



TECHNICAL GUIDE 1/2019 ON NOMINATION AND REMUNERATION COMMITTEES

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Introduction

The selection, appointment and remuneration system of directors and senior managers are key aspects of the good governance of listed companies as has invariably been highlighted by various codes and recommendations both internationally and in Spain.

In addition to setting out certain principles to be followed in this area, the successive good governance codes in Spain have recommended the creation of specialised board committees for this area. This was the case of the Olivencia Code in 1998, the Aldama Code in 2003 and the Unified Good Governance Code in 2006. In 2014, it became mandatory for listed companies and other companies issuing securities admitted to trading on official secondary markets to have a nomination and remuneration committee (NRC) pursuant to the provisions of Law 31/2014, of 3 December, amending the Capital Companies Act, with the companies subject to this obligation allowed to choose to set up two committees - a nomination committee and a separate remuneration committee. This is recommended for large-cap companies in recommendation 48 of the Good Governance Code of Listed Companies (hereinafter, also GGC).

Almost two years ago, the CNMV published Technical Guide 3/2017 on Audit Committees at Public-Interest Entities with the aim of highlighting their importance and of contributing towards their best practices being followed by as many entities as possible. With the same objectives, it is now considered appropriate to also create a Technical Guide on Nomination and Remuneration Committees. Based on the experience gained and international consensus, this guide brings together a series of principles, criteria and good practices for the functioning of these committees (or the nomination committee and the remuneration committee, in the case of two separate committees).

Some of them, such as extensive access to information or the need for proper planning, are common to the audit committee and to the nomination and remuneration committee and are assumed by reference to Technical Guide 3/2017, with certain specialities sometimes highlighted. Other principles and criteria are considered unique and specific to the nomination and remuneration committee.

Similarly, given the diversity of the entities to which this Guide is addressed, issuers must take into account the need to adapt the principles and recommendations contained herein to their particular circumstances and characteristics, depending on their size, complexity and the sectors in which they operate, without prejudice to the possible existence of specific sector requirements (including criteria transmitted by the supervisor) that apply to them.

At any event, the content of this Technical Guide is, in accordance with the nature of the instrument, indicative in the terms set out in Article 21 of the recast text of the Securities Market Act.

Consequently, on 20 February 2019 the CNMV Board, following a report from its Advisory Committee, approved this Technical Guide under Article 21(3) of the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October.

One. Prior clarifications

One single nomination and remuneration committee or two separate committees

The Good Governance Code recommends the existence of two separate committees, one nomination committee and one remuneration committee, although only in relation to large-cap companies (for these purposes, Ixex 35 companies). In addition, certain sector regulations, such as that for credit institutions, require two separate committees to be created except for smaller entities.

Without prejudice to the above, it is generally considered that listed companies whose organisation or activities, director and senior manager selection processes or remuneration system entail a certain level of complexity, even though they are not classified as large-cap companies or legally required by sector regulations, should also at least consider the possibility of having two separate committees.

It may be appropriate to separate the two committees as a result of the different nature and potential conflicts that might arise between the tasks relating to selecting and proposing the appointment of directors and managers and those relating to their evaluation and remuneration.

At any event, if an entity chooses to set up two separate committees, it is considered good practice to establish coordination mechanisms to ensure the necessary consistency of the policies and criteria applied to attract and to retain talent. It is recommendable for joint meetings to be held where appropriate to the situation and even for some members to sit on both committees.

In order to facilitate the reading of this Guide, references hereinafter made to the nomination and remuneration committee are regardless of whether the entity has one committee or two separate committees.

Senior management

It may be appropriate for the NRC to perform certain functions not only with regard to the members of the board of directors, but also in relation to the secretary of the board and the company's senior managers (for the purposes of this guide, senior managers are those who perform executive functions and report directly to the board, the executive committees or the chief executive officer, as well as the internal auditor).

It is important to bear in mind that Article 529 *quindecies* of the Capital Companies Act already assigned some specific functions to the NRC relating to senior management, which is the natural source or incubator of executive directors.

In line with this, several sections of this document refer to the role of the NRC in relation to the secretary of the board and senior managers.

