Annex 4

Terms of reference

1. Background and Overview of Requirements

The European Stability Mechanism (the "**ESM**") is a permanent crisis resolution mechanism established by the euro area Member States as an intergovernmental organisation under public international law, with its seat and principal office at 6a, Circuit de la Foire Internationale, L-1347 Luxembourg (the "**ESM Building**"). Its purpose is to ensure the financial stability of the euro area as a whole and of its Member States experiencing severe financing problems by providing financial assistance through a number of instruments.

In this context the ESM intends to conclude agreements, also called "**Contracts**" with up to two providers ("**Service Providers**") for the provision of payroll and tax services. The services are divided into two (2) separate LOTs:

- **LOT 1: Payroll Services** – This lot covers all payroll-related processing activities, including salary calculations, payments, social security processing, and reporting.
- **LOT 2: Tax Services** – This lot covers tax-related services, including income tax return preparation, advisory services, and regulatory updates.

Each lot will be evaluated and awarded independently. This means that a single Service Provider, depending on the offer, can be awarded one or both LOTS and will be responsible for delivering the respective services in accordance with ESM requirements.

2. LOT 1: Payroll Services

I. Description of the Services

The objective of this procurement procedure is to identify a Service Provider able to provide the following services:

Monthly tasks
- Calculate correctly the monthly payroll payments for ESM staff members (approximately 230) and ESM trainees (approximately 15) (jointly "**ESM Staff Members**") in accordance with the ESM Staff Rules, Supplemental rules and Internal Tax Rules, including any retroactive applications, considering any life events (such as childbirth, marriage, partnership, divorce, etc.) and salary changes (the "**Payroll Calculation**").
- As an international financial institution, **the ESM is not governed by the Luxembourg national rules and regulations, and follows its own internal system for taxation, benefits, health insurance and retirement.** The associated payroll calculations need to be done by the Service Provider according to ESM's own set of internal rules and guidelines. This will likely require customisation or adaptation of the Service Provider's payroll software to:
  - Integrate ESM-specific tax rules, tax scales, other internal regulations, deduction structures, and benefits.
  - Account for retroactive changes in salary and allowances, linked with changes in tax scales, family allowances, and/or salary changes.

- o Ensure accurate processing of life events and their impact on payroll, which may vary by situation (e.g., marriage, childbirth, etc.).
- Adhere strictly to the ESM **payroll calendar**[1] that is set at the beginning of the year. The whole payroll process from start to finish takes roughly a week. Generally, payroll instructions are communicated by the ESM before the 14th and all final payroll documentation must be generated by the Service Provider at least one Business Day before the payment date.
- Generate all payslips in the format required for electronic distribution (pdf).
- Generate a Multiline file payment by the 20th of the month to execute the salary payments to the individual bank accounts. The ESM will execute the monthly payment on the 21st of the current month (unless otherwise agreed with the ESM) (the "**Payment Date**"). If the Payment Date falls on a Day that is not a Business Day, the ESM will agree with the Service Provider to move the payment date to the nearest preceding Business Day.
- Provide accounting instructions according to the ESM accounting referential and the total of salary statement under the required format (excel and pdf).
- Provide census data regarding the affiliation of the members of staff to the ESM social security scheme and retirement plan.
- Generate a Multiline file by the end of each month, in accordance with the agreed ESM payroll calendar, to execute the payment of the contributions to the retirement plan.
- Provide a file with the required format (Excel) to update the compensation data in the HR system, with the updated salary data after an annual review.

Annual tasks

The Service Provider will be required to perform the following:
- Implement retroactive yearly salary increases and retroactive update of ESM allowances and tax brackets for all staff members, as provided by the ESM.
- Process performance-based awards in accordance with ESM instructions.
- Process voluntary contributions to the retirement plan in payroll based on ESM instructions.
- Generate individual year-end salary statements in pdf format (generally occurs in January).

