FSB FINANCIAL STABILITY BOARD

Press release

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FSB launches second peer review on compensation practices and invites feedback from stakeholders

The Financial Stability Board (FSB) has launched its second peer review on compensation practices. The review will assess the progress made by national authorities and significant financial institutions in implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards, as well as the impact on compensation practices at financial institutions of national policy measures taken to implement the Principles and Standards.

The FSB Principles for Sound Compensation Practices and their Implementation Standards were endorsed by the G20 Leaders at their summits in London in April 2009 and Pittsburgh in September 2009. The FSB completed its first peer review on compensation in March 2010 (available here), concluding that, at that relatively early stage in the process, some key issues were yet to be resolved and effective implementation was far from complete. The 2010 review therefore recommended that the FSB undertake a follow up review in 2011. In the meantime, the G20 Leaders, at the June 2010 Toronto Summit, encouraged all countries and financial institutions to fully implement the FSB Principles and Standards by end-2010.

The 2011 review will assess the different approaches to implementing the FSB Principles and Standards by surveying supervisors and regulators and by surveying a sample of major firms directly. The responses of supervisors and regulators, and aggregated responses of firms will be analysed and discussed by the FSB later this year. The questionnaires being used for the surveys are attached. The peer review report will be published in the autumn.

As part of this peer review, in addition to the information to be collected via the surveys, the FSB invites feedback from financial institutions, industry associations, and other stakeholders on their experiences regarding compensation practices, either in a particular country or across several countries. This could include comments on: gaps in regulatory and supervisory oversight; progress and potential challenges faced by firms in implementing the FSB Principles and Standards; and how market practices have evolved in recent years, including possible examples of leading practices in compensation structures and policies.

Feedback should be submitted by 15 June 2011 to fsb@bis.org under the subject heading "FSB Peer Review on Compensation Practices." Individual submissions will not be made public.

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 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 began a regular programme of peer reviews in 2010, consisting of thematic reviews and country reviews. Previously published review reports comprise three thematic peer reviews – on compensation practices, risk disclosure practices relating to structured credit products and certain other exposures, and mortgage underwriting practices – and three country peer reviews – of Mexico, Spain and Italy. The reports are available on the FSB website.

Thematic peer reviews focus on implementation of international financial standards, policies agreed within the FSB or, where such standards or agreed policies do not exist, a stock-taking of existing practices in the policy area. The objectives of the reviews are to encourage consistent cross-country and cross-sector implementation, to evaluate the extent to which standards and policies have had their intended results and, where relevant, to make recommendations for potential follow-up by regulators, supervisors and standard setters. They provide an opportunity for FSB members to engage in dialogue with their peers and to share lessons and experiences.

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.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.

FSB FINANCIAL STABILITY BOARD

5 April 2011

National actions and initiatives to implement the FSB *Principles for Sound Compensation Practices* and their *Implementation Standards*

Questionnaire to be completed by member national authorities

This questionnaire is designed to update the responses of national authorities to the questionnaire circulated for the 2010 FSB Thematic Peer Review on Compensation Practices.[1] There is no need for national authorities to repeat responses given in the earlier review, unless pertinent to providing context for any additional or updated information. This questionnaire seeks information on the progress in implementation of actions and initiatives that were indicated as planned or underway at the time of the first thematic review.

Member jurisdictions are kindly requested to return the completed questionnaire to the FSB Secretariat (simonetta.iannotti@bis.org) by 9 May 2011.

Please ensure that answers are brief and respond directly to the questions. Where the answer is a negative, or not known, please say so. Where there is a degree of overlap, and the answer is adequately covered in another response, a cross reference is encouraged.

1. Overall approach to national implementation of FSB Principles and Standards

1.1 What is your jurisdiction's overall approach to implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards? Please briefly describe the approach, goals and priorities pursued in your jurisdiction in implementing the Principles and Standards, e.g. are there certain Principles and Standards that are given higher priority, or are there specific objectives that are given higher priority?

1.2 Given the national approach to implementing the FSB Principles and Standards, what are your expectations of firms' implementation of the specific FSB Principles and Standards?

