



Aon Corporate Governance update for the City HR Association

9 June 2020

Prepared by Aon
Rewards Solutions

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Introduction

Topics which we will cover today:

- **Corporate Governance - The first 50 FTSE 350 Directors' Remuneration Reports and executive remuneration**
 - Pension plans
 - Share ownership requirements
 - Salary increases
 - Incentives
 - CEO pay ratio
- **Covid-19 early impact on pay**
 - FTSE companies
 - Regulatory
 - Preparing for the year end

Pension plans

- Pension plans for executive directors were the hot remuneration topic going into this AGM season.
- The Investment Association (IA) continues to take a tough stance on this issue and have already sent an early warning to companies with executive director pension levels at or above 25% of salary that are not disclosing a credible plan for alignment to the workforce by 2022. In this situation the IA has used its RED Top recommendation.



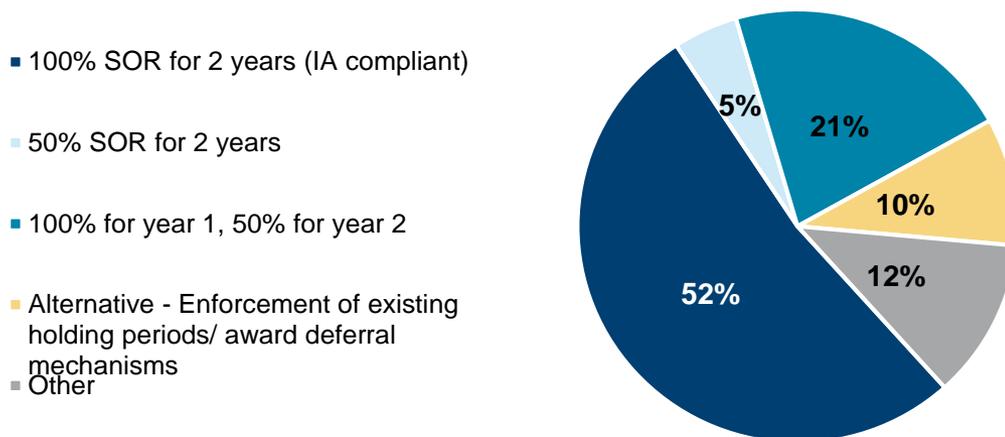
First 50 FTSE 350 DRR 2019 statistics

- Of the first 50 DRRs, the pension contribution level for **newly appointed** executive directors has been aligned to that of the workforce in all but four companies.
- For 93% of these companies, pension contribution levels are being reduced.
 - Full alignment of **incumbent** pension levels to the level of the workforce by the end of the policy will be achieved by 83% of these companies.

Share Ownership Requirements

One of the requirements of the revised Corporate Governance Code was for a formal post-employment share ownership requirement policy for executive directors.

- Forty-two companies, 84% of this early group, disclosed a policy; four companies made no disclosure and only four companies have not implemented a formal policy at all.
- Of those companies that disclosed a formal policy, around half (52%) of companies are Investment Association (IA) compliant (with in-employment shareholding, for a period of two years post-employment).
- The other half of companies, whilst complying with the Code, have not implemented a policy that goes as far as the IA guidelines suggest. Instead, these companies have implemented a plan that:
 - reduces the share ownership requirement in the second year (21%),
 - requires a lower shareholding for the entire two-year period (5%), or
 - enforces the existing deferral and post-vesting holding periods already in operation for the variable pay awards (10%).



Source: Analysis of the first 50 Directors' Remuneration Reports (DRRs) published in the 2020 Annual General Meeting (AGM) season

Salary Increases

- For those companies that disclosed an increase in salary for their executive directors in their published DRR, the median salary increase was 2.1%.
- Salary increases were in line with, or below, increases awarded to the wider workforce in all but two companies.
- The IA and Institutional Shareholder Services (ISS) noted those companies with higher increases than the broader workforce in their voting recommendation (Amber Top from the IA and Contentious FOR from ISS).



