



REMUNERATION OF NON-EXECUTIVE DIRECTORS

Market practice in Luxembourg
ILA - KPMG survey results 2022



CONTRIBUTORS



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FOREWORD

The Institut Luxembourgeois des Administrateurs and KPMG Luxembourg are very proud to bring you the fourth edition of our report on the remuneration of non-executive directors in Luxembourg-incorporated financial, industrial, and commercial companies.

As in previous editions, we have collected remuneration data from, on the one hand, financial, industrial and commercial Luxembourg-incorporated companies and, on the other hand, non-executive directors regarding all the mandates they hold in boards of directors and specialized board committees.

Altogether, 105 companies and 73 non-executive directors have kindly agreed to share their data with us, allowing us to gather remuneration data related to more than 650 mandates, which represents a solid and representative sample!

Beyond remuneration data, you will also find in this report relevant information related to VAT, D&O liability insurances or diversity.

We would like to extend a warm thanks to all participating companies and directors for their contribution and openness, and we hope that the information provided in this report will meet your expectations.

Kind regards,



Jean-Pascal NEPPER

Partner, KPMG Luxembourg SA



Marjolijne DROOGLEEVER FORTUYN

Chair of the Remuneration and Nomination
Committee



METHODOLOGY AND DISCLAIMER

Methodology

This report on the remuneration of non-executive directors (NEDs) in Luxembourg targets Luxembourg-incorporated financial and non-financial companies. In order to go beyond and broaden the outlook of the report, a second survey was launched reaching out directly the non-executive directors including wider topics.

The charts and graphs presented in the report are an analysis of data coming from different samples:

- Company Survey: companies in the financial and non-financial sectors
- Non-Executive Directors Survey: individuals in the financial and non- financial sectors

The source of the data (Company Survey or Non-Executive Directors) is mentioned below each graph unless the source combines both.

Among the companies represented are the Banking institutions, Insurance companies, Corporate entities, State-owned entities as well as:

- Investment firms: company whose regular business is the provision of investment services to third parties and/or the performance of investment activities
- Management companies: includes UCITS management companies and Alternative Investment Fund Managers
- Investment vehicles: includes UCITS, UCI, SIF, SICAR, etc

Disclaimer

The data collection and analysis were done in a way that maximized both quality and market representativeness. We additionally followed a very thorough validation process, and conducted the research with the utmost confidentiality with regard to the participants. This document is for the exclusive use of ILA members and KPMG selected clients and should not be copied or otherwise distributed to outside parties, without the formal and written consent of ILA or KPMG.



SOURCE OF DATA



105 Companies



73 Non-Executive
Directors



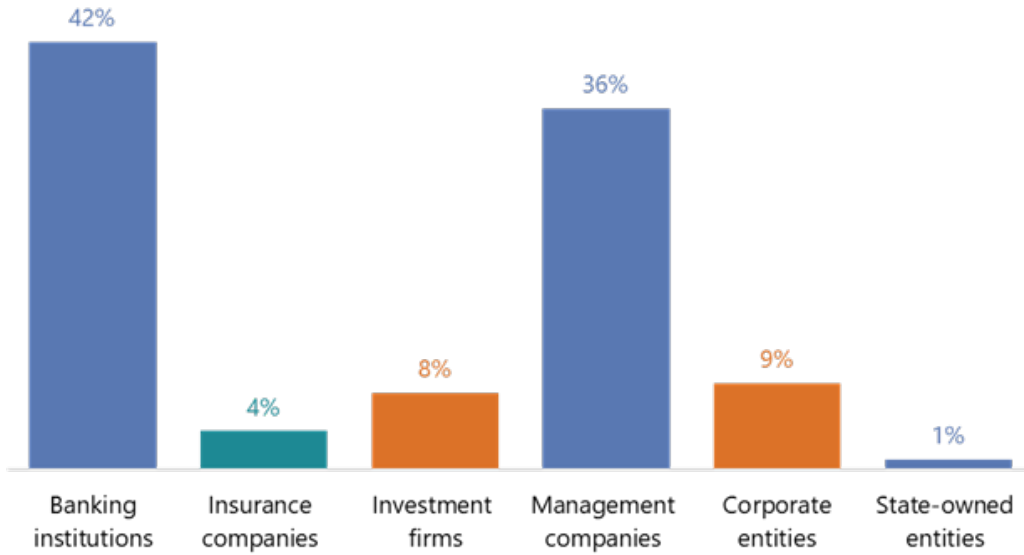
592 Board mandates



66 Board committee mandates

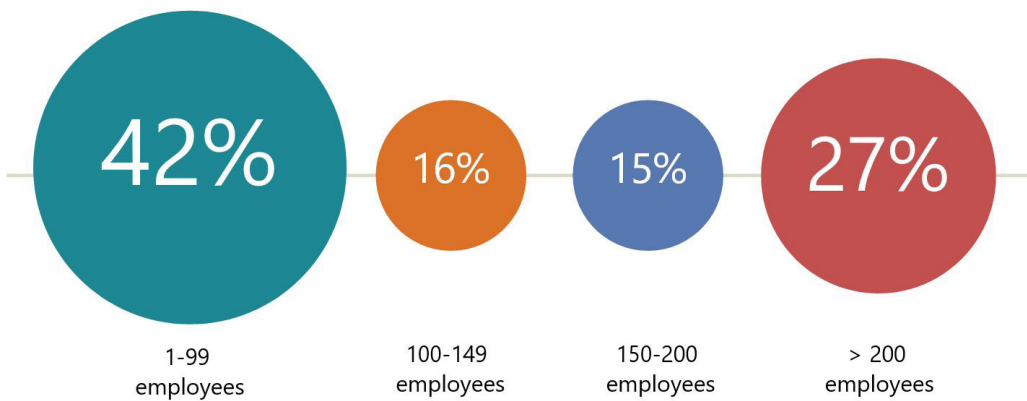
Participants profile

Type of organization



Source: Company Survey

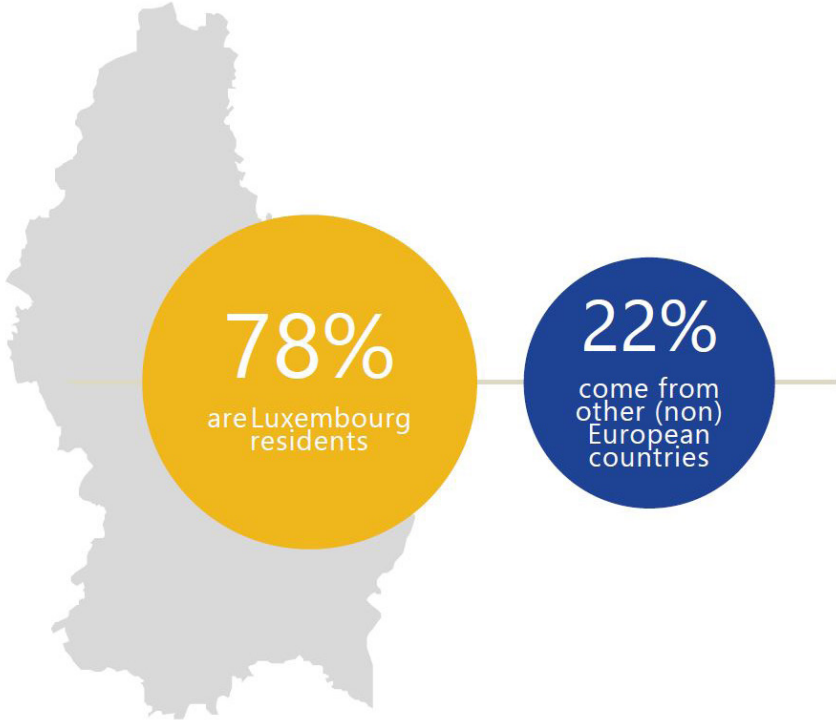
Size of organization by number of employees



