

Comments on the Basel Committee on Banking Supervision's Consultative Document *Report on the Range of Methodologies for Risk and Performance Alignment of Remuneration*

Japanese Bankers Association

We, the Japanese Bankers Association, would like to express our gratitude for this opportunity to comment on the Consultative Document *Report on the Range of Methodologies for Risk and Performance Alignment of Remuneration* released on October 14, 2010, by the Basel Committee on Banking Supervision.

We hope that our comments below will assist the Basel Committee in its efforts going forward.

【General Points】

We express our agreement with the point that the intention of this report, which presents a range of practices and methodologies as possible approaches to aligning remuneration and risk, is to promote sound compensation practices within the banking sector. In order for these initiatives to function effectively and continuously as a meaningful tool, we sincerely hope that the following will be taken into account in future discussions.

- Financial institution remuneration schemes range widely, varying depending on the respective business model of each financial institution, as well as the labor practices of the respective country and other factors. Therefore, these schemes should not be fitted into a single framework. We understand the need to reform remuneration practices for the purpose of

enhancing the stability of the financial system and believe that reaching a certain degree of consensus on an international level is beneficial. However, upon doing so, it is vital that the circumstances of each country and the differences among financial institutions' business models, etc., are duly taken into account. We think that it is appropriate to understand the particular methodologies of each country as being determined with significant consideration of national circumstances, and that discretion should be granted to each country in order to make the methods more effective.

- Since this report has not been assigned a normative role, we understand that its content will not in itself become a guideline for all countries. However, in the event that this does occur, we wish to confirm that the guidelines will not uniformly apply to all executives and employees. In other words, we believe that the discretionary decisions of each country's regulators, made based on the average rewards for performances and employment practices of each country, should be respected. Specifically, in Japan, risk adjustment is not a realistic approach for executives and staff whose remuneration is determined by factors such as years of service, occupational ability, and labor grade. We therefore believe that the guidelines outlined in this report would not be appropriate for Japan.
- Upon executing the contents written in this report, it should be borne in mind that adequate consistency must be maintained with the legal system of each country. For example, in Paragraph 52, the presence of a "Remuneration Committee" is assumed, but in Japan, not all companies are legally required to establish a Remuneration Committee. Please note that the responsibilities set forth for the Remuneration Committee can be achieved through other means, such as through divisions within the company to which similar functions are assigned.