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July 6, 2018

Comments on the consultative document,
Recommendations for consistent national reporting of data on the use of compensation tools to address misconduct risk, issued by the Financial Stability Board

Japanese Bankers Association

We, the Japanese Bankers Association (JBA), would like to express our gratitude for this opportunity to comment on the consultative document, *Recommendations for consistent national reporting of data on the use of compensation tools to address misconduct risk*, issued by the Financial Stability Board (FSB) on May 7, 2018.

We respectfully expect that the following comments will contribute to your further discussion.

<<General comments>>

We request the FSB to develop a flexible framework for addressing misconduct risk and using compensation tools which takes into account actual conditions of financial institutions' compensation system in respective jurisdictions. Specifically it should be prevented that the implementation of data collection and reporting beyond what is required by the Basel Pillar 3 disclosures framework results in a "one-size-fits-all" and excessive regulation.

In Japan, for example, the performance-linked portion of compensation for directors/officers and employees of financial institutions is generally lower in fact compared to that of other jurisdictions, and therefore the probability of triggering misconduct by Japanese financial institutions' compensation programme primarily due to an inappropriate incentive in its design would be low. Given this, the requirements for gathering and reporting the proposed "Data Set" should not be applied uniformly to all financial institutions, but rather each jurisdiction should be given a discretion to implement a framework that takes into account actual conditions.

Furthermore, in the preface of the FSB's document titled *Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors* published on April 20, the FSB's view is presented as follows: "It is for firms and authorities to determine how best to address conduct issues in their jurisdictions. Therefore, rather than creating an international standard or adopting a prescriptive approach, the FSB is offering this toolkit as a set of options based on the shared experience and diversity of perspective of FSB members in dealing with misconduct issues". The same concept should be applied

in the context of discussing how to treat compensation in terms of controlling misconduct. It would be less meaningful to create an international standard for the purpose of reporting compensation data to supervisors.

In the following section, we respond to specific questions (if we have any comments) described in the consultative document and state our specific request.

<<Specific comments>>

[Our response to specific questions]

Question 3

Are there any impediments to (a) firms and (b) supervisors in (i) gathering or (ii) using the Data Set?

(Comments)

Other employees who are not identified as material risk takers (MRTs) should be excluded from the scope.

Other employees' amount of compensation is not high and the performance-linked portion of their compensation is immaterial. Given this, it is unlikely that misconduct will be triggered from, among other things, an inappropriate incentive in the compensation programme. In addition, compensation adjustment tools (e.g. malus and clawback) are not introduced for other employees in Japan under the applicable labour laws.