

## Remuneration (Brazil)

### Background and Overview

Regulatory changes which took effect in January 2010 (Instructions 480 and 481), provided a framework for the disclosure of proposed annual remuneration caps by Brazilian listed companies, including detailed information of aggregate executive remuneration. On an annual basis, shareholders are asked to approve the aggregate remuneration of directors (and fiscal council members) and executive officers in a binding resolution presented at a shareholder meeting.

Although the country has had clear regulatory guidelines for the disclosure of remuneration information since 2010, such disclosure is still inconsistent and data comparability remains a challenge due to the lack of uniform and reliable data, mainly regarding equity compensation. Nonetheless, key remuneration figures are fairly standardized across the market, some of them being (i) remuneration caps, (ii) total executive remuneration, and (iii) highest-executive pay, among others.

ISS remuneration policy for the Brazilian market is currently based solely on compliance, but feedback from ISS clients highlighted a need for a more qualitative analysis in the event of significant remuneration increases year-over-year. Several clients noted the difficulty of distinguishing between the different remuneration proposals and the relevance of having a better understanding of proposed annual remuneration caps that represent a significant year-over-year increase.

### Key Changes Under Consideration

Undertake a case-by-case analysis of binding annual remuneration cap proposals representing a significant increase on a year-over-year basis. For policy application, a significant increase will be defined as an increase of 30 percent or more compared to the annual remuneration cap approved at the last AGM/EGM.

When further scrutinizing the proposed year-over-year significant increase, ISS will consider the following:

- Whether there is a clearly stated and compelling rationale for the proposed increase;
- Whether the proposed remuneration increase is aligned with the company's long-term performance and/or if the company has disclosed operational performance targets consistent with the proposed remuneration increase;
- Whether the company has had positive TSR performance for the most recent one- and three-year periods;
- Whether the relation between fixed and variable executive pay is likely to adequately align compensation with the company's future performance.

## Intent and Impact

This represents a first step toward providing a more qualitative analysis of binding annual remuneration cap proposals in Brazil in the event of a significant increase year-over-year (determined based on the cap approved at the previous AGM). While compliance will remain as the first level of analysis of all remuneration proposals, in the event of a significant increase the proposal will also be analyzed under a case-by-case policy approach.

Compensation proposals continue to be one of the main reasons for "against" vote recommendations in the Brazilian market. More than 40 companies continue to use a legal injunction (IBEF) to avoid disclosing the remuneration paid to their highest-paid executives, a key element of the disclosure requirements mandated by the Brazilian Securities Regulator (CVM). Moreover, lack of transparency in the remuneration disclosure and the exclusion of some elements of executive compensation by some companies also remain strong drivers of negative vote recommendations in Brazil.

Based on preliminary data from the 2015 proxy season, 86 of a total of 188 remuneration proposals, representing 46 percent, received against vote recommendations from ISS due to the use of the IBEF injunction or lack of transparency in their remuneration proposals.

At least 13 companies presented a year-over-year remuneration cap proposal that would be considered a significant increase under this new policy framework, representing a percentage increase of 30 percent or more year-over-year. From this universe, seven issuers, representing 54 percent, actually received against vote recommendations due to the use of the IBEF injunction and/or lack of transparency in their remuneration proposals.

The remaining six issuers that presented a significant increase in their remuneration cap on a year-over-year basis would receive greater scrutiny of their compensation proposals on a case-by-case basis, representing approximately 3 percent of the total remuneration proposals analyzed by ISS during the 2015 proxy season.

## Request for Comment

- Is a 30-percent increase of the remuneration cap on a year-over-year basis an appropriate threshold to be considered a significant increase and, therefore, to trigger further scrutiny of the company's remuneration proposal and practices?
- If not, would you suggest a different threshold? If so, which one and why?
- Are the factors below appropriate parameters for analysis of significant remuneration cap increases?
  - Whether there is a clearly stated and compelling rationale for the proposed increase;
  - Whether the proposed remuneration increase is aligned with the company's long-term performance and/or if the company has disclosed operational performance targets consistent with the proposed remuneration increase;
  - Whether the company has had positive TSR performance for the most recent one- and three-year periods;
  - Whether the relation between fixed and variable executive pay is likely to adequately align compensation with the company's future performance.
- Would you suggest other factors? If so, which ones and why?