2024 Corporate Governance and Executive Pay Report

Trends and regulations impacting listed Belgian companies

pwc

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Dear reader,

For listed companies, understanding **executive and non-executive rewards, board composition and regulatory trends** is not just a necessity — it's the keystone for unlocking value through strategic decision-making, talent management, effective corporate governance, enhanced shareholder value, risk mitigation, sustainability and adaptation to market dynamics.

Having a comprehensive understanding of these areas empowers leadership teams to navigate corporate governance with resilience and drive the success of the business.

In this report, our aim is to uncover the complex dynamics that shape corporate governance structures and practices, providing you with valuable insights and high level benchmark data that can be useful for your business. We delve into the regulatory framework surrounding executive pay, including:

- a deep dive into the impact of say on pay
- a thorough analysis of executive and non-executive pay design
- a reflection on the growing expectations to align directors' performance with sustainability goals.

Additionally, we scrutinise the pivotal trends and developments shaping the composition of corporate boards.

Our findings are based on PwC's 2023 Executive Remuneration Survey; a **survey of the compensation of executive and non-executive directors** of 80 companies whose shares are listed and traded on a stock exchange in Belgium. The data is gathered from the annual remuneration reports published in 2023, mostly reflecting information for the period from 1 January 2022 to 31 December 2022.

We wish you an interesting and insightful read.

Yours sincerely,

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If you are interested in a more customised benchmark report, tailored to your specific industry, company size and specific (non-)executive roles (CEO, CFO, CXO, chair of the board, etc.), we invite you to register for our premium (paid) version of the (Non-)Executive Remuneration Survey. The **customised remuneration survey for executive directors** delivers an extensive overview of the salary packages paid to executive directors (i.e., base salary, variable salary, long-term incentive plans, company car, pension and other perquisites). The **customised remuneration survey for non-executive directors** covers the composition of the remuneration of the members of the board of directors and its various committees. These two surveys provide unique data in the Belgian market.

Contents

1. Executive summary

1.1. General

Executive compensation is influenced by market forces, industry benchmarks and investor expectations. Company size also plays a significant role in the overall remuneration structure.

Quoted companies are subject to strict regulatory oversight, including disclosure requirements for executive and non-executive board member compensation. They face greater transparency requirements and external scrutiny from various stakeholders, including investors, regulators and the public.

1.2. Say on pay

The introduction of say on pay has resulted in an increased number of remuneration-related items discussed at general meetings of listed companies. However, this increase is accompanied by a decline in shareholder acceptance, signalling greater scrutiny of companies' pay practices. Simultaneously, there is a growing focus from both the media and the public on executive compensation. All of these reflect an escalating demand for transparency and accountability in corporate remuneration practices.

1.3. Pay setting and review

The determination of executive directors' remuneration is predominantly overseen by the board (100%), the remuneration committee (99%) and shareholders (91%). By contrast, HR directors play a limited role (3%) in this process. The decision-making for non-executive directors' remuneration belongs mainly with the remuneration committee (93%), the shareholders (85%) and the board (86%). In both cases, remuneration results from consultations among the different bodies responsible for setting and reviewing directors' pay. For both executives and non-executives, the remuneration policy is reviewed annually for most of the companies in the sample.

1.4. Pay components

In Belgian listed companies, the CEO package typically comprises 41% base salary and 53% variable components – 21% bonuses or short-term incentives (STIs) and 32% long-term incentives (LTIs) – with the remaining 6% allocated to pension plan contributions. Additionally, executives commonly receive benefits and perquisites as part of their overall compensation.

Executives typically receive a substantial proportion of their compensation through performance bonuses, stock options, restricted stock units (RSU) and other long-term incentives to align their interests with those of the shareholders. Stock options are particularly popular in Belgium given the tax-friendly treatment of the benefit – subject to conditions – under the Belgian Stock Option Law.

When executive pay structures are tied to sustainability performance metrics, it encourages responsible decision-making and aligns with a commitment to long-term value creation, not only benefitting individual companies, but also contributing to the overall health and resilience of the broader economic landscape.

1. Executive summary

Trends in executive pay

- There is a growing number of shareholder/investor proposals urging companies to integrate sustainability (ESG) goals into their executive compensation schemes.
- Executive performance is still largely measured in relation to financial performance. Financial key performance indicators (KPIs) represent on average at least two thirds of the weighting criteria for short-term incentive (STI) or long-term incentive (LTI) plans.
- Whether ESG KPIs should be tied to STIs or LTIs mainly depends on the time horizon of ESG goals and risks associated with it.
- Non-financial KPIs – and in particular ESG indicators – are more frequently used for STIs rather than LTIs.
- It is expected that ESG goals will be tied more and more to LTIs.
- Social measures are popular in ESG performance indicators; however, their significance in determining executive compensation is lower compared to the weight given to environmental and governance criteria.
- There are more and more legislative interventions and requirements mandating non-financial disclosure, reflecting an increasing demand for transparency and accountability.

1.5. Non-executive directors' pay

Non-executive directors are primarily remunerated through an annual fee, with some companies adopting a combination of an annual fee and additional compensation per meeting attended.

1.6. Board composition

Board composition is increasingly under scrutiny from investors, regulators and others in the governance community.

Trends in board composition

- In Belgium, the board should in principle comprise at least three members. However there is no recommendation regarding the maximum number of directors under Belgian regulation or soft law.
- On average, 4.4 are independent directors in the board (in our sample).
- Director overboarding is a particular concern of investors. Both the Institutional Shareholder Services (ISS) and Glass Lewis recommend voting against a candidate who already holds an excessive number of board appointments.
- In PwC's 2023 Annual Corporate Directors Survey, a substantial majority of directors (82%) expressed belief that diversity enhances board performance. However, a significant percentage (55%) also perceive diversity efforts as being driven by political correctness. Additionally, about one-third express concerns that these efforts might lead to the appointment to the board of less-qualified candidates.
- Within our sample, only 13% of executive directors are women, illustrating a significant gender disparity on executive boards. Out of the 80 CEOs surveyed, merely 4 are women, underscoring the gender gap in top leadership positions. By contrast, non-executive directors present a more balanced gender representation: 42% are women and 58% men.
- Our findings highlight the necessity for robust board succession plans, combined with effective onboarding and mentorship programmes for new directors. These initiatives are essential to equip individuals in their first board mandates, ensuring they can contribute effectively and navigate their roles successfully.

2. Say on pay

2.1. Executive remuneration in focus – Say on pay practices and trends

For listed companies, the 2017 revised EU Shareholders Rights Directive (SRD II)[1] introduced the right of shareholders to vote on executive compensation packages presented by the company (i.e., say on pay). Shareholders can express their approval or disapproval of the proposed executive pay, through their votes, at least once every four years or on the occasion of every material change to the policy. In Belgium, the vote on remuneration is binding, meaning that directors can only receive remuneration in accordance with the company's approved remuneration policy. After the vote on the remuneration policy at the general shareholder meeting, this policy – as well as the date and the result of the vote – is made public on the company's website without delay and should remain freely available to the public for at least the period during which the remuneration policy applies.

Say on pay

Say on pay serves as a mechanism to align executive compensation with shareholder interests and enhance transparency in corporate governance. Say on pay:

- enhances shareholder engagement
- promotes transparency and accountability
- aligns compensation with performance
- creates a feedback loop on executive pay practices.

On the other hand, say on pay is not without pitfalls. In the worst cases, it may lead to a short-term focus for positive votes, encourage companies to follow industry trends blindly or result in overly-complex compensation plans.

There is also concern about the influence of proxy advisory firms shaping compensation practices and the unintended consequences that changes to executive compensation plans may bring. Some also argue that say on pay has limited impact on excessive CEO pay levels.

We see an increased number of remuneration-related items at the general meetings of listed companies since the introduction of say on pay by the SRD II. At the same time, we note a decreasing shareholder acceptance of compensation-related matters during general meetings.[2] These trends confirm an increased scrutiny of companies' pay practices, a perspective further substantiated by the growing media and public attention surrounding executive compensation, reflecting and escalating demand for transparency and accountability.

