



Room 525, 5/F., Prince's Building, Central, Hong Kong  
Telephone: 2521 1160, 2521 1169 Facsimile: 2868 5035  
Email: info@hkab.org.hk Web: www.hkab.org.hk

香港中環太子大廈5樓525室  
電話：2521 1160, 2521 1169 圖文傳真：2868 5035  
電郵：info@hkab.org.hk 網址：www.hkab.org.hk

31 December 2010

(By email: baselcommittee@bis.org & post)

Secretariat of the Basel Committee on Banking Supervision  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 Basel  
Switzerland

Dear Sirs,

**Consultative Document – Range of Methodologies for Risk and Performance Alignment of Remuneration**

We refer to the Consultative Document, “Range of Methodologies for Risk and Performance Alignment of Remuneration” (“Consultative Document”) published by the Basel Committee on Banking Supervision (“BCBS”) in October 2010. On behalf of our members, we set out our views on various proposals in the Consultation Documents:

**General comment**

We welcome the consultation process on BCBS’s proposal to achieve sound compensation practices for banks, aimed at ensuring effective governance of compensation practices, alignment of compensation with prudent risk-taking, effective supervisory oversight and stakeholder engagement. We recognize the need to redress deficiencies in compensation practices that contributed to the global financial crisis that began in 2007. We are of the view that the methodologies of aligning risk with performance on a theoretical basis in the Consultative Document provides a good reference for banks when developing their own policy. However, we believe that regulators should avoid adopting a mechanistic or formulaic approach. Risk metrics are one of a number of sources of input in the process of bonus pool formation and there are other moderating factors that are considered at various levels. We believe any further regulations on variable compensation such as caps on bonuses may drive banks to increase fixed compensation and as a consequence reduce the amount of total compensation which is aligned to both current and future performance.

Our comments on the proposals are listed below.

*Chairman* Standard Chartered Bank (Hong Kong) Ltd  
*Vice Chairmen* Bank of China (Hong Kong) Ltd  
The Hongkong and Shanghai Banking Corporation Ltd  
*Secretary* Rita Liu

主席 渣打銀行（香港）有限公司  
副主席 中國銀行（香港）有限公司  
香港上海匯豐銀行有限公司  
秘書 廖碧瑩



### **1. Deferral and ex post adjustments**

While we agree with the need to address the risk incentive alignment, standardising deferred compensation may not mean banks are not paying attention to risk incentive alignment. This is needed when banks want to pursue a one-bank approach.

Regulators should allow banks to adopt different clawback approaches as long as banks can prove that the approaches they adopt can satisfy the requirement.

We believe that various approvals for different banks should be allowed as long as appropriate action has been taken to counter the risks.

### **2. Proportionality**

Overall, we agree with the proportionality concept as set out in the consultative document.

### **3. Risk and performance measurement**

In general if the banks are making losses the bonus pools are usually reduced, however, we believe that banks should be allowed discretion to pay bonuses to selected employees even in a loss situation in order to retain key talents.

### **4. Adjusting remuneration for risks**

In general, the market practice for risk adjustment is on a pool level as opposed to an individual level. Where bonus pools are determined on a discretionary basis and not by a pre-determined formula, adjustment for risk should not be formulaic, rather a factor that is used in sizing of the discretionary bonus pool.

### **Conclusion**

We understand that the remuneration practices and methodologies are still evolving. Overall, we believe the consultation paper should be used as a reference for banks to consider when aligning risk and performance of remuneration.

If you have any questions or require any clarification, please do not hesitate to contact us.

Yours faithfully



Rita Liu  
Secretary

c.c. Ms. Rose Luk, Head (Banking Policy Division), Hong Kong Monetary Authority