Two. Key principles

In the performance of its role, the NRC should take into account the following key principles.

Independence and scepticism

Bearing in mind the nature of its functions, relating to the selection and appointment of directors and senior managers as well as their remuneration, it is very important for the committee's actions to remain independent at all times with respect to any instructions or links with third parties that may compromise it and for its members to freely exercise their criteria and judgement.

The members of the NRC must perform their function with a critical and sceptical attitude, not simply accepting without question the proposals and reports from non-committee members, in particular from the entity's executives and senior managers. This sceptical attitude is particularly necessary with regard to the evaluation of potential candidates to be selected as independent directors where their name has been put forward by executive directors or proprietary directors representing shareholders that exercise control or significant influence.

Constructive dialogue that encourages members to speak freely

An appropriate climate must be promoted within the committee that encourages its members to engage in constructive dialogue and to speak freely with a critical attitude. The aim is that this climate, by encouraging a diversity of opinions, will contribute towards enriching the analyses and proposals.

The chairman of the committee must ensure that its members freely take part in the discussions, unaffected by internal or outside pressures.

Internal dialogue

It should also be highlighted that it is important for the NRC to maintain regular or specific contact with the board of directors, the chief executive officer or the coordinating director and, where appropriate, with senior managers.

At any event, interaction with executive directors and senior managers must not be allowed to affect the committee's independence. In this regard, the presence of other directors, whether executive or not, senior managers or any third party at the meetings of the NRC must only be allowed following an invitation from the committee's chairman and limited to those points on the agenda for which they have been invited. It is also important that they should only attend where necessary and that their presence should not become a regular occurrence.

A good practice is for the minutes of the meetings of the NRC to record when an invited person joins and leaves the meeting and, except in specific cases which must be justified in the minutes themselves, for invited parties not to attend the committee's deliberation and voting stages¹.

Adequate analytical capability and recourse to experts

It is generally considered good practice for the NRC to have access to external advice with regard to aspects of a technical or a particularly important nature, especially in companies that perform complex activities from an operational point of view. Expert advice from a third party may be recommendable in order to ensure the proper alignment of interests, although the NRC must bear in mind any possible conflict of interest when hiring said expert.

It is also considered good practice for the board, following a proposal by the NRC, to provide the committee with an annual budget for these purposes or to establish alternative mechanisms to help the committee have efficient and speedy access to resources for hiring, where necessary, an external adviser. At any event, the expenses incurred must be duly justified and reported to the board of directors and subject to review by the audit committee with the support, as the case may be, of the internal audit area.

The committee must record with sufficient transparency any relationship or potential conflict of interest that might affect the external advisers, the breakdown of the amounts accrued by each one of them in the year and the measures and actions carried out to ensure that their independence has been protected.

To this end, it is considered appropriate for the NRC to request external advisers to explain in their service proposals all conflicts that they may have with the company, directors or possible candidates for the office of chairman, chief executive officer or director. The NRC shall report these conflicts in any proposal or report on the matter in which the external adviser has participated that it submits to the board, without prejudice to the fact that the situation should also be reported in the annual report of the NRC.

In order to avoid potential conflicts of interest, it is generally considered good practice in the event that advisers are hired to assist the NRC in its selection and appointment, evaluation and remuneration policy work, that different advisers are hired for each one of these functions. However, taking into account the principle of proportionality and the specific circumstances of each issuer (for example, where the NRC has members with extensive experience in some of the aforementioned fields that take an active role which contributes towards minimising any possible conflicts of interest), it may be reasonable for one adviser to be used to perform more than one of these functions.

¹ This good practice is also considered applicable to audit committees.

Three. Composition and functioning of the nomination and remuneration committee

The main mission of the nomination and remuneration committee is to contribute towards attracting and retaining talent, which means ensuring that the company has the best professionals in its governing bodies and senior management.

In addition, the NRC must verify that the policy for selecting and remunerating its board and senior management and other employees is in line with the entity's strategy, including with regard to sustainability, diversity, long-term profitability and risk-taking. The NRC should report any inconsistencies it identifies to the board.

