



Sound Compensation Update 2023

Employment law and regulatory update for remuneration systems of institutes

Presentation & Agenda

Speakers



Dr. Lars Hinrichs, LL.M. (Univ. Stockholm)
Employment&Pensions
Attorney at law, Specialised Labour Lawyer

Tel.: +49 40 3785 3828
Mobile: +49 151 5807 7025
Email: lhinrichs@deloitte.de

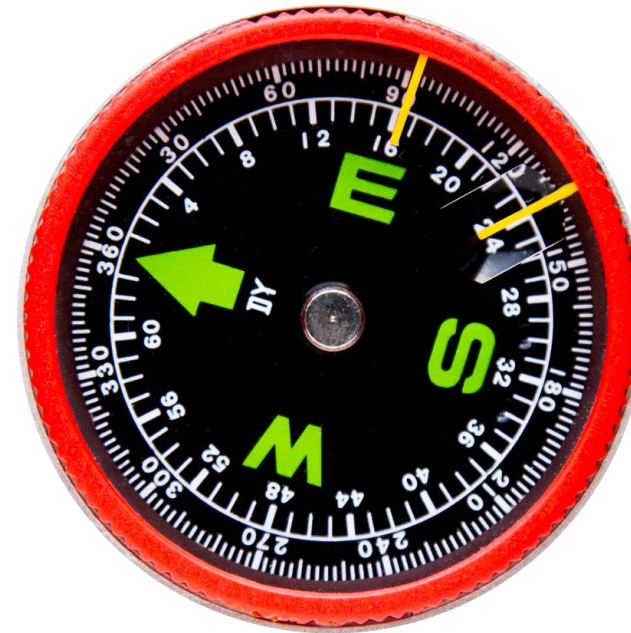


Carsten Auel
FSI Audit&Assurance
CFA, CAIA

Phone: +49 69 75695 6426
Mobile: +49 151 5807 1358
Email: cauel@deloitte.de

Agenda

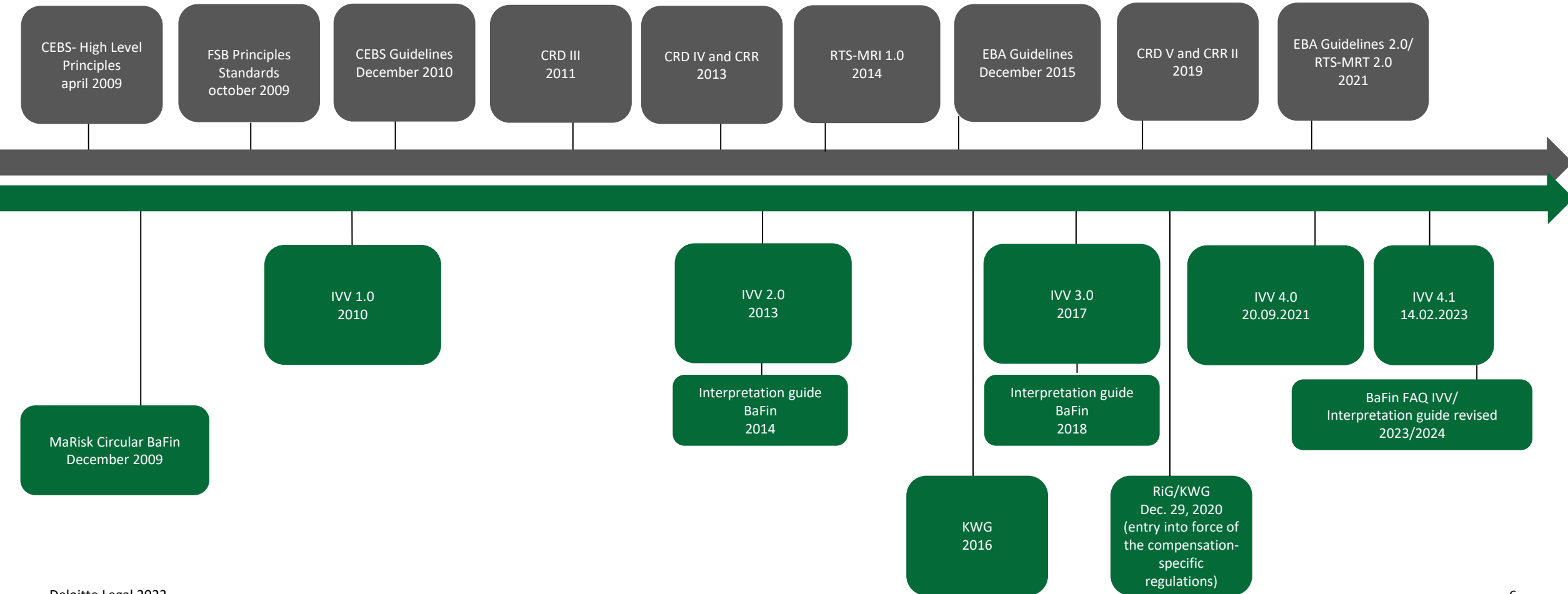
- I. Introduction: Status quo and telos for the regulatory regulation of remuneration systems and the Individual legal entities in sound compensation
- II. Sound compensation in the Annual Audit 2023
- III. Current developments (BaFin FAQ IVV, IVV 4.1 and EBA GSR 2.0 in practice, selected evergreens)
- IV. Sustainability-related requirements for remuneration
- V. Q&A



Introduction

Introduction: The Long Road of Legislation and Supervision

... to be continued



Introduction: Telos for the prudential regulation of remuneration systems

The two-dimensional approach

Double-sided purpose of the legislation with perspective
(1) Individual employee (2) Institute

Monetary behavioral incentivization of the individual employee

(Bonus Capable) The employee should be incentivized to behave in a manner consistent with the institute's sustainable business and risk strategy.

Detailed regulation (selection):

- Compatibility of the remuneration system (including bonus parameters) with the business and risk strategy
- (As a rule) No guaranteed variable compensation
- Sustainable risk-adjusted targets as parameters for variable compensation
- Ex ante and ex post risk adjustment of variable remuneration
- Capping of the maximum achievable amount of variable remuneration
- Hedging ban

Transparent risk management of the institute

Institute only grants affordable variable compensation in line with the business and risk strategy - and with full transparency for all relevant external and internal stakeholders.

