the full board. As one said, *"Decisions don't go from the remuneration company to the audit committee, but straight to the board as a whole."*

For a list of discussion questions for audit committees, see Appendix 3 on page 12.

Pressures on pay may have negative consequences

The remuneration of company executives has become a prominent issue across Europe, drawing the interest and ire of shareholders, regulators, the media and the public at large. Though many issues sparked the so-called "shareholder spring" of 2012 (a phenomenon largely limited to the UK), remuneration was one of the most salient, and it remains a topic of vigorous debate in 2013.[3] However, as EACLN members noted, the views of stakeholders vary substantially, constituting more than a simple demand for lower remuneration. Issues involving executive recruitment, performance incentives, risk taking and company reputation all come into play as different stakeholders weigh in with their own interests and perspectives.

The public versus institutional investors

Much of the general public is outraged at the absolute levels of executive remuneration. In a pre-meeting conversation, one member noted, *"Until recently, the public was totally unaware of the compensation paid. If asked, people would have said €200,000 to €300,000, when the real number is higher."* Now that absolute levels are becoming more widely known, companies are facing angry individual investors and general public opprobrium, both of which are putting pressure on boards and remuneration committees to reconsider remuneration levels.

Companies are beginning to respond by slowing the rate of pay increases and cutting bonuses, most forcefully in the financial services sectors but in other sectors as well. For example, the *Financial Times* noted that in the UK, "according to consultants Towers Watson, the median pay increase among FTSE 100 chief executives who have disclosed their salaries for 2013 was 2.5% – below the rate of inflation."[4] In the meeting, Ms Pilv said that salary increases across Europe were generally between 1.5% and 3.5%, with southern Europe at the lower end of the range and Scandinavia at the higher end. She noted that the response by companies has been particularly visible in the area of base pay: *"The increases are conservative, the same as for the rest of employees. They used to be higher for executives. Now they are aligned with inflation. If there is a need to make a significant adjustment, it is done in steps."*

Institutional investors, however, are more divided on the pay issue than the general public is. Before the meeting, a member reflected, *"It's probably different in the United States – US executive compensation is much higher – but what we see in Europe is a divide between institutional investors, who understand the need to pay well, and individual investors, who are less numerous but attend the annual general meeting and don't understand business."* The member added, *"I've seen a conflict: as a board member, I want to limit compensation, but institutional shareholders don't. People expect unanimity but it won't happen."* At the meeting, another member remarked on the pressures: *"It's mainly outside forces. Very little is from large institutional investors. We have a long-established dialogue with them."*

At another recent meeting of audit chairs, representatives of the shareholder community highlighted these tensions. Michelle Edkins of BlackRock and Colin Melvin of Hermes Equity Ownership Services asserted

[3] Tapestry Networks and EY, "The Audit Committee Response to Investor Activism," *InSights for European Audit Committee Members,* Issue 17: May 2013.

[4] FT reporters, "Signs of Restraint on Executive Pay in Europe," *Financial Times,* 21 April 2013.

that, despite the fact that some pay packages have been excessive by anyone's standards, absolute levels of compensation are not a concern for institutional investors.[5] A bigger issue is how remuneration plans drive management behavior. Mr Melvin noted, "Remuneration committees are more worried about the amount of pay, while investors are concerned about how to align management incentives. We're more interested in the motivational aspects of pay."[6] At the same time, Ms Edkins suggested that establishing effective incentive structures can be a complex and challenging task, in which unintended consequences and second-order effects require attention.[7]

Stricter regulations

Governments are increasingly stepping in to shape remuneration policies and to increase shareholders' influence over them, and new regulations are adding more difficulties for companies and remuneration committees. A remuneration expert and partner at EY noted that some remuneration committees are unaware of new regulations, such as those regarding the independence of remuneration advisors: *"Are we really compliant? Even remuneration committees don't understand. They may or may not be compliant, even at large companies."*

EACLN members were especially concerned about what might be coming. As one said, *"Future regulation is a huge concern."* Regulatory efforts are underway all across Europe and at the EU level, including:

