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# SETTING AND ASSESSING EXECUTIVE REMUNERATION IN UNCERTAIN TIMES

## 12/05/2025

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Sweeping US tariffs and other protectionist policies are rippling through global markets, crippling business investment, delaying business initiatives, and increasing the difficulty of setting valid executive performance targets.

Chairs of remuneration committees (RemCos) could be forgiven for a sense of déjà vu. Have we not been here before? What do we do about the company's incentive plans given the upheaval? How does a board set strategy and performance requirements for 1 year, much less 3 years?

Many will be reaching once more for the playbooks adopted in March and April of 2020, when the implications of the COVID-19 pandemic were emerging, see HERE. RemCo chairs had to work through their company's incentive frameworks to ensure they continue to make sense, were re-aligned with strategy and remain effective in attracting, retaining and motivating management.

With this in mind, here is an executive remuneration checklist for the upcoming May and June board meetings.

***1. Fixed pay***

There is no reason to expect at this stage that there will need to be downwards adjustments to fixed pay. This was a common occurrence, at least temporarily, at the start of the pandemic.

According to the IMF's recent forecasts a recession in the US is 40% probable. Other countries, including Australia, will not be immune. While Australia's zero tariffs and possibly cheaper imports will not stoke inflation and interest rates, an economic slowdown will see some redundancies, higher unemployment, and lower fixed remuneration increases.

***2. FY26 STI structure***

Many June FYE companies will have been well advanced in setting their FY26 budgets and 3-year strategy before President Trump's 2 April "liberation day". Thoughtfully, President Trump left time for Australian companies to make changes.

Action now to adjust FY26 budgets and targets will obviate any need to exercise STI upwards discretion later.

RemCo actions include:

- Adjusting vesting scales to ensure they have regard for the volatility that can be expected throughout FY26. The threshold level of vesting may be lower than would otherwise be the case.
- Reconsidering performance measures – The board may want to consider the key factors that will help the company survive these turbulent times. These include cash flow, cost containment, operational efficiencies and reviewing capex.
- Consider setting H1 and H2 performance requirements for FY26 rather than one 12-month performance period. This approach was adopted during the pandemic and generally supported by investors and proxy advisers. The vesting scales could be tighter to reflect the greater certainty from the shorter performance period.
- Including a provision in the FY26 STI offer letter that puts executives on notice for the possibility of:

    a) Board discretion to negatively adjust the STI outcome to align with shareholder experience; and

    b) Delivering some or all of the STI outcome in deferred equity to better align with shareholders.

- Setting STI targets that flex based on external inputs (for example targets that vary based on an ABS statistic indicative of industry activity). The STI could also be split into targets that mirror the shareholder experience and targets that flex with the price of commodity inputs such as energy and raw materials.
- If it is impossible to forecast for the year, suspend the STI and provide service-contingent share rights (RSUs). The value would be discounted (for the higher probability of vesting) with a longer vesting period.

***3. Unvested LTIs on foot***

Given the gyrations of the ASX indices since April 2 and the potential for further volatility, some LTIs due to vest may not.

ASX Listing Rule 6.23 precludes an upwards discretion for LTI grants on foot (see article HERE).

***4. FY26 LTI grants***

As the new US administration will be in government for the period of the FY26 LTI performance period, with expected continuing volatility, actions may include:

- An increase in the weighting of relative TSR measures. Despite most executive teams disliking the measure, this type of environment is suited to it. The caveat being that the comparator group companies have been well selected and are likely to be similarly impacted by the uncertainty and volatility.
- Reconsidering performance metrics based on ESG or DEI scorecards might not be well received in the current environment by US investors.
- Deferring the FY26 grant and making a larger grant in FY27 when volatility has settled is a consideration, but will create flight risk and criticisms from executives or investors (or both) on allocation prices for the later grant.
- Discounting the LTI value and granting service-contingent RSUs. The rationale includes:
  - Setting valid and reasonable LTI targets may simply be unrealistic.
  - Setting any target with a 3-year performance period is counter intuitive to agility and responsiveness.
  - 3-year LTIs may be too short for long term strategies to bear fruit in any event. FY26 and 27 capex may be based on returns over 10 years for example.
  - Aligns executive interest with investors who generally are long-term shareholders.
  - The shorter tenure of executives and 3 year performance periods encourage executive behaviour that contributes to volatility.
- Using a longer VWAP period to allocate the LTI value to reduce the exposure to volatility.
- Checking the number of equity instruments granted if the share price is unusually low because of external factors.
- Ensuring disclosures state discretion will be considered to ensure there are no windfall gains or unwarranted losses for executives for reasons outside their control.
- Consider the potential impacts of volatility on mandatory shareholding requirements (MSRs), potentially:
  - Extending the time to attain holding requirements.
  - Reducing the MSR.
  - Pausing MSR policy.
- Considering whether retention grants are required. Since most other executives are in the "same boat", turnover risks are minimal unless executives can find employment in industries that are differently impacted by the changes.





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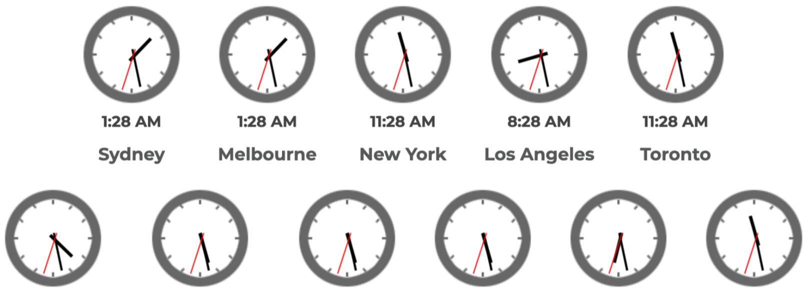

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