The 2020 Code on Corporate Governance, applicable to listed Belgian companies, requires them to consider adapting their remuneration policy when a significant proportion of votes are cast against the remuneration policy at the annual general meeting (Principle 7.3). However, the term 'significant' is not further clarified in the Code. According to Glass Lewis' continental European guidelines,[3] actions need to be taken to address shareholders' concerns when 20% or more of the votes cast by minority shareholders were not in favour of the proposed policy.

Inaction could be perceived as weak governance on matters related to pay, and damage the company's performance, but inaction may also have an impact on the votes of shareholders on other matters.

A company's remuneration report provides an overview of the remuneration effectively paid in the course of the previous year. By way of their advisory votes, shareholders are given the opportunity to provide their feedback on the appropriateness of remuneration arrangements made for directors and on the level of transparency in the remuneration report. While there are currently no precise guidelines on the way companies should react to shareholders' dissent to the remuneration report, one should bear in mind that it still signals dissension to the company's pay practices. Further, Belgian listed companies are required to explain how shareholder votes and feedback on the remuneration policy and the remuneration report have been taken into account when a revised remuneration policy is presented for voting at the annual general meeting.[4]

An open and transparent dialogue with shareholders on remuneration and governance is key for identifying the reasons for the dissenting votes and determining relevant actions.

[2] For more information, see: 2022 PwC Corporate Governance and Executive Pay Report – Navigating uncertainty: ESG as a compass for success, 17 November 2022, PwC and the Diligent Institute

[3] 2022 Policy Guidelines — Continental Europe, 2021, Glass Lewis

[4] Art. 7:89/1, §2, 7° of the Belgian Code on Companies and Associations

2. Say on pay

Investors expectations

Striking a balance in executive compensation entails designing programmes that not only attract and motivate executives but also align with the expectations of a wide range of stakeholders (i.e., shareholders, investors, regulators, the public).

The following compensation criteria are the subject of increased scrutiny by shareholders and investors:[5]

Transparency – Provide clear and comprehensive information on remuneration, including the alignment with the long-term strategy of the company and the methodology for assessing the achievements of financial and non-financial KPIs used in compensation programmes.

Governance – Maintain an appropriate link between performance and remuneration, avoid inappropriate executive compensation, and maintain an independent and effective remuneration committee.

We are seeing a shift from a pay-for-performance to a pay-for-sustainability philosophy. Stakeholders, including shareholders, investors and the public, are increasingly emphasising the importance of sustainability and responsible corporate behaviours in addition to traditional performance metrics.

Risks – Avoid arrangements that may reward failure.

[5] Continental Europe, Proxy Voting Guidelines – Benchmark Policy Recommendations, Effective for Meetings on or after February 1, 2023, published 13 December 2022, ISS

3. Executive and non-executive remuneration

3.1. Compensation design and remuneration policies

Setting and reviewing remuneration

Sound pay governance practices require the company to remunerate board members and executives fairly and responsibly.[6] The remuneration policy adopted by the board – upon the advice of the remuneration committee when required – should be designed to achieve the following objectives:

- attract, reward and retain the necessary talent
- promote the achievement of strategic objectives in accordance with the company's risk appetite and behavioural norms
- promote sustainable value creation.

In addition, the board should make sure that the remuneration policy is consistent with the company's overall remuneration framework.

For executive board members, the remuneration package should reflect the responsibilities and the complexity inherent in the position and be competitive in comparison to other similar positions in the market. Their pay is influenced by various factors. Our analysis revealed that the most frequently reported factors that determine the remuneration of executive directors, are:[7]

- the market/competition (100%)
- expected responsibilities (98%)
- qualifications (76%)
- amount of experience (74%)
- relevance of experience (54%)
- profile/reputation (17%).

Larger market capitalisation, company size or the size of the workforce often indicate increased responsibilities and complexities for the CEO, which is reflected in their compensation. Pay can also vary significantly across industries. Different industries may have distinct market norms and benchmarks for executive compensation (e.g., banks and insurance companies are subject to specific regulations on pay for certain staff categories). Industries with higher levels of competition or specialised knowledge (e.g., the IT sector) may offer higher compensation to attract and retain top executive talent[8].

The type of employment may also influence the remuneration package of executives. According to our survey, most executive directors in Belgian listed companies are employed under a self-employed status (89% vs 11% employee). In Belgium it is a common practice that self-employed employees perform their services through a management company.

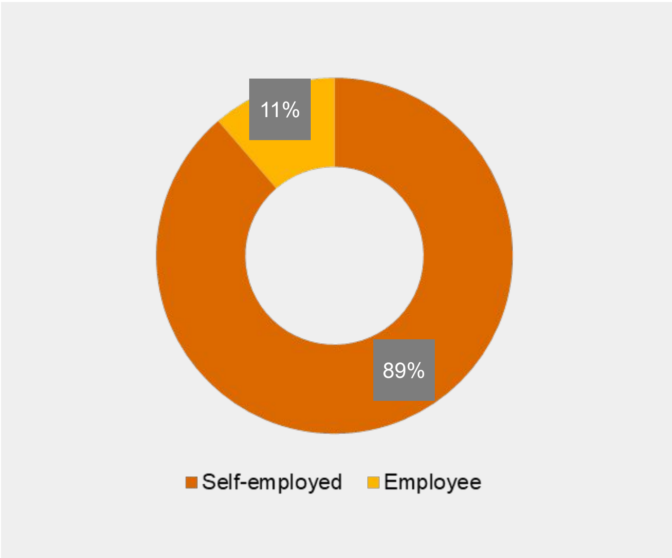


Figure 1 – Self-employed status of executive directors in Belgian listed companies

[6] Principle 7 of the 2020 Belgian Code on Corporate Governance
[7] The results of our survey presented in this report may slightly differ from a tailored 2023 Executive Remuneration Survey, which is explained by the companies included in the sample of each report.
[8] 2022 PwC Corporate Governance and Executive Pay Report – Navigating uncertainty: ESG as a compass for success, 17 November 2022, PwC and the Diligent Institute

3. Executive and non-executive remuneration

Executive directors' remuneration

In listed companies, executive compensation is reviewed primarily through consultation between the remuneration committee, the board of directors and shareholders.

Our survey revealed (**Figure 2**) that the determination of executive directors' remuneration is primarily overseen by the board (100%), followed by the remuneration committee (99%) and shareholders (91%). The role of HR directors in this process is limited, with only 3% of companies reporting their involvement. In comparison to 2022, we notice an increase in the oversight on the remuneration by shareholders (from 71% in 2021 to 80% in 2022 and 91% in 2023). This trend can be attributed to the say on pay guidelines introduced by the revised EU Shareholder Rights Directive (SRD II).

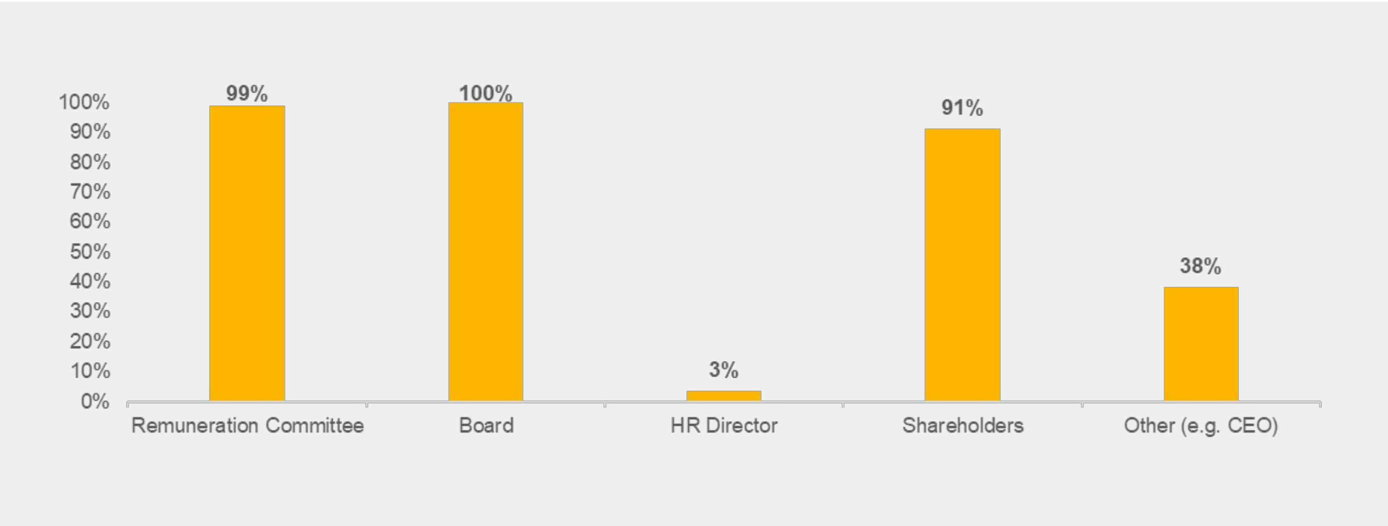


Figure 2 – Roles involved in setting and reviewing executive directors' remuneration

Non-executive directors' remuneration

Figure 3 shows that decisions regarding the setting and reviewing of non-executive directors' remuneration lie mainly with the remuneration committee, followed by the shareholders and the board.

