On the 2023 remuneration committee agenda

KPMG Board Leadership Centre

KPMG Lower Gulf Limited

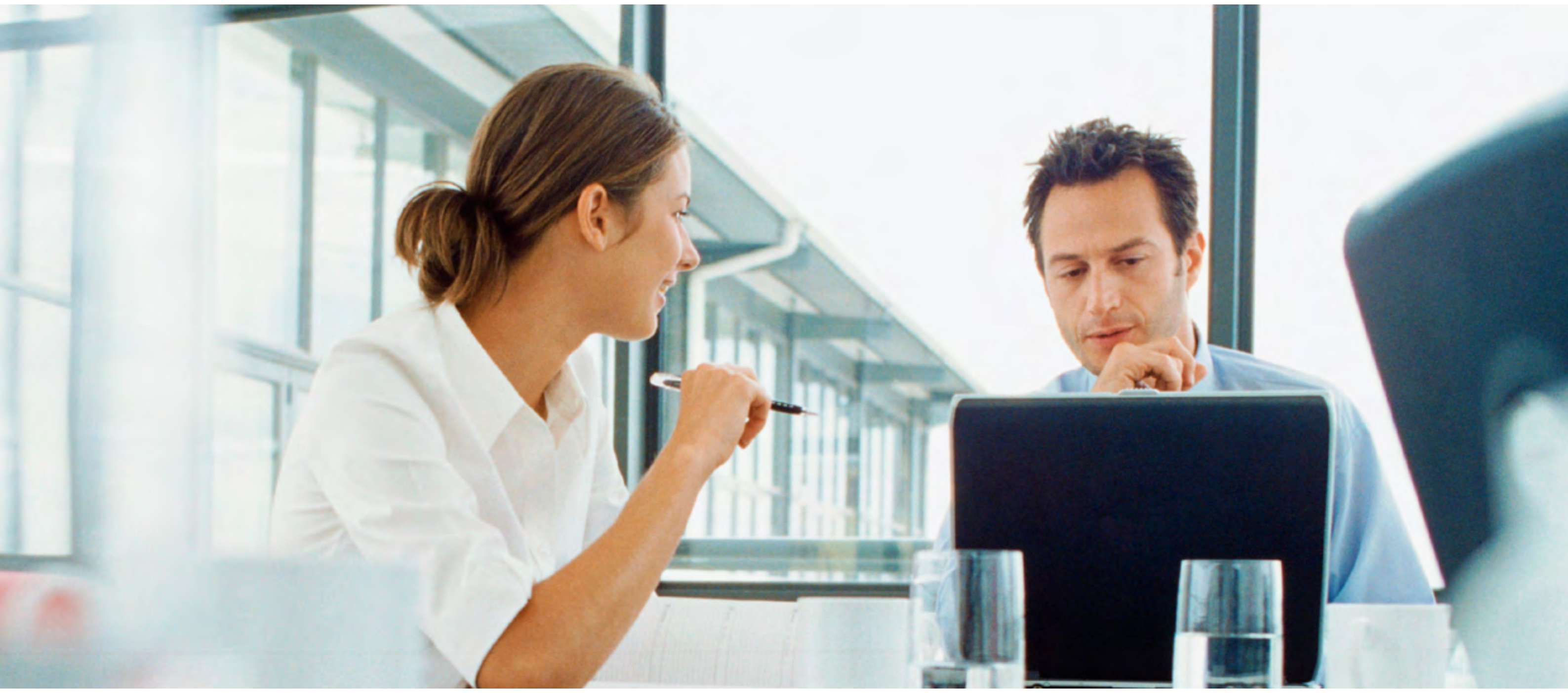
As boards adapt in response to the rapidly changing business and risk environment in 2023, remuneration committees continue to expand their oversight. In addition to the traditional remit of compensation and succession planning for the CEO and C-suite, many committees have broader responsibility for oversight of talent strategy and human capital management (HCM) issues, including employee well-being and workplace culture. This shift signals the increasing importance of these issues to the board as stakeholders, particularly shareholders, maintain a sharp focus on compensation, talent, and retention risks and their link to corporate strategy and values amid a tight labor market.

