KPMG

Board Leadership Centre

Supporting Australia's Non-Executive Directors

Considering the implications of COVID-19 on executive remuneration – some fundamentals

The impact of COVID-19 on business is unprecedented, impacting all sectors of the economy. While the full extent in terms of unemployment, bad debts and government support won't be known for some time, organizations can show leadership and empathy in what is a difficult time for all.

Corporate Australia faces additional challenges in terms of how Boards will deal with executive remuneration. There is no one set of answers that can apply in all cases. Every company is facing a different situation and having to sift through appropriate responses to deal with the challenges it is therefore suitable, for the following arrangements to be considered

- If **your business is considering standing down** employees:
  - executives and NEDs should consider taking pay cuts. We suggest these should be material (somewhere in the 10-25% range) depending upon the size of workforce cuts. We have seen a number of companies do this already and obviously at the extremes this could be 100% for a period;
  - STI for FY20 should be scrapped. If not, any STI should be provided in equity to conserve cash; and
  - executives and others should be asked to take leave where company operations have been closed or reduced.
- If **your business is not considering standing down** employees but needs to conserve cash, NEDs and senior executives (i.e. CEO and direct reports) should take a meaningful proportion of their salary/fees (voluntarily this could be a greater amount or a larger portion of the workforce), in equity. This could be deferred until the company comes out of the cycle of the pandemic (which could be 12 – 18 months, but timing will ultimately be at the discretion of the Board). Companies should also look to cascade this down into other levels of management (especially if this will help keep staff gainfully employed).
- It would be unfair to shareholders to **price a large equity parcel on current share price lows.** If part of the salary was to be taken in equity on a go forward basis however (i.e. make the sacrifice into equity now and allocate equity going forward on a monthly basis at the then prevailing price or, depending upon the circumstances the Company finds itself in, perhaps an average from January as opposed to using current lows for everything now), using that spot price each month should create shareholder alignment as companies emerge from the other side of this pandemic and not be seen as a windfall gain (i.e. as if executives or NEDs took their money and bought shares on market).
- Companies performing well could still award STIs for FY20, but it would be appropriate for **most or all of the award to be deferred into equity.** Paying large sums of cash to executives in a period of national economic crisis, and increased unemployment rates, will simply not be a good look. In this time of share price volatility, it would appear feasible to price equity at a mid-point of current VWAP and pre-pandemic VWAP (so there should be some upside, but not windfall gains when things return to normal). Companies performing well (who have seen demand increase in the current crisis), should consider whether a portion of the bonus pool could be donated to a charity

- To support those who have been adversely impacted as a result of the pandemic.
- **Delaying remuneration reviews** (which may otherwise occur at financial year end) for at least 6 months, until the dust has settled somewhat.

These decisions may not be universally popular amongst executives, but they are decisions that boards need to consider in the current environment to help share the burden and support the fact that we are 'all in this together'.

While leadership on these issues could potentially provoke support amongst the organisations stakeholders (shareholders, proxy advisers, activists, government, broader workforce etc), failure to lead on these issues could have much more serious long term consequences on corporate reputation and trust.

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