The voice of corporate governance in Luxembourg

Effective Governance Guide

Board Committees

Remuneration and Nomination

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FOREWORD

Assuring the right leadership, both at executive and board level, is crucial for any company, association or foundation. Policy and decisions on nomination go hand in hand with those on remuneration. This is why nomination and remuneration are important strategic topics for the board to which sufficient time and attention should be allocated. With this guide we aim to give guidance and recommendations of best practices for the corporate body dealing with matters of nomination and remuneration. This can be the Nomination and Remuneration Committee, another committee or the full board.

As every company is different, the recommendations should be adapted accordingly to the specific needs. We have therefore set up an interactive tool to prepare the terms of reference for the Remuneration and Nomination Committee so that they can be tailored to the needs of the company. The guide also provides suggestions and considerations for the agenda of the Committee and a template to assess its effectiveness.

We would like to sincerely thank each of the contributors for their valuable inputs for this guide and for the interesting discussions during many virtual meetings.

ILA welcomes any suggestions and comments on this guide as the subjects of nomination and remuneration are in constant evolution.

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Corporate governance:

A subject constantly evolving around the world with changes often accelerating following key events.

1. INTRODUCTION

Good corporate governance - the rules and practices that govern the relationship between the managers, board, and shareholders of corporations, as well as stakeholders like employees and creditors - contributes to the economic vitality and stability of our economies. The OECD Principles on corporate governance have become the international benchmark, forming the basis for several reform initiatives, both by governments and the private sector (Source: oecd.org). They were first issued in 1999 and revised in 2004 to respond to corporate governance developments following several corporate scandals. Having originally gained worldwide recognition as an internal benchmark for sound corporate governance, the 2004 revision of the OECD Principles reflects not only the experience of OECD countries but also that of emerging and developing economies.

Corporate governance principles are key when it comes to the performance and relevance of boards whether in a profit, non-profit or public entity. The role of the board is oversight and the balance of influence on strategy and operations can be difficult. On one extreme are insider boards that became part of management instead of monitoring it and on the other extreme are rubber-stamping boards, responding to the wishes of controlling shareholders at the expense of minority shareholders. Conflicts of interests have also led to putting more emphasis on the role of the board as part of good corporate governance.

The 2008 financial crisis resulting from some players taking unreasonable risks dramatically accelerated this trend globally as it contaminated the global economy. More recently, with the EU Green Deal and the wider societal recognition of the importance of ESG (Environment, Social and Governance) there is significant focus on long termism, linking of executive remuneration to non-financial KPIs, diversity of skills and wider stakeholder engagement. The duty of the directors and the board to ensure sustainable corporate governance is in the spotlight.

2. A COMMITTEE – GOOD PRACTICE OR REQUIREMENT

The responsibilities of the board form one of the six key areas of the OECD's Principles of Corporate Governance. The corporate governance framework should ensure the strategic guidance of the entity, the effective monitoring of management by the board, and the board's accountability to the entity and all its stakeholders, including shareholders.

Certain board issues are of such a complex nature that they demand substantially more time than a board can commit to during regular board meetings. The main purpose of board committees is to place a greater amount of time and focus on a particular area of board business which provides more dedicated time to thoroughly research and vet an issue before making recommendations to the full board. Board committees also provide the benefit of strong accountability.

To decide whether an entity is best served with no committee, one or multiple committees, the board should assess among others:

- The internal organisation
- The nature, scope, and the complexity of activities
- The legal structure, size of the entity, geographic footprint, and stage of development
- The industry sector
- Whether it is listed or regulated

Another factor to consider is proportionality. Whereas it may be good practice to consider setting up specific committees, proportionality implies that important entities will need to apply more sophisticated policies in fulfilling the requirements whereas other entities can meet the requirements in a more simplistic manner and may wish to leave these matters to the full board.

In addition to good corporate governance practices the entity must also assess whether it is covered by any laws or regulations that would impose the creation of a specific committee. In recent years for example, the EU has introduced requirements for supervised legal entities in the financial sector as well as companies admitted on an EU - regulated stock exchange to establish Remuneration and Nomination Committees (refer to appendix IV for references to regulatory guidelines applicable to Luxembourg companies).

Without prejudice to the proportionality principle, regulated groups with subsidiaries in different countries, are required to have a Remuneration Committee for each legal entity, even if it is acknowledged that the subsidiary follows the group remuneration policy determined by the parent company. This obligation aims at controlling locally so that there is no abuse in terms of staff remuneration and incentives, with a special focus on the so-called "Material Risk Takers" or "Identified Staff".

> Material Risk Takers can be considered as staff members who can exert material influence on the entity risk profile, including persons capable of entering into contracts/positions and taking decisions that materially affect the risk positions of an entity.

Board committees for tasks such as audit, risk, governance, remuneration and nomination have spread in the past few years. Committees often serve quite different roles in different companies. To avoid confusion and to inform investors, the OECD Principles advocate that the composition, mandate and remit of committees be clearly defined and fully disclosed.

This guide considers that matters of remuneration and nomination will be under the remit of one committee referred to as “the Committee”. An entity, based on assessing the elements stated above, may decide to create separate committees, or may redistribute certain of the tasks to the governance of another committee. The principles discussed in the guide will apply whether one or several committees are established. There is no one size fits all board structure to fulfill the objectives of the corporate governance framework.

3. ROLES AND RESPONSIBILITIES

The board defines the authority of the Committee and details the types of recommendations it expects to receive on issues of remuneration and nomination. These recommendations are, thereafter, approved by the board. It is important to note that the Committee is a delegation of authority by the board. The role of the Committee is primarily advisory in nature and the board cannot abdicate its responsibilities.

The composition, scope, limits of authority, timelines and the specific responsibilities and expectations of the Committee are clearly set out in written "terms of reference" and fully disclosed (refer to Appendix I for more detail and an example).

The terms of reference should be reviewed periodically to incorporate governance best practices as well as any findings from the effectiveness assessment of the Committee. Any updates to the terms of reference of the Committee must be discussed with and approved by the board, being the body that created the Committee.

At a high level:

Matters relating to nomination include:

- Reviewing the structure, size and composition and performance of the board and its Committees as well as of the executive team, making recommendations on changes and looking at succession planning for board members and Executive team members.
- Preparing a skills matrix of the desired skills for board members and the board as whole.
- Evaluating the balance of knowledge, skills, diversity, and experience of the board and executive team members.
- Periodically review the policy of the executive team for selection and appointment of senior management.

Matters relating to remuneration include:

- Reviewing and designing the remuneration policy to ensure that it matches the risk profile, risk appetite and the strategy of the corporation.
- Establishing executive director pay levels, structure, and composition of remuneration packages.
- Determining performance targets of the executive team and assessing these against actual performance.
- Monitoring share ownership covering all employees, executives as well as members of the board.
- Ensuring the adequacy of reporting to stakeholders on remuneration.

