



**COUNCIL OF  
THE EUROPEAN UNION**

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**NOTE**

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from: GENERAL SECRETARIAT OF THE COUNCIL  
to: COUNCIL

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Subject: Draft Council Conclusions on executive pay

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Delegations will find attached draft Council Conclusions on executive pay, following discussions in the Economic and Financial Committee and Coreper.

## **Council conclusions on executive pay**

In light of the high growth rates of executive pay in recent years, a public discussion has started in a number of countries on the level and structure as well as on transparency of managers' compensation. From an economic viewpoint, the key questions are whether executive pay is appropriately linked to performance and whether shareholders have adequate control over remuneration.

The Council exchanged views and experiences on this topic.

Pay determination is the company's shareholders' and social partners' responsibility in a market-led environment. However, national authorities have a role to play in helping to define an appropriate regulatory framework and in encouraging good practices and voluntary self regulation, for example through principles of good governance, transparency and disclosure rules, and control rights by shareholders.

The Council agrees that in view of the developments regarding executive pay in the last years, the effectiveness of some existing provisions warrant further examination and possibly policy at the national level, taking into account the different regulatory frameworks in Member States. The Commission's 2004 Recommendation is appropriate, but a review of the practices and an update could be necessary.

The Council agrees on the following objectives:

- **The governance framework should be conducive to an effective control by shareholders** and the supervisory bodies of the company, including on remuneration policy. In line with the Commission's 2004 Recommendation, which recommends measures such as publishing remuneration policy and devoting an item of the agenda of the annual general meeting, in order to involve shareholders and the supervisory bodies of the company in the decisions, the Council underlines that this is an area where improvement would be desirable and that it is ready if needed to undertake appropriate action.

- **Performance should be properly and comprehensibly reflected in executives' pay**, including leaving pay ("golden parachute"), which should be appropriately linked to the contribution of the executive to the company's success.
- **Performance criteria should provide the right incentives**. As recommended by the FSF with respect to the financial industry, compensation models should be aligned with long-term, firm-wide profitability, and national authorities should work towards mitigating the risks arising from an incentive structure focussing on short-term profits. That issue will require further attention in the coming period, notably by taking into account the work undertaken by the FSF.
- Care should be taken to prevent **potential conflicts of interest for executives conducting mergers and acquisitions**, for example whilst they hold shares or stock-options of the offered company.

The Council welcomes the Commission's intention to continue reviewing companies' practices and the implementation of the 2004 Recommendation in Member States, taking into account these policy objectives. The Council agrees that a review of policies related to executive pay in the ECOFIN will be useful and will contribute to providing orientations to members on the basis of best practices.

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