Detailed regulation (selection):

- Aligned management and review of the remuneration systems in the institute and in the Group (checks and balances)
- Sustainable compatibility (of the amount) of the bonus pool with profitability, risk-bearing capacity, and capital and liquidity adequacy
- Disclosure requirements (internal/external, including disclosure of information on the inclusion of ESG criteria in remuneration systems)

Introduction: The individual regulatory legal entities in the Sound Compensation

... and the respective regulatory frameworks

Legal units in the IVV

Solo level

Institute within the meaning of Section 1 (1) sentence 1 IVV

Non significant institute (nsi)

- (1) Determination of MRT in accordance with Section 25a (5b) sentence 1 KWG
- (2) General requirements of the IVV (Sections 3 to 16) for remuneration systems

Qual. non significant institute (qnsi)

- (1) Determination of MRT in accordance with Section 25a (5b) sentence 1 KWG
- (2) General requirements of the IVV (Sections 3 to 16) for remuneration systems
- (3) Special requirements for remuneration of MRT according to Sections 1 (3), 18 et. IVV

Significant institute (si)

- (1) Determination of MRT according to Section 25a (5b) sentence 1 and 2 KWG, RTS-MRT 2.0
- (2) General requirements of the IVV (Sections 3 to 16) for remuneration systems
- (3) Special requirements for remuneration of MRT according to Sections 1 (3), 18 et. IVV

Group level

Parent company within the meaning of Sections 27 (1), 2 (12) IVV

Design and implementation of a group-wide remuneration strategy; applicability of specific regulatory framework dependent on capacity as a

- (1) Non-significant institute
 - Group-wide remuneration strategy
- (2) Non-significant qualified institute
 - Group-wide remuneration strategy
 - Determination of Group MRT pursuant to Section 25a (5b) sentence 1 KWG and application of Sections 18 et seq. IVV in accordance with Section 27 (2) sentence 3 IVV to the remuneration system of the Group MRTs
- (3) Significant institute
 - Group-wide remuneration strategy
 - Determination of Group MRT according to Section 25a (5b) sentences 1 and 2 KWG, RTS-MRT 2.0 and application of Sections 18 et seq. IVV in accordance with Section 27 (2) sentence 2 IVV to remuneration system of group MRTs

Subordinated company of regulatory scope of consolidation under Sections 27 (1), 2 (12) IVV

Application of the (specific requirements from the) Group-wide compensation strategy depending on the regulatory framework applicable to the subordinate company

- (1) (Non-significant (qualifying)/ significant) institute: Unrestricted inclusion
- (2) Prudentially regulated company with explicit exemption from application of the IVV (Section 1 (1) Sentence 2 IVV): No inclusion (str.)
- (3) Supervisory regulated company with independent supervisory regulations on remuneration systems (Section 27 (3) IVV): No inclusion (with the exception of RT exercising significant influence on superordinate company).
- (4) Supervisory-regulated company without independent supervisory regulations on remuneration systems: Inclusion

Other companies (not prudentially regulated)

Generally not included (in practice, may be included for other reasons under compensation law or personnel policy reasons)

Sound Compensation in Annual Audit 2023

Sound Compensation in Annual Audit 2023

Section 12 PrüfbV (in conjunction with Section 29 (1) No. 2, (4) KWG)

- (1) The auditor shall report on whether the institute has classified itself or has been classified as a significant institute within the meaning of the IVV. If applicable, the risk analysis that led to the classification as a non-significant institute must also be addressed.
- (2) The auditor shall assess the appropriateness and transparency of the institute's remuneration systems and their alignment with the sustainable development of the institute in accordance with Section 25a (1) sentence 3 no. 6 KWG. This shall also include an assessment of whether the institute has established an appropriate ratio between the variable and fixed annual remuneration in accordance with Section 25a (5) KWG.
- (3) The auditor shall assess whether the remuneration systems, including the remuneration strategy, support the achievement of the strategic objectives of the institute and whether the remuneration parameters are aligned with the business and risk strategies in accordance with the Remuneration Ordinance for Institutions. In doing so, the auditor shall report on the following points in particular:
 1. the remuneration systems of the managing directors,
 2. the remuneration systems by business area,
 - a) the basic features of the other remuneration systems (for example, bonus pool calculation and bonus allocation, compensation parameters, payment modalities),
 - b) the upper limit set for the ratio of variable to fixed compensation and the criteria used to determine the upper limit,
 3. the remuneration systems for the control units,
 4. in the case of superordinate companies, compliance with compensation requirements within the Group,
 5. the involvement of the administrative or supervisory body.
- (4) In the case of significant institutes within the meaning of the IVV (Section 1 (3c) KWG), the following must also be addressed in particular:
 1. the process for identifying employees whose activities have a significant impact on the overall risk profile (risk takers) as part of a risk analysis, the plausibility and traceability of this process, and its outcome,
 2. the remuneration systems of the Risk Takers, in particular with regard to the use of remuneration parameters that take into account the objective of sustainable success and the consideration of risks, their maturities and the cost of capital and liquidity,
 3. the payout modalities for risk takers, in particular with regard to retention periods, vesting periods, dependence on the sustainable performance of the institute, and malus criteria,
 4. the structure and tasks of the Compensation Control Committee,
 5. the position, qualifications, independence, organizational integration, duties and equipment of the compensation officer.

