CONTINENTAL EUROPE

Executive Compensation and the COVID-19 Pandemic

Frequently Asked Questions

Published Jan. 25, 2021

This FAQ is intended to provide general guidance regarding the way in which ISS' Benchmark Research Department will analyze certain issues in the context of preparing proxy research reports and determining vote recommendations for Continental European companies. However, these responses should not be construed as a guarantee as to how ISS' Benchmark Research Department will apply its benchmark policy in any particular situation.

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1. How should this FAQ document be referenced?

This FAQ document serves as general guidance as to how ISS Continental Europe Benchmark Research may approach COVID-related pay decisions in the context of ISS' holistic assessment of remuneration-related proposals. As discussed further below, ISS' assessment will carefully take into consideration the variegated impact of the pandemic on each company as well as the corresponding company's response to the crisis.

The guidance laid out in this FAQ has been shaped by feedback from direct discussions with investors in various roundtables as well as the ISS annual policy survey and other inputs, and is designed to inform investors, companies and their advisors on these issues. However, nothing in this document should be construed as a guarantee as to how ISS Research may recommend on a given proposal. If you have questions about this document, please contact the ISS Help Center.

2. How will ISS view changes to executive salary or variable pay opportunity?

In the context of the COVID-19 pandemic, above-inflation pay raises or increases in variable pay opportunity are likely to be considered inappropriate and should be supported by a particularly compelling rationale.

Companies that had poor performance, imposed sacrifices on their workforce or required government and/or shareholder support or other funding to face the pandemic are generally expected to pay little if no variable remuneration to their top executives.
Temporary reductions to executives' fixed compensation or the partial waiver of some pay components might mitigate other negative pay practices.

3. How will ISS evaluate COVID-related changes to short- and long-term incentive plans?

ISS policy is generally not supportive of in-flight changes to a company's incentive plans, including repricing of stock options or amendments to performance metrics and goals. Changes made in relation to the pandemic, when allowed by a company’s relevant existing regulatory framework, will be assessed on a case-by-case basis considering, amongst other things, the company's rationale as well as the extent and beneficiaries of the changes.

4. For companies making COVID-related changes to bonus/annual incentive programs, what disclosure would be needed for investors to fully evaluate these decisions?

Many investors have indicated that the following disclosure is important for evaluating in-flight changes to bonus/annual incentive programs:

(i) The underlying rationale for the changes, including the specific challenges that were incurred as a result of the pandemic and how those challenges rendered the original program design obsolete or the original performance targets impossible to achieve. The disclosure should address how the company has ensured that changes are not reflective of poor management performances.

(ii) Discretionary payments should normally be avoided. For companies making discretionary one-off payments, the company should explain why that approach was taken and how such actions further shareholders' interests. One-time awards should be limited in magnitude and a truly isolated practice. They should still carry performance-based considerations and companies should disclose the underlying criteria, even if not based on the original metrics and targets. Investors are likely to find generic descriptions (for example, "strong leadership during challenging times") to be insufficient.

(iii) The company should discuss how the resulting payouts appropriately reflect both executive and company annual performances. The disclosure should clarify (or estimate) how the resulting payouts compare with what would have been paid under the original program design. Above-target payouts - compared to the original program - are unlikely to be supported by many shareholders.

5. How will ISS evaluate COVID-related changes to long-term incentive plans?

Investor feedback indicates that many consider that long-term incentive plans should not be altered during the performance period based on a short-term market shock. Accordingly, changes to in-progress cycles will generally be viewed negatively.

The replacement of past grants in consideration of the pandemic will also be considered potentially problematic. Alterations to future cycles of an outstanding long-term incentive program could be viewed as reasonable, instead. For example, movement to relative or qualitative metrics may be viewed as reasonable in the event of unclear long-term financial forecasting. Shifts to predominantly time-vesting equity or short-term measurement periods would continue to be viewed negatively. In all instances, companies should thoroughly explain the rationale behind the changes and the resulting benefits for stakeholders including shareholders.

Lastly, for long-term incentive awards granted during the pandemic, companies should carefully consider and address the risk of windfall gains deriving from circumstances that lie outside of executives' control. As an example, windfall gains might result from a short-term drop in share price around the time of grant and a corresponding increase in the number of instruments granted under share-based incentive plans.

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