Figure 3 – Roles involved in setting and reviewing non-executive directors' remuneration

3. Executive and non-executive remuneration

Non-executive directors' remuneration

Figure 4 shows an overview of the different combinations of roles responsible for setting and reviewing the remuneration of non-executive directors. In a majority of cases, the remuneration is set by the remuneration committee in combination with the board of directors and shareholders.

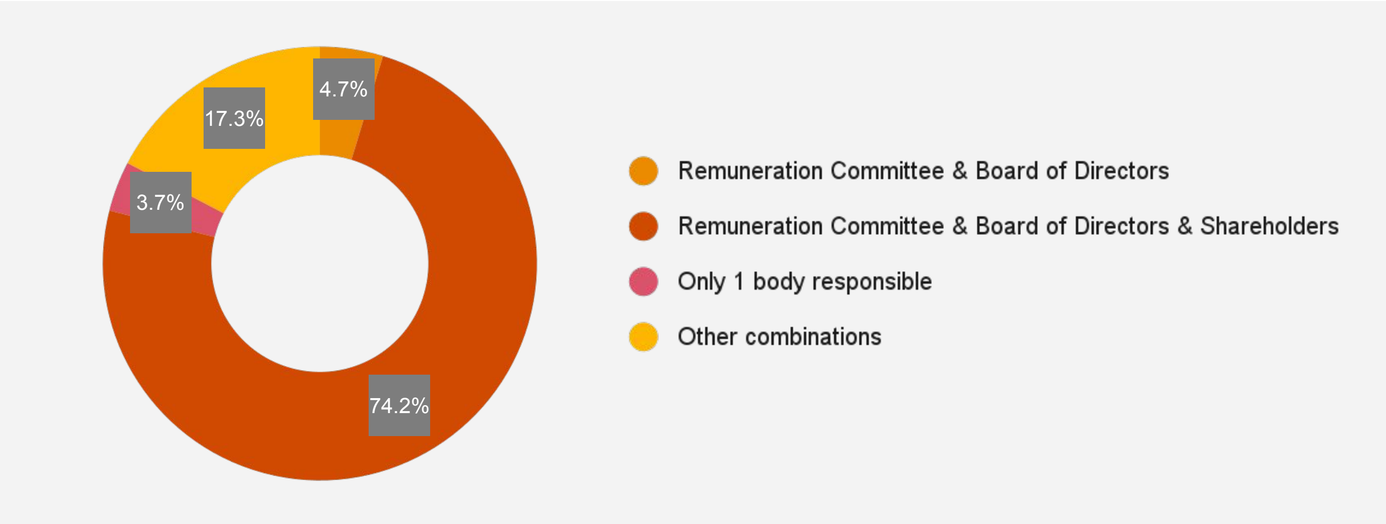


Figure 4 – Combinations of roles involved in setting and reviewing non-executive directors' remuneration

3.2. Frequency of pay reviews

Executive directors' remuneration

Figure 5 shows the frequency of the review of executive directors' remuneration. In the vast majority of the companies in our sample, the remuneration of executive directors is reviewed annually (73%), while 9% of companies have a three-yearly review.

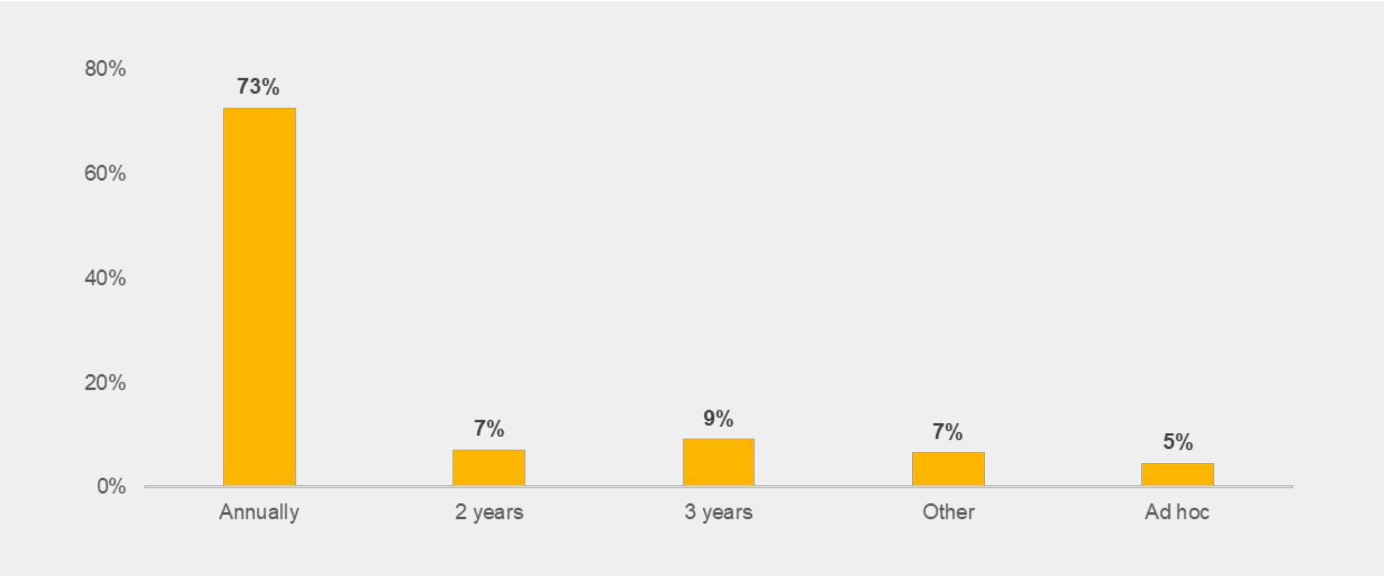


Figure 5 – Frequency of the review of executive directors' remuneration

Non-executive directors' remuneration

Figure 6 shows the frequency of the review of non-executive directors' remuneration. The remuneration is reviewed annually in the majority of the companies in the sample (70%), followed by a three-yearly review (8%), an ad hoc review (only 7%) and a two-yearly review (only 3%).

