

Press release

Press enquiries:
+41 61 280 8138
Joe.Perry@bis.org

Ref: 80/2015
10 November 2015

FSB publishes fourth progress report on compensation practices

The Financial Stability Board (FSB) today published the fourth annual progress report on [Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards](#). The Principles and Standards, issued in 2009, aim to reduce incentives for excessive risk-taking that may arise from the structure of compensation schemes in significant financial institutions.

The progress report concludes that almost all FSB jurisdictions have now fully implemented the Principles & Standards for banks. The oversight of compensation practices has now been fully embedded in bank supervisory frameworks in most jurisdictions. More than half of the jurisdictions assess as high the level of implementation by significant banks in governance and risk alignment of compensation and in stakeholder engagement on compensation practices. The risk alignment of compensation structures, at least for senior executives, shows improvements in various respects. There has also been an increase in the number of jurisdictions using deferrals, and in the length of deferral periods. Additionally, compensation and risk governance frameworks are increasingly linked. An increase in the proportion of fixed pay in total remuneration is observed by several jurisdictions, both EU and non-EU members, since 2011.

The report notes that existing compensation provisions, if appropriately calibrated and rigorously applied, should enable financial institutions to more effectively prevent or deter misconduct by employees. However, the effectiveness of these mechanisms remains largely untested and more analysis is needed by firms and supervisors to assess whether tools such as malus and clawbacks are sufficiently developed (and effectively used) to deter misconduct risks.

The report finds that there are important differences in the implementation of the Principles and Standards in the insurance sector across different jurisdictions, with fewer jurisdictions having adopted dedicated regulation or supervisory guidance than for the banking sector. Notwithstanding these differences across regulatory regimes, compensation practices of internationally active insurers seem fairly aligned across regions, with a prominent role played by the risk function in identifying material risks and risk-takers.

The FSB's Compensation Monitoring Contact Group (CMCG), which is responsible for monitoring and reporting to the FSB on national implementation of the Principles and Standards, has agreed to undertake further action in five areas:

- **Several recommendations of the third progress report for action by national authorities remain relevant.** The CMCG will continue to follow up on these issues.

- **More work on monitoring and assessing the effectiveness of reforms is needed.** Supervisory authorities will coordinate via the CMCG to explore the use of indicators to monitor the effective risk alignment of compensation structures.
- **Taking stock of compensation practices in other financial sectors.** The FSB, in collaboration with the relevant standard setting bodies, will continue to take stock of compensation practices in other financial sectors.
- **Compensation and conduct.** The CMCG will continue to collect information and examine the case for strengthening disincentives to misconduct through compensation-related tools and if appropriate will make recommendations on better practices.
- **Follow-up work on material risk-takers.** The CMCG will re-examine the issue of material risk-takers in 2016-2017.

Progress reports on the implementation of the Principles and Standards will in future be prepared every two years. The FSB, through the CMCG, will continue its ongoing monitoring, including via industry workshops, and will also prepare streamlined annual updates on implementation progress for G20 reporting, which will be included in the FSB's overall annual reports on the implementation and effects of financial reforms.

Notes to editors

The Financial Stability Forum (the predecessor organisation to the FSB) issued Principles for Sound Compensation Practices and their Implementation Standards in 2009.

The G20 Leaders in Cannes in 2011 called on the FSB to *“undertake an ongoing monitoring and public reporting on compensation practices focused on remaining gaps and impediments to full implementation of these standards and carry out an ongoing bilateral complaint handling process to address level playing field concerns of individual firms.”*

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements. For further information on the FSB, visit the FSB website, www.fsb.org