



## **Remuneration Policy**

<b>Reviewed:</b>	
<b>Franco Barone – General Counsel</b>	<b>January 2023</b>
<b>Remuneration Committee</b>	<b>[21/03/22]</b>

## **Introduction**

RJ O'Brien is one of the world's oldest brokerage firms. It prides itself on that longevity and success, and reflects its approach to doing business in its Corporate Values:

*Teamwork, Integrity & Trust, Customer Focus, Excellence and Continuous Improvement*

This Remuneration Policy summarises how RJ O'Brien Limited ("RJOL") compensates those who work for it and which it believes is consistent with those values. Its application is overseen by RJOL's Remuneration Committee.

### **I. Remuneration Generally**

As with the rest of the market, RJOL offers all employees and contractors the opportunity to receive bonus in addition to whatever their fixed remuneration position may be. These bonuses are divided between those that are discretionary and those of certain brokers that are based on a mathematical formula. The former all share the same characteristic: they are at the sole discretion of the Company; the latter vary in their detail depending on the specific circumstances of the individual in question. These are dealt with in more detail below.

Bonuses are intended to recognise and reward good performance and conduct in a given year, as well as to encourage its continuation and the retention of staff.

Conversely, the Company has the ability to penalise staff by *reducing or not paying* bonus in the event of serious misconduct.

No bonus is paid unless all required training (in categories such as conduct, money laundering and market abuse, anti-bribery and corruption, conflicts of interest), as well as fit and proper assessments, are satisfactorily completed. Bonus awards are consistent with annual performance reviews.

Broking staff do not benefit from errors.

### **II. Discretionary Bonuses**

The majority of RJOL's staff are eligible to be considered for a discretionary bonus. As a general rule, the entitlement of Back Office staff is annual; Front Office brokers may receive bonuses on a monthly, quarterly, bi-annual or yearly basis. But the factors that are taken into account are essentially the same:

- capability
- conduct
- individual performance
- compliance with regulatory obligations
- financial performance of the relevant business unit (where applicable), of the Company, and of the RJO Group.

Awards are made from a bonus pool whose size is dependent upon the Board's consideration of:

- (i) the financial success of RJOL in the relevant period;
- (ii) its projected performance; and
- (iii) the overall profitability and capital position of the wider RJO Group, as well as its own growth strategies and projections.

Annual bonuses are paid after:

- (a) the year-end, when the Company is in a position to assess its previous year's financial performance; and

- (b) the completion of staff performance reviews, where the Company is able to assess individual performance for the previous performance year.

Under those reviews – effected for all personnel – individuals are scored against a number of categories (including compliance with internal rules, expected conduct and defined corporate culture). The assessments are then used to influence (positively and negatively) the exercise of discretion in setting levels of awards.

In the Front Office, though successful contribution to the business is most obviously measured in terms of revenue production, the discretionary nature of the awards means that the Company has wide scope to take into account other considerations. These could include, for example, contribution to new workstream development or a positive desk or dealing floor atmosphere, or attendance and diligence, and so on. The HR Department will, each month, ask the Compliance Department to confirm that there have been no breaches of rule or regulation by personnel. In addition, during Q1 of each year Front Office staff are subject to a Fit and Proper assessment, in line with the Senior Managers and Certification Regime.

Once the size of the overall bonus pot has been calculated by the Finance Department, each Desk Head is able to recommend the amount of the discretionary bonus for each member of his desk. Those without issues from a Compliance/HR perspective will then have their bonus award allocated before sign-off by the Managing Director.

### **III. Formulaic Commission pay-out to Front Office brokers**

It is the market norm to reward senior broking staff through payment of a percentage of the revenue that they have produced for the Company. Naturally, the intention is to motivate and reward revenue generation. Their contracts will detail the arrangement and contain an example calculation for the sake of clarity. Bonuses are made on a monthly/quarterly/bi-annual or half-yearly basis, depending on the individual's arrangement with the Company.

