

12 November 2025

Dear Remuneration Committee Chair,

The IA's Principles of Remuneration for 2026

This letter provides an update on the implementation of the IA's Principles of Remuneration and emerging views on issues which are likely to be important to IA members as we look ahead to the 2026 AGM season.

Last year, we updated and simplified our Principles of Remuneration to clarify that investors will provide companies the flexibility to adopt pay structures that suit their business and strategy when accompanied with suitable explanation. We welcome the way that remuneration committees have embraced the new Principles particularly those committees that have had constructive engagement with their shareholders. Having engaged with company directors, their advisors, and our members, we believe that the market has responded positively to the revised Principles, with companies welcoming the flexibility to pay appropriate remuneration whilst meeting shareholder expectations, allowing a company to attract, retain and motivate talent.

With the review and evolution of the Principles in 2025, we will not be making additional changes to the Principles for 2026. Therefore, our annual letter to remuneration committee chairs is focused on a small number of areas where investors feel the implementation of the new Principles can be further improved.

Company specific rationales and explanations – We clearly stated that our Principles are just that, principles not rules. As such our members will continue to analyse the suitability of remuneration proposals on a case-by-case basis. Investors expect thoughtful engagement from remuneration committees, remuneration disclosures to be clear, and the rationale for what is being proposed and why this is the right approach for their business to be well-substantiated. To date, members have observed that some rationale disclosures have not met this expectation, with remuneration committees using boilerplate and generic justifications, often citing “competitiveness against peers” or the need to “attract and retain talent” without any further supporting information. If a remuneration committee is pursuing changes to the company's executive remuneration structure or levels, investors expect better quality rationales which focus on: providing specific information on why a particular approach or outcome is chosen; why it is right for the individual company's strategy and unique circumstances; and how these changes will impact upon the future success of the business.

Use of benchmarking and peer comparisons for remuneration increases – The Principles state that investors analyse levels of remuneration on a case-by-case basis, acknowledging that there is no one-size-fits-all approach. Remuneration committees are expected to outline why the remuneration levels and maximum opportunities are appropriate for the specific circumstances of the company and its material stakeholders, including the workforce. The Principles also state that the use of benchmarking on its own to justify increases in remuneration is not appropriate, as it can lead to a ratchet effect in the market.

The Investment Association

10 Norton Folgate, London, E1 6DB
www.theia.org

stewardship@theia.org

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Any benchmarking exercise should be robust and well-explained, setting out:

- which companies the remuneration committee consider to be peers and why they are relevant;
- which markets the remuneration committee are benchmarking against;
- how the remuneration committee have accounted for differences in size, complexity, and performance of peers, taking into account the variations of pay scheme used within these peer companies; and
- where the company's executives sit in terms of both pay and performance relative to those peers on a like for like basis when differing styles of incentive scheme are used.

Investors encourage companies to provide benchmarking analysis as part of their initial consultation with their investors. This will allow for greater transparency and constructive dialogue at an earlier stage of the consultation process. Where benchmarking suggests a large increase in pay purely to "catch up" to a market percentile, remuneration committees should assess whether that is genuinely in shareholders' interests and be prepared to explain reasoning beyond "market practice". The most important factor is to demonstrate how any increases in quantum will lead to a strong link between pay and performance.

Introduction of hybrid schemes – The Principles explicitly introduced flexibility for companies to consider "hybrid" long-term incentive structures (combining features of performance share plans and restricted share plans). IA members generally remain cautious about the use of hybrid schemes which seek to balance certainty and retention against performance alignment. IA members generally expect companies to only seek approval for hybrid schemes where they have a significant US footprint and/or compete for global talent. They expect company rationales to move beyond generic and boilerplate statements and set out how the proposed changes to the structure align with a company's strategy and business model, and the long-term success of the company. This information helps investors assess proposals in a meaningful way. The Principles note that it is appropriate for hybrid schemes to follow the guidance for both a standard Performance Share Plan and Restricted Share Plan. We encourage remuneration committees to consult early with investors if considering the implementation of a hybrid scheme.

Bonus deferral and shareholding requirements – Another area of the Principles that offers flexibility is the deferral of annual bonus once shareholding guidelines are met. The Principles acknowledge that companies can take a proportionate approach, if an executive has built up a significant long-term shareholding, a reduced portion of their annual bonus might be deferred into shares. Members do not expect companies to remove completely the deferral mechanism once shareholding guidelines have been met, as the bonus deferral offers an important mechanism to operate malus & clawback provisions.

Changes to in-flight awards and use of discretion – As outlined in the Principles, the integrity and credibility of share schemes are compromised if there are retrospective changes or retesting of performance or vesting conditions and these are not supported by shareholders. If an award was granted with certain performance criteria or underpins, it is best practice for them to remain in place for the life of that award and they should not be waived. Remuneration committees may wish to use discretion to make adjustments in exceptional circumstances, but this needs to be clearly justified subject to consultation and supported by shareholders. Members expect robust rationales which set out why the situation is exceptional and how the adjusted outcome provides a strong link between pay and performance.

Improving the consultation process – Given our reiteration of the flexibility in the Principles, there is an ongoing importance of consultation with shareholders. Members continue to expect remuneration committees to consult with them on material changes, and to seek engagement early (avoiding outreach during AGM season where investors have additional demands to meet). Following discussions with remuneration consultants on ways to improve the consultation process, the IA will be developing two initiatives:

- To ensure that companies can reach appropriate contacts within their shareholders to discuss remuneration consultations, we will create a directory of IA member contacts for remuneration consultations.

- The IA will seek to re-establish collective meetings on remuneration proposals; these will be at the request of companies or investors and particularly be aimed at companies being able to engage with a wider group of shareholders in addition to individual engagement with the company's largest shareholders.

We will provide more details on both initiatives shortly.

Themes for the 2026 AGM season – Looking ahead to the next AGM season, members continue to reiterate the importance of remuneration committees clearly articulating the key decisions that they have made during the year, in particularly demonstrating a strong link between pay and performance.

Given the ongoing geo-political uncertainties, continued cost of living pressures and wider impact of National Insurance changes on businesses, many investors want to continue to understand how remuneration committees are considering the wider stakeholder experience when making executive pay decisions. Currently, with inflation and economic uncertainty still affecting households, many investors are focused on understanding how companies reward executives for their performance, while balancing consideration of outcomes for employees, customers, and other stakeholders. Investors will review disclosures on a case-by-case basis, and investors would benefit from explanations that set out how companies consider their wider stakeholders in the context of the unique circumstances of the business.

We hope that the areas of focus set out in this letter will help companies to better understand investor expectations against the revised Principles. As we prepare for the 2026 AGM season, we continue to reiterate the importance of companies implementing the Principles in a pragmatic way, which promotes alignment between the long-term performance of a company and shareholder interests whilst accommodating individual circumstances.

Finally, we would like to reiterate the approach to non-executive director (NED) remuneration set out in the Principles; NEDs should be adequately compensated for their contribution to the Board. Independent NEDs should receive fair compensation that reflects their time commitment, the complexity of their role and the experience that they bring to the Board. Shareholders encourage independent NEDs to align their interests with those of shareholders by owning shares in the company. A portion of the director fee could be paid in shares purchased at the market rate. We support the UK Corporate Governance Code that performance related pay is inappropriate for independent Non-Executive Directors.

If you need any further details on the Principles of Remuneration, please do not hesitate to contact us.

Yours faithfully

Andrew Ninian
Director, Stewardship, Risk and Tax

Miranda Beacham
Head of Responsible Investment
Aegon Asset Management UK
Chair of the IA's Remuneration and Share Scheme Committee