Sound Compensation in the Annual Audit 2023

4 Guiding principles

(1) Regulatory audit standard

- In general: KWG 2023, IVV 4.0 and EBA-GSR 2.0 with regard to the content of remuneration systems
 - BaFin interpretative guidance to be taken into account as soft law in the regulatory assessment of the specific implementation of the relevant regulatory requirements in the remuneration systems/remuneration governance
- Supervisory review standard for institutes that meet sl/qnsl requirements for the first time in fiscal year 2023:
 - Implementation of the extended requirements of Sections 18 et. IVV in the remuneration systems (taking into account the framework conditions under labor law): System audit as audit subject according to Section 12 PrüfBV (and first-time application of the revised remuneration systems in the following fiscal year argumentatively plausible from a supervisory point of view according to, among others, Sections 13 and 14 IVV).
 - Implementation of the extended requirements of Section 25 (5b) KWG in conjunction with VO 2021/923/EU for the extended MRT analysis in the financial year 2023

(2) Accrual of the application of IVV 3.0 and IVV 4.0 (especially for sl)

(3) Principle of regulatory plausibility

(4) Documentation (*paper trail*)

Current developments (BaFin FAQ IVV, IVV 4.1 and EBA GSR 2.0 in practice, selected evergreens)

Current developments: BaFin FAQ IVV

Embedding of BaFin FAQ IVV in EBA-GSR 2.0/BaFin Interpretative Guidance according to the (current) understanding of BaFin

(1) EBA-GSR 2.0 as a starting point

- With the exception of the regulatory areas for which BaFin has chosen "explain" approach: (1) "risk carrier analysis light" for CRR-nsl/CRR-qnsI; (2) clawback regulations for variable remuneration only for MRT in bl/qnbl with variable remuneration of > EUR 50,000/at least 1/3 of total remuneration.

(2) BaFin FAQ IVV as (i) interpretative supplement for matters regulated in EBA-GSR 2.0 or (ii) as starting source for matters not regulated in EBA-GSR 2.0

- Among other things: Announcements on the Remuneration Officer

(3) BaFin Interpretative Guidance as a subsidiary source of pronouncements, provided that it contains BaFin practice notes that go beyond the BaFin FAQ IVV

- In particular, on all regulatory items for which FAQ IVV does not contain any pronouncements (including holding premiums pursuant to Section 5 (7) IVV, target agreements for MRT in sl/qnsI pursuant to Section 19 IVV).

Current developments: BaFin FAQ IVV

Four selected topics - and four initial theses

(1) ESG criteria in remuneration systems

- *Compensation strategy follows business/risk strategy*

(2) Gender neutrality as a parameter for the appropriateness of the remuneration system (Section 5 (1) No. 6 IVV)

- *Development of a suitable system/process (using the existing system/process for the Remuneration Transparency Act as a starting point)*

(3) Calculation and determination of the total amount of variable remuneration (Section 7 IVV)

- *Reliable data basis for the assessment of the fulfillment of the additional conditions under supervisory law pursuant to Section 7 (1) sentence 3 IVV: "Certified annual financial statements" or comparable reliable data source*

(4) Special compensation components: spot bonuses and severance payments

- *Continuation of the system established in practice - with individual modifications to content*

Current developments: BaFin FAQ IVV - ESG criteria in remuneration systems

Starting point: From actual to target status

BaFin FAQ IVV (Question 8): Remuneration strategy follows business and risk strategy

- (1) Section 4 IVV as starting point: ESG strategy in accordance with business and risk strategy sets framework for implementation of ESG criteria in the remuneration system
- (2) Documentation of the implementation, among other things, in compensation guidelines (Section 11 (1) no. 2 IVV)

Art. 5 SFDR (Regulation 2019/2088/EU)

- (1) Baseline requirement: *"Financial market participants and financial advisors shall indicate as part of their remuneration policy the extent to which it is consistent with the inclusion of sustainability risks and publish this information on their websites. The [...] information shall be included in the remuneration policy that financial market participants and financial advisors must establish and maintain in accordance with sectoral legislation, in particular Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/65/EU, (EU) 2016/97 and (EU) 2016/2341."*
- (2) Telos: (More) transparency on remuneration policies in qualitative or quantitative terms that promote sound and effective risk management in relation to sustainability risks, where the remuneration structure does not encourage excessive risk-taking in relation to sustainability risks and is linked to risk-weighted performance (recital (22)).

Implementation of ESG criteria in remuneration policy

- (1) Implementation in systematics of target agreements (especially individual qualitative targets).
- (2) Implementation in catalog of negative profit contributions/malus/clawback circumstances (Sections 5 (2), 18 (5), 20 (6) IVV).
- (3) Implementation in system for determining the total amount of variable remuneration (Section 7 IVV).

Current developments: BaFin FAQ IVV - Gender neutrality in remuneration systems

Starting point: From the actual to the target status

BaFin FAQ IVV: n.n.

n.n.

Dimensions of the regulatory requirement for gender neutrality in compensation

- (1) Content design
- (2) Proof
- (3) Monitoring

(For the time being) content filling of the dimensions based on the established legal framework.

- (1) Legal framework: Art. 157 TFEU, General Equal Treatment Act (AGG) and Remuneration Transparency Act (EntgTranspG).
- (2) Legal principles concretizing and/or supplementing the standard from (supreme court) labor court case law (most recently, inter alia, BAG judgement dated 16.02.2023 (8 AZR 450/21): Proper and consistent documentation of concrete pay determination as an instrument for rebutting the presumption of gender-related pay disadvantage).
- (3) Appropriate control actions: Gender pay gap analysis (including defined catalog of measures), job profile analysis (and its application especially for new hires), analysis of performance/other assessment criteria for variable compensation components.

Current developments: BaFin FAQ IVV - Determination and setting of the total bonus pool

Starting point: Among other things, robust data basis for ancillary conditions according to Section 7 (1) sentence 3 IVV

BaFin FAQ IVV (Question 12): Key findings from the pronouncements

- (1) Examination of the ancillary conditions pursuant to Section 7 (1) sentence 3 IVV on the basis of the figures attested in the annual financial statements
- (2) Negative earnings situation and/or insufficient equity capitalization: Documentation of reliable short/medium-term earnings/equity planning ("turnaround within three years") as a prerequisite for nonetheless determining the total amount of variable compensation
- (3) Implementation of appropriate controls and procedures as part of the system and process of determining the total amount of variable compensation



Further insights/impulses for practice

- (1) Also use of comparably reliable data sources for the verification of the relevant key figures within the scope of Section 7 (1) sentence 3 IVV?
- (2) Complete paper trail of planning data (which in and of itself should also be verified and confirmed by the relevant control units as part of the process for determining and setting the overall bonus pool)
- (3) Implementation in sfO, which at the same time takes into account supervisory requirements of Section 11 (2) IVV

