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Risk Management and Remuneration Policy in Financial Sector: A Regulatory Perspective

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Abstract

Ethical approach towards shareholders' interests, in terms of value maximization within predefined risk appetite limits, is the fiduciary responsibility of the corporate governance bodies. However, numerous cases of excessive risk taking as well as inadequate management procedures demonstrate that this premise has been taken for granted. Ever since the first regulatory mechanisms have arisen in 18th century, the composition of the governing bodies, the selection criteria as well as the accountabilities have been subject of „comply or explain“-based codes of ethics and legislation. This paper analyzes the latest regulatory aspects of remuneration and risk management processes, as well as their intersections in the financial organisations in the EU.

Keywords: *Corporate governance, Remuneration policy, Risk management.*

Track: *Governance*

Word count: 5.957

1. Introduction

Ethical approach towards shareholders' interests, in terms of value maximization within predefined risk appetite limits, is the fiduciary responsibility of the corporate governance bodies. However, numerous cases of excessive risk taking as well as inadequate risk management procedures demonstrate that this premise has been taken for granted.

As a reaction to a great number of corporate scandals in the USA as well as in Europe at the beginning of the century, notably in the financial sector, when a chain of negative consequences unrolled as a result of excessive risk taking, in the area of corporate governance the focus has shifted towards internal control and risk management. The change in the focus was not only a consequence of unethical behaviour, but also of intolerably high remunerations for managers, inadequate reporting, inadequate revisions, and, especially in the last ten years, the creation of complex financial instruments and related risks (Van Daelen, Van der Elst, 2010). Previous problems caused risk management to be positioned highly on top of corporate governance agenda.

In the period before the 2008 crisis in the financial sector aggressive risk taking was a common behaviour. Several factors contributed to the development of such behaviour. Firstly, financial innovations enabled risk taking via new types of securities. Secondly, there was a strong motivational impulse for delivering results in terms of profit, market share or share price growth. None of these performance is inherently undesirable and leads to value destruction and/or instability of the system. To the contrary, innovations in the financial market and motivational mechanisms represent drivers of the progress on individual as well as systemic level. Their counterproductive function starts when they lean on moral hazard. Moral hazard is a third factor that runs the innovation and motivational mechanisms against shareholders' interests, as well as the interests of the economic system and entire society. It

means that there are individuals who deliberately expose stakeholders to the risk of loss (although they should be acting in their best interest) and by that attain substantial financial gain. The ultimate effect of moral hazard is triggering of the systemic risk. However, moral hazard still is not enough for developing of the risk-taking mentality. The last factor is general rationalization on the system level, a wide consensus that certain behaviour is economically and morally legitimate since it leads to value increase for shareholders and thus for the society as a whole.¹ Such rationalization helps to forget one important detail, that this value release in the financial market is deprived of value creation in the real sector.

In such a constellation of factors, managers become more ready to take on risks that they would avoid otherwise. When risk taking becomes rather a rule of conduct than the exception that relies on the desire to make a strategic breakthroughs, the room for crisis emerges.

In order to prevent unethical behaviour of the management and to raise awareness of the responsibility of the boards of directors towards shareholders, a wave of regulation emerged in a shape of codes of corporate governance, like OECD Principles of corporate governance, as well as laws such as Sarbanes-Oxley Act in the USA. Still, the 2008 financial crisis shed the full light on mistakes made by board of directors and managers regarding risk management. The majority of financial organizations that experienced great financial difficulties or even bankruptcy after the 2008 crisis commenced, was equipped with robust systems of risk management. The attitude that aggressive and thoughtless risk taking held a key role in the emergence of the financial crisis triggered a new wave of regulation with a focus on risk management and protection from risk. The boards of directors were accused of inadequate informing, excessive relying on quantitative models of risk management and insufficient relying on common sense. In the situations where strategy brought abnormal returns, related risks stayed neglected or even obscure (Beasley et. al, 2010).

In this paper, the role of boards of directors in risk management will be explained in details, the history of regulatory development in the area of corporate governance, as well as the role of rewards for managers in establishing ethical as well as effective corporate governance and, amongst it, risk management system.