II.   Deliverables for Payroll Services

The Service Provider will be responsible for submitting the following deliverables in accordance with the ESM payroll calendar and technical specifications. The ESM will provide relevant templates and input data where applicable to below requirements:

Name of deliverable	Description	Deadlines for delivery
Initial calculation files	Preliminary payroll calculations for each ESM Staff Member. It will include all the relevant salary components such as base salary, allowances, bonuses, overtime, taxes, deductions, and net pay. Provided in Excel format.	ESM payroll calendar
Monthly variance report	A report showing the differences between the current month's payroll and the previous month. This report will track changes in salary, allowances,	ESM payroll calendar

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[1] It is created with the provider's confirmation at the start of each year for the full calendar year. Deliverables are monthly, except for ad-hoc items like yearly certificates

	deductions, and net pay, highlighting any discrepancies or variations. Provided in Excel and PDF format.	
Final calculation file	The final payroll calculation file that includes the accurate, approved, and final payroll figures for each ESM Staff Member. Provided in Excel format.	ESM payroll calendar
Payslips	Individual monthly payslips must be delivered in electronic format with a specific string of characters to allow for automatic upload in the internal ESM HRIS tool. Provided in PDF format; aggregated and separately per each ESM Staff Member.	ESM payroll calendar
Accounting instructions	Monthly instructions for the booking of the payroll must be provided at the end of the process to allow for an easy booking in our financial system. The ESM uses its own accounting system, and ESM's cost centres must be customised in the accounting instructions.	ESM payroll calendar
Multiline payment file for salary payments	The monthly payment file must be under the multiline format in order to be processed into the banking payment system, or any other compatible format that is required for seamless processing into the banking payment system, as specified by the ESM.	ESM payroll calendar
Multiline payment file for payment of the contributions to the retirement fund	The monthly payment file must be under the multiline format in order to be processed into the banking payment system or any other compatible format that is required for seamless processing into the banking payment system, as specified by the ESM.	ESM payroll calendar
Year-end salary statements	At the beginning of each year, generate a pay statement with the cumulative payment of the previous year.	ESM payroll calendar
Census data statements (1 for Retirement Plan and 1 for Healthcare Plan)	These Excel statements provide details about employee participation in the: • Retirement Plan, including their salary, contribution, and any plan-specific information. • Healthcare Plan, including coverage, affiliated dependents, and enrolment status. They must be updated each month with the changes linked with new joiners, leavers, civil status, new/changes in dependents, etc.	ESM payroll calendar

III. Timeline and implementation

Phase	Estimated Duration	Key activities
Incumbent Support & Handover (if applicable)	Overlapping with full 15-week period	The incumbent provider is expected to support the transition by sharing process documentation, clarifying historical payroll decisions, assisting with data extraction and transfer, and participating in knowledge-sharing sessions. Their involvement is key during the parallel runs to ensure accuracy and continuity.
Training & Documentation	3 weeks	Train the Service Provider payroll team and ESM to provide all relevant document rules, gather requirements, and identify key stakeholders. ESM would provide thorough understanding of the specific rules and regulations that govern payroll at ESM. This includes tax structures, allowances, benefits, retroactive changes, life events, and other deductions.
System Design & Adaptation	5 weeks	The Service Provider must design and customise payroll software to meet ESM's internal rules.
Testing & QA	4 weeks	The Service Provider must carry out test calculations and scenarios with real data, and provide the results to the ESM for their verification, until zero discrepancies are identified with the gross and net payroll figures.
Go Live & Monitoring	3 weeks	The Service Provider will need to transition to live payroll, monitor for issues, and communicate regularly with the ESM in case of any questions.
Total estimated time: 15 weeks		

IV. Key Personnel for Payroll Services

The Service Provider will be required to provide a team of key personnel compliant with the below requirements:

Key Personnel	Minimum expertise requested and responsibilities
Payroll administrator	- At least 5 years of work experience in payroll management. - Fluency in English, spoken and written.

	- Payroll administrator should act as the main contact point with the ESM including the internal and external communications and all the administrative aspects during the whole implementation of the Contract. - Extreme level of professionalism, sense of detail, and proactive.
Back-up Payroll administrator	Same as above
Payroll Manager	- At least 10 years of work experience in payroll management. - Fluency in English, spoken and written. - Payroll manager should act as the subject matter expert on complex topics, and link with the ESM and payroll administrator for quality control, ad-hoc questions, and expert advice on payroll topics as needed throughout the payroll cycles. - Extreme level of professionalism, sense of detail, and proactive.