Various regulations provide detailed guidance on the roles and responsibilities in matters of nomination and remuneration (refer to appendix IV for references to regulatory guidelines).

4. STRUCTURE

4.1 Composition

Selection

- Number of members

It is considered good practice to have at least three Committee members, the majority of which should preferably be independent directors.

In addition to Committee members, the corporate secretary may be selected as a permanent non-voting member and to provide support to the Committee.

- Source and appointment of members/ chair

The board selects and appoints current members of the board of directors to the Committee. Only those directors who do not perform executive functions in the entity (non-executive directors) should be chosen. If members are not independent, then clear processes should be established to limit and manage conflicts of interest. Independence of the Committee is of utmost importance since it ensures members can exercise objective judgements and be free from any vested interests, conflict of interest or influence from interested parties.

Membership can also be drawn from stakeholder groups. For example, if employee, or other stakeholder representation on the board is provided for by national law, then a representative of this group may also be represented in the Committee.

Although the Committee requires strong expertise, its work often overlaps with the work of other committees of the board. With an eye on efficiency and to prevent duplicity, many boards structure their committees with multi-committee directors. Directors who sit on several committees share helpful information, which alleviates issues with information segregation. While the multi-committee directors tend to be non-executive directors who have expertise in several areas it is important to avoid having the same limited number of people occupy all key positions.

The board or the Committee appoints a chair from amongst the committee members considering the recommendations made by the members themselves. In choosing an appropriate chair, independence, previous experience, and the role on the board should all be considered. Most regulations suggest that the chair should be an independent director and should not be the chair of the board. [1].

Independence

There is no fixed definition of independence. The Luxembourg Stock Exchange – X Principles state in Recommendation 3.5 "That the Company should draw up a detailed list of criteria for assessing independence" …" The list of criteria shall be provided in the corporate governance statement. To this end the Company may make use of the Independence criteria in Appendix D."

Appendix D, referred to above is inspired by the European Commission Recommendation of 15 February 2005 on the role of non-executive directors (and members of the supervisory board) of listed companies and on board (or supervisory board) committees. It refers to matters such as employment, significant remuneration, significant shareholding (≥10%), significant business relationships, close family relationships.

[1] It is interesting to note that within the EU, Swedish legislation requires that the chair not be a member of the board, thus adding an additional layer of separation and independence. Source: "The Nomination Committee – The Cinderella of Board Committees?" Fidelio Partners, June 2019.

▪ Skills/ knowledge

Members of the Committee play a central role in the context of corporate strategy, corporate governance, and public perception. Thus, ensuring the proper skills and knowledge of its members is critical. Prospective candidates should be assessed in terms of required skills, knowledge, experience, diversity, independence, prior board experience and available time that would contribute to the Committee's fulfilment of its responsibilities as set out in the terms of reference. Knowledge of general practices and corporate governance as well as:

- Sector, industry, and their challenges,
- Cultural, social, political, ethical, economic, and legal environments within which the entity operates,
- Strategy, purpose, and culture of the entity,
- Current practices and approaches for remuneration and nomination matters,

will enable members to challenge management and make good decisions whilst balancing the interests of management and stakeholders.

The desired skills should be formally articulated to serve as a base of reference and assessment. It is general practice to create a skills matrix.

Committee members should be given proper onboarding relating to the specifics of the entity and continuing professional education on new trends in the industry, governance, remuneration and nomination practices to supplement the skills and knowledge required to fulfil their role. The level of training required for a new or existing Committee member will vary by entity and by individual. The annual Committee assessment can be used to determine the nature of continuing education that would be appropriate.

What is a skills matrix?

A skills matrix is a grid or table that clearly indicates the skills and competencies that are deemed necessary for the Committee. The actual skills held by each individual and together as a collective group can be assessed against the matrix to determine any gaps and inform future appointments.

The primary aim of a skills matrix is for the understanding and proper deployment of individuals, offering of adequate ongoing education, and ensuring needs are understood for succession planning. Well-implemented skills matrices will reflect skills considered important for both the current and future period. The skills matrix should be assessed and updated regularly.

▪ Term/tenure

There is neither a prescribed number of years for tenure nor a fixed number of terms for the Committee. The entity should consider the overall policy of tenure and term used for the board (example – periods of 3-years with maximum renewal of 3 consecutive terms). It is desirable that membership of the Committee rotates so that several board members gain an understanding of the Committee's proceedings and subject matters during their mandate. It is also important that rotation is done in a way that allows the Committee to maintain history but also to bring in fresh thinking and collectively appropriate skills. All these factors should be considered in setting term and tenure. Succession planning for the Committee will be essential and the board should be alert to this.

4.2 Meetings

▪ Attendees

The boards' corporate secretary usually acts as the secretary of the Committee and ensures that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues. If there is no corporate secretary, then this responsibility falls to the chair.

Generally, neither the chair of the board nor the Chief Executive Officer ("CEO") are members of the Committee. Their roles are however important, and they should be consulted. Other individuals such as the chief human resources officer and external advisers may be invited to attend for all or part of any meeting, as and when appropriate. They should, however, not be a member and should not participate in any deliberations where they have a conflict of interest; for example, if their own remuneration or performance is discussed. The Committee should ensure that it has scope for member only meetings.

In all situations and especially if the Committee meetings are held virtually, they should ensure proper tools (e.g. technology) are available for granting access and maintaining confidentiality.

The Committee may consider using external experts. Examples of the use of external experts are:

- Sources for the recruitment and assessment of both external and internal candidates for executive positions. This can help broaden the scope of possible candidates, especially considering diversity requirements.
- Gathering market data on remuneration policies and practices and establishing benchmarks.

It is particularly important that the Committee ensures that the external advisors are truly independent. It is therefore preferable to choose a consultant that has not previously provided services to the executives of the entity and has no personal relationships with members of the executive team. The Committee should have the authority to engage the external advisor of its choice and to decide on the appropriate fees for the service.

Frequency of meetings and access to information

As a matter of good practice, the Committee should meet at least twice a year but generally meets as often as its business requires. Further meetings may be required if the entity is consulting on a possible change to the remuneration arrangements, developing a forward-looking policy which may require shareholder approval, discussing succession planning or determining actions as a result of board evaluations.

Remuneration and Nomination aspects are an integral part of many corporate decisions. As such it is good practice for the Committee to adapt its meeting schedule to the meetings of the board. This can be either on the same day or with a virtual meeting a week or two before the board meeting so that queries resulting from the Committee can be followed up already prior to the board meeting. In this way the board can make effective use of the Committee to ensure regular discussion nomination and remuneration matters that can impact the overall strategy of the entity and vice versa.

Meetings of the Committee are usually called by the corporate secretary at the request of the Committee chair, any of its members or the board. If there is no corporate secretary, the meetings should be called by the Committee chair.

The Committee should have unfettered access to all the information it needs to take decisions. It should request information and advice from the executive team (e.g., CEO, chief human resources officer, chief compliance officer, chief risk officer). The terms of reference should ensure that the Committee has the right to request any document and information that it deems necessary to fulfil its mission.