Current developments: BaFin FAQ IVV - Spot Bonuses

Starting point: (Restricted) group of beneficiaries and Section 7 IVV examination

BaFin FAQ IVV (Question 4): Key findings from the pronouncements

- (1) Spot bonuses permissible if three conditions are met: (a) determination of the performance parameters at the beginning of the fiscal year, (b) consideration of negative performance contributions pursuant to Section 5 (2) IVV, (c) inclusion in the review pursuant to Section 7 IVV (in principle as part of the overall bonus pool determination after the end of the fiscal year and, to this extent, agreement on a repayment clause in the case of payments already made during the year)
- (2) General inadmissibility of granting vis-à-vis MRT in sl/qnsl with regard to the requirements of Section 19 (1) sentence 2 IVV



Further insights/impulses for practice

- (1) Telos of the inclusion in the Section 7 IVV review announced by BaFin in the context of the overall bonus pool determination can also be achieved through a robust process of the Section 7 IVV review during the year (if necessary, using the three-month "follow-up period"); this in particular taking into account the agreement of a repayment clause in the case of spot bonus performance parameters that are exclusively/primarily linked to individual work performance, which is (arguably) not effective under employment law (AGB control)
- (2) Granting of MRT in sl/qnsl: Systematic embedding and purpose of the spot bonus in the overall system of variable compensation components (if necessary, further input on this expected in the consultation process, e.g. as a limit on the absolutely permissible amount of the spot bonus for MRT)

Current developments: BaFin FAQ IVV - Severance payments

Starting point: Purpose-related, documentation and possible privileging of individual severance payments

BaFin FAQ IVV (questions 10 and 11): Key findings from the pronouncements

- (1) Relevant assessment criteria for admissibility of severance payment: (a) (Time of agreement (= contractual agreement prior to occurrence of termination event? (b) Trigger (= generally no severance pay in the case of termination forced by the employee and in the case of termination of a fixed-term employment contract, (c) Extent of severance pay (= in the case of fixed-term employment contracts, remuneration owed as an alternative maximum severance payment until the expiry of the term, otherwise standard market severance payment factors in the case of termination of an unlimited employment contract; special justification generally required for the granting of transitional allowances as non-compulsory benefits).
- (2) News on the privileged circumstances: (a) threatened legal proceedings within the meaning of Section 5 (6) sentence 5 no. 1 lit. d) IVV only if the action is pending before the labor court, (b) Section 5 (6) sentence 5 no. 3 IVV already applies whenever concrete severance payment claims two privileged grounds for severance payment within the meaning of Section 5 (6) sentence 5 IVV



Further insights/impulses for practice

- (1) If necessary, readjustment of the settlement principles (Sections 5 (6) sentence 2, 11 (1) sentence 2 no. 2 IVV) with definition of a range for the settlement factor for the use of the privilege of Section 5 (6) sentence 5 no. 1 lit. d) IVV
- (2) If necessary, extended use of the notification of the settlement payment to the competent financial supervisory authority in accordance with Section 5 (6) sentence 5 no. 3 IVV (checklist from BaFin interpretation guidance on Section 5 IVV)

Evergreens: Update on the Appropriateness of Executive Compensation (Section 10 (1) IVV).

Starting point: Institution-specific implementation of regulatory requirements

The regulatory framework

- (1) Section 10 (1) IVV: Remuneration of the Executive Board must (a) be commensurate with the duties and performance of the Executive Board and the situation of the institute, and (b) may not exceed the customary remuneration without special justification
- (2) BaFin interpretation guidance: Section 10 (1) IVV is modeled on Section 87 (1) sentence 1 AktG and case law and literature on Section 87 AktG can be used to determine the content and conduct of the review of the appropriateness of the remuneration of the Executive Board
- (3) Section 87 (1) sentence 1 of the German Stock Corporation Act (AktG) sets limits on the supervisory body's exercise of its discretion in determining the remuneration of executive officers. In the case of listed institutes, the supervisory board must also observe recommendations G.2 to G.4 DCGK
- (4) In general, the total compensation is decisive for the appropriateness of the compensation (although in individual cases the individual remuneration components (especially benefits from pension commitments) can be assessed separately).
- (5) Supervisory body's broad scope for judgment and discretion: Exercise free of error if the supervisory body, when determining the amount of compensation could reasonably be expected to have acted on the basis of adequate information and in the best interests of the company.

Reference point Tasks and services as well as location of the institute

- (1) Criteria for the duties and performance of the executive director are primarily relevant if, in the context of the horizontal appropriateness test, total compensation exceeds the 75th percentile.
- (2) Situation of the company: (a) overall economic situation and financial position, (b) strategy and reputation of the company, (c) complexity of the corporate culture, (d) geographic market penetration

No exceeding of the usual remuneration without special reasons

- (1) Horizontal customary: as customary remuneration of comparable companies with the assessment parameters: (a) size (total assets, number of employees, sales/earnings), (b) complexity of the group structure, (c) industry, (d) business strategy and related complexity, (e) geographical area of activity of the company

With scope for judgment on the part of the supervisory body in determining the relevant peer group
- (2) Vertical comparability: Wage and salary structure in the company as a starting point (G.4 DCGK: senior management and workforce as a whole as assessment parameters)

Evergreens: Update on appropriateness of executive compensation (Section 10 (1) IVV).

