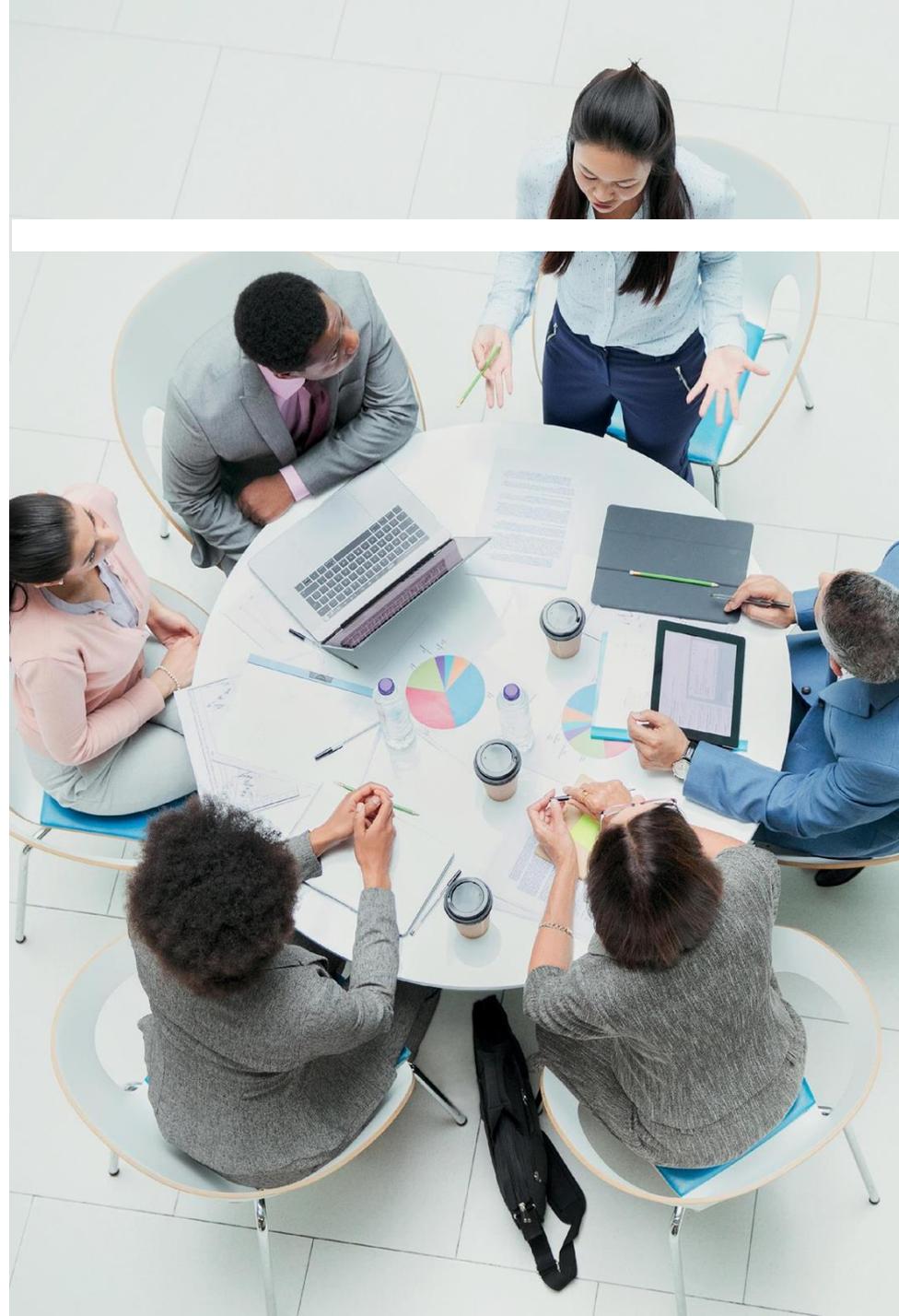


City HR Compensation Forum

2020 Compensation Round Considerations

20 October 2020



Context for 2020 remuneration decisions

1



Regulatory requirements

- Ensuring incentives drive good conduct and customer outcomes in a time of unprecedented change.
- Restraint in pay decisions, including restricting bonuses for the largest banks and insurers for 2020.