- **EU banker bonus cap.** The European Union recently approved restrictions on bonuses paid by financial institutions, which are part of the Capital Requirements Directive (CRD) IV. Starting with bonuses awarded in 2015, these restrictions will cap bonuses at 100% of total fixed pay, or 200% with shareholder approval. Various other rules apply, such as a requirement that at least 40% of bonuses must be deferred over a period of at least three to five years. Since the intent of the restrictions is to control risk taking, they will apply only to employees who have a material impact on the risk profile of the financial institution.[8]

- **National caps on pay.** Last year, after the election of President François Hollande, the French government introduced a limit on pay of €450,000 in state-owned companies,[9] though the government recently dropped a plan to restrict executive pay in the private sector.[10] In Germany, the commission responsible for the corporate governance code has approved amendments recommending that caps be placed on both overall compensation and individual compensation components, though the specific levels of the caps will be decided by the supervisory board.[11] Bans on certain types of payments, including signing bonuses and severance payments, were approved in March by voters in Switzerland.[12]

- **Binding say on pay.** Swiss voters also gave shareholders a binding annual vote on executives' and board directors' pay packages, and other countries are following suit. In the UK, Parliament is

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[5] Audit Committee Leadership Summit, "Board-Shareholder Engagement," *ViewPoints,* 2 May 2013.

[6] Ibid., page 4.

[7] Ibid.

[8] European Union, *Directive of the European Parliament and of the Council on Access to the Activity of Credit Institutions and the Prudential Supervision of Credit Institutions and Investment Firms, Amending Directive 2002/87/EC and Repealing Directives 2006/48/EC and 2006/49/EC* (Brussels: European Union, 14 June 2013), pages 27, 182, 187.

[9] Hugh Carnegy, "France Moves to Curb Executive Pay," *Financial Times,* 21 March 2013.

[10] Leila Abboud, "Ad Agency Publicis Brings 'Say on Pay' to France," *Reuters*, 29 May 2013.

[11] Government Commission on the German Corporate Governance Code, "Code Commission Decides on Changes to Management Board Remuneration and Streamlines Regulations," press release, 14 May 2013.

[12] Ellen Kelleher, "Shareholder Power Spreads Through Europe," *Financial Times,* 17 March 2013.

considering a bill that will give shareholders a binding vote every three years on the company's remuneration "policy report," while continuing to mandate an annual advisory vote on the "implementation report," which explains how executives and directors were actually paid in the preceding year.[13] Germany and Spain, as well as the EU, are also considering various types of binding say-on-pay votes,[14] and several other European countries already have such votes in place, including Denmark, the Netherlands, Norway and Sweden (where share-based incentive schemes and certain guidelines are set by shareholders at the annual general meeting). French shareholders can currently vote on share-based incentives and severance payments, and additional rights may be on the way.[15]

Ms Pilv and others have noted that attempts to restrain pay almost never work as planned. Where caps have been placed on bonuses, companies have responded by increasing base pay levels. When caps are placed on total cash payments, many firms respond by increasing executive perks and benefits, especially pension contributions, which in many cases represent a major component of executive packages.

Paradoxically, these moves push compensation in the direction opposite that preferred by shareholders and governments. Ms Pilv remarked, *"Any time there is a new regulation, pay levels go up."*

The impact of binding say on pay

EACLN members expressed concerns especially about the wave of say-on-pay rules and their impact on the board. In a pre-meeting conversation, a member asked, *"What will be the respective roles of boards and shareholders? Up to now, remuneration has been the responsibility of the board. Now, the board is only responsible for the proposal, but shareholders have to endorse it. I'm not sure if it's the right thing to do."* Another member was certain that it is not the right thing to do: *"[In my country], the board has only two effective instruments: removing executives and determining management pay. To give one [of these instruments] to shareholders is to make the board a lame duck."* Members and Ms Pilv mentioned several reasons that this transfer of power is problematic:

