TIME TO THINK:

TRANSITIONING TO THE LISTED COMPANY ENVIRONMENT

Listing on the London Stock Exchange is a watershed moment for many organisations' corporate histories, and is often the catalyst for executive remuneration arrangements to be disclosed publicly for the first time. Perhaps uniquely, Listing also requires careful consideration of the implications both for existing (i.e. legacy) remuneration arrangements, and future pay structures, in the context of different governance norms.

The Ellason team has significant experience in supporting companies on the many executive remuneration challenges and considerations through the Listing process – please do not hesitate to contact us if you would like to discuss further.

1. How does Listing impact remuneration?

Change to the shareholder register brings with it new expectations for remuneration governance, practices and standards. These need to be carefully navigated to avoid scrutiny and confrontation on the subject of executive remuneration arrangements; something that, in our experience, is a common aim for newly-listed companies.

As well as guiding future pay design, Listing also impacts legacy arrangements, most often by resulting in the crystallisation of in-flight incentives (whether or not vesting is linked directly to a successful Listing).

2. What is the typical timeframe for the remuneration workstream on Listing?

The Listing process is often conducted on compressed timeframes, and represents significant workload across the company. While many companies wait until a shadow Board is appointed (or, at the very least, the Remuneration Committee chair identified), the remuneration workstream can be started earlier, e.g. reviewing the impact of Listing on in-flight incentives, designing packages for any new executive hires, developing a fee policy for non-executive directors, etc.

3. Are pay levels higher in listed companies?

Depending on the basis on which remuneration has been governed during the period over which the company has been privately-held, there may be a perceived 'gap' between current and competitive pay levels. A common workstream of the remuneration planning process pre-Listing is to benchmark remuneration against relevant comparators; typically, this includes listed sector peers and other listed companies of comparable scale and complexity. Any 'gap' (and the need/appropriateness of bridging it) can then be factored into the design hypotheses for post-Listing remuneration.

4. Do we have to align with market norms?

No. Market norms are one of many relevant reference points to take into account when developing a remuneration policy that is motivational and fit-for-purpose. The company's strategy and culture are also important considerations for the principles and policies that will underpin the remuneration framework going forward. While institutional investors may support deviation from generally-accepted practices in appropriate circumstances, careful consideration will need to be given to the external justification for doing so, as well as the wider remuneration context in which this is proposed, e.g. other aspects of remuneration design being in line with market and perceived best practice, etc.

5. What happens to in-flight incentives?

The treatment of in-flight incentives on Listing will reflect the provisions of the relevant plan rules. However, Listing often represents a crystallisation event that can lead to material wealth creation for executives, particularly senior executives and those with longer tenures at the company. This gives rise to two challenges in particular: (i) how to ensure retention of these executives beyond Listing (as required), and (ii) how to address any perceived misalignment of reward profiles across stakeholder groups, e.g. between longer-tenured executives and recent hires (who may be critical to the success of the Listing and going forward, but who may not benefit from similar levels of personal wealth creation on Listing).

6. What remuneration information needs to be disclosed in the Prospectus?

Among the disclosures required in the Listing Prospectus is a summary of Directors' terms of employment, including a high-level summary of the remuneration policy and how it will be implemented from Listing. This includes base salary, benefits, annual bonus and long-term incentives.

The Prospectus will also include details of any existing equity-based incentives, as well as any new equity plans that will be operated post-Listing. Uniquely on Listing, equity plans requiring binding shareholder approval[1] are deemed approved through the Listing process (and are not subject to a separate resolution).

7. When do shareholders first vote on directors' remuneration?

At the first Annual General Meeting (AGM) post-Listing. The Directors' Remuneration Policy is submitted to a binding shareholder vote at this AGM, and at least every third AGM thereafter. If changes are proposed to the existing Policy during its life, these require submitting to a new binding shareholder vote at the next AGM (or a General Meeting) before they can be implemented. This also restarts the Policy's 3-year term.

The Annual Report on Remuneration (which sets out how the policy was implemented during the relevant financial year, commencing with that in which the company Listed) is subject to an advisory vote annually at the AGM. Failure to receive majority support for this resolution requires the Directors' Remuneration Policy to be put to a new binding vote at the next AGM.

[1] *Equity-based incentives in which Executive Directors are eligible to participate, and/or awards for which may be settled using newly issued shares (i.e. are dilutive).*