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# 10 minutes on...

## 2020 Executive remuneration trends: **A two speed year**

PwC Australia
August 2021

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# Summary of 2020 executive remuneration practices

**2020 was a year that no one predicted. On 11 March 2020, the World Health Organization declared COVID-19 a global pandemic, marking the official start of a period of profound disruption and suffering. As the pandemic changed the way we worked and lived, Australian GDP fell 1.1%[1] and with it, company performance and investor confidence, demonstrated through a reduction in the ASX 100 median EBIT (-6%),[2] and the S&P ASX 100 Index (-2%).[3] However impacts across industries were varied, illustrated by median Total Shareholder Returns (TSR) for Health Care companies up 16% on the year, whereas Financial Services companies saw a reduction of 22% from their respective FY20 starting points.**

2020 was a year of mixed experiences for the ASX100 from the economic impacts of the pandemic, organisational responses (including workforce impacts), and remuneration outcomes. Although some companies instituted temporary fixed pay reductions, the quantum of fixed pay increases for Executives were greater than the prior year and CEO increases remained stable. This partly reflects the disparity in company performance contexts across industries, but mostly the fact that fixed increases reported during FY20 were determined pre-pandemic. Where temporary reductions were made to fixed pay, following the recovery of most ASX 100 companies in the second half of 2020 full salaries were resumed.

Short and long-term Incentive outcomes were more impacted by the pandemic such that outcomes were significantly lower, albeit with some variation across industries. STI outcomes contracted, with 57% of CEOs receiving a lower STI payment in FY20 compared to FY19. Although some sectors  had an STI outcome above the median for FY20 including the Metals & Mining and Communications sectors. LTI outcomes told a similar story with median vesting outcomes contracting. 55% of CEOs had a lower vesting outcome in FY20 compared to FY19.

At the outset of the pandemic, external stakeholders provided clear expectations that Boards should actively consider using discretion to make adjustments to bonus outcomes. Whether or not to apply such discretion, was expected to be driven by the appropriateness of bonus outcomes when considering a range of stakeholder interests (including shareholders, employees, customers, community). As such, unlike prior years, the majority of companies provided more transparent disclosure of their decision-making process in remuneration reports, particularly the consideration of discretion, regardless of application, and we expect this practice to continue.

This update provides a snapshot of trends looking back over the previous financial year. We acknowledge that as we enter the second year of the pandemic and the recovery is mixed across geographies and sectors, the reward and performance context for the coming year has already shifted. And so, we have also provided some brief insight into what has taken place in the first half of FY21, and what this might mean for Boards going forward.

1. Australian Bureau of Statistics, December 2019 to December 2020 (link)
2. CapIQ, based on individual company FY20 outcomes
3. S&P ASX 100 Index value change from 1 January 2020 to 31 December 2020

**Notes on methodology:** Our market data provided in this publication covers Key Management Personnel (KMP) at S&P ASX 100 companies (excluding foreign domiciled companies) as at 31 December 2020. All data is presented in AUD (but where appropriate, individual year on year analysis has been completed in home currency). Data is based on 2020 Remuneration Reports and other publicly available sources. Company size and performance data has been sourced from CapIQ.

