



Remuneration Committee Chair

The Investment Association
Camomile Court, 23 Camomile Street,
London, EC3A 7LL

+44 20 7831 0898

Andrew.ninian@theia.org

theia.org

 @InvAssoc  The Investment Association

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Dear Remuneration Committee Chair,

RE: IA Principles of Remuneration 2022

I am writing to outline the key changes to The Investment Association's (IA) Principles of Remuneration for 2022, and to highlight the areas of focus for our members for the forthcoming AGM season.

COVID and the Stakeholder Experience

The past year and the continuing response to the COVID-19 pandemic has presented challenges for companies, employees, investors, and wider society. In April 2020, the IA provided additional guidance on [Shareholder Expectations on Executive Remuneration during the COVID-19 pandemic](#). We emphasised the need for Committees to sensitively balance the need to continue to incentivise executive performance and ensure the executive experience is commensurate with that of shareholders, employees and other stakeholders. These guidelines continue to hold true into 2022 and IVIS will continue to monitor companies against them during the next AGM season.

We welcome the leadership shown by Remuneration Committees and executives in responding to the pandemic. The vast majority of companies have proceeded with sensitivity to the wider shareholder and stakeholder experience, ensuring that remuneration outcomes were linked not just to performance outcomes but also took into account the wider experience of the company's major stakeholders. Shareholders have welcomed the effort that Remuneration Committee Chairs have taken to consider and disclose how their committee have taken into account the wider stakeholder experience.

Consideration of the wider stakeholder experience when determining executive remuneration outcomes by Remuneration Committees will continue to be a critical investor expectation as the effects of the pandemic and its aftermath are felt. The IA's call for companies to show restraint where they have taken and not repaid government support



during the year under review and the need not to pay annual bonuses in such cases remains unchanged.

The IA and its members expect companies to continue to factor the shareholder and stakeholder experience into their remuneration decisions and clearly communicate the approach the company has taken.

ESG Metrics in Executive Remuneration

The pandemic has served as a reminder of the multitude of risks facing companies and particularly the impact of material Environmental, Social and Governance (ESG) risks on the sustainable long-term financial health and value of companies. As a result, a greater number of companies are incorporating the management of material ESG risks and opportunities into their long-term strategy. In these cases, Remuneration Committees should be incorporating the management of these material ESG risks as performance conditions in the company's variable remuneration. In doing so they should select ESG metrics that are quantifiable and clearly linked to company strategy. The rationale for the selected ESG performance metrics and targets should be disclosed to investors - as with any other performance condition.

We appreciate that a number of companies are on a journey to incorporate material ESG risks into their strategy and therefore their remuneration structure. This will require identifying quantifiable and appropriate performance metrics as well as setting appropriately stretching performance targets. Committees may still be working through this process. Where companies have incorporated ESG risks and opportunities into their long-term strategy but have not yet incorporated ESG metrics into their remuneration structures, they should explain to shareholders how they will be incorporating ESG metrics into the remuneration structure and the approach they will take in future years.

Key Changes to the Principles of Remuneration

The Principles have received a small number of updates to reflect developments in market practice and investor expectations.

- **Levels of Remuneration:** The Principles have been updated to emphasise that Remuneration Committees should provide a clear rationale for an increase to any element of, or to the overall level, of remuneration.
- **Value Creation Plans (VCPs):** Given the increased adoption of VCPs over the last AGM season, the Principles have been updated to include a specific section on investor expectations on VCPs.
- **Grant Size:** The Principles have been updated to reflect investor preference for companies to reduce awards at grant where share prices have fallen rather than relying on discretion when awards vest.

We have also generally updated the Principles to reflect current market practice and expectations.

Approach to Pensions in 2022

As previously set out in the Principles of Remuneration, IA members consider pension contributions for executive directors should be aligned with those available to the majority of the company's workforce. Where the pension contributions for incumbent directors are above the majority of the workforce rate, members have made clear that they expect



Remuneration Committees to set out a credible action plan to align the pension contributions of incumbent directors to the majority of the workforce rate by the end of 2022. We have seen positive movement towards these ambitions and would like to commend companies on their approach and leadership, with over 90% of FTSE 100 companies analysed having already met our expectations.

In line with the IA's ambition for all executive pension contributions to be aligned to the majority of the workforce rate by the end of 2022, IVIS will:

- Red Top any new remuneration policy that does not explicitly state that any appointed executive director will have their pension contribution set in line with the majority of the workforce.
- Red Top any remuneration report where executive pension contributions are not aligned to the majority of the workforce rate or there is not a credible action plan to align pension contributions for incumbent directors by the end of 2022.

If you need any further details on the Principles of Remuneration, please do not hesitate to contact me or one of the IVIS team (www.ivis.co.uk/contact-us).

Yours faithfully,

Andrew Ninian
Director, Stewardship and Corporate Governance