In order to properly and effectively perform its work, the NRC must take into account the criteria and good practices set out below. However, it is recommended that sub-sections 1 and 2 of Section Two (The Audit Committee's Performance of its Role) of the Technical Guide on Audit Committees should be consulted as a large part of the guidance contained therein is transferable to the functioning of the NRC.

However, application and monitoring of the criteria followed may be modified under the principle of proportionality (as already referred to in the introduction) and, therefore, on the basis of the characteristics, scale and complexity of each entity, its business and the specific sectors in which it operates.

1 **Composition**

It is desirable for the NRC as a whole, bearing in mind the limits of its smaller size compared with the board of directors, to have knowledge and experience in the following areas:

- a) corporate governance,
- b) strategic analysis and evaluation of human resources,
- c) selection of directors and managers, including the evaluation of any suitability requirements that must be met under the rules applicable to the company,
- d) performance of senior management functions,
- e) design of remuneration policies and plans for directors and senior managers.

The composition of the committee should be diverse, taking into account, as mentioned above, the principle of proportionality, in terms of gender, professional experience, competencies, personal skills and sector knowledge and, in the case of entities with a significant level of internationalisation, in terms of international experience or geographical origin.

It is also considered to be of interest, although not strictly necessary, for the chairman to have prior experience in companies of a comparable size or complexity as a member of nomination and remuneration committees or as executive director or senior manager.

Entities must establish clear and objective criteria for the composition of the NRC.

In the case of listed companies, and depending on size and shareholder structure, such criteria may also refer to the presence of proprietary directors on the committee. In particular, it may be recommendable for proprietary directors that meet the following requirements to be members of the NRC:

- a) As a result of the characteristics, percentage and value of their shareholding (including its value in relative terms compared with the rest of their assets), the represented shareholder does not have control or significant influence over the company's management and does not hold a significant percentage of the capital (for example, over 5%), and is not affected by interests other than those that typically correspond to the company's minority shareholders.
- b) They meet the requirements to be considered independent directors in accordance with paragraph 4 of Article 529 *duodecies* of the Capital Companies Act, including the provisions of the general definition at the beginning of said paragraph, except for the part which refers to the fact in itself of having a relationship with a significant shareholder;

At any event, in entities that have a controlling shareholder, it is considered particularly recommendable for the NRC to have a majority of independent members, which will help to strengthen the independence of the selection process, particularly for independent directors.

In addition, bearing in mind the functions that both the Capital Companies Act and the Good Governance Code assign to the coordinating director, in some entities it may make sense for the coordinating director to be a member of the NRC. Should this not be the case, the NRC should maintain regular contact with the coordinating director.

2 General functioning

With regard to the proper and effective functioning of the NRC, issuers must take into account the provisions of the Technical Guide on Audit Committees with regard to the benefit of the committee having its own regulation, the importance of timely access to information, the need for its members to dedicate sufficient time to the committee and of the committee having sufficient resources and adequate planning.

It is considered recommendable for the NRC to meet on a sufficiently regular basis, preferably at least three times per year, and for it to meet sufficiently in advance of board meetings.

It is worth recalling that, in accordance with paragraph 3(b) of Article 529 *quindecies*, the NRC shall "establish a representation target for the under-represented sex on the board of directors and draw up guidelines on how to achieve said target". The NRC should report on this matter in the annual corporate governance report.

In addition, the NRC must ensure that the board is in a position to approve, prior to their application, the targets, criteria and metrics of the different remuneration items established for the current financial year in accordance with the remuneration policy approved by the shareholders' meeting. Similarly, the NRC must ensure that the entity is in a position to evaluate the achievement of the targets, criteria and metrics established in the previous year that determined the remuneration accrued by the directors in said year, particularly by executive directors. The above must be completed sufficiently in advance of the date of publication of the annual directors' remuneration report so that the report may contain all the necessary information with a sufficient level of detail.