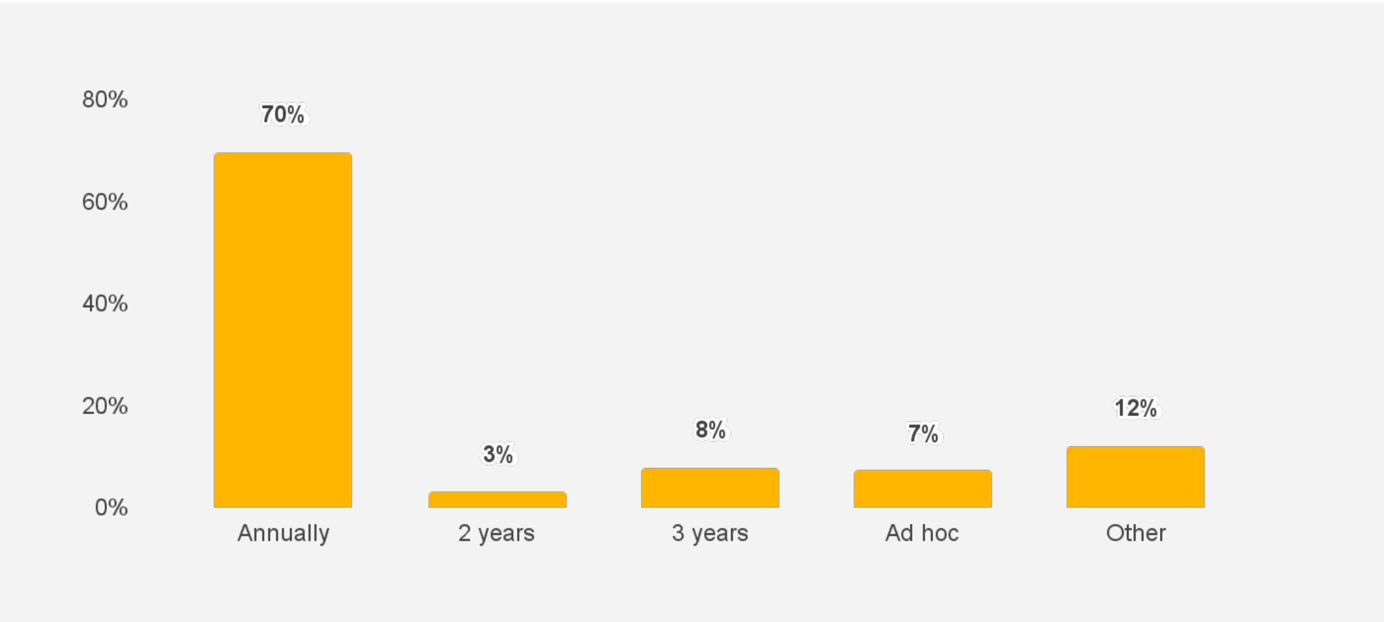


Figure 6 – Frequency of the review of non-executive directors' remuneration

3. Executive and non-executive remuneration

3.3. Executive directors' pay components

Remuneration mix

An executive remuneration package is usually composed of a mix of fixed and variable pay components. The fixed part includes the base salary, benefits (pension plan, health plan) and perquisites (e.g., company car, smartphone, allowances, etc.). The variable part comprises bonuses, STIs and LTIs. LTIs are intended to support the company's sustainability and long-term performance.

Figure 7 provides an overview of the proportion of the components of the annual package of CEOs of Belgian listed companies, based on our 2023 Executive Remuneration Survey (all sectors).

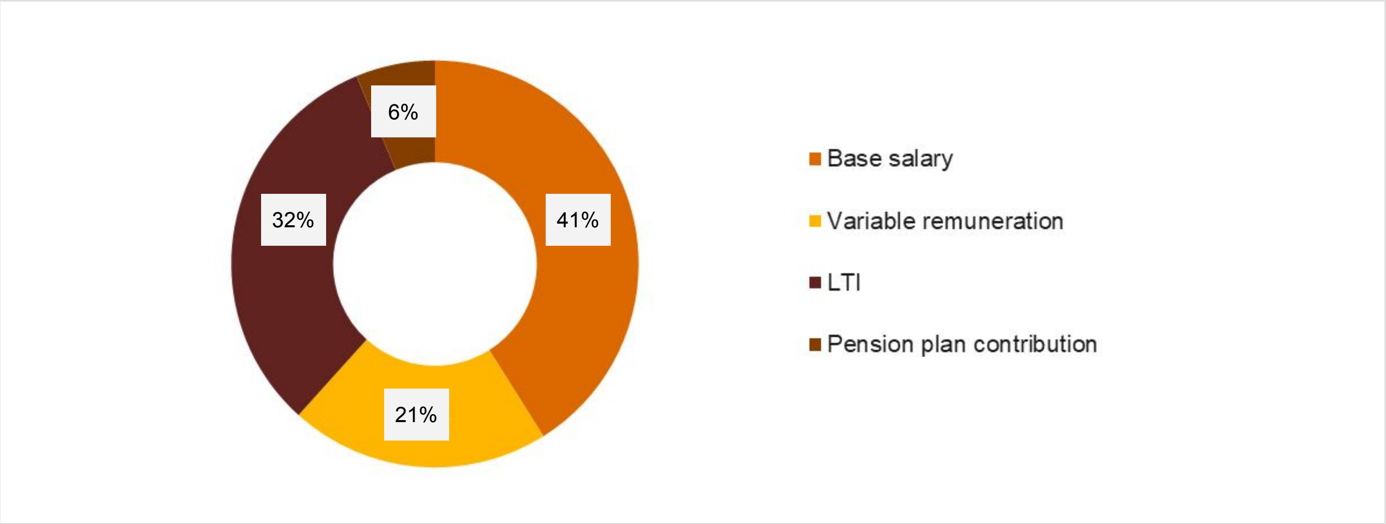


Figure 7 – Annual package of CEOs of Belgian listed companies (all sectors)

Restrictions: credit institutions and investment firms

It's important to note that, to prohibit excessive variable pay, companies operating in the bank and insurance sector are subject to additional restrictions on remuneration of their 'identified staff' or 'material risk takers' — staff whose professional activities have a material impact on the company's risk profile.

The philosophy behind these restrictions is that the share of the fixed or guaranteed component in the overall remuneration package should be enough to:

1. avoid staff being too dependent on the variable component, and
2. avoid rewarding overly risky behaviours that exceed the company's risk appetite.

The remuneration policy should enable the company to operate an entirely flexible bonus policy, including the option of not paying out any variable component at all.

These policies result in a proportion of variable components that is lower than in other sectors, with a proportion of base salary in the CEO package that is significantly higher.

3. Executive and non-executive remuneration

Variable remuneration

Executives typically receive a substantial proportion of their compensation through performance bonuses, stock options, restricted stock units and other long-term incentives to align their interests with those of the shareholders.

The remuneration policy should describe the different components of and determine an appropriate balance between fixed and variable remuneration, as well as cash and deferred remuneration.[9]

According to Belgian law[10], at least 50% of the variable remuneration should be deferred if the variable component exceeds 25% of the total executive director's annual salary, following this rule:

- minimum 25% of the variable remuneration must be deferred over a period of at least 2 years
- minimum 25% of the variable remuneration must be deferred over a period of at least 3 years.

By deferring a portion of executive pay, companies can align executives' interests with the long-term health of the organisation, reducing the temptation for short-term, risky decision-making. Deferred compensation plans often include vesting periods, encouraging executives to stay with the company for an extended period. It's therefore a strategic tool to align executives' behaviour with the organisation's long-term (sustainable) objectives, retain skilled leadership and enhance accountability.

Our survey shows that a quarter of companies in the sample fall into this category and defer payment of at least 50% of the variable portion of executive variable compensation. For executives whose bonuses are deferred, a deferral of between 25% and 100% is applied.

Types of long-term incentive plans

The Belgian Code on Companies and Associations (BCCA) does not specify a limit on the variable component of remuneration for directors of listed companies. Nevertheless, the 2020 Belgian Corporate Governance Code (BCGC) introduces a cap on short-term incentives, without explicitly defining this limit. This further strengthens the trend whereby variable pay is predominantly composed of long-term incentives.

When analysing executive directors in our sample who receive long-term incentive plans (LTIPs) via equity-related instruments, it's evident that stock option plans are substantially favoured.

Type of LTIP	Number	Percentage
Share Plan	39	33%
Stock Option Plan	74	63%
LTI-type not specified	6	4%

Figure 8 – Stock related long-term incentive plans of executive directors. See also: Appendix 1

Figure 8 shows that 63% of executive directors who receive an LTIP via equity-related instruments are offered stock option plans, while 33% are offered a share plan.

Compared to previous years, we note that for executive directors receiving an LTIP via equity-related instruments, share plans are becoming less popular (from 43% in 2021 to 33% in 2022), while stock option plans have slightly risen in popularity (from 57% in 2021 to 63% in 2022).

[9] Principle 7.7 of the 2020 Belgian Code on Corporate Governance
[10] Article 7:91 of the 2020 Belgian Code on Corporate Governance

3. Executive and non-executive remuneration

Paying for sustainability performance

The shift from a pay-for-performance to a pay-for-sustainability philosophy reflects a growing emphasis on responsible corporate behaviour and the integration of environmental, social and governance (ESG) goals into executive compensation.