# Summary of 2020 executive remuneration practices

## Highlights

- Approximately the same proportion of CEOs and Executives received fixed pay increases as compared to FY19, noting that the economic disruption impacted most entities after FY20 pay increases had already been determined.
- Where increases were awarded, the median increases were higher for both Executives and NEDs, with CEOs being slightly lower, compared to the prior year:
  - **3.4% for CEOs** (with 40% receiving no increase at all)
  - **6.2% for other Executives** (with 31% receiving no increase at all)
  - **4.1% for NED** base fees (with 75% receiving no increase at all)
- The impacts of the pandemic on executive pay outcomes is evident this year, notably:
  - **Approximately one in five companies** temporarily reduced **fixed pay** for CEOs, Executives and/or **NED fees**.
  - Temporary reductions in fixed pay and NED fees were consistent across CEO, Executive and NEDs, with the median reduction experienced ~20%, albeit across varying time periods. The median period for reduction of Executives' pay was 3 months, and therefore there was not a material reduction on total fixed pay.
  - **Median STI payments** were materially down on FY19, at **62% of target for both CEOs and Executives** (versus 91% and 85% respectively in FY19).
  - **27% of companies made discretionary adjustments** to their formulaic STI outcomes as a result of being materially impacted by Covid-19, with the median being a reduction of 50% for CEOs, which was greater than other Executives (reduction of 26%).
  - Prevalence of **LTI vesting outcomes** remained stable, with LTI vesting achieved (in all or in part) for **78% of CEOs** (versus 82% in FY19), but the median **vesting outcome of 50%** of maximum was noticeably lower (versus 80% in FY19). LTI outcomes were somewhat protected from adjustments due to COVID-19 only impacting a small portion of the performance period, with only 5% of companies making a discretionary downward adjustment.
- The structure of executive pay frameworks remained largely unchanged with 92% of companies operating a traditional fixed pay / STI / LTI model. That said, a small number of companies introduced or announced tweaks to the traditional model (e.g. service-based equity awards). Within the traditional structures, this typically comprised:
  - Fixed pay weighted at an average of 31% for CEOs and 37% for other Executives (similar to FY19), with LTI continuing to be weighted more heavily than STI within the variable pay component.
  - An STI, delivered as a mix of cash and deferred equity (81% of companies), measured against a scorecard of financial and non-financial measures.
  - An LTI measured over 3 years (77% of companies), with relative TSR remaining the most prevalent measure (72%), delivered in performance based stock (primarily performance rights) (94%). Prevalence of non-financial measures has increased slightly (at 16% versus 14% in FY19), as have 4 year performance periods (18% in FY20, compared to 15% in FY19)
- The prevalence of mandatory shareholding requirements (MSRs) remained consistent with prior years with 67% of companies requiring CEOs to hold a minimum value of shares. The median MSR for CEOs is 150% of fixed pay (consistent with FY19).

# Non-Executive Director fees:
## Temporary fee reductions for some, material increases for others

### Temporary NED base fee reductions for some, higher increases relative to last year for others

- Whilst Non-Executive Directors (NED) fees have historically been fairly stable and consistent, in FY20, 20% of ASX 100 companies temporarily reduced NED fees in response to the pandemic. Fee reductions ranged from 10-100% (median 20%), for a period of one to six months (median three months), and occurred in solidarity with similar reductions to the executive group, in every instance bar one. The median period of reduction was three months, and therefore in most cases, it was not a material reduction to NED fees over the year.
- Outside of these temporary reductions, most NED fees remained the same. 19% of companies increased Board Chair fees, while 25% of companies increased NED base fees (down from 30% and 34% respectively in FY19).
- Of those companies that increased Board Chair fees, the typical increase was greater than last year, with the median increase at 6.1% (compared to 2.9% in the prior year).
- Companies that increased NED base fees applied a slightly larger increase compared to last year, with a median increase of 4.1% (compared to 3.7% in FY19).

### Committee fee increases for FY20 were lower in prevalence but higher in quantum

- The majority of ASX 100 companies didn't increase committee fees in FY20 (~65%), however, those that did tended to grant increases in excess of 10%.
- The importance of governance and risk management was once again reflected in committee fee increases with a quarter of companies increasing standalone Risk Committee fees. This was similar across combined Audit & Risk Committees, where almost a quarter (23%) of companies increased fees. In comparison, companies that increased their standalone Audit Committees was lower, at 15% of companies.
- One quarter of companies increased fees for their RemCo Committees.

### Prevalence of fee pool increases remains limited and the median increase has slightly reduced

- 9% of companies increased their NED fee pool in FY20, compared with 14% in FY19. These increases were localised to companies within the Financial Services and Metals & Mining sectors. Of the companies that increased the fee pool, the median increase of 22.5% was slightly lower than what was seen in FY19 (25%). A number of companies have also flagged their intent to increase their respective fee pools in FY21, with the median increase expected to be ~40%.

