FEDERATION
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BASEL COMMITTEE CONSULTATION :
PILLAR 3 DISCLOSURE REQUIREMENTS FOR REMUNERATION

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 500 commercial, cooperative and mutual banks. FBF member banks have more than 25,500 permanent branches in France. They employ 500,000 people in France and around the world, and service 48 million customers.

The FBF welcomes the opportunity to answer to the Basel Committee consultation on Pillar 3 disclosure requirements for remuneration.

From the beginning of the financial crisis, French Banks have widely contributed to the reflections leading to the drafting and implementation of the rules on the remunerations of market professionals within the framework of the G20. France was the first country to implement professional rules, in February 2009, in this perspective.

The CRD III defines for the European banks overall the principles governing the public disclosure (« Guidelines on remuneration policies and practices »). These principles have been subject to wide discussions at a European level and have been developed in a specific framework by the Committee of European banking supervisors (which has since become an Authority). The different actors concerned by this matter (member states, regulators, banks, investors) were enabled to express their concerns during the different stages of the drafting of these rules. French banks, and generally European banks consider this text as the legal framework they must comply with.

Indeed, the CRD III and the CEBS Guidelines on remuneration policies and practices are the outcome of this process and take into account the major concerns expressed in this respect.

The FBF welcomes the fact that the Basel Committee implements equivalent disclosures regarding the information of investors applying to international institutions beyond the framework of European Union.

These disclosures are essential to contribute to restore confidence in the markets and to promote market efficiency, enabling to understand both the business model and risks of the banks. On the other hand, they shall not bind European institutions to provide, for additional matters of disclosure, two sets of information that would be costly to implement and source of misunderstanding for investors.

In this regard, it is essential that the requirements of Basel III are considered as equivalent disclosures which have already been made under CRD III and CEBS guidelines. Moreover, taking account of legal national specificities, they shall facilitate efficient comparisons for investors to be made across institutions and jurisdictions and shall not create distortions in competition between the banks.

The FBF specific comments deal with the comparison between the requirements of Basel and the CEBS guidelines on « harmonisation policies and practices ».

1) Coverage of disclosure

The mix of qualitative and quantitative allowing firm's flexibility seems appropriate.

2) Scope of application

An approach that would be proportionate to the nature, scale, complexity of the banks, and taking account of legal national specificities seems logical. In addition, the College of supervisors shall be careful in avoiding duplication of the rules that would be equivalent.

3) Method and frequency of disclosure

The disclosures should be made on an annual basis and made on reasonable delays after the end of the year. French banks want to have the possibility to choose between the global means of information available to them (annual report, specific documents, and website). The most important issue here is that the information shall be recognisable to investors clearly.

4) Key disclosure

The FBF approves both qualitative and quantitative approach.

a) Qualitative disclosure

The FBF supports the disclosures under A and B only if the reference under point 4 *« Scope of the banks'' remuneration policy business line, entities »* is considered as equivalent at the end of paragraph 151 of the CEBS guidelines. Moreover, under B, the point on *« frequency of review, date of last review, significant changes made at last review* » shall not be considered as substantive.

On the other hand, points under C and D require some detailed and specific information dealing with the way the bank manages their risks and that are commercially confidential.
The first two points seem sufficient. Regarding point E, the national law must be taken into account.

b) Quantitative disclosure

The FBF observes that the quantitative disclosures proposed broadly mirror those required by CRD III and CEBS guidelines. The FBF is of the view that the points G and H are not essential to markets information. Under point K, the required detailed information don't seem to be essential to markets either.

In addition, the FBF is perplexed about the feasibility and the suitability of an information segmented in 3 categories:

- Senior management,
- Other material risk takers and,
- Financial and risk control staff.

The last two categories could evolve in a high proportion between two periods.