Stakeholders, including shareholders, investors and the public, are increasingly valuing sustainability alongside traditional performance metrics. As a result, we see a growing number of shareholder/investor proposals urging companies to integrate ESG objectives into their executive compensation schemes.

This indicates that compensation is seen as a tool to motivate desirable behaviours while avoiding incentives for unethical behaviours or misconduct, thereby holding executives accountable for delivering on sustainability goals. These goals are typically tied to executives' compensation rather than employees', due to executives' strategic decision-making role, higher level of responsibility, influence on organisational culture, greater impact on ESG performance and the administrative complexity of incorporating ESG metrics for all employees.

Yet achieving a harmonious balance between ESG metrics and traditional financial and non-financial KPIs poses challenges. Currently, executive performance is still largely measured in relation to financial performance. Financial KPIs represent on average at least two thirds of the weighting criteria for STI and LTI plans.

Whether ESG KPIs should be tied to short-term incentives (STIs) or long-term incentives (LTIs) will mainly depend on the time horizon of ESG goals and risks associated with them. Short-term ESG goals that can be achieved within a one-year time frame will naturally be incorporated into STIs, because this makes sense. STIs offer more flexibility, allowing companies to adjust ESG goals annually based on evolving priorities and circumstances.

On the other hand, ESG goals with a more extended time horizon will most likely be linked to LTIs. However, the common three-year measurement period for LTIs might not effectively capture ESG objectives with a 5- to 10-year (or more) horizon.[11]

In practice, non-financial KPIs – and in particular ESG indicators – are more frequently used for STIs rather than LTIs. This may be because it's more challenging to set meaningful ESG targets for LTIs, as LTI targets are likely more output driven. Companies also may prefer to have ambitious and well-designed short-term ESG objectives rather than vaguely expressed long-term goals. As a result, companies start by establishing ESG metrics in STIs. This approach allows them to set achievable short-term ESG goals by linking them to STI plans and progressing on them step by step.[12]

The integration of ESG KPIs into long-term incentive plans is expected to increase in the future.

Social measures are popular in ESG performance indicators. While some social goals are not necessarily new to compensation plans (such as customer satisfaction, health and safety, etc.), there is a rapid and notable adoption of diversity- and equity-related goals. It's worth highlighting that despite the frequent utilisation of social indicators, their significance in determining executive compensation is lower compared to the weight given to environmental and governance criteria. This suggests that, in the current landscape, there is a greater emphasis on environmental and governance factors when assessing executive performance and determining corresponding rewards, even though social aspects are commonly integrated into the evaluation process.

We also see a trend of increasing legislative measures and requirements mandating non-financial disclosure (e.g., the Corporate Sustainability Reporting Directive – CSRD). This trend reflects an increasing demand for greater transparency, accountability and alignment between executive pay and ESG performance. Consequently, when a company decides to incorporate ESG goals into executive compensation, it also communicates more transparently about the reasons for doing so, and about how compensation is determined based on ESG performance, including the chosen ESG KPIs and the performance evaluation methodology.

[11] Purpose driven leadership: the evolving role of ESG metrics in executive compensation plans, March 2022, PwC
[12] 2022 PwC Corporate Governance and Executive Pay Report – Navigating uncertainty: ESG as a compass for success, 17 November 2022, PwC and the Diligent Institute

3. Executive and non-executive remuneration

Pension plans

Alongside base salary and variable pay, employer contributions into a pension plan form a crucial part of the overall remuneration structure. The inclusion of pension or group insurance benefits enhances the attractiveness of the executive package, providing a greater sense of long-term financial security and well-being.

Looking at the beneficiaries of a pension plan in our sample, 75% of the executive directors are offered a **defined contribution plan**, 7% are offered a **defined benefit plan**, while 18% are offered a combination of both. None of the executive directors in our sample are offered a cash balance.

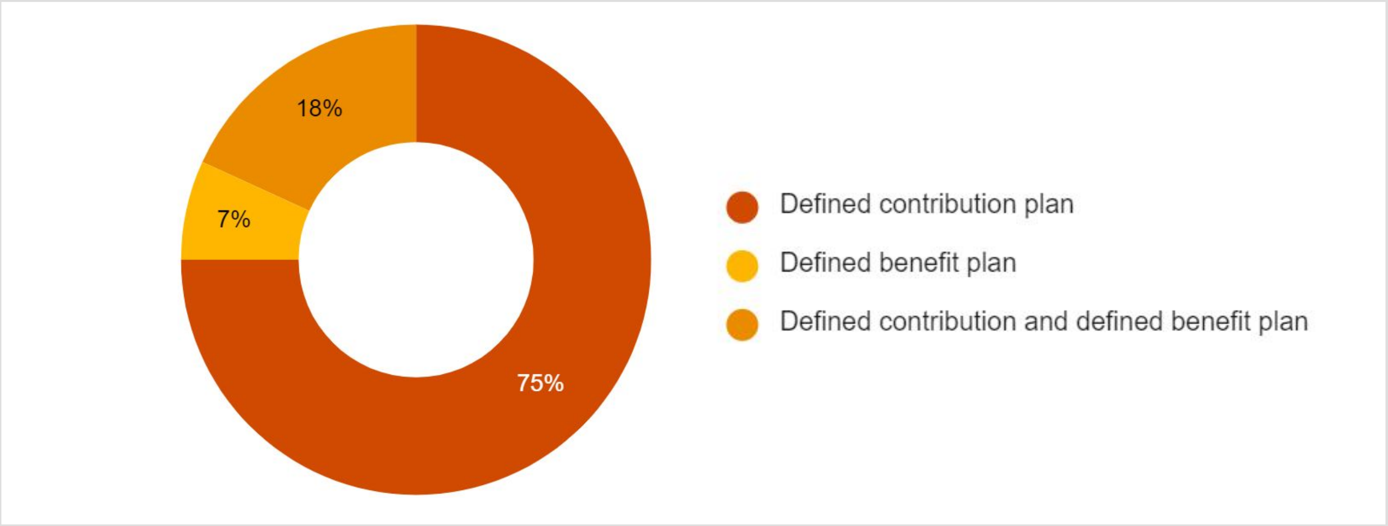


Figure 9 – Type of pension plan

3. Executive and non-executive remuneration

3.4. Non-executive directors' pay components

The remuneration levels for non-executive board members should mirror the time commitment and responsibilities associated with the role. They are not allowed to receive compensation directly tied to the company's performance. Instead, remuneration can be provided in the form of shares, excluding stock options.

The remuneration of non-executive directors typically comprises the following components or a combination thereof:

- annual fee for board-related activities
- fee per board meeting
- annual fee for committee-related activities
- fee per committee meeting
- other fees (e.g., member nomination, pension plan, warrants, seating in ad-hoc committee, travel fee, director's bonus and communication fees).

Figure 10 illustrates the reported remuneration mix for board-related and committee-related remuneration. For both board-related and committee-related remuneration, only an annual fee is most frequently reported (respectively 53% and 31%).

