

REMUNERATION POLICIES AND PRACTICES FOR BANKS AND BANKING GROUPS.

With an update of 23 October 2018, Banca di Italia, the Italian Central Bank, amended the provisions governing compensation policies and practices for banks and banking groups (the "Provisions") to reflect the Guidelines on sound remuneration policies issued by the European Banking Authority in implementation of the CRD IV (the "EBA Guidelines").

The Provisions apply to Italian banks and parent companies of banking groups and, to the extent compatible, to the Italian branches of non-EU banks.

The table below describes the main amendments to the Provisions:

No.	Scope	Before	After
1.	Definitions – Cooperative Credit Unions	<p>Banks are divided among:</p> <ul style="list-style-type: none"> • Small and less complex institutions; • Medium-sized institutions; • Large and more complex institutions. <p>This division into three groups aims to ensure that the Provisions will apply in a graduated manner, consistently with the proportionality principle.</p>	<p>The banking system's division among three groups, to each of which the Provisions apply differently, is confirmed, with an exception for cooperative credit unions, to which the Provisions will apply on the basis of their respective, stand-alone financial statements, regardless of the consolidated size of the group to which they belong.</p>
2.	Definitions – Corporate control bodies	<p>Human resource departments are considered to be a corporate control body.</p>	<p>The Provisions, as amended, include a new definition of corporate control bodies, which no longer includes any reference to the human resource department. The cap of a 1 to 3 ratio for the fixed and variable components of remuneration, applicable to the "risk takers" in the corporate control bodies, will no longer apply to human resource department staff.</p> <p>Nevertheless, in light of the human resource department's role in the setting and implementing remuneration policies, the regulator intends to confirm that the principles governing how variable remuneration is awarded to corporate control</p>

No.	Scope	Before	After
			bodies should be followed also for human resources personnel.
3.	Definitions - Remuneration	"Remuneration" and "Variable Remuneration" are defined terms.	<p>Under the Provisions, the definition of "remuneration" includes a reference to additional components, to take into account the EBA Guidelines as to allowances.</p> <p>The new definition of "fixed remuneration" describes the criteria to be used to distinguish between the fixed component and the variable component of the remuneration.</p> <p>The definition of "variable remuneration" has been updated, and now expressly includes carried interest, the amounts offered in relation to non-competition covenants, and the amounts paid pursuant to agreements to settle actual or potential disputes.</p>
4.	General principles and criteria - monitoring	Banks cannot pay remuneration through any vehicle, instruments or methods that circumvent the Provisions.	<p>The Provisions set forth a system of controls to prevent circumvention. Corporate control bodies or the human resource department are called upon to monitor and carry out controls, on a sample basis, on the internal custody and administration accounts, at least in relation to the "risk takers". A credit institution must request that its "risk takers" inform it of any custody or administration accounts they already hold or that they open with other intermediaries.</p> <p>It is now been clarified that each bank can autonomously identify the most suitable modalities to ensure compliance with the Provisions, in accordance with legislation on privacy.</p> <p>Banks are called upon to identify the types of financial transactions and investments directly or indirectly carried out by "risk takers" that may affect compliance with the objectives of the Provisions.</p>
5.	Identification of the risk takers	Banks identify the "risk takers" in accordance with Delegated Regulation (EU) 604/2014.	<p>The process to identify "risk takers" must be implemented annually and the outcome must be suitably documented: the main data must be included in the information notice made available to the shareholders' meeting, in the context of discussion and approval of the remuneration policy.</p> <p>Banks must adopt a "policy on the process to identify risk takers", which must include – among other things – clear information on the following: the procedures to identify the risk-takers, any criteria additional to those set out in Delegated Regulation (EU) 604/2014 and the governance of</p>

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			the identification process. This policy is an integral part of the remuneration policy.
6.	Process to exclude from the list of risk takers	No specific process is set forth to exclude a person from the bank's "risk takers".	<p>A new paragraph has been included governing the procedures to adopt for the purpose of excluding persons from the "risk takers", if such persons are identified on the basis of the quantitative criteria set out in Delegated Regulation (EU) 604/2014.</p> <p>The Provisions set out especially:</p> <ul style="list-style-type: none"> i) the timeframes for notification or submission for authorisation to the appropriate Authorities of the application to exclude the "risk takers"; ii) the information to be submitted as part of or along with the notification or submission; iii) the term of the exclusions that have been notified or authorised.
7.	Relationship between the fixed and variable component of remuneration	The shareholders' meeting has the authority to increase up to 200% the ratio between the fixed and variable component of remuneration.	The Provisions, as amended, clarify that if the shareholders' meeting approves an increase in the ratio, no new resolution will be necessary in the following years , provided that the following have not changed: the premises on which the increase was approved; the personnel to whom the increase applies and the previously approved cap. In any event, the remuneration policy must set forth adequate notice and information in relation to the previously approved cap and on the reasons why the cap was not object of a new shareholders' resolution.
8.	Structure of the variable component – pay out	<p>Banks apply the proportion of the chosen pay-out, in the same percentage, to the deferred portion and to the upfront portion.</p> <p>A two-year retention period is applicable to financial instruments that are paid up-front.</p>	<p>If the quota to be paid in financial instruments exceeds 50% of the overall variable remuneration, the portion in financial instruments to be deferred must be greater than the financial instruments payable up-front.</p> <p>A retention period of one year applies to all financial instruments, without distinguishing between instruments that are deferred and those received up-front.</p> <p>Moreover, in case variable remuneration is deferred for 5 years or more, the retention period applicable exclusively on the financial instruments can be reduced to a period of no less than six months. Certain executives at the top of the hierarchy are excluded and will continue to be subject to an applicable retention period of at least 1 year.</p>
9.	Structure of the variable component –	When the variable component is significantly high, the deferred percentage cannot be less than 60%.	Banks' remuneration policies must set out the level of variable remuneration that will be deemed to be a significantly high amount , applying the

