EBF Ref.: D2324A
Brussels, 23 December 2010

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The EBF is committed to supporting EU policies to promote the single market in financial services in general and in banking activities in particular. It advocates free and fair competition in the EU and world markets and supports the banks' efforts to increase their efficiency and competitiveness.

EBF Response to the Basel Committee Consultation on Range of Methodologies for Risk & Performance Alignment of Remuneration

The EBF welcomes the many references and examples of **proportionality**; such as references to dealing with this on a case by case basis, bilateral approach to discussion and no standardisation, for example in paragraphs 27, 65 and 74. This may be particularly relevant for proportionality within a Group structure, where the subsidiary will not have a high impact on Group risk or on Group share price (#97, #103).

Proportionality should also extend, at individual and business lines, to criteria such as the percentage of bonus received relative to fixed pay and allow an institution to identify a certain salary level below which these measures should not apply.

The EBF also welcomes the inclusion of many **practical examples**, which clarifies the Committee's thoughts even more. We consider this a helpful approach to be used as much as possible.

Specific Comments

Qualitative factors should play a significant role (paragraph 32), with clear definitions set of what these factors are and how they might be judged (e.g. Green, Amber, Red codes)

Measures such as economic capital or cost of capital can be too narrowly focused on return. Broader measures such as the Risk Appetite Statement should be included to fully incorporate risk with a qualitative <u>and</u> quantitative referral point.

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Difficulties in measuring risk in paragraph 38: The problem of long term incentives is well recognised, where employees/ senior managers may lose entitlements if leaving a firm before these entitlements are received, or else they encourage some labour market rigidities.

Tax and deferral issues are a concern if both are not aligned.

The EBF considers **deferral should work in both directions**, allowing for decreasing as well as increasing the deferral period.

No share options exist in some institutions and create a difficulty for such deferral, as already mentioned for CEBS / CRD III. Paragraphs 39 and 78 refer. Some though needs to be given to alternatives and may take time to construct.

1.4.2, paragraphs 65+: The EBF agrees with **the broad application of variable pay**, to ensure high quality staff are attracted to control functions which include Risk, Financial Control, Audit and other control functions. Equally we consider it appropriate to include staff on lower pay but on a commission basis, as such a payment basis can encourage higher risks (#68, #79).

The EBF is pleased to see the recognition of **some risks being only short term** (#111) and the consideration of such deferrals being short term too. We had mentioned this in relation to CEBS – though this variation leads to further administration costs.

In practice some **'long term' cut off** is required, accepting that the outcome of a diversification/ acquisition / long term exposure may take a decade or more to fully identify a risk.

Section 2.3.1: **Top down** Group measures of risk / return are acceptable as a starting point but should be extended to include aspects relative to the business unit also.

Finally, but of no less importance, **adequate time** is required to implement such changes – such as changes in contracts of employment, development of methodologies - which can be a project in themselves and so an adequate transition should be available – not such a tight one as for CRD III. Implementation should also have a standardised timing across all jurisdictions.

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Related documents: Basel Committee Consultation Paper: http://www.bis.org/publ/bcbs178.pdf