1.3 Do you expect compliance by certain employees with Standards 6-9 relating to the structure of variable compensation (i.e. the proportion of compensation that should be variable, of which a certain proportion should be deferred and in shares or share-linked instruments)?

1 http://www.financialstabilityboard.org/publications/r_100330a.pdf.

1.4 What are the key issues and problems that have been encountered in your jurisdiction in the implementation of the Principles and Standards to date?

2. National framework for remuneration policies

2.1 Since the completion of the 2010 peer review, what new legislation or regulatory or supervisory guidance has been issued to implement the Principles and Standards? Please include the internet link to or copies of the relevant legislation, regulatory rules, or supervisory guidance.

2.2 Annex A shows the status of national implementation as of the March 2010 peer review report. For the Principles and Standards that were designated as "initiatives under preparation (IP)", what have been the next steps (e.g. rule-making, supervisory guidance, further follow-up actions initiated) to be fully implemented, or what are the next steps, if not already implemented? Of the Principles and Standards that were designated as "initiatives under consideration (UC)", what decisions have been made toward implementing these Principles and Standards?

2.3 Please revise Annex A to reflect progress made toward implementing the Principles and Standards since the March 2010 peer review report.

2.4 Are there any plans for further legislation, regulatory or supervisory guidance action in 2011?

3. Supervisory monitoring of implementation / enforcement

3.1 Which supervisory actions have taken place to monitor implementation of the regulatory or supervisory guidance on the FSB Principles and Standards? What information has been collected by supervisors on firms' remuneration policies and practices? Please describe how it was collected, when, and from which firms. If not covered in answers to questions below, describe what actions were taken following receipt of the information.

3.2 What engagement have supervisors had with individual firms on their implementation of the *Principles* and *Standards*? What proportion of relevant financial institutions did supervisors engage for supervisory review prior to the end of 2010? If not all relevant firms have been engaged, please describe any plans for future engagement.

3.3 Have supervisors taken any enforcement action against firms for not implementing the *Principles* and *Standards*? If so, please briefly describe the actions taken, if possible in a way that respects national confidentiality rules. What other actions have been taken as a result of supervisory reviews?

3.4 Please describe any plans for supervisory actions in 2011.

4. Overall assessment of the level of implementation by firms

For each of the following subject areas, please briefly describe any gaps identified by the authorities in the implementation by significant financial institutions in your jurisdiction of FSB Principles and Standards, as translated into national legislation, regulation or supervisory guidance. Please also describe actions that the authorities have taken in 2010, or plan to take in 2011, to address those gaps.

4.1 Effective governance of compensation	
Supervisor's assessment and identified gaps	
Actions taken	
Actions planned	
4.2 Ex ante risk adjustment	
Supervisor's assessment and identified gaps	
Actions taken	
Actions planned	
4.3 Alignment of compensation with performance	
Supervisor's assessment and identified gaps	
Actions taken	
Actions planned	
4.4 Compensation structures and ex post performance adjustment	
Supervisor's assessment and identified gaps	
Actions taken	
Actions planned	
4.5 Disclosure	
Supervisor's assessment and identified gaps	
Actions taken	
Actions planned	
4.6 Other features of compensation systems	
Supervisor's assessment and identified gaps	

Actions taken	
Actions planned	

5. Supervisory co-operation

The 2010 FSB peer review on compensation identified international cooperation among supervisors as an area where progress was needed (see Recommendations 3 and 4).

5.1 Please describe any bilateral efforts initiated by supervisors to ensure consistency of approaches across jurisdictions.

5.2 To what extent have supervisory colleges addressed issues related to exchange of information and cooperation on compensation issues at significant cross-border financial institutions? What actions are planned for 2011?

5.3 Please describe any other actions that have been taken in the supervision of compensation practices of banking groups with operations in multiple jurisdictions.

Annex A: Status of national implementation – Outcome of 2010 FSB peer review on compensation

National authorities are requested to update the preliminary snapshot of implementation published in the 2010 peer review.

The table below provides a preliminary snapshot of implementation initiatives in FSB member jurisdictions. The table does not provide an assessment of the degree of compliance with the particular Principle or Standard, rather an indication of whether regulatory or supervisory initiatives are underway to implement a Principle or Standard (or elements thereof);[2] initiatives are at the preparatory stage (i.e., regulation or supervisory guidance being drafted or under consultation); under consideration; or not currently underway. The table was developed by the FSB Secretariat based on the responses to the template provided by members, and national entries have been checked for accuracy by the relevant authorities.