Payouts are only made on commission billed and received; no broker benefits from any error or overpayment. As for discretionary bonuses, payments are made in cash rather than any equivalent. There is no vesting period; any "deferral" might only apply were earned commissions ever to be lower than any fixed monthly payment that the individual receives. In such a case, the appropriate amount is deducted from future earned commissions that exceed that monthly sum.

Pay-outs are subject to impact from conduct: every broker is bound to use all proper skill and care, and is obliged to comply with all applicable FCA rules; compliance breaches, fines by exchanges and regulators, any client debit balances, errors and other similar risk matters could all reduce the overall payment to the individual. Contracts expressly recognise the Company's and broker's obligation to comply with the FCA's Remuneration Code, as may be amended from time to time.

### **IV. "Ex-Post Risk Adjustment"**

However, as well as encouraging and rewarding those who contribute to its continued success, RJ O'Brien believes that no-one should benefit from their wrongdoing.

This principle is also reflected by the FCA in its approach to how those in a regulated environment are remunerated: the UK Investment Firms Prudential Regime (IFPR) introduced a new remuneration code which affects the Company and its employees and contractors directly.

"Ex-post risk adjustment" is the reduction, following the crystallising of a specific risk or poor performance/misconduct outcome, in the amount of variable remuneration to which an individual would otherwise have been entitled. It includes:

- (i) reducing current year awards;
- (ii) the application of "malus" – ie, reducing or cancelling a future or deferred award; and
- (iii) clawback – the recouping of already vested awards.

In the event that any action or inaction by anyone working for RJOL has a material impact on the categories listed below, the Company will consider adjusting a person's variable remuneration, whether past, present or future.

### Categories of Considerations

The Company will look at all of the circumstances surrounding any in/action that has a materially negative effect in primarily the following areas:

1. the impact on its **customers, counterparties** and the wider **market**;
2. the impact of the failure on its relationships with its **other stakeholders** including shareholders, employees, creditors, the taxpayer and regulators;
3. the cost of **fines** and other regulatory actions;
4. direct and indirect **financial losses** attributable to the relevant failure; and
5. **reputational damage**

The kind of cases where an ex-post risk adjustment might have to be made are, for example, if anyone working for RJOL:

- (i) has participated in or was responsible for conduct which resulted in significant losses to the Company or relevant business unit;
- (ii) has acted in any manner which has brought or is likely to bring the Company or any Group company into material disrepute;
- (iii) acted in a fraudulent or dishonest manner;
- (iv) has failed to meet appropriate standards of fitness and propriety; or
- (v) acts in any materially wrong way,

even if those matters only come to light after the bonus has been paid.

### Who Will This Affect?

The use of ex-post risk adjustment will not be limited to those who are directly engaged in the misconduct. RJOL will also consider anyone whose failure – whether deliberate or accidental – contributed to, or failed to prevent, the cause of the damage. This covers anyone who:

- a. could have reasonably been expected to be aware of the failure, misconduct or weakness in approach that contributed to, or failed to prevent, the crystallisation of risk at the time but did not take adequate steps to promptly identify, assess, report, escalate or address it; or
- b. by virtue of their role or seniority, are indirectly responsible or accountable for the relevant event.

Note that ex-post risk adjustment can be applied collectively at bonus pool level, to groups of employees and to individuals.

### Procedure

The Company will start to consider the possibility of any ex-post risk adjustment once relevant events have been identified and will impose reductions as soon as reasonably possible. The procedure will likely involve an initial detailed investigation with the participation of HR and Senior Management, and probably the Compliance and Legal Departments. The Company will then follow the procedure set out in the Disciplinary Policy in the Staff Handbook. This will allow the person(s) in question the full opportunity to give their version of events and make whatever representations they feel relevant.

A decision to adjust will not be taken lightly. It will take into account all of the circumstances of a particular case. And it would almost certainly involve not only the departments referred to above, but

also the Remuneration Committee and Internal Audit. The Company's aim will be to ascertain as accurately as possible the degree of culpability, responsibility or accountability of anyone it feels may have had an involvement in the relevant event. As referred to above, "anyone" can include a person (i) with responsibility for the in/action in question, or (ii) who fails to prevent or contributes to that event.

