

Weekly Reward Insights

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Deferred Annual Bonus/Deferred Compensation

Deferred Annual Bonus / Deferred Compensation Plan (DAB/DCP) is a long-term incentive plan used to drive alignment of interest between key employees and shareholders, while promoting retention of key talent. Under the plan, Senior and Executive Management employees will receive a portion of their annual bonus as and when due, while a portion is deferred to vest over a period of 3 to 5 years. Deferral can be in cash, shares, performance units (phantom shares) or any combination of these. The deferred component typically appreciates in tandem with the sponsoring company's shares or other investment instrument and may be eligible for dividend equivalents over the vesting period. An attraction of this plan is the ability to facilitate clawback, which is a mechanism for taking back excess or undeserved incentive payout on account of misstatement of the underlying financial statements or fraud. Unlike Share Option Plans that have witnessed significant decline over the years, more and more companies, including Nigerian companies, are now leveraging DAB/DCP to drive alignment of interest, superior performance and corporate objectives.

Contact us:

Yewande Alli
T: +234 803 222 1917
E: yewande.alli@ng.kpmg.com

Nneka Jethro-Iruobe
T: +234 808 313 3012
E: nneka.jethro-irobe@ng.kpmg.com

Boluwaji Apanpa
T: +234 706 417 1642
E: boluwaji.apanpa@ng.kpmg.com

Adewale Ajayi
T: +234 803 402 1014
E: adewale.ajayi@ng.kpmg.com