

Press release

Press enquiries:
+41 76 350 8138

Joe.Perry@fsb.org

Ref no: 26/2017

4 July 2017

FSB publishes progress report on implementation of compensation standards

The Financial Stability Board (FSB) today published a [progress report](#) on implementation of the FSB's compensation standards.

The [FSB Principles and Standards for sound compensation practices](#) were published in 2009, in the aftermath of the global financial crisis and seek to reduce incentives for excessive risk-taking that may arise from the structure of compensation schemes in significant financial institutions. 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.

The biennial progress report shows that almost all FSB member jurisdictions have substantively implemented the Principles and Standards for banks. Indonesia and Turkey have addressed significant gaps identified at the time of the last progress report in 2015, while South Africa is yet to fully implement them. Supervisors and banks are working to ensure effective implementation of compensation systems by increased use of back testing or validating compensation practices and policies. The FSB will continue to explore ways to further assess the effectiveness of aligning compensation policies with risk at financial institutions.

The Principles and Standards introduced an international standard on deferral and the use of compensation tools to more effectively align the compensation of employees with the long-term interests of their firms, to reduce excess risk-taking. The progress report shows that in-year adjustments to compensation continue to be the compensation tool of choice. Application of malus is still rare in many jurisdictions while clawback may be subject to legal impediments or enforcement issues, more significant in a few jurisdictions.

The progress report includes a section on compensation practices in the securities sector written jointly with the International Organization of Securities Commissions (IOSCO). Most IOSCO members surveyed have some compensation-related regulation in place. The report concludes that compensation practices vary across the securities sector and variation mainly stems from the diversity of firms and their business models and activities. Firms in the sector highlight the role of compensation as a possible tool in their overall risk management toolbox.

Notes to editors

The FSB's Compensation Monitoring Contact Group (CMCG), is responsible for monitoring and reporting to the FSB on national implementation of the Principles and Standards. The CMCG will take forward the recommendations contained in the progress report and the next progress report will be published in 2019.

On 20 June the FSB published a consultation on its draft [Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices](#) regarding the use of compensation tools to address misconduct. 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. Additionally, in collaboration with the standard-setting bodies, the FSB by end-2017, will develop recommendations for consultation on the consistent national reporting and data collection by national supervisors on the use of compensation tools to address misconduct risk in significant financial institutions.

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.