Figure 1: Median NED fee increases received in 2020

| | Median movement (all roles) | | Median increase (increase >0%) | |
|---|---|---|---|---|
| | Chair | Other NEDs | Chair | Other NEDs |
| FY20 | 0.0% | 0.0% | 6.1% | 4.1% |

Figure 2: Median committee fee increases (increase >0%) received in 2020

| | Audit & Risk Committee (Combined) | | Remuneration Committee | |
|---|---|---|---|---|
| | Chair | Other NEDs | Chair | Other NEDs |
| FY20 | 2.8% | 3.0% | 14.3% | 14.8% |

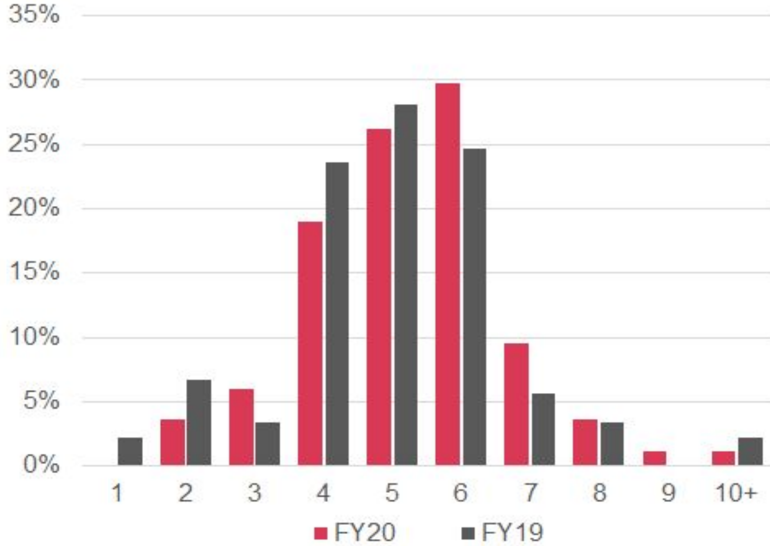
| | Audit Committee | | Risk Committee | |
|---|---|---|---|---|
| | Chair | Other NEDs | Chair | Other NEDs |
| FY20 | 16.7% | 17.6% | 14.3% | 16.7% |

# Non-Executive Director meetings:
## An increase to the number of RemCo meetings in FY20

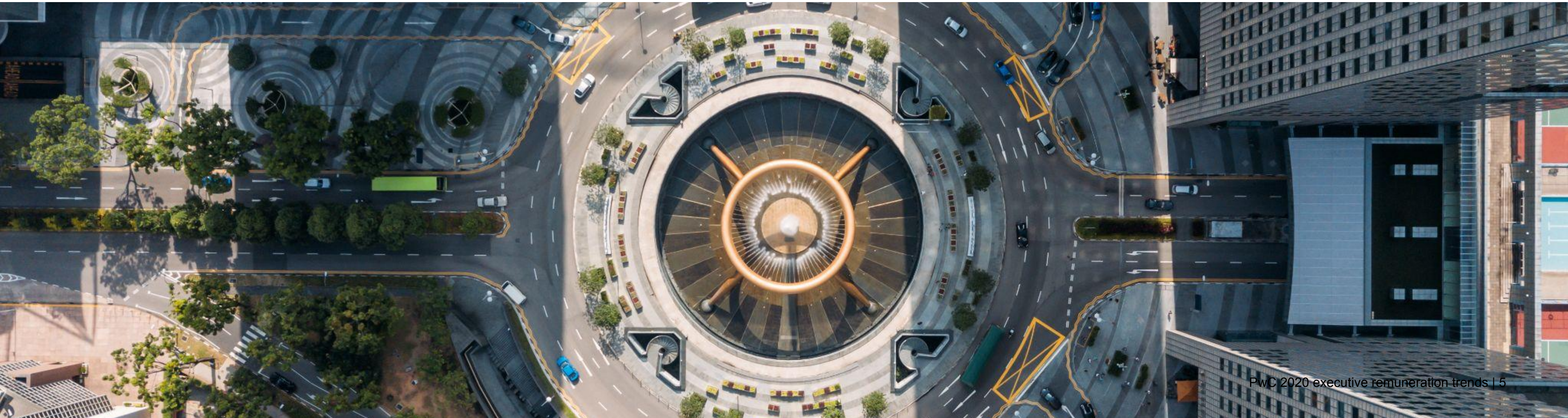
### Remuneration Committee meetings: Most companies hold 4-6 meetings per year

- In FY20, the vast majority of companies held between four to six RemCo meetings (75% of companies), with five meetings at the median. The number of companies that saw RemCo meetings exceed six meetings increased on last year from 10 in FY19 to 13 in FY20. Financial Services (FS) companies recorded a slightly higher median number of RemCo meetings (six) than non-FS organisations (five).
- In line with Financial Services regulator guidance[1], in FY20, two companies in the ASX 100 Financial Services sector disclosed holding formal joint Remuneration and Risk committee meetings). It was more common for the Board Risk Committee Chair and CRO to attend RemCo meetings.

