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Secretariat of the Basel Committee on
Banking Supervision
Bank for International Settlements
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Dear Secretariat,

Pillar 3 Disclosure Requirements for Remuneration - Consultative Document

The Australian Bankers' Association (ABA) welcomes the opportunity to comment on the Committee's Consultative Document - *Pillar 3 Disclosure Requirements for Remuneration*, released in December 2010.

We have some general observations, and have attached specific comments on key disclosure proposals.

ABA supports the underlying objective of promoting effective market discipline through improving the quality and comparability of remuneration disclosures. However, we believe that the design of many of the proposed Pillar 3 disclosure requirements will not allow market participants to meaningfully assess the quality of compensation practices and their alignment to a firm's risk management framework and long-term financial soundness.

An additional concern is that the lack of prescribed definitions and inconsistencies between the proposed Pillar 3 disclosure requirements and Australian corporate law disclosure requirements for remuneration may confuse market participants. This will further impede the objective of improving the quality, comparability and effectiveness of remuneration disclosures, and drive up the costs for the banking industry.

1. Scope of disclosures

ABA members are concerned about the scope and nature of the disclosure requirements. As a whole, the requirements are overly prescriptive, and will add significant complexity for both the reporting institutions and shareholders.

They also single out financial institutions. Other large corporations in Australia and elsewhere will not be required to change their remuneration disclosures.

Our members are also concerned that the disclosures may be inconsistent with local law and global accounting standards, and would require reporting of commercially (and internally) sensitive information, which could have the unintended consequence of Boards making remuneration decisions based wholly on what is required to be disclosed rather than what is in best interests of the company.

2. Method and frequency of disclosure

Banks publish remuneration disclosures within their Remuneration Report, which forms a significant part of the Directors' Report within the annual report. This report is released to the Australian Securities Exchange (ASX) on an annual basis and is readily available on bank web sites. The Remuneration Report discloses much of the information proposed under the Pillar 3 disclosure requirements for remuneration for non-executive directors (NEDs), the CEO and disclosed executives.

3. Qualitative Disclosures

The proposed qualitative disclosures are generally supported, however such qualitative disclosures should be policy or principles-based and be made at the bank-wide or group level.

The ABA does not support the application of the qualitative disclosures to individual arrangements or specific remuneration schemes. We believe that extending the application to individual arrangements or specific remuneration schemes will create undue complexity and cost in Pillar 3 disclosures, with limited benefits to market participants, given the significant variation in remuneration structures typical across any sizeable banking group.

4. Quantitative Disclosures

The ABA does not support the additional quantitative disclosures proposed nor do we support the disclosure of commercially sensitive information.

For example any attempt to disclose the risk adjusted return of specific business or activities or the level of capital adequacy would qualify as sensitive and confidential. Another issue is having public information that can be used to assess

the pricing of bank products, which could be an unintended consequence of the remuneration disclosures.

4.1 Lack of prescribed definitions

The three key disclosure categories of (a) senior management, (b) other material risk takers, and (c) risk and financial control staff are not defined (instead the paper requests that firms disclose their own definitions) which may result in significant differences in disclosure between firms and make the comparison of quantitative disclosures meaningless to market participants.

It is recommended that these categories be explicitly defined (similarly to APRA Prudential Standard APS 510).

The "amount" in 11(j) or "value" in 11(k) of deferred equity-based compensation is not defined. This concept is widely debated across both the accounting and human resources professions and there are a variety of international practices.

A similar issue exists for the definition of "expense" in Table B (Annex) where expense could be defined in terms of the accounting expense to the company, or in terms of realised value to the employee.

It is recommended that the "amount" or "value" of deferred equity-based compensation and "expense" for Table B (Annex) be defined.

4.2 Requirement for all quantitative disclosures for the three key categories of employees

The requirement to show all quantitative disclosures for each of the three categories is neither appropriate nor beneficial given the objectives in the design of remuneration structures and programs for each of these groups are different.

We also recommend limiting the detailed disclosure of the remuneration arrangements to individual senior management personnel only, consistent with prevailing annual corporate reporting practices in Australia and other international jurisdictions.

The aggregate nature of the proposed quantitative disclosures in 11 (i) to 11 (k) will be of limited value to market participants because there will be no associated disclosure of the context of the compensation.

4.3 Disclosure of granular internal risk values such as economic capital by risk type

It is recommended that the requirement for disclosure of granular internal risk values such as economic capital by risk type be removed and instead require granular disclosures only where there is a common public regulatory or accounting standard to ensure the consistency and comparability of disclosures.

5. Guidance for industry

We are of the view that even if the BCBS defines the key concepts/terms in the Pillar 3 requirements, their definitions would not align exactly to Australian corporate law. It is these types of differences which will confuse market participants and drive up the costs for the banking industry because we would be effectively preparing one remuneration report under the Australian Corporations Act, and a second (different) report under Pillar 3.

