

Press release

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FSB publishes third progress report on compensation practices

The Financial Stability Board (FSB) published today the [third progress report](#) on the implementation of the FSB [Principles for Sound Compensation Practices and their Implementation Standards](#) (P&S) by FSB jurisdictions.

The report finds that the implementation of the P&S is now essentially completed. A few FSB jurisdictions have not adopted one or a few P&S due to their non-applicability or incompatibility with local laws; these jurisdictions should assess the risks posed by remaining gaps and take appropriate measures to address them.

Several jurisdictions continue to refine their regulatory framework or guidance on compensation practices. The most notable development in this regard is the adoption by the European Union of the Capital Requirements Directive (CRD) IV, which came into effect on 1 January 2014 and includes specific requirements on compensation structures that go beyond those of the P&S.

The assessment of compensation practices has become for many authorities an essential part of their supervisory activity, given the relevance for effective risk management and governance. Authorities assess the level of implementation by significant banks in their jurisdiction as medium or high, with notable improvements in the governance frameworks for compensation and in the *ex ante* risk adjustment of compensation to reflect risk-taking.

Some implementation challenges remain, in particular the application of risk metrics at the level of business units, products and individual employees; a more transparent and consistent application of policies to guide the use of discretion in setting compensation; and the availability of better data and disclosures to support the effective alignment of compensation with prudent risk-taking behaviour. The report also finds that there remain significant differences among jurisdictions in the approach to, and implications of, identifying material risk takers. As regards *ex post* performance adjustment, progress is more evident on the use of malus than clawbacks, although supervisors and firms share the view that both sets of instruments are important for incentivising prudent risk-taking behaviour. Some authorities also see scope for enhancements of firms' public disclosure of compensation practices. More work is still needed to ensure the implementation of the P&S is effectively leading to more prudent risk-taking behaviour.

The report recommends that FSB jurisdictions further improve the intensity and effectiveness of their supervision of compensation practices, and that they continue to foster the use of malus and clawback mechanisms by their supervised firms. The FSB will focus in its next progress report on the link between compensation structures and firms' risk appetite and

governance frameworks, and will undertake further work on practices in the identification and treatment of material risk takers. The FSB will continue to engage with the industry to exchange views on trends and remaining challenges in this area, extending the focus in 2015 to compensation practices at significant insurance firms.

Notes to editors

The G20 Leaders in Cannes called on the FSB to “*undertake an ongoing monitoring and public reporting on compensation practices focused on remaining gaps and impediments to full implementation of these standards and carry out an ongoing bilateral complaint handling process to address level playing field concerns of individual firms.*”

The FSB’s Compensation Monitoring Contact Group is responsible for monitoring and reporting to the FSB on national implementation of the P&S. The [first implementation progress report](#) in this area was published in June 2012 and the [second](#) in August 2013. In addition, a [Bilateral Complaint Handling Process](#) was launched in April 2012 as a mechanism for national supervisors from FSB member jurisdictions to bilaterally report, verify and, if necessary, address specific compensation-related complaints by financial institutions based on level playing field concerns. The Bilateral Complaint Handling Process, which the FSB initiated for the purposes of addressing level playing field concerns, has not been activated so far by firms.

For further information on compensation monitoring by the FSB, see <http://www.financialstabilityboard.org/activities/compensation/cm.htm>.

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 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.financialstabilityboard.org.