- **A binding vote is a blunt instrument.** Ms Pilv pointed out that shareholders may want a less stark way of expressing their views than throwing out a pay package: *"Shareholders don't want a binding vote. With a binding vote, you never get a negative vote, because you need a pay package, after all. An advisory vote works much better."*
- **Shareholders don't meet often enough.** A member remarked, *"The general assembly meets once a year. Boards have regular meetings."* In a pre-meeting conversation, a member mentioned the potential impact on recruiting: *"Say on pay will lead to the general assembly approving contractual conditions during recruiting, which is crazy because it only meets once a year. You can't have a vote each time you hire a senior executive."*
- **Shareholders lack expertise.** Remuneration is complex and understanding it requires specialized knowledge and detailed information about a company. Shareholders simply have less information than board members do. A member noted, *"I'm against a binding vote – it's an uninformed vote."* Another member said, *"There should be say on pay, not decide on pay."*

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[13] Davis, Polk, and Wardwell, "European Compensation Developments: Financial Institutions and Beyond," client memorandum (New York: Davis, Polk, and Wardwell, April 23, 2013), pp. 6–7.

[14] Ibid., p. 9.

[15] The Hay Group, "Executive Reward Snapshot: More Shareholders Are Getting a Say on Top Pay," (The Hay Group: April 2013), page 2.

Ms Pilv also noted that say on pay is increasing the influence of proxy advisors like Institutional Shareholder Services and Glass Lewis. In a recent report by Mercer, other remuneration experts agreed: "More prescriptive say-on-pay legislation will likely increase investor reliance on proxy voting agencies, which may complicate the link between shareholders and the companies in which they invest."[16] Ms Pilv said that companies have been forced to spend more time with proxy advisory firms, which many boards see as wasteful. Say on pay may amplify the reputational risk already associated with proxy advisors and their recommendations, and the pressures from proxy advisors may have a homogenizing effect on pay policies across companies. Ms Pilv said, *"There will be more pressure coming from institutional investors. Proxy advisors are hiring remuneration experts. But it would be a great shame if there is convergence around the ticking of boxes."*

Companies should avoid simplistic remuneration policies

Aligning remuneration with performance is a principle most stakeholders support, but experts underscore the challenges of determining how to reward company executives for performance. As more regulations emerge, the need to achieve compliance will further complicate matters. EACLN members and subject matter experts reflected on several aspects of the challenge.

Linking objectives, metrics and rewards

In a discussion before the EACLN meeting, the remuneration expert at EY explained that the fundamental task is to address three distinct questions:

- **What should executives do to create value?** Companies need to establish the goals that they want executives to be working toward and how much risk they want executives to take. A common goal is to maximize returns for shareholders over the long term without taking risks that threaten the company's future prospects.
- **How do you measure value?** How do you know when executives are achieving progress toward the established goals while staying within the prescribed risk appetite? Typical performance metrics include changes in the company's stock price and the growth of annual revenues or profits.
- **How do you reward value creation?** How do you translate the results as measured against the performance metrics into actual remuneration for the executives? When and in what form are executives paid? Will the time frames and means of payment spur executives to pursue continued success in achieving the goals of the company? New regulations may constrain the available approaches.

Complexities in how businesses operate can make these questions difficult to answer, a problem that is exacerbated in today's volatile economic environment. A member reflected, *"It's always a struggle to get a long-term focus."* Ms Pilv noted that there is pressure to establish clear targets but that such targets can quickly become questionable: *"Target setting is very difficult – setting three-year targets is almost impossible."* One member commented, *"A good package must fit the company strategy. That means the company must have a clear strategy, which isn't always the case."*

Room for discretion is important, but remuneration committees are reluctant to exercise discretion given the scrutiny they are under. EACLN members agreed that adjusting the metrics to account for various

[16] Mark Hoble, Patricia Bradley, Vicki Elliott, "Executive Pay Regulation: The Potential Impacts of Proposed European Reforms," *Executive Rewards and Performance Effectiveness Perspective* (London: Mercer, Special Issue, April 2013).

complexities can undermine credibility. Before the meeting, a member reflected on the challenges of using metrics for any given one-year period: *"You need to take out elements that are not recurrent. But each time you play with the numbers, even if it's valid, whatever result you get is questionable."* At the meeting, a member said that changes are not applied in the current year but only going forward: *"In recent years, we have adhered almost slavishly to the formula. If it didn't look right, we changed it for the future."*