The Principles and Standards are listed in the order followed in the 2010 Compensation review template (Annex B). For the full text of the Principles and Standards, see Annexes C–D.

	AR	AU	BR	CA	CN	FR	DE	HK	IN	ID	IT	JP	KR	MX	NL	RU	SA	SG	ZA	ES	CH	TR	UK	US
Effective governance of compensation																								
P1	IP	R	IP	S	S	R	R	S	R	IP	R	S	S	IP	R	S	R	R	IP	S	R	IP	R	R
P2	IP	R	IP	S	S	R	R	S	R	IP	R	S	S	IP	R	S	R	S	IP	S	R	IP	R	S
S1	IP	R	IP	S	S	R	R	S	UC	IP	R	S	S	IP	R	S	R	R	IP	S	R	IP	R	R
P3	IP	R	IP	S	S	R	R	S	UC	IP	R	S	S	IP	S	R	R	R	IP	S	R	IP	R	S
S2	IP	R	IP	S	S	R	R	S	UC	UC	R	S	S	IP	S	S	R	R	IP	S	R	IP	R	S

2 As stated elsewhere in this report, effective implementation of the Principles and Standards can be achieved through a variety of approaches, including different mixes of regulation and supervisory oversight.

	AR	AU	BR	CA	CN	FR	DE	HK	IN	ID	IT	JP	KR	MX	NL	RU	SA	SG	ZA	ES	CH	TR	UK	US
Effective alignment of compensation with prudent risk taking																								
P4	IP	R	IP	S	S	R	R	S	UC	UC	R	S	S	IP	R	UC	R	R	IP	S	R	IP	R	S
S3	IP	R	IP	S	S	R	IP	S	UC	UC	R	S	S	IP	S	UC	R	R	IP	S	R	IP	S	R
S4	IP	R	IP	S	S	R	R	S	UC	UC	R	S	S	IP	S	UC	R	S	IP	S	R	IP	R	S
P5	IP	R	IP	S	S	R	R	S	UC	UC	R	S	S	IP	R	UC	R	S	IP	S	R	IP	R	S
S5	IP	R	IP	S	S	R	R	S	UC	UC	R	S	S	IP	R	UC	R	S	IP	S	R	IP	R	S
P6	IP	R	IP	S	S	R	R	S	UC	UC	R	S	S	IP	R	UC	R	S	IP	S	R	IP	R	S
S6	IP	S	IP	S	S	R	R	S	UC	UC	R	S	S	IP	R	UC	R	S	IP	S	R	IP	R	S
S7	IP	S	IP	S	S	R	R	S	UC	UC	R	S	S	IP	R	UC	R	S	IP	S	R	IP	R	S
P7	IP	S	IP	S	IP	R	R	S	UC	UC	R	S	S	IP	R	UC	R	S	IP	S	R	IP	S	S
S8	IP	S	IP	S	IP	R	R	S	UC	UC	S	S	S	IP	IP	UC	R	S	IP	S	R	IP	UC	S
S9	IP	S	IP	S	S	R	R	S	UC	UC	R	S	S	IP	R	UC	R	S	IP	S	R	IP	R	S
S11	IP	S	IP	S	S	R	R	S	UC	UC	S	S	S	IP	R	UC	R	S	IP	S	R	IP	S	S
S12	IP	S	IP	S	S	R[i]	R	S	UC	UC	R	S	S	IP	IP	UC	R	S	IP	S	R	IP	S	S
S14	IP	S	NA	S	S	R	R	S	UC	UC	R	S	S	IP	IP	UC	S	IP	IP	S	UC	IP	NA	UC