3 Evaluating and selecting directors

In performing this function, the following will be deemed good practices:

- a) Analysing the competencies, knowledge and experience of the directors who are already members of the board. This allows the NRC to define the functions and skills of the candidates that must fill the vacancies that arise from time to time and helps evaluate, both at the selection stage and on an annual basis, the time and dedication necessary for the directors to be able to perform their duties effectively. For this purpose, the diversity targets set by the entity must be taken into account.
- b) Analysing the other occupations of each of the company's directors. As part of the above evaluation and taking into account the required time commitment to the board, it is recommendable to perform said analysis, particularly with regard to the maximum number of boards on which the director may reasonably sit, with the aim of ensuring that directors devote sufficient time in practice and proposing, should this not be the case, the appropriate measures.
- c) Specifying the profile and required skills. Prior to the start of each selection process, the committee, taking into account the competency matrix referred to in point (d), must specify the profile and required skills of the new director.

The committee will evaluate the suitability of each candidate, regardless of the category to which they will be assigned and who proposed them (including those who will be appointed in exercise of the right of appointment under the proportional representation system). The NRC shall record the evaluation performed and the candidate's appropriateness to the category to which they have been assigned in the minutes of the session in which the issue has been debated and, where applicable, in the report or proposal that the NRC must submit to the board on the appointment or re-election of directors.

For these purposes, it is considered good practice that during the process the NRC, or at least its chairman or one of its members, should meet with each one of the candidates to become director before issuing its report or proposal. These meetings and at least the assessment of the final candidates or those considered to be suitable should be recorded in the minutes of the meetings of the NRC. Although it is not considered essential, the support and help of external advisers in this evaluation may be useful and contribute towards a more objective process.

In the case of legal entity directors, the assessment must be performed with reference to the natural person representing them, without prejudice to the NRC also analysing the circumstances that might affect the "suitability" of the legal person (insolvency situations, criminal proceedings, administrative penalties, conflicts of interest, etc.).

- d) Preparing a board competency matrix. It is considered good practice to draw up a matrix of the competencies necessary for the board that will define the skills and knowledge of the candidates to become director, particularly those of executive directors and those of independent directors and which will help the NRC to define the functions that should correspond to each position to be filled, as well as the most appropriate competencies, knowledge and experience for said position.

This competency matrix should be drawn up and updated regularly based on the challenges and opportunities that the companies expect to face in the short, medium and long term.

- e) Describing the reasons supporting the candidate's suitability. It is also considered good practice for the NRC's proposal or report on the appointment or re-election of directors to describe not only the results of the prior analysis performed of the board's needs, but also the reason justifying the candidate's suitability bearing in mind the competency matrix. In this description and justification, the NRC must refer to the specific aspects and circumstances of each case that have been relevant in the decision, avoiding merely generic or standard justifications.

This practice promotes a stringent director selection and appointment process by ensuring that the selection criteria are applied objectively and allowing subsequent verification that they have been complied with.

- f) Obtaining the formal written acceptance of the company's conditions and policies for directors in general. The appointment of the director should be accompanied by said acceptance at least with regard to the following aspects:
- Obligations under the law and the articles of association,
 - Prevalence of the shareholders' interest
 - Their role on the board
 - Internal regulations
 - Director's statement on their relationship with significant shareholders and any other type of conflict of interest.

Entities should consider monitoring the practices described in paragraphs (c) and (f) above, with the necessary adaptations, when the NRC intervenes in the process of evaluating and selecting senior managers.

4 Submitting proposals for the appointment, re-election and removal of independent directors

In performing this function, the following will be deemed good practices:

- a) Outsourcing the search for candidates, in particular in large companies or companies with complex operations. The NRC will be responsible for hiring the services of an external expert, who should not provide any other significant services to the company which may compromise their independence. At any event, the report on the committee's activities must indicate all the services provided by the expert and their remuneration.

It is recommended that the adviser participating in the director selection and appointment process should not be involved in their subsequent evaluation or in determining their remuneration.

- b) Any director should be able to provide names of possible candidates. However, when the candidates have been presented for assessment by the NRC by significant shareholders, proprietary directors or executive directors, the committee must exercise caution and obtain as much information as it considers appropriate to

ensure that the candidate proposed does not have any links that might compromise their independence.