Source: Company Survey

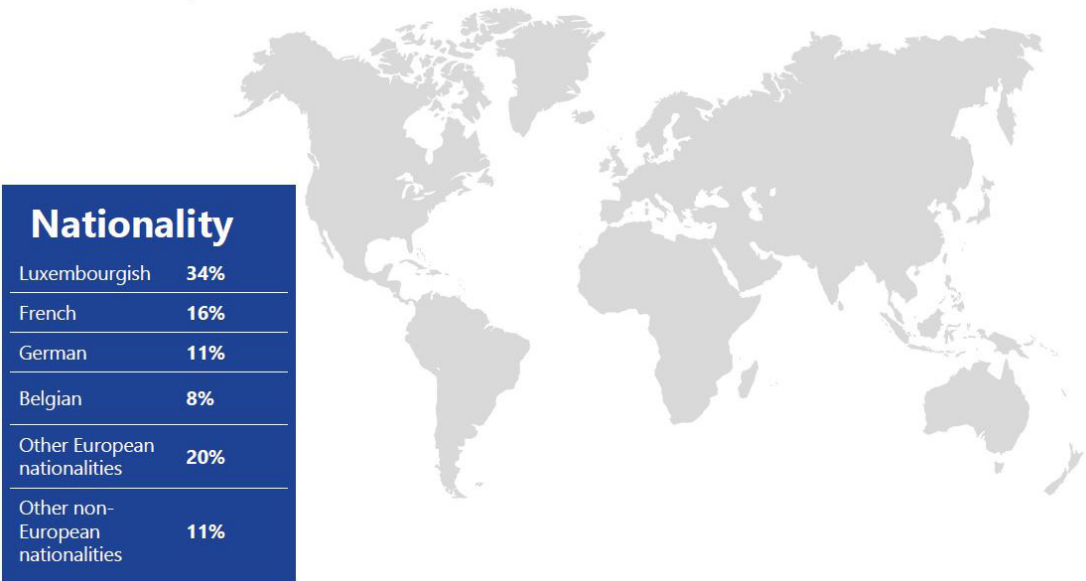


Country of residence



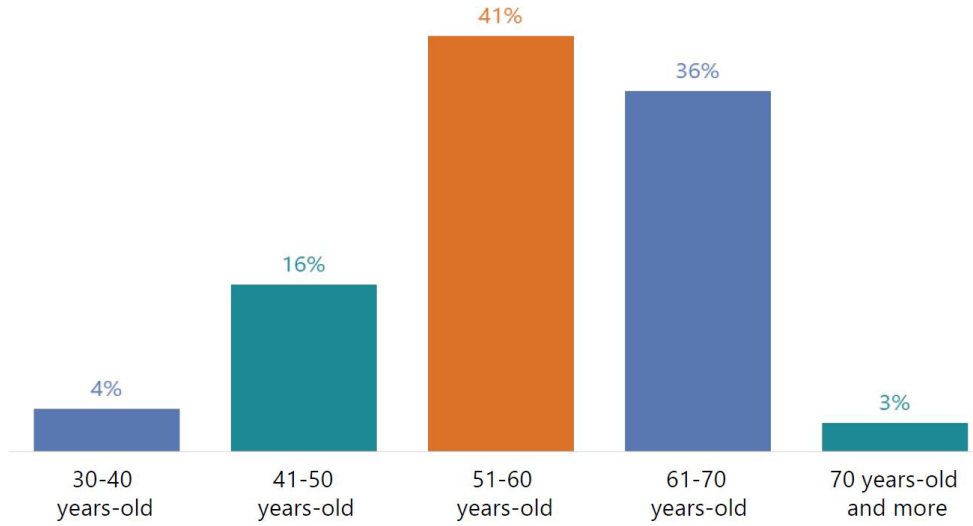
Source: Non-executive directors Survey

Nationality



Source: Non-executive directors Survey

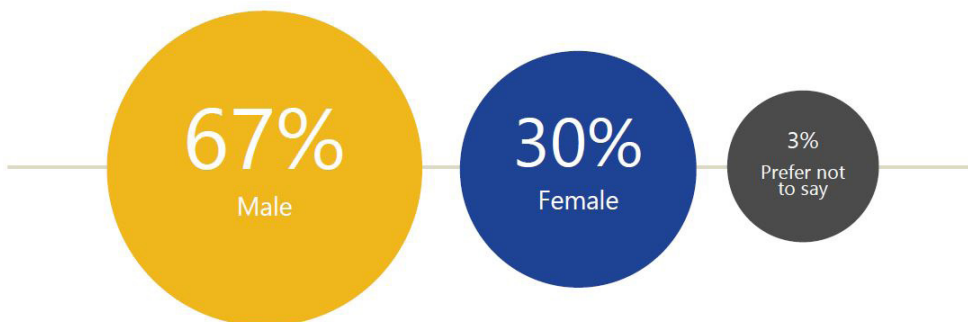
Age



57 years-old is the average age of the participants

Source: Non-executive directors Survey

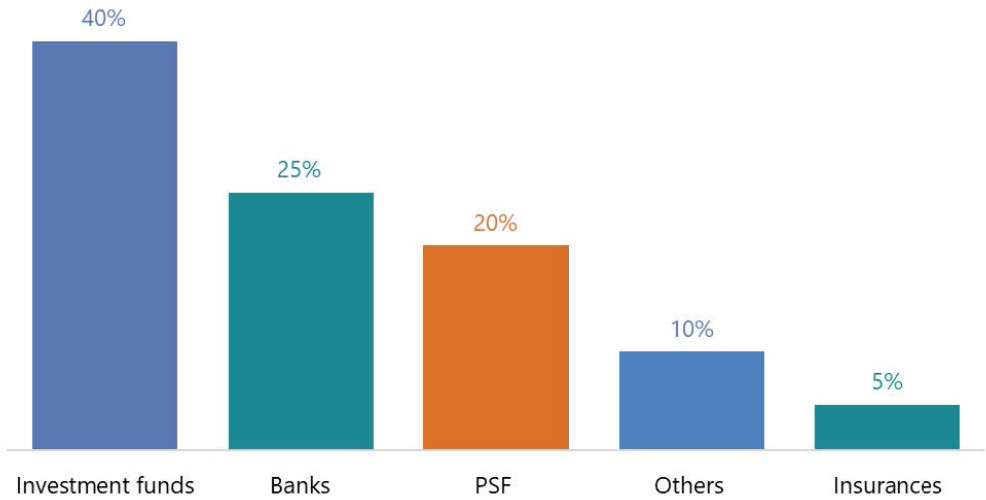
Gender



Source: Non-executive directors Survey



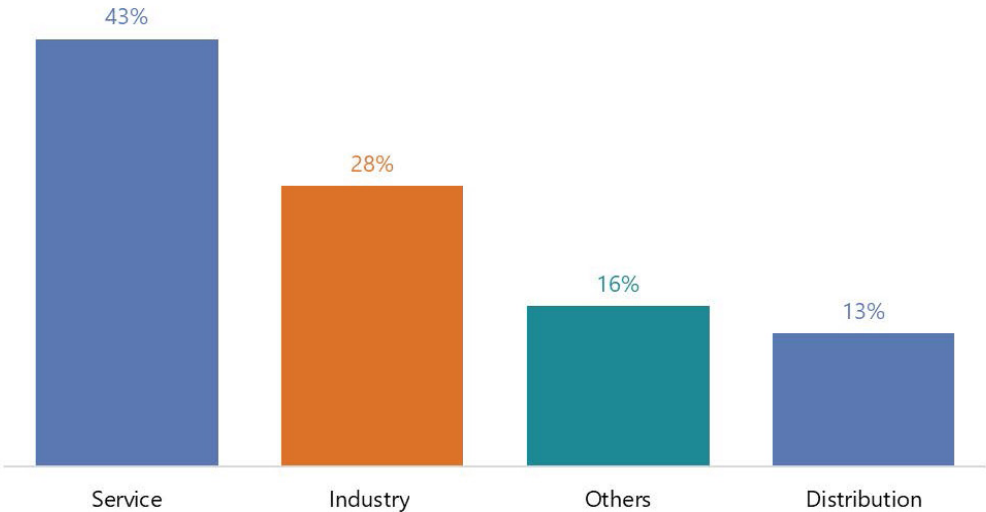
Field of expertise – Financial sector



Others include: budget, carried interest pool vehicles, compliance, European fin-tech, financial planning, governance entity/organization, holding company, investment advisory company

Source: Non-executive directors Survey

Field of expertise – Non financial sector



Others include: ASBL, Foundation, Industry body, Research, Real estate

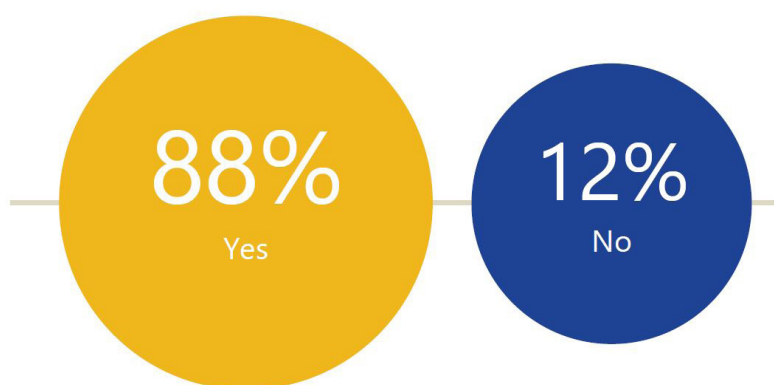
Source: Non-executive directors Survey

REMUNERATION, TAXATION AND INSURANCE

1. Board of directors remuneration

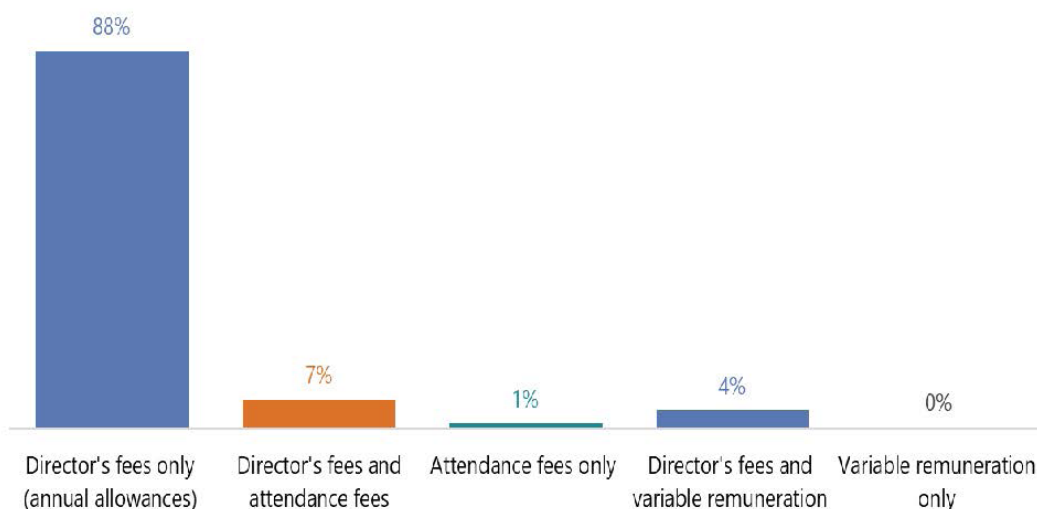
Are the non-executive directors compensated for their positions in the boards?

A substantial number of organizations based in Luxembourg are subsidiaries of larger groups located in or outside the EU, and many non-executive directors of these entities appear to hold executive roles at the mother company level in parallel.



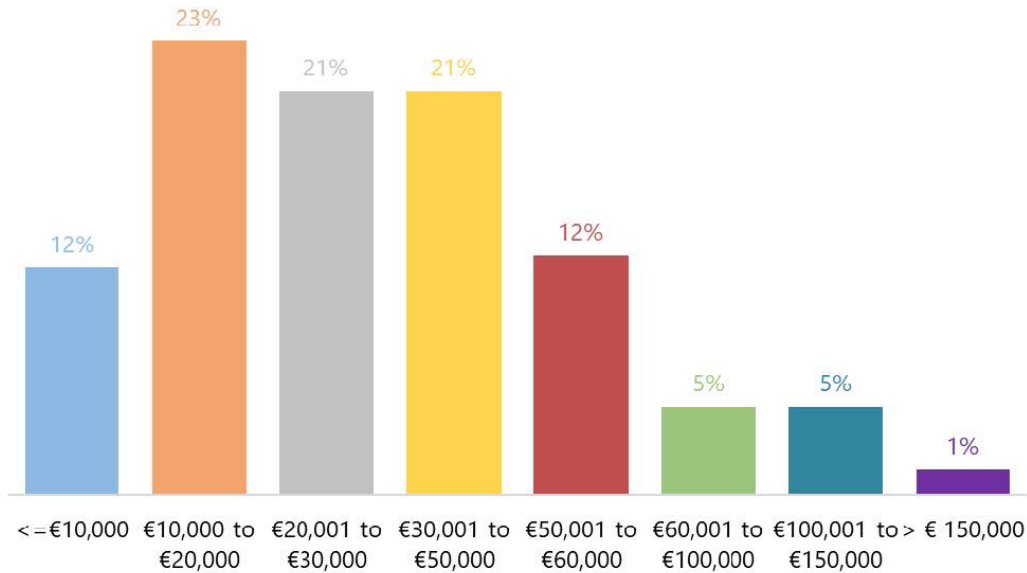
The oversight of their Luxembourg subsidiary is often included in their job description and is, consequently, already compensated in their executive remuneration packages.

Type of remuneration for boards of directors

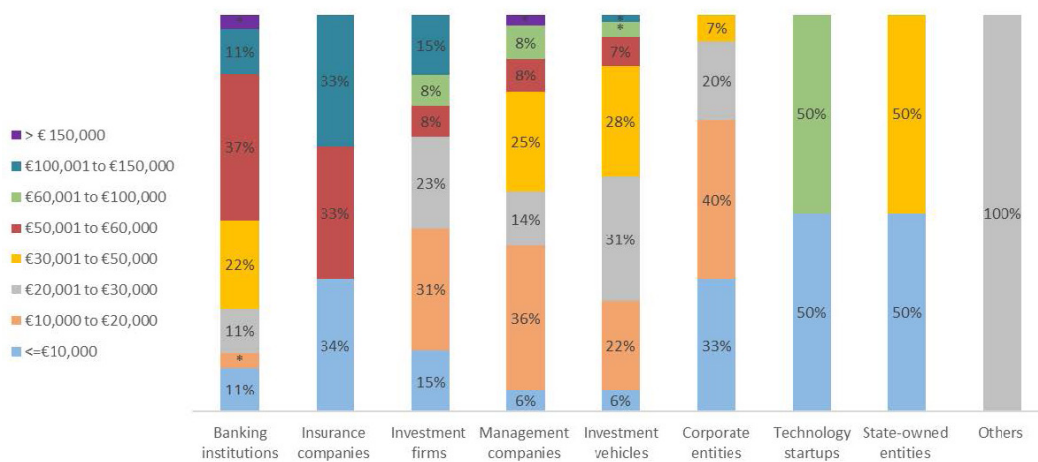




Director's fees (annual allowances) for the position of chairperson
All sectors



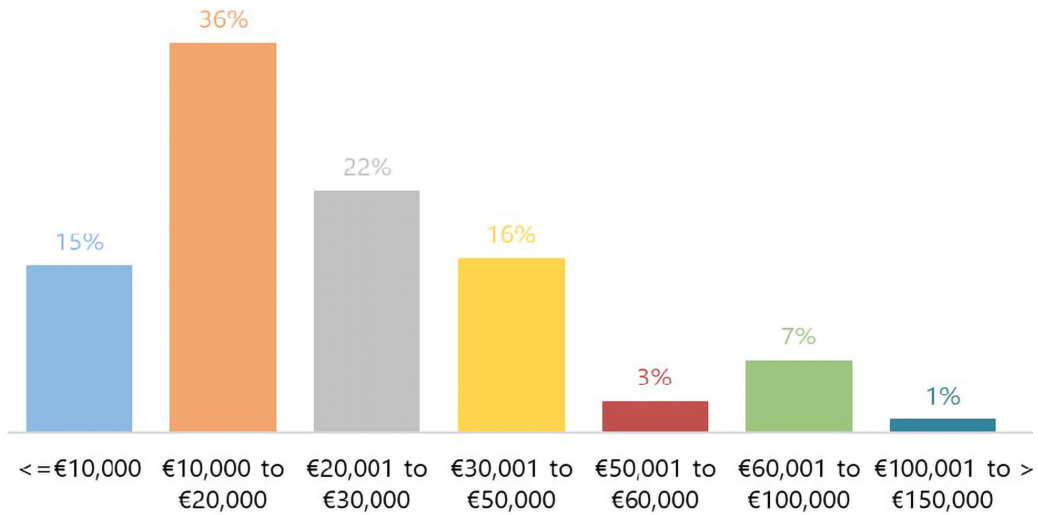
Director's fees (annual allowances) for the position of chairperson
Per sector



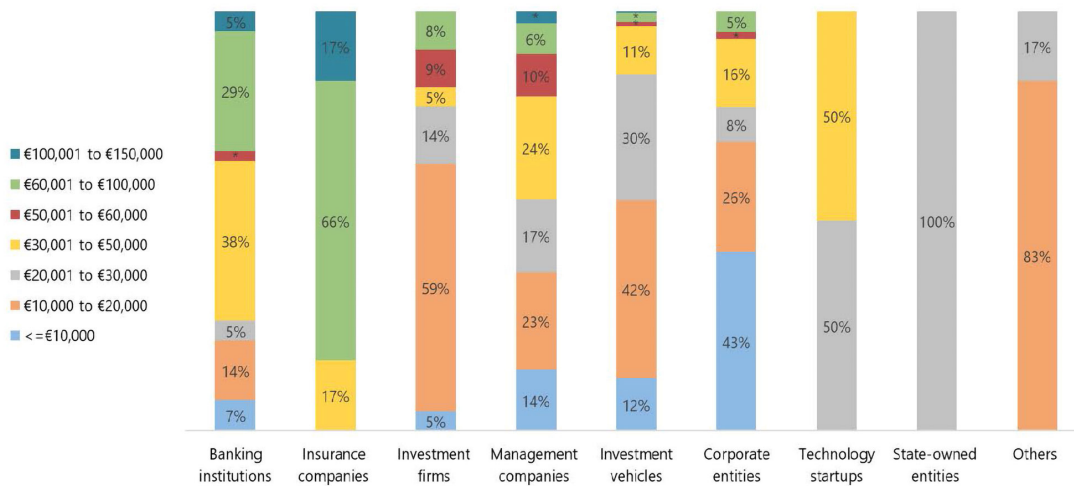
Others include: administration, audit, consulting, energy, governance, health care, private equity, research, real estate, transportation

