BCLP. Client Intelligent

Insights

UK COVID-19: SHAREHOLDER EXPECTATIONS FOR EXECUTIVE REMUNERATION

Apr 28, 2020

SUMMARY

In response to a request from Remuneration Committees of UK listed companies and their advisers, the Investment Association (IA) has published shareholder expectations on how remuneration committees should be reflecting the impact of COVID-19 on executive pay.

The main areas addressed are:

What are shareholders expectations if a company seeks additional capital from shareholders or makes use of the Government furlough scheme?

In these situations, shareholders would expect this to be reflected in the executives' remuneration outcomes. Executive remuneration should reflect the pay and conditions in the wider workforce.

For companies that are voting on their Remuneration Policy at their 2020 AGM, how will shareholders consider proposals to change remuneration structures, including increases to variable pay opportunity?

Companies should not be rewriting their remuneration policies now but if Remuneration Committees are seeking to propose variable pay increases this year, they may wish to consider if this is now appropriate. For a company that has not yet consulted on its Remuneration Policy, it may be appropriate to wait until there is greater clarity on the future market environment before proposing significant changes to its policy.

If a company has suspended or cancelled a dividend in relation to FY2019, should it adjust bonus outcomes for FY2019?

Where this has occurred, members expect boards to consider how this should be reflected in their approach to executive pay. Shareholders would expect Remuneration Committees to consider the use of discretion or malus provisions to correspondingly reduce any deferred shares related to the

2019 annual bonus in such instances. Alternatively, shareholders would expect this to be fully reflected in the FY2020 bonus outcomes.

Would shareholders support performance conditions being adjusted to take account of COVID-19?

IA members do not expect Remuneration Committees to adjust performance conditions for annual bonuses or long-term incentive awards to account for the impact of COVID-19. Remuneration Committees can always use their discretion to ensure a good link between pay and performance.

Where companies have already granted 2020 LTIPs, what do shareholders expect from Remuneration Committees to ensure that executives do not receive a windfall gain?

For companies with December year ends that have made grants, there does not need to be an adjustment to the grant size if the fall in share price is solely related to the pandemic. However, Remuneration Committees should monitor the market over the performance period to ensure there are no windfall gains on vesting.

If companies expect to make LTIP grants in the coming months, what are shareholders expectations on grant sizes and performance conditions?

Committees should consider whether it is appropriate to make LTIP grants at present. Options available are:

- grant as normal setting performance conditions and grant size at the current time;
- grant as normal setting the grant size now but committing to set performance conditions within the next six months; or
- delay the grant but nonetheless aim to grant within six months of the normal grant date. Ideally it should still be a performance period of three years following the grant but where this period is shortened, grant sizes should be similarly reduced.

IA - Shareholder expectations during the COVID-19 pandemic

RELATED CAPABILITIES

- Corporate
- M&A & Corporate Finance
- Securities & Corporate Governance

MEET THE TEAM

Nicholas Myatt

London

nicholas.myatt@bclplaw.com
+44 (0) 20 3400 4767

Tessa Hastie

London

tessa.hastie@bclplaw.com
+44 (0) 20 3400 4516