Figure 3: Number of RemCo meetings disclosed in 2020 and 2019




1. APRA draft guidance (CPG 511) sets an expectation for the assessment of performance and risk would include direct input from senior risk management personnel, with good practice including the use of joint meetings of the RemCo with the Board Risk Committee. Both APRA and ASIC have specifically noted that relying upon cross-membership of committees only is not sufficient (APRA Draft CPG 511, ASIC INFO 245).



# Fixed pay:
## Prevalence of increases remained stable, with median increases up on FY19, albeit temporary reductions for some

### Temporary reductions in response to COVID-19

- 21% of ASX 100 companies temporarily reduced fixed pay to their executive group in response to the pandemic. Of these companies, two applied these reductions only to the CEO.
- Fixed pay reductions ranged from 10-100% (median of 20%), for a period of two to six months (median of three months). Reductions were most common for companies in significantly impacted industries such as real estate, aviation, travel and entertainment. With the median period being three months, the overall reduction for the year was not significant for most Executives.

### Prevalence of pay increases remained fairly stable

- Overall there was relatively stable decision-making relating to fixed pay increases year-on-year, noting that FY20 pay decisions were made prior to the pandemic.
- Fixed pay increases for CEOs appear to be increasingly targeted rather than being a 'given'. As seen in recent years, the practice of applying smaller but more consistent increases across the whole executive team (e.g. in line with CPI) has not been commonly observed.
- 40% of CEOs did not receive a pay increase at all, along with 31% of other Executives (similar proportions were observed in FY19).
- CEO pay movement varied between sectors. The majority of FS and Health Care CEOs received increases (75% and 100% respectively), while increases in the Communications Services / Information Technology / Telecommunications Services,and Consumer Staples / Consumer Discretionary industries were observed at 25% and 33% respectively.

### Median pay increases were up on last year

- The median fixed pay[1] movement for all CEOs remained modest overall, increasing by just 1.8% (fixed pay increases are inclusive of changes to either base salary or fixed benefit values). Median increases for other Executives were up on last year at 3.6%.
- This year, the median of CEO fixed pay increases reported are in line with employee wage growth (of 1.8%)[2], while the increase for other Executives was double the general population.
- For those who were awarded a fixed pay increase, increases were broadly the same for the CEO and greater than last year for Executives, with median fixed pay increases at 3.6% for CEOs and 6.2% for other Executives.
- Significant increases were still experienced by some, with 13% of CEOs and 22% of other Executives experiencing increases of greater than 10%. Some of these more significant increases were driven by company mergers, and consequently larger roles.

### Incoming CEOs continue to receive lower fixed pay than their predecessors

- We continue to observe new incumbent CEOs typically being paid less than their predecessors (median of 21% less). Internally promoted CEOs typically received substantially less than their predecessor when compared to external hires (27% less compared to 2% less). The observed differential between internal vs external hires is consistent with findings from last year, however the quantum of difference was greater this year.

Figure 4: CEO and other Executives pay movements (ASX 100, same incumbent)

| | Median fixed pay movement | | Median increase (increase >0%) | |
|---|---|---|---|---|
| | CEO | Others | CEO | Others |
| FY20 | 1.8% | 3.6% | 3.4% | 6.2% |

Figure 5: CEO and other Executives % with no pay increase (ASX 100, same incumbent)

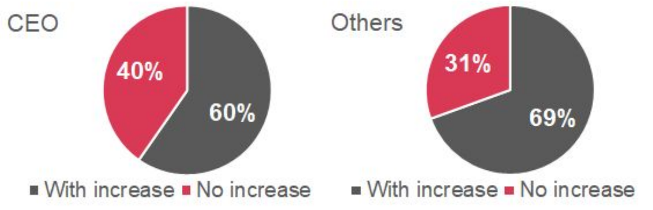



Figure 6: CEO and Executives fixed pay movements by percentage band


1. For the purposes of this analysis, we have excluded the impacts of temporary pay reductions such that the numbers reflect a full year's pay in order to provide a like for like comparison of movement of fixed pay in the market year on year.
2. Australian Bureau of Statistics, June 2019 to June 2020