It is recommended that the Committee require each national regulator to prepare a concordance between BCBS definitions for all key disclosure concepts under Pillar 3 and local corporate law.

Yours sincerely

Tony Burke

Tabulated ABA responses to key disclosure proposals

BCBS proposal		ABA
(a)	Information relating to the bodies that oversee remuneration. Disclosures should include: • Name, composition and mandate of the main body overseeing remuneration. • External consultants whose advice has been sought, the body by which they were commissioned, and in what areas. • Scope of the bank's remuneration policy (eg by regions, business lines, entities). • Applicability of the bank's remuneration policy to foreign subsidiaries and branches. • Types of employees considered as material risk takers.	Broadly support The disclosures should be policy or principles-based and at the bank-wide or group level only.
(b)	Information relating to the design and structure of remuneration processes. Disclosures should include: • Key features and objectives of remuneration policy. • Frequency of review, date of last review, significant changes made at last review. • How the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.	Broadly support The disclosures should be policy or principles-based and at the bank-wide or group level only.

	BCBS proposal	ABA
(c)	Description of the measures used to take account of current and future risks in their remuneration processes, and how these measures complement or are linked to the bank's overall risk management framework. Disclosures should include: • Key risks that the bank takes into account when implementing remuneration measures. • Measures used to take account of these risks. • Ways in which these measures affect remuneration. • How these measures have changed over the past three years, and reason(s) for change, as well as the impact of changes on remuneration. • A discussion of how these measures complement or are linked to the bank's overall risk management framework.	Broadly support – but do not support reporting on how measures have changed over past three years. Disclosure should be restricted to any significant changes year on year. The disclosures should be policy or principles-based and at the bank-wide or group level only.
(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include: • Main performance metrics for bank and top-level business lines, in particular the profit or income components used in making decisions on variable remuneration. • Main performance metrics for individuals (scorecard/other). • A discussion of how individual remuneration has been tied to bank-wide and individual performance. • What measures the bank will implement to adjust remuneration in the event that performance metrics are weak.	Broadly support, however the scope of disclosure of performance metrics should be bank wide only (not business unit or individual), and should be reported retrospectively, at a high level only, given the commercially sensitive nature of information

	BCBS proposal	ABA
(e)	Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance. Disclosures should include: • Bank's policy on deferral and vesting of variable remuneration. • Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.	Broadly support The disclosures should be policy or principles-based and at the bank-wide or group level only.
(f)	Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms. Disclosures should include: • Forms of variable remuneration offered (eg cash, equity, options, long-term incentive plans). • Discussion of the parameters used to allocate cash vs equity (or equity-type) remuneration for different staff categories. • Discussion of the parameters used to allocate fixed/ variable remuneration for different staff categories. • Discussion of the parameters used to allocate deferred/non-deferred remuneration for different staff categories.	Broadly support The disclosures should be policy or principles-based and at the bank-wide or group level only. All references to "parameters" should be replaced with "principles" or the disclosure should be limited to senior management only.
(g)	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	Broadly support
(h)	The numerical values corresponding to the measures used to take account of the key risks included in risk adjustment methodologies (see (c) above).	As per (d) above – ABA does not support detailed disclosures of commercially sensitive information

	BCBS proposal	ABA
(i)	• Total bank wide remuneration for the financial year, broken down into fixed variable. • Total number of employees receiving a variable remuneration covered by the adjustment process. • Number and total amount of guaranteed bonuses paid during the financial • Number and total amount of sign-on awards paid during the financial year. • Number and total amount of severance payments made during the financial • Number and total amount of remuneration's adjustments performed during financial year to reflect weak performance metrics (ie corresponding to the measures referred to in item (d) above).	Australian banks already disclose this information on NEDs, CEO and Key Management Personnel, and would not support broadening disclosures beyond this population.
(j)	• Total amount of outstanding deferred compensation, split into: - vested5 and unvested. - cash, equity and other forms. • Total amount of deferred remuneration paid out in the financial year, broken by year of the original award. • Total reductions in deferred compensation due to performance adjustment measures other than variation in share price.	Australian banks already disclose this information on NEDs, CEO and Key Management Personnel, and would not support broadening disclosures beyond this population.

BCBS proposal		ABA
(k)	• Breakdown of total value of remuneration awards for the financial year to show: - fixed and variable. - deferred and non-deferred. - different forms used (cash, equity, other). Example for reporting in Table A (Annex). • Breakdown of total remuneration expenses for the financial year to show: - awards relating to current year. - awards relating to prior years. Example for reporting in Table B (Annex).	Australian banks already disclose this information on NEDs, CEO and Key Management Personnel, and would not support broadening disclosures beyond this population.