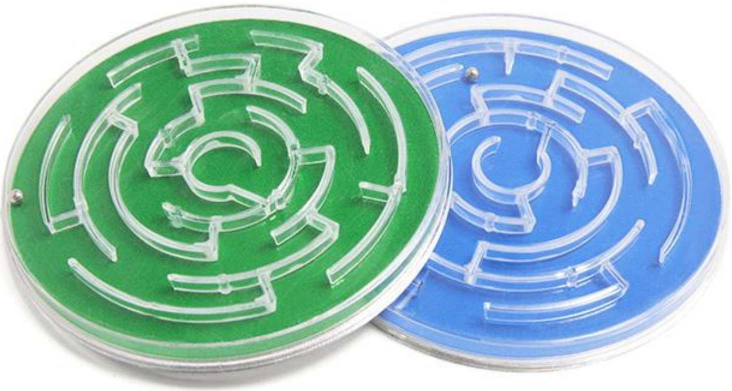
Deloitte.

Link'n Learn

Trends in asset management remuneration



July 2014

Presenters

Helen Beck
Partner
Deloitte UK
hbeck@deloitte.co.uk
+44 20 7007 8055

John Cotton
Director
Deloitte UK
jdcotton@deloitte.co.uk
+44 20 7007 2345

Agenda

1	Key trends in asset management remuneration
2	AIFMD – update on current position and current country challenges
3	UCITS V – remuneration developments
4	CRD IV – impact of new rules on Code Staff identification
5	MiFID – quick update
5	Next steps

Key trends in asset management remuneration
Overview

Increasing levels of recruitment activity in the market

Impact of incoming regulations (e.g. AIFMD and UCITS V)

Increases in number of Identified Staff (AIFMD, UCITS and CRD IV)

Some changes to balance of fixed and variable pay

Focus on process/governance

Focus on malus and clawback

Minority of firms have changed remuneration structures for 2014 – key area of focus for 2015

Reward in asset management

AIFMD - update on current position and current country challenges

- In general, we have seen local regulators taking different approaches to AIFMD implementation

- Key themes:

Proportionality

Instruments

Delegation

Transitional provisions

UCITS V
More of the same?

Deferral	• Between 40% and 60% of variable pay must be deferred • The deferral period should be not less than 3 years, with vesting no faster than on a pro-rata basis. • The period should be appropriate in view of the holding period recommended to UCITS investors.
Payment in shares / instruments	• At least 50% of variable pay should be delivered in units of the UCITS (or equivalent ownership interests), unless the management of UCITS accounts for less than 50% of the total portfolio of the management company • These instruments should be subject to a minimum holding period post vesting
Malus / clawback	• Total remuneration should be contracted where subdued or negative financial performance of the management company occurs, including through malus or clawback arrangements. • Further guidance expected in ESMA guidelines which are under development
Bonus cap	• No bonus cap

UCITS V
More of the same?

Staff in scope

"Staff whose professional activities have a material impact on the risk profiles of the UCITS they manage" including:

- decision takers, fund managers, persons who take real investment decisions,
- persons who have the power to exercise influence on such staff, including investment advisors and analysts & senior management
- any employees receiving total remuneration in the same bracket as senior management and decision takers

Extension to delegates

- "These policies and practices should apply, in a proportionate manner, to any third party which takes investment decisions that affect the risk profile of the UCITS because of functions which have been delegated in accordance with Article 13."
- "The principles regarding sound remuneration policies should also apply to payments made by the UCITS itself to management companies"

UCITS V
Remuneration reporting

Prospectus	Key investor information	Fund annual report

Either:
• Details of up to date remuneration policy including how remuneration is calculated and identities of persons responsible for awarding remuneration.
Or:
• Summary of up to date remuneration policy and a statement that the details of this are available on a website (referencing location) and that a paper copy will be made available free of charge on request.
	A statement that details of up to date remuneration policy are available on a website (referencing location) and that a paper copy will be made available free of charge on request.	• Total amount of remuneration for the financial year paid by the management company and the investment company to its staff
		  • Split into fixed and variable
		  • Stating number of beneficiaries
		  • Where relevant stating amounts paid directly by the UCITS itself including performance fee
		• Aggregate amount of remuneration broken down by identified staff
		• Description of how remuneration has been calculated
		• Outcome of remuneration policy reviews including any irregularities that occurred
		• Any material changes to remuneration policy

Identified Staff
AIFMD/UCITS V

AIFMs and UCITS management companies will need to identify their material risk takers (“Identified Staff”) for the purposes of the remuneration rules.