It is considered appropriate for the NRC's report or proposal to the board to identify who suggested the name of the selected candidate to be assessed by the NRC.

- c) Demanding sufficient information from the candidate on their other activities and any potential conflicts of interest that may affect them so that the NRC may assess the effect that they may have on the candidate's ability to exercise their function under the conditions stipulated or on their current or future independence. This information should also be obtained on a regular basis and at least annually thereafter. On assessing independence, the NRC should not restrict itself to verifying that none of the specific situations provided for in Article 529 *duodecies* of the Capital Companies Act exist. It must analyse in general whether the candidate will be able to perform their functions without being compromised as a result of their relationships with the company or its group, its significant shareholders or its managers.
- d) Informing the candidate, prior to proposing their appointment to the board of directors, about what is expected of them in terms of time commitment, participation in specialised committees and dedication to the company.
- e) Proposals for the re-election of directors should take into account the same factors as for the initial election. Furthermore, the director's performance and evaluation over the time in which they have exercised their office and their capacity to continue performing it satisfactorily will be assessed.
- f) In the re-election proposals, the NRC should take into account the need for a progressive renewal of the board. For this purpose, it is necessary to take into account factors such as the diversity targets set by the entity and to consider, among other aspects, the time that each director has held the position and the possibility of establishing a shorter term than that which is legally established, as well as aspects relating to their age, both individually and in relation to the average age of the board as a whole.
- g) Except as a result of the powers corresponding to the general meeting, any proposal for the removal of independent directors that the board will submit to the general meeting should come from the NRC itself after assessing the existence of just cause for dismissal. The GGC lists certain situations in which there is deemed to be just cause. The NRC must analyse, on the basis of the company's nature, size and complexity, whether there are other situations that might be grounds for dismissal and, as the case may be, to include them in its regulation or the regulation of the board of directors.

It is also recommended that the coordinating director, given their responsibilities and functions, should be appointed following a proposal by the NRC.

5 Reporting the proposals for the appointment, re-election and removal of other directors and senior managers, including the secretary of the board.

As already mentioned, it is recommended in these cases that the NRC should assess whether or not the candidates on which it has to report comply with the requirements set out in the competency matrix drawn up previously. This is without prejudice to the appointment of proprietary directors as a result of the proportional representation system.

The committee must assess whether the appointment policy and procedures set by the company have been respected in the selection of the candidates on which it has to report. Any significant irregularities or deviations identified in the procedure must be included in the report to the board. Such incidents should also be mentioned in the committee's annual report.

In the event of a proposal for the appointment of a proprietary director at the petition of a shareholder whose holding is lower than 3%, it is recommended that the NRC should obtain information on the reasons for the proposal and explain them in the report that it must draw up in relation to the appointment. In particular, the NRC must be especially careful when the criteria guiding the company's decisions in this matter leads it to apply different treatment to the petitions for access to the board of directors from shareholders with similar holdings.

6 Reviewing and organising the succession of the chairman of the board, the chief executive officer and senior managers

In performing this function, the following will be deemed good practices:

- a) In organising the succession of the chief executive officer, the company's current chairman and chief executive officer should be consulted.
- b) The coordinating director, if this post exists and he/she is not already a member of the NRC, should be involved in organising the succession of the chairman.

On the basis of these consultations and, as the case may be, with the assistance of external advisers, the committee will draft a succession plan so as to avoid or reduce uncertainties that might affect the company's performance.

The succession plan should be reviewed regularly so as to adapt it to any new needs and circumstances that may arise. Where there are significant irregularities or deviations with regard to the plan or pressures on the committee's members with regard to the succession of the chairman or of the chief executive officer, the chairman of the committee or any of its members must report this to the board. This type of incident must also be mentioned in the annual report of the NRC.

It is also considered good practice for the NRC to at least be informed prior to approval of the succession, career or professional development plans of senior managers.

7 Evaluating the board of directors and its specialised committees

Although the law establishes that it is the board of directors itself that must conduct an annual evaluation of its own functioning and that of its committees, it is considered good practice for the NRC, with the support, where appropriate, of the coordinating director, to take the lead in this task and to submit to the board the results of its evaluation together with a draft action plan and recommendations to correct any deficiencies identified or to improve the functioning of the board or its committees.