*This value is lower than 5%

Director's fees (annual allowances) for the position of **ordinary board member**
All sectors



Director's fees (annual allowances) for the position of **ordinary board member**
Per sector



Others include: administration, audit, consulting, energy, governance, health care, private equity, research, real estate, transportation

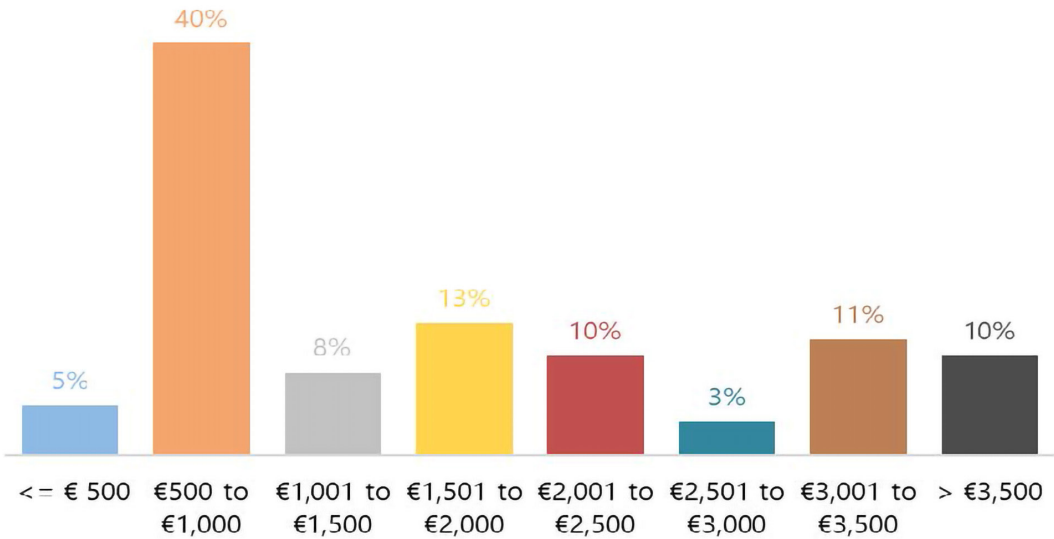
*This value is lower than 5%



Attendance fees for board meetings

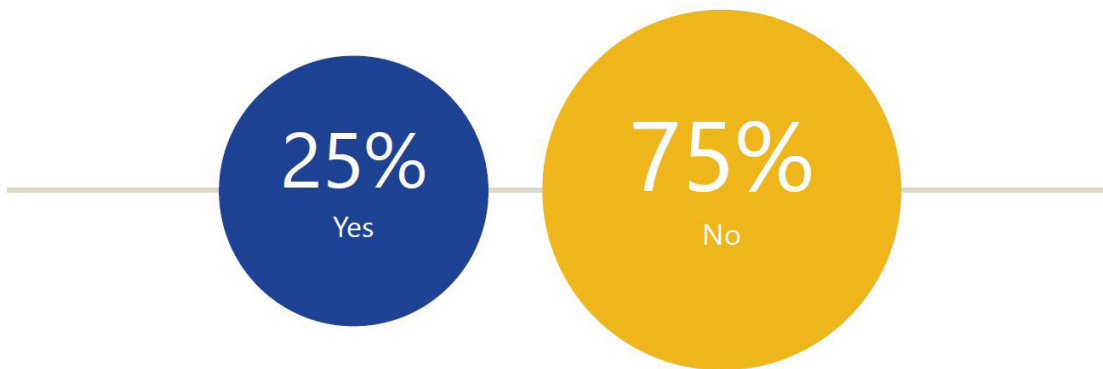


Average attendance fees per meeting

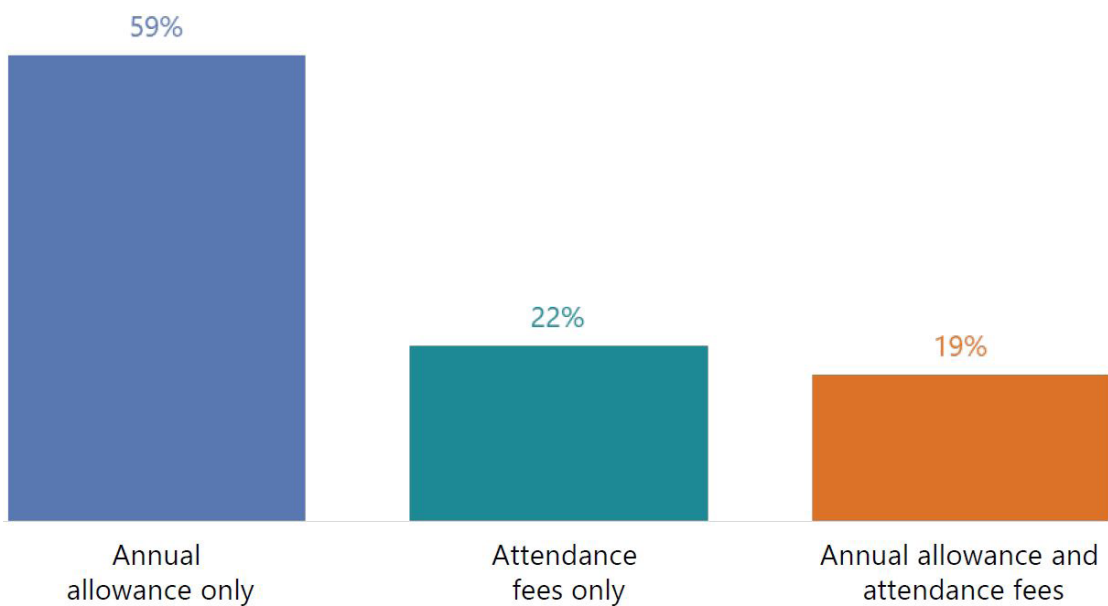


2. Board committee remuneration

Are the non-executive directors compensated for their positions in the committees?

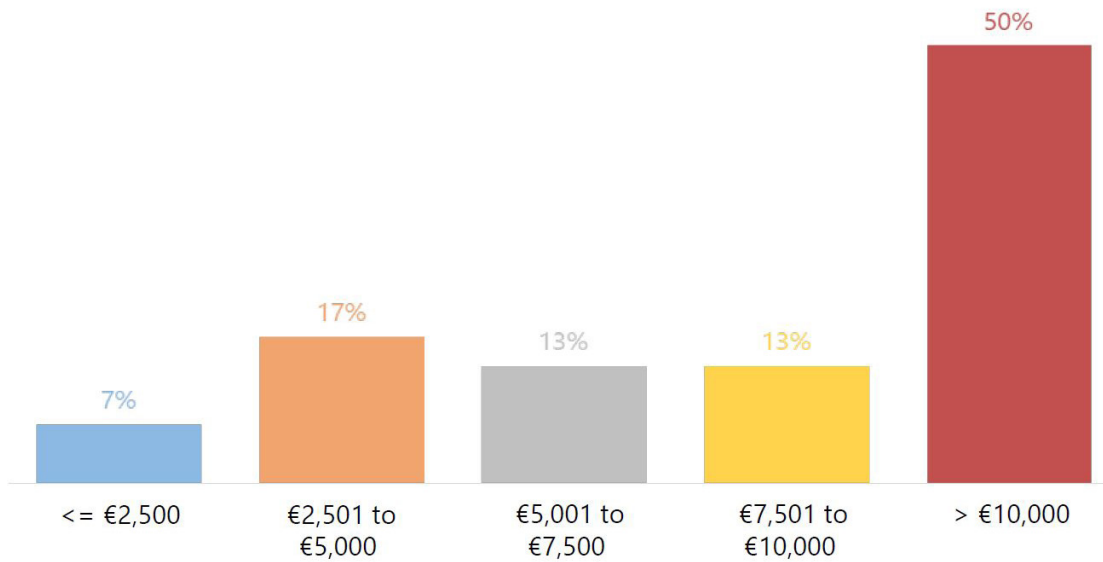


Type of remuneration for board committees

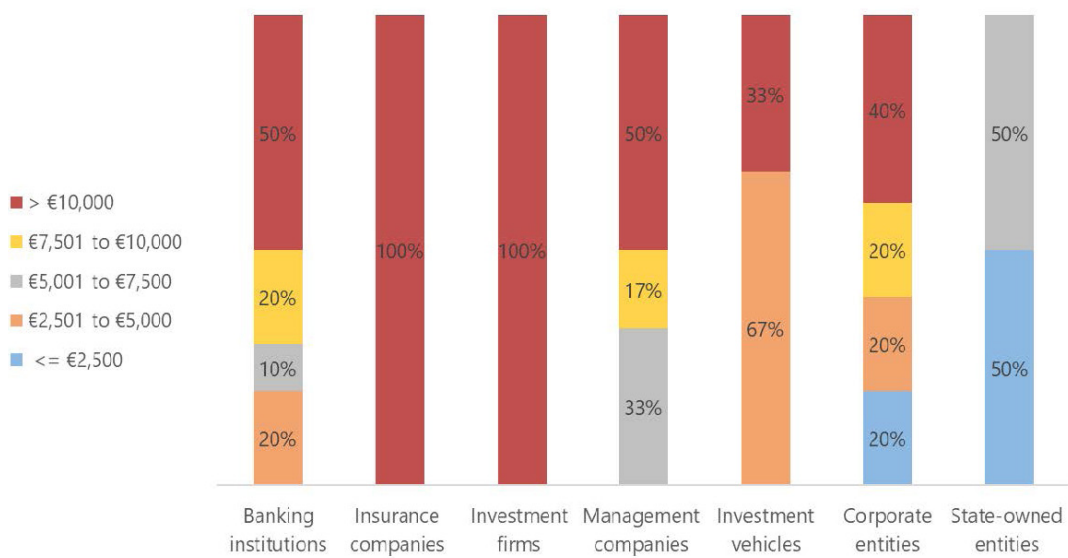




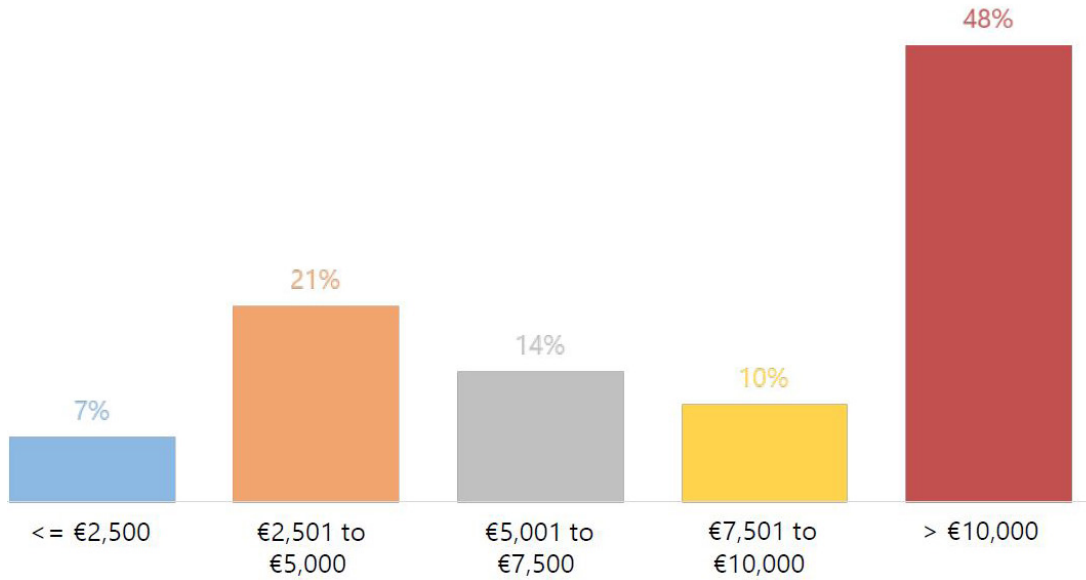
Annual allowances for the position of board committee **chairperson** All sectors



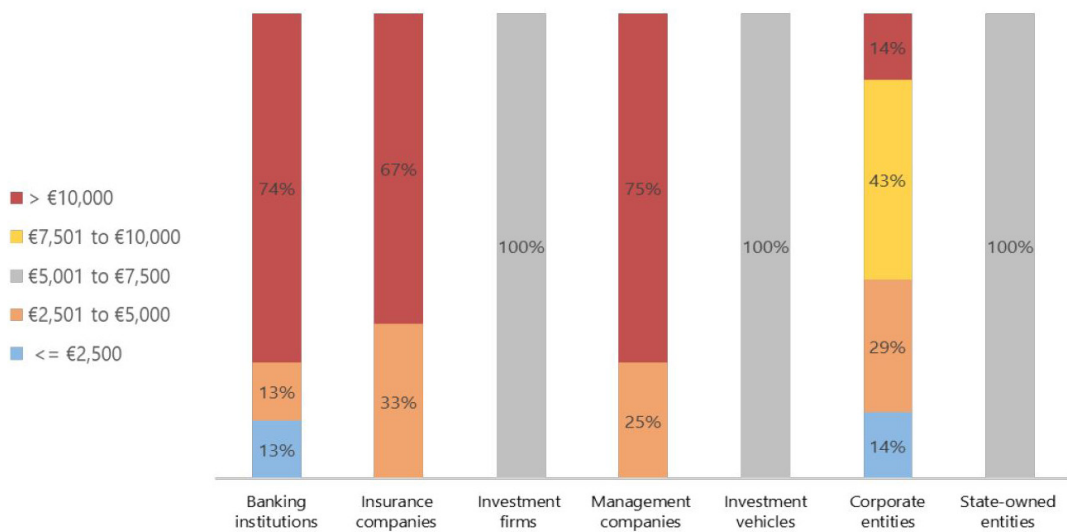
Annual allowances for the position of board committee **chairperson** Per sector



