

Non-Executive Directors' Fees The State Of The Market

By Jon Robinson
Managing Director of Freshwater
Advisers Pte Ltd; a company
specialising in providing company
boards, investors and management
with a source of independent and
impartial advice on a wide range of
compensation issues



The performance of Singapore companies was much improved in 2009 with companies typically reporting top and bottom line growth. The variable portions of executive compensation packages have, generally, increased correspondingly. But what about the fees paid to the non-executive and independent directors (NED's)?

We have now completed our second study of directors' fees in Singapore listed companies. We have reviewed fee practices in 334 public companies including those in the Straits Times Index (STI), FTSE ST Mid-Cap Index and companies with at least S\$ 100 million in market capitalisation as at 31 December 2009.

The table beside shows the total fees paid for NED's as well as the average fee per NED. We have also compared the percentile positions to the previous year.

As can be seen, NED fees have generally stayed flat over the past years even when the number of NED's has increased and business performance has improved. Talking with directors, we sense an unwillingness to ask shareholders

to increase fees when the economic environment was still uncertain.

Over the last year, only 13% of companies granted some form of equity to NED's in addition to cash fees. The value of these grants was generally in the range S\$20,000 to S\$70,000 with a median value of S\$30,000. The form of equity is usually share options despite the criticism that options create the misaligned incentives for directors.

Some companies, typically larger ones, provide details of their internal fee structures; either showing fees for each individual or a defined fee structure.

Percentile	Total Fees (S\$)	% Inc	Average Fees (S\$)	% Inc
P10	114,500	-15%	30,000	-21%
P25	153,750	0%	37,500	-3%
Median	240,000	0%	51,700	0%
P75	387,477	10%	73,723	13%
P90	684,972	28%	103,961	30%

Base (S\$)	Quartile	Fees Relative to Base		
		Chair	Dpy Chair	Lead Ind
24,900	P10	1.5	1.3	n/a
30,000	P25	1.6	1.5	n/a
45,000	Median	1.9	1.5	1.6
51,000	P75	2.0	1.7	n/a
80,000	P90	2.1	1.8	n/a

Base (S\$)	Quartile	Additional Fees Relative to Base					
		Audit		Nomination		Remuneration	
		Chair	Member	Chair	Member	Chair	Member
24,900	P10	0.3	0.0	0.1	0.0	0.1	0.0
30,000	P25	0.5	0.3	0.2	0.1	0.2	0.1
45,000	Median	0.6	0.4	0.4	0.2	0.4	0.2
51,000	P75	0.8	0.4	0.4	0.3	0.4	0.3
80,000	P90	0.9	0.5	0.5	0.3	0.5	0.3

The practice is to set a base fee for NED's and then specific fees for board and committee chairmen as well as committee member fees

A board chairman could expect double the base fee with an audit committee chairman receiving an additional 60% of the base fee and chairmen of the remuneration and nominating committees getting an additional 40% of the base.

Committee members also get paid additional fees: some 40% for the audit committee and around 20% for the other committees.

These differences in the remuneration structure are appropriate given the additional work load of committee chairman and audit committee members. However, despite increasing demands placed on audit committees, we are not seeing their fees increasing any faster than general increases. The work of the Corporate Governance Council will likely increase directors' workloads and, potentially, the remuneration and

nomination committees will become more active.

One area where we are seeing change is the practice of seeking approval for fees in advance; directors can then be

paid during the year rather than waiting for their fees until after the annual general meeting. In 2008, only 11% of companies had this prior approval but in 2009 the practice had been adopted by 20% of companies. We would expect this percentage to rise sharply in the next few years; once directors realise that this is acceptable to shareholders then they will shake off their reluctance to ask.

Our advice to boards is that they should have a regular review of their fee levels and structures to reflect their growing responsibilities and, where it is a regional or global business, their fees should reflect broader international practice as well as Singapore rates. We also believe that boards should carefully consider using equity in their fees with, perhaps, guidance on the amount of equity a director should own.

A comprehensive analysis of NED fees is available from Freshwater Advisers; contact: info@freshwateradvisers.com



A board chairman could expect double the base fee with an audit committee chairman receiving an additional 60% of the base fee and chairmen of the remuneration and nominating committees getting an additional 40% of the base.