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BY EMAIL

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"RANGE OF METHODOLOGIES FOR RISK PERFORMANCE ALIGNMENT OF REMUNERATION"

The Dubai Financial Services Authority (DFSA) has taken this opportunity to provide comments on the Consultation Document released by Basel Committee on Banking Supervision titled "Range of Methodologies for Risk and Performance Alignment of Remuneration".

We certainly agree that remuneration practices were a primary cause in the recent financial crisis; however, we also appreciate the difficulties in addressing this issue. Supervisors across the globe are exploring three primary avenues, which are not mutually exclusive, for addressing the more problematic remuneration practices: 1) improved guidance and principles; 2) improved rules and regulations; and, 3) improved market disclosures. None of these three strategies provide a "silver bullet", as guidance is difficult to enforce, rules are sometimes easy to evade and disclosures are easy to obfuscate to a point of being incomprehensible. However, used together, all will have a degree of effectiveness when coupled with pro-active supervision, particularly focused on the systemically important financial institutions with risks of contagion.

Noting the above, our preference is toward enhanced principles and disclosures, and less in the way of prescriptive rules. We are pleased to note that the methodologies identified in the Consultative Document for risk and performance alignment in remuneration are not intended to be prescriptive. Instead they are designed to provide clarification on the design of risk-adjusted remuneration schemes for banks to facilitate the emergence of sound remuneration practice for banks.

All forms of compensation have potential unintended consequences in terms of altering or enhancing human behaviours. Variable remuneration schemes, particularly when forming a large portion of overall compensation, have ever more extreme influence on behaviours in the workplace. In the lead up to the financial crisis, risk controls over persons and business units with high variable remuneration were often discounted in financial institutions.



Although not directly a remuneration issue, financial institutions need to ensure that risk management and compliance functions are well staffed, well trained, well remunerated, and given sufficient authority to discharge their role in an organisation. A guiding principle, which is captured in the Consultative Document, is that variable remuneration must be released in a manner that is consistent with the duration of assumed risks, and not be overly geared toward short-term measures.

The DFSA is strongly supportive of the initiatives to promote sound corporate governance practices, particularly among systemically significant financial institutions, to ensure their prudent and sound management. The DFSA is of the view that methodologies to promote sound remuneration practices should be balanced and well integrated with other aspects of risk management, and not be overly detailed or expansive compared to those other aspects. In this context, while not having any specific objection to the methodologies set out in the Consultation Document, we believe that a more concise and principles-based approach, with associated guidance and examples, would be more helpful to supervisors and the banking industry. We also encourage the Basel Committee to work closely with other standard setters, such as IAIS and IOSCO, to achieve a common framework.

We note that the Consultation Document reflects a work in progress approach and further refinements to the content of the methodologies are intended. Therefore, we look forward to commenting on future guidance that may be used both by supervisors and banks in promoting sound remuneration practices in the overall context of controls needed to promote prudent and sound management of financial institutions.

Please do not hesitate to contact us for any clarification on the issues raised.

Yours Sincerely



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