Annual allowances for the position of board committee member
All sectors

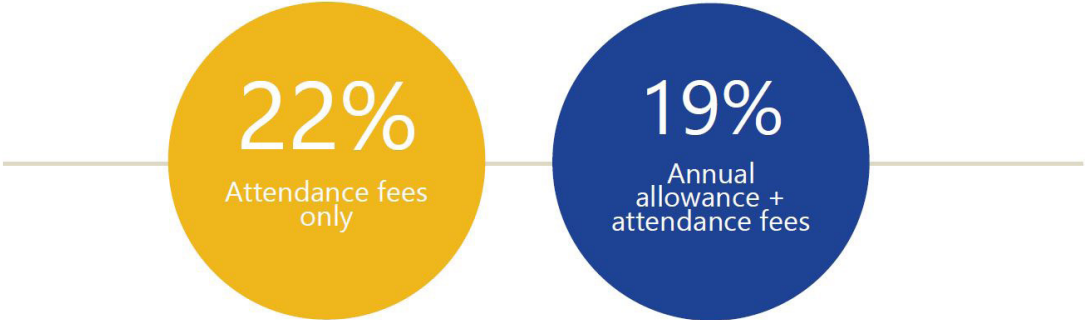


Annual allowances for the position of board committee member
Per sector

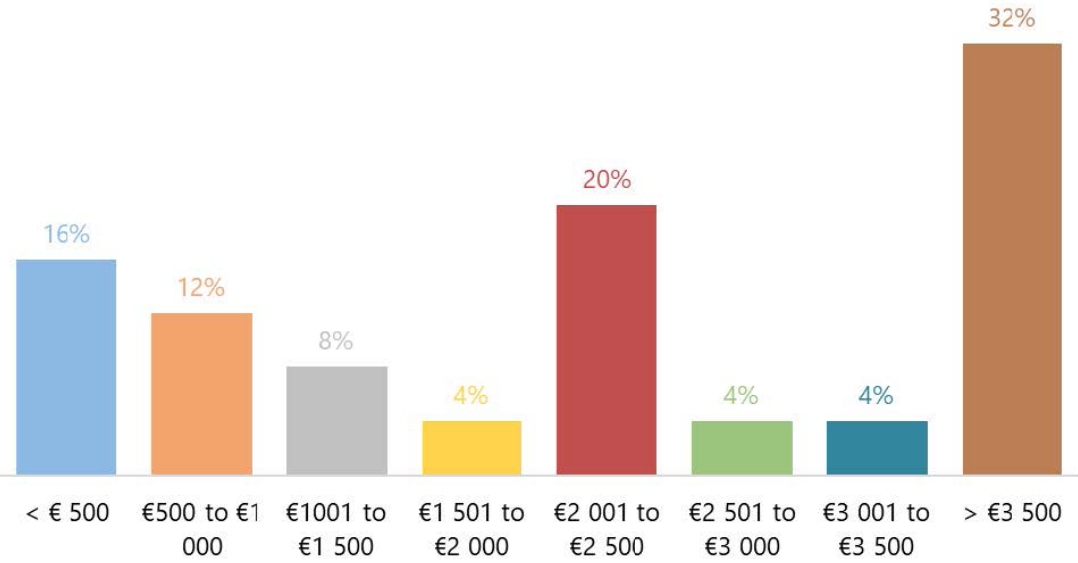




Attendance fees for board committee meetings



Average attendance fees per meeting



3. VAT regulation of non-executive directors in the financial sector

General regulatory context

Since 2017 the Luxembourg tax authorities consider directors to be taxable persons for VAT.

Non-executive directors established in Luxembourg

Unless an exemption or the franchise regime (for Luxembourg resident directors threshold increased to EUR 35'000) provided by the Luxembourg VAT Law would apply, VAT at the standard rate of 17% should be applicable on the services rendered by the directors to the entities they manage.

Luxembourg Directors would then be required to register for VAT (even if covered by the franchise regime) and would be required to comply with their VAT obligations as for example submitting VAT returns.

Non-executive directors established in another country

Directors not established in Luxembourg would in principle issue their invoices without any VAT and their services would then be assessed by the Luxembourg entity assuming it is a taxable person. They would not be required to register in Luxembourg but as the franchise regime is only available to resident directors, their services would be subject to VAT under the reverse charge mechanism unless a VAT exemption would apply.

Remuneration

Fees for directorships in Luxembourg investment funds

Fees for directorships in Luxembourg qualified investment funds (including UCITS, SIFs, SICARs, AIFs, securitization vehicles, pension funds etc.) must be distinguished in fees paid in relation to management on the one hand and fees paid in relation to control, oversight or supervision on the other hand.

Director fees paid in relation to the management of Luxembourg qualifying investment funds (including UCITS, SIFs, SICARs, AIFs, securitization vehicles, pension funds, etc.) should in principle benefit from the application of a VAT exemption insofar as they are understood as services provided to the funds that are specific and essential to their activity such as day-to-day portfolio management as well as fund administration services.

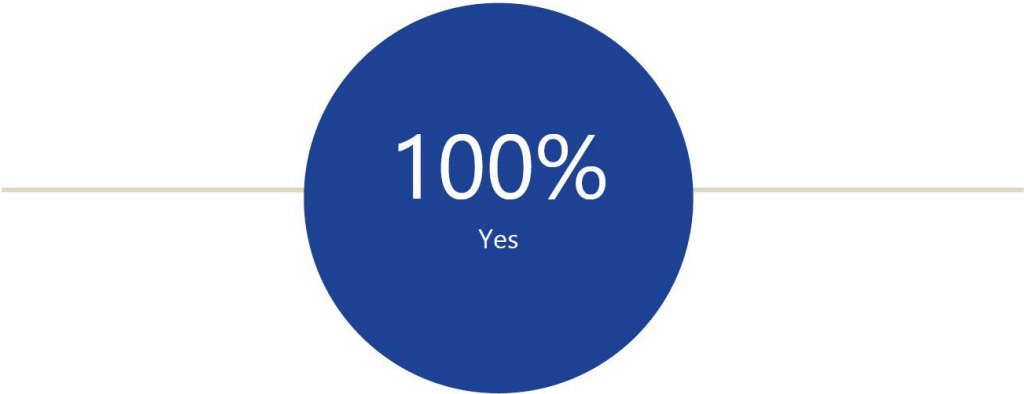
A distinction based on reliable elements should be made, as to whether the activity can be considered as specific and essential to the management of the investments funds and therefore VAT exempt or not (e.g. agreement between the fund and the director and/or any document outlining the roles and responsibilities of board members, powers delegated by the board, timesheet or system of points attributed to the importance of the different tasks of the director, agenda of meetings/attendance records to the meeting, regulatory documentation specifying the role of a given person).

The management of management companies should in any case remain taxable.



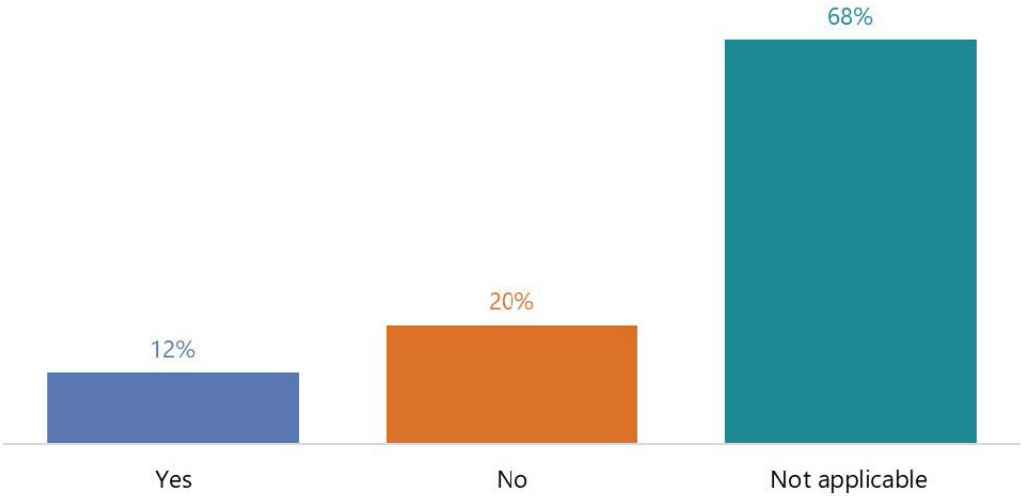
4. Taxation on remuneration VAT

Are Luxembourg resident non-executive directors invoicing VAT to your company?



Source: Company Survey

Does your company self-assess VAT on fees to foreign non-executive directors?



Source: Company Survey

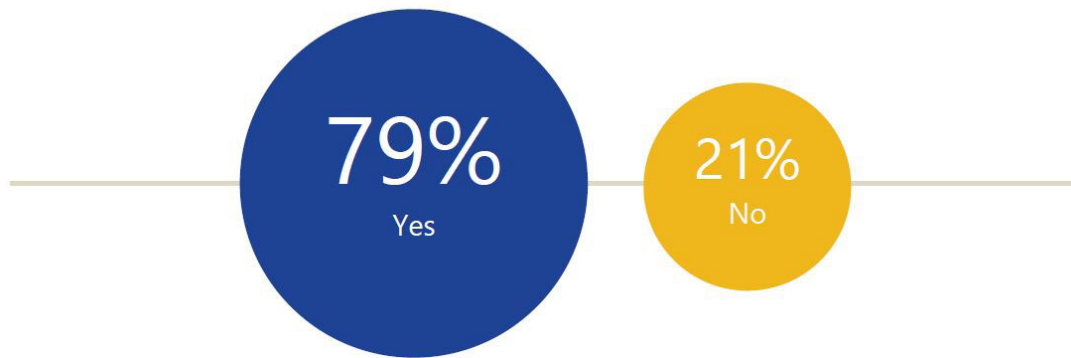
Do you face any difficulty to justify the application of the VAT exemption (if applicable)?



Source: Company Survey



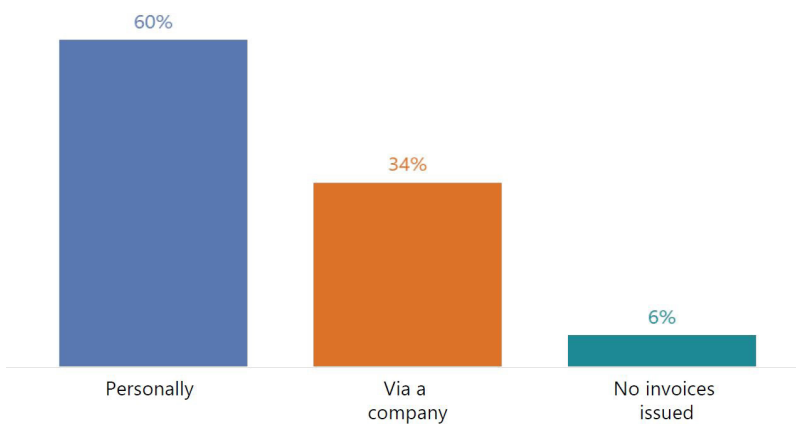
Are you registered for VAT purposes?



The 21 % could result from non-executive directors who are not registered for VAT purposes. Directors providing only VAT exempt services do not need to register for VAT (except particular circumstances)

Source: Non-executive directors Survey

If you are Luxembourg resident, do you invoice your director's fees?



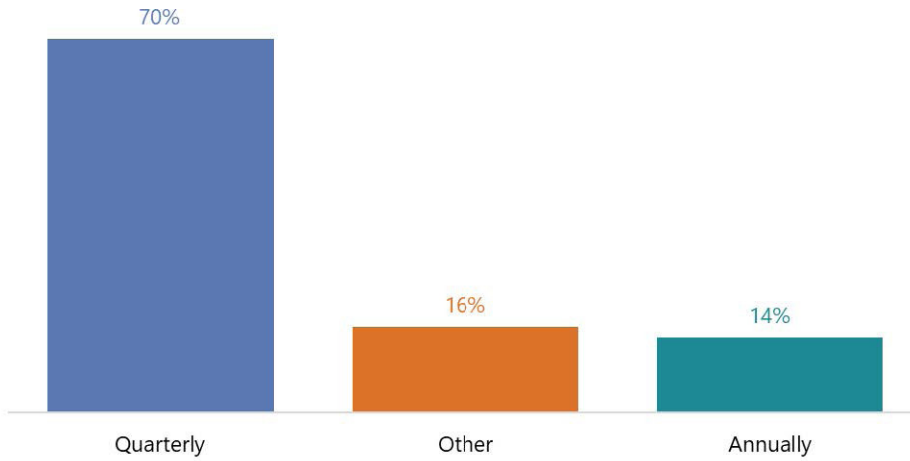
The 6% who do not issue invoices could result from some cases where the issuance of an invoice is not mandatory (e.g. application of the VAT exemption for investment funds).