The evaluation may be based on questionnaires or supplemented through the use of evaluation systems with more personal and direct participation and involvement of the directors, which might help to make it more effective.

The evaluation should cover at least the following aspects:

- a) The quality and efficiency of the functioning of the board of directors and specialised committees, including the extent to which the board and the committees have made effective use of the contributions of their members;
- b) the size, composition and diversity of the Board and the specialised committees;
- c) The performance of the chairman of the board of directors and the company's chief executive officer;
- d) The performance and contribution of each director, paying special attention to the heads of the various board committees;
- e) the frequency and duration of the meetings;
- f) the content of the agenda and whether sufficient time is spent on addressing the different points depending on their importance (taking into account examples of specific cases);
- g) the quality of the information received;
- h) the breadth and openness of the debates, avoiding group thinking;
- i) whether the decision-making process within the board is dominated or heavily influenced by one member or a small group of members;

As part of the evaluation, it is considered appropriate for the NRC to monitor the directors' attendance at the meetings of the board of directors and the committees of which they are members, quantifying any absences. In the event that the absences of any of the directors are more frequent than normal, the NRC should obtain information on the reasons so as to propose, as far as possible, actions to correct them. When absences are unavoidable, the NRC should ensure that proxies are generally given specific voting instructions.

In accordance with the GGC, evaluation of the board and its members should be externally facilitated every three years. The NRC must adequately assess the external consultant's independence, with it being good practice for this adviser not to be the same one that advises the company on the appointment of directors or senior managers or on remuneration systems. The Annual Corporate Governance Report (ACGR) must indicate the other services provided, as the case may be, by the adviser and the corresponding amounts paid.

It is considered good practice for the NRC's chairman and, where deemed appropriate, the chairman of the board and the coordinating director, to discuss with each director the result

of their personal evaluation and, as the case may be, the measures to be adopted to improve their performance.

Bearing in mind the importance of directors being up-to-date with new developments, it is recommended that the NRC should take on the function of periodically designing and organising refresher programmes.

It is also considered good practice for the NRC to at least be informed about the evaluation process of the company's senior management.

8 Proposing the remuneration policy and contractual terms and conditions of directors and senior managers

In performing these functions, the following will be considered recommendable:

- a) The proposal of the remuneration policy for directors and senior managers that the NRC submits to the board must be clear, precise, verifiable and based on objective criteria.
- b) The proposed policy must be consistent with the entity's specific circumstances and its strategy and take into account its impact on the sustainable and long-term performance of the company and in terms of risk-taking.
- c) Similarly, the design of the remuneration policy should take into account the recommendations of the GGC, particularly those relating to *malus* and clawback clauses and to the limits to severance pay and other termination payments.
- d) The process of drafting the remuneration policy proposal must follow a predetermined and transparent procedure which must be described succinctly in the annual report of the NRC and in the Annual Directors' Remuneration Report.
- e) If the services of an external adviser are used in the preparation of this policy, the NRC must properly assess their independence.
- f) The NRC shall review the remuneration policy annually to ensure that it is aligned with the entity's situation and its short, medium and long-term strategy and with the market conditions and in order to assess whether it contributes towards creating long-term value and to adequate risk control and management.
- g) The NRC must review the conditions of the contracts of executive directors and senior managers and verify that they are consistent with current remuneration policies.

9 Proposing the setting or verification of the remuneration accruing to directors and senior management

- a) The NRC must perform a thorough evaluation of the level of compliance with the criteria and objectives set for the previous year, which shall determine the proposal for the individual remuneration of each director, particularly executive directors, including the short, medium and long-term variables, with the support, where appropriate, of the external adviser.
- b) The NRC must also verify that the remuneration policies are applied appropriately and that no payments are made to directors that are not provided for therein. Similarly, it must verify whether any circumstances have occurred that make *malus*

and clawback clauses applicable and propose the appropriate measures to recover, as the case may be, any corresponding amounts.