	AR	AU	BR	CA	CN	FR	DE	HK	IN	ID	IT	JP	KR	MX	NL	RU	SA	SG	ZA	ES	CH	TR	UK	US
Effective supervisory oversight and engagement by shareholders																								
P8	IP	S	IP	S	S	R	S	S	UC	S	S	S	S	IP	S	S	S	S	IP	S	R	IP	S	S
S10	IP	NA	IP	UC	S	R	R	R	UC	R	R	R	S	IP	R[ii]	R	R	R	NA	UC	R	R	R	R
S13	IP	S	IP	S	S	R	R	S	UC	UC	R	S	S	IP	S	S	S	S	IP	S	S	IP	S	S
S16	IP	S	IP	S	S	R	S	S	UC	S	S	S	S	IP	S	S	S	S	IP	S	S	IP	S	S
S17	IP	R	IP	S	S	R	R	S	UC	UC	S	S	S	IP	R	S	S	S	IP	S	R	IP	S	S
S18	IP	S	IP	S	S	R	R	S	UC	UC	S	S	S	IP	S	S	R	S	IP	S	R	IP	R	S
P9	IP	R	IP	S	S	R	R	S	UC	R	R	R	S	IP	R	R	R	S	IP	S	R	IP	R	R
S15	IP	R	IP	S	S	R	R	S	UC	UC	R	S	S	IP	R	R	R	IP	IP	S	R	IP	IP	R

Legenda: R – regulatory approach (including applicable laws, regulations, and a mix of both regulation and supervisory oversight); S – supervisory approach (including supervisory guidance and/or oversight); IP – initiatives under preparation; UC – initiatives under consideration; NA – not addressed or not relevant. *(S19 not included.)*

Acronyms: AR – Argentina; AU – Australia; BR – Brazil; Ca – Canada; CN – China; FR – France; DE – Germany; HK – Hong Kong; IN – India; ID – Indonesia; IT – Italy; JP – Japan; KR – Korea; MX – Mexico; NL – Netherlands; RU – Russia; SA – Saudi Arabia; SG – Singapore; ZA – South Africa; ES – Spain; CH – Switzerland; TR –Turkey; UK – United Kingdom; US – United States.

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[i] Regulation applies only for corporate executives but not for market operators.

[ii] The provision is laid down in an agreement between the government and the financial sector.

FSB FINANCIAL STABILITY BOARD

5 April 2011

Second FSB thematic peer review of compensation practices

Questionnaire for firms

Private and confidential

Overview

The G20 Leaders, at the Toronto Summit, encouraged all countries and financial institutions to fully implement the FSB *Principles for Sound Compensation Practices* and their *Implementation Standards* by end-2010 and called on the FSB to undertake ongoing monitoring in this area. To meet this call, the FSB committed to conduct a further and more detailed peer review of implementation in 2011, as recommended by the FSB's first thematic peer review completed in March 2010.[1] The follow-up review will assess the progress made by significant financial institutions in implementing the FSB Principles and Standards as well as the impact on compensation practices of national policy measures taken to implement the FSB Principles and Standards.

The purpose of the questionnaire is to take stock of the compensation policies and practices of significant banking firms across all FSB member jurisdictions and to assess their progress in implementing the FSB Principles and Standards.

Process

Firms should provide a response to the questionnaire for the consolidated group, covering operations across all branches and majority-owned subsidiaries worldwide. Firms are permitted to exclude subsidiaries that are engaged in activities other than banking or broker dealing, providing that such subsidiaries are not engaged in investments for the firm's own account, such as proprietary trading units. Firms should state which subsidiaries or business activities are excluded from the questionnaire.

The questionnaire is designed to collect information from individual firms on their compensation policies and practices, and is structured to facilitate cross-institutional and cross-country comparisons by the peer review team. No information is sought on levels of compensation, nor on compensation arrangements for specific individuals.

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1 The first review on compensation called for "a follow-up review to be conducted 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" (recommendation 9). See http://www.financialstabilityboard.org/publications/r_100330a.pdf.

Firms should regard their answers to the questionnaire as proprietary information, and should be assured that the use of this information is bound by a signed confidentiality agreement; firm-level data will be treated as confidential supervisory information.

The questionnaire includes some open-ended questions and free-form answers to allow firms to report innovations and variations in practice. At the time the Principles and Standards were developed, it was anticipated that practice would change rapidly over the next several years and innovations were possible.