Note however that in case the franchise regime applies, the issuance of an invoice specifying the application of such a regime is mandatory*

* As regards the application of VAT, the Luxembourg tax authorities released Circular 781 on 30 September 2016

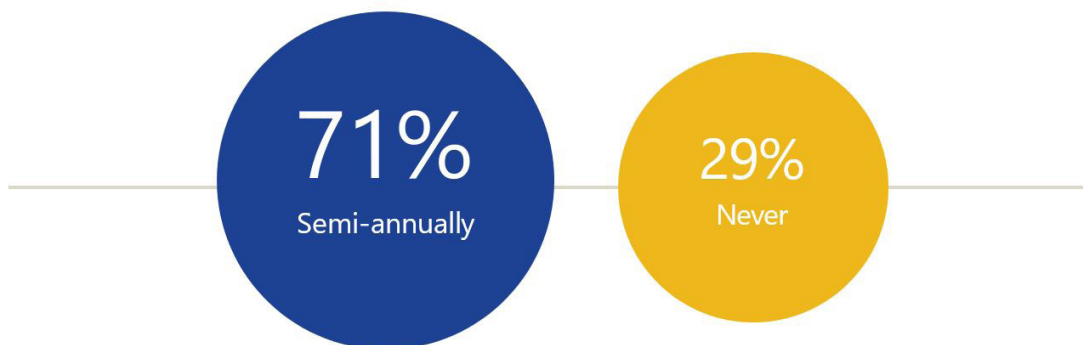
Source: Non-executive directors Survey

Usually, how frequently do you invoice your director's fees?



Source: Non-executive directors Survey

If other, please specify:

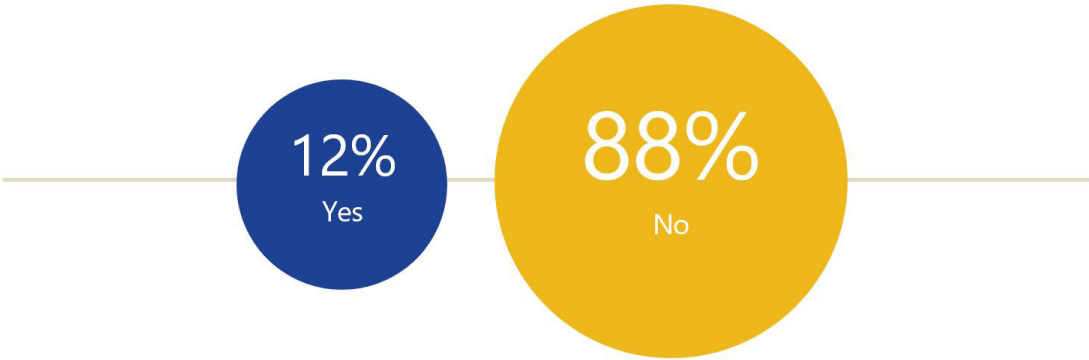


The 29% could come from VAT exempt activities (no obligation to issue invoice)

Source: Non-executive directors Survey



If your place of residence is not Luxembourg, are you reporting the services rendered to the company in a listing for intra-community supplies of services taxable in the recipient's country?



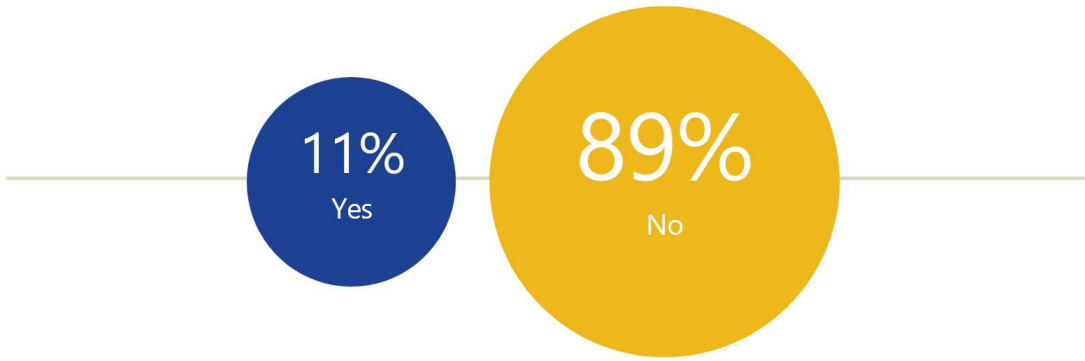
The 88% could result from:

The application of the VAT exemption for investment funds

The fact that it is not possible to VAT register in the Member State of residence because of the local legislation *

Source: Non-executive directors Survey

If your director fees are invoiced via a company, do you apply VAT?

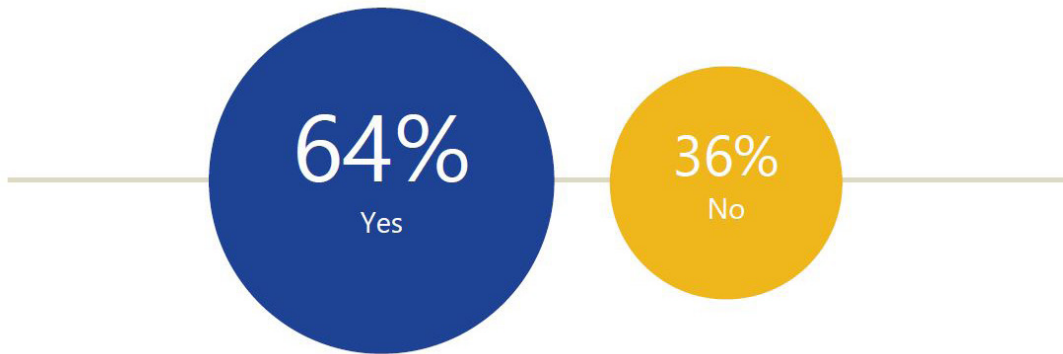


The 11% could result from the fact that some directors would not be able to justify the fact that they manage investment funds (e.g. lack of data collection /engagement on the basis of minutes of the board, no timesheet etc.)*

* As regards the application of VAT, the Luxembourg tax authorities released Circular 781 on 30 September 2016

Source: Non-executive directors Survey

If your director fees are invoiced via a company, do you apply VAT?



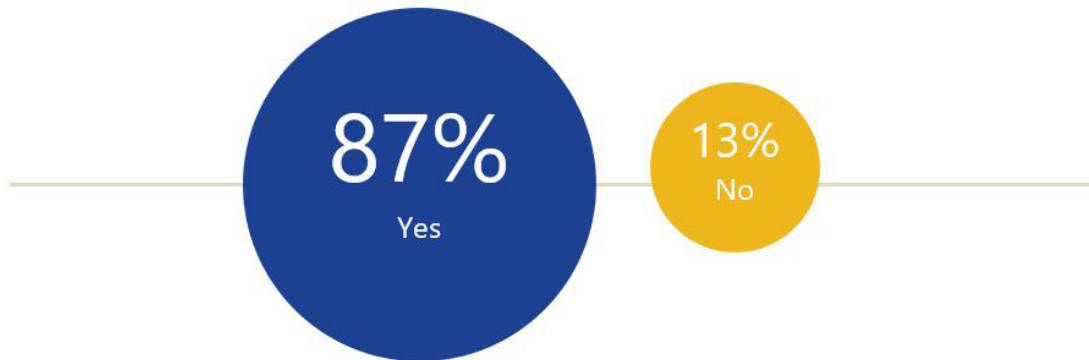
The 36% could result from:

- The franchise regime
- The application of the funds management exemption

Source: Non-executive directors Survey

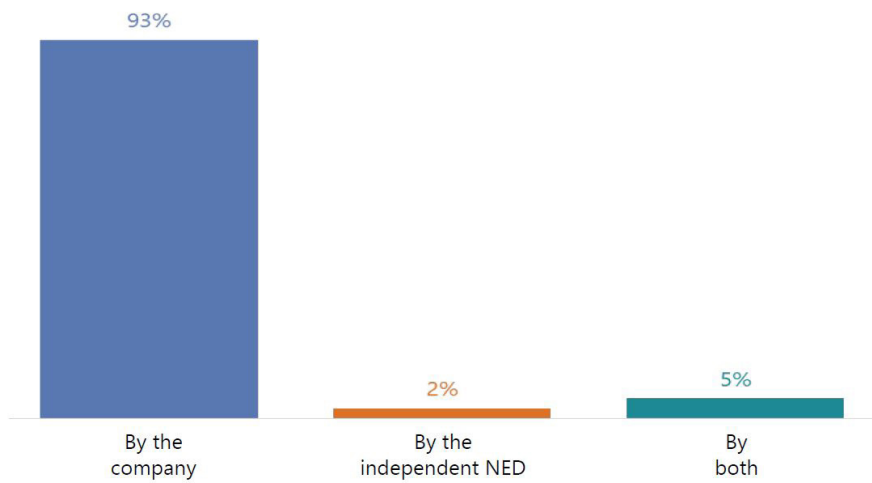
5. Directors & officers liability insurance

Companies having a directors & officers liability insurance for their Board members



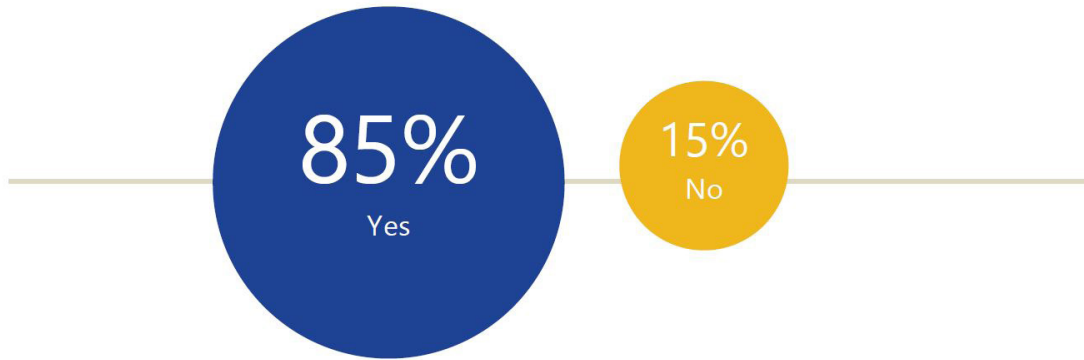
Source: Company Survey

If yes, paid by whom?



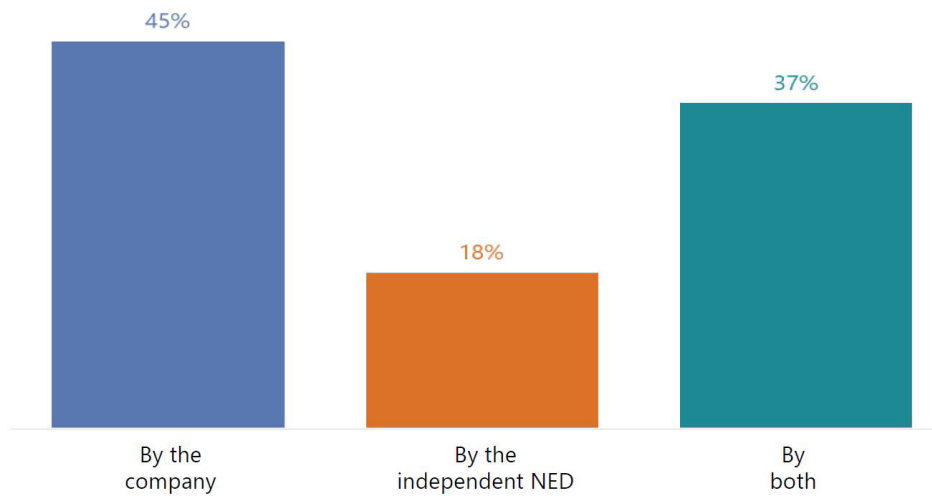
Source: Company Survey

Non-executive directors having a directors & officers liability insurance



Source: Non-executive directors Survey

If yes, paid by whom?