Individual parameters for justification of appropriateness of total compensation in case of ranking above 75th percentile

No.	Criterion	(Typifying) criteria that may justify total compensation in the ranking above the 75th percentile
1	Qualification of the manager	<ul style="list-style-type: none"> (1) Special qualifications in relation to the Institute's business model ("Professional Expert") (2) Special qualifications in relation to the specific operational business of the institute ("qualifications that are not substitutable on the market") (3) Professional qualifications in relation to responsible departments ("attractiveness of the manager on the market/market value", "proven performance") (4) Intellectual qualifications ("visionary")
2	Professional experience of the manager	<ul style="list-style-type: none"> (1) Many years of professional experience in relation to the institute's business model ("stable smell", "crisis-proven") (2) Many years of professional experience in the market environment of the institute ("Intimate market expert", network) (3) Many years of professional experience outside the market environment of the institute ("Tried and tested transformation ('view from outside') into the institute", network)
3	Reputation of the manager	<ul style="list-style-type: none"> (1) High market reputation, resulting among other things from: successful management of the institute in the past ("positive future expectations") (2) Risk of loss of existing market reputation due to current challenges (item 6) ("risk allowance").
4	Tasks and functions of the managing director	<ul style="list-style-type: none"> (1) Broad range of tasks and associated (overall) responsibility and included general liability risks (2) Specific departmental responsibility (Chief Sales Officer>CFO) (3) Assumption of further executive functions in the Group (e.g. managing director of other Group companies)
5	Risks associated with serving on the Executive Board (liability risks, term of office, prospects)	<ul style="list-style-type: none"> (1) Reputation of the institute on the market ("market perspective") (2) Specific general operational liability risks relating to (i) business model (due to legal restrictions, among other things), (ii) business operations (including high individual loss risks), (iii) market environment (3) Special operational liability risks arising from individual matters spanning more than one period (especially with a high risk of loss and complex circumstances that give rise to significant risks for the Board of Management, even taking into account the business judgment rule)

Evergreens: Update on appropriateness of executive compensation (Section 10 (1) IVV).

Individual parameters for justification of appropriateness of total compensation in case of ranking above 75th percentile

No.	Criterion	(Typifying) criteria that may justify total compensation in the ranking above the 75th percentile
6	Overall economic situation as well as financial, strategic and reputational situation and development of the institute	(1) Pressure/need for change in business model ((perspective) maturity of individual products, demographics, transformation) (2) Dynamics of the market environment (permeability, maturity of the market) (3) Market position of the institute (market leader, hidden champion) (4) Overall economic situation (investment needs/backlog) (5) Financial situation ("crisis", "refinancing")
7	Complexity of the corporate structure	(1) Quantitative complexity (group structure, reporting/staff organization) (2) Qualitative complexity in the business model ("Diversified (core) business models") (3) Quantitative and/or qualitative complexity in business operations (depth of in-house production, technical complexity of production processes)
8	Geographic market penetration	(1) "Across the board" = National/International market (2) "In depth" = high market share in relevant market segments
9	Service location	(1) "Place-based market view" = alternative career opportunities for business managers/substitution for the Institute (2) "Cross-locational market view" = Tendency of low(er) attractiveness for living (among others traffic-related accessibility, local infrastructure)

Evergreens: Update on MRT identification

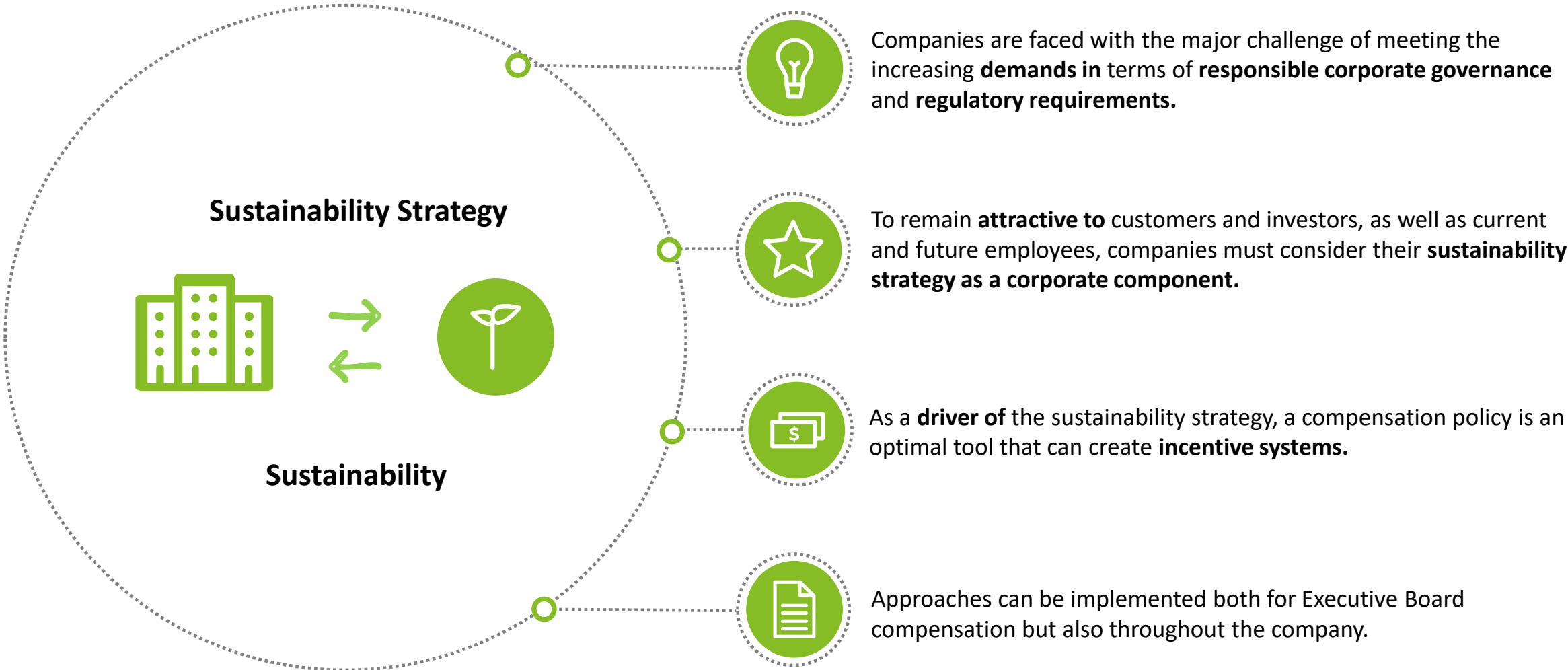
Starting point: Selected questions on the (needs-based) application of the requirements of Section 25a (5b) of the German Banking Act (KWG)

