

AIFMD – Remuneration and Proportionality

Directive 2011/ 61/EU on Alternative Investment Fund Managers (AIFMD) had to be implemented by EU member states by 22 July 2013. AIFMD is supplemented by a delegated regulation (AIFMD Regulation). AIFMD regulates the activities of Alternative Investment Fund Managers (AIFMs) and their Alternative Investment Funds (AIFs). The AIFMD requires AIFMs to operate sound and prudent remuneration policies and practices and organisational structures which are consistent with sound and effective risk management.

The European Securities and Markets Authority (ESMA) published final Guidelines on remuneration of alternative investment fund managers (Guidelines) The Guidelines further clarify the requirements set out in the AIFMD. The Guidelines apply from 22 July 2013, subject to the transitional provisions of the AIFMD.

The full text of the Guidelines can be accessed from the A&L Goodbody “AIFMD –Remuneration” In Focus briefing. The chart below should be read with that briefing. The Guidelines provide detail, amongst other things, on what provisions of the remuneration requirements may be disapplied based on the principle of proportionality, i.e. the size, internal organisation, and the nature, scope and complexity of the AIFMs activities. Below is a mapping of the remuneration principles included in the AIFMD which shows the scope of the remuneration provisions and where they may be disapplied.

AIFMD requirements – Annex II		Paragraphs of these Guidelines relating to the relevant requirement	Scope	Possible disapplication of the requirement based on proportionality
Par. 1 (a)	the remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profiles, rules or instruments of incorporation of the AIFs they manage;	78-81	Only to the identified staff, but AIFM-wide strongly recommended and AIFMs, if required, should be able to demonstrate why they applied the requirement to the identified staff only	No
Par. 1 (b)	the remuneration policy is in line with the business strategy, objectives, values and interests of the AIFM and the AIFs it manages or the investors of such AIFs, and includes measures to avoid conflicts of interest;	78-81 38-51	Paragraphs 78 – 81 Only to the identified staff, but AIFM-wide strongly recommended and AIFMs, if required, should be able to demonstrate why they applied the requirement to the identified staff only Paragraphs 38 51 AIFM-wide obligatory	No
Par. 1 (c)	the management body of the AIFM, in its supervisory function, adopts and periodically reviews the general principles of the remuneration policy and is responsible for its implementation;	38-51	AIFMD-wide obligatory	No
Par. 1 (d)	the implementation of the remuneration policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the management body in its supervisory function;	48-51	AIFMD-wide obligatory	No
Par. 1 (e)	staff engaged in control functions are compensated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control;	70-76	AIFMD-wide obligatory	No
Par. 1 (f)	the remuneration of the senior officers in the risk management and compliance functions is directly overseen by the remuneration committee;	70-76	AIFMD-wide obligatory	No
Par. 1 (g)	where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit or AIF concerned and of the overall results of the AIFM, and when assessing individual performance, financial as well as non-financial criteria are taken into account;	101-106 110-113	Only to the identified staff, but AIFM-wide strongly recommended	No

