

LENS ON:

IA Principles of Remuneration for 2023

November 2022

The Investment Association ('IA') has today published its updated Principles of Remuneration alongside guidance to Remuneration Committee Chairs on how to approach pay decisions in the current environment. The IA's key areas of focus for the 2023 AGM season will be:

Executive Director pay and cost-of-living increases

The IA has strengthened the wording in its Principles to state that executive salaries generally should not increase at a rate higher than inflation or the average employee increase. Where employees receive higher-than-usual salary increases to reflect inflation, Committees should think very carefully before awarding equivalent increases to executives, keeping in mind the 'ratcheting' effect this can have on total pay via bonus and LTIP opportunities. Committees will also need to consider the wider stakeholder experience, including that of vulnerable customers and suppliers, and the retention and motivation of employees below Board level, when making decisions about executive pay. As many companies will be renewing their Remuneration Policies in 2023, the IA also expects Committees to show restraint in making increases to variable pay opportunities. Committees should clearly disclose the business context and strategic relevance of any increases to fixed or variable pay.

Addressing 'windfall gains' and economic uncertainty

Committees will need to explain how they have considered the impact of any potential windfall gains when determining vesting outcomes and give a reason if no adjustment has been made. The IA accepts that the current economic uncertainty may necessitate wider target ranges and greater use of discretion concerning vesting outcomes; clear communication and justification will be key in gaining the support of its members.

ESG measures

Although the inclusion of ESG measures in incentive schemes has become a red-line voting issue for several of the IA's members, the IA itself does not have prescriptive views at this stage on the use of ESG. However, Committees should explain their thinking and 'articulate the journey they are on' towards including ESG measures in the future. Measures should be simple, quantifiable, linked to the company's strategy and suitably stretching, but should not be used to reward executives for 'business as usual'.

New hire salaries

When a new executive director is hired on a salary significantly below that of their predecessor, Committees should disclose their intentions regarding salary increases and the timeframe over which they will be implemented.

Non-Executive Director fees

The IA recognises that NED fee levels have not always reflected the increased complexity and time commitment required of the role. The updated Principles set out members' support for fees to be set at a level appropriate to the scope and complexity of the role, and the required skillset and expected time commitment.

Pensions

As previously indicated, IVIS, the IA's voting arm, will now 'red top' the Remuneration Reports and Policies of any company whose executive pensions are not aligned with those of the wider workforce from 2023.

Ellason commentary

The IA's key areas of focus closely reflect what we have heard from many institutional shareholders in recent weeks. On all of these issues, company disclosures about Committee decision-making (and the reasons for any increases awarded in particular) will need to be transparent and comprehensive if support from the IA and its members is to be secured.

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