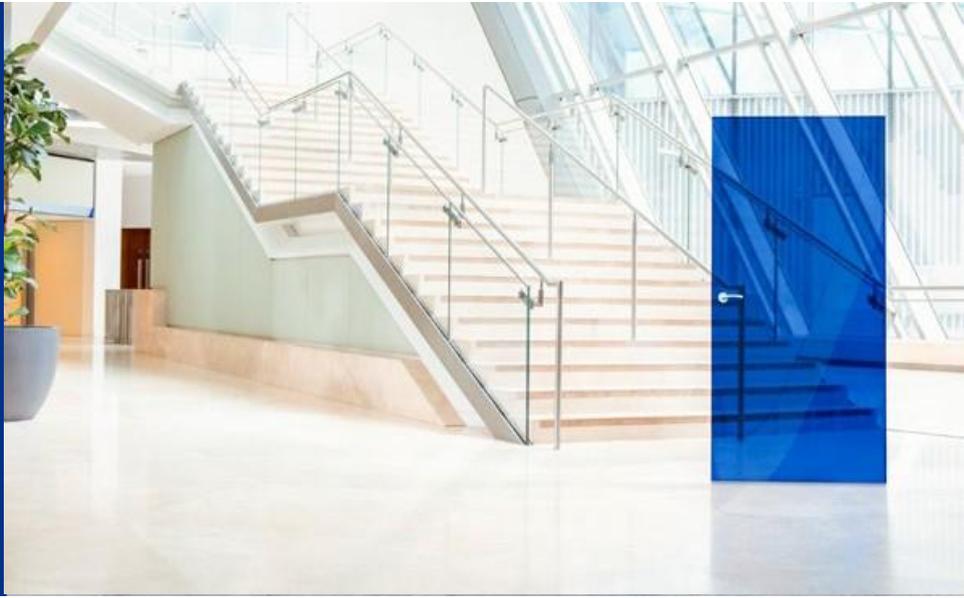




On the 2022 remuneration committee agenda

KPMG Board Leadership Centre



Executive compensation has been under intense scrutiny over the past two years and the heightened scrutiny is unlikely to lessen in a post-pandemic world. As businesses and economies start to recover, remuneration committees will have to carefully look at their policies and decisions around remuneration with the continuing focus on restraint. They should also pay attention to the impact of pay on the wider workforce.

Based on our engagement with board members and members of remuneration committees across different industries, we have highlighted the following six areas to keep in mind as remuneration committees consider and carry out their 2022 agendas:

1. Prominence of the environmental, social and governance (ESG) agenda
2. Inclusion, diversity and social equality (IDSE)
3. Expanded remit of remuneration committees
4. Innovative incentive arrangements
5. Reputational dangers and the fairness agenda
6. Investor engagement

- It is useful to prioritize which areas of ESG will be a key focus for boards in the next three to five years, instead of looking to achieve all elements of the strategy. This helps to provide milestones for achievement particularly where the objectives are very long term, such as climate related strategies.
- While many of the measures introduced into long- or short-term incentives have a relatively low weighting, materiality reflects the importance of the chosen ESG metric.
- Bringing a collaborative approach together with the focus of executives and the wider workforce will reinforce a refreshed corporate culture and drive performance.



1. Prominence of the ESG agenda

ESG is now a critical consideration for businesses and continues to be high on the agenda of remuneration committees. Investors, regulators, employees, customers and other stakeholders hold clear expectations of how management interests have been aligned to ESG strategies.

Linking executive pay and ESG metrics is a continuing conversation. The majority of industry leaders, proxy advisors and investors encourage the inclusion of ESG related performance measures. Boards and remuneration committees would therefore do well to bear in mind the following while setting targets.



2. IDSE

The IDSE agenda continues to be a crucial area of consideration for most organizations. The Securities and Commodities Authority (SCA) has announced, through its Board of Directors Decision No. (3/Chairman) of 2020¹, various diversity requirements for boards and remuneration committees to take into consideration.