If the Committee feels that it does not have sufficient information or wishes to have independent external advice on regulatory obligations, market trends or any other issue, then it should have access to funding to obtain such advice.

Voting, decision quorum and disclosure of interest

Only members of the Committee have the right to vote. At least a majority would be necessary for a decision to be presented to the board. This policy should be aligned to the approach in other governance bodies of the entity. Some schools of thought would, however, support the need for unanimous decisions.

To ensure that decisions are not taken by a minority of the Committee, a quorum should be established. There is some precedence for the need of a 2/3 presence rather than a simple majority given the importance of the matters covered by the Committee. Some guidelines also suggest that the quorum should require the presence of a majority of independent members, underlining the significance of an independent perspective in matters of remuneration and nomination.

In addition to the standard conflicts declarations at each meeting regarding the matters on the agenda of that meeting, Committee members must disclose any material personal interest or potential conflict of interest in a matter that relates to the affairs of the entity. A standard disclosure form should be completed and signed annually, and any changes reported within a defined reporting period. The reporting period should be short but reasonable.

With regards to Committee decisions, there is an added dimension of objectivity and independence required when dealing with their fellow board directors, and the board which they are serving. Examples include evaluation of another board director's independence, performance and remuneration or situations where potentially challenging feedback must be provided to the board collectively or to an individual director. The Committee must ensure that the basis of any recommendation is discussed in sufficient depth, and that key factors considered in reaching the final recommendations are documented.

Notices/Minutes

Notice of each meeting confirming the venue, time, and date together with an agenda of items to be discussed, shall be forwarded sufficiently in advance to each member of the Committee and any other person required to attend (no later than five working days before the date of the meeting). Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time. In practice the meeting schedule is often set in advance for the entire year, often complemented by a committee calendar setting out particular items that should be addressed at certain times of the course of the year).

Committee minutes must be complete and circulated promptly after each meeting. Minutes should be prepared by the corporate secretary or by the chair. Proposals and resolutions to the board should be contained in the committee minutes to support board discussion and ultimate decisions.

5. COMMUNICATION AND ENGAGEMENT

The Committee and especially its chair should actively engage with several other committees and stakeholders in order to execute its role and responsibilities efficiently and effectively.

5.1 With the board

For confidentiality reasons, it is often only the Committee that has the full information on nominations and remuneration. The Committee discusses this information and makes a recommendation, which is then ratified by the board. This is an efficient way of working and safeguards confidentiality of the information, thereby protecting the privacy of the executives and potential candidates whose nomination or remuneration is discussed.
It is important that there are clear communication protocols in place. The Committee, in addition to verbal updates should provide regular reports which highlight decisions and actions. An annual overview of activity is also recommended.

5.2 With other Committees

Both the remuneration policy and practices of an entity as well as the profile of the executives and board directors that are nominated should be in line with the strategy and the risk profile/appetite of the entity. Therefore, it is important that the Committee is in close contact with the strategy committee and the risk committee. The risk committee should also confirm to the Committee that there are no material risks or incidents obliging the entity not to pay deferred variable remuneration or even to claw back such remuneration.
The Committee should also communicate with the audit committee and compliance committee to ensure that the remuneration policy is compliant with the laws and regulations in force and gives the right incentives. The audit committee also approves the financial statements. These should be the basis for measuring performance against the financial targets.

If the entity has a separate sustainability committee, it should also be consulted in relation to specific skills needed as well as any non-financial measures which may impact remuneration.

The communication with the different board committees can either be ensured by the chairs of these committees, by board directors who are members of the different committees or members of one Committee as guests in the other committee. Good practice for committees of a subsidiary is for the chair to have an annual discussion with the chair of the equivalent committee at the parent company to share and discuss findings, approaches, and priorities.

5.3 With the Executive Team

The Committee chair should have regular contact and exchanges with the CEO covering developments in the management team and different trends in the relevant markets.
Furthermore, it is important that top talents within the entity and especially potential successors identified during succession planning have exposure (through presentations etc.) to the board and especially to the members of the Committee.

5.4 With other stakeholders

Shareholders (majority as well as minority), investors and shareholder associations; employees, customers, suppliers, and the public at large can all be considered as stakeholders. Each entity should define its stakeholders and the sphere of engagement.

Shareholders

Nomination and remuneration of the executive team and board members are important and strategic issues. The composition of the Committee often includes board directors recommended by important shareholders, in line with the balance of power between shareholders.

Investors having a large shareholding in the entity are important stakeholders. They will scrutinise and might challenge the company's remuneration policies. The Committee may engage with these stakeholders at the annual general meeting or during other investor meetings.

If the government is a shareholder or guarantor of the entity or if it gives a license to the entity, it then also becomes an important stakeholder.

It is important that the board, supported by the Committee, can explain and justify the appropriateness of its remuneration philosophy and ensure it is not excessive as an entity might otherwise lose its goodwill with these stakeholders. Similarly, it should be able to explain and justify important nominations.

> Effective 2019 the amended Shareholder Rights Directive requires EU registered companies whose shares are on an EU regulated market to give shareholders a say on pay relative to directors' (executive and non-executive).
>
> Shareholders have the right to vote on the directors' remuneration policy at least every four years. The remuneration policy will also have to be publicly disclosed and should state whether clawback applies, deferral and holding periods. Directors' performance should be assessed based on both financial and non-financial performance criteria, including environmental, social and governance factors.
>
> Shareholders also have a right to vote on the annual report on pay (implementation report), but this vote will only be advisory.

Employees

In principle, the Committee will not communicate directly with employees. This communication will go through the CEO or chief human resources officer. However, there could be situations where the Committee must communicate with the employees to explain and justify its decisions. This could be in the case of a change of the remuneration policy.

Regulators

The practices of remuneration, nomination and the transparency thereof are most heavily regulated in the financial services sector and for listed companies. The regulatory obligations explained under appendix IV could be considered as best practices that could be followed in other sectors and by entities that are not listed.

The Committee should be a guardian ensuring that compliance with the regulatory obligations concerning publication and transparency is met.

6. ASSESSMENT AND EFFECTIVENESS OF THE COMMITTEE

Evaluations are an important tool for installing good governance. The Committee should regularly assess its effectiveness as a whole as well as the individual contribution of its members. The evaluation can be performed as a self-assessment or by an independent third party. The focus should be on the questions; does the Committee function effectively? As a team? Are the objectives and mandate of the Committee clear? Do the members continue to contribute effectively; do they have sufficient time commitment; the skills required in the context of the future goals of the entity? (Refer to appendix 3 for questions that may be considered). The results of the assessment should be used to make recommendations to the board regarding the necessary adjustments to the terms of reference and composition of the Committee.

There are many tools available, and the process must reflect the culture and dynamics of the entity. In addition to self-assessment it is recommended to have an independent review periodically.