# STI practices and outcomes:
## Downward trend on median STI payouts continues, with Boards more actively considering, and applying, discretion

### Median outcomes (as percentage of target) have reduced for four years running

- Actual STI outcomes were 62% of target at the median for CEOs and other Executives (vs. 91% and 85% respectively in FY19). This represents a continuing downward four year trend as observed in Figure 7. Lower outcomes were anticipated as a result of the impacts of COVID-19, a test of normal year-on-year variability will be more relevant in FY21 outcomes.
- Median STI payments as a percentage of target were lowest for CEOs in the Consumer Staples / Consumer Discretionary industries (15%). Payments to other Executives in the Real Estate industry were also greatly affected in FY20 (median of 33%), where notably, several companies did not pay any STI to their executive team.

### Variable pay continues to be 'more' variable, with an increase in the prevalence of zero outcomes

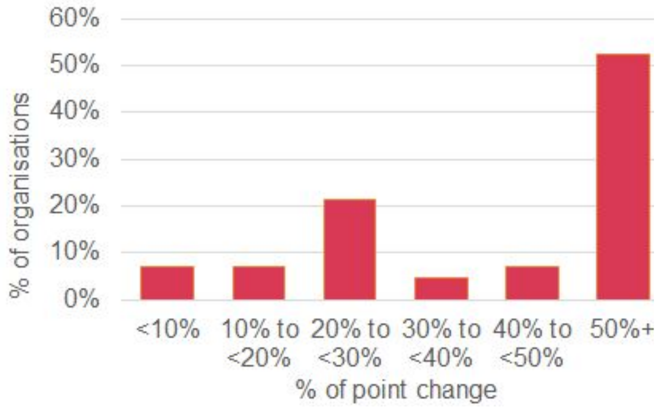
- We observed greater variation in CEO STI outcomes in FY20, with 86% of same incumbents having a year-on-year variation of more than 20% in their payments (compared to 53% in FY19).
- We have also seen a 67% increase in CEOs with a greater than 50% variation in outcomes (52% in FY20 vs 31% in FY19). This may be somewhat explained by the material impact on STI outcomes this year due to the pandemic.
- Zero bonus outcomes increased in FY20 to 27% across all KMP, up from 12% in FY19.

### The majority of companies actively considered a discretionary adjustment, and while most did not apply an adjustment, an increased number of adjustments to STI outcomes were observed

- The vast majority of companies did not make discretionary adjustments over and above formulaic outcomes. In any case, formulaic outcomes were naturally depressed due to adverse financial performance outcomes for many ASX 100 entities.
- 36% of companies made adjustments to STI outcomes in FY20, with three quarters of these adjustments occurring as a result of being materially impacted by COVID-19. Adjustments ranged from -100% to +35%, with the median adjustment being a reduction of 27%. Additionally, almost a third of companies who adjusted STI outcomes in FY20 reduced them to a zero outcome.
- The prevalence of STI adjustments are similar between CEOs and Executives, however the materiality of impact is greater for CEOs. The median reduction for CEOs was 50% compared to 26% for Executives, for companies materially impacted by COVID-19.
- Additionally, 6% of companies adjusted the normal delivery method to increase the equity portion of FY20 bonuses as opposed to cash, to assist with managing their cash flow during the pandemic.
- Discretion wasn't only applied in a downwards fashion. In some cases, discretion led to a more favourable outcome with at least three companies applying an upward adjustment.
- Majority organisations who did not adjust outcomes still provided explicit commentary about discretion being actively considered. This reflects the guidance from industry, regulatory bodies (eg AICD, ASIC) and proxy advisors at the outset of the pandemic. We expect that the standard for decision-making has been set in FY20, and will become an ongoing expectation.

Figure 7: Median STI payments FY17 - FY20 (% of Target)


Figure 8: Year on year STI variation (ASX 100 CEOs only)

