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Remuneration Committee update

Autumn 2025 / The Netherlands

Remuneration Committee update – Autumn 2025

Preparing for the year end

Navigating executive pay challenges amid multiple drivers of change

The Dutch 2025 AGM season was generally very smooth, with investor support on remuneration policies and reports remaining strong. However, uncertainty from volatile global financial markets, dispersed (international) stakeholder views, and recent changes in the Dutch fiscal system (impacting international executives), are likely to create new executive pay challenges as companies prepare for year end. In this briefing, we explore three RemCo topics for this autumn based on these challenges:

Target setting

Improved pay-for-performance disclosure triggers scrutiny of how STI and LT targets and performance ranges are set. Room for further sophistication has been observed to avoid shareholder pushback.

Global ESG harmony breaking down

While the U.S. shifts away and Europe slows momentum, businesses face increasing complexity in reconciling regional expectations with global ESG commitments.

Dutch boardrooms losing global shine

Relatively lower pay levels, incentives and declining fiscal appeal threaten the country's ability to attract and retain top executives

Change is coming (?)

Beyond the topics identified, we would like to draw attention to several developments in the corporate governance landscape. While it is uncertain whether these will lead to (significant) changes in the near term, they are worth monitoring over the coming months:

- **Dutch Corporate Governance Code:** There is a proposal in the Dutch House of Representatives to abandon the Code's self-regulatory comply-or-explain framework and to explore statutory regulation. Supporting parties of the Code have voiced concern, arguing the Code remains relevant as a complement to statutory law.
- **Proxy voting guidelines:** Proxy advisors have consulted on their (standard) voting guidelines via a questionnaire, including whether to ease on the use of incentive schemes without performance conditions attached.
- **Dutch bonus cap for financial institutions:** The evaluation of the Dutch legislative framework and variable remuneration rules for financial institutions did not lead to a relaxation of the 20% cap earlier this year. However, at a recent meeting of the Dutch House of Representatives' Financial Markets Committee, there was discussion about removing gold-plating relative to the EU legislative framework, which could potentially affect the 20% cap.

Target setting

Improved pay-for-performance disclosure triggers scrutiny of how STI and LT targets and performance ranges are set. Room for further sophistication has been observed to avoid shareholder pushback.

Changing dynamics

After years of increasing transparency, we have reached a status quo in pay-for-performance disclosure in the Netherlands. Experience from other markets shows that the next step is further shareholder scrutiny of whether set targets are sufficiently challenging and meaningful, and whether the performance ranges around target are sound and consistent with the pay-for-performance philosophy. While we have seen the level of sophistication around target setting improving, there is further room to review whether target-setting processes are logical, aligned with financial forecasting and strategic objectives, and reflective of macroeconomic circumstances.

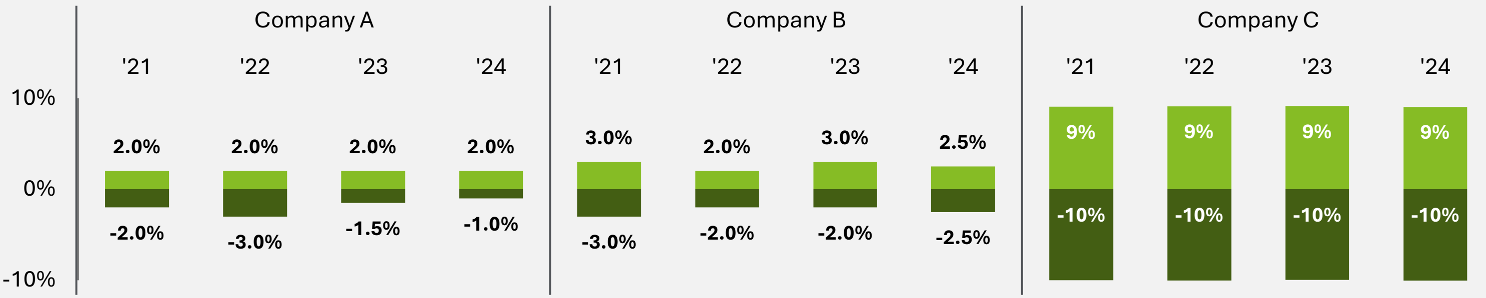
Performance ranges in theory

- Target level is set in accordance with business plan
- Performance ranges (i.e. threshold and maximum) reflects the degree of certainty of the target and incentive plan payout curve.
- Target level and performance ranges are calibrated based on various internal/external inputs (incl. external disclosures)
- Width and shape of performance range reflects business state, degree of uncertainty/risk and aligns with payout curve

Mixed practices & level of sophistication – potential for scrutiny?

