ELLASON LLP

LENS ON:

IA updated guidance on performance conditions

February 2021

The Investment Association (IA) has today published an addendum to its paper titled *Shareholder Expectations during the Covid-19 pandemic*, covering updated guidance on performance conditions for the next LTIP award cycle. Key points include:

1) The IA's members continue to expect Committees to set appropriately stretching performance conditions for future LTIP cycles. However, **consideration could be given to selecting different measures, and reducing or widening the performance range** for the next cycle, to ensure these remain appropriate in the current market environment.

2) For companies significantly impacted by the pandemic, Committees may wish to make LTIP grants during the ordinary window (typically six weeks following announcement of final results), but **delay finalising measures and/or targets for up to six months**, to allow an opportunity for greater visibility on the pandemic's ongoing impact on the business.

3) If Committees decide to delay LTIP grants, IA members expect:

   a. the **performance period to continue to be at least three years**; or

   b. where this is not possible, **shortening the performance period** (by up to six months), and **offsetting this by an adequate post-vesting holding period** and commensurate **reduction in award opportunity**. The acceptability of this approach is signposted as being contingent on the explanation provided by the Committee.

4) **Performance conditions should be published via RNS**, as soon as possible after being set.

Ellason commentary

This additional guidance is helpful at a time when many companies are facing the challenge of agreeing 2021 LTIP measures and setting targets. Clarification of IA members' views about the acceptability of delaying the process of measure selection and target setting is likely to be welcomed, although the accompanying caveats will need to be factored into the Remuneration Committee's decision-making in this area. Of particular note is the expectation for best practice for a delayed LTIP to remain a performance period of three years following grant, a strict interpretation of which creates a knock-on impact for internal financial measures (and on which we are currently seeking further clarification from the IA).

The guidance also re-emphasises the importance of enhanced and timely reporting of pay decisions, a theme that has risen to prominence in investor and proxy body remuneration publications in recent months.

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