

Press release

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FSB releases consultation on the use of compensation tools to address misconduct

The Financial Stability Board (FSB) today published for public consultation draft [Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices](#) regarding the use of compensation tools to address misconduct. The proposed guidance has been developed in collaboration with the standard-setting bodies and it supplements the Principles and Standards that note that compensation should be adjusted for all types of risk. Once finalised, the guidance will provide firms and supervisors with a framework to consider how compensation practices and tools, such as in-year bonus adjustments, malus and clawback, can be used to reduce misconduct risk and address misconduct incidents.

The Principles and Standards were published in 2009, in the aftermath of the global financial crisis. They have been implemented across FSB member jurisdictions. Since the issuance of the Principles and Standards, supervisors and firms have directed significant attention to improving the link between risk governance and compensation practices to more effectively align compensation with sound risk-taking behaviour, with a view to the institution's long-term health.

Recent events related to misconduct have focused the attention of many supervisors and financial institutions more intensively on the need to develop robust frameworks for identifying, preventing and remedying misconduct. Compensation and related performance management mechanisms help signal the importance that financial institutions place on prudent management of risk and acceptable standards of behaviour, including compliance with related laws, regulations and supervisory expectations. Compensation tools, along with other measures, can play an important role in addressing misconduct risk by providing both ex ante incentives for good conduct and ex post adjustment mechanisms that ensure appropriate accountability. To ensure such accountability, firms should have tools available to consider using when misconduct occurs. Therefore in 2016, the FSB agreed to develop guidance on better practice regarding the application of the Principles & Standards to misconduct risk.

The guidance, like the Principles and Standards, will apply to financial institutions that competent authorities consider significant for the purpose of the Principles and Standards. The guidance does not establish additional principles or standards beyond those already set out in the Principles and Standards and it has been developed in the form of recommendations on better practices. It highlights eight considerations that are relevant for firms and supervisors in terms of governance of compensation and misconduct risk, effective alignment of compensation and misconduct risk and supervision of compensation and misconduct risk.

The FSB welcomes comments and responses to the consultation by 30 August 2017.

Responses should be sent to fsb@fsb.org with “P&S guidance consultation” in the e-mail subject line. Responses will be published on the FSB website unless respondents expressly request otherwise.

The FSB will consider responses to the consultation, making changes where necessary with the aim of finalising the guidance by year-end.

Notes to editors

The consultation is part of the FSB’s broader misconduct workplan launched in May 2015. Ethical conduct, and compliance with both the letter and spirit of applicable laws and regulations, is critical to public trust and confidence in the financial system. Misconduct is relevant to prudential oversight as it can potentially affect the safety and soundness of a particular financial institutions. The FSB’s workplan covers: (i) examining whether reforms to incentives, for instance to governance and compensation structures, are having sufficient effect on reducing misconduct; (ii) improving global standards of conduct in the fixed income, commodities and currency markets; and (iii) reforming the governance of major benchmarks. In May the FSB noted that as part of this workplan it will take forward work on the “rolling bad apples” problem of employees with previous incidents of misconduct moving between firms, responsibility mapping and the role of culture in addressing misconduct.

In advance of the G20 Leaders’ Summit in Hamburg in July the FSB will publish a progress report on the overall implementation of the FSB’s Principles and Standards on compensation.

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. Through its six Regional Consultative Groups, the FSB conducts outreach with and receives input from an additional approximately 65 jurisdictions.

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.