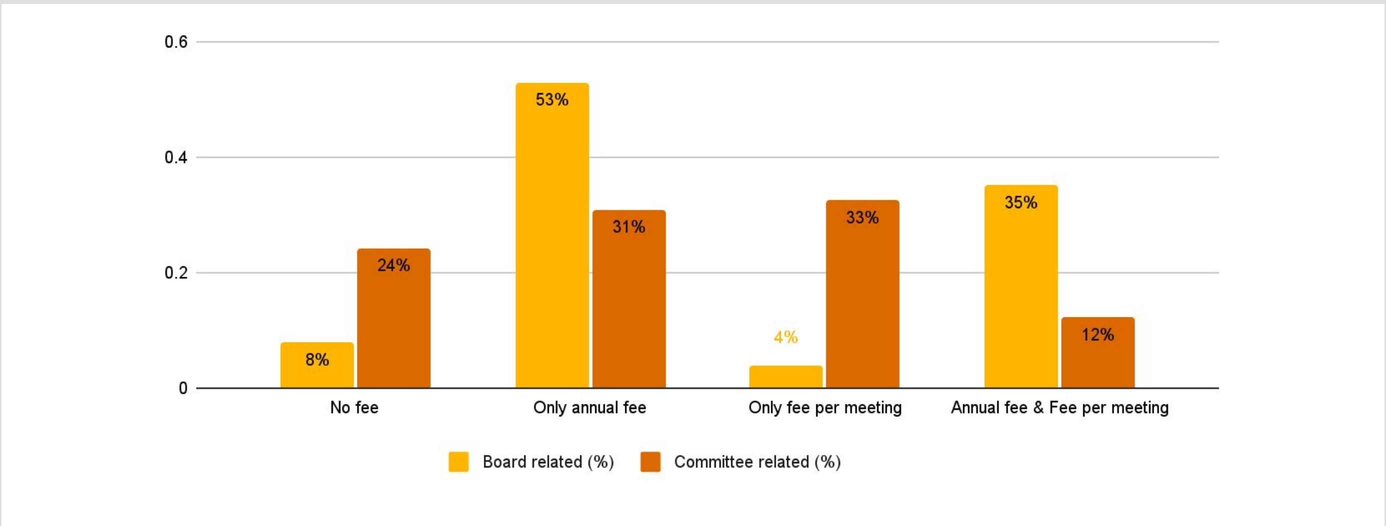


Figure 10 – Remuneration mix for board-related and committee-related remuneration

4. Board composition – Key trends and developments

4.1 General requirements

The composition of the board should be determined so as to be appropriate for the company's purpose, operations, phase of development and ownership structure.

To ensure that decisions are made in the corporate interest of the company, taking into account the legitimate interests and expectations of shareholders and all other stakeholders, the board should encompass expertise in the company's areas of activity as well as a diversity of skills, knowledge, background, age and gender.

Board composition is increasingly under scrutiny from investors, regulators and others in the governance community. Many investors and other stakeholders want more information about a company's director nominees, especially when boards and their nominating and governance committees are considering director tenure, board diversity and the results of board self-evaluations.

4.2. Board composition and independence

The board should be able to exercise objective, independent judgement when making decisions related to corporate affairs. Such independence can be achieved through the composition and structure of the board itself.

Based on the 2023 revised OECD Principles of Corporate Governance, independence requires that a sufficient number of board members[13] – but also committee members – are independent of management. According to the Belgian Code on Corporate Governance, the board of directors should include an appropriate number of independent directors, and not less than three.[14]

Independent directors are a great asset in the board of directors, as they bring an objective view to the management and the evaluation of the board's performance. They also have a key role in circumstances where the interest of the company and of its management and shareholders may diverge (e.g., executive remuneration, succession planning, changes of corporate control, audit function, etc.). Our study showed an average number of 4.4 independent directors among the board of directors in the sample.

[13] Principle V.E.1 of the OECD (2023), G20/OECD Principles of Corporate Governance 2023, OECD Publishing, Paris, https://doi.org/10.1787/ed750b30-en.

[14] Principle 3.4 of the Belgian Code on Corporate Governance

4. Board composition – Key trends and developments

Criteria for appointing independent directors

The Belgian Code on Corporate Governance outlines the criteria that must be met by board members to qualify for an appointment as independent directors.[15]

1. Not be an executive, or exercise a function as a person entrusted with the daily management of the company or a related company or person, and not have been in such a position for the previous 3 years before their appointment. Alternatively, no longer enjoying stock options of the company related to this position.
2. Not have served for a total term of more than 12 years as a non-executive board member.
3. Not be an employee of the senior management of the company or a related company or person and not have been in such a position for the previous 3 years before their appointment. Alternatively, no longer enjoying stock options of the company related to this position.
4. Not be receiving, or not having received during their mandate or for a period of 3 years prior to their appointment, any significant remuneration or any other significant advantage of a patrimonial nature from the company (or a related company or person) apart from any fee received as a non-executive board member.
5. Not hold shares, either directly or indirectly, either alone or in concert, representing globally one tenth or more of the company's capital or of the voting rights in the company at the moment of appointment and not having been nominated, in any circumstances, by a shareholder fulfilling these conditions.
6. Not maintain, or not have maintained in the past year before appointment, a significant business relationship with the company or a related company person, either directly or as partner, shareholder, board member, member of the senior management of a company, or with a person maintaining such a relationship.
7. Not be or have been within the last 3 years before their appointment, a partner or member of the audit team of the company, or be a person who is, or has been within the last 3 years before their appointment, the external auditor of the company or a related company or person.
8. Not be an executive of another company in which an executive of the company is a non-executive board member, and not have other significant links with executive board members of the company through involvement in other companies or bodies.
9. Not have, in the company or a related company or person, a spouse, legal partner or close family member to the second degree, exercising a function as board member or executive or person entrusted with the daily management or employee of the senior management, or falling in one of the other cases referred to in 1. to 8. above (and as far as point 2. is concerned, up to 3 years after the date on which the relevant relative has terminated their last term).

Other good practices to strengthen the independence of the board from management according to OECD Principles are:

- the appointment of a lead independent director
- the separation of the roles of CEO and chair of the board.

This can contribute to achieve an appropriate balance of power, increase accountability and improve the board's capacity for independent decision-making.

In Belgium, the Code on Corporate Governance indeed requires that, in a one-tier structure, a clear division of responsibilities should exist between the chair and the CEO and that they should not be the same individual.[16] However, there is no requirement to appoint a lead independent director.

[15] Principle 3.5. Belgian Code on Corporate Governance. Also see article 7:87 of the Belgian Code of Companies and Associations.

[16] Article 3.12 of the Belgian Code on Corporate Governance

4. Board composition – Key trends and developments

4.3. Board size

It is primordial for a company to have a board of directors of an appropriate size. It should be large enough to enable the board members to contribute experience and knowledge from various fields and to allow for changes of composition without disruption. At the same time, the board size should allow for an efficient decision-making process.

It's essential to regularly assess the board's composition and effectiveness to ensure alignment with the company's strategic goals.

In Belgium, the board should in principle comprise at least three members.[17] However, there is no recommendation regarding the maximum number of directors under Belgian regulation or soft law.

Figure 11 shows an overview of the number of directors in boards within our sample.

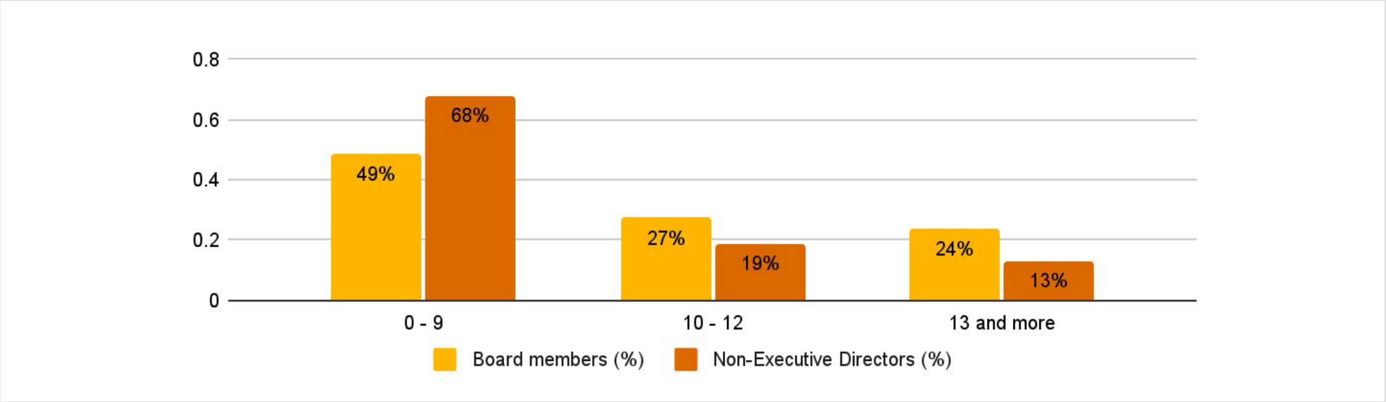


Figure 11 – Number of board members and non-executive directors

4.4. Overboarding

It's quite common for board members to simultaneously hold mandates in different companies. Directors must, however, be able to devote sufficient time to each directorship held. Service on too many boards or committees can interfere with board members' performance. Disclosure to shareholders about other board and committee memberships and chair responsibilities is therefore a key instrument to improve board and committee nominations.