It is considered good practice for the NRC to be at least informed about these issues with regard to senior managers.

In the performance of these functions, the NRC must consult the chairman and the chief executive officer, particularly for matters relating to executive directors and senior managers.

10 Other functions of the nomination and remuneration committee

Current trends in corporate governance usually give the nomination and remuneration committee a series of additional functions that do not result from legal obligations or from the recommendations of good governance codes and which are given below for information purposes:

- a) Involvement of the chairman and, as the case may be, other members of the NRC, together with the coordinating director, in communicating with and contacting institutional shareholders and investors, particularly those that are not represented on the board. Similarly, involvement with proxy advisers and the performance of liaison work between all the aforementioned parties and the board and sounding out opinions on specific issues, particularly in matters relating to corporate governance and the remuneration policy of directors and senior managers, and also the possibility of involving them in the improvement of any aspect.

The board must authorise these contacts and establish the basic lines of the messages to be transmitted, which in no case may include insider information, and it must be informed of the discussions.

- b) Reviewing or verifying the information on board remuneration that the company has to publish and, where not assigned to a specialised committee, the general information relating to corporate governance.
- c) Reviewing that the information that the entity disseminates through its website on matters falling under the NRC's remit (information on experience and career background of directors and on remuneration) is sufficient and appropriate and follows the recommendations of the GGC.
- d) Function of proposing a diversity policy for directors and, as the case may be, for the senior management.
- e) Reporting by the chairman of the NRC in the General Meeting on the committee's activities and the issues that have arisen over the year related to the areas falling under its remit, where these are particularly relevant, as well as answering any questions asked by shareholders about issues falling under its remit.
- f) Participating in possible updates to the board regulation in matters falling under its remit.

11 Reporting to the entity's other bodies and its shareholders

The annual report of the NRC, which should be made available to the public in accordance with Recommendation 6 of the GGC, must allow shareholders and other stakeholders to understand the activities carried out by the NRC over the year. It is therefore recommended that it should contain at least the following information:

- a) Regulation of the NRC.
- b) Composition of the NRC during the year, including the category and length of service of each member, reference to information on members available on the entity's website and the significant abilities in terms of the knowledge and experience contributed by each member. An explanation will be given of the criteria used in practice by the board to determine, on the basis of the specific circumstances of each entity, the composition of the NRC, including aspects relating to members that are not independent directors.
- c) Functions and tasks performed in practice by the NRC over the year and any changes in them over the period, indicating the most significant activities performed (reporting on those that have been performed with the support of external experts). In the event that external advisers are used, it will be necessary to report on any potential conflicts of interest and all the services provided to the entity or to related entities and the amounts received by said expert.
- d) Meetings held during the year, number and nature of the attendees, including the attendance of any person who is not a member of the committee.
- e) Scope of the evaluation of the functioning and performance of the board and specialised committees, including the NRC itself. This should include the areas evaluated, the evaluation methods used and to what extent the evaluation has led to significant changes in the organisation.
- f) Information on what practical guides on NRCs, whether national or international, are being followed, where appropriate, and to what extent.
- g) Significant deviations with regard to the procedures adopted or irregularities that have been transferred in writing to the board in matters falling under the remit of the committee.
- h) Conclusions.
- i) Date of preparation by the NRC of the report and date of its submission to the board of directors.

12 Reasons for the departure of directors

When, as a result of dismissal or for any other reason, a director ceases to hold their office before the end of their term, the company must act in a transparent manner with regard to the process and its reasons.

It is considered appropriate that when a director resigns from the committee, the NRC should assess the information contained, as the case may be, in the document that the outgoing director has submitted to the board. In the event that the information available is not considered sufficient, the NRC should establish a dialogue with the director to discover the reasons why they have resigned, whether personal – health, family commitments, excessive workload, etc. – or of another nature, for example disagreements with the entity's

strategy, with other members of the board or the management, with significant shareholders or with any other party involved in the company's corporate governance.

The NRC should ensure that the board of directors adequately disseminates the reasons and circumstances for the departure, including an explanation of the reasons for the departure in the ACGR.

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