Piia Pilv and other remuneration experts have argued for using multiple financial performance metrics and for avoiding the exclusive use of TSR.[17] Members tended to agree. One said, *"I'm in favor of moving away from TSR. It's not the right performance measure for long-term value creation."* Another elaborated, *"TSR is a blunt instrument, though it's a way to link performance to what is going on in the industry. It's good, but it needs to be supplemented."* Ms Pilv saw evidence that this view was spreading: *"European multinationals are moving away from relative TSR. It's hard to come up with peer groups. So they are using profitability and cash flow instead."*

Ms Pilv noted that performance measures in a large multinational company need to take into account variances in performance across the company: *"A lot of multinationals are experiencing significant differences in performance within the company. They need to reward executives for regional performance. There's a lot of work on target setting, and making sure there is true variance in pay outs."* She also said that operational measures related to such elements as safety and innovation may reflect the fundamentals of the company better than TSR, which is highly dependent on market perceptions. At the same time, these "input" measures require industry expertise to design and assess, and attempts by the board to use them may encounter resistance from management.

Other considerations in designing remuneration

Both before and during the meeting, members and subject matter experts raised several other considerations that may come into play when designing executive compensation packages:

- **Use of remuneration consultants.** The use of consultants to assist with the complex and technical task of designing remuneration packages is common at large companies, especially in the US and UK. A member noted, *"Big companies have outside advisors to make peer comparisons and know the hidden aspects of compensation systems … You always use outside advisors."* However, as the remuneration expert at EY explained, issues regarding the independence of remuneration consultants need attention by boards in Europe. He noted that the corporate governance code in Germany says that remuneration consultants should be independent, but it is often unclear whether they are. Individual consultants may be independent in that they do not perform other work for the company, but the firm that employs them may not be. A member recognized the problem: *"The main role of the remuneration committee is to decide if such a consultant is fully independent and there is no conflict of interest."*
- **International competition.** The differences in remuneration levels between Europe and the US are large and well known, but what role do they play? Is there a danger of losing talent to the US? Members suggested that international competition plays a constrained role. One member said, *"For very good executives, there is an international market, but it's limited for cultural and language reasons."* Another member elaborated: *"It's always a challenge to bring someone over the water. People are not as mobile as you think and families don't adjust. We insisted on both [the candidate and spouse] going*

[17] Piia Pilv and Kimmo Sollo, *The Pay for Performance Challenge* (Mercer LLC, 2011).

through interviews to gauge their adaptiveness to new cultures." Ms Pilv said that companies are most likely to tap the global talent pool when they need specialized expertise, such as with a chief technology officer.

- **Pay mix.** The way in which pay is divided into fixed salary, short-term incentives and long-term incentives varies significantly from company to company. Ms Pilv said that several factors come into play: *"Companies that are rapidly growing put more emphasis on variable pay. Also, it's linked to industry, geographic spread and where they need to get CEO talent."* The mix of pay also varies among countries. In Scandinavia, for example, the proportion that is salary tends to be higher, Ms Pilv noted, because *"there is a lot distrust of variable pay, a concern that it encourages excessive risk taking."*
- **Benchmarking.** Ms Pilv said, *"A question we get a lot is, What is the right peer group?"* She explained that the peer groups companies use tend to vary by the type of pay: *"Most companies benchmark base pay against companies in the same country, while the benchmark for variable pay is regional."* At large companies, she noted, *"variable pay is harmonized across Europe, which is quite a change."*
- **Employees further down in the organization.** In addition to constructing the pay packages for senior executives, boards determine the overall remuneration philosophy for the organization, and they may take an interest in how it is being implemented in the pay packages of managers below the top level. In a pre-meeting conversation, a member explained, *"We follow the recommendations of executives, but we ask control questions: Why is one person paid more than another? In a well-run company, you get satisfactory answers. We make sure the process is fair."*

The audit committee can help oversee remuneration

While the remuneration committee often takes the lead on executive compensation, other committees and the full board may also play a role, particularly now that remuneration issues have become so controversial. EACLN members and subject matter experts discussed their views on the audit committee's role and the board's coordination processes in pre-meeting conversations, and a July 2011 *InSights* included input from a variety of experts, including several EACLN members, regarding the potential contribution of the audit committee to remuneration issues.[18]