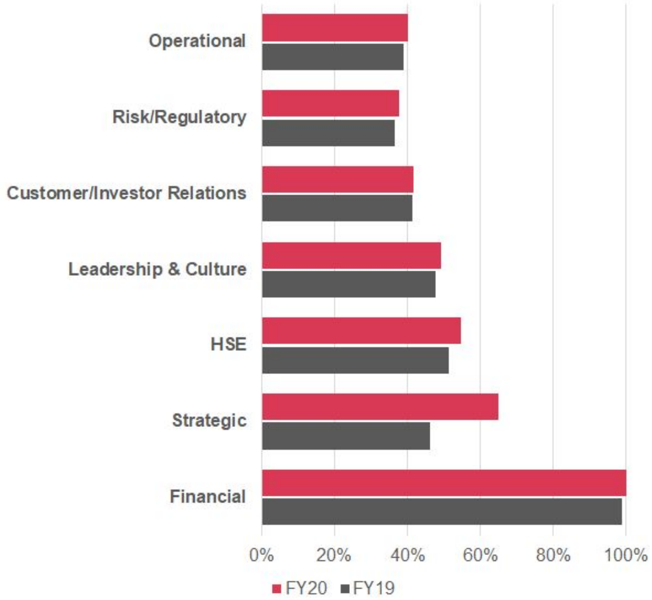


# STI practices and outcomes:
## Use of non-financial measures continue to increase, with stability in STI deferral proportions

### Use of non-financial measures continue to increase

- Although the use of financial metrics in STI plans remains ubiquitous, the prevalence of non-financial STI metrics has increased again in FY20. This continues the trend from FY18, with the focus on assessing performance more holistically. That said, three companies in the ASX 100 still exclusively use financial metrics to determine STI outcomes (down from four in FY19).
- 79% of companies have Environmental, Social and Governance (ESG: comprising of Risk, Customer, Leadership and Culture, HSE metrics) measures in their STI plans. With a greater push from some stakeholders to hold companies accountable for climate outcomes, we have seen a rise in specific climate-related metrics with 30% of companies adopting specific climate or environmental measures.
- 'Strategic' metrics had the highest increase in prevalence, increasing by 19%, with 65% of companies now utilising such a metric in their STI.

Figure 9: STI metric prevalence in ASX 100 year on year comparison




### The proportion of STI payments deferred has remained stable

- 79% of companies in the ASX 100 utilised STI deferral arrangements in FY20 (80% in FY19).
- The median proportion of STI payments deferred has remained at 50% (45% of companies), with the next most common deferred portion at 33%. Where payments are deferred, this is mostly deferred into equity (95% of companies).
- The most prevalent arrangements are a two year deferral with cliff vesting (36% of companies), or phased vesting over a one and two year period (26% of companies). The next most prevalent arrangement is a one year deferral with cliff vesting (19% of companies). The remaining companies (19%) have all or some portion of their STI deferred over three years or longer (over half of these companies are in Financial Services).
- Approximately 65% of companies either do not disclose or do not provide dividends (or dividend equivalent payments) during the deferral period. Of those who do, it is most common to provide a dividend equivalent payment in the form of equity on restricted shares, or settled as a cash payment upon vesting.

# LTI practices and outcomes:
## Designs remained fairly consistent but vesting outcomes trended downward

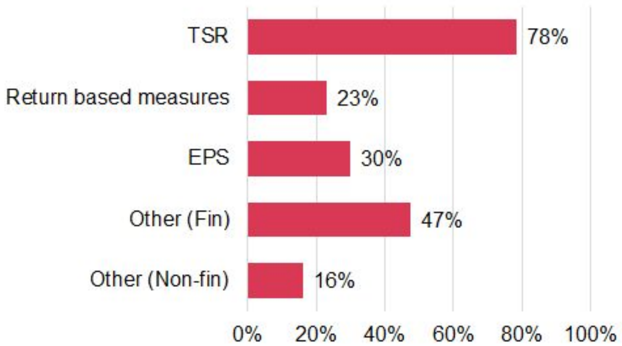
### Relative TSR remains the most common LTI metric

- 99% of companies[1] have performance-based vesting (1% of companies have time-based vesting only).
- Of these companies, 72% utilise relative TSR (and 7% use absolute TSR) as a sole LTI metric or in conjunction with another metric (versus 78% and 9% respectively in FY19). LTI plan designs comprise:
  - 15% of companies use solely market hurdles (TSR / share price hurdles)
  - 64% of companies use a combination of market / non-market hurdles
  - 21% of companies use non-market hurdles only
  - Of the companies that have market and non-market hurdles, the weighting is typically equal.
- Where relative TSR is used as a performance hurdle, the majority of companies compare to an industry index, or broad index less exclusion (such as financials, mining companies etc) (70%), while the rest use a custom / selected peer group.
- The prevalence of non-financial measures in LTI plans has increased on FY19, being utilised by 16% of companies as either a standalone metric or a gateway. These most commonly relate to Customer and Strategic metrics. A small number of companies are using risk and conduct measures as a 'gateway' for LTI to vest.

