

Insights

UK COVID AND EXECUTIVE REMUNERATION: IA ISSUES FURTHER GUIDANCE

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SUMMARY

The Investment Association (IA) has published (i) additional guidance on shareholder expectations for executive remuneration in light of COVID; (ii) its 2021 Principles of Remuneration; and (iii) its statement on executive pension perks. The overarching message is for companies to treat their executives in line with the rest of the workforce and to remain mindful of the pandemic's impact on society.

IA SHAREHOLDER EXPECTATIONS – KEY MESSAGES

Impact of Government support: investors do not generally expect bonuses to be paid if a company has taken Government or shareholder support eg. Government loans, furloughed employees or raised capital through fundraisings. Any company that chooses to do so is expected to provide a clear rationale. In addition, companies that have accepted Government support such as business rate relief should disclose how these have impacted remuneration outcomes.

Salaries: companies should continue to show restraint; any increases should be aligned with those of the wider workforce.

Bonuses: subject to the above, IA members expect a higher level of disclosure on how Remuneration Committees have determined financial targets, especially when they are lower than the previous year. Companies may wish to consider whether a higher portion of the bonus should be deferred into shares.

Deferral of bonuses: IA members expect a proportion of the entire bonus to be deferred when the bonus opportunity is greater than 100% of salary.

LTIPs: Remuneration Committees should consider reducing LTIP grants to reflect the shareholder experience.

Post-employment shareholding policies: shareholders are keen to understand the enforcement mechanisms in place to ensure these policies are enforced once a director leaves.

Dividends: if a dividend has been suspended or cancelled, companies should clearly disclose how this has been reflected in 2019 or 2020 remuneration outcomes either through the use of discretion or malus provisions to correspondingly reduce any deferred shares related to the 2019 annual bonus.

Pensions: in 2021 IVIS will red top:

- the remuneration report where the Remuneration Committee has not disclosed a credible action plan to reduce incumbent directors' pension contributions to the majority of the workforce rate by the end of 2022 if the pension contribution received by the executive director is 15% of salary or more (previously set at 25% of salary). A red top represents the highest level of warning IVIS issues against companies;
- any new remuneration policy that does not explicitly state that any new executive director will have their pension contribution set in line with the majority of the workforce; and
- the remuneration report if any new executive director or director changing role has a pension contribution which is not aligned with the level of the majority of the workforce.

IA Executive Remuneration – shareholder expectations during COVID

2021 IA Principles of Remuneration and letter to FTSE 350 Remuneration Committee chairs

IA statement on pensions

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MEET THE TEAM



Nicholas Myatt

London

nicholas.myatt@bclplaw.com

[+44 \(0\) 20 3400 4767](tel:+442034004767)



Tessa Hastie

London

tessa.hastie@bclplaw.com

[+44 \(0\) 20 3400 4516](tel:+442034004516)

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