V.   Service Level Agreement (SLA) for Payroll Services:

1) The Service Provider's performance will be measured and monitored in accordance with the SLA described in this section.
   a. The Service Provider will provide telephone and email support for the Services from Monday to Friday during business hours i.e. 9:00 to 18:00 CET (the "**Business Hours**"). A minimum of 95% of calls will be answered during the Business Hours. The Service Provider will respond to all emails sent by the ESM within 24 hours of receipt of each email on Business Days. "**Business Days**" means days Monday to Friday, inclusively, on which the ESM is open for business.
   b. The Service Provider will ensure the Payroll Calculation is error free and will comply with all ESM instructions related to the Payroll Calculation. Each instance of an incorrect calculation in an individual payroll payment will be considered as a failure and may, at the ESM's sole discretion, result in a penalty of 2% of the monthly fee becoming payable to the ESM up to a maximum penalty of 10% of the monthly fee. Each instance of an incorrect calculation which impacts all payroll payments will be considered as an error and may, at the ESM's sole discretion, result in a penalty of 10% of the monthly fee becoming payable to the ESM. Notwithstanding the above the Service Provider will be obligated to immediately fix any errors without any additional fees to be paid by the ESM.
   c. The Service Provider shall ensure full adherence to the payroll calendar, which will be established prior to the start of each calendar year. The ESM and the Service Provider will jointly agree on the payroll calendar, and the Service Provider will be responsible for meeting all deadlines and milestones outlined within it for the duration of the year.
2) The ESM may in its sole discretion, without limiting the ESM's ability to pursue any other remedies available to it under the Contract, or otherwise, apply the penalties set out in this SLA.
3) If the ESM applies penalty(-ies) as a result of Service Provider not complying with this SLA, the Service Provider will, within 30 days following the end of the given measurement period and being notified by the ESM of application of the penalty(-ies), issue a credit note, which the ESM may deduct from the next payable invoices.
4) A 'grace period' for penalties will be allowed only during the first 3 months of the Contract term. For the avoidance of doubt, the ESM may enforce the penalties for failing to meet the targets set out above from the first day of the fourth month following the Effective Date.

3. LOT 2: Tax Services

I. Description of the Services

The objective of this procurement procedure is to identify a Service Provider able to provide the following services:

- Provide expert preparation of Luxembourg individual income tax returns for around ten ESM Staff Members.
- Organise and deliver clear information sessions to all ESM Staff Members addressing income tax return filing obligations in Luxembourg, tailored to ESM's tax regime and the ESM Treaty.
- Provide various regulatory updates on the evolutions in the local and European frameworks which have an impact on total reward. Examples include, but are not limited to: parental leave allowance, family allowances, dependent child benefits, etc.
- Provide tailored ad-hoc individual tax advisory services upon request of the ESM covering a range of personal tax matters. Examples include, but are not limited to:
  - o Advice on post-employment benefits and their tax implications.
  - o Social security assessments and the impact of cross-border taxation.
  - o Retirement benefits and pension assessments, including tax-efficient strategies for future retirement planning.

II. Deliverables for Tax Services

The Service Provider will be required to submit the following deliverables in accordance with the below requirements:

Name of deliverable	Description	Deadlines for delivery
Preparation of Luxembourg Individual Income Tax Returns	Provide expert preparation of individual income tax returns for approximately ten ESM Staff Members, ensuring compliance with Luxembourg tax laws and regulations, in addition to the applicable ESM tax framework.	Prior to Luxembourg's tax filing deadline
Information Sessions on Tax Filing Obligations	Organise and deliver informative sessions for all ESM Staff Members, explaining income tax return filing obligations specific to Luxembourg's tax regime and relevant exemptions.	Within the first quarter of the year, or as agreed
Ad-Hoc regulatory updates	Provide various regulatory updates on the evolutions in the local and European frameworks which have an impact on total reward (e.g. parental leave allowance, family allowances, dependent child benefits, etc.)	On-demand
Ad-Hoc Individual Tax Advisory Services	Provide ad-hoc, tailored tax advisory services on personal tax matters, such as post-employment benefits, social security assessments, and retirement benefits assessments.	On-demand