Director overboarding is a particular concern of investors. Both ISS and Glass Lewis recommend voting against a candidate who already holds an excessive number of board appointments.

The expression 'overboarded' is defined as follows.

- Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chair position counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.
- Also, any person who holds the position of executive director (or a comparable role) at one company and serves as a non-executive chair at a different company will be classified as overboarded.[18]

Specific sectors, such as banking, have regulations imposing quantitative restrictions on the number of mandates for management body members to ensure sufficient time is dedicated to their functions in the institution.[19]

Under Belgian law, a director's term may not exceed six years. But the Belgian Code on Corporate Governance recommends the director's term not exceed four years. PwC's 2023 Annual Corporate Directors Survey results suggest that directors want to see more turnover on their boards. More than 57% of directors surveyed want at least two directors on their board to be replaced. Yet refreshment remains a challenge.

[17] Article 7:85, §1 and 9:5 of the Belgian Code of Companies and Associations
[18] Europe, Middle East and Africa (EMEA) Proxy Voting Guidelines – Benchmark Policy Changes for 2024 for U.K. and Ireland, Sub-Saharan Africa, Continental Europe, and EMEA Regional, 2023, ISS
[19] Article 62, §1 of the Belgian Banking Law

4. Board composition – Key trends and developments

4.5. Board diversity

Diversity – covering not only gender, age, race and ethnicity but also skills, background and experience – is a key element of any discussion of board composition. In this respect, most directors (82%) who participated in PwC's 2023 Annual Corporate Directors Survey think that diversity enhances board performance. However, a significant percentage of them (55%) also think that diversity efforts are driven by political correctness, and about one-third suggest that such efforts may result in less-qualified candidates being appointed to the board. These observations emphasise the need for board succession plans, and for onboarding and mentorship programmes for new directors to help them serve their first board mandate.

Women in the boardroom

In boards of Belgian listed companies and public interest entities, at least one third of board members should be of a different gender from the majority.[20] If a board member is a legal entity, the gender is determined by the gender of the permanent representative.

If the board of directors does not meet the one-third threshold, the first general meeting that follows should remediate the situation. Any other appointment is void. If the composition of the board is still not compliant after this general meeting, any benefit, financial or other advantage of the directors based on their mandate is suspended until the quota is met.

The composition of the board of directors of companies whose shares are listed for the first time must comply with the quota of women on the board from the first day of the sixth year following the listing.

In terms of board gender diversity, the ISS Continental Europe Proxy Voting Guidelines recommend voting against the chair of the nomination committee when the underrepresented gender accounts for less than 30% (or any higher domestic threshold), unless there are mitigating factors (e.g., past compliance and commitment to remediate) and regardless of the company's size.

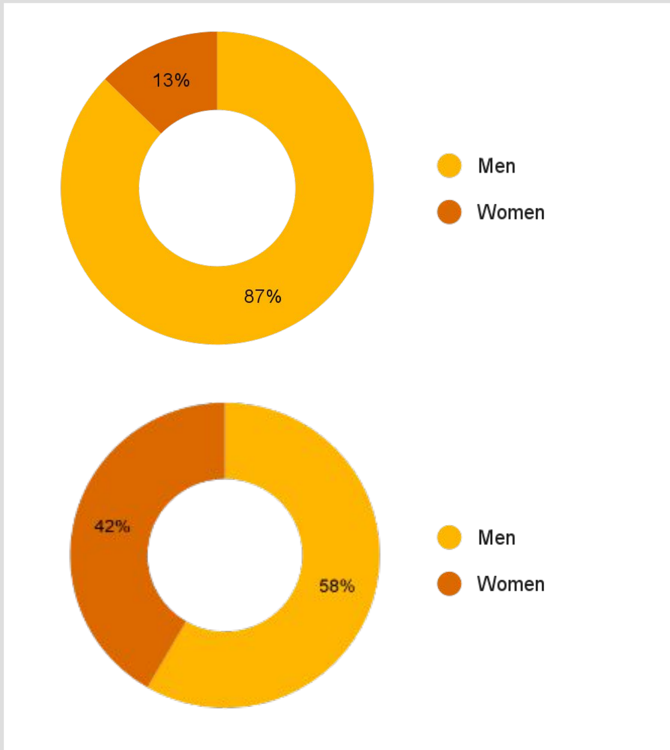
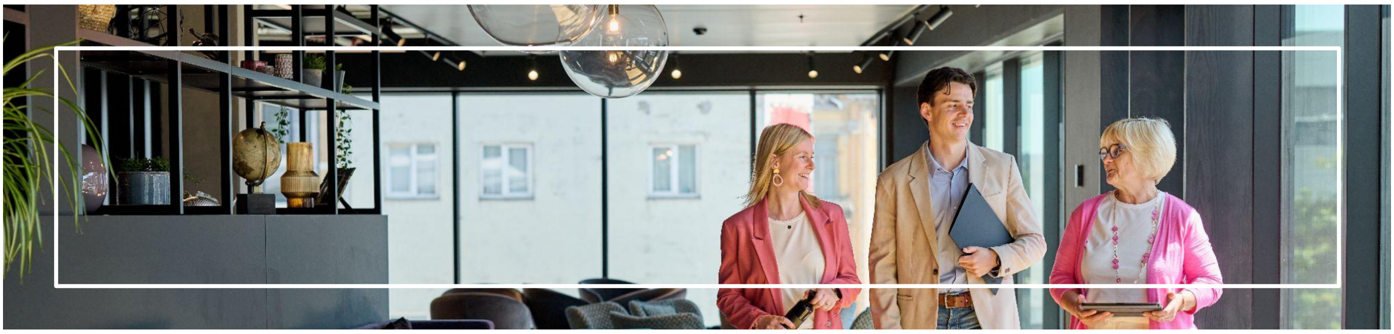


Figure 12 – Gender representation (at the top: executive directors – at the bottom: non-executive directors) in the Belgian listed companies surveyed

Only 13% of executive directors on the executive boards in our sample are women. In addition, out of the 80 CEOs represented in our survey, only 4 are women. In contrast to executive directors, non-executive directors present a more balanced gender representation: 42% are women and 58% men.



[20] Article 3:6 and in particular Article 7:86 of the Belgian Companies and Associations Code
[21] Continental Europe, Proxy Voting Guidelines – Benchmark Policy Recommendations, Effective for Meetings on or after February 1, 2023, Published 13 December 2022, ISS

4. Board composition – Key trends and developments

Boosting gender balance in EU listed companies: EU Women on Boards Directive

At least 40% of non-executive directors or 33% of all directors should be women by 2026: the EU directive known as Women on Boards will oblige companies to have boards "on which members of the underrepresented sex hold at least 40% of non-executive director positions" by June 2026. Member States may also apply the rules to all directors, in which case the target would be 33%.

Member States should transpose the requirements of the directive into national law by 28 December 2024.

Priority to the underrepresented gender

The directive states that, when faced with equally qualified candidates for a director position, "priority can in certain cases be given to the underrepresented sex in selection for employment or promotion".

However, the key criterion in the selection procedure must remain the merit of the candidate.

Enhanced transparency

Listed companies will be required to disclose information on gender representation on their board on their website and in their annual report. Companies that do not reach the target will have to put in place procedures for selection and appointment designed to rectify the situation. Furthermore, they should disclose the efforts taken so far and measures they intend to take in the future to meet the quantitative objectives.

Penalties

The directive includes enforcement mechanisms. Member States should implement effective, dissuasive and proportionate penalties for companies failing to comply with open and transparent appointment procedures and the quantitative objectives, such as fines or nullity or annulment of the selection of board directors by a judicial body.

While there may be debates about the effectiveness and potential drawbacks of gender quotas, proponents argue that they are a necessary step toward achieving greater gender equality in leadership positions. This is confirmed by figures from the OECD showing a correlation between mandated quotas (and – to a lesser extent – voluntary targets) and an increased representation of women on boards over the years.

