

Performance Assessment of Supervisory Board and Committees

Assumptions and Grounds for Assessment

In accordance with the recommendations of the Russian Corporate Governance Code and the best international practices, Moscow Exchange Supervisory Board assesses its performance and competencies on an annual basis.

In 2017, the Nomination and Remuneration Committee reviewed the pool of Supervisory Board members' competencies. Before 2017, directors were expected to have the following competencies: IT in finance; stock exchanges worldwide; financial market infrastructure; operational risk management; financial risk management; financial analysis and budgeting; financial reporting and audit; and HR policy and modern approaches to top management incentives. Following the review, the pool of essential competencies includes: financial market infrastructure; exchange industry; IT for the centralised market infrastructure; operational and financial risk management; capital management (investments, dividends); financial accounting; HR policy and modern approaches to top management incentives; innovation management; post-trade services; and regulatory strategy.

Assessment Goals and Objectives

The assessment of the Supervisory Board is intended to monitor how well the Board evolves in its role and evaluate the performance of the Committees, independent directors and the Chairman of the Supervisory Board. One of the important aspects of the assessment is receiving extensive feedback from the Supervisory Board members. As part of the assessment process, they provide feedback on compliance of their knowledge and skills with the pool of priority competencies for the Supervisory Board.

To achieve these goals, several tasks were carried out, including:

- ▶ an assessment of the role and functions of the Supervisory Board and its committees in Moscow Exchange's corporate governance system;
- ▶ determination of the degree of balance of the Supervisory Board and committees' membership structures;
- ▶ an assessment of the quality of interaction between the Supervisory Board, on the one hand, and the committees and management, on the other, as well as the quality of interaction among Supervisory Board members and committee members;
- ▶ an assessment of the quality of the design of the Supervisory Board and committees' activities;
- ▶ Supervisory Board and commission members' focus on priority tasks;
- ▶ formulation of initiatives aimed at improving the Supervisory Board and committees' activities;
- ▶ an assessment of the necessary number of experts in the Supervisory Board who have competencies needed for effective performance by the Board.

A specific feature of the assessment process carried out in 2017 was its automation, i.e. the use of a customised automated web entry form by the directors. This helped receive more constructive feedback as extensive comments from directors were required to multiple-choice answer questions.

Assessment participants

Nine out of twelve directors took part in the self-assessment process. All participants answered the questions and provided comments to most complicated points.

Assessment Results

Assessment participants believed that the Supervisory Board had made progress in most areas of its work over recent years, however, there were also aspects that needed improvement.

In general, the following Supervisory Board's activities were positively assessed compared to the previous years:

- ▶ the key role played by the Supervisory Board and committees in the budgeting process and risk management process;
- ▶ active proceedings of Supervisory Board committees;
- ▶ the significant input of Independent Directors in Supervisory Board and committee activities;
- ▶ the open nature and richness of discussions in the course of Supervisory Board and committee meetings.

Areas for improvement identified from the assessment can be divided into three categories: critical matters, issues on the watch list and proposals from the directors. The following areas received the most attention by the directors:

- ▶ the necessity to improve the succession planning process for the Supervisory Board. It is suggested that the Nomination and Remuneration Committee interacts more intensively with the Chairman and members of the Supervisory Board as well as shareholders;
- ▶ insufficient expert competence of Supervisory Board members in IT, operational risk management and innovation management. It is suggested that Board members have further courses covering these areas;
- ▶ infrequency of in-person discussions of strategic issues at the level of the Supervisory Board as against the Strategic Planning Committee. It is suggested that the in-person meeting agenda includes, on a regular basis, strategic issues related also to the results of the Strategy Day as well as issues on risk management. It is also suggested that HR-related matters of Moscow Exchange Group are discussed in advance;
- ▶ not all directors take an active part in the discussions at the meetings. They need to be more involved in the process.

Supervisory Board members believed that they should place a greater focus on the following areas:

- ▶ implementation of a more structured system for monitoring progress in delivering the strategy;
- ▶ enhancement of the senior management succession plan; courses from business schools for senior managers;
- ▶ the improvement of the transparency of process to nominate candidates for election to the Supervisory Board committees;
- ▶ the Chairman of the Supervisory Board is advised to strictly follow the procedure and moderate more actively the discussion;
- ▶ receiving feedback on items put on the agenda to the in-person meeting of the Supervisory Board;

The directors also provided feedback on certain private aspects of the Supervisory Board's activities that, if corrected, would enhance their personal effectiveness.