Firms are asked to send the completed questionnaire to their home supervisor by 16 May 2011. The short deadline reflects the need to complete the review process and to prepare the peer review report in a short timeframe. . Upon completion of the questionnaire, home supervisors will review the firm's response to each question to assess its accuracy and completeness. Supervisors will also assess the firms' progress towards implementing the FSB Principles and Standards and have been provided with criteria to assess implementation according to the following four-grade scale: implemented, mostly implemented, partly implemented or not implemented. These grades will not be disclosed for individual firms.

The completed questionnaires and the assessment by national supervisors will be sent to the peer review team for analysis. Firm-level information will be examined by a group of banking supervisors within the peer review team, which will act as a supervisory college and adopt the confidentiality principles agreed for such colleges. The group of supervisors will only provide aggregated information to the wider peer review team for the purposes of preparing the peer review report.

Peer review report

While the peer review team will consider the assessments by home supervisors, no individual assessments will be provided in the peer review report. Further, the peer review report will not include any information that could identify an individual firm, unless that information is already in the public domain, e.g. disclosed by the firm in its annual report. The report could include tables that summarise, in aggregated form, the information collected from firms, including peer-group and cross-country comparisons.

A draft report will be prepared by the peer review team for discussion by the FSB Standing Committee on Standards Implementation and FSB Plenary, with publication to follow well in advance of the November 2011 G20 Summit.

A. Firm information

Name of firm	
Nature of business	Please provide a brief description of the nature of your business, including the percentage of revenues from investment banking activities, from commercial banking activities, from broker-dealer activities and from other material activities (e.g. insurance, asset management).
Geographic spread of business	Please provide the fraction of your business activities from domestic operations and the fraction from foreign operations, along with a brief description of how you measure "activities" (for example by assets, revenue, or something else) and of what you consider to be foreign operations in addition to foreign branches and subsidiaries (for example, are foreign offices of domestically incorporated nonbank subsidiaries part of foreign operations?).
Size of business	Please provide the amount of common equity for your firm, expressed in USD using the spot exchange rate for your 2010 fiscal year-end date. If common equity is not a suitable measure of size for your firm, provide also an alternative and explain what it is.
Subsidiaries or business activities excluded	Please describe which subsidiaries or business activities are not covered by the firm's response to the questionnaire. Firms are permitted to exclude subsidiaries that are engaged in activities other than banking or broker dealing, providing that such subsidiaries are not engaged in investments for the firm's own account, such as proprietary trading units.

B. Questionnaire

1. Overview of compensation policies	
1.1 Please briefly summarise the main incentive compensation systems used to reward employees involved in risk-taking. If the number of such systems or plans is more than a few, focus on systems for executives and managerial staff and for highly-paid employees.	
Response	
Supervisor's assessment of firm's response	
1.2 From each scheme noted above, please describe: i) the groups of employees which are eligible for awards; ii) the composition of the awards (proportion of fixed versus variable remuneration, proportion of cash and other non cash instruments); iii) key performance measure. Describe some of the challenges experienced in designing and implementing the compensation policies.	
Response	
Supervisor's assessment of firm's response	
1.3 Describe how your remuneration policies, procedures and practices are consistent with and promote sound and effective risk management and do not encourage risk taking exceeding the overall level of risk tolerance of the firm.	
Response	
Supervisor's assessment of firm's response	
1.4 Describe the set of employees for which the FSB Principles and Standards overall are relevant and for which the firm attempts to achieve alignment of risk-taking incentives (information about differences between the overall set and the set that is relevant for FSB Implementation Standards 6-9 is particularly helpful).	
Response	
Supervisor's assessment of firm's response	

1.5 What backtesting or other analysis is done or will be done by your firm to ensure that the relationship between compensation amounts and risks taken is consistent with prudent risk-taking?	
Response	
Supervisor's assessment of firm's response	
1.6 What elements of the firm's compensation methods, policies and processes does your firm consider innovative or unique relative to the practices of peer firms? Do you believe that any of your specific practices should be adopted more widely? If so, what barriers do you perceive to such adoption?	
Response	
Supervisor's assessment of firm's response	