Legal source	Group of persons covered	Current topics/questions
Section 1 (21) sentence 2 KWG	In addition, managing directors pursuant to Section 1 (2) KWG and members of the administrative/supervisory body pursuant to Section 25d of the KWG shall be deemed to be MRTs	No application to non-significant non-CRR institutes (systematic argument: Section 1 (21) sentence 2 KWG as a fiction in the scope of application of Section 25a (5b) KWG).
Section 25a (5b) sentence 1 no. 1 KWG	Employees at senior management	Management level includes required (personnel) management responsibility for assignment to this group of persons (generally not given for officers reporting directly to management, e.g. compensation officers in bl, data protection officers, etc.).
Section 25a (5b) sentence 1 no. 2 KWG	Employees with management responsibility for the control functions or major business areas of the institute	<ol style="list-style-type: none"> (1) Management responsibility: Professional and/or personal scope of management responsibility. (2) Control task: scope for judgment in the (non-)designation of any further control units in addition to risk management, internal audit and compliance (3) Significant business area: margin of judgment in the verification and determination of the core business area in accordance with Art. 2 (1) no. 36 RL 2014/59/EU
Section 25a (5b) sentence 2 KWG	Application of the requirements of Regulation 2021/923/EU of bl	<ol style="list-style-type: none"> (1) Interpretation of the content of the individual groups of persons in Art. 5 of Regulation 2021/923/EU (2) Rebuttal of the presumption according to Art. 6 (2) of Regulation 2021/923/EU: Review of job profiles for relevant competencies (and their comparison with actually implemented powers and responsibilities); introduction of a - tested - validation system to rebut the presumption of risk influence (e.g. scoring model).
Section 25a (5b) sentence 3 KWG	MRI property notification	<ol style="list-style-type: none"> (1) No formal requirement (2) Initial notification and follow-up notification

Sustainability-related requirements for remuneration

Corporate strategy and sustainability

Compensation policy as a tool for implementing an effective sustainability strategy



Regulation and sustainability

Different regulatory frameworks help improve risk management and transparency

ESG frameworks and guidelines include **disclosure requirements** and **recommendations on** various corporate compensation parameters and strategies.



With regard to remuneration systems, companies are **currently relatively free in their design**, since ESG criteria, for example, are not tied to the sector of the company (e.g. service companies vs. manufacturing industry).



Through the integration of sustainability aspects into the incentive systems, sustainability risks can be **mitigated** and **risk management improved**.

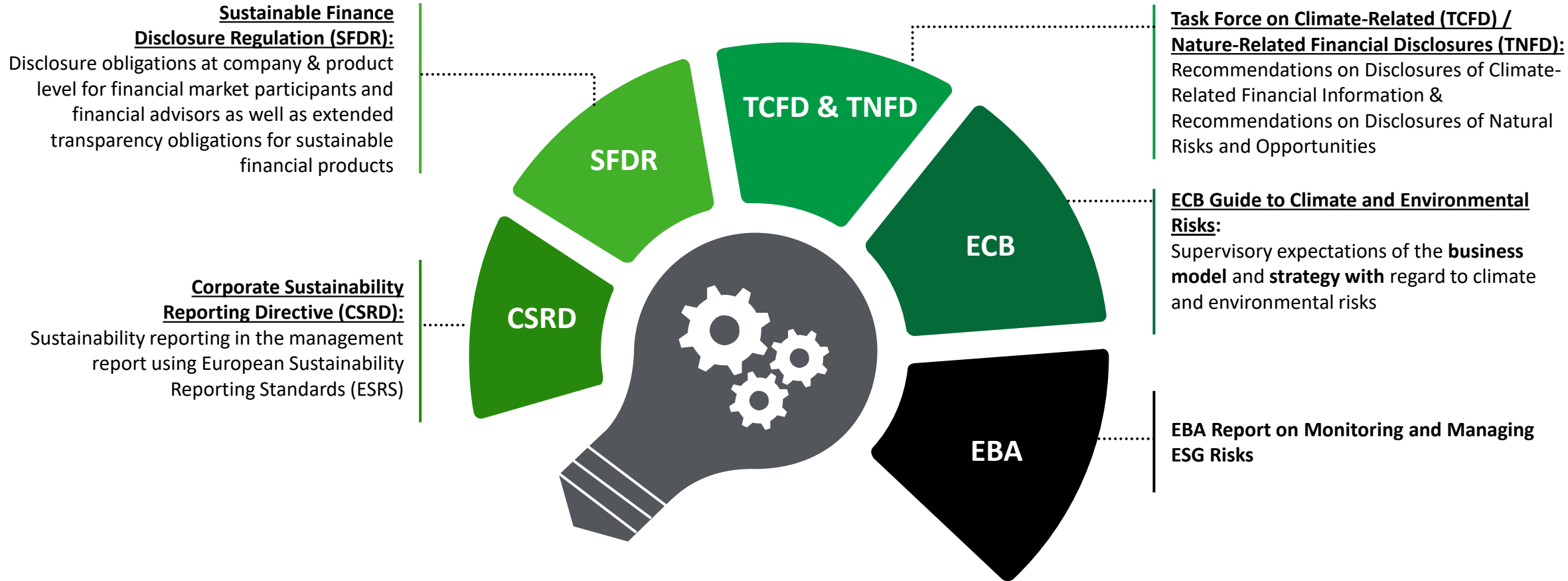


Increased transparency creates **implications for** companies to create incentive systems and integrate sustainability risks.