2. The role of boards of directors in the process of risk management

Under the influence of the last regulatory wave, and in line with business reality, risk management became one of the most important and the most challenging responsibilities of the boards of directors (BOD). Besides the regulator, shareholders create growing pressure on BOD to manage risk in a more transparent, rigorous and systematic way. Risk management becomes a topic with equal importance like strategy formulation or protection of the shareholders' interests (Chapman, 2006).

Risk management is not only a new task on already crowded priority list imposed to BOD. The awareness of the risk and the need for its identification, measurement, management and reporting should pervade all the existing responsibilities of the BOD. According to R. Garratt, risk management should be integrated into four main responsibilities (functions) of the BOD: policy formulation, strategy formulation, management control and responsibility towards shareholders (Garratt, 2003).

¹ The opinion that shareholder value maximization is the most important goal function which provides simultaneous fulfillment of the interests of all stakeholders dominates in the last few decades (see: Đuričin et al., 2018, p. 14).

The OECD codes of corporate governance suggest an active involvement of BOD in establishing and monitoring risk management process (Jesover and Kirkpatrick, 2005). The revised principles of corporate governance recommend that defining of the risk appetite should be a clear responsibility of the BOD (sometimes marked as risk profile or attitude towards risk). It assumes specifying of the key risks and tolerable levels that the company is ready to accept on the path of attaining its goals and objectives.

The importance of managing risks from the highest level has been recognized not only by the regulatory bodies but also by credit rating agencies. The expectations of the *Standard and Poor's* agency regarding activities of the BOD in the risk management process refer to the following:

- Policies related to risk management have to be approved by the committee responsible for risk.
- Frequent meeting with regard to the adequacy of the financial and nonfinancial risk measures among BOD, executive board as well as risk managers must be held.
 - Involvement of the BOD in the initiatives related to risk management is desirable as well as development of an appropriate risk culture (Dreyer and Ingram, 2008).

More intense involvement of the BOD in the field of risk management is not just a consequence of the regulatory compliance. The peril of reputational damage due to inadequate control of the risk management process exists even in the absence of the regulatory requirement, rules of stock exchanges, codes of best practice. etc. In that sense, the main task of the BOD when it comes to risk management is to ensure intelligent risk taking in the predefined risk appetite limits, that leads to value preservation as well as value creation.

Besides the aforementioned, BOD also have a responsibility in terms of defining the appropriate organizational structure that provides effective monitoring of the risk from the highest level. More and more countries entrust risk management control to special committees within BOD. There are two options with regard to the organization of this function: a. to entrust this function to the committee for revision and b. to form a special committee for risk. In both cases, it is necessary to have independent non-executive directors as committee members (Branson, Fraser and Simkins, 2010).

Establishment of the risk committee seem like a logical solution having in mind the substantial impact of risk management on company's results. However, it is still the most common practice that the committee for revision holds the responsibility for risk management control, adding it to the already crowded list of responsibilities related to financial reporting, internal and external revision. In the dual systems of corporate governance, instead of a committee, the responsibility for monitoring of the risk management is entrusted to the supervisory board.

Integrated risk management performed from the highest corporate level provides the implementation of the holistic approach. Such an approach is different from traditional approach which assumes that the responsibilities for risk management and control activities are held by certain functions and business units (so-called "silo" approach to risk management). As a result of the later, managing of the risks was usually inconsistent and within different tolerance limits set by different managers responsible for risks. Additionally, segmented approach to risk management often disabled early warning signals of risk events correlated with other risks factors. As a consequence, this approach to risk management often leads to counter effect – an increase instead of a decrease of the risk exposure. The holistic

approach requires that all the risks a company is exposed to are viewed from the top of the organization with active participation of all organizational levels in the activities of risk management, as well as transparent information flow about risks between “silos” (Branson et al., 2010).

3. Regulatory requirements in the field of risk management

Even since the first multinational corporation, Dutch East India Company, and the first stock exchange in Amsterdam at the beginning of the 17th century², protection of the shareholders’ interests represents the main challenge for regulators. The first regulatory mechanisms arose in the 18th century in the UK and the Netherlands where corporate practice first started.³ Occasional scandals caused by inadequate corporate governance were happening even before. Finally, after the collapse of the financial market in 1720 British Parliament enacted the Bubble Act in order to prevent future frauds. In the 19th century in the UK and the USA various laws regulating the process of founding, IPO as well as following trade with shares saw the daylight. It has to be marked that some of these laws, like Joint Stock Companies Act from 1856 represent to a great extent the body of the company laws implemented today (Van Daelen, Van der Elst, 2010).

