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EBA Guidelines on Remuneration Policies Consultation Summary

ShareAction, the responsible investment advocacy group, welcomes the opportunity to provide feedback to this consultation on investment firms remuneration policies. Significant changes to the dominant business model which is based on prioritising short-term profits at the expense of gender equality, is urgently needed. To develop remuneration policies that are gender equal, investment firms need to close the gender pay gap across their workforce and account for how their business operations are inhibiting better female participation. We therefore strongly support the European Banking Authority's efforts to ensure investment firms have in place gender neutral remuneration policies for all staff as part their internal governance arrangements.

Our main recommendations are:

1. **Strengthen the definition of gender neutral remuneration policies**
   - Despite various EU initiatives for tackling gender equality, the gender pay gap in the financial sector continues to be one of the highest across all employment industries. This has led to an increased pension gap, leaving women at a significantly higher risk of poverty.
   - Defining gender natural remuneration policies as a pay policy that prioritises addressing the gender pay and pension gap in investment firms, will ensure that gender responsive measures are put in place to mitigate gender inequality issues in the workforce.

2. **Clarify that remuneration policies should align with sustainability performance objectives and explain how they are consistent with gender equality performance targets**
   - The guidelines should clarify that gender neutral remuneration policies are aligned with firms' sustainability performance objectives on social issues (the "S" of ESG) and explain how pay policies are linked with internal gender equality performance targets. This will ensure firms account for the way their governance operations impact on gender equality and action plans are set out when remuneration policies do not meet performance targets on reducing the gender pay and pension gap.
   - ShareAction's research shows that firms do not understand how their activities are contributing to gender inequality on the most precarious or vulnerable female workers and are not taking action to mitigate this. It is therefore of utmost importance that remuneration policies are aligned with inclusion and diversity objectives, thereby preventing investment firms from disregarding their adverse impacts on the gender equality of their workforce.

3. **Clarify that remuneration committees should engage with shareholders on gender inequality and explain how engagement outcomes are integrated into remuneration policies**
   - Shareholders play a significant role in reshaping corporate behaviours to ensure that firms focus on sustainable long-term value creation, including prioritising diversity across all levels and advancing gender equality. Through shareholder engagement, investors can hold to account firms that fail to take sufficient action to address gender equality in remuneration policies. However, ShareAction research shows that current investor engagement practices are not sufficiently integrating gender equality issues into remuneration policies.
   - The guidelines should therefore clarify that remuneration committees actively engage with shareholders on gender equality issues within firms' direct operations and across their supply chains. Remuneration committee reports should also explain what engagement with investors has taken place and how the outcomes of these engagements have been integrated into subsequent remuneration policies.

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More detailed recommendations can be found in response to the consultation questions below and draw on ShareAction's research and expertise.

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About ShareAction

ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

ShareAction's EU policy engagement focuses on supporting the development of an effective regulatory framework of sustainable finance and long-term investment that ensures the interests of end-investors are heard and the financial sector helps deliver on ambitious environmental and social goals.

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Consultation on Guidelines on Remuneration Policies for Investment Firms

Question 1: Are the subject matter, scope and definitions appropriate and sufficiently clear?

In the EU, the gender pay gap stands at 14.1 percent[i] and in 11 EU member states this is most distinct in the financial sector, with the gross hourly earnings for women more than 30 per cent below those of men.[ii] This has led to a 30.1 percent of pension gap for women in the EU,[iii] leaving women at a significantly higher risk of poverty. Upcoming EU legislation on gender inequality aims to address the gender pay gap by requiring companies to provide data on pay gaps and allowing fines for companies violating the right to equal remuneration.[iv] We recommend that the proposed guidelines are improved so that the definition of gender neutral remuneration policies includes the priority and commitment to actively tackle the gender pay gap in investment firms. We also recommend that the proposed guidelines include the commitment that firms address the gender pension gap in their remuneration policies given the direct relation between the gender pay gap and reduced pension savings for women.

This clarification is needed as gender neutral remuneration policies alone do not mean that firms will take action to mitigate or eliminate gender pay and pension gap issues in their workforce. Research by Close the Gap into employer action in Scotland found that while all of the 182 interviewed organisations had an equal pay policy in place, less than a third had undertaken a gender pay gap review and only 3 per cent had taken any action to address pay gaps.[v] Clarifying the priority of mitigating gender pay and pension gap issues in the definition of gender neutral remuneration policies will ensure gender responsive measures are put in place by firms to address gender inequality pay issues across the workforce.