III. Key Personnel for Tax Services

The Service Provider will be required to provide a team of key personnel compliant with the below requirements:

Key Personnel	Minimum expertise requested and responsibilities
Personal Tax Specialist	At least 15 years of experience in providing tax services, specifically in Luxembourg tax law and regulations. - Fluency in English (knowledge of additional Luxembourgish administrative languages is a plus). - The Tax Advisor will serve as the primary contact for all tax-related matters, including the preparation of tax returns, providing tax advice, and addressing queries from the ESM Staff Members. -Strong knowledge of European tax law and international tax law is an asset. - Provide ad hoc tax advisory services as needed, ensuring compliance with Luxembourg tax laws and the ESM's specific tax regime. -Strong sense of communication and executive presence when working with relevant stakeholders at the ESM. -Extreme level of professionalism, sense of detail, and proactive.
Personal Tax Advisor	At least 7 years of experience in providing tax services, specifically in Luxembourg tax law and regulations. - Fluency in English (knowledge of additional Luxembourgish administrative languages is a plus). -Strong knowledge of European tax law and international tax law is an asset. - Provide ad-hoc tax advisory services as needed, ensuring compliance with Luxembourg tax laws and the ESM's specific tax regime. - Extreme level of professionalism, sense of detail, and proactive.

IV. Service Level Agreement (SLA) for Tax Services:

1) The Service Provider's performance will be measured and monitored in accordance with the SLA described in this section.

    a. The Service Provider will provide telephone and email support for the Services from Monday to Friday during business hours i.e. 9:00 to 18:00 CET (the "**Business Hours**"). A minimum of 95% of calls will be answered during the Business Hours. The Service Provider will respond to all emails sent by the ESM within 24 hours of receipt of each email on Business Days. "**Business Days**" means days Monday to Friday, inclusively, on which the ESM is open for business.

    b. The Service Provider will ensure 100% compliance with Luxembourg tax laws for the preparation and delivery of individual income tax returns, with returns to be completed within 15 Business Days of receiving all necessary information. Queries related to tax filings will be responded to within 2 Business Days. The informational sessions on tax filing obligations will be scheduled within the first quarter or as agreed. Ad hoc requests should be acknowledged and responded to within 2 Business Days, with consultations scheduled promptly within 1 Business Day. Any follow-up actions or additional guidance will be provided within 2 Business Days, ensuring timely and efficient resolution of all matters. Additionally, penalties of 2% will apply for delays beyond the agreed-upon timelines.

2) The ESM may in its sole discretion, without limiting the ESM's ability to pursue any other remedies available to it under the Contract, or otherwise, apply the penalties set out in this SLA.

3) If the ESM applies penalty(-ies) as a result of Service Provider not complying with this SLA, the Service Provider will, within 30 days following the end of the given measurement period and

being notified by the ESM of application of the penalty(-ies), issue a credit note, which the ESM may deduct from the next payable invoices.

4) A 'grace period' for penalties will be allowed only during the first 3 months of the Contract term. For the avoidance of doubt, the ESM may enforce the penalties for failing to meet the targets set out above from the first day of the fourth month following the Effective Date.

4. Meetings for both Payroll and Tax Services (applies both to LOT 1 and LOT 2)

The Service Provider will be required to organise and attend the following meetings:

Meeting type	Meeting content and format (online, physical)	Frequency
Kick-off meeting	In person meeting, of approximately one hour. Presentation of the teams, clarifications about the services requested and practical arrangements. The appointed Payroll administrator is required to be present.	Within 2 weeks as of Contract's effective date
Annual meeting	Annual meeting to discuss level of service provided and how to enhance the cooperation	Every year

The Service Provider will take minutes of all such meetings and will provide a copy to the ESM within one (1) week of the date of the meeting. Unless agreed otherwise, meetings will take place at the ESM premises.

5. Place of Services' Performance (applies both to LOT 1 and LOT 2)

For both Payroll and Tax Services (LOT 1 and LOT 2), unless otherwise requested by the ESM, the Services will be performed at the Service Provider's premises.