### Three years remains the most prominent performance period, with a slight increase in four year plans

- The median LTI performance period continues to be three years (77% of companies[1]), with four years being the next most common (18% of companies[1]). There has been an increase in LTI plans with four year performance periods (from 16% in FY19), within the ASX 25 one quarter of LTI plans have a four year performance period. 4% of companies have performance period of five years.
- The most common type of vesting was cliff vesting (all grants vest in full at the end of the vesting schedule) at 82% while pro-rata or phased vesting (grants vest in certain portions throughout the vesting period) operated in 18% of plans.
- Performance-based stock (primarily performance rights) continues to be the most prevalent LTI instrument type at 94% while performance-based options declined to 5%. The remaining plans utilise time-based instruments (options without performance conditions attached).

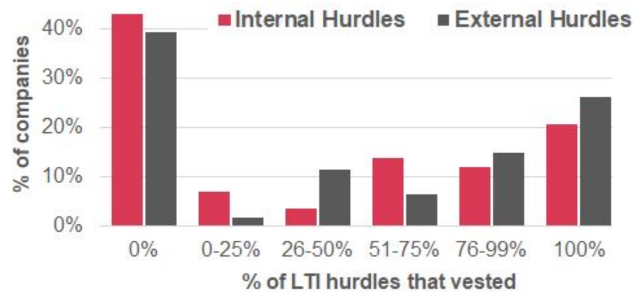
Figure 10: Prevalence of LTI hurdles across ASX 100 FY20 LTI plans (either as a sole metric or in conjunction with another metric), percentage of companies




### Typical LTI vesting is lower than the previous year for CEOs

- Overall LTI vesting was achieved (in all or in part) for 78% of CEOs. For CEO LTI awards which vested in FY20, the median vesting outcome was 50% of maximum (compared to 80% in FY19), and the median realised face value compared to grant was 139%.
- For company LTI plans (all Executives), where prior year LTI awards were performance tested in FY20, the median proportion of internal hurdles vesting decreased to 28% (FY19: 78%). The median proportion of external hurdles vesting also decreased to 50% (FY19: 66%). As seen in Figure 11, internal hurdles were more likely to return zero vesting outcomes (this switched from external hurdles in comparison to FY19).

Figure 11: Distribution of vesting patterns for LTI hurdles




### Minimum shareholding requirements

The prevalence of mandatory minimum shareholding requirements (MSRs) has remained consistent with prior years, with 67% of companies requiring their CEOs to hold a minimum value of shares.

- 67% of companies also have a MSR requirement for other Executives, which is also consistent with prior years.
- 66% of companies require their NEDs to also hold a minimum value of shares.

1. Excludes bespoke incentive plans

# FY20 remuneration trends that we expect to continue

## Tweaks to remuneration models

- While we do not expect material framework changes going forward, we do expect tweaks within current models, particularly given enhanced talent pressures, retention risks, and the outlook for many that includes ongoing share volatility and lower bonus outcomes.
- We also expect Financial Services organisations to progress remuneration framework reviews that have long been put on hold, given there is now more clarity regarding the direction of Financial Services regulation.
- For example, at least two notable ASX50 companies announced the introduction of unhurdled / service based components in their LTI.
- Some common observations for entities that have introduced an LTI portion that is unhurdled / service-based during FY20 include (1) that there was a discount to LTI opportunity to reflect the greater certainty in the award, and (2) they retained a relative TSR metric for a portion of the LTI, likely due to the strong preference by proxy advisers and investors to have this metric in LTI.
- Another 'tweak' that has been made by a couple of companies to create more meaningful shareholdings has been to move to entirely equity based variable remuneration (i.e. no cash).

## Increasing quantum of STI deferral

- Due to upcoming regulatory requirements, we expect FS deferral quantum and periods to increase. This may then flow on to other industries where this is viewed as better practice e.g. a number of large ASX 25 companies already have a deferral period > 3 years.
- Furthermore, during FY20 we saw a number of organisations pay STI exclusively in equity (given cash constraints), or at least pay more substantial proportions in equity. We expect this trend to linger, along with cash constraints.