For more information on this topic please refer to the ILA guide "Board Evaluation Enhancing Board Effectiveness" and to an adapted excerpt thereof specific to the Committee in appendix 3.

APPENDICES

1. TERMS OF REFERENCE
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APPENDIX 01- TERMS OF REFERENCE

As every company is different, the recommendations should be adapted accordingly to the specific needs.

We have therefore set up an interactive tool to prepare the terms of reference for the Remuneration and Nomination Committee. The tool includes a wide range of options so that the terms of reference can be tailored to the needs of the company and put in final form with minimal review.

You will find this tool here: https://forms.gle/Mbh4zPMm2y7b6WAf8

Below you will find the most important topics that should be treated in the terms of reference.

TOPIC	TERMS OF REFERENCE
Good Practice or Requirement	The Committee has been established by the board by decision of (x date) and in accordance with the requ (state relevant regulations). The terms of reference will be reviewed annually and any updates will be assessed and need to be approved by the board.
Roles and Responsibilities	The Committee will establish an annual and long-term work plan to clearly identify focus and actions. The plan will be submitted to the board for review and approval (indicate date or quarter). Choose responsibilities
Composition	
➢ Number of members	The Committee will consist of x members.
➢ Source	The Committee will be drawn from the non-executive members of the board.
➢ Delegation to third parties	The Committee may seek assistance from external experts for the fulfilment of its duties.
➢ Appointment	The board will confirm appointment to the Committee in consultation with the chair of the Committee
➢ Selection of chair	The chair will be an independent non-executive director and will be appointed from amongst the committee members by the board or by the Committee.
➢ Skill/Knowledge	Committee members must have the necessary knowledge and experience to fulfil their functions. They should be assessed in relation to established criteria regarding skills, knowledge, experience, diversity, independence and time availability.
➢ Term / Tenure	Committee members will be appointed for terms of X years, with up to Y consecutive renewals.

TOPIC	TERMS OF REFERENCE
Meetings	
➢ Attendees	Only members of the Committee have the right to attend and to vote at Committee meetings. They may invite the corporate secretary to attend as a permanent non-voting member to take responsibility for maintaining minutes. They may invite others to attend to discuss specific matters, such as the chief executive officer, the head of human resources and external advisers as and when appropriate. The Committee should ensure that it has scope for adequate in-camera meetings.
➢ Frequency	The Committee shall meet at least X times per year establish a work plan and/or calendar.
➢ Access to Information	The Committee may request any relevant information or special reports on matters relating to its respective Responsibilities
Voting, Decision Quorum and Disclosure of Conflict of Interest	
➢ Voting	Only appointed members of the committee may vote. Decisions will be approved based on majority vote.
➢ Decision Quorum	A quorum for meetings is two thirds of its members.
➢ Disclosure of Conflict of Interest	All Committee members must disclose any material personal interest or potential conflict or interest in a matter that relates to the affairs of the entity. A standard disclosure from should be completed and signed annually.
➢ Minutes	Committee shall ensure that minutes are prepared promptly after each meeting and circulated to Committee members for comment. Proposals and resolutions to the board should be contained in the Committee minutes.
➢ Notice of meetings	Meetings of the Committee shall be called by the Committee chair.
➢ Confidentiality	The details of the deliberations of the Committee are handled with the utmost discretion and should not be communicated outside of the Committee.

TOPIC	TERMS OF REFERENCE
Communication and engagement	
➢ Board	The Committee chair ensures that the board is kept informed in a timely and appropriate manner. The Committee will submit an annual report to the board, detailing its activities of the past year and the priorities and plan for the next year. This will form the base for reporting to shareholders
➢ Management	The Committee should regularly invite and discuss with the CEO. It should also ensure proper involvement of other competent functions such as internal control, human resources, strategic planning.
➢ Other committees	The Committee should collaborate with other board committees whose activities may have an impact on their responsibilities. (may provide a list of relevant committees)
➢ Other stakeholders	The Committee should create a stakeholder map and assess the priority of each and the nature of any engagement.
Evaluation and assessment ➢ Frequency and form	Committee shall annually/periodically assess its effectivene and make recommendations to the board regarding any necessary adjustments to its terms of reference, composition, education needs or external assistance.

APPENDIX 02- AGENDA CONSIDERATIONS

The Committee should establish an agenda in advance of every meeting. The agenda should reflect elements on the annual work plan of the Committee as well as any current matters being discussed by the board related to the authority of the Committee. The agenda items will also be guided by the defined roles and responsibilities of the Committee. It is good practice to include designated time in the agenda for discussion on the effectiveness of the Committee.

Typical agenda topics may include:

1. Development and approval of the annual and long term work plan
2. Evaluation of the effectiveness of the Committee and review of the Committee's terms of reference and recommendations to the Board for any changes
3. Preparing for possible questions at the annual general meeting and any other shareholder meeting
4. Review of any issues raised by shareholders at a general meeting within the committee's scope
5. Planning schedule and proposing agenda items for Committee meetings for the next financial year
6. Nomination matters
   - review of the competencies, independence and time commitment of board directors
   - evaluation of effectiveness of the board, board committees and individual board directors
   - review of the succession plan for board and senior management
   - Review of the induction and training undertaken, and recommendations of the types of induction and training for board directors to attend.
   - updating the skills matrix and establishing the required profile for the search for new board directors, if necessary
   - review of candidates for appointment to the board
   - recommendations for appointment / re-election of board directors
   - evaluation of balance of knowledge, skills and diversity of the management body
   - evaluation of gender equality throughout the organisation
   - review the policy for the selection and appointment of senior executives
   - review of candidates for senior executive appointments¨

7. Remuneration matters

- review of the remuneration policy and list of material risk takers
- benchmarking and annual review of the remuneration packages and (share) incentive plans of all executive directors and the chair (and board members and senior executives if included in the terms of reference) and agreement of remuneration for relevant new appointments
- setting annual performance targets for (share) incentive plans
- assessment of the achievement of performance targets and the need for ex post risk adjustment, including the application of malus and claw back arrangements
- reviewing and approving the annual remuneration report
- annual review of external advisers and the fees charged for advice and other services including review of their independence and potential conflicts of interest
- reviewing the company's legal obligations, including changes to employment and discrimination law, company law and relevant regulations as well as the effect of any changes to tax law or rates of tax
- review of termination arrangements for leavers in the top management

The agenda should always leave sufficient time for reflection and challenge. The following are a list of questions to challenge the reflections of the Committee :

How could the nomination committee's interactions with other committees be improved?

What is the current situation in the board and top management of diversity in gender, nationality and (educational) background?

What minimum diversity would you need in the board and top management for leading and managing the entity in an optimal way?

What is your plan (actions and time frame) to achieve this level of diversity?

What is your contingency plan for dealing with unexpected departures?

How visible are potential executive directors to you and what role might you play in their development?

What processes do you have for assessing the character and behaviours of potential new directors?

What assurance do you need from management about the nature and quality of their executive and senior management development programmes?