First 50 FTSE 350 DRR 2019 statistics

- For 2020, over 20% of CEOs and nearly 35% of CFOs will have their pay frozen.
- Clearly, since the publication of their DRRs, several companies have since made further commitments on salary in response to the COVID-19 crisis, including proposed salary increases not being implemented or salary being temporarily reduced

Incentive Opportunities



Annual bonus opportunity

- Annual bonus opportunity remains static, with only a single company increasing the maximum annual bonus opportunity in the policy. A small number of companies also disclosed an intention to increase the annual bonus opportunity, but within the limits of the existing policy maximum.
- Median annual bonus outturns in respect of the 2019 financial year were 58% of the maximum opportunity, similar to last year, but below the longer-term average.
- Target bonuses for all but a single company in the first 50 are set to deliver no more than 50% of maximum for on-target performance, suggesting that these companies are broadly achieving target or are slightly above on performance.
- There were several examples of remuneration committees applying downward discretion to the bonus outturns.

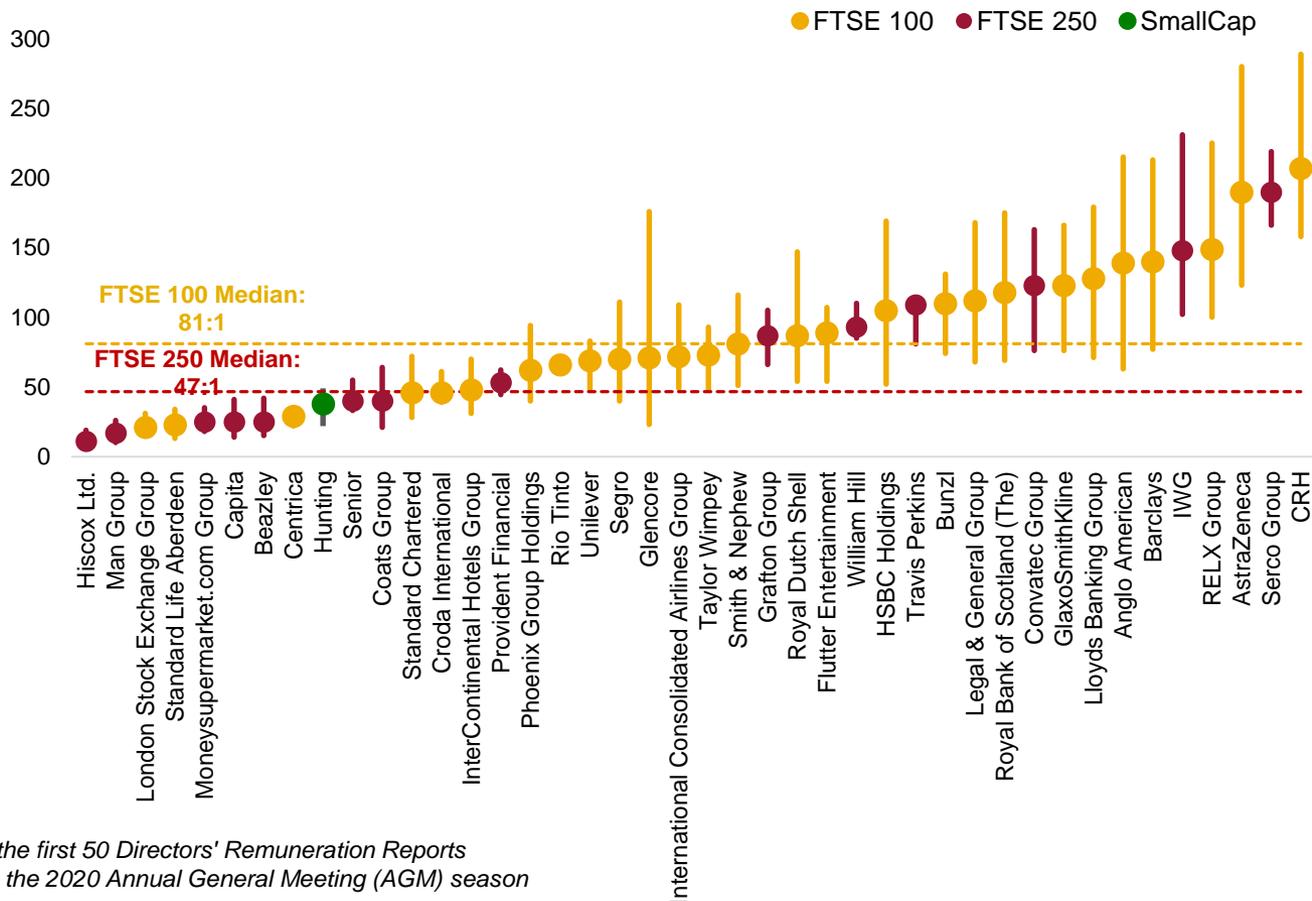


Long-Term Incentive Plans

- The median percentage of LTIP awards vesting is 69% of the maximum among FTSE 100 companies, which falls to 37% in the FTSE 250.
- The median vesting for threshold performance in this group is 25% of maximum.