2. Effective governance of compensation	
2.1 Please specify and describe the composition of your firm's governing body that oversees the compensation system's design and operation (e.g. expertise in risk management and compensation, corporate board members versus non-corporate members). How has the role of the firm's compensation governing body evolved over the past two financial reporting periods?	
Response	
Supervisor's assessment of firm's response	
2.2 Describe the mandate and responsibilities of the governing body versus the role of the supervisory body, if applicable.	
Response	
Supervisor's assessment of firm's response	
2.3 What arrangements are in place to enable the compensation governing body to exercise competent and independent judgment on compensation policies and practices and the incentives created for managing risk, capital and liquidity?	
Response	
Supervisor's assessment of firm's response	
2.4 How often does your governing body meet to discuss compensation matters? Approximately how much time is spent considering the effective alignment of the compensation system with performance and prudent risk taking?	
Response	
Supervisor's assessment of firm's response	
2.5 How does the compensation governing body interact with the firm's risk committee in the evaluation of incentives created by the compensation system?	
Response	

Supervisor's assessment of firm's response	
2.6 What is the role of the risk and compliance functions in setting out compensation policies, and in their implementation? Are the employees of risk and compliance functions compensated in a manner that is independent of the business areas they oversee? Are their performance measures based principally on the achievement of the objectives of their function?	
Response	
Supervisor's assessment of firm's response	
2.7 How does your compensation governing body incorporate assessment of compliance with the FSB Principles and Standards and respective regulatory and supervisory guidance?	
Response	
Supervisor's assessment of firm's response	
2.8 Who conducts the annual review of your firm's implementation of the compensation policy, including financial outcomes (e.g., compensation governing body, internal audit, externally contracted)? What is the role of the firm's governing body in overseeing this review process?	
Response	
Supervisor's assessment of firm's response	

3. Pay structure and effective alignment of compensation with prudent risk taking	
Ex ante risk adjustment	
3.1 Describe the methods and processes for effecting ex ante risk adjustments in decision-making about bonus pools and about allocations of pools to individual employees. If such risk adjustments affect the variable pay of only a subset of employees, which subset, and why?	
Response	
Supervisor's assessment of firm's response	
3.2 Do risk adjustment procedures incorporate both quantitative approaches and human judgment? Briefly describe how each approach contributes.	
Response	
Supervisor's assessment of firm's response	
3.3 How is risk adjustment of the firm-wide bonus pool undertaken? If a strictly bottom-up approach is followed in making awards of variable pay, how does the firm ensure that risk adjustments made at the employee, unit or business line level aggregate to a sensible adjustment of the firm-wide pool?	
Response	
Supervisor's assessment of firm's response	
3.4 List each type of risk adjusted for and broadly, how each risk factor is measured/assessed and monitored. What weight is assigned to each of these risk factors? In particular, which adjustments are made for liquidity risk? How are adjustments made for difficult-to-measure risks, such as reputation and legal risk? If no ex ante risk adjustments are made for some individual types of risk (e.g. market, credit, counterparty, liquidity, operational), describe the general methods by which employee incentives to take such risks are considered in bonus pools adjustments and allocations of pools to employees.	
Response	

Supervisor's assessment of firm's response	
3.5 Describe how the cost and quantity of capital allocated to cover risks is taken into account in ex ante risk adjustment of bonus pools or allocations of pools to employees. What types of risk are addressed this way? Specify the concept of the capital allocated (e.g. actual balance sheet equity, economic risk capital).	
Response	
Supervisor's assessment of firm's response	
3.6 Does your firm recognize revenues not actually received for purposes of computing performance measures used in deciding variable pay pools or awards to employees? (One example of such revenue is gains on Level 3 positions in the trading book that remain open at the end of the performance period; this is not the only potential source of such revenue.) If so, how is the unreliability of future receipt of such revenue taken into account in variable pay decision-making?	
Response	
Supervisor's assessment of firm's response	
Alignment of compensation with performance	
3.7 If the bank as a whole experienced poor financial performance for the last financial reporting year (please describe), explain the extent to which variable pay for all employees was reduced and the manner of reduction. If pay fell only for some employees, which ones, and why?	
Response	
Supervisor's assessment of firm's response	
3.8 Did any business unit experience poor financial performance for the last financial reporting year? Was the variable pay received by employees in the unit reduced relative to pay in a normal year for the unit? Take into account both reductions in variable pay awards for the year as well as the impact of any maluses or clawbacks that were triggered.	
Response	