The fast industrial development from the end of the 19th and the beginning of the 20th century followed by unprecedented financial market growth ended on “Black Monday” in October 1929 in the USA, marking the beginning of the Great Depression. The solution as well as prevention from future crises was sought in the Securities Act in 1933, by which buying and selling of the securities were regulated, and Securities Exchange Act in 1934 which regulates more broadly financial markets and their participants. Both laws are aimed at disclosing all the relevant information for investors and decrease of informational asymmetry. The first act from 1933 regulates disclosure on the primary financial market while the other from 1934 regulates disclosure of the information on the secondary market.

At that point in time, theories about negative aspects of the divergence of the ownership and the management emerge. Berle and Means (1932, p. 5) first noticed that in the case of informational asymmetry those having control in their hands (managers) will exercise it in its own, not in shareholders’ interest. Few decades after, Jensen and Meckling (1976) mark previous problem as an „agency problem“ which in the case of asymmetric information leads to the „agency costs“ that represent direct loss of value for shareholders. One of the forms of misuse of the informational asymmetry is excessive and unacceptable risk taking.

Unlike previous regulation, from the 1970s onwards, more important role is given to dispositive norms in a shape of codes and rulebooks. However, besides their dispositive nature, some norms and directives found their way to certain laws or regulation imposed by stock exchanges, and in that way received normative nature. The accent was firstly put on internal control. The responsibility of managers for risk estimation is firstly given in the *Minahan Commission* Report in 1982 (Heier, Dugan and Sayers, 2004). The shift in terms of growing importance of the measurement and disclosure of risks can be seen in Treadway Report issued in 1987 by Treadway Commission. In 1992 Committee of Sponsoring

² Dutch East India Company was founded in 1602 as the first company in history that issued shares. Not long after, the first stock exchange for share trading was founded in Amsterdam.

³ Besides the stock exchange in Amsterdam, in the 17th century the London Exchange Alley starts with work. In 1801 it changed its name in London Stock Exchange. The New York Stock Exchange was founded more than hundred years after London Exchange Alley, in 1792 when 24 brokers and traders decided to start trading with shares for provision.

Organization issued *Internal control – Integrated framework*, and in 2004 *Enterprise risk management - Integrated framework*. In the beginning of the 1990s the first codes mentioning corporate governance, internal control and risk management appeared.

Reaction to the numerous financial scandals during the 1980s and the 1990s in the UK was the new form of regulation that assumed comply or explain principle, meaning that listed corporations should comply to the codes or, if circumstances require something different, explain in the annual report to shareholders the reasons for given non-compliance. They wanted to avoid prescriptive norms following the attitude that one size does not fit all and that different companies with specific size, activities, environment as well as ownership structure can have different approaches to corporate governance.

The Cadbury Committee was funded in 1991 with the aim to finally mitigate the risks and failures related to corporate governance. As a result of the activities of the Committee, Cadbury Report was issued in 1992, widely accepted in business circles. Cadbury Report offers directives and procedures for BOD regarding internal control over financial management. For the first time in this report the attention was directed towards management incentives and the fact that they represent fruitful ground for the conflict of interest between managers and shareholders.

On the initiative of the Financial Reporting Council's director, in 1995 the Hampel Committee was founded. The Hampel Report from 1998 recommended combining of the Cadbury Report and Greenbury Report into unique code that would replace the existing listing rules of the London stock exchange. Following the recommendations, the London stock exchange introduced the same year the Combined Code on Corporate Governance. In the same time Turnbull Committee was founded with the intention to provide directives for the implementation of the code. The Turnbull Report prescribes that the BOD is responsible for maintaining the sound system of internal control as well as for insurance that it gives effective control over risks in a way defined by the BOD itself. The BOD has to take into account the nature and the level of risk a company is exposed to, the level and categories of risks a company is ready to take, the probability of emergence of the risks that threaten to jeopardize company's performance, the ability of a company to mitigate the negative impact of undesirable risks in case they materialize, as well as the cost-benefit analysis of the process of control within the risk management process.