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	deferred payment	Stringent obligations are in place for deferred remuneration of certain "executives at the top of the hierarchy".	<p>criteria set in the Provisions, which specify that this amount will be the lower of:</p> <ul style="list-style-type: none"> • 25% of average overall remuneration of Italian high earners; • 10 times the average overall remuneration of the bank's employees, or of the entire group's employees, on condition that all companies in the group use the same criteria. <p>The Provisions, as amended, clarify that banks can update the amount of variable remuneration that is deemed significantly high every three years.</p> <p>Larger and more complex banks also have the following obligations, in relation to the variable remuneration of certain of their executives at the top of the hierarchy:</p> <ul style="list-style-type: none"> • To defer in any event variable remuneration for at least 5 years; • To privilege payment of the deferred portion by way of financial instruments. More than 50% of the overall variable remuneration must be paid in financial instruments.
10.	Clawback	No prevision regarding the minimum duration for the application of clawback clauses.	Banks must set, in their remuneration policies, the minimum duration of the period during which the clawback clauses will apply; this period starts on the moment when each portion of variable, regardless of whether upfront or deferred, is paid and must run no less than 5 years , at least in relation to the "risk takers".
11.	Guaranteed variable remuneration	The guaranteed variable remuneration is taken into account for the calculation of the cap of the variable/fixed ratio in the first year of employment.	The Provisions, as amended, now provide that the guaranteed variable remuneration, if any, can be excluded from the calculation of the cap , if it is paid to newly-hired employees and paid in full at the time of hiring.
12.	Retention bonus	No explanation as to how to take into account retention bonuses in the context of the ratio between the fixed component and variable component of the remuneration.	For the purpose of calculating the cap of the variable/fixed ratio , banks can choose to take into account any retention bonus: <ul style="list-style-type: none"> i) in equal portions in each year of the retention period; ii) in full, in the year when the retention condition is satisfied.
13.	Long-term incentive plans	There is no distinction between the different types of long-term incentive plans.	The Provisions, as amended, now clarify the distinction between the different types of plans, and their proper operations, providing for the following distinctions in relation to long-term incentive plans:

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			<p>i) plans based on past performance and on future performance, in which it is possible to recognise remuneration before the evaluation of future performance, but after the evaluation of past performance;</p> <p>ii) plans based solely on the evaluation of future performance, in which it is possible to recognise remuneration only after the end of the performance evaluation period, and therefore only at expiry of the plan.</p> <p>At the European level, calculating the amounts in the cap on the basis of a linear pro rata criteria is not an option; however, it is a more favourable provision adopted at the national level so as not to discourage the use of these incentive plans. This option was limited to those plans that, also given their duration, are more robust from a prudential perspective and would be more prejudiced if accounted for in full in the cap in one single year (i.e., plans with a duration of more than 6 years).</p>
14.	Amounts paid in light of or upon early termination of the employment relationship or term of office of risk takers -so-called golden parachutes	Golden parachutes are not included in the calculation for the cap of the ratio between the fixed component and variable component of the remuneration.	<p>The following fall within the definition of golden parachutes:</p> <p>i) remuneration paid pursuant to a non-competence covenant, for the portion that exceeds the last annual fixed remuneration, regardless of the term of the covenant;</p> <p>ii) the amounts paid in the context of an agreement to settle an actual or potential dispute, regardless of how the settlement agreement is entered into (except for judicial decisions and arbitration awards).</p> <p>Golden parachutes are variable remuneration and are subject to all provisions governing variable remuneration. Therefore, they are taken into account when calculating the cap, except for the following components:</p> <p>i) amounts paid pursuant to a non-competence covenant, for the portion that, for each year in the term of the covenant, does not exceed the last annual fixed remuneration;</p> <p>ii) the amounts paid pursuant to an agreement between the bank and employees to settle actual or potential disputes, if determined on the basis of a pre-defined formula, which was set forth in the remuneration policy approved by the shareholders' meeting.</p> <p>The overall amount paid as golden parachute must in any event be within the limits set by the</p>

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			shareholders' meeting, and this provision is unchanged.
15.	Interim period	Until full implementation, banks must comply with the document of the Banca d'Italia dated 18 November 2014, setting forth Provisions on remuneration and incentive policies and practices for banks and banking groups.	<p>Remuneration and incentive policies consistent with the Provisions must be submitted to the shareholders' meeting for approval no later than the meeting called on to approve the 2018 financial statements.</p> <p>Subject to the limits set out under collective bargaining agreements, banks:</p> <ul style="list-style-type: none"> • will apply the Provisions to individual agreements entered into starting from 1° April 2019; • align existing individual agreements to reflect the Provisions promptly, and in any event by (i) 1 April 2019, for agreements with the members of the management, control and strategic supervision bodies and (ii) by 30 June 2019 for agreements with all remaining personnel. <p>Collective bargaining agreements are to be aligned to the Provisions at the first possible opportunity.</p>

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