Supervisor's assessment of firm's response	
3.9 If neither the bank as a whole nor any business unit experienced poor financial performance, explain how the bank's policies and procedures would effect a substantial reduction in variable pay in event of such performance in the future.	
Response	
Supervisor's assessment of firm's response	
3.10 Describe how the vehicles used to grant deferred pay (e.g. stock, restricted stock, options, performance units) contribute to the objective of aligning payouts over time with performance over time.	
Response	
Supervisor's assessment of firm's response	
Compensation structures and ex post performance adjustment	
3.11 Questions 3.15 - 3.19 and Table 1 of the Annex focus on features of the instruments used to provide compensation and how such features vary across different categories of employees. Please briefly describe which employees appear in each of the sub-groups of material risk-takers and other employees given in the rows of the table. Moreover, focusing on your internal processes, describe the process used to identify senior executives as well as other employees whose actions have a material impact on the risk exposure of the firm (e.g. material risk-takers). Is this process defined by regulatory and supervisory guidance? Has the definition of material risk-takers changed significantly over the last financial reporting year?	
Response	
Supervisor's assessment of firm's response	
3.12 How is the group of material risk-takers as defined above divided into sub-groups or categories (e.g. members of the executive board, other senior executives, the most highly paid employees)?	
Response	

Supervisor's assessment of firm's response	
3.13 Please explain how the mix of cash, equity and other forms of compensation at your firm are consistent with risk alignment? Has the mix of forms of compensation changed significantly over the last financial reporting period?	
Response	
Supervisor's assessment of firm's response	

<table>
<tr><td colspan="2">For the questions 3.15 through 3.18, please provide responses in Table 1 of the Annex:</td></tr>
<tr><td colspan="2">3.14 As noted previously, please divide employees into the categories given in Table 1. The descriptions of categories below the table are intended to provide an indication of how to categorize employees. In the table, provide approximate numbers of employees in each category.
3.15 Please provide the proportion of total compensation for each sub-group of material risk-takers that is variable; the proportion of variable pay that is deferred and the deferral period.
3.16 Please provide the proportion of variable compensation that is awarded in shares or share-linked instructions.
3.17 Please provide the percentage of deferred remuneration that is subject to ex post performance adjustment (malus/clawback). Exclude malus/clawbacks that are triggered only by malfeasance, misreporting, or other violations of law or internal policy.</td></tr>
<tr><td colspan="2">3.18 Has the proportion of variable pay relative to total pay for each sub-group of material risk-takers changed significantly over the last financial report year? If so, please describe in what way.</td></tr>
<tr><td>Response</td><td></td></tr>
<tr><td>Supervisor's assessment of firm's response</td><td></td></tr>
<tr><td colspan="2">3.19 How is the deferral period aligned with the nature of the business, its risks and the activities of the employee in question? Does vesting occur more rapidly than on a pro rata basis?</td></tr>
<tr><td>Response</td><td></td></tr>
<tr><td>Supervisor's assessment of firm's response</td><td></td></tr>
<tr><td colspan="2">3.20 Describe how the maluses, clawbacks, or other features of deferred pay that reduce the amount or value of deferred pay contribute to the alignment of payouts and performance over time.</td></tr>
<tr><td>Response</td><td></td></tr>
<tr><td>Supervisor's assessment of firm's response</td><td></td></tr>
</table>

3.21 Briefly explain why the choices of the aforementioned elements of pay structure and ex post adjustment are adequate to support prudent risk-taking incentives.	
Response	
Supervisor's assessment of firm's response	
3.22 Briefly describe any major elements of your pay structure or ex post adjustment practices that contribute to prudent risk-taking incentives but are not captured in response to previous questions.	
Response	
Supervisor's assessment of firm's response	