How involved does the board or individual directors want to be in executive and senior management development programmes?

Do the board and its advisors use objective criteria to identify potential non- executive directors?

Will the criteria used to identify potential non-executive directors not rule out individuals who have the necessary skills but may be lacking board experience?

If the board needs new skills how will you acquire them ?

APPENDIX 03- ASSESSMENT TEMPLATE

I.	Committee Meetings	Disagree	Disagree some-what	Agree some-what	Agree	N/A or no opinion
1	The chair accords sufficient time to deliberate on both nomination and remuneration issues during meetings with adequate attention and time for both matters	☐	☐	☐	☐	☐
2	The Committee meets sufficiently frequently to meet its objectives	☐	☐	☐	☐	☐
3	All Committee members regularly attend Committee meetings	☐	☐	☐	☐	☐
4	The Committee members receive the agenda and Committee papers sufficiently in advance	☐	☐	☐	☐	☐
5	The agenda is followed during Committee meetings	☐	☐	☐	☐	☐
6	Committee decisions are always evidenced by well-written and clear minutes	☐	☐	☐	☐	☐
7	Minutes are produced promptly after each Committee meeting	☐	☐	☐	☐	☐
8	All Committee members comment on the minutes, and do so promptly	☐	☐	☐	☐	☐
9	Comments on the minutes are adequately considered	☐	☐	☐	☐	☐
10	Action points are adequately monitored by the Committee	☐	☐	☐	☐	☐
11	The length of Committee meetings is adequate for meaningful discussion and effective decision-making	☐	☐	☐	☐	☐
12	Committee members have a relationship of mutual trust and respect	☐	☐	☐	☐	☐
13	All Committee members feel free to express their opinions	☐	☐	☐	☐	☐
14	All relevant viewpoints and stakeholders are considered prior to final decision-making	☐	☐	☐	☐	☐
15	The Committee is alert to conflicts of interest issues	☐	☐	☐	☐	☐

Comments:

Click or tap here to enter text.

II.	Committee Remit and Responsibilities	Disagree	Disagree some-what	Agree some-what	Agree	N/A or no opinion
1	The Committee has considered whether it requires a mission statement	☐	☐	☐	☐	☐
2	The Committee has adopted appropriate committee policies and procedures	☐	☐	☐	☐	☐
3	The function, responsibilities and authority of the Committee are clear to all committee members	☐	☐	☐	☐	☐
4	The responsibilities of the chair are clear to all Committee members	☐	☐	☐	☐	☐
5	The Committee sets clear performance objectives for itself and monitors how well these objectives are achieved	☐	☐	☐	☐	☐
6	The Committee develops a succession plan for board members, and senior management officers, including the CEO, to ensure minimum business disruption in the event of a change in personnel	☐	☐	☐	☐	☐
7	In case of absence of the chair, does the Committee have a clear process and designated vice-chair to replace him/her.	☐	☐	☐	☐	☐

<u>Comments:</u>

Click or tap here to enter text.

III.	Committee's Interaction with Key Stakeholders	Disagree	Disagree some-what	Agree some-what	Agree	N/A or no opinion
1	The Committee has identified all key stakeholders	☐	☐	☐	☐	☐
2	The Committee engages sufficiently with all stakeholders	☐	☐	☐	☐	☐
3	The level of support given to the Committee is adequate for it to perform its duties	☐	☐	☐	☐	☐
4	The Committee receives sufficient information about the views of shareholders and other topic stakeholders, and takes them into account	☐	☐	☐	☐	☐
5	The Committee acts in alignment with the strategic vision of the entity	☐	☐	☐	☐	☐
6	The Committee chair has a good working relationship with the CEO and senior management team as well as the human resources department	☐	☐	☐	☐	☐
7	The level of Committee engagement from the chair is sufficient and appropriate	☐	☐	☐	☐	☐
8	The level of Committee engagement from the vice-chair(s) is sufficient and appropriate	☐	☐	☐	☐	☐

Comments:

Click or tap here to enter text.

IV	Committee's Composition and Members	Disagree	Disagree some-what	Agree some-what	Agree	N/A or no opinion
1	The composition of the Committee allows its members to exercise objectivity and independence in performing their duties and responsibilities	☐	☐	☐	☐	☐
2	The current number of Committee members is appropriate to the business (going forward)	☐	☐	☐	☐	☐
3	The number of independent Committee members is sufficient	☐	☐	☐	☐	☐
4	The number of Luxembourg-based Committee members is sufficient and appropriate	☐	☐	☐	☐	☐
5	All Committee members continue to refresh their knowledge and skills, and keep up to date with developments relevant to the business	☐	☐	☐	☐	☐
6	The Committee receives sufficient reports and presentations on developments in legal and regulatory developments relevant to its activities	☐	☐	☐	☐	☐
7	The Committee has considered its current and required skillsets	☐	☐	☐	☐	☐
8	The Committee appointment process is sufficiently transparent	☐	☐	☐	☐	☐
9	All Committee members continue to contribute to activities (beyond simply attending Committee meetings)	☐	☐	☐	☐	☐

<u>Comments:</u>

Click or tap here to enter text.

V	Committee's Role and Involvement	Disagree	Disagree some-what	Agree some-what	Agree	N/A or no opinion
1	The Committee handles the right type and amount of topics in its area	☐	☐	☐	☐	☐
2	The Committee duly considers ESG in all its discussions and proposals	☐	☐	☐	☐	☐
3	The Committee has written terms of reference which are reviewed on an appropriate period basis and approved by the board	☐	☐	☐	☐	☐
4	The Committee is provided with sufficient and appropriated resources to discharge its duties (including the right to obtain all necessary information)	☐	☐	☐	☐	☐
5	The Committee seeks independent professional advice as required to perform its role and responsibilities (e.g., benchmarking exercise or scouring of talent) and invite persons with relevant experience to attend its meetings, where necessary	☐	☐	☐	☐	☐
6	The Committee adequately reports its activities and results to the entire board	☐	☐	☐	☐	☐
7	The combination of competences, skills, knowledge, diversity, and experience of Committee members is suitable to meet the duties of the Committee	☐	☐	☐	☐	☐
8	The Committee´s performance is periodically reviewed by the board	☐	☐	☐	☐	☐
9	Committee member remuneration is appropriated	☐	☐	☐	☐	☐
10	Sufficient time is allocated at board meetings for the Committee to report back to the entire board	☐	☐	☐	☐	☐

<u>Comments:</u>

Click or tap here to enter text.