Drawing on insight from our interactions with directors and business leaders, we highlight five issues to keep in mind as remuneration committees consider and carry out their 2023 agendas

1. Ensure that compensation plans are properly aligned with the business strategy and focused on key drivers of performance
2. Balance responsibilities for continued oversight of executive compensation and total rewards while considering broader oversight of HCM
3. Consider whether including ESG metrics in compensation plans is right for the organization
4. Innovative incentive arrangements
5. Inclusion, Diversity and Equality (IDE)

1

Ensure that compensation plans are properly aligned with the business strategy and focused on key drivers of firm performance.



With the rapidly changing business and risk environment, it is especially important that the committee considers whether the design of compensation plans is sound and aligns the interests of executives and employees with those of investors and other stakeholders. More specifically, the committee should revisit incentive plans to ensure that they continue to provide appropriate motivational and retention goals. Do the current plans still drive the right behaviors and provide appropriate opportunity and accountability for these uncertain times?
Closely examine all incentive plan metrics and payout ranges to see that they not only adequately align with the company's strategic and operational goals and shareholder interests, but also have an appropriate level of resilience to withstand future unforeseen events.

Careful consideration should be given to making any changes to existing incentive awards. Shareholders and other stakeholders heavily scrutinize changes to existing incentive awards that may be seen as unfairly benefiting executives while other employees endure cuts in wages or layoffs and shareholders lose value in their investment. This includes formal adjustments to existing metrics, as well as end-of-cycle discretionary payouts that may be perceived as offsetting low or nonexistent formulaic payouts.

2

Balance responsibilities for continued oversight of executive compensation and total rewards while considering broader oversight of HCM.

The challenges we faced during Covid-19 have led many companies to change the way they think about supporting their employees. Based on our interactions with directors and business leaders, employees value work-life balance, flexible work arrangements, and personal time off or sick leave. Employees have unique needs, and one-size-fits-all approaches to benefit programs may leave certain employee groups wanting more. Employees also reported that they want to work for companies that have a positive impact on society and the environment. It is imperative that Remuneration committees understand how the company's compensation programs address the issues that employees care about. Remuneration committees can ask for information about employee benefit utilization rates to help gauge whether the investment in these programs is having the intended outcomes in employee satisfaction and retention.

3 Consider whether including ESG metrics in compensation plans are right for your organization.

The remuneration committee continues to play an increasingly important role in the board's oversight of ESG strategy. Governance of compensation plans—part of the G of ESG—has always been part of the committee's mandate, and remuneration committee chairs have been engaging directly with shareholders on compensation related topics.

As companies continue to integrate environmental and social factors into their long-term strategy and develop metrics to track their performance, many remuneration committees have added ESG metrics to compensation plans. Metrics related to HCM, especially DEI, were most common, followed by those related to safety and talent development.

Linking executive pay and ESG metrics is a continuing conversation where we have noticed globally, a majority of industry leaders having implemented some form of ESG metric into their long- term incentive. With the majority of proxy advisors and investors encouraging the inclusion ESG related performance measures, the question now is, how do you set targets? Below are talking points for boards and remuneration committees:

- **Prioritize.** Whilst undoubtedly any board will be looking to achieve all elements of their ESG strategy, it is useful to prioritize which areas will be a key focus in the next three to five years. This helps to provide milestones for achievement particularly where the objectives are very long term, such as climate related strategies.
- **Materiality.** Many of the measures we are seeing introduced into long or short term incentives have a relatively low weighting. However, materiality reflects the importance of the chosen ESG metric and therefore a low percentage rating may not convey the importance.
- **Culture**. How can the wider workforce also be incentivized? Bringing a collaborative approach and linking together the focus of the executives with that of the wider workforce, will not only reinforce a refreshed corporate culture, but also drive performance.