Source: Non-executive directors Survey



The average insurance premium paid personally by the non-executive director



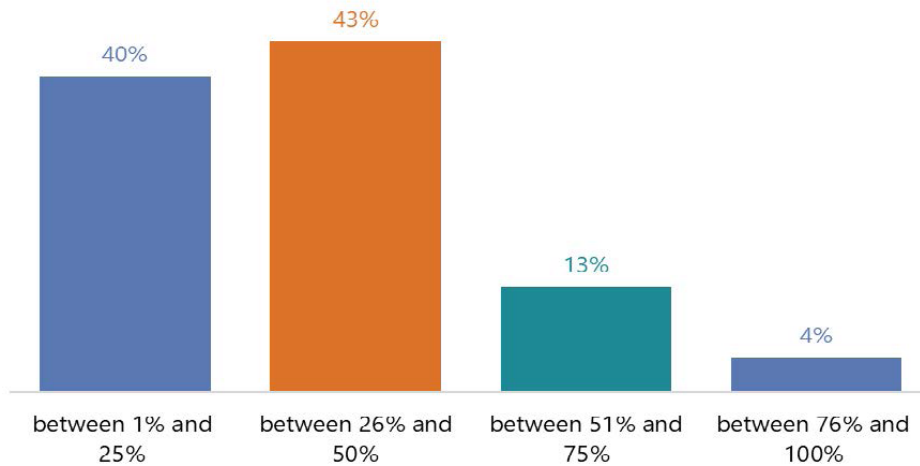
€4,633 is the average insurance premium paid personally by the non-executive director

Source: Non-executive directors Survey

PROPORTION, WORKLOAD AND TRAINING

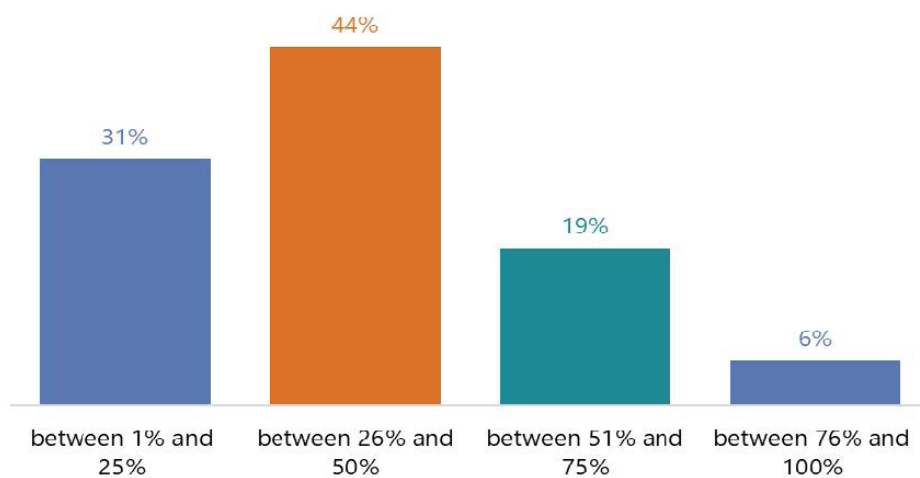
1. Proportion of non-executive director

Proportion of non-executive directors in boards of directors



Source: Company Survey

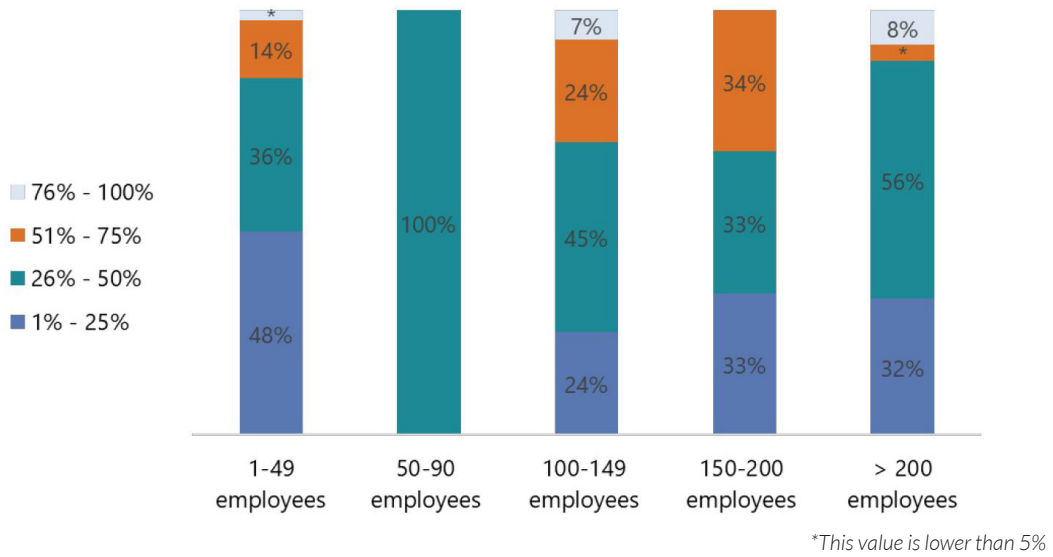
Proportion of non-executive directors in boards committees



Source: Company Survey

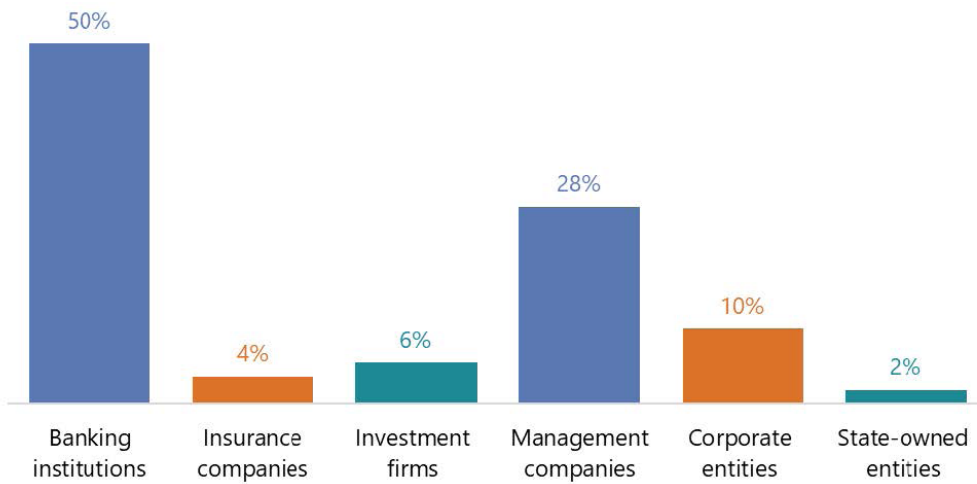


Proportion of non-executive directors in boards of directors Per company size



Source: Company Survey

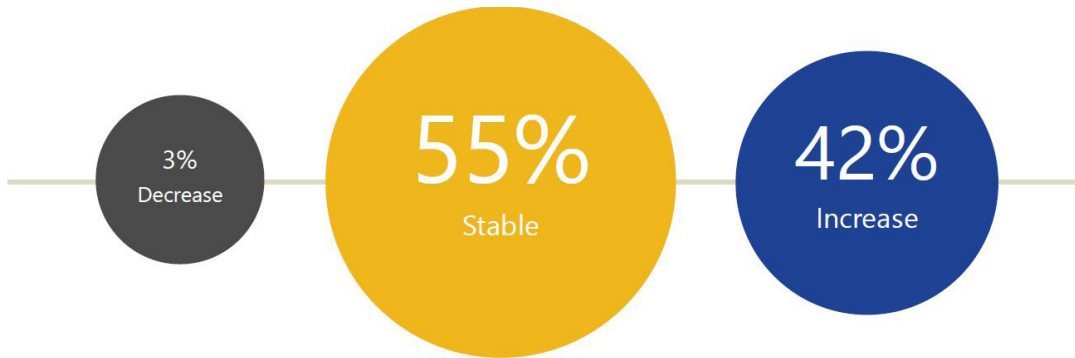
Proportion of non-executive directors in boards committees Per sector



Source: Company Survey

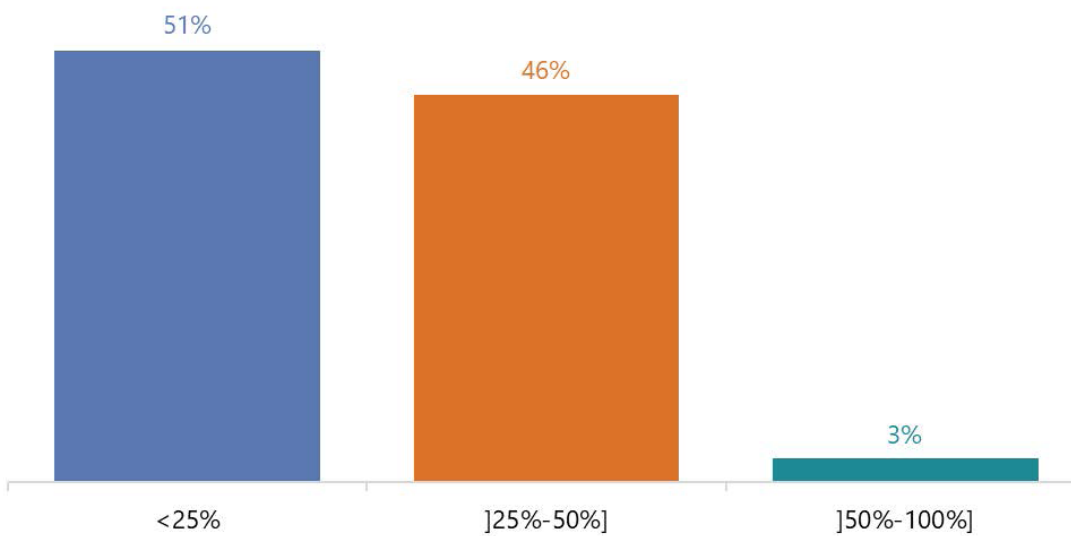
2. Workload

How do you think the workload of your non-executive directors evolved over the past 2 years?



Source: Company Survey

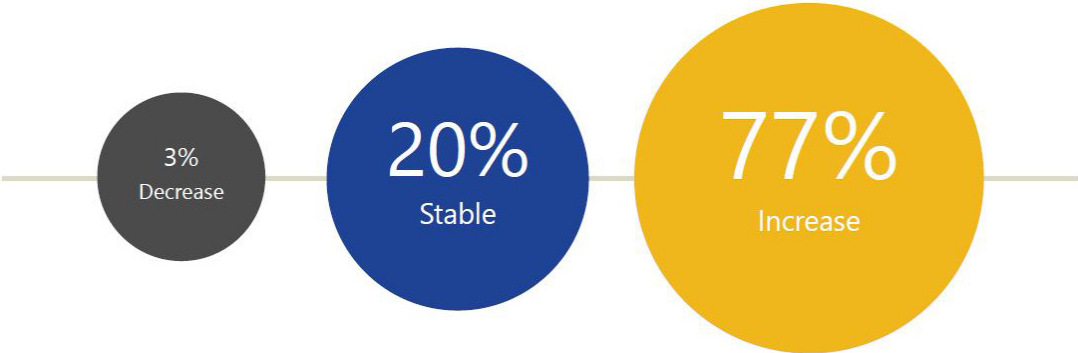
To what extent?



Source: Company Survey

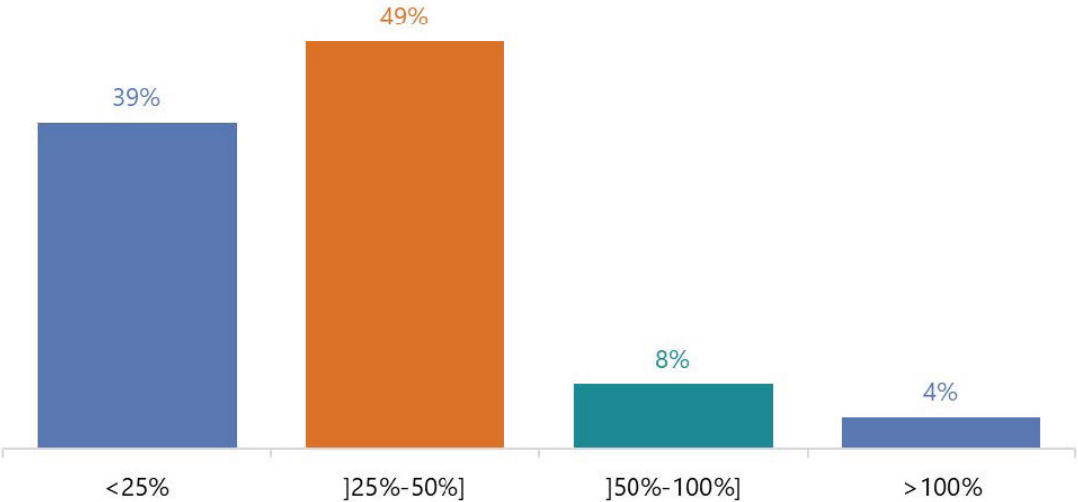


How do you think the workload evolved the past 2 years?



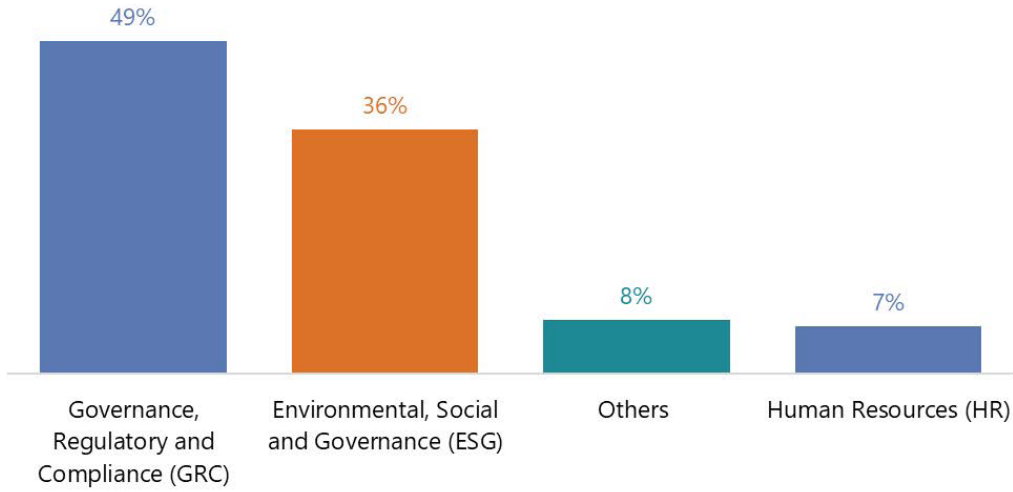
Source: Non-executive directors Survey

To what extent?



