

## Alternative Investment Funds (AIF) Remuneration policies



### Context

The Alternative Investment Fund Managers Directive ('AIFMD') establishes, inter-alia, a set of rules which have largely been inspired from the provisions of Directive 2006/48/EC, the "CRD", with which AIFMs have to comply when defining the remuneration policies of certain categories of their staff. ESMA published its final "Guidelines on sound remuneration policies under the AIFMD" in July 2013. The requirements need to be implemented by AIFMs by 22 July 2014.

### Key Issues

The AIFMD framework introduces stringent requirements to ensure that the remuneration policies and practices of AIFMs are consistent and promote sound and effective risk management. The main objectives of the Directive, where remuneration policies are concerned, are to ensure that three key issues are covered: governance, risk alignment and transparency.

The concept of remuneration shall be understood in its broadest meaning (fixed and variable, cash and fringe benefits, incentive plans, etc.). Carried interest schemes also fall into the scope of the requirements (with the exception of co-invest schemes, i.e. return on an actual investment).

### Main Challenges

The AIFMD requires the AIF to establish a remuneration policy:

- Promoting sound and effective risk management (e.g.: performance assessed on a multi-year framework, ex-ante and ex-post performance adjustments) ;
- With a clearly-defined governance framework;
- That is transparent, notably with regard to performance measurement and reward criteria;
- Reflecting the AIFM nature, scale, business objectives and complexity (e.g.: appointment of a remuneration committee for AIFMs that are of significant size);
- Preventing risk taking in excess of the risk profiles, fund rules, etc. of the AIF (e.g.: prohibition of guaranteed bonuses and golden parachutes);
- That is applicable to senior management, material risk takers, control functions and any employee deriving a total remuneration package that takes him/her into the same remuneration bracket as senior management and risk takers;
- Providing, under certain circumstances, for:
  - A deferral of 40% to 60% of the variable remuneration over a minimum vesting period of 3 years, and
  - The payment of at least 50% of the variable remuneration in the form of units or shares of the AIF (or any equivalent instrument depending on the legal structure of the AIF)

While the above principles are applicable to all AIFMs, the guidelines provide for the application of the proportionality principle. The effect of this principle is that not all AIFMs have to give substance to the remuneration requirements in the same way and to the same extent; some AIFMs will need to apply more sophisticated policies or practices in fulfilling the requirements while others can meet them in a simpler or less burdensome manner.

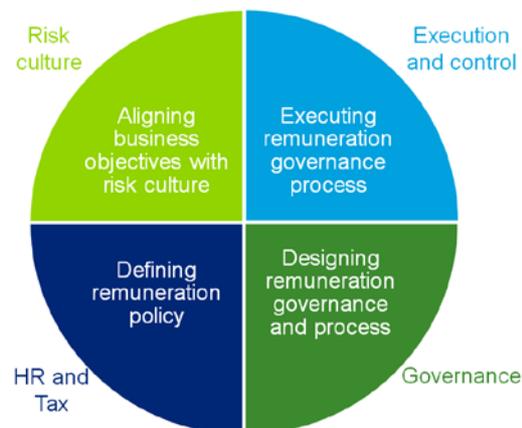
The AIFMD further provides for disclosure of remuneration information in the annual report of the AIF. For AIFMs that have a Remuneration Committee, its members and their respective roles are also to be disclosed. However, proportionality principle may be applied while disclosing that information, which means that the level of details shall be different for small or non-complex AIFMs, and according to EU jurisdictions.

## Our services

Our multi-disciplinary competencies and experience in implementing new regulatory provisions on remuneration policies enable us to provide our clients with tailor-made solutions in implementing the forthcoming AIFMD guidelines as regards governance, risk management, human resources while ensuring tax efficiency.

Our services can be articulated over four dimensions:

- Aligning the AIFM's remuneration policy with its business objectives and risk culture
- Reviewing and adapting, respectively, designing the AIFM's remuneration governance and process
- Reviewing and adapting, respectively, defining the AIFM's remuneration policy (including HR and tax aspects)
- Supporting the overall implementation/execution of the remuneration governance process



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