VI	Director and Top Management Remuneration	Disagree	Disagree some-what	Agree some-what	Agree	N/A or no opinion
1	The Committee has adequate oversight regarding remuneration of top management and/or key personnel	☐	☐	☐	☐	☐
2	The company has a clear written remuneration policies	☐	☐	☐	☐	☐
3	The remuneration policies have been designed to support the culture, objectives, strategies, risk appetite of the company	☐	☐	☐	☐	☐
4	The remuneration policies reflects the responsibility and commitment of the board membership and the responsibility of the CEO and senior management officers	☐	☐	☐	☐	☐
5	The remuneration of CEO and non-executive directors reflect the remuneration level and trend of similar position in the market and time commitment required	☐	☐	☐	☐	☐
6	Remuneration policies and procedures for directors and senior management´s remuneration is reviewed on a regular basis and minimum once a year	☐	☐	☐	☐	☐
7	Ethics considerations are taken into account for management and board decisions regarding executive remuneration	☐	☐	☐	☐	☐
8	The Committee takes adequate note of shareholder input regarding board remuneration packages and structures	☐	☐	☐	☐	☐

Comments:

Click or tap here to enter text.

APPENDIX 04- REFERENCES TO REGULATORY GUIDELINES

I. BANKING INSTITUTIONS

1. DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 26 JUNE 2013 (THE "CRD IV")[2]

- **NOMINATION COMMITTEE**

Art.88(2). Member States shall ensure that institutions which are significant in terms of their size, internal organisation and the nature, scope and complexity of their activities establish a nomination committee composed of members of the management body who do not perform any executive function in the institution concerned.

The nomination committee shall

a) identify and recommend, for the approval of the management body or for approval of the general meeting, candidates to fill management body vacancies, evaluate the balance of knowledge, skills, diversity and experience of the management body and prepare a description of the roles and capabilities for a particular appointment, and assess the time commitment expected.

   Furthermore, the nomination committee shall decide on a target for the representation of the underrepresented gender in the management body and prepare a policy on how to increase the number of the underrepresented gender in the management body in order to meet that target. The target, policy and its implementation shall be made public in accordance with Article 435(2)(c) of Regulation (EU) No 575/2013;

b) periodically, and at least annually, assess the structure, size, composition and performance of the management body and make recommendations to the management body with regard to any changes;

c) periodically, and at least annually, assess the knowledge, skills and experience of individual members of the management body and of the management body collectively, and report to the management body accordingly ;

d) periodically review the policy of the management body for selection and appointment of senior management and make recommendations to the management body.

In performing its duties, the nomination committee shall, to the extent possible and on an ongoing basis, take account of the need to ensure that the management body's decision making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the institution as a whole.

The nomination committee shall be able to use any forms of resources that it considers to be appropriate, including external advice, and shall receive appropriate funding to that effect.

[2] *Please note that the Directive 2019/878 ("CRD V"), amending the CRD IV, has come into force on January 1, 2021, and has been transposed into Luxembourg law on May 20, 2021. There is however no modification of the requirements with regards to nomination and remuneration committees.*

- **REMUNERATION COMMITTEE**

Art.95(1). Competent authorities shall ensure that institutions that are significant in terms of their size, internal organisation and the nature, the scope and the complexity of their activities establish a remuneration committee. The remuneration committee shall be constituted in such a way as to enable it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity.

Art.95(2). Competent authorities shall ensure that the remuneration committee is responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the institution concerned and which are to be taken by the management body. The Chair and the members of the remuneration committee shall be members of the management body who do not perform any executive function in the institution concerned. If employee representation on the management body is provided for by national law, the remuneration committee shall include one or more employee representatives. When preparing such decisions, the remuneration committee shall take into account the long-term interests of shareholders, investors and other stakeholders in the institution and the public interest.

2. LAW OF JULY 23, 2015, TRANSPOSING DIRECTIVE 2013/36/EU (THE "CRD IV")

- **ART. 38-8. LE COMITÉ DE NOMINATION**

(1) Les établissements CRR ayant une importance significative en raison de leur taille et de leur organisation interne ainsi que de la nature, de l'échelle et de la complexité de leurs activités instaurent un comité de nomination composé de membres de l'organe de direction qui n'exercent pas de fonctions exécutives dans l'établissement CRR concerné.

(2) Le comité de nomination est chargé :

a) d'identifier et de recommander, pour approbation par l'organe de direction ou pour approbation par l'assemblée générale, des candidats aptes à occuper des sièges vacants au sein de l'organe de direction, d'évaluer l'équilibre de connaissances, de compétences, de diversité et d'expérience au sein de l'organe de direction et d'élaborer une description des missions et des qualifications liées à une nomination donnée et évalue le temps à consacrer à ces fonctions;

b) de fixer également un objectif à atteindre en ce qui concerne la représentation du sexe sous-représenté au sein de l'organe de direction et d'élaborer une politique destinée à accroître le nombre de représentants du sexe sous-représenté au sein de l'organe de direction afin d'atteindre cet objectif. L'objectif et le plan, ainsi que les modalités de sa mise en œuvre sont rendus publics conformément à l'article 435, paragraphe 2, point c) du règlement (UE) n° 575/2013;

c) d'évaluer périodiquement, et à tout le moins une fois par an, la structure, la taille, la composition et les performances de l'organe de direction, et de soumettre des recommandations à l'organe de direction en ce qui concerne des changements éventuels;

d) d'évaluer périodiquement, et à tout le moins une fois par an, les connaissances, les compétences et l'expérience des membres de l'organe de direction, tant individuellement que collectivement, et d'en rendre compte à l'organe de direction en conséquence;

e) d'examiner périodiquement les politiques de l'organe de direction en matière de sélection et de nomination des membres de la direction autorisée, et de formuler des recommandations à l'intention de l'organe de direction.

Dans l'exercice de ses attributions, le comité de nomination tient compte, dans la mesure du possible et en permanence, de la nécessité de veiller à ce que la prise de décision au sein de l'organe de direction ne soit pas dominée par une personne ou un petit groupe de personnes, d'une manière qui soit préjudiciable aux intérêts de l'établissement CRR dans son ensemble.

Le comité de nomination est en mesure de recourir à tout type de ressource qu'il considère comme étant appropriée, y compris à des conseils externes, et reçoit à cette fin des moyens financiers appropriés à cet effet.

- **ART. 38-9. LE COMITÉ DE RÉMUNÉRATION**

(1) Les établissements CRR ayant une importance significative en raison de leur taille, de leur organisation interne, ainsi que de la nature, de l'échelle et de la complexité de leurs activités, instaurent un comité de rémunération. Le comité de rémunération est composé de manière à lui permettre d'exercer un jugement compétent et indépendant sur les politiques et les pratiques de rémunération et sur les incitations créées pour la gestion des risques, des fonds propres et des liquidités.

(2) Le comité de rémunération est chargé d'élaborer les décisions concernant les rémunérations, notamment celles qui ont des répercussions sur le risque et la gestion des risques dans l'établissement CRR concerné et que l'organe de

direction est appelé à arrêter. Le président et les membres du comité de rémunération sont des membres de l'organe de direction qui n'exercent pas de fonction exécutive au sein de l'établissement CRR concerné. Dans les établissements CRR dans lesquels la représentation du personnel au sein de l'organe de direction est prévue par le Code du travail, le comité de rémunération comprend un ou plusieurs représentants du personnel. Lors de la préparation de ces décisions, le comité de rémunération tient compte des intérêts à long terme des actionnaires, des investisseurs et des autres parties prenantes de l'établissement CRR ainsi que de l'intérêt public.