Disclosure of Remuneration

A comparison of the Basel proposals with the FSA Remuneration Code and the EBA [CEBS] Guidelines

Basel Consultative Document, Pillar 3 disclosure requirements for remuneration	**EBA [CEBS] Guidelines on Remuneration Policies and Practices**
Qualitative disclosures	
(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	**151.** The disclosure report should set out the decision-making process used to determine the remuneration policy for the individuals to which it applies. This may include the governance procedure relating to the development of the remuneration policy and should include information about the bodies (including their composition and mandate), such as the Rem Co or external consultants, which played a significant role in the development of the remuneration policy. Institutions should outline the role of all relevant stakeholders involved in the determination of the remuneration policy. Additionally, the disclosure should include a description of the regional scope of the institution's remuneration policy, the types of staff considered as material risk takers and the criteria used to determine such staff.
(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.	**152.** Institutions should disclose information relating to the design and structure of remuneration processes, such as the key features and objectives of the remuneration policy and how the institution ensures that staff members in control functions are remunerated independently of the businesses they oversee.
(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	**153.** Disclosure reports should describe how the institution takes into account current and future risks to which they are exposed when implementing remuneration methodologies and what these risks are. Also, institutions should describe the measures used to take account of these risks and the ways in which these measures affect remuneration.

KEY: **Red = differences from CRD3 + EBA Guidelines** **Green = differences due to different regulatory/legislative framework**

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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.**	
(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.**	**152.** The report should include information on how pay and performance are linked. Such information should include a description of the main performance metrics utilized for: the institution, top-level business lines, and for individuals (i.e. scorecards).
(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.**	**153.** In addition, institutions should disclose the ways in which they seek to adjust remuneration to take account of longer-term performance - as in the institution's policy on deferral, vesting and performance adjustment.

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(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.	**152.** The report should also include a description of the different forms of variable remuneration utilized (i.e. cash, equity, options, other capital instruments, and long-term incentive plans) and should include the rationale for using these different forms and for allocating them to different categories of staff. Additionally, the report should include a discussion of the parameters used to allocate deferred and non-deferred remuneration for different staff categories.
Quantitative disclosures	
(g) Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	
(h) The numerical values corresponding to the measures used to take account of the key risks included in risk adjustement methodologies (see (c) above).4	
(i) • Total bankwide remuneration for the financial year, broken down into fixed and variable. • Total number of employees receiving a variable remuneration covered by the risk adjustment process. • **Number and total amount of guaranteed bonuses paid during the financial year.**	**155.** Institutions should provide aggregate quantitative information by business area and on remuneration for members of staff whose actions have a material impact on the risk profile of the institution. The information for each of the major business areas at an institution, i.e. investment banking business area, retail banking business area, etc. should include: number of staff, total remuneration and total variable remuneration. Some institutions may only have one or two business areas.

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• Number and total amount of sign-on awards paid during the financial year. • Number and total amount of severance payments made during the financial year. • **Number and total amount of remuneration's adjustments performed during the financial year to reflect weak performance metrics (ie corresponding to the measures referred to in item (d) above).**	**156.** More detailed qualitative information on remuneration should be disclosed for senior managers and other members of staff whose actions have a material impact on the risk profile of the institution including aggregate information on amounts of remuneration, amounts and forms of variable remuneration, and amounts of outstanding deferred remuneration. Other more detailed quantitative information is also required as per the Directive. **157.** Quantitative information on remuneration should also be disclosed separately on an aggregate basis at the level of directors (within the meaning of Article 11 of the Directive29) for institutions that are significant in terms of their size, internal organisation and the nature, scope and complexity of their activities. This will be a separate category of disclosure information to the categories of senior management and other staff members who have a material impact on the risk profile of the institution.

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(j) • Total amount of outstanding deferred compensation, split into: - vested and unvested. **- cash, equity and other forms.** • Total amount of deferred remuneration paid out in the financial year, broken down by year of the original award. • Total reductions in deferred compensation due to performance adjustment measures other than variation in share price.	
(k) *[see note below]* • **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).**	

Note re (k) above: "Tables [in Annex to BCBS consultative document] to be completed separately for (a) senior management, (b) other material risk takers, and (c) **financial and risk control staff.**"

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