Age and gender diversity requirements are also established at a federal government level in the UAE as part of the Guide to Board Governance in the UAE Federal Government 2020ⁱⁱ.

From a pay perspective, remuneration committees and organizations should continue to review the composition of the total reward package. They should also consider constituent parts which may discourage the promotion of individuals.

Given the increasing focus on the IDSE agenda, it is vital for companies' leadership to ask themselves the following questions:

- Do we have equal pay in our organization?
- Do we have mechanisms to combat unconscious bias in our organization?
- Are we providing enough trainings to senior executive management and employees on IDSE?
- Do we promote a culture of having a safe environment for others to speak up in the face of inadequate behavior?

IDSE is part of the broader ESG agenda and therefore should become part of the performance-based targets linked to executive pay.

When it comes to the remuneration and bonuses of senior executive management, the SCA requires publicly listed companies to consider linking the remuneration and bonuses offered to senior executive management with the performance of the company. It includes medium, long term and other deferred options, as well as remuneration and benefits.

This requirement can be linked to the rise of ESG strategies and the need for effective change management. It is also important for ensuring a strong succession strategy and pay policies that support career development for a diverse workforce.



3. Expanded remit of remuneration committees

In the wake of Covid-19, remuneration committees have had to apply sound judgement on executive pay impacted by the pandemic. They should continue to do so in terms of exercising restraint and addressing potential windfall gains or losses.

Monitoring executives' pay levels, as well as determining appropriate bonus outcomes during this period of economic recovery will continue to be a focus. We are also seeing a growing need to ensure that these decisions are linked to wider workforce pay and people strategies.

4. Innovative incentive arrangements

The debate around more innovative incentive ideas continues to develop and has been enhanced by the need for fresh thinking on delivering executive compensation and long-term incentives.

More companies are finding a renewed purpose of creating long-term sustainable business models. This will lead to increased emphasis on a balanced view of performance conditions (financial vs non-financial) and a behavior-focused reward philosophy.

Various transparency and disclosure requirements pertaining to remuneration of board members and executive management have emerged from regulators throughout the years. In line with the SCA's requirements, all public listed companies are required to disclose board members' compensation. It also requires disclosures of companies' executive management salaries, bonuses and other compensation received.

The Central Bank of the UAE, through its Corporate Governance Standards for Banks issued in 2019ⁱⁱⁱ, requires banks to disclose qualitative and quantitative elements on remuneration and published annually in a bank's Pillar 3 report. This report must include the following information for both senior management and material risk-takers:

- Description of the main elements of their remuneration system and how the system has been developed
- Fixed and variable remuneration awarded during the financial year
- Special payments such as guaranteed bonuses, sign-on awards and severance payments
- Deferred remuneration



5. Reputational dangers and the fairness agenda

The fairness agenda is not a new topic – its importance continues to increase, presenting the need for continued restraint of executive pay. The remuneration committee has to ensure that its pay decisions also reflect the pay philosophy applied to all employees.

With ESG embedded into all areas of a company's operations and outlook, remuneration committees will need to pay more attention to social equality and the levelling of pay. They would do well to also place value on performance across the board and a flatter pay curve effectively 'levelling-up' the wider employee population.



6. Investor engagement

Engaging with institutional investors on matters around executive pay has always been an important aspect of the ongoing dialogue between the company and its shareholders. As investors increase the range of the performance indicators they assess businesses against, remuneration committees need to be comfortable in their decisions to also reflect the expectations of their key shareholders.

