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Nils Pratley

Now would be a great time to ditch long-term incentive plans

Three points about executive pay in the current climate should be obvious. First, bonuses should be a non-starter if a company has taken support from the government, for example, by getting the state to pick up a chunk of the wage bill. Second, bonuses for 2019 should be returned if a company has subsequently cancelled its dividend. Third, it would be outrageous if pay committees made unspoken promises to executives to grant bigger potential long-term jackpots in exchange for bonus pain now.

The Investment Association (IA) seems to have grasped the first two points. Its members, the fund management establishment, can't force any bonus to be returned or stop any being paid. But a warning about "significant reputational ramifications" at least shows understanding that bonuses and state support don't mix.

Yet the IA's guidance was alarmingly fuzzy in the third area: the long term. The risk arises from share prices that have been battered – but, critically, perhaps only temporarily – by Covid-19. If an executive can load up with share awards at the bottom of the market, he or she has a decent chance to make a small fortune if economic Armageddon does not materialise.

We've seen it happen. The housebuilder Persimmon provided the most gratuitous example after the 2008 crash: its executives got lucky with an overblown long-term incentive plan, or LTIP, that was priced just before the former chancellor George Osborne unleashed help to buy and inflated all housebuilders' profit margins.

With many share prices having halved (or more) with Covid-19, the IA is alert to the risk of more Persimmon-style windfalls if share prices rebound for reasons that have nothing to do with management skill. It's just that it doesn't seem to know what to advise.

Pay committees should be "proactive" in setting "appropriate" LTIP awards, it says. Maximum opportunities awards should be "discouraged". And maybe awards could be delayed until the dust settles – but only by six months, thinks the IA. It is all very wishy-washy and sounds like music to the ears of an opportunistic chief executive lobbying for something in return for a crowd-pleasing bonus gesture today.

In a rational world, LTIPs would have been abolished a long time ago. The IA had a chance to press for real reform. It's missing the opportunity.

EasyJet showdown

EasyJet now has a date for its showdown with Sir Stelios Haji-Ioannou, or SHI, as it now abbreviates its founder and largest shareholder, who is definitely not shy. Shareholders will vote on 22 May on his proposal to defenestrate four directors, including the chairman and chief executive.

Investors should back the board. It isn't sensible to rip up a longstanding contract with Airbus and cancel all aircraft deliveries. The financial penalties would be too great. Besides, the terms allow easyJet to reduce its fleet from 337 now to 281 by 2023, which isn't miles away from the 250 demanded by Haji-Ioannou. You'd therefore expect the board to survive. But it's not guaranteed. Haji-Ioannou's family owns a 34% stake, so he wins on an overall 67% turnout. Other shareholders need to vote, which requires them to be awake.