In the EU there are also efforts to strengthen corporate governance, internal risk measurement and regulatory compliance which resulted in a number of directives for the member states. The idea of a unique approach towards resolution of the previous issues resulted in the emergence of the OECD Principles of corporate governance in 1999 (Hommelhoff, 2000). Afterwards, these principles were revised and broadened several times. The last time in 2013 they included special aspects of risk management and the role of BOD in that field. It can be said that the regulation of the corporate governance in the 21st century contributed to a great extent to the increase in importance and proliferation of the risk management (Woods, 2011).

The approach implemented in the USA could be characterized as more radical compared to British flexible approach to corporate governance. In 2002 Sarbanes-Oxley Act (SOX) was enacted with the intention to bring back the faith in the credibility of the information about financial health companies are emitting to its stakeholders. SOX contains requirements not only in terms of information disclosure, but also in terms of corporate governance in general (Romano, 2005). Upon the enactment of the SOX Securities and Exchange Commission estimated that the COSO Integral framework for internal control from 1992 represented a good framework for the USA companies. The Treadway Commission enlarged its scope

afterwards shifting the focus on risk management, which resulted in the new document in 2004. Namely, after the shift of the centuries, it was considered that the risk management was an integral part of the internal control. Today, the system of internal control is considered an integral part of the wider system of risk management (Van Daelen and Van der Elst, 2010).

SOX was expected to be a culmination of the long-time regulation development in the area of internal control (Heier et al., 2004). However, corporate scandals and failures continued to happen even after SOX which implies the limited scope of the law. Also, it is accused of the creation of a sort of precautionary mentality (in the real sector, predominantly) which caused a decrease in risk appetite (Bargeron, Lehn and Zutter, 2010). The best proof for that is decline in the R&D and capital investment with the simultaneous growth in cash reserves. Besides that, the costs imposed on companies with SOX were unexpectedly high. Hence, this law was sometimes criticized for being hidden form of taxation and the reason for moving IPOs away to other countries (Andersen and Schröder, 2010, p. 140).

In the same time, in the EU there are efforts to modernize company law and improve corporate governance. Their efforts resulted in the development of the European Commission (EC) action plan in 2003 known as Commission's Plan to Move Forward. Afterwards, a series of directives of the EC treats corporate governance and, more narrowly, risk management within it. The 2004 Transparency Directive deserves attention since it deals with the disclosure of the information about risk (2004/109/EG – Transparency Directive). In comparison to the USA, regulation in the EU treats more widely concepts of internal control and risk management since it does not focus only the system of financial reporting but also covers strategic, operational as well as systems of regulatory compliance (Van Daelen and Van der Elst, 2010, p. 81).

If the main goal of the regulation was to provide reasonable assurance that corporate governance as well as risk management will be performed within an ethical framework, it can be said that it did not hit desired results. It looks like not a single measure provides early identification of the deviant behaviour. On the other side, it is possible to expect excessive reliance of the shareholders and other stakeholders on the scope of regulation with regard to the protection of their interests, which open space for a new crisis in financial markets. One can really put a question mark on the purpose of the formal procedures of internal control and risk management if they serve too often as a mean for managers to show they acted in bona fide and did not contribute at all to the „unexpected“ financial distresses if they occur (Andersen and Schröder, 2010, p. 9).

When it comes to laws in the USA it looks like the rigorous and numerous requirements cause substantially higher costs of regulatory compliance (Woods, 2011, p. 9). The net effect for shareholders depends on the size of the benefits compared to the incurred costs. It is general opinion that the regulation contributed to the creation of a defensive corporate mentality of internal control procedures that decrease risk exposure instead of proactive mentality encouraging innovative responses to challenges and risks that external environment brings. Namely, bureaucratic management of risks does not contribute to the development of risk culture and disables early signals of opportunities as well as threats as a result of evolution in risk constellation just for the reason they have not been covered by existing procedures. On the other side, the firm incentive for ethical behaviour will exist only in the presence of the mechanisms that facilitate punishment of the unethical behaviour and mismanagement, hence, in the form of laws (Andersen and Schröder, 2010, p. 9). Otherwise, self-regulation in companies with the aim to prevent frauds and mistakes in the process of corporate governance has limited potentials.