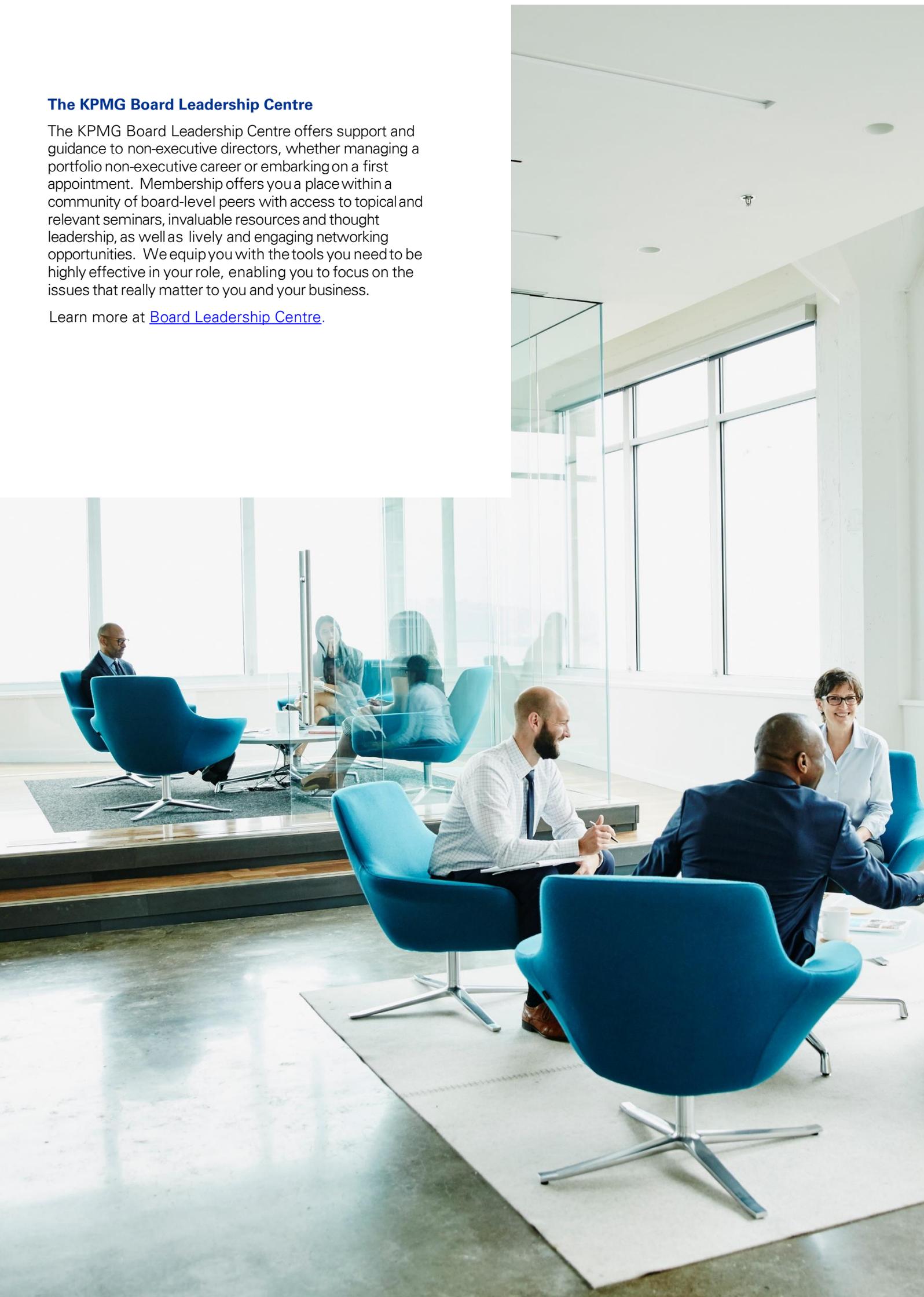
Sources

- i [Decision no. \(3/Chairman\) of 2020 concerning Approval of Joint Stock Companies Governance Guide](#)
- ii [Guide to Board Governance in the UAE Federal Government 2020](#)
- iii [Corporate Governance Standards for Banks](#)

The KPMG Board Leadership Centre

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