We observe mixed target-setting approaches across companies and across KPIs within STI and LTI plans. Some companies apply a consistent approach for each KPI in terms of symmetry and width of the performance ranges over the years, while others do adjust and tailor the approach to reflect the challenging and volatile economic circumstances since 2020 (the pandemic, the ongoing war in Ukraine and geopolitical tensions). While target setting (and determining ranges) is more difficult than ever, market practices shows that this uncertainty is not necessarily reflected in target setting and performance range approach and dynamics. As such, there is room for further sophistication to avoid scrutiny on external disclosures.

Example of varying performance framework approaches for a Profit-type KPI across the AEX



Company A and B annually adjust the width and shape of the performance ranges, while C applies a consistent approach.

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Global ESG harmony breaking down

While the U.S. shifts away and Europe slows momentum, businesses face increasing complexity in reconciling regional expectations with global ESG commitments.

Background

Despite years of momentum, the integration of ESG into corporate governance and executive pay is moving in different directions around the world:

- In the U.S., political pushback and shifting investor priorities have led to a retrenchment
- In Europe, regulatory ambition (EU directives) and implementation challenges have led to sense of standstill.
- In Asia we see some markets adopting ESG-linked practices but without consistent regional alignment.

This divergence leaves multinational companies struggling to balance conflicting expectations, raising the risk of fragmented strategies and diluted impact.

Observations

Initially seen as a tool to drive responsible corporate behavior, ESG-linked pay is increasingly scrutinized by investors, regulators, and governance watchdogs. External concerns over greenwashing, ambiguous targets, and the lack of standardized ESG reporting, and internal challenges around metric selection, target setting and measurement, make Remuneration Committees cautious about heavily weighting these metrics in incentive plans. The external concerns are substantiated by outcomes in recent years where financial measurements have typically lagged non-financial payouts.

Solution?

Reliable target setting and consequent measurement seems key to breaking the deadlock, as it could place non-financial measures at an equal level of credibility as their financial counterparts. Those in favor will continue to argue that companies are willing to do it right and are simply facing temporary challenges that will improve over time.

What's next?

In times of economic uncertainty, companies often prioritize financial stability, and shareholder returns over long-term ESG ambitions. Regulatory ambiguity in key markets and public scrutiny of executive bonuses tied to unclear ESG metrics reinforce caution. Taken together, measurement challenges, investor pressure, regional regulatory divergence, and economic considerations mean that, despite strategic interest in ESG, executive compensation programs linked to these metrics may plateau or even decline in the near term.

In practice, we may be at the beginning of a new approach to ESG in remuneration and have noticed the following three emerging trends in Western-Europe:

Reframing of the wording / content of the performance measure

Reduction of the weighting of the performance measure

Removal of the performance measure

Dutch boardrooms losing global shine

Relatively lower pay levels, incentives and declining fiscal appeal threaten the country's ability to attract and retain top executives

Background

The Netherlands has long been seen as an attractive destination for international executive talent, combining competitive compensation with a favorable tax environment and great place to live according to various indices. Today, however, that balance is shifting. Executive pay levels are falling relative to peer markets, while recent changes in the fiscal regime are eroding the country's traditional advantages. This dual pressure reduces the Netherlands' competitiveness in attracting and retaining top leaders, raising concerns that companies may struggle to secure the international expertise essential for sustainable business growth and effective governance .

Deeper dive into the tax perspective

The shift towards short-term fiscal policies in the Netherlands is causing significant and lasting damage to its long-term attractiveness as a business location.

Key factors include the increasing uncertainty and restrictions within the expat regime (formerly the 30%-ruling) and the abolition of partial non-resident tax status, which expose expats to box 3 taxation and double taxation risks without adequate tax credits or relief in their country of origin. As a result, the Netherlands' ability to attract and retain international leadership and talent is being seriously undermined.

Abolition of partial non-resident tax status

- No longer possible to claim 30% ruling tax benefits as partial non-resident.
- Affected expats now taxed as regular Dutch residents on worldwide income.

This impact is being reflected into expat inflow starting to decrease and executives that do not want to relocate to the Netherlands because of tax impact caused by the abolition of partial non-resident tax status.

Implications

Decision-making to solve short-term issues may prove costly for the company in the longer term. Understandable reflexes such as providing (partial) compensation for additional tax burdens will automatically result in a structural increase of employee budgets, whilst the hesitance for future employees to move to and work in the Netherlands puts further strain on the overall EVP – again likely to trigger additional costs.

Looking beyond the companies' immediate environment and existing employee population, the talent market would tighten further accelerating the self-fulfilling prophecy of talent shortages, impact on compensation and thereby company costs and overall attractiveness to attract and retain critical talent.

Key action points

1. Review current policies and employee budgets well ahead of fiscal year end (including consideration to compensate additional box 3 taxation, inadequate tax credits, increase of service fees and/or interest costs).
2. Re-assess international talent strategy and potential (fiscal) instruments operated.