

LENS ON:

Glass Lewis' latest guidelines: remuneration and COVID-19

February 2021

Glass Lewis has released guidance (attached) on executive remuneration decisions for the EMEA region during the ongoing Covid-19 pandemic. The guidance echoes that provided previously by other investor bodies such as the Investment Association, including the expectation for executive remuneration outcomes to reflect the experience of shareholders, the wider workforce and other key stakeholders. The guidance also reiterates that adjustments to targets for in-flight incentives will generally be opposed.

However, Glass Lewis also offers guidance around specific situations where one-off deviations to remuneration policy may be acceptable, citing four particular circumstances:

- A company may consider **excluding performance in 2020** from the vesting calculation for LTIP awards spanning this period, subject to reducing the award opportunity accordingly.

Ellason commentary

This guidance may be particularly welcome for companies that calibrate targets on a cumulative basis, i.e. 2020 performance will impact three (long-term) incentive cycles, or where compound annual growth targets were significantly hit by the onset of the pandemic.

- Where the annual bonus scorecard already includes a non-financial component, Glass Lewis would support the selection of a **Covid-specific measure(s)**, e.g. decisions made in response to the pandemic. However, this should not be used only to embellish the bonus payout.

Ellason commentary

This helps ensure the bonus remains motivational and the scorecard aligned closely with evolving short-term priorities to reflect the persisting impact of the pandemic.

- **Adjusting targets for 2021 incentive cycles** to reflect the impact of Covid-19 is 'generally reasonable', but payouts should be 'limited' if these represent a reduction in performance compared to prior years, e.g. over-performance, and high payouts, should be avoided.

Ellason commentary

Glass Lewis' acknowledgment that performance ranges may need to be set lower is helpful in ensuring the motivational effectiveness of 2021 incentive cycles. Companies may wish to consider setting asymmetric performance ranges around Glass Lewis' expectations that over-performance and high payouts be avoided.

- Glass Lewis will assess **one-off 'retention awards'** on a case-by-case basis and retain flexibility in accepting the awards where a company's incentive plans have led to nil pay out.

Despite some redline issues on remuneration decisions in light of the pandemic, this guidance offers scope for companies to use a degree of nuance to flex their approaches within the confines of the remuneration policy if it is appropriate to do so. Glass Lewis also clarifies that the application of this guidance is primarily aimed at senior executive pay, and that concerns about any adjustments will be mitigated if they apply to the wider workforce, or if executive directors are excluded altogether.

Please do not hesitate to contact any of the Ellason team should you wish to discuss this issue further.