**General Comments on EBA/CP/2020/08 of 4 June 2020, which aims to determine classes of instruments that adequately reflect the credit quality of the investment firm as a going concern and possible alternative arrangements that are appropriate to be used for the purposes of variable remuneration**

**General Comments**

*The IFD provisions on alternative arrangements for the purposes of variable remuneration set out in Article 32 seek to provide necessary flexibility regarding the use of different types of instruments when paying variable remuneration. They key criterion is that such instruments are effective regarding the objective of aligning the interest of staff with the interest of various stakeholders and contribute to the alignment of variable remuneration with the risk profile of the investment firm.*

*In this regard, we believe that different type of instruments can be allowed in order to reflect the diverse legal structures of investment firms, such as shares (or equivalent ownership interests) and share-linked instruments (or equivalent non-cash instruments), as well as other arrangements that effectively allow aligning the interests of staff with other stakeholders’ longer-term interests, and help to align variable remuneration with the risk profile of the firm.*

**Response to Questions**

***Question 3: Are the provisions in Article 6 appropriate and sufficiently clear?***

**Where respondents are of the view that the draft RTS should define a set of specific arrangements rather than providing conditions that such arrangements should meet, comments are most helpful, when they clearly describe the alternative arrangements that investment firms desire to use to ensure that variable remuneration is aligned with the long-term interest of the investment firm and its risk profile.**

*We believe that the right approach is to foresee only the conditions that the selected alternative arrangement should fulfil rather than defining in a prescriptive way a set of specific arrangements as eligible. Such a criteria-based approach takes into consideration the diversified legal and remuneration structures of investment firms. It is also proportionate as it reduces the likelihood that firms will be forced to issue instruments purely for use in variable remuneration.*

*In line with the provisions of IFD/IFR, the main condition for the selection of such alternative arrangement should be that the instrument would effectively align the interests of staff with other stakeholders’ longer-term interests and help to align variable remuneration with the risk profile of the firm. Promoting sound and effective risk management and not encouraging risk-taking that exceeds the level of tolerated risk within the investment firm is a key consideration.*

*Regarding the link to deferrals, we wish to highlight that these do not apply for every investment firm (there are exemptions foreseen by IFD/IFR based on thresholds), therefore this cannot be a criterion applying for every firm. Finally, incentives for staff to act in the long-term interest of the investment firm is an additional important element.*

*As Capital Group is a private company with no publicly listed parent company shares, the arrangements we have in place currently are profit-sharing schemes (for a limited number of associates), which are based on an internal formula value. Our profit-sharing schemes meet all the necessary conditions for an effective alternative arrangement, as they are:*

* *based on global firm profitability. As a private firm, there is a direct link between firm performance/profitably and the value of the profit share;*
* *allocated based on long-term individual performance; as such, our bonus programmes are proxies for company performance like awarding shares of a listed business.*
* *paid in a profit-share unit. Bonus allocation is based on recent and long-term contributions to our business, including investment results, the investment process and operational effectiveness (where relevant).*
* *embed deferral characteristics since they grow over time (dependant on contribution), the value tracks business performance and can be removed at any time.*

*Certain associates are invited to purchase shares in Capital Group and in that way the ownership structure provides a significant incentive for investment professionals and senior management to contribute consistently over many years.*

*It would be disproportionate to force firms to move away from shareholders philosophy, which underpins the foundations of the firm and would directly impact the firm’s succession approach and our approach to clients.*