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News Bulletin

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Basel Pillar 3 Disclosure Requirements for Remuneration

In July 2009, the Basel Committee on Banking Supervision ("BCBS") published supplemental Pillar 2 (supervisory review process) guidance to address perceived weaknesses that were revealed in some banks' risk management processes during the recent financial turmoil. The guidance included a set of "Principles for Sound Compensation Practices," which had been published in April 2009 by the Financial Stability Board ("FSB"). One of these Principles was that "*Firms must disclose clear, comprehensive and timely information about their compensation practices*." However, in March 2010, the FSB noted in its "Peer Review Report on Compensation" significant variances in compensation-related disclosure across different jurisdictions. This has led it to recommend that detailed disclosure requirements be incorporated into Pillar 3 (of Basel II) in order to be more prescriptive and engender greater uniformity across the different jurisdictions.

In July 2011, the BCBS published its proposed Pillar 3 disclosure requirements (the "Requirements") for remuneration. Their stated intention is to "*allow market participants to assess the quality of the compensation practices and the quality of support for a firm's strategy and risk posture*." They are also intended to take account of the FSB's Implementation Standard 15 on disclosure and the BCBS's report on the "Range of Methodologies for Risk and Performance Alignment of Remuneration," published in May 2011.

Application and Scope

The BCBS recognises that not all of the Requirements will be relevant to all banks or in relation to all of their business lines. As such, the concepts of proportionality and materiality (based on thresholds that already apply to existing Pillar 3 disclosures) are expected to be applied to the Requirements. This may mean that a bank itself might be fully or partly exempt from disclosure (depending on its risk profile) or there may be disclosure that is not required on the basis that it is deemed to be immaterial, proprietary or confidential in nature.

Method and Frequency

At a minimum, banks will be expected to make their disclosures on an annual basis, and the information should be made public as soon as practicable after it becomes available. Information will typically be required to be disclosed in one place (a website or public document), unless it is permitted for a bank to cross-refer to another source of publicly disclosed information. The information may be required (by the relevant supervisor) to be set out in table or chart format, and also to incorporate comparative information from previous reporting years.

Key Disclosures

The following list contains some examples of the types of (qualitative and quantitative) disclosures specified under the Requirements. The BCBS makes clear, however, that any disclosure should not be limited to the information requested, since further details should also be included regarding how the factors "*complement and support the overall risk management framework*":

Qualitative Disclosures

- Information relating to the bodies that oversee remuneration—for example, the name and mandate of the relevant body and a description of the scope of the bank's remuneration policy.
- Information relating to the design and structure of the remuneration process—for example, the key features and objectives of the remuneration policy and a discussion of how the bank ensures that risk/ compliance employees are remunerated independently of the businesses they oversee.
- Description of the ways in which current and future risks are taken into account in the remuneration process.
- Description of the ways in which the bank links performance during a performance measurement period with levels of remuneration—including an overview of the main performance metrics for the bank, top level business lines and individuals.
- Description of the ways in which the bank seeks to adjust remuneration to take account of long-term performance.
- Description of the different forms of variable remuneration the bank utilises and the rationale for using these different forms.

Quantitative Disclosures

- The number of meetings by the main body overseeing remuneration.
- The number of employees receiving variable remuneration during the financial year.
- The number and total amount of guaranteed bonuses, sign on awards and severance payments.
- The total amount of outstanding deferred remuneration.
- A breakdown of the remuneration awards in the financial year (into fixed/variable, deferred/non-deferred, etc.).
- Quantitative information about employees' exposure to implicit (e.g., fluctuations in the value of shares) and explicit (e.g., malus, clawbacks or other reversals of awards) adjustments of deferred remuneration and retained remuneration.

Implementation

The BCBS intends that banks should comply with the Requirements from 1 January 2012.

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