Qualitative measures	Quantitative measures
Individual may not be Code Staff if it can be demonstrated that they do not have a material impact on the firm’s risk profile	**None**

1. Board members (EDs and NEDs)	2. Senior management
3. Head of Risk, Compliance, Internal Audit	4. Responsibility for portfolio management, admin, marketing, HR
5. Other risk takers	6. Employees with total remuneration in same bracket as other Identified Staff

Code Staff identification

CRD IV

The European Banking Authority has released new regulatory technical standards on the definition of 'Identified Staff' under CRD IV which took effect in June 2014. This may lead to a significant increase in the number of Identified Staff for impacted firms.

Qualitative measures

Individual is automatic Code Staff

1. Board members (EDs and NEDs)
2. Senior management
3. Head of Risk, Compliance, Internal Audit
4. Responsibility for risk management within material business unit
5. Head of material business unit
6. Direct reports to (3), (4) and (5)
7. Head of relevant functions (HR, Legal, Finance, Tax, Budgeting, Remuneration, IT, Economic Analysis)
8. Individuals responsible for risk categories (Articles 79-87)*
9. Individuals with authority to initiate, approve or veto material credit risk exposures*
10. individuals with authority to take, approve or veto material decisions on trading book*
11. Individuals with managerial responsibility for staff under (9) and (10)
12. Individuals with authority to approve/veto decisions on introduction of new products
13. Individuals with managerial responsibility for any of the above individuals

** Includes committee members*

Quantitative measures

Individual may not be Code Staff if it can be demonstrated that they do not have a material impact on the firm's risk profile

1. Individuals with total remuneration of at least **€500,000** in the previous financial year
2. Individuals in the top 0.3% of employees for highest total remuneration in the previous financial year
3. Individuals with total remuneration in previous financial year in excess of certain other Identified Staff (primarily excluding non-executive, support function and control function roles).

<u>Individuals with no material impact on firm's risk profile</u>

This would be the case only if the individual has responsibilities within a non-material business unit, or if their activities have no material impact on the risk profile of a material business unit.

Firms will need to notify their regulator of this if total remuneration in the prior year was below €750,000 and seek prior approval if total remuneration was above €750,000.

The EBA must be notified if approvals are granted for individuals earning more than €1m.

MiFID – remuneration developments
Latest news

- The European Securities and Markets Authority's final guidelines on remuneration policies and practices for firms impacted by the Markets in Financial Instruments Directive (MiFID) became effective in January 2014.
- The aim of the guidelines is to ensure that firms design and monitor remuneration policies in order to prevent improper incentives in the remuneration of all stakeholders.
- These guidelines apply to the following firms where they provide investment and ancillary services to retail and/or professional clients:

Investment firms

Credit institutions

UCITS managers

AIF managers

- This is aimed at all individuals involved in the provision of investment services, and in particular those who have a material impact on the service provided or on risk management, or those who can influence corporate behaviour.
- The focus of the guidelines is on:

Alignment of remuneration with risk management

Inclusion of non-financial as well as financial measures

Appropriate balance of fixed and variable pay

Documentation of remuneration policies

Simplicity of design

Governance and controls

The final text of MiFID II was released in April 2014. It reiterates the principle that investment firms should not remunerate or assess the performance of their staff in a way that conflicts with their duty to act in the best interests of their clients.

Looking forward
Next steps for firms

AIFMD – be prepared for questions on VoP submission

Start to analyse potential impact of UCITS V

Review remuneration structures to ensure fit for purpose - business strategy, culture and risk

Finalise methodology and list of Identified Staff (AIFMD, UCITS and CRD IV)

Review reward governance arrangements in line with regulatory expectations

Ensure sales incentive plans in line with MiFID principles and local guidance

Any questions?

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.