CEO Pay Ratio Disclosure

- Companies within scope of the CEO pay ratio regime are required to report their ratios for the first time this year. 69% of companies used the methodology favoured by the IA: Option A.
- With relatively small samples of companies in the FTSE 100 and 250 in the first 50 disclosures, it is too early to draw conclusions on absolute levels of the CEO pay ratio.

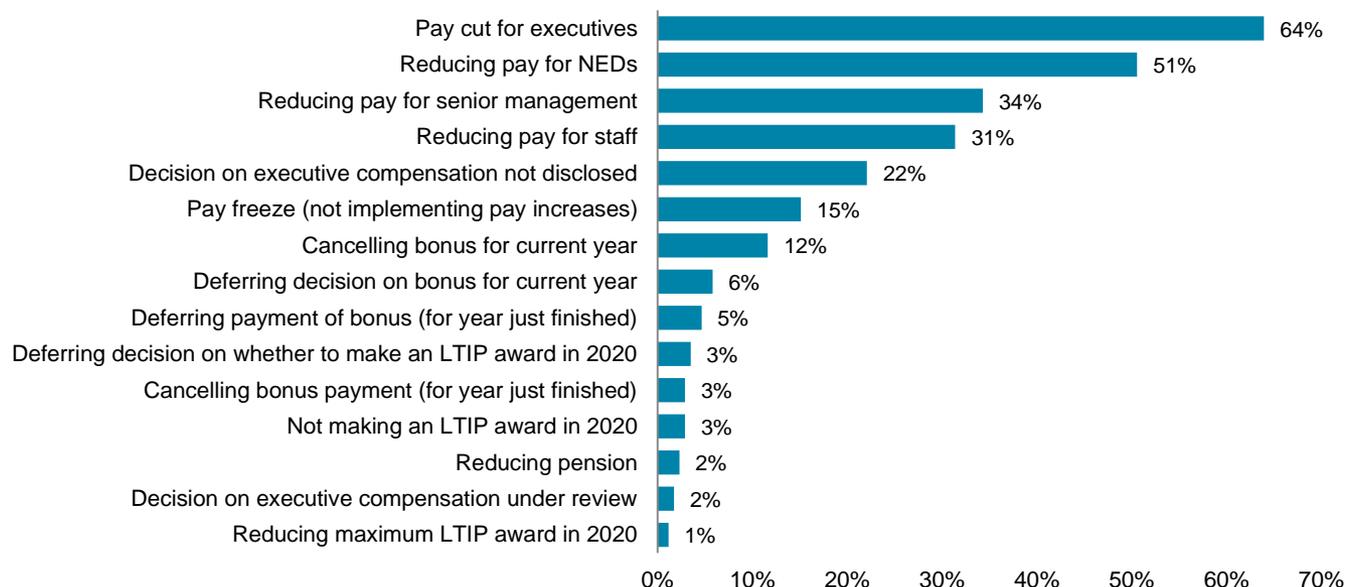


Source: Analysis of the first 50 Directors' Remuneration Reports (DRRs) published in the 2020 Annual General Meeting (AGM) season

Early responses to the COVID-19 Pandemic - FTSE 350 Executive pay

- Early insights of the impact on executive pay from the first 100 companies in the FTSE 350 that disclosed a response to COVID-19 suggest that the most prevalent response has been the cancellation or suspension of dividend payments, with 16% cancelling dividends, 32% suspending dividends and 20% reviewing their approach. Only a small minority, 3%, have explicitly stated that dividends will not be affected.
- Where companies have taken action on dividends, this has frequently been accompanied by action on executive pay.