Oversight of performance metrics and pay packages

The expertise of the audit committee can be applied in several areas:

- **Defining and reviewing metrics.** Several members noted that the audit committee should help define the performance metrics used to determine remuneration. One member explained, *"I'm not sure if it's well defined and understood by the remuneration committee and the board at large, but the audit committee should be more involved in developing the criteria for executive compensation. It understands the drivers for performance – what CEOs can control and what they can't. Most CEO compensation is based on operating results. The definition of criteria is somewhat loose. The criteria have to be related to performance and the audit committee is in a good position to judge that."*

[18] Tapestry Networks and EY, "Four Specific Roles for Audit Committees in Remuneration Oversight," *InSights for European Audit Committee Members,* Issue 15: July 2011.

- **Assessing remuneration risk.** To the extent that audit committees assume responsibility for risk oversight, participants in *InSights* research noted that assessing remuneration risk in the context of enterprise risk becomes part of the contribution they can make. Audit committees understand how certain metrics can create risk, and they can help boards and remuneration committees understand how remuneration risks fit into the overall risk profile of the company.[19] One EACLN member described reviewing non-financial criteria as part of the audit committee's role in risk oversight: *"The audit committee and the risk committee are considering non-financial elements mainly through risk analysis. More and more audit committees are considering different kinds of risk, including non-financial risks such as risks involving HR, legal issues and the environment."*
- **Reviewing disclosures.** Annual reports contain considerable information on remuneration policies and the specific pay packages of senior executives. In recent years, regulators have been asking for more and more disclosures.[20] Ms Pilv noted, *"There is more focus on disclosures, including a trend to see how we can improve disclosures. In the US, remuneration disclosures in proxy statements are 30 pages long. In Europe, they are trying to use simpler language."* One member said, *"We have to give complete information to shareholders – they have a right to be informed. We have to make understandable that which is complex. That is our responsibility."* The audit committee's expertise in the area of financial disclosures could help ensure that disclosures are accurate, clear and consistent with other disclosures.
- **Enabling independent remuneration review.** Members noted that the external auditor can provide an additional level of assurance by reviewing aspects of the remuneration program to make sure that it is functioning as intended. One member said, *"At my company, the audit committee makes sure that the external auditor goes through and checks that the company is following the incentives, that the long-term incentives and the bonus are correct."* Another member explained that the audit committee can assist in two ways: *"The audit committee could help define the criteria, making sure that they are sensible and that they can be audited, and the audit committee can ask someone to audit them."*

Coordinating with other committees and the board

With the full board and several committees getting involved in remuneration issues, effective coordination and communication become necessary. One member described an approach taken by his board: *"We have a rule: any board member can attend all committee meetings. They can't vote, but attendance is recommended. The board will move more swiftly if the board members get information from the discussion. We even gave a token financial award of €1,500 per session."*

Other members described communications between the audit committee and the remuneration committee, which ranged from simple reporting relationships to overlapping memberships. One member said, *"The audit committee sends a memo to the remuneration committee saying that it reviewed all the numbers and confirmed that they are right."* Another member described closer relations: *"You need to have a very tight understanding between the audit committee and the remuneration committee. That is why the French Institute of Directors says that the audit committee chair should be on the remuneration committee and the remuneration committee chair should be on the audit committee. I established that at my company several years ago. More companies are doing it."* At the meeting, a member added: *"Having cross-membership is a good practice to avoid the battle of my numbers versus your numbers."*

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[19] Ibid., page 4.
[20] Ibid., page 8.