4 Innovative incentive arrangements

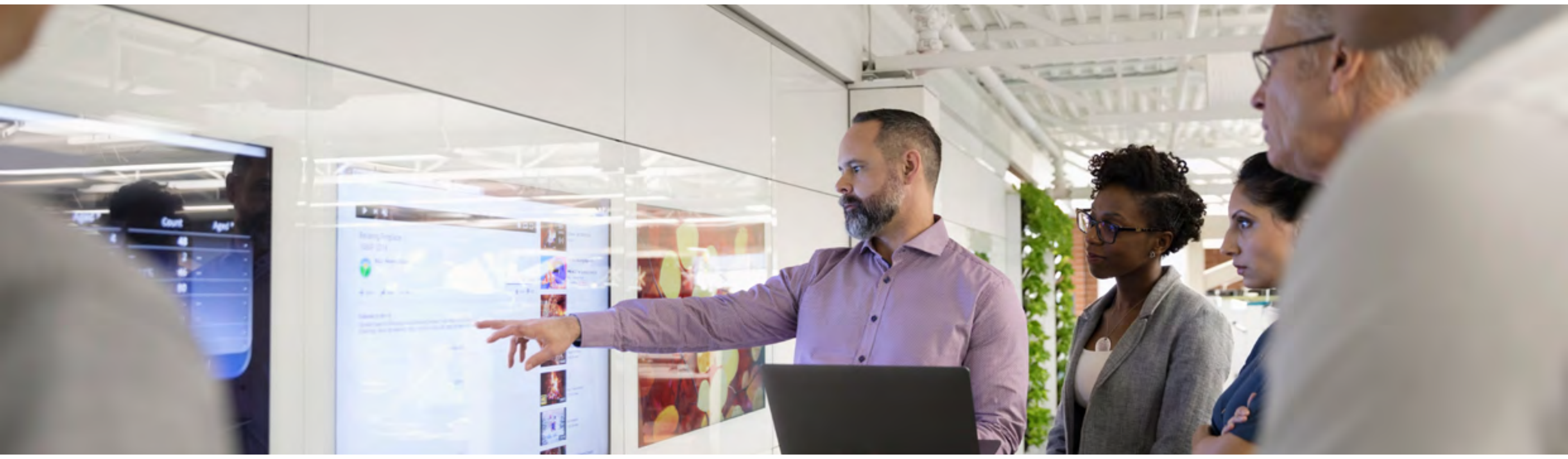
The debate around more innovative incentive ideas continues to develop and has been enhanced by the need for fresh thinking on delivering executive compensation and long-term incentives. More companies are finding a renewed purpose of creating long-term sustainable business models. This will lead to 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 2019, 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 Inclusion, Diversity and Equity (IDE)



The IDE agenda continues to be a crucial consideration and is very much front of mind, due to continuing social and political events. The Securities and Commodities Authority (SCA) have announced through its Board of Directors Decision No. (3/Chairman) of 2020 various requirements for diversity that boards and remuneration committees shall take into consideration.

Furthermore, age and gender diversity requirements are also evidenced at a Federal Government level in the UAE as part of the Guide to Board Governance in the UAE Federal Government 2020.

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

Given the increasing focus on the IDE 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 IDE?
- Do we promote a culture of having a safe environment for others to speak up in the face of inadequate behavior?

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

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

Learn more at Board Leadership Centre.

About KPMG Lower Gulf

For about 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. The KPMG network includes approximately 236,000 professionals in over 144 countries. KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients.

KPMG is widely represented in the Middle East: along with offices in the UAE and Oman, the firm operates in Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan, the Lebanon, Palestine and Iraq. Established in 1973, the Lower Gulf firm now employs approximately 1,780 people, including about 190 partners and directors across the UAE and Oman.

As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. Our values are: **Integrity:** We do what is right; **Excellence:** We never stop learning and improving; **Courage:** We think and act boldly; **Together:** We respect each other and draw strength from our differences; **For Better:** We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change. Our three pillars **– exceptional quality of service, an unwavering commitment to the public interest, and building empowered teams** – are the foundation of our firm.

Disclaimer: Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Contact us

Emilio Pera
CEO, Senior Partner
KPMG Lower Gulf
emiliopera@kpmg.com

Osama Harmouche
Partner, Head of Audit
KPMG Lower Gulf
oharmouche@kpmg.com

Maryam Zaman
Partner, Head of Corporate Governance
KPMG Lower Gulf
mzaman@kpmg.com

Chucrallah Haddad
Partner, Head of Advisory
KPMG Lower Gulf
chucrallahhaddad@kpmg.com

Walter Palk
Partner, Head of Clients & Markets
KPMG Lower Gulf
walterpalk@kpmg.com

www.kpmg.com/**ae**
www.kpmg.com/**om**

Follow us on:

@kpmg_lowergulf

Publication name: On the 2023 remuneration committee agenda
Publication number: 4632
Publication date: May 2023