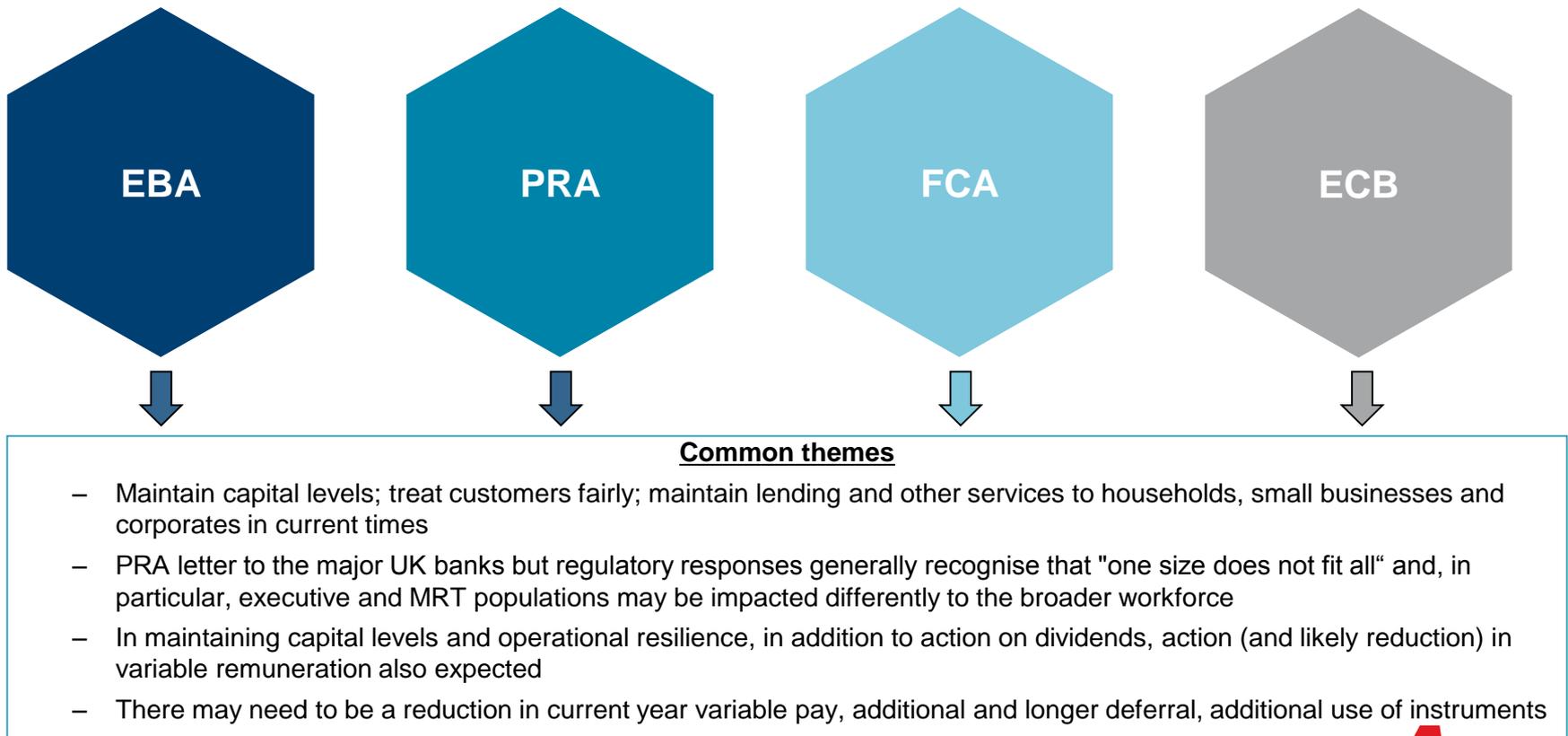
Early Responses to the COVID-19 Pandemic