4. Management remuneration and risk management

It is already said that excessive and imprudent risk taking in financial sector led to the collapse of a great number of financial institutions, which as a consequence of systemic risk trigger caused the financial crisis and recession in 2008. Although root causes for such a behaviour towards risk are numbered and of complex nature, there is general consensus of the regulatory bodies and supervisors of the financial system that the inadequate compensation systems played crucial role. Despite the fact that compensation systems did not have direct impact on the emergence of the crisis, their weaknesses determined to a great extent its scope and depth. Namely, compensation policies that nurture risk appetite over capacity for risk taking jeopardize effective risk management and foster so-called “aggressive” risk taking.

In order to mitigate potentially damaging impact of badly created compensation systems on the risk appetite, the regulation in the EU implies establishment of the compensation policy and practice for key personnel in the organization (top management, risk takers in the organization, employees on the control functions, employees with high variable share in compensation and other employees who might influence the risks in the organization with their behaviour) which are consistent with the effective risk management practice (CRD III - Directive 2006/48/EC). The implementation of the previous requirement is facilitated with the emergence of numerous documents that take the form of guidelines for an adequate modelling of the compensation system in the financial sector.

The key principle is that the compensation systems must be in compliance with the risk management process. In other words, compensation systems have to lean on predefined risk appetite, the main objectives and strategy of the organization, as well as to be consistent with the interests of the main stakeholders. It can be achieved in three ways: a. by firm corporate governance, b. by aligning the size of a compensation with risk appetite, and c. with transparent reporting (CRD III – Regulatory capital, Directive 2006/48/EC).

Big and complex organizations often have separated remuneration committee within BOD with supervisory role. Also, it is responsible for preparation of the decisions related to remuneration including those having high potential impact on risks and risk management.

Aligning of the compensation system with the risk appetite defined by BOD assumes that the remuneration must not encourage excessive risk appetite and, ultimately, moral hazard behaviour. Also, compensation systems should not lead to decrease in risk appetite and, ultimately, opportunistic behaviour. Compensation system has to be created in a way to be consistent with the long-term goals and strategy of the organization, and flexible enough to support their changes. To conclude, the responsibility of the BOD is establishment and implementation of an adequate compensation systems. It includes, *inter alia*, an appropriate ratio of fixed and variable share of the remuneration, use of economic (value creation) measures, as well risk adjustment of the reward.

Compensation has significant impact on the managers’ behaviour. The biggest impact, in that sense, has variable compensation. Variable compensation impels managers to attain defined objectives and provides participation in organization’s success. It is, also, an important element of the cost flexibility. In principle, variable compensation linked to performance has positive effects in terms of risk sharing between shareholders and managers, and, consequently, performance increase. However, variable compensation can have extremely negative effects under certain conditions. When it is set on a too high level, it could encourage employees to take unacceptably high risk in order to create potentials for greater results, and thus, higher compensation. Additionally, there is a real danger of manipulation with the

information about the results, showing it much better than they really are. This is especially the case when the formula for determining the size of compensation is based on current performance, does not assume any payment deferral or risk adjustment (Vuksanović, 2009).

The incorporation of the risk management elements into compensation system can decrease the probability of occurrence of such problems. Moreover, well designed variable compensation can be efficient tool for alignment of the interests of managers and shareholders. To achieve the aforementioned, the following principles have to be met (CRD IV - Remuneration policy, Directive 2013/36/EU).

a) *Flexible policy of variable compensation.* Eliminating the incentives for excessive risk taking assumes balanced ratio of fixed to variable share of compensation. It is very important that fixed compensation represent high enough share in total compensation to be able to implement flexible compensation policy. This policy assumes not only that the variable compensation decreases in case of low performance but includes a possibility of its disappearance.

b) *Ration between fixed and variable compensation.* In principle, there is a rule that the bigger the potential variable compensation, the stronger the incentive for performance increase, which could result in taking unjustifiably high risk. In addition to that, when the share of fixed compensation in total compensation is too low, organizations find it too hard to eliminate variable compensation when the results are far below the desired level. Setting of the maximum level of variable share compared to fixed part of compensation represent efficient and yet simple technique for aligning compensation structure with risk. For example, according to the Remuneration policy (CRD IV - Directive 2013/36/EU), variable compensation must not surpass 100% of the yearly fixed pay. Upon shareholder's approval, previous amount can amount up to 200% of the yearly fixed pay.