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Par. 1 (h)	the assessment of performance is set in a multi-year framework appropriate to the life-cycle of the AIFs managed by the AIFM in order to ensure that the assessment process is based on longer term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the redemption policy of the AIFs it manages and their investment risks;	99-100 127-131	Only to the identified staff, but voluntary AIFM-wide application is always possible	No
Par. 1 (i)	guaranteed variable remuneration is exceptional, occurs only in the context of hiring new staff and is limited to the first year;	None	AIFM-wide obligatory	No
Par. 1 (j)	fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy, on variable remuneration components, including the possibility to pay no variable remuneration component;	94	Only to the identified staff, but AIFM-wide strongly recommended	No
Par. 1 (k)	payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure;	87-89	Only to the identified staff, but AIFM-wide strongly recommended and AIFMs, if required, should be able to demonstrate why the applied the requirement to the identified staff only	No
Par. 1 (l)	the measurement of performance used to calculate variable remuneration components or pools of variable remuneration components includes a comprehensive adjustment mechanism to integrate all relevant types of current and future risks;	107-109 117-124	Only to the identified staff, but AIFM-wide strongly recommended	No
Par. 1 (m)	subject to the legal structure of the AIF and its rules or instruments of incorporation, a substantial portion, and in any event at least 50 % of any variable remuneration consists of units or shares of the AIF concerned, or equivalent ownership interests, or share-linked instruments or equivalent non-cash instruments, unless the management of AIFs accounts for less than 50 % of the total portfolio managed by the AIFM, in which case the minimum of 50 % does not apply. The instruments referred to in this point shall be subject to an appropriate retention policy designed to align incentives with the interests of the AIFM and the AIFs it manages and the investors of such AIFs. Member States or their competent authorities may place restrictions on the types and designs of those instruments or ban certain instruments as appropriate. This point shall be applied to both the portion of the variable remuneration component deferred in line with point (n) and the portion of the variable remuneration component not deferred;	132-147	Only to the identified staff, but voluntary AIFM-wide application is always possible	Yes
Par. 1 (n)	a substantial portion, and in any event at least 40 %, of the variable remuneration component, is deferred over a period which is appropriate in view of the life cycle and redemption policy of the AIF concerned and is correctly aligned with the nature of the risks of the AIF in question. The period referred to in this point shall be at least three to 5 years unless the life cycle of the AIF concerned is shorter; remuneration payable under deferral arrangements vests no faster than on a pro-rata basis; in the case of a variable remuneration component of a particularly high amount, at least 60 % of the amount is deferred;	125-131	Only to the identified staff, but voluntary AIFM-wide application is always possible	Yes

AIFMD requirements – Annex II		Paragraphs of these Guidelines relating to the relevant requirement	Scope	Possible disapplication of the requirement based on proportionality
Par. 1 (o)	<p>the variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of the AIFM as a whole, and justified according to the performance of the business unit, the AIF and the individual concerned.</p> <p>The total variable remuneration shall generally be considerably contracted where subdued or negative financial performance of the AIFM or of the AIF concerned occurs, taking into account both current compensation and reductions in payouts of amounts previously earned, including through malus or clawback arrangements;</p>	<p>34-36</p> <p>117-124</p> <p>148-158</p>	Only to the identified staff, but voluntary AIFM-wide application is always possible	Yes
Par. 1 (p)	<p>the pension policy is in line with the business strategy, objectives, values and long-term interests of the AIFM and the AIFs it manages.</p> <p>If the employee leaves the AIFM before retirement, discretionary pension benefits shall be held by the AIFM for a period of 5 years in the form of instruments defined in point (m). In the case of an employee reaching retirement, discretionary pension benefits shall be paid to the employee in the form of instruments defined in point (m), subject to a 5 year retention period;</p>	78-86	Only to the identified staff, but AIFM-wide strongly recommended and AIFMs, if required, should be able to demonstrate why the applied the requirement to the identified staff only	No
Par. 1 (q)	staff are required to undertake not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements;	90-92	Only to the identified staff, but AIFM-wide strongly recommended and AIFMs, if required, should be able to demonstrate why the applied the requirement to the identified staff only	No
Par. 1 (r)	variable remuneration is not paid through vehicles or methods that facilitate the avoidance of the requirements of this Directive.	15-18	AIFM-wide obligatory	No
Par. 2	The principles set out in paragraph 1 shall apply to remuneration of any type paid by the AIFM, to any amount paid directly by the AIF itself, including carried interest, and to any transfer of units or shares of the AIF, made to the benefits of those categories of staff, including senior management, risk takers, control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on their risk profile or the risk profiles of the AIF that they manage.	10-22	AIFM-wide obligatory	No
Par. 3	<p>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.</p> <p>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.</p>	52-64	AIFM-wide obligatory	Yes

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