3. EUROPEAN BANKING AUTHORITY - FINAL REPORT ON GUIDELINES ON SOUND REMUNERATION POLICIES UNDER DIRECTIVE 2013/36/EU OF JULY 2, 2021 (THE "EBA GUIDELINES")

- **SETTING UP A REMUNERATION COMMITTEE**

Art.52. In accordance with Article 109 of the CRD and Article 95(1) of the CRD, all institutions which are themselves significant, considering the individual, parent company and group level, must establish a remuneration committee. Subsidiaries which are regulated by specific sectoral legislation (e.g. investment firms, AIFMs or UCITS managers) should follow the rules set out in the specific sectoral legislation applying to them in order to determine whether or not they are required to establish a remuneration committee. The consolidating institution should ensure that a remuneration committee is established when legally required.

Art.53. Where a remuneration committee is established in a non-significant institution, the institution should comply with the provisions of these guidelines concerning the remuneration committee, but may combine the tasks of the remuneration committee with other tasks as long as they do not create conflicts of interest.

Art.54. Where no remuneration committee is established, the provisions of these guidelines concerning the remuneration committee should be construed as applying to the supervisory function.

- **COMPOSITION OF THE REMUNERATION COMMITTEE**

Art. 55. The remuneration committee should be composed of members of the supervisory function who do not perform executive functions. In G-SIIs and O-SIIs, the remuneration committee should include a majority of members who are independent and be chaired by an independent member. In other significant institutions, determined by competent authorities or national law, the remuneration committee should include a sufficient number of members who are independent. If employee representation on the management body is provided for by national law, it must include one or more employee representatives.

Art. 56. Members of the remuneration committee should have collectively appropriate knowledge, expertise and professional experience concerning remuneration policies and practices, risk management and control activities, namely with regard to the mechanism for aligning the remuneration structure to institutions' risk and capital profiles.

- **ROLE OF THE REMUNERATION COMMITTEE**

Art.57. The remuneration committee should:

a) be responsible for the preparation of decisions on remuneration to be taken by the supervisory function, in particular regarding the remuneration of the members of the management body in its management function as well as of other identified staff;

b) provide its support and advice to the supervisory function on the design of the institution's remuneration policy, including that such remuneration policy is gender neutral and supports the equal treatment of staff of different genders;

c) support the supervisory function in overseeing the remuneration policies, practices and processes and compliance with the remuneration policy;

d) check whether the existing remuneration policy is still up to date and, if necessary, make proposals for changes;

e) review the appointment of external remuneration consultants that the supervisory function may decide to engage for advice or support;

f) ensure the adequacy of the information provided to shareholders on remuneration policies and practices, in particular on a proposed higher maximum level of the ratio between fixed and variable remuneration;

g) assess the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels and that the overall remuneration policy is consistent with and promotes sound and effective risk management and is in line with the business strategy, objectives, corporate culture and values, risk culture and long-term interest of the institution;

h) assess the achievement of performance targets and the need for ex post risk adjustment, including the application of malus and clawback arrangements;

i) review a number of possible scenarios to test how the remuneration policies and practices react to external and internal events, and back-test the criteria used for determining the award and the ex ante risk adjustment based on the actual risk outcomes.

Art. 58. Where the institution has established a remuneration committee, the remuneration of the senior officers in the independent control functions, including the risk management and compliance functions, should be directly overseen by the remuneration committee. The remuneration committee should make recommendations to the supervisory function on the design of the remuneration package and amounts of remuneration to be paid to the senior staff members in the control functions.

- **PROCESS AND REPORTING LINES**

Art.59. The remuneration committee should:

a) have access to all data and information concerning the decision-making process of the supervisory function on the remuneration policies and practices design and implementation, oversight and review;

b) have adequate financial resources and unfettered access to all information and data from independent control functions, including risk management;

c) ensure the proper involvement of the independent control and other relevant functions (e.g. human resources, legal and strategic planning) within the respective areas of expertise and where necessary seek external advice.

Art.60. The remuneration committee should collaborate with other committees of the supervisory function whose activities may have an impact on the design and proper functioning of remuneration policies and practices (e.g. risk, audit and nomination committees); and provide adequate information to the supervisory function, and, where appropriate, to the shareholders' meeting about the activities performed.

Art.61. When established, the risk committee should, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration policies and practices take into consideration the institution's risk, capital, liquidity and the likelihood and timing of earnings.

Art. 62. A member of the risk committee should participate, where relevant, in the meetings of the remuneration committee, where both committees are established, and vice versa.

II. MANAGEMENT COMPANIES AND ALTERNATIVE INVESTMENT FUND MANAGERS (AIFMS)

1. DIRECTIVE 2014/91/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 23 JULY 2014 ("UCITS V")

Art.14(b)4. Management companies that are significant in terms of their size or of the size of the UCITS that they manage, their internal organisation and the nature, scope and complexity of their activities shall establish a remuneration committee. The remuneration committee shall be constituted in a way that enables it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk.

The remuneration committee that is, where appropriate, set up in accordance with the ESMA guidelines referred to in Article 14a(4) shall be responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the management company or the UCITS concerned and which are to be taken by the management body in its supervisory function. The remuneration committee shall be chaired by a member of the management body who does not perform any executive functions in the management company concerned. The members of the remuneration committee shall be members of the management body who do not perform any executive functions in the management company concerned.

If employee representation on the management body is provided for by national law, the remuneration committee shall include one or more employee representatives. When preparing its decisions, the remuneration committee shall take into account the long-term interest of investors and other stakeholders and the public interest.

2. DIRECTIVE 2011/61/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 8 JUNE 2011 ("AIFMD")

Annex II(3). AIFMs that are significant in terms of their size or the size of the AIFs they manage, their internal organisation and the nature, the scope and the complexity of their activities shall establish a remuneration committee. The remuneration committee shall be constituted in a way that enables it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk.

The remuneration committee shall be responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and risk management of the AIFM or the AIF concerned and which are to be taken by the management body in its supervisory function. The remuneration committee shall be chaired by a member of the management body who does not perform any executive functions in the AIFM concerned. The members of the remuneration committee shall be members of the management body who do not perform any executive functions in the AIFM concerned.

3. GUIDELINES OF THE EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA) ON SOUND REMUNERATION POLICIES UNDER THE UCITS DIRECTIVE (OCTOBER 2016) AND AIFMD (JULY 2013 AS AMENDED IN OCTOBER 2016)

- **SETTING UP A REMUNERATION COMMITTEE**

Art.54(UCITS)/Art.52(AIFMD) The setting up of a remuneration committee should be considered, as a matter of good practice, even by those management companies/ AIFMs that are not obliged to set up such a committee under Article 14b(4) of the UCITS Directive.