Source: Non-executive directors Survey

What are the drivers for the workload increase?

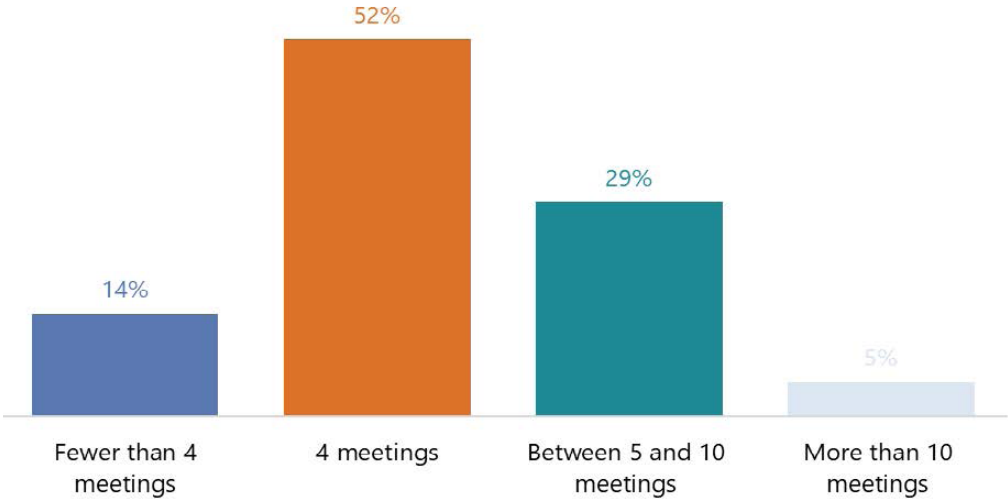


Others include: cyber-risk, digitalization, expansion of vehicles, increase in mandates, increase of new clients, partnership management, poorer quality of service providers, strategy, technology

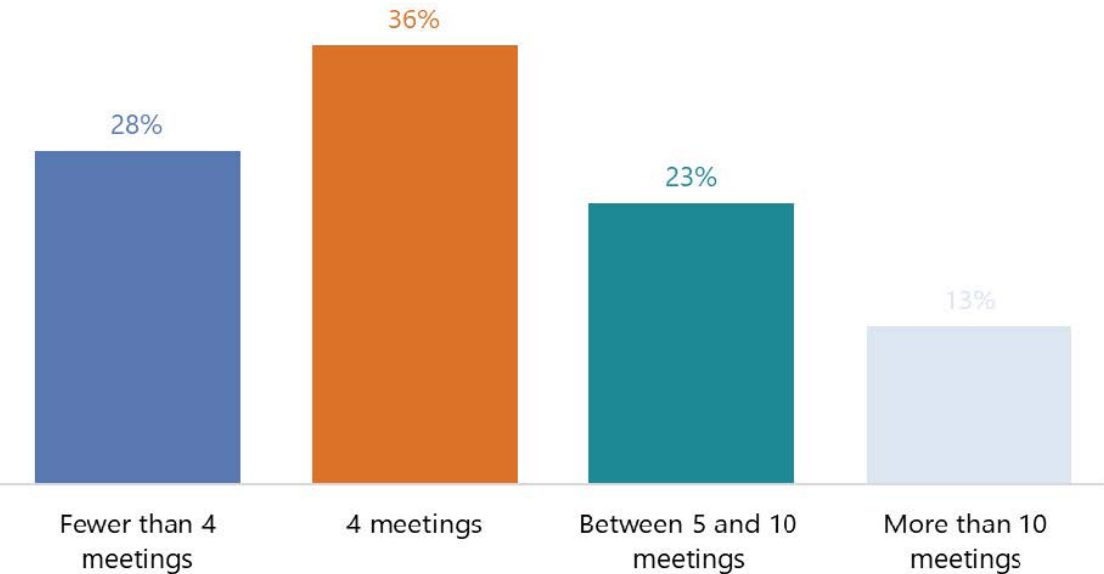
Source: Non-executive directors Survey



Number of meetings per year - Board of directors

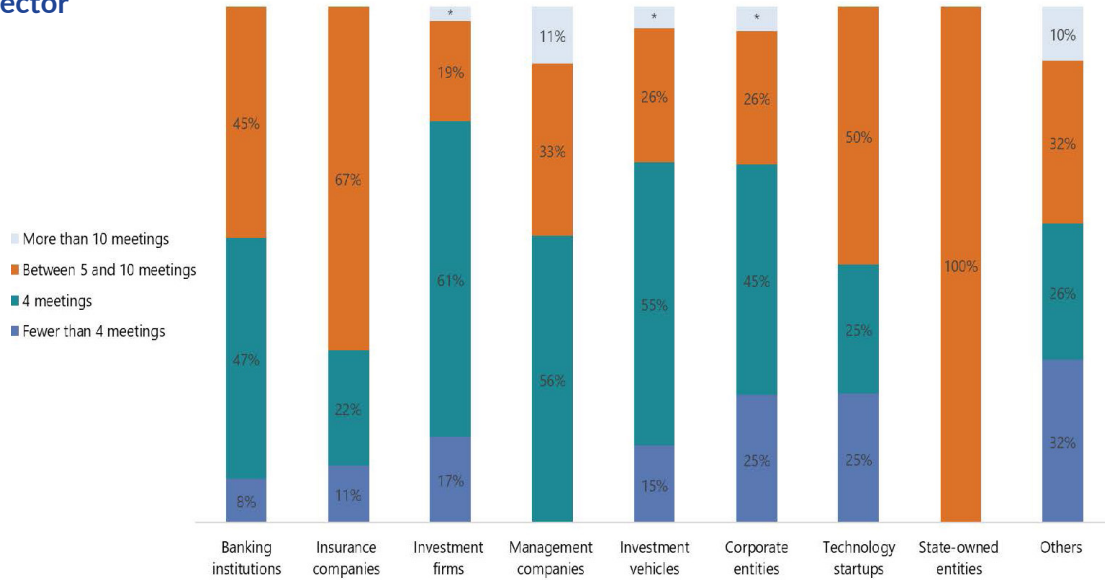


Number of meetings per year - Board committees



Number of meetings per year – Boards of directors

Per sector

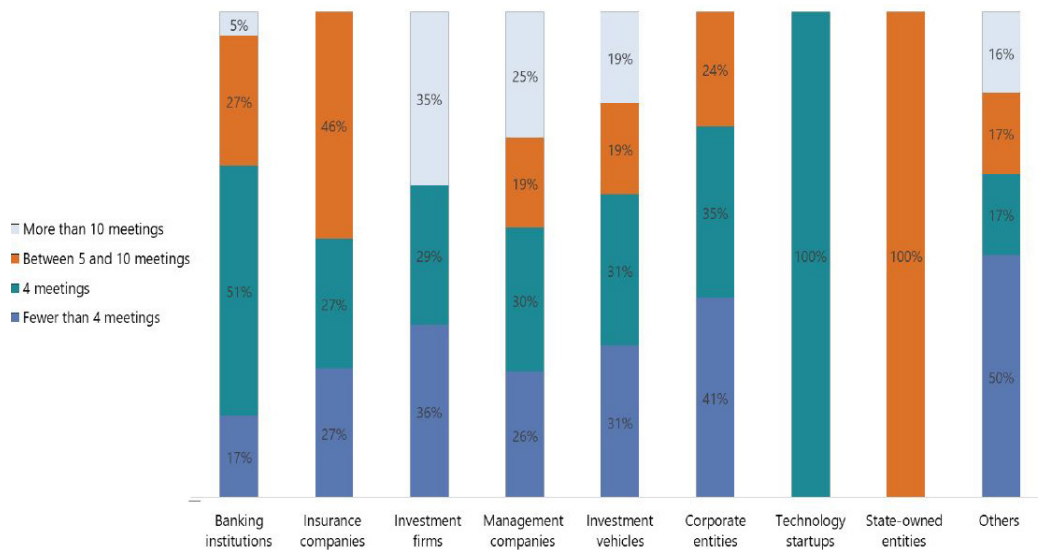


Others include: administration, audit, consulting, energy, governance, health care, private equity, research, real estate, transportation

*This value is lower than 5%

Number of meetings per year – Boards committees

Per sector

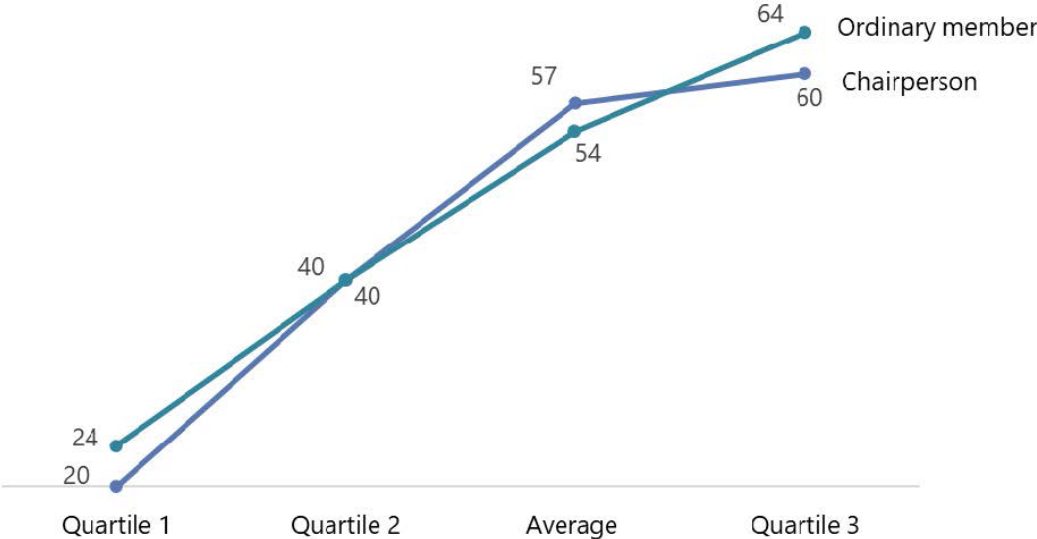


Others include: administration, audit, consulting, energy, governance, health care, private equity, research, real estate, transportation

*This value is lower than 5%

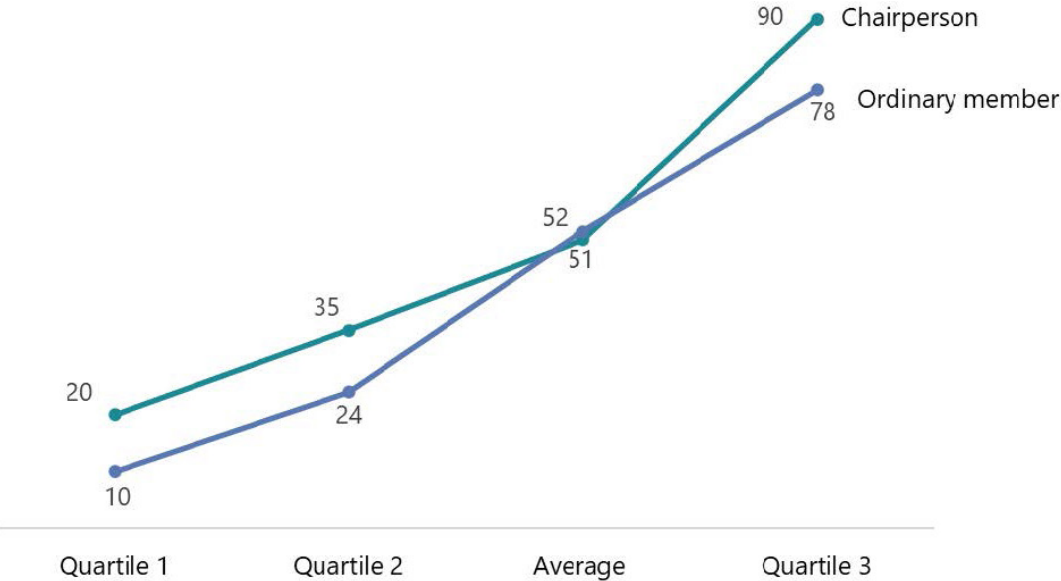


Average number of hours spent annually per mandate –Boards of directors



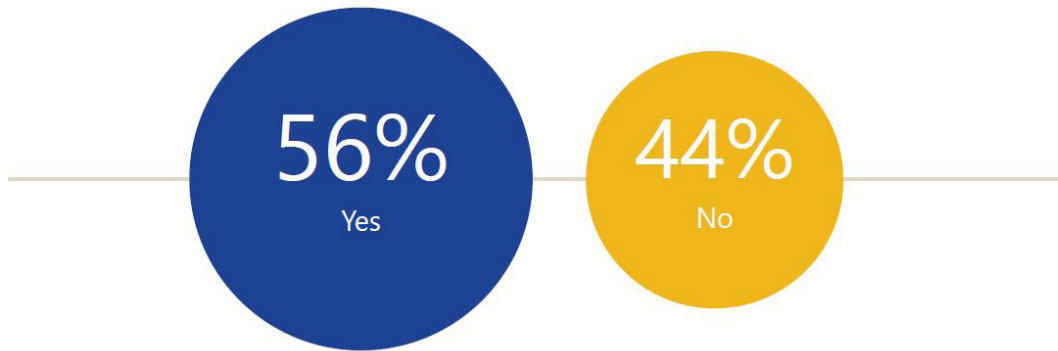
Source: Non-executive directors Survey

Average number of hours spent annually per mandate –Boards committees



Source: Non-executive directors Survey

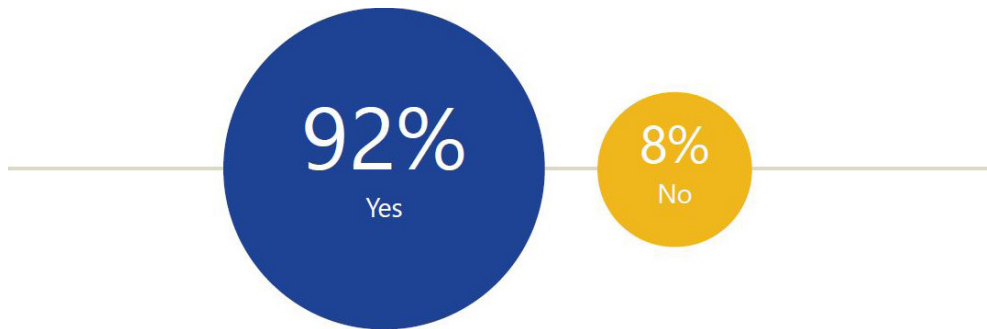
Do you maintain a time sheet?



