

LENS ON:

Investment Association latest guidance for FY21

February 2021

Ellason was recently a participant in a panel discussion with the Investment Association (IA), focused on trends around incentive outcomes for 2020 and incentive design for 2021. We summarise below the key messages from this session (some of which reiterate previous guidance earlier in the pandemic):

- Investors expect 2020 bonuses not to be paid if staff were furloughed or government money used; bonus outcomes should also reflect the shareholder experience. **If a bonus is paid under any circumstances, very clear disclosure is expected**
- The IA's members **expect in-flight LTIP targets not to be changed** to reflect the impact of the pandemic
- There is recognition that **performance ranges for 2021 bonus and LTIPs will need to be wider**
- There is a general preference that the 2021 LTIP is not revised to be **based only on TSR** (as several companies have already reported), although circumstances will be assessed on a case-by-case basis
- There is also a preference for **bonus targets to be based on the full 12 months** (and not a disaggregation into, say, H1 and H2)
- If companies move to restricted stock to replace LTIPs in 2021, the IA expects **strong commercial rationale** for doing so, not simply an inability to set targets due to the pandemic
- A preference for windfall gains to be avoided through a **reduction in LTIP grant value** (rather than discretion at vesting, as has previously been suggested as an alternative approach)
- The use of ESG measures in the 2021 incentives must be consistent with a company's ESG strategy and **not used just to help improve the probability of payout**

Ellason commentary

This guidance is helpful at a time when many companies are considering their incentive measures and targets for 2021. However, it also indicates ongoing sensitivity around pay decisions, with expectations that targets, once set, are not changed – even though significant uncertainty remains around economic activity for 2021. The suggestion for wider performance ranges is a sound one, but will mean that remuneration committees will need to consider the appropriate relationship between threshold, target and stretch levels of performance for the next cycle, and in particular how the 2021 range relates to the outturn for 2020 and 2019.

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