

The DTC Association

(The Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies)

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25th February, 2011 (Fri)

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

(By email: baselcommittee@bis.org)

Dear Sir,

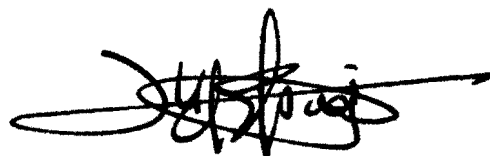
Basel Committee on Banking Supervision (BCBS)
Consultation Paper on Pillar 3 disclosure requirement on remuneration

Thank you for your letter of 29th December, 2010 (Wed) consulting our Association members on the captioned subject.

One of our members who has studied the issue in some detail and they found that – while we fully agree and accept the principles behind your paper – when applied in Hong Kong's context, there is room for simplifying the proposed requirements and lighten the disclosure and reporting burden of Authorized Institutions (i.e. banks, restricted license banks [RLBs] and deposit taking companies [DTCs]) in Hong Kong. We endorse their view and attach their analysis of the issue for your perusal. We hope to see these recommendations accepted eventually.

Thank you for your kind attention,

Yours Sincerely



Pui-Chong LUND
Association Secretary

Appendix

We support, in principle, the direction put forth in the Consultative Document for a wider scope of disclosure to put the spirit of “sound compensation practices” and “market discipline” in place. With this in mind, we would like the BCBS to re-consider the following disclosure requirements with which we have concerns:

1. Under the BCBS proposal, the expectation is that the required data would be published to the public as part of the Pillar 3 disclosure of Basel II, with the discretion for the bank's local regulator to recognise an existing disclosure that meets the requirements. We believe that it would be preferable to build on information already provided to shareholders, for example, in the Directors' Remuneration Report ("DRR") which forms part of the Annual Report and Accounts. Such reports already include detailed information on executive directors and summary information on remuneration arrangements and policies.

We believe it would be unhelpful to increase the level of disclosure with detailed information as we believe it would add a level of complexity to the information disclosed that detracts from the overriding objectives of the DRR for shareholders.

2. Any disclosure requirements must bear in mind the existing obligations of many international companies to provide information on their remuneration policy. All disclosure requirements set out standards for disclosure which are not fully aligned. As disclosure requirements continue to develop, meeting all of these standards may result in the provision of too much data presented in multiple ways, potentially causing confusion and detracting from the transparency of the data. If all countries interpret the FSB principles into disclosure guidelines and implement the same detailed level of prescriptive requirements, it is going to become extremely complex to manage and unlikely to provide any additional benefit to stakeholders.
3. In view of the differences in terms of level of soundness, risk management profile and remuneration practices across different types of banks and in different regions, the disclosure requirements should be more principle-based and from a macro perspective to allow flexible adaptation by financial institutions (FIs) based on their own situations in accordance with the local statutory or regulatory disclosure requirements. The core principle behind the FSB's recommendations regarding compensation disclosure is to provide shareholders with greater detail on how remuneration practices uphold effective risk management. However, a number of the requirements appear to be centred on providing numerical data. We question its use to shareholders in evaluating the extent to which the assessment of risk has been applied to remuneration policies and outcomes. Specifically,

- Paragraph 11(d) (disclosure of main performance metrics) – Since performance metrics may vary among individuals, we suggest that it will be sufficient for FIs to provide a description of performance metrics in general.
- Paragraph 11(g) & (h) (quantitative disclosure) - The proposal suggests that aggregate information should be provided for senior management, other material risk takers and financial and risk control staff. As the population will fluctuate year to year, it will be challenging to base disclosure on such a variable group. Instead we would suggest the management committee of the business is a more easily identifiable and stable population for which to provide this aggregate information. It is also an accountable group recognisable to shareholders.
- Paragraph 11(h) (disclosure of the numerical values corresponding to the measures used to take account of the key risk included in risk adjustment methodologies) – Due to sensitivity, we suggest that FIs should be required to provide relevant numerical values only if such information is publicly available in the market.
- Paragraph 11(i), 1st point (disclosure of total bankwide remuneration) – The requirement appears to be very broad. It should be sufficient for the scope of disclosure to be confined mainly to the remuneration of those material risk takers and management committee.
- Paragraph 11(i), 3rd to 5th points (disclosure of various compensation components including guaranteed bonuses, sign on awards and severance payments) - It is not clear how providing multiple break-downs of remuneration and details of sign-on and severance payments made during the year will be of use to shareholders or add value to the information that shareholders already receive.
- Paragraph 11(i), last point (disclosure of the number and total amount of remuneration's adjustments performed to reflect weak performance metrics) – As variable remuneration may not be determined through a pure mechanical process, but may involve management discretion and judgement, we believe that a figure may not be available for such an adjustment performed.

To sum up, we are supportive of clear and transparent disclosure of remuneration practices but it is key to provide shareholders (and other stakeholders) with better quality information on risk management within remuneration without becoming too prescriptive. Many of the disclosure themes proposed in the consultative document are already enshrined in other legislations and regulations. If it is felt that more detailed information is appropriate, we believe that a more focused disclosure on the management committee of the Company may be a better population as this balances investor desire for relevant and appropriate information. We would, however, be supportive of enhanced disclosure being introduced that gives aggregate information on the remuneration packages of high earners by bands.

We hope you will find our above comments useful.