c) *Measurement system.* Variable share of compensation should be based on performance as well as on relevant risks following the achievement of that performance. Performance measurement should encompass longer period (3-5 years) in order to ensure that awards come only with the sustainable results. Also, performance measurement should include both current as well as future risks triggered by decisions that led to desired performance. By aligning compensation with risk, the pendulum shifts from risk taking to risk management. Previous objective can be achieved in several ways. Firstly, with ex ante alignment with risk in terms of tying the size of award with the negative effect of the known risks triggered by earlier decisions. This way, probability of inadequate behaviour is substantially decreased. However, this way one cannot encompass all potential risks. Consequently, it is necessary to undertake ex post adjustment of the performance with subsequently emerged risks. Ex post risk adjustments assume explicit change of variable compensation in terms of decreasing cash part of the award or payment with fewer non-cash instrument (malus or clawback clause).

d) *Performance measures.* A good system of performance measurement is based on balanced use of qualitative and quantitative measures. Quantitative measures have advantage over qualitative ones in terms of transparency of rewarding process. That way, they affect behaviour more directly and more intensely. Quantitative measures can incorporate risks in various ways. However, majority of quantitative measures like operational efficiency (earnings, revenues, productivity, etc.) or market measures (based on the share price, total shareholder return, etc.) do not include all the risks triggered by management decisions and activities. Consequently, variable compensation has to be sensitive to qualitative measures too, with high level of precaution due to their subjective nature. The examples of qualitative measures refer to achievement of important strategic objectives, client satisfaction,

implementation of the risk management policy, compliance with procedures of internal control, leadership, team work, etc. The impact of qualitative measures gets bigger in case of individual performance measurement. Also, qualitative measures dominate in cases when good financial results are followed by unethical behavior and/or non-compliance with risk management policy and internal control.

e) *Deferral period.* Deferral of the payment of the part of variable compensation is crucial for aligning compensation with risks since it allows for a part of the reward to be adjusted for risks. In accordance with that, one share of variable compensation is paid upon its calculation based on delivered performance, while the payment of the rest of it is deferred for a certain period. For example, according to the CRR – Regulatory capital (Regulation No. 575/2013), at least 40-60% of variable pay must be deferred for a period of at least 3-5 years. The aim is to reward managers only for sustainable results created by the sound and prudent decisions in the past. Ex post risk adjustment is necessary since it is not possible to foresee future performance movements.

f) *Reward instruments.* Additional alignment of the rewards and risks assumes that only a portion of variable compensation gets paid in cash while the other part represent shares and other non-cash instruments. Besides regular deferral periods a minimum retention period should be defined. In principle, in cases where ex ante alignment with risks and long deferral periods exist, minimum retention period is shorter, so that the motivational role of the remuneration does not cease to exist. According to the CRR – Regulatory capital (Regulation No. 575/2013), at least 50% of the variable pay must be paid in non-cash instruments.

European Banking Authority with its EBA Regulation ensures that the remuneration policy in financial organisations is regulated further more. The latest regulation tends to put more emphasis on the conflict of interest and elimination of the agency problem. The remuneration policy is meant to ensure that conflicts of interest are identified and appropriately minimised, including introduction of objective allocation criteria.

Risk and compliance function should provide effective input in accordance with their roles into the setting of bonus pools, performance criteria, and remuneration awards, where those functions have concerns regarding the impact on staff behaviour and the riskiness of the business undertaken.

Also, the roles of different positions in providing smooth and effective fine-tuning of the remuneration process are now completely clear.

HR function contributes to the process and informs about the drafting and evaluation of the remuneration policy, including remuneration structure, remuneration levels and incentive schemes, and ensures that the remuneration policy is in line with the risk profile of the institution.

Compliance or legal function performs an analysis of the impact of the remuneration policy on compliance with laws, regulation and internal guidelines.

Risk management function provides definition of adequate risk-adjusted performance assessment and evaluation on how variable remuneration structure impacts on the risk profile and risk culture of the institution.

Finally, internal audit carries out an independent review on drafting, introduction and effects of the remuneration policy on the risk profile, and of the measures to deal with such effects.

The supervisory board should consider the input of all the above mentioned functions about the design, implementation and oversight of the organisation's remuneration policies. In order to play its controlling role, the supervisory board should dispose of sufficient knowledge, skills and experience regarding remuneration policies and practices, as well as regarding the incentives and risks that may result therefrom. The supervisory board needs to ensure that the remuneration policy and practices are aligned with the overall Corporate Governance framework, corporate culture, risk appetite and associate governance processes.

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