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The Investment Association Publishes Views on 2021 Executive Remuneration

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On 16 November 2020, the Investment Association (**"IA"**) published amendments to its principles of remuneration for 2021 and updated its guidance on COVID-19 and executive pay.

IA Principles

The covering letter to chairs of remuneration committees of FTSE 350 companies highlights the main (minor) changes to the IA principles which essentially seek to clarify investor expectations on the following issues:

- The use of non-financial performance measures, in particular environmental, social and governance (**"ESG"**) related measures – on trend with companies increasingly incorporating material ESG risks into their incentive plans, companies will need to ensure ESG performance conditions are clearly linked to the company's strategy. However, the IA's view remains that financial targets should comprise the majority of any annual bonus.
- Deferral of bonuses – where a bonus opportunity is more than 100% of salary, a proportion should always be deferred into shares, not given as cash.
- Post-employment shareholding requirements – companies should explain what mechanisms are in place to enforce shareholding policies once a director has left the company.

Approach to Pensions in 2021

The theme remains strongly one of alignment between pension contributions for the executive directors and those available to the majority of the company's workforce. A credible action plan will be required to align the pension contributions of incumbent directors to the majority of the workforce rate by the end of 2022. Alignment with new directors' remuneration will also be required. Non-alignment may result in a Red Top on both the remuneration policy and remuneration report in 2021.

Executive Pay and COVID-19

The IA has updated its April 2020 guidance on executive pay in the midst of the pandemic. The main thrust is to strike a balance between significant demands on executives during these testing times but to be mindful not to isolate executives from the impact of COVID-19 in a manner that is inconsistent with the approach taken to the general workforce.

The resounding message is again one of alignment between executive remuneration and the overall experience of the company, its shareholders, employees and other stakeholders. So, where a company has raised additional capital from shareholders, or has taken government support through the Job Retention Scheme, government loans or similar financial support, shareholders expect this to be reflected in executive pay and generally would not expect the payment of any annual bonuses for FY2020 or FY2020/21, unless there are truly exceptional circumstances.

As a result of COVID-19, many employees were furloughed, asked to take pay-cuts or made redundant. Remuneration Committees need to be ever more mindful of this wider employee context and the impact that it has on pay for the executive directors. In this context, shareholders expect greater transparency about the impact of government measures on remuneration outcomes. Companies should confirm in their Remuneration Committee Chair’s statement that they have not adjusted performance targets during the year and should not be compensating executives with higher variable remuneration opportunity in 2021 for lower remuneration received in 2020 due to the pandemic. And, as regards long term incentive plans, Remuneration Committees will be expected to use their discretion to reduce vesting outcomes where performance outcomes are not consistent with overall company performance or windfall gains have been received.

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