4. Disclosure	
4.1 Does your firm publicly disclose its compensation policies and practices to all stakeholders so as to enable evaluation their alignment with prudent risk taking and the firm's strategy and risk posture? Do you provide separate disclosures to your supervisor and regulator?	
Response	
Supervisor's assessment of firm's response	
4.2 Has your firm disclosed an annual report on compensation practices for your 2010 financial year? If available, please provide a link to the page on the internet. If not available, does the firm intend to disclose such a report during 2011?	
Response	
Supervisor's assessment of firm's response	
4.3 Does or will the annual report disclose the decision-making process used to determine the firm-wide compensation policy, including the composition and mandate of the compensation committee and the criteria used for performance measurement and risk adjustment?	
Response	
Supervisor's assessment of firm's response	
4.4 For senior executive officers and employees whose actions have a material impact on the risk exposure of the firm, does or will the annual report disclose for each of the two groups, the amount of remuneration for the financial year; amount and form of variable compensation; amount of deferred compensation; new sign-on and severance payments made during the financial year; and the amount of severance payments awarded during the financial year? Specify clearly to which categories of employees in Table 1 the disclosures relate.	
Response	
Supervisor's assessment of firm's response	

5. Other features of compensation systems	
Compensation and capital	
5.1 Describe how you assessed whether your compensation pools for 2010 were consistent with the bank's current and future capital needs?	
Response	
Supervisor's assessment of firm's response	
5.2 Did your firm reduce total variable remuneration for 2010 in order to address current or expected future capital shortfalls? If not, and such shortfalls exist, why were reductions in variable remuneration not part of the bank's capital restoration strategy?	
Response	
Supervisor's assessment of firm's response	
Guaranteed bonuses	
5.3 Are guaranteed bonuses a component of prospective compensation plans? What is the typical length of guaranteed bonuses? If during 2010 any guarantees were offered to employees other than new hires, for periods in excess of one year, briefly provide the reasons why they were offered.	
Response	
Supervisor's assessment of firm's response	
Golden parachutes	
5.4 What steps have been taken to ensure contractual payments related to a termination of employment are related to performance achieved over time and designed in a way that does not reward failure?	
Response	
Supervisor's assessment of firm's response	

Hedging by employees of deferred compensation	
5.5 What arrangements are in place (e.g. appropriate compliance arrangements) to ensure that employees do not use personal hedging strategies to undermine the risk alignment effects embedded in their remuneration arrangements?	
Response	
Supervisor's assessment of firm's response	

Annex

Table 1

Response to Questions 3.15 – 3.18

Example of employees considered material risk-takers	Number of employees	Variable Compensation				
		% of total compensation	% that is deferred	Deferral period (number of years)	% awarded in shares or share-linked instruments	% subject to ex post risk adjustment
A. Most senior members of the executive board						
B. Other members of the executive board						
C. Other senior executives						
D. Other employees whose individual actions have a material impact on the risk exposure of the firm						
E. The most highly paid employees not covered above						
F. All other employees						

Indication of how to categorize employees for the purpose of the table above

A. The most senior members on the executive board. This category is relevant if the executive board is very large, otherwise, it should be merged with category B.

B. Other members of the executive board.

C. Other senior executives: At a minimum, heads of major business lines, heads of major geographic business regions, and heads of risk and control functions, should be included to the extent they are not already included in Groups A or B. If the firm has a firm-wide executive or operating committee that is one level below the Executive Board, its members should be included.

D. Other employees whose individual actions have a material impact on the risk exposure of the firm. This group should include employees not already in Groups A, B or C whose decisions can expose the firm to risks that are material to the firm as a whole. As illustrative examples, firms often include in this category those staff with an ability to commit a significant amount of the bank's risk capital, an ability to significantly influence the bank's overall liquidity position, an ability to significantly influence other material risks, and managers of significant business units. Among risk and control personnel, ordinarily at least those reporting directly to the heads of the risk and finance functions would be included, and perhaps more such personnel, unless the amount of incentive pay received by risk and control personnel is completely unaffected by firm-wide or business unit revenues or profits.

E. The most highly paid employees not included in Groups A, B, C or D, with total remuneration awarded or paid for the last performance year that is greater than the mean for staff in Groups A and C.

F. All other employees receiving any deferred variable pay and for whom the variable pay award is linked to personal or business unit performance (omit employees who participate only in profit-sharing plans, for example). If this is not a group of people significantly larger than the sum of A, C, D, and E, that can be because variable pay is not common in your organization or because variable pay is common but often none is deferred.