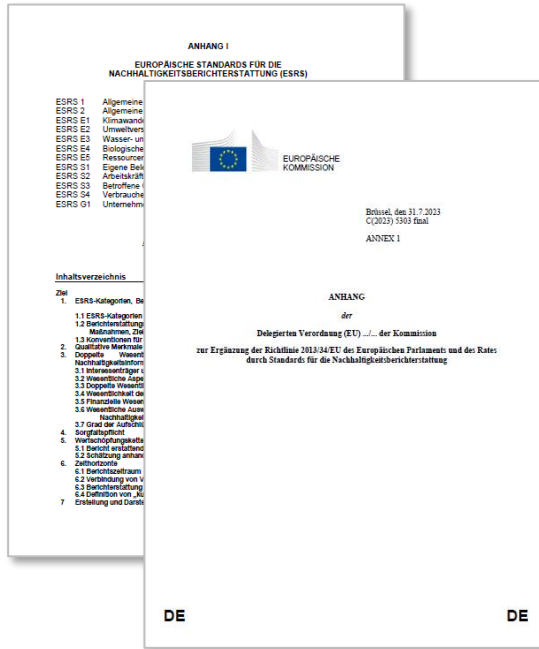
Sustainability as a compensation target

Various ESG frameworks and guidelines include disclosure requirements and recommendations on corporate compensation parameters and strategies



CSRD and remuneration policy (1/3)

With the help of the disclosure requirements under ESRS, the CSRD aims to ensure that sustainability issues are considered in the context of business strategy



CSRD - Sustainability & Business Strategy

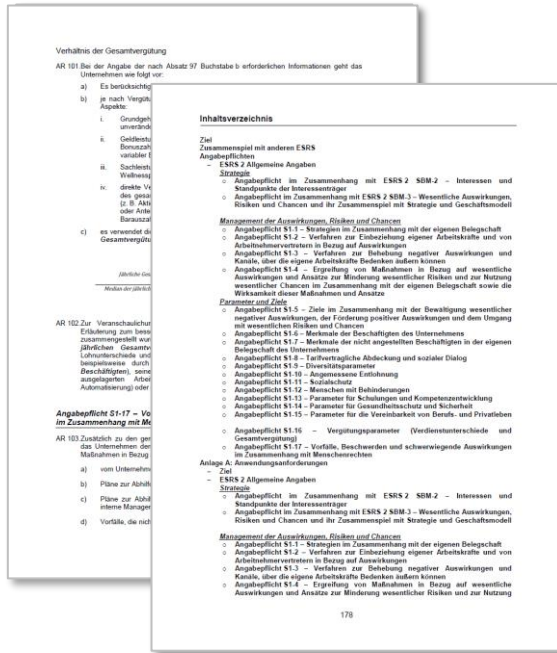
- As part of a **materiality analysis**, the extent to which certain sustainability issues are material for the company must be analyzed.
 - The following information must be disclosed for material issues:
 - **Anchoring** the essential topic in the **company** and **business model**
 - **Strategies** for dealing with the essential issue
 - **Measures** and means related to the essential theme
 - **Parameters** related to the essential theme
 - **Targets** for tracking the **effectiveness of** strategies and measures
- Goal: **Stronger anchoring of** key sustainability issues in the **company** and in the **business strategy**.



Material issues can trigger impacts on the **sustainability strategy** and thus also on the **business strategy**.

CSRD and compensation policy (2/3)

The CSRD ensures greater transparency and comparability of compensation parameters in sustainability reporting with the help of the disclosure requirements under ESRS



CSRD - Remuneration parameters

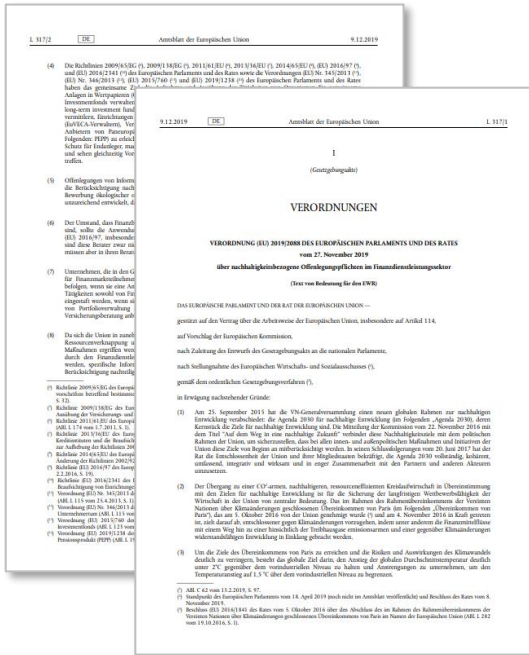
- **Compensation parameters** are part of the disclosure requirements of Standard S1 "Own workforce".
 - The **materiality analysis** must analyze the extent to which the topic is material for the reporting company.
 - If materiality is identified, the following compensation parameters, among others, must be disclosed:
 - Unadjusted gender **pay gap**
 - **Excessive remuneration** of members of the management bodies
- **Goal: Greater transparency regarding corporate compensation.**



The disclosure requirements of ESRS increase the **comparability and transparency** of compensation parameters within the reporting of companies.

SFDR and compensation policy (1/2)

The Disclosure Regulation includes disclosure obligations for financial market participants and advisors to improve investor protection



Article 5 SFDR

- The SFDR disclosure requirement calls for disclosures on the website regarding the **inclusion of sustainability risks in the compensation policy** (Article 5 SFDR).
- In this context, the compensation policy is **not** intended to encourage **excessive risk-taking with** regard to sustainability risks.

→ Goal: **Integration of sustainability risks and risk management** into the compensation policy.



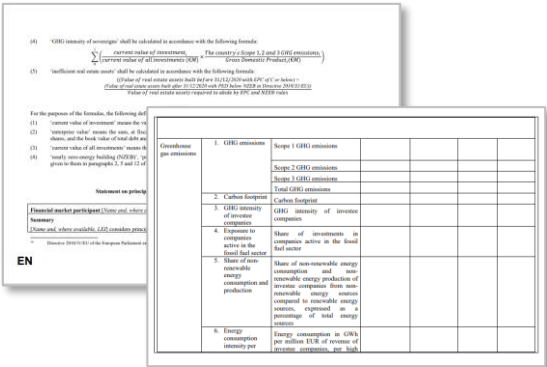
The disclosure requirements of the SFDR provide an **impetus** for financial companies to adjust their compensation policies with regard to sustainability risks and to implement **incentive systems** there that promote **appropriate management of sustainability risks**.