## Less restraint in relation to fixed pay

With 20% experiencing fixed pay reductions, and ~40% not receiving a pay increase in FY20, we expect some fixed pay increases to be less constrained next year:

- Boards are likely to make bolder decisions regarding fixed pay increases to address concerns regarding retention risks, including concerns raised directly by shareholders in relation to key Executives, particularly in some industries (e.g. Tech, Comms, FS)
- With some industries and geographies experiencing growth, executive talent that is mobile across industries will be most at risk (particularly with movement across global talent markets currently restricted) and therefore likely to be targeted with more significant pay increases.

## Enhanced reward differentiation year-on-year, and within executive teams in any given year

- Due to external stakeholder expectations (e.g. proxy advisers, regulators) companies are increasingly focussing on ensuring reward frameworks are designed to produce meaningful differentiation in incentive outcomes year-on-year and between Executives, to reinforce individual executive accountability. We expected to see a continued focus on incorporating individual measures in the STI plan, and variation in resulting reward outcomes.

## Refined use of non-financial measures in STI and an increase in prevalence within LTI

- APRA's CPS 511 requires SFIs[1] to have a material weighting for non-financial measures in each incentive plan. While non-financial metrics are prevalent in STIs, FS companies will likely have a challenge identifying appropriate LTI metrics. An increase in prevalence of non-financial metrics in LTI in FS companies may flow on to other industries with FS typically being viewed as best practice.
- Companies should be aware of this evolving trend and inherent tension with proxy adviser and investor views, particularly where there is an unclear tie to financial performance or shareholder value.

## Incorporation of ESG metrics in incentive plans

- There is increasing expectation from shareholders that companies are held to account for their social impact, and that this should be on a company's strategic agenda.Therefore, we expect companies to respond by incorporating ESG metrics in incentives, particularly related to environmental risk and impact.
- In the ASX 100 79% use an ESG metric in their STI. This is a higher prevalence than the FTSE100 (UK) where it is 37%. However, the FTSE100 (UK) has a higher prevalence in LTI metrics; 19% compared to 5% in the ASX 100, and Australia will likely follow the UK trend and see increased prevalence.

1. Defined new APRA-regulated entities Significant Financial Institutions (SFI), with a criteria for inclusion based on measurable indicators and qualitative criteria, including complexity.

# Top 5 executive reward issues Boards/Reward leaders should be discussing and key actions

1

***Consideration of applying discretion*** is expected again in FY21 in relation to remuneration outcomes.

- Confirm that frameworks and processes are in place to allow Boards to effectively consider and apply discretion to all remuneration elements
- Review data inputs for FY20 and consider any additional inputs required for FY21, and also ensure processes are in place to enable meaningful data to inform decision-making

2

LTI outcomes will be more heavily scrutinised this year including impact of the pandemic and ensuring outcomes are aligned to company performance and shareholder value over the period. ***LTI discretionary principle****s will need to be considered.*

- Confirm that discretion/ ***adjustment principles are as clear for LTI as for STI***
- Discuss ahead how you will balance alignment of multiple factors including company performance, the shareholder experience and executive experience and impacts of possible heightened retention risks

3

***Setting appropriate targets*** will continue to be a challenge.

- Clarify the approach to setting FY22 performance targets, including impact of any precedents from FY21 and ‘fairness’, balancing multiple stakeholder perspectives
- Stress test performance outcomes relative to threshold, stretch and target to understand unintended consequences

4

***Retention risks & framework challenges:*** both a remuneration and non-remuneration issue

- Determine the degree of retention risk by individual, the impact of loss to the organisation (and whether these are mitigated by succession plans) to inform if there is a need for remuneration frameworks to help address retention risks
- Use understanding of the retention risk and impact to the business to underpin the narrative to justify any remuneration decisions that result

5

***Non-financial measures*** may need to reflect heightened expectations of broader accountability (e.g. ESG):

- Clarify your company’s ESG strategy (with a heightened focus on environmental priorities) and relative priority of associated strategic initiatives - including how / whether they should be reflected in incentive metrics
- Where included, determine implementation approach: identify quantifiable measures, determine target setting and calibration, and where required set up shadow tracking mechanisms to test appropriateness of targets before linking to pay

# How can PwC help?

## To have a deeper discussion about these issues, please contact: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PWC200114325 WLT12708XXXX