Press release

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

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FSB publishes Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices

The Financial Stability Board (FSB) today published the final version of its *Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices* following a public consultation launched in June 2017. The guidance has been developed in collaboration with other standard-setting bodies. It supplements the FSB's Principles and Standards[1] on compensation at significant financial institutions, published in 2009, which note that compensation should be adjusted for all types of risk. The guidance provides firms and supervisors with a framework to consider how compensation practices and tools, such as in-year bonus adjustments, malus or clawback, can be used to reduce misconduct risk and address misconduct incidents.

The Principles and Standards were developed in the aftermath of the global financial crisis to address misaligned incentives that could be created by compensation practices in financial institutions. Since the issuance of the Principles and Standards, supervisors and firms have directed considerable 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 long-term health of financial institutions.

In 2015 in response to significant incidents of misconduct at financial institutions the FSB launched a workplan to reduce misconduct. The guidance published today on better practice regarding the application of the Principles and Standards to misconduct risk forms part of that overall workplan. Compensation and related performance management mechanisms help signal the importance that financial institutions place on prudent management of risk and on 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.

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 consist of eight recommendations for firms and supervisors and is structured in three parts: (i) governance of compensation and misconduct risk, (ii) effective alignment of compensation with misconduct risk and (iii) supervision of compensation and misconduct risk.

[1] The 2009 Principles and Standards for Sound Compensation Practices are available at http://www.fsb.org/2009/04/principles-for-sound-compensation-practices-2/ and http://www.fsb.org/2009/09/principles-for-sound-compensation-practices-implementation-standards/

Notes to editors

The FSB also published a feedback note together with the guidance setting out responses to comments it received as part of the public consultation and changes it made to the guidance.

The FSB's workplan to reduce misconduct in the financial sector was 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 the coming months the FSB will also publish a report on strengthening governance frameworks to mitigate misconduct risks, including a toolkit for firms and supervisors, and will consult on recommendations for consistent national reporting and collection of data on the use of compensation tools to address misconduct risk. The FSB published a progress report on the overall workplan to reduce misconduct in July 2017[2].

The FSB published a progress report on *Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards* in July 2017.

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 also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

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.

[2] The report is available at: http://www.fsb.org/2017/07/reducing-misconduct-risks-in-the-financial-sector-progress-report-to-g20-leaders/