Question 2: Is the section on gender neutral remuneration policies sufficiently clear?

We recommend the guidelines clarify that gender neutral remuneration policies are also aligned with firms' sustainability performance objectives on social issues (the "S" of ESG). This will ensure firms account for how their business operations are contributing to gender inequality in their workforce. While firms are increasingly accounting for climate-related risks in their business activities, they are not identifying and integrating their human rights impacts into corporate decision-making. According to findings by the Workforce Disclosure Initiative on research into diversity and inclusion practices, only 36 per cent of firms could explain how many of their female workers have a basic salary that is equal to or just above the legal minimum wage.[vi] This indicates that firms do not understand how their activities are contributing to gender inequality on the most precarious or vulnerable female workers and are not taking action to mitigate this. In the UK, financial sector firms are perpetuating the gender pay gap by appointing women in non-executive roles but not for better remunerated leadership or improved positions. For example, female directors in the largest finance services firms are earning two-thirds less than their male counterparts.[vii] Therefore, we recommend that the guidelines clarify pay policies are linked to performance targets on reducing the gender pay and pension gap to promote remuneration policies that are truly gender neutral. This should also cover the requirement to ensure that women are fully able to participate at all levels of seniority.

While aligning remuneration policies with investment firms' business and risk strategy is important, we also recommend that the guidelines require firms to specify how remuneration policies are consistent with their gender equality performance targets across the firm. This would provide firms with an opportunity to evaluate the gender pay gap in their workforce and take action to mitigate this.

Important lessons can be drawn from an analysis on gender pay gap reporting in the UK by the Department for Business, Energy & Industrial Strategy in 2018. It showed that too few action plans on tackling the gender pay gap were produced by firms because the regulation did not require UK firms to provide an explanation of their gender pay gap figures. Fewer than one-third of organisations published a narrative explaining their gender pay gap, less than one-fifth set out an action plan to address the pay gap and only five per cent had targets to reduce gender pay gaps.[viii] These findings highlight the importance of EU firms setting out in detail how they have ensured remunerations policies are gender-neutral. These explanations would require an evaluation of the components of remuneration that do not meet internal gender equality performance targets and an action plan to address these.

Question 3: Are the sections on the remuneration committee sufficiently clear?

As stewards of capital, shareholders play a significant role in reshaping corporate behaviours to ensure that firms focus on sustainable long-term value creation, including prioritising diversity across all levels and advancing gender equality. Through shareholder engagement, investors can hold to account firms that fail to take sufficient action to address gender equality in remuneration policies. Therefore, we recommend that the guidelines clarify remuneration committees also actively engage with shareholders on gender equality issues within firms' direct operations and across their supply chains. This would ensure that remuneration policies promote gender equality across the workforce.

This is particularly important given that current investor support on gender pay issues is low. A report on the voting behaviours of shareholders shows that the level of investor support for gender pay gap reporting is only 43 per cent.[ix] If left to voluntary market action, current investor engagement practices with firms will not sufficiently integrate gender equality issues into remuneration policies. Guidelines clarifying that remuneration committees should engage with investors on remuneration policies, will provide a powerful incentive for the committee to raise standards of gender equality in overseeing the design and implementation of gender neutral remuneration policies. It will also ensure investors challenge firms to address gender equality issues in pay and pension policies.

Lastly, we also recommend the guidelines are improved by clarifying that remuneration committee reports explain what engagement with investors has taken place and how the outcomes of these engagements have been integrated into subsequent remuneration policies. Details of engagement activities between firms' remuneration committees and investors should particularly focus on how shareholders have voted on the gender neutral remuneration policy of firms. As a critical part of effective stewardship, shareholders' remuneration voting practices on remuneration send a strong signal to firms about their remuneration policy performances which could maximise positive outcomes for gender equality. One report highlights the impact of shareholder voting on pay, with 75 per cent of companies that received a dissenting vote on pay policies of over 20 per cent taking action the following year and achieving an average vote of 94 per cent in favour of pay reports.[x] Remuneration committees that demonstrate how they integrate shareholders gender equality voting policies and practices into remuneration policies will be able to introduce better gender neutral pay policies.

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