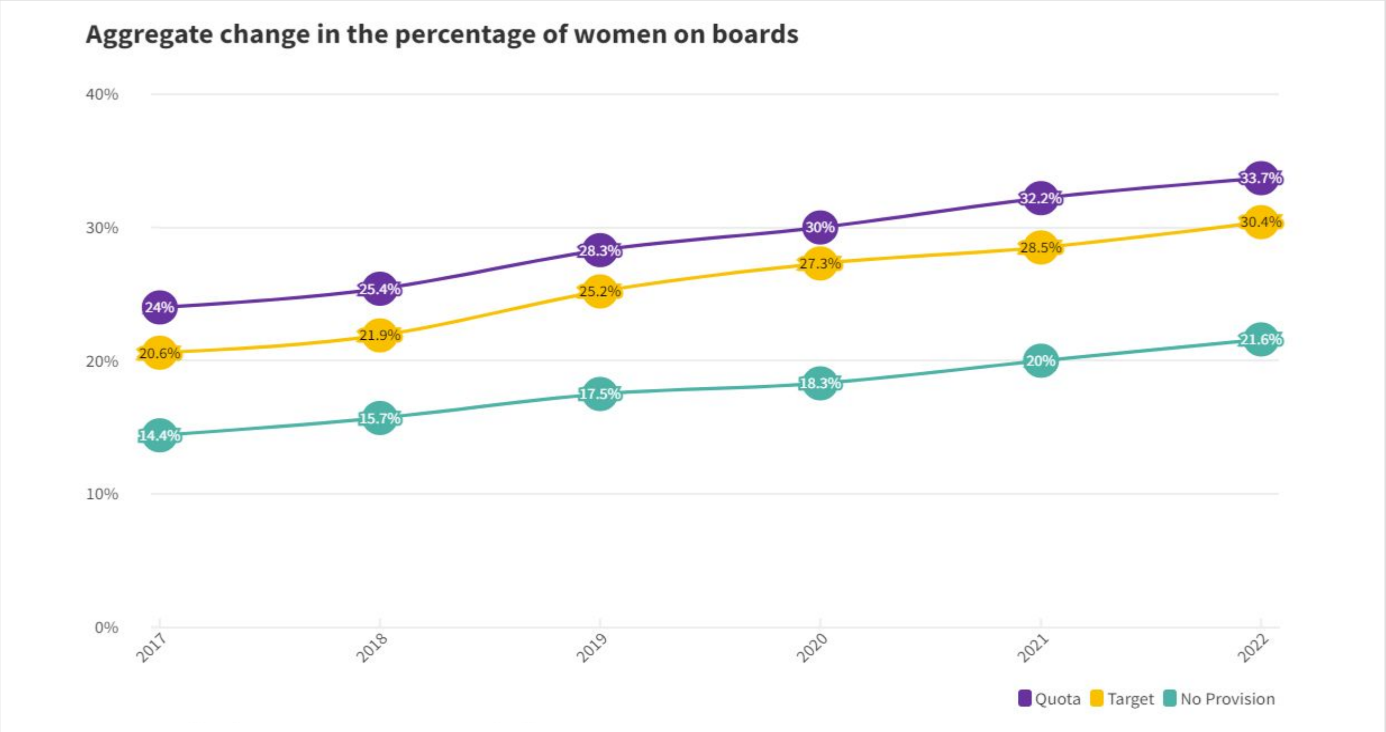


Figure 13 – Aggregate change in the percentage of women on boards

[22] Directive (EU) 2022/2381 on improving the gender balance among directors of listed companies and related measures

[23] OECD Corporate Governance Factbook 2023, 2023, OECD

4. Board composition – Key trends and developments

Age diversity

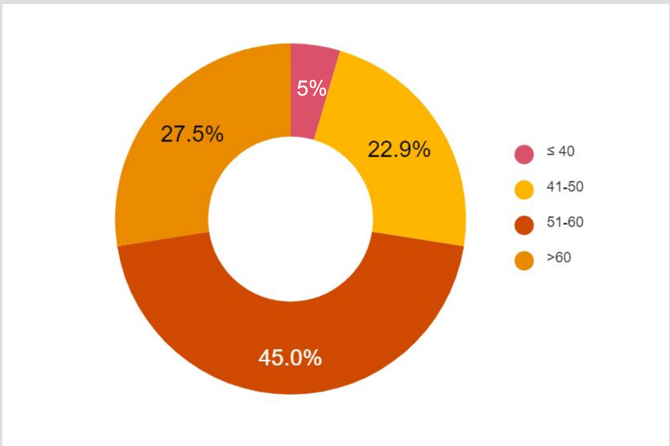


Figure 14 – Age of board members (executive directors)

Figure 14 shows the repartition of executive directors within the different age groups. The vast majority of executives are older than 50, with 45% of executives aged between 51 and 60 and 27% older than 60. Within our sample, the youngest executive is 32 years old while the oldest is 88 years old.

The lack of younger directors may be explained by the lack of succession planning in the boardroom. Despite (45% of) directors[24] acknowledging that at least one of their fellow board members should be replaced, engaging in difficult conversations regarding necessary changes and the dedicated effort required for long-term board succession planning continue to pose significant challenges to board refreshment.

[24] 2023 Annual Corporate Directors Survey, 2023, PwC

5. Appendix

Definitions

Executive director

A director with executive responsibilities in the company, responsible for overseeing the operations and strategic direction of the company.

Non-executive director

A director with no executive responsibilities in the company.

Independent director

A director with no significant business relationship with the company, with its management or with other directors of the company.

Base salary

Gross monthly salary multiplied by the 'contractual multiplicator' (in Belgium 13.92 for employees).

Variable remuneration

Any (typically) cash compensation paid in addition to the executive director's base salary.

Examples of variable pay include:

- performance related pay
- attendance related pay
- sales commission plan
- group profit.

Types of long-term incentives plan (LTIP)

Restricted stock plan

Shares are granted to executives that vest (typically in three or five years) depending on restrictions such as continued employment and achievement of performance targets.

Restricted stock unit (RSU) plan

An RSU is a grant valued in terms of company stock, but company stock is not issued at the time of the grant. After the recipient of a unit satisfies the vesting requirement, the company distributes shares or the cash equivalent of the number of shares used to value the unit.

Stock option plan

Employees are allowed to buy a specific number of stock options in the company for a specified amount of time. The options usually have an exercise price equal to the market price at the time the options were given.

Phantom stock plan

Cash or stock bonus based on the value of a stated number of shares.

Stock appreciation right

A right, usually granted to an employee, to receive a bonus equal to the appreciation in the company's stock over a specified period.

5. Appendix

How can we help you? Services

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 151 countries with more than 364,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.be

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity.

Please see www.pwc.com/structure for further details.

Reward is one of the key elements of sustainable performance and good corporate governance practices. Companies need effective reward programmes that comply with the rapidly changing tax and legal landscape and with corporate governance codes.

At PwC, we listen to your strategic goals and work with you to design a reward programme that supports your business and is advantageous to all stakeholders.

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Executive remuneration and private clients

Finding the balance between offering a competitive package and legal, tax and social security considerations requires specialist insight and expertise. We work with executives and private clients from analysis to practical implementation (including reporting and compliance).

Reward architecture

Having a skilled and motivated workforce is key to securing the resources you require, and grading jobs is the building block to effectively plan a future workforce. Our proprietary PwC-TrueChoice technology enables you to measure employee preferences in real time. Having an EQUAL-SALARY certification enriches the value proposition.

Benefits and wage incentives

Employment tax incentives, eco-friendly cars and greater work flexibility can help you win the war for talent and meet stakeholder demands, while assuring compliance. Building, maintaining or revisiting a sustainable pension plan should be part of this mix.

Reward in transactions

Transactions in all shapes and forms impact the workforce of the companies involved and require a clear roadmap to remain attractive and compliant. Competitive management incentive plans help motivate leaders to work toward a joint vision and keep them engaged with your company.

Partnership compensation

Compensating those with a vested interest in your firm can be a complex business. especially if you operate internationally. We have long-standing experience in this area, from developing, adapting or implementing a partner compensation model, through ensuring local and cross-border compliance.