Source: Non-executive directors Survey

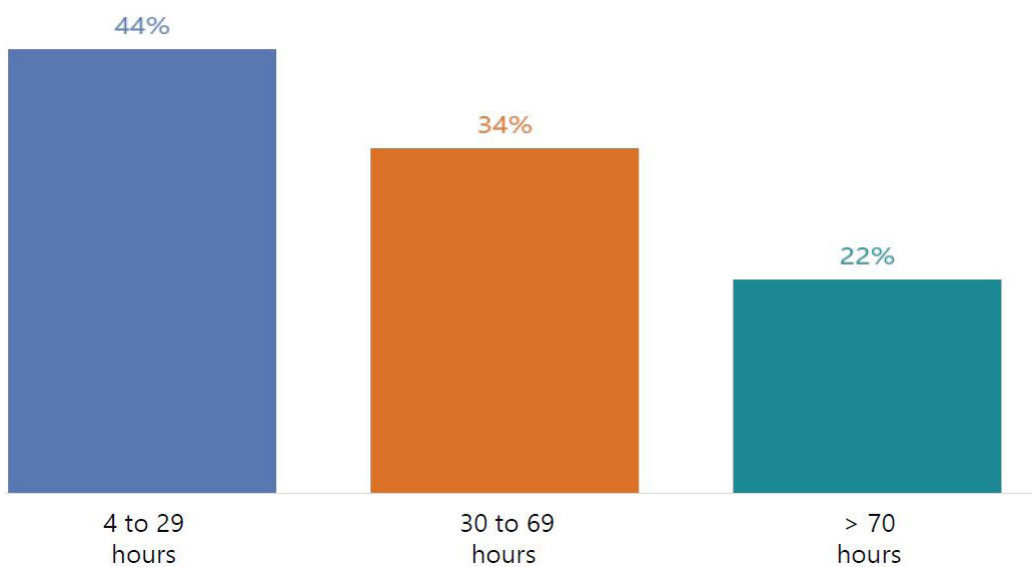
3. Training

Are you following any relevant training for non-executive directors?



Source: Non-executive directors Survey

How many hours do you spend annually on training and continuous professional development?



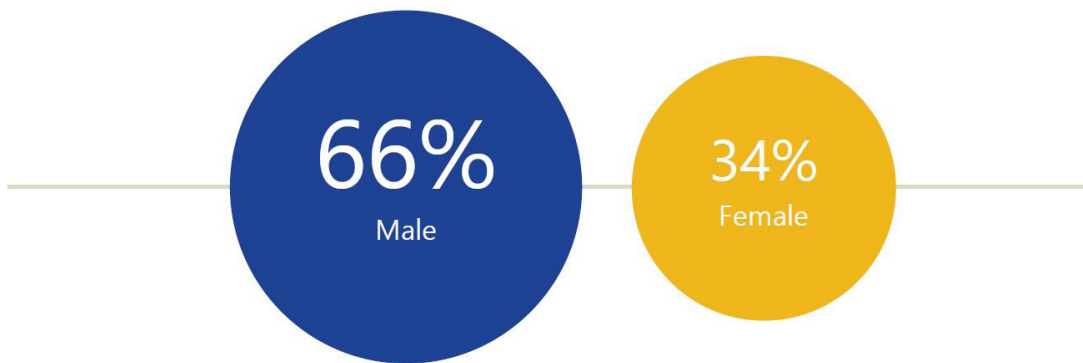
49 hours is the average hours annually spent on training (CPD)

Source: Non-executive directors Survey

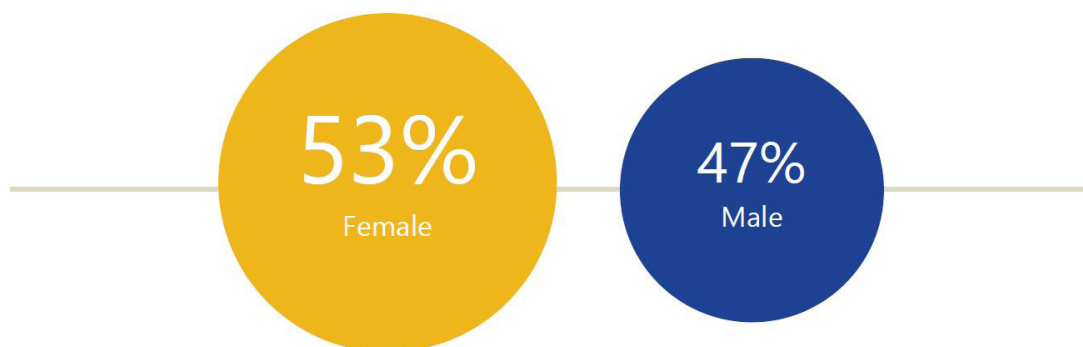
DIVERSITY

1. Diversity within the boards and board committees

Proportion of women among the boards of directors - Average

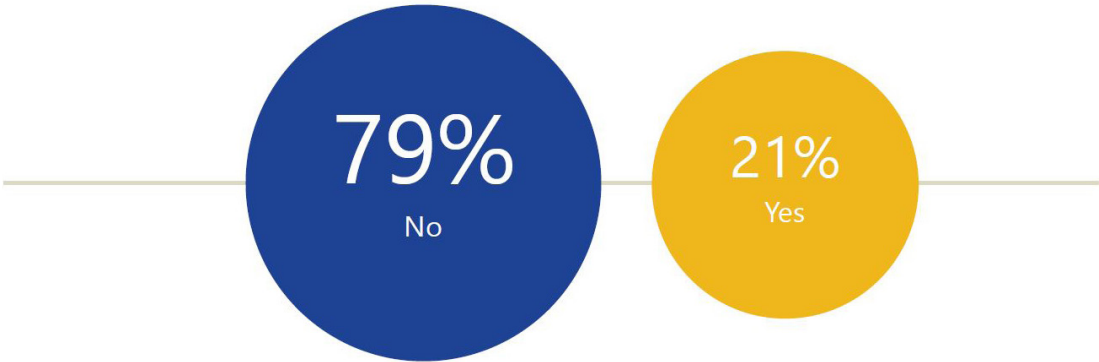


Proportion of women among the boards committees - Average

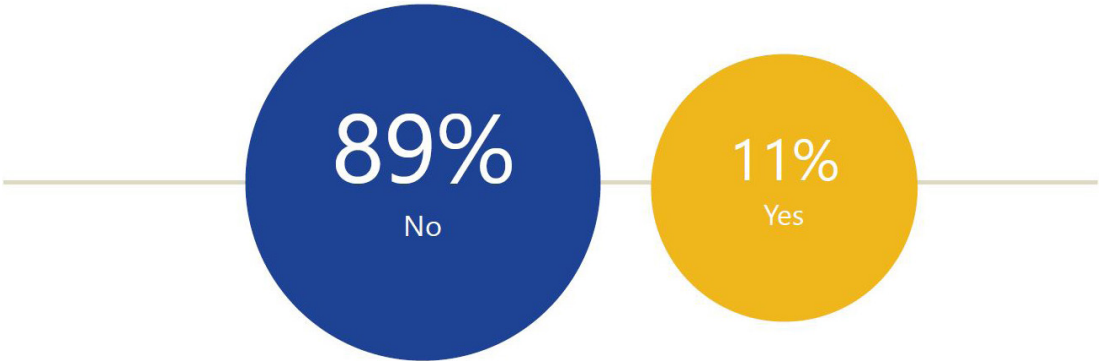




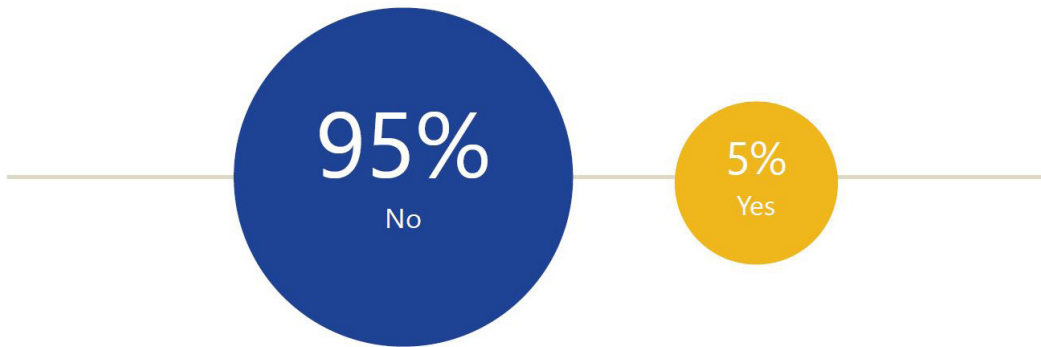
Has women representation increased among the boards of directors?



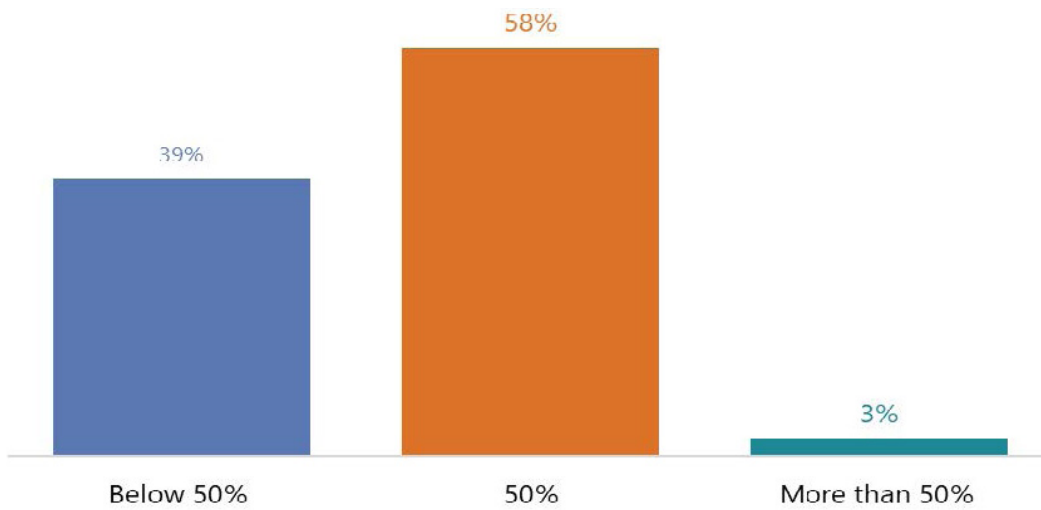
Are there any plans in place to further increase women representation on the board?



Are there any quotas/targets for equal representation among the board detailed in the company's objectives?



If yes, what are the quotas?





DISCLAIMER

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation

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OUR MISSION STATEMENT

ILA wants to be the first interlocutor on Corporate Governance in Luxembourg and therefore be instrumental in the determination and the promotion of good and sustainable conscious Corporate Governance.

ILA's mission is to support ALL directors and governance professionals, be the governance arm to all industries in the Luxembourg eco system and enhance the application of best governance practices.

To achieve the above, ILA works towards being the voice of governance matters as a multi-industry association as well as being an ambassador of Luxembourg as a strong business place for good governance.

ILA provides trainings on best practices in terms of sustainable Corporate Governance and any relevant topics, as well as supports the networking of directors and governance professionals, and issues recommendations and clear views on Corporate Governance topics (ex: tenure, diversity...).



The voice of corporate governance
in Luxembourg

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