In some cases, the audit committee provides input to the full board rather than to the remuneration committee. As one member said, *"The remuneration committee prepares the package and submits it to the board. We have a full discussion at the board level, once a year. In this discussion, the financial implications are looked at carefully by the audit committee members."* One member saw a role for the audit committee that was detached from the actual remuneration decisions: *"The audit committee has nothing to do with it – it just makes sure the process and procedures are being followed."* At the meeting, several members noted that the importance of remuneration ultimately makes it an issue for the full board. As one member put it, *"Committees advise, but the board decides."*

Conclusion

Managing executive remuneration is becoming more challenging than ever, as boards are forced to grapple not only with the difficulties of designing fair and effective remuneration policies but also the demands of stakeholders who want clear and objective decisions on these complex issues. As Ms Pilv remarked, *"There is pressure from politicians to make remuneration simple, but making it simple could lead to unintended outcomes. It doesn't lead to a better approach. There has to be room for discretion and judgment."* EACLN members expressed concerns that reforms such as binding say on pay and overuse of metrics such as TSR could do more harm than good. At the same time, they acknowledged the need for change. As one member said, *"We have gotten it wrong – we have overcompensated CEOs. It's a problem of our own making, and we have to fix it."* Remuneration committees, audit committees and the full board must each bring to bear their expertise and authority, working together effectively to restore legitimacy to executive pay.

About this document

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organised and led by Tapestry Networks, with the support of EY, as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management and their advisors as they endeavour to fulfil their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, management and advisors who become systematically engaged in this dialogue, the more value will be created for all.

EYG no. AU1844

Appendix 1: Short biography of Piia Pilv

Piia Pilv is a partner at New Bridge Street, which is part of the human resources consulting business of Aon Hewitt, specializing in advising multinational companies in continental Europe on all aspects of executive remuneration.

Piia has more than 16 years of experience in executive remuneration, including executive remuneration policy design, short- and long-term incentive arrangements, cross-border transactions, corporate governance and liaison with institutional investors. Her industry experience is diverse, including consulting with clients in energy, telecommunications, manufacturing, life sciences, automotive, retail, fast-moving consumer goods, pharmaceuticals and professional services.

Prior to joining New Bridge Street, Piia was the executive remuneration segment leader for Europe, Middle East and Africa at another major remuneration consultancy and served as the remuneration committee adviser to Ericsson, Heineken, DSM, KPN and SBM Offshore.

Piia holds an MBA degree from the London Business School and a BA degree in economics from the Barnard College, Columbia University, in New York, where she graduated magna cum laude.

Appendix 2: Participants

The members of the network participating in the meeting sit on the boards of nearly 30 large-, mid- and small-capitalization public companies. Network members participating in all or part of the meeting included:

- Mr Aldo Cardoso, Audit Committee Chair, GDF SUEZ
- Mr Ángel Durández Audit Committee Chair, Repsol
- Mr Lou Hughes, Audit Committee Chair, ABB
- Mr Daniel Lebègue, Former Audit Committee Chair, Technip and SCOR
- Ms Blythe McGarvie, Audit Committee Chair, Viacom*
- Mr Pierre Rodocanachi, Audit Committee Member, Vivendi
- Ms Guylaine Saucier, Audit Committee Chair, AREVA
- Mr Tom de Swaan, Audit Committee Chair, Royal Ahold
- Dr Bernd Voss, Audit Committee Chair, Continental AG
- Mr Lars Westerberg, Audit Committee Chair, Volvo

* *Member of the Audit Committee Leadership Network of North America*

EY was represented in all or parts of the meeting by:

- Mr Christian Mouillon, Global Risk Management Leader
- Mr Mark Otty, Area Managing Partner, EMEIA

Appendix 3: Discussion questions for audit committees

- What kind of pressures has your company experienced with regard to remuneration, either from shareholders or the general public? Have specific demands emerged?
- In what ways is your company responding to pressures or demands? Has your company engaged with stakeholders – such as shareholders or proxy advisors – on remuneration?
- What kinds of regulations on remuneration are affecting your company? What do you believe will be the impact of emerging regulations, such as pay caps and binding say on pay?
- How does your company align remuneration with performance? What kinds of metrics are used to gauge performance? How are incentives structured?
- What kinds of qualitative metrics are used?
- How does your company use remuneration consultants? How is their independence ensured?
- How are compliance issues complicating remuneration? What compliance challenges do you anticipate will affect your company's remuneration policies in the future?
- How is responsibility for remuneration divided up among the remuneration committee, the audit committee and the full board?
- What specifically does the audit committee do to assist the remuneration committee or the full board?
- How does the audit committee coordinate its activities with the remuneration committee and the full board?