

Philipp Hildebrand: Principles for sound compensation practices

Summary of a speech by Mr Philipp Hildebrand, Vice-Chairman of the Governing Board of the Swiss National Bank, at the Economic Outlook 2009 (Unternehmer NW-Schweiz), Basel, 23 April 2009.

The complete speech can be found in German on the Swiss National Bank's website (www.snb.ch).

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Most financial institutions viewed compensation systems as being largely unrelated to risk management and risk governance prior to the crisis. Short-term profits were rewarded with generous bonuses with little regard to the longer-term risks taken on behalf of the firm to generate those profits. With hindsight, it should therefore be no surprise that these bonuses fueled the excessive risk-taking that has ultimately undermined the global financial system. It is important for the future stability of our financial system that compensation systems be viewed as an integral part of the risk management system in financial firms, and designed and governed with this in mind. The Financial Stability Board (previously the Financial Stability Forum) has drafted a set of sound compensation principles for large financial institutions with exactly this goal in mind. The Principles were endorsed by the G20 leaders at the London summit earlier this month and aim to be widely implemented by the 2009 remuneration round.