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Basel Committee on Banking Supervision
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Consultative Document on Pillar 3 Disclosure Requirements for Remuneration

We write with regard to the publication of the above consultative document (the “**Consultative Document**”) by the Basel Committee on Banking Supervision (the “**Committee**”).

The International Banking Federation (the “**Federation**”) is the representative body for national and international banking federations from leading financial nations around the world. Its membership includes the American Bankers Association, the Australian Bankers’ Association, the Canadian Bankers Association, the European Banking Federation, the Japanese Bankers Association, the China Banking Association, Indian Banks Association, Korean Federation of Banks and the Banking Association South Africa. This worldwide reach enables the Federation to function as the key international forum for considering legislative, regulatory and other issues of interest to the banking industry and to our customers.

The Federation appreciates the opportunity to provide our comments on the proposed Pillar 3 disclosure requirements for remuneration as outlined in the Consultative Document. In addition to the general remarks set out below, we have provided comments on some concerns we have with respect to the Committee’s proposals for your consideration.

General Remarks

1. We share the Committee’s goal of supporting an effective market discipline and allowing market participants to assess the quality of the banks’ remuneration practices. We also fully endorse the Committee’s position that thresholds of materiality and proportionality should apply based on those already applying to Pillar 3 disclosures. We welcome the fact that the Committee is not requiring any new information gathering, and that it is allowing for existing data/measures to be captured in the normal course of business. It is assumed that, as with other Pillar 3 disclosures, banks will refine and expand upon disclosures as they familiarize themselves with the process. An evolving approach should therefore be incorporated.

2. However, we think that the Committee should adopt broad principles to permit discretion to each jurisdiction to implement the principles. Each jurisdiction has well-developed disclosure regimes and the prescriptive requirements of the Committee's proposal could create inconsistencies with the existing disclosure regime in a particular jurisdiction. Moreover, prescriptive rules for banks could lead to some jurisdictions having separate disclosure requirements for remuneration: one for banks and one for non-bank financial companies. We are also concerned about the additional burden imposed by the proposed requirements. For these reasons, the Committee should adopt a principles-based approach which would permit local jurisdictions discretion to implement the principles.

Clarity on the Precise Objective of the Disclosure Requirements

3. We would like to invite the Committee to provide clarity as to the precise objective and scope of each proposed disclosure requirement. Providing such insight would contribute to a better understanding of the proposed disclosures and it would therefore be likely to improve the quality of the disclosures. In this connection, we note the importance of providing for sufficient flexibility, such that the extent of each particular disclosure would be guided by the principles of materiality and proportionality, as applied in each particular case. Because "proportionality" necessarily means proportionate-in-relation-to-the-pursued-objective, institutions inevitably need to know the precise objective of each specific disclosure requirement.

Scope of Quantitative Disclosure

4. The Committee notes that the proposed Pillar 3 disclosure requirements for remuneration take full account of the Financial Stability Board's ("FSB") Principles for Sound Compensation Practices and their related Implementation Standards. The Committee should not go beyond those items suggested by the FSB. For example, pursuant to the Implementation Standard 15, disclosure of aggregate quantitative information on remuneration is required in respect of (a) senior executive officers and (b) employees whose actions have a material impact on the risk exposure of the firm. The proposed Pillar 3 disclosure requirements for remuneration mandate quantitative disclosure for (a) senior management, (b) other material risk takers and (c) financial and risk control staff.
5. The term "financial and risk control staff" as used in the Consultative Document does not imply a materiality threshold for impact of such staff's actions on the risk exposure of the institution. We therefore query whether imposing a requirement to disclose details of remuneration to all financial and risk control staff is a step too far that goes beyond the requirements of the FSB Principles for Sound Compensation Practices and their related Implementation Standards. A clarification of the precise objective and scope of such disclosure requirement would be appreciated.
6. Also, we assume that all of the proposed quantitative disclosures, including those listed in paragraphs (i), (j) and (k) on page 5 of the Consultative Document, would be limited to the specified categories of individuals for whom the quantitative disclosure in general is required to be provided (i.e., to senior executive officers and employees whose actions have a material impact on the risk exposure of the firm). Generally, information related to remuneration, performance measures and capital allocations is treated as highly confidential. Requiring public disclosure of the "numerical values" corresponding to each measure used in a bank's risk management framework would give a bank's

competitors insight into the bank's business strategies and its quantitative strengths and weaknesses with no corresponding safety and soundness benefit.

7. Also, we note that the proposed disclosure requirements broaden the scope of the variable remuneration as a whole. This is a departure from previous disclosure requirements and may be a challenge for institutions that operate on a global scale, as definition of fixed and variable vary widely. Moreover, it does not allow for nuances based on market and cultural differences. Depending on the business focus or geographical areas in which institutions operate, a comparison between them can be distorted. In addition, as each institution will need to come up with its own definitions of variable and fixed (which will never be completely the same for the reasons set out above), comparison will be difficult. Therefore, while the intention of Pillar 3 is to create more clarity, the means by which this is sought to be achieved may have the opposite effect.

Details of Remuneration Adjustments

8. One of the proposed qualitative requirements mandates disclosure of measures the banks will implement to adjust remuneration in the event that performance metrics are weak. We seek clarification as to whether this requirement only relates to variable remuneration or to fixed remuneration also.

Disclosure of Equivalent and Relevant Executives' Packages

9. The challenge with the mandatory Basel proposals is that they will affect only banks, whereas banks' remuneration levels are often referenced to other executive whose packages are not required to be disclosed. We are therefore of the view that equivalent and relevant executives' packages should be disclosed publicly, failing which banks' remuneration packages should be disclosed confidentially to the regulator for evaluation of undue risk-based incentives.

Historical Data

10. It is suggested in the Consultative Document that disclosure of historical quantitative data should be required to be provided if such disclosure would aid interpretation of the disclosed information. We do not believe that retroactive application of these rules is necessary or appropriate. If the Committee nevertheless decides to require historical disclosure, we fully support the Committee's position that this requirement should be waived during the first year of application of these requirements. We think, however, that there should be a limit of up to three previous years in respect of which historical data could be required to be disclosed, and that, in the second and third year of application of these requirements, disclosure of historical data could only be required to be provided for up to one or two previous years, respectively, to eliminate the possibility of retroactive application of these principles.
11. We are of the view that the same principle should apply to the proposed disclosure of the historical qualitative information,¹ such that historical qualitative data could be required to be provided for up to three previous years, and that this requirement should be waived, as appropriate, to eliminate the possibility of a retroactive application.

¹ For example, see fourth bullet in paragraph (c) of the table in paragraph 11 of the Consultative Document for the requirement to discuss how the measures used to take account of the key risks included in adjustment methodologies have changed over the past three years.

Form of Disclosure

12. We welcome the Committee's commentary in paragraph 9 of the Consultative Document about the method of disclosure. We understand that issuers would have the option of either providing additional disclosures mandated by the proposed Pillar 3 disclosure requirements for remuneration in a supplemental document, or incorporating them in the disclosure documents they otherwise provide.

Implementation Date

13. We would be grateful for an indication of the likely implementation date of these proposals, to allow for adequate notice.

Conclusion

14. In closing, we appreciate the opportunity to comment on the Consultative Document. We would be pleased to answer any questions you may have in this regard and to discuss these matters further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sally Scutt'. The signature is fluid and cursive, with the first name 'Sally' and the last name 'Scutt' clearly distinguishable.

Mrs Sally Scutt
Managing Director