Art.55(UCITS)/Art.53(AIFMD) In order to identify whether a remuneration committee is expected to be set up, the factors mentioned in Section 7 (Guidelines on proportionality) need to be considered. When assessing whether or not a management company/ AIFM is significant, a management company/AIFM should consider the cumulative presence of all the three factors (i.e. its size or the size of the UCITS/AIFs it manages, its internal organisation and the nature, scope and complexity of its activities). A management company/AIFM which is significant only with respect to one or two of the three above factors should not be required to set up a remuneration committee.

Art.56(UCITS)/Art.54(AIFMD) Without prejudice to the previous paragraph, specific (non-exhaustive) elements to be taken into account when determining whether or not to establish a remuneration committee are:

- whether the management company/AIFM is listed or not;
- the legal structure of the management company/AIFM;
- the number of employees of the management company/AIFM;
- the management company's/AIFM's assets under management;
- whether the management company is also an AIFM;
- the provision of the services mentioned under Article 6(3) of the UCITS Directive/ Article 6(4) of the AIFMD.

Art.57(UCITS)/Art.55(AIFMD) Taking into account the above principles and having regard to all circumstances, the following are examples of management companies/AIFMs which may not need to establish a remuneration committee:

- management companies/AIFMs for which the value of the portfolios of UCITS/AIFs that they manage does not exceed EUR 1.25 billion and not having more than 50 employees, including those dedicated to the management of AIFs/UCITS and the provision of the services mentioned under Article 6(3) of the UCITS Directive/ Article 6(4) of the AIFMD Directive;
- management companies/AIFMs which are part of banking, insurance, investment groups or financial conglomerates within which an entity is obliged to set up a remuneration committee which performs its tasks and duties for the whole group, provided that the rules governing such remuneration committee's composition, role and competences are equivalent to the ones set out in these guidelines and the existing remuneration committee takes responsibility for checking the compliance of the management company with the rules set out in these guidelines.

Art.58(UCITS)/Art.56(AIFMD) It should also be understood, as mentioned above under paragraph 54/52, that management companies falling within the examples set out above may choose to set up a remuneration committee at their own initiative as a matter of good practice.

Art.59(UCITS)/Art.57(AIFMD) Management companies/AIFMs that fall outside the above examples should not be automatically required to set up a remuneration committee. For this purpose, management companies/AIFMs that are above the thresholds set out in paragraph 57/55 should be considered significant in terms of their size or the size of the UCITS/AIFs they manage; in order to decide whether or not they need to set up a remuneration committee, however, such management companies/AIFMs should still assess whether or not they are significant in terms of their internal organisation and the nature, the scope and the complexity of their activities.

- **COMPOSITION OF THE REMUNERATION COMMITTEE**

Art.60(UCITS)/Art.58(AIFMD) In order to operate independently from senior executives, the remuneration committee should comprise members of the supervisory function who do not perform executive functions, at least the majority of whom qualify as independent.

Art.61(UCITS)/Art.59(AIFMD) The chairperson of the remuneration committee should be an independent, non-executive member.

Art.62(UCITS)/Art.60(AIFMD) An appropriate number of the members of the remuneration committee should have sufficient expertise and professional experience concerning risk management and control activities, namely with regard to the mechanism for aligning the remuneration structure to management companies'/AIFM's risk and capital profiles.

Art.63(UCITS)/Art.61(AIFMD) The remuneration committee should be encouraged to seek expert advice internally (e.g. from risk management) and externally. The chief executive officer should not take part in the remuneration committee meetings which discuss and decide on his/her remuneration.

- **ROLE OF THE REMUNERATION COMMITTEE**

Art.64(UCITS)/Art.62(AIFMD) The remuneration committee should:

  - be responsible for the preparation of recommendations to the supervisory function, regarding the remuneration of the members of the management body as well as of the highest paid staff members in the management company/AIFM;
  - provide its support and advice to the supervisory function on the design of the management company's/AIFM's overall remuneration policy;
  - have access to advice, internal and external, that is independent of advice provided by or to senior management;
  - review the appointment of external remuneration consultants that the supervisory function, may decide to engage for advice or support;
  - support the supervisory function in overseeing the remuneration system's design and operation on behalf of the supervisory function;
  - devote specific attention to the assessment of the mechanisms adopted to ensure that:
    - the remuneration system properly takes into account all types of risks and liquidity and assets under management levels, and
    - the overall remuneration policy is consistent with the business strategy, objectives, values and interests of the management company/AIFM and the UCITS/AIFs it manages and the investors of such UCITS/AIFs;
  - formally review a number of possible scenarios to test how the remuneration system will react to future external and internal events, and back test it as well.

Art.65(UCITS)/Art.63(AIFMD) The remuneration committee itself may be in charge of overseeing the central and independent review of the implementation of the remuneration policies and practices.

- **PROCESS AND REPORTING LINES OF THE REMUNERATION COMMITTEE**

Art.66(UCITS)/Art.64(AIFMD) The remuneration committee should:

  - have unfettered access to all data and information concerning the decision-making process of the supervisory function, on the remuneration system's design and implementation;

- have unfettered access to all information and data from risk management and control functions. Such access should not hinder the management company's/AIFM's ordinary activities;
- ensure the proper involvement of the internal control and other competent functions (e.g. human resources and strategic planning). The remuneration committee should collaborate with other board committees whose activities may have an impact on the design and proper functioning of remuneration policy and practices (e.g. risk audit, and nomination committees); and
- provide adequate information to the supervisory function, and, where appropriate, to the management company's/AIFM's shareholders' meeting about the activities performed.

III. INSURANCE COMPANIES

1. COMMISSION DELEGATED REGULATION (EU) 2015/35 OF 10 OCTOBER 2014

Art.275 (1)(f) An independent remuneration committee shall be created, if appropriate in relation to the significance of the insurance or reinsurance undertakings in terms of size and internal organisation, in order to periodically support the administrative, management or supervisory body in overseeing the design of the remuneration policy and remuneration practices, their implementation and operation;

2. THE EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA) GUIDELINES ON SYSTEM OF GOVERNANCE (2014)

Art.1.41 The undertaking should ensure that the composition of the remuneration committee enables it to exercise a competent and independent judgment on the remuneration policy and its oversight. If no remuneration committee is established, the AMSB should assume the tasks that would otherwise have been assigned to a remuneration committee in a way that avoids conflicts of interest

APPENDIX 05 – RELEVANT CORPORATE GOVERNANCE CODES

G20/OECD PRINCIPLES OF CORPORATE GOVERNANCE - HTTP:/WWW.OECD.ORG/CORPORATE/PRINCIPLES-CORPORATE-GOVERNANCE.HTM

THE X PRINCIPLES OF CORPORATE GOVERNANCE OF THE LUXEMBOURG STOCK EXCHANGE HTTPS://WWW.BOURSE.LU/CORPORATE-GOVERNANCE

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