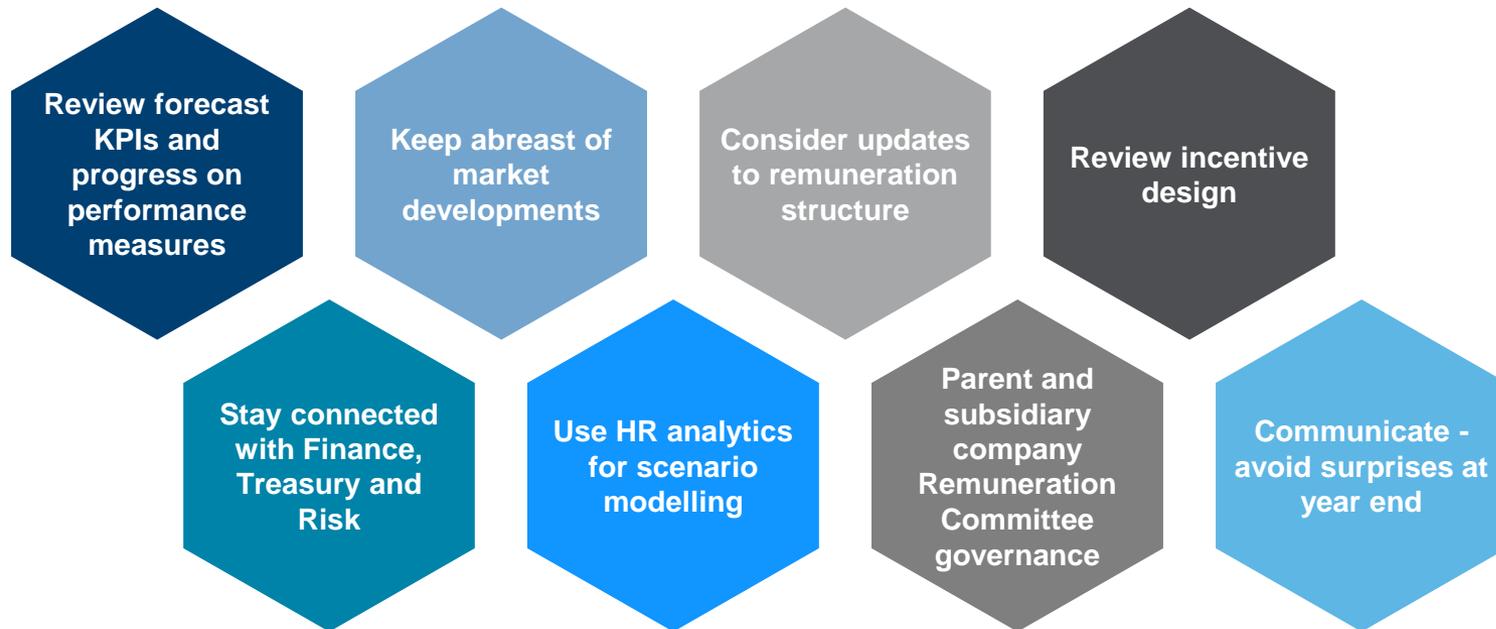
Source: Analysis of regulatory announcements of FTSE 350 companies at May 2020

Early responses to the COVID-19 Pandemic - Regulators

- The first pronouncements from regulators came at the end of March 2020
- This was followed by the European Central Bank last month
- We can expect further guidance and direction before the year end



Preparing for the year end



Any questions now or in the future?



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How Aon can help with Executive Compensation

COVID-19 and action on remuneration

We monitor the ongoing situation and produce regular client briefings. We work with clients on emerging practice, reviewing the approach to remuneration to reflect changing circumstances.

Performance

We advise on linking pay to company performance. Aon will provide support on all aspects of pay - setting performance measures, modelling, peer group selection, performance monitoring.

Remuneration regulation

Support for firms navigating regulations - CRDIV, CRDV, IFD, Solvency II, UCITS, AIFMD, MiFID and beyond the EU. Advice on requirements, practice, governance, policy and process.

Market practice & benchmarking capabilities

We are leaders in providing financial services remuneration data and have decades of knowledge in the sector. We can provide benchmarking of pay and remuneration practices.

Incentive design

We advise on the design of annual and long-term incentives underpinned by remuneration principles to support delivery of strategy, corporate restructuring, hiring, high potentials pipeline.

Corporate Governance

Advice on corporate governance, our knowledge of shareholder views, market and best practice to guide management and the Remuneration Committee in decision making.

Communication

Aon can assist in communication to shareholders, and employees. We can provide support through the entire process, from drafting communication to providing on-going updates.

Equity services

TSR measurement/reporting and LTIP valuations for accounting purposes. Aon remains at the forefront of developing valuation techniques.

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