SFDR and compensation policy (2/2)

The Disclosure Regulation requires information on compensation parameters within portfolios

Article 4 SFDR - quantitative PAI statement

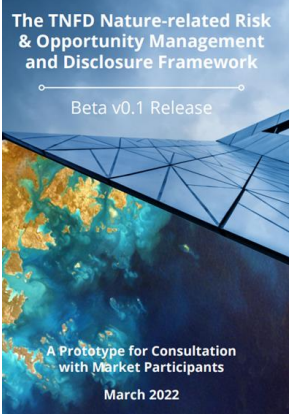
- Financial market participants report the weighted gender pay gap of all **investments** (data availability is not currently available) in the context of principal adverse sustainability impacts ("PAIs" for short).
- Goal: incorporate gender equitable pay into decision-making processes **in the investment process.**



The disclosure requirements of the SFDR provide an **impetus** for financial companies to adjust their compensation policies with regard to sustainability risks and to implement **incentive systems** there that promote **appropriate management** of sustainability risks.

Recommendations to the remuneration policy

The 4 frameworks recommend companies to integrate ESG risks into compensation policies



TCFD

TCFD recommends that **climate risks and opportunities** be considered and integrated into corporate compensation policies.

TNFD

In the context of TNFD, disclosure of corporate compensation policies requires consideration of **natural risks and opportunities**.

ECB Guide to Climate and Environmental Risks

In the guide, institutes should ensure that their compensation policies and practices are consistent with their approach to climate and environmental issues and their voluntary commitments.

EBA Report on Monitoring and Managing ESG Risks

The EBA recommends the integration of ESG risks into the governance structures of institutes. Aligning remuneration policy with ESG objectives serves above all to avoid conflicts in business decisions.

Compensation policy as a driver of an effective sustainability strategy

Conclusion of ESG in the compensation context



Integration of sustainable remuneration into the sustainability and business strategy



Integration of sustainability in compensation in terms of risk management



Sustainable compensation in terms of fair pay at the vertical and horizontal levels



Integrating sustainability into compensation structures as an incentive for sustainable transformation

Q&A



Many thanks
for your attention

Your Contact



Dr. Lars Hinrichs, LL.M. (Univ. Stockholm)
Employment&Pensions
Attorney at law, Specialised Labour Lawyer

Tel.: +49 40 3785 3828
Mobile: +49 151 5807 7025
Email: lhinrichs@deloitte.de



Carsten Auel
FSI Audit&Assurance
CFA, CAIA

Phone: +49 69 75695 6426
Mobile: +49 151 5807 1358
Email: cauel@deloitte.de

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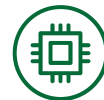
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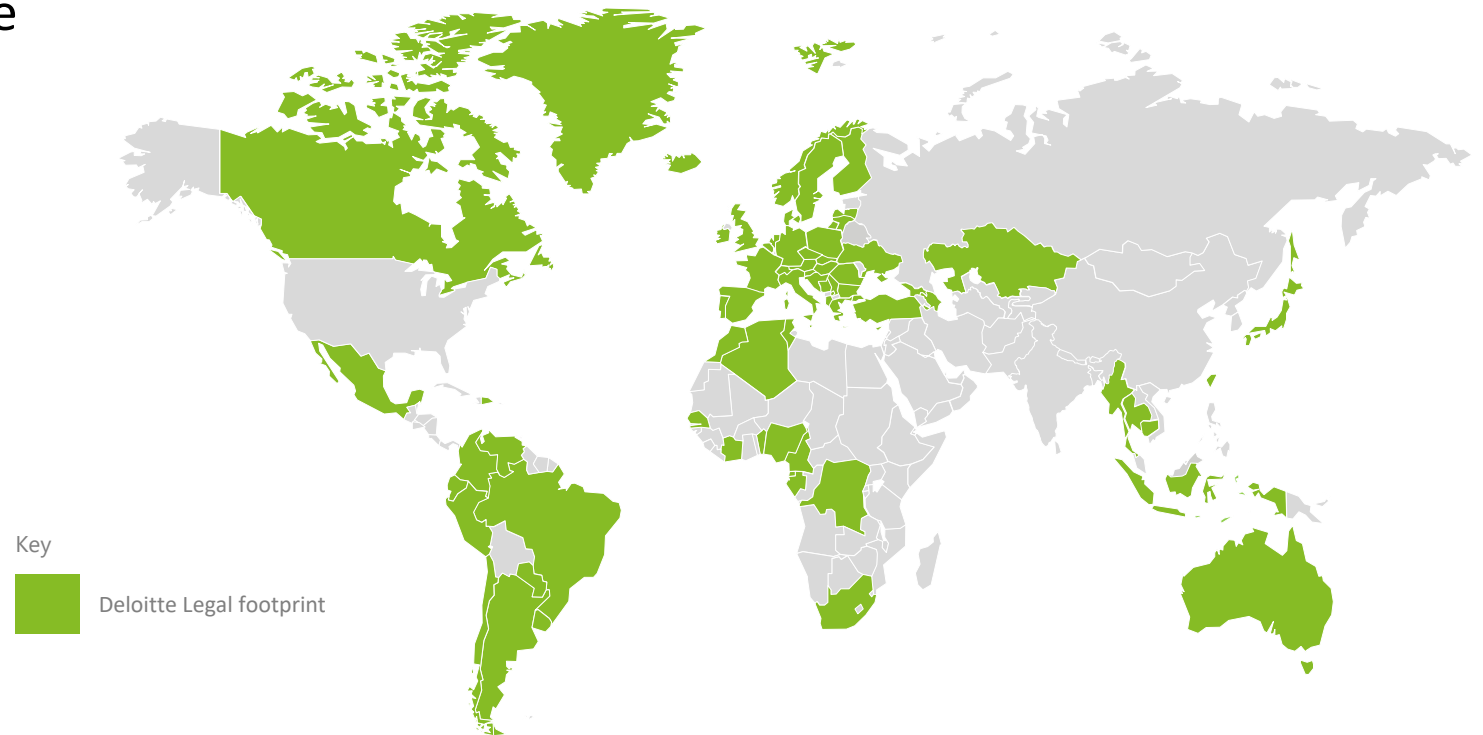


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