

## THE CNMV APPROVES THE TECHNICAL GUIDE ON NOMINATION AND REMUNERATION COMMITTEES

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- The guide, which provides guidance, contains principles, good practices and criteria for the proper functioning of these committees.
- It addresses issues such as the basis for proposals for the appointment of board members or the use of external advisers in the succession of the chairman and CEO.
- It is suggested that the application to senior managers of certain criteria or practices that are recommended for selection and assessment, and in relation to board members' remuneration, also be considered.

The Spanish National Securities Market Commission (CNMV) has approved a [Technical Guide on Nomination and Remuneration Committees \(NRC\)](#).

The objective of the document is to assist the proper functioning of the NRC in companies, given that the selection, appointment and system for remuneration of board members and senior managers are key aspects of good governance in listed companies. To this end, the Technical Guide contains a series of principles, good practices and criteria on how these committees can improve the performance of their functions.

The basic principles on which their performance should be based are the following:

- Independence and scepticism.
- Constructive dialogue among their members.
- Internal dialogue with the chairman of the board, CEO or coordinating board member or, when deemed necessary, with any executive.
- Sufficient capacity, with the possibility of using experts, where appropriate.

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The good practices recommended include most notably those aimed at reinforcing the independence of the committee and fostering its proper functioning in the processes used to select, assess and draw up the board members' remuneration policy.

Among other matters, the good practices address the following:

**A single committee or two separate committees:**

Although it is not generally recommendable to separate the two committees, it is considered advisable for listed companies, depending on their degree of complexity, to consider this possibility and, in addition, if they do have separate committees, for them to have in place mechanisms to facilitate coordination between them.

**External advisers:**

If the services of external advisers are requested, it is recommended that a different one be hired for selection, assessment and remuneration policy tasks, respectively. However, taking into account the principle of proportionality and specific circumstances, it may be reasonable for the same adviser to support the NRC in more than one function.

**Composition:**

Diversity, knowledge and training criteria are established. Reference is made to the possibility of proprietary board members forming part of the NRC, and it is considered advisable that these be proprietary board members that do not have any control or significant influence, and meet the other independent board members' requirements (except, logically, the requirement of not having a relationship with a significant shareholder).

**Functioning:**

It is considered advisable for the NRC to meet with sufficient frequency, ideally at least three times a year.

### **Assessment and selection of board members:**

The analyses that the NRC must carry out in relation to the current composition of the board and future needs are detailed. It is recommended that a competency matrix be drawn up to define the skills and knowledge that board of directors candidates should have. It is also recommended that the NRC justify in its proposal or report to the board the reasons justifying the suitability of the candidate.

### **Independent board member proposal:**

Good practices are considered to include, inter alia, outsourcing the search; exercising extreme caution when the candidate is presented by a significant shareholder or proprietary or executive board members; taking into account in proposals for re-election the same factors that were considered in the initial selection, as well as assessing his or her performance during his or her office as a board member, and appointing the coordinating board member at the proposal of the NRC.

### **Reporting on the proposals of other board members, senior managers and the board secretary:**

It is recommended that the NRC assess whether the candidates on whom it has to report meet the requirements set out in the competency matrix.

### **Succession of the chairman, CEO and senior managers:**

It is recommended that the coordinating board member, as well as the outgoing board chairman and CEO, also be involved in these tasks. It is also advisable that a succession plan be drawn up and reviewed periodically. In addition, the NRC should at least be informed, prior to being approved, of the succession and career plans for senior managers.

### **Policy and determination of remuneration and contractual conditions for board members and senior managers:**

It is recommended that the policy be clear, precise, verifiable and based on objective criteria. It should also be consistent with the entity's particular circumstances and strategy. In relation to contractual conditions, the NRC should verify that these are consistent with current remuneration policies.

Furthermore, the NRC should assess in detail the degree of compliance with the criteria and objectives established the previous year, and whether the remuneration policy is properly applied.

In relation to the determination and verification of senior management remuneration, it is considered good practice for the NRC to at least be informed about these matters.

**Information provided to other bodies of the entity and to its shareholders:**

A series of contents are detailed which should be included in the functioning report drawn up annually by the NRC to enable shareholders and other stakeholders to understand the activity carried on during the financial year.

**Reasons for the removal of board members:**

Finally, the guide considers it appropriate for the NRC to evaluate any information contained in the letter that the outgoing board member has sent to the board and, when it considers that this is not sufficient, to enter into dialogue with the board member to ascertain the reasons for his or her removal. Likewise, the NRC must ensure that the board adequately discloses the reasons for and circumstances of such removal.