

Press release

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FSB assesses progress on reforming compensation structures

The Financial Stability Board (FSB) issued today a [peer review](#) on progress in applying the [Principles for Sound Compensation Practices](#) and their [Implementation Standards](#).

The FSB Principles and Standards were endorsed by the G20 Leaders at their summits in London in April 2009 and Pittsburgh in September 2009. In their Pittsburgh statement, the G20 Leaders tasked the FSB “to monitor the implementation of FSB standards and propose additional measures as required by March 2010.”

Significant progress has been made in incorporating the FSB Principles and Standards into domestic regulatory and supervisory frameworks. Compensation structures in the major financial firms have changed response. But full implementation is far from complete. Sustained efforts by firms and authorities remain necessary to effectively align compensation structures in major financial institutions with prudent risk-taking.

Mario Draghi, the Chairman of the FSB, said “We welcome the steps taken to put in place frameworks for regulatory or prudential oversight of compensation structures. But supervisors must make sure that the additional measures recommended in the review are put in place.”

Firms will need to maintain momentum towards reforming their compensation practices through 2010 and beyond.

A follow-up review on compensation should be undertaken in the second quarter of 2011. By that time, more information will be available on which to judge ongoing changes in the industry and the impact of national implementation measures.

The full set of recommendations of the peer review is annexed to this release.

Notes to editors

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. It brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

The FSB Standing Committee on Standards Implementation, which is responsible for managing the peer review process, is chaired by Tiff Macklem, G7 Deputy and Associate Deputy Minister of Finance of Canada.

The thematic review on compensation was prepared by a team of experts drawn from the FSB membership and led by Klaas Knot, Deputy Treasurer General and Director of Financial Markets at the Ministry of Finance of the Netherlands.

The review based its findings and recommendations on information collected from FSB members as well as private sector input, including a [report](#) commissioned from external consultants on industry progress and implementation challenges, and direct feedback from stakeholders invited via the FSB website.

For further information on the FSB, visit <http://www.financialstabilityboard.org/>.

Thematic Review on Compensation: List of recommendations

1. FSB members should finalise and implement regulatory and/or supervisory initiatives related to the Principles and Standards in 2010.
2. Firms should continue to make progress on risk and performance alignment of compensation schemes through 2010 and beyond. This should include the ability to demonstrate how their compensation schemes incorporate risk adjustments.
3. International colleges of supervisors should enhance information exchange and cooperation on compensation issues and practices at significant, cross-border financial institutions. Risk management (including as needed compensation practices) should be a standing agenda item in the supervisory colleges.
4. Where a jurisdiction hosts a number of significant institutions from another jurisdiction with substantial activity, relevant supervisors should bilaterally coordinate to ensure consistency of approach across firms.
5. FSB members should work to ensure that all significant financial institutions across the financial services sector in their jurisdiction (as identified by the relevant national authorities), irrespective of their legal form, follow sound compensation practices.
6. Supervisors should actively check that the composition of compensation committees meets appropriate standards of expertise and of independence.
7. The Basel Committee should develop for consultation by the end of October 2010 a report on the range of methodologies for risk and performance alignment of compensation schemes and their effectiveness in light of experience to date. It should cover the following areas:
 - methods for incorporating risk and performance into bonus pool and individual compensation;
 - the design of deferred compensation, such as adequate performance measures; the relation between performance measures and ultimate value of deferred compensation instruments; malus triggers; the sensitivity of payout schedules to the time horizon of risks; and the funding of deferrals; and
 - proportionality in the application of rules, taking into account the size and complexity of the institutions, business models and risk tolerance.

This report could be used as a basis for guidance.
8. The Basel Committee in consultation with the FSB should consider incorporating disclosure requirements for compensation into Pillar 3 of Basel II, to add greater specificity to the current requirements for compensation disclosure under Pillar 2, by the end of 2010.
9. The FSB should conduct a follow-up review on compensation in the second quarter of 2011, to assess the impact to date of measures put in place by jurisdictions and the progress in industry compliance with the Principles and Standards and the respective national rules.
10. To support this review, the FSB, working through its members, should develop criteria for use by the review team in assessing progress towards implementation of the Principles and Standards.