2



Investor scrutiny

- Proxies have been clear that they will judge companies' responses to COVID-19 in the 2021 AGM season and clear disclosure will be key.
- PIRC and LGIM have currently published their guidelines for 2021 with the other key proxies and investors expected to follow shortly.

3



Public trust and political and external pressures

- Unemployment remains high, wage inflation low, and interest rates near zero.
- Given Brexit, a fast economic recovery remains uncertain.
- Executive pay continues to be a lightning rod for the media in general and in particular its ongoing narrative for fairness within business.
- Firms can expect significant scrutiny of decisions, particularly those with a notable public profile.

4



Internal factors

- Need to plan ahead for more policy changes, manage their liquidity and capital, and enhance operational resilience.
- Need to consider how pay or wider human capital decisions look in the context of the impact on customers, the wider workforce, and an environment of economic uncertainty.

Investor Considerations

Legal and General Investment Management

Pensions	<ul style="list-style-type: none"> Incumbent directors' pension provision to be aligned with wider workforce by 2023.
LTIPs	<ul style="list-style-type: none"> 20% share price fall since the last award warrants reduction in grant Not generally supportive of retrospective changes to performance targets for in-flight LTIP awards. Any changes beneficial to directors need shareholder consultation. Require detailed explanation of how the RemCo has exercised discretion to avoid windfall gains at vesting. Supportive of companies that wish to delay the setting of LTIP targets by up to six months. Where targets are lower than previous year's results, expect reduction in quantum.
Bonus	<ul style="list-style-type: none"> Expects no bonus to be paid for the 2020 financial year where the company has received support from government or shareholders (in the form of additional capital or suspended dividends) and where staff redundancies were necessary.
Performance measures	<ul style="list-style-type: none"> Support a basket of measures, aligned with the company's strategy, to avoid double counting for short-term and long-term incentives. Personal performance amounts to delivering the strategy and that strategic targets should therefore be meaningful and quantifiable. Threshold level of corporate financial performance required for any bonus payment to be made. Turnaround situations are an exception. ESG should be a modifier rather than additive.

Pensions & Investment Research Consultants ("PIRC")

In September PIRC issued a consultation suggesting executive pay is too high and too complex and proposing:

- a going rate true market salary;
- directors' service contracts approved by vote;
- a single profit pool to be distributed company-wide;
- exceptional bonuses only; and
- no LTIPs.

Although unlikely to come to fruition the sentiment aligns with recent Glass Lewis publication and may indicate a more widespread level of discomfort with the quantum and structure of executive pay.



Regulatory considerations



Customer outcomes

COVID-19 has driven rapid change in how people work. The regulator is keen to scrutinise how firms are ensuring that **incentives ensure that business continuity is not at the expense of good customer outcomes.**



Capital strength

As the economic impact of COVID-19 intensifies the regulators want firms to ensure that **pay decisions are affordable and defensible from an external perspective.**



Accountability

Culture and driving the right behaviours is especially important in a time of crisis, where changes are being made to both the organisation and how people work at a more rapid rate than normal.



Ex-post risk adjustment

Firms are **not proactive enough** in applying risk adjustment and there is a suggestion that the size of adjustments is not reflective of the FCA's assessment of the conduct underlying the need for adjustment.



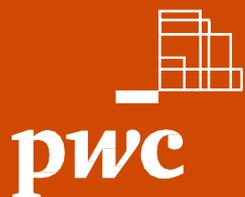
Diversity and inclusion

The FCA expect to see **material progress in achieving the long-term goals** to tackle inequalities and create an inclusive environment. The FCA also expects firms to be considering analysis from their Gender and BAME pay gap reporting to inform their actions on diversity and inclusion.



So what are firms doing?

- Wait and see
- Can't pay vs won't pay - performance impacted by business mix and geography
- Scenario planning for economic and regulatory moves including:
 - delaying setting LTIP targets,
 - reducing bonus pools,
 - targeting spend,
 - exploring delivery of bonuses in instruments, and
 - long term some firms are considering whether their structures are fit for purpose.



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