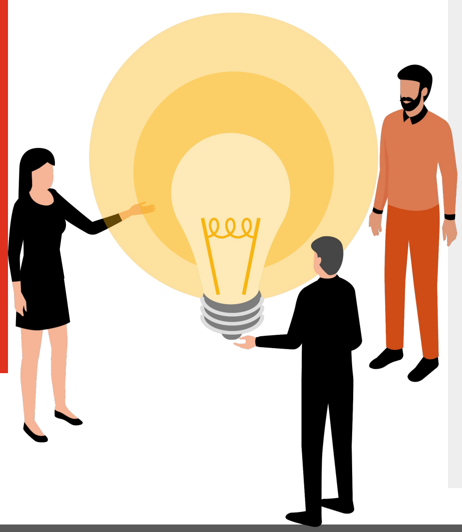
# Option 1: The Companies Act Amendment Bill

The revised draft of the Companies Amendment Bill has far-reaching implications for the remuneration report, mainly pertaining to an ordinary resolution (binding) on the remuneration policy and implementation report and the ramifications which these votes may have for the implementation of the remuneration policy and the RemCo members if failed, along with the introduction of certain mandatory wage gap disclosures.



### Retaining and formalising the familiar - format of the remuneration report

The remuneration report must contain:

**01** a background statement,

**02** remuneration policy (as a separate part of the report); and

**03** implementation report setting out the details of the remuneration and benefits received by directors and prescribed officers - most listed companies already follow this approach in line with King IV.

## What are the main changes to be aware of

### Introduction of wage gap disclosures

In addition,the remuneration report will need to include:

- the total remuneration (including salary and benefits, STIs and LTIs settled in the year) of the highest earner in the company
- The total remuneration of the lowest earner in the company
- The average and median remuneration of all employees in the company and
- The pay gap between the highest paid 5% and the lowest paid 5%

### Voting on the remuneration policy

The remuneration policy must be submitted for approval by way of an ordinary resolution at the AGM. Thereafter it must be presented for approval by ordinary resolution every three years OR whenever material changes are made to the policy. Where approval is not obtained, it must be presented at the next AGM or shareholders meeting until approval is obtained. The contents of the policy cannot be effected until approval has been obtained.

### Voting on the implementation report

The implementation report must be submitted for approval by way of an ordinary resolution at the AGM or a shareholders meeting every year. Where approval is not obtained:

1. The Remco shall, at the following AGM provide an explanation of the manner in which shareholder concerns were addressed; and
2. The RemCo members must stand down from the Remco and, while they may remain on the Board, may not serve on the Remco for 3 years after such non-approval.

## What does it mean in practice?

**01** What would constitute a ‘material change’ to the remuneration policy that would necessitate shareholder approval? Would approval be required every time performance conditions and/or targets are changed?

**02** The Act makes reference only to directors and prescribed officers - what does this mean for disclosure on remuneration practices as it pertains to all other employees?

**03** What happens if approval is not obtained on the remuneration policy - would the previous policy remain in effect? How does “need for” fit in?

**04** What are the consequences of non-compliance? Legislatively, reputationally etc.

# Option 2: Practical considerations to make ESG and the link to incentives

## Where we are in relation to ESG

**52%**
of institutional investors in South Africa said they consider ESG issues in their decisions

**81%**
of South African companies in our sample adopting an ESG measure in either their annual bonus or LTIP

**E vs S**
E measures are more prevalent in LTIP, compared to S in the annual bonus

## Considerations when adopting ESG measures in incentives…

### Principles in determining the right ESG measures for incentives …

- Coherent with your broader strategy
- Linked to material issues
- Enduring and flexible that are stakeholder centric

### Measures and targets should be…

- Significant
- Measurable
- Transparent
- Disclosed link to long term goals

### The key design decisions are…

**Input vs. output**
- Quantitative objectives lend themselves to output goals
- Shareholders tend to prefer formulaic output measures
- Input goals can also be useful for addressing ESG issues

**Individual KPI vs scorecard**
- An organisation may have two or three critical ESG issues that tower above others.
- In most cases companies will have many different objectives spanning ESG domains. In these cases, a scorecard approach may be more appropriate.

**Annual bonus vs LTIP**
- Market practice to date indicates that environmental goals sit within the LTIP
- Some targets can be calibrated over a single year.

**Underpin vs Scale target**
- In most cases, ESG metrics will work most effectively as scaled targets.
- However, some issues will have pass or fail performance standards, below which reductions in payout are appropriate.

## How are you progressing?

| | |
|---|---|
| **01** | **Where are you in terms of your ESG strategy and data collection?** |
| **02** | **Have you considered how you are going to link ESG to pay?** |
| **03** | **What is your approach to target setting and calibration?** |