



## City HR

Compensation forum – pitfalls and how to avoid them

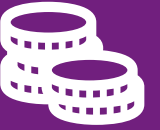
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# Recent Developments

The direction of travel



FCA and PRA letters urge restraint on variable pay



IA and other bodies also call for restraint and a re-think on how to set executive pay



FCA calls for link between pay/incentives and cultural targets e.g. D&I - financial incentives as drivers for good culture



Are LTIPs working?

# Issues to consider

## Legal Risks



**Amending remuneration terms:** is there a contractual right to amend?



**Consent to change terms to executive's detriment – consult?**



**Malus and clawback provisions:** is there a contractual right?

# Bonus Issues

## The exercise of discretion



- Where are bonus terms contained? Employment contract/collateral agreements/handbooks/plans? Any oral assurances?
- Exercise of discretion should not be:
  - capricious or in bad faith – the word 'discretionary' does not necessarily mean that the terms of a bonus scheme are discretionary
  - irrational or perverse - no reasonable employer would have exercised discretion in this way





- Reputation
- High Pay centre and media focus on high pay during COVID-19
- Corporate governance – CEO pay ratios.
  - good communication strategy
  - directly report results to staff?
- Variable pay linked to Culture/D&I targets – easier to 'explain' and encouraged by the FCA



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