As set out in the Disciplinary Policy, any adjustment may be applied as an alternative to dismissal. However, note that it may be *in addition to* dismissal.

It should be noted that the Company has a duty to inform the FCA of any action that it takes in relation to ex-post risk adjustments, including of any relevant pending investigations.

If someone is under investigation, no pending bonus payments will be made until a final decision has been taken and communicated to them. Any such communication will give full reasons for the decision.

Risk management failures and misconduct can take years to come to light. However, this in principle would not prevent any ex-post risk adjustment being applied: as long as there is relevant variable remuneration capable of reduction, the Company will act robustly and fairly to comply with its obligations.

### **Target of Any Adjustment**

Under the new Rules, the Company is entitled to make the following performance adjustments:

- (i) reducing the amount of any unvested bonus (whether because it is deferred or simply has not yet been paid);
- (ii) requiring repayment on demand on a gross basis any cash awards received by an individual at any time during the 3 year period after such awards have been paid; and/or
- (iii) requiring forfeiture of up to the whole of any bonus awarded but not yet paid.

Therefore, while the simplest method of making an adjustment would be to reduce a bonus soon to be paid, circumstances could arise that might make this impossible, insufficient or for some reason less appropriate. In such a case, the FCA's rules entitle the Company to claw back the relevant amount from bonus sums already paid (and, should any deferred variable remuneration be payable, also from that).

Further, where ex-post risk adjustments have been made to current or prior year awards before the full impact of the relevant event is known, subsequent adjustments will still be possible if they are necessary to ensure that the final value of the adjustment fully reflects the impact of the incident.

## **V. IFPR and Specific Rules Relating to "Material Risk Takers"**

The FCA's stated objectives behind the IFPR are to:

- promote effective risk management in the long-term interests of the firm and its customers;
- ensure alignment between risk and individual reward;
- support positive behaviours and healthy firm cultures; and
- discourage behaviours that can lead to misconduct and poor customer outcomes.

Certain of the Company's staff – those deemed to have "a material impact on the risk profile of the firm or of the assets that the firm manages" – including certain managers and desk heads are designated Material Risk Takers ("MRTs").

In practice, the new rules means that the Company must (i) bring performance factors into variable remuneration considerations, and (ii) penalise serious wrongdoing by impacting that remuneration.

The FCA has categorised 3 types of firm, essentially based on size. Conditions as regards the earning of variable remuneration increase with each band. RJOL is currently in the middle, "Standard" category. The main consequences of this therefore are that:

1. "Performance-related variable remuneration" (ie bonus) of MRTs must be based on a combination of the performance of the individual, the relevant business unit and the firm overall; and
2. Performance assessment must be based on a multi-year period that takes into account the business cycle of the firm and its risks, both current and future.

"Performance" here means both financial and non-financial criteria. "Performance-related" covers *both* discretionary *and* formulaic bonuses.

As referred to above, the rules on ex-post risk adjustment apply.

### **Effect on MRTs' Bonuses**

Discretionary bonuses are allocated as the Company sees fit, taking into account various considerations (eg performance, conduct, RJOL's financial position, projections etc). To some extent therefore the Company has always factored in to its assessments an individual's "behaviour." The new rules mean however that it now has not only the obligation to consider them where a broker is paid under a specific bonus calculation, but also the *right* to financially penalise any misconduct, regardless of the terms of the contract (whether employment, contractor or otherwise).

### **Restrictions on "non-performance related variable remuneration" of MRTs**

This applies to:

- Sign-ons
- Retention awards
- Buy-out awards
- Severance pay

Sign-ons and retention awards are to be used rarely and not as common practice. Sign-ons for new MRTs are possible only on joining, in the first year of service.

Retention awards should only vest after either a defined event or at a specified point in time.

Buy-out awards involve compensating a new employee whose last bonus was affected by the individual leaving his/her previous employer. This can in principle be paid, provided that it's on the same vesting terms that would have been the case had the employment not ended.

All severance payments must reflect the individual's performance over time and must not reward failure or misconduct.

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