August 30, 2017

Glass, Lewis & Co. ("Glass Lewis") appreciates the opportunity to comment on the Financial Stability Board's consultative document on Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices.

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Thank you in advance for your consideration and please do not hesitate to contact us if you would like to discuss any aspect of our submission in more detail.

Respectfully submitted,

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1) Should the Guidance be more specific with regard to the respective roles of the board or that of senior managers with regard to compensation and misconduct?

We find the guidance acceptable as written, with one area of potential clarification. There is a clear division between the board's oversight and accountability functions and senior management's role in enacting risk protocols. The guidance also includes helpful discussion of the board's responsibilities in engaging with senior management. However, the supporting guidance that "Control functions and business lines should be held accountable for identifying, monitoring and reporting..." is somewhat passive and could be more specific as to who is responsible for providing this accountability.

2) The Guidance suggests that qualitative, non-financial assessments should have a direct impact on compensation and that they are important in determining how to align compensation with risk. Would additional guidance be helpful? Please provide data if your firm uses such provisions including the types of metrics used, and a discussion of any challenges you face in their use.

We strongly support the idea that variable compensation should be adjusted for all types of risk, and believe that compensation policies should include tools such as 'ex ante' adjustment, malus and clawback. We would refrain from making any recommendation as to a choice of performance metric, or as to the balance of financial and non-financial metrics, which will vary for different roles and companies. Further, we recognise the rationale for using non-financial metrics to signal the importance of appropriate conduct.

However we note that in our experience some shareholders are sceptical of using non-financial metrics to determine variable compensation, particularly for senior executives. This reflects a concern that bonus may be paid for achieving 'soft' targets that are not aligned with exceptional performance or financial returns, providing a reward for simply doing one's job. Given these concerns, and the reduced line of sight when assessing performance that cannot be referenced off the balance sheet, it may be useful to include guidance encouraging the clear alignment of non-financial metrics with business strategy and long-term performance, and a transparent means of assessing performance against these metrics.

3) The Guidance identifies three tools most commonly used to address misconduct: inyear adjustment (adjustment to the current year's variable compensation before it is awarded); malus (reduction of deferred compensation before it has vested or fully transferred); and clawback, which permits recovery of variable compensation that has already been paid and vested. Given the particular characteristics of misconduct risk, do you believe that all three tools need to be available to a firm to establish appropriate incentives to deter misconduct?

Yes, though there is potential for redundancy between malus and clawback. Given the variety of circumstances that may prompt an adjustment and the potential for delays in identifying the impact of misconduct, compensation policies should allow for the adjustment or recovery of any variable award at any stage from grant, including after vesting. For practical purposes, malus may not be necessary if awards can be adjusted at vesting through clawback.

4) The Guidance suggests minimum scenarios where adjustment of compensation should occur. Are there additional circumstances in which adjustments to compensation should be expected? What are the *advantages and disadvantages of suggesting such minimum conditions? In particular, is there evidence from past use of such tools that might be instructive in how to formulate such scenarios?*

We find the guidance to be reasonable as written, setting out the broad parameters of unacceptable behavior. Given the variety of circumstances that may prompt an adjustment, we believe that this 'general principles' approach, rather than an attempt at an exhaustive list of specific triggers, is appropriate.

5) *How much variable compensation should be placed at risk of adjustment in order to effectively impact incentives for excessive risk-taking or other inappropriate conduct?*

All variable pay should be subject to adjustment to ensure that any misconduct or other risk can be appropriately reflected. In practice, the proportion will likely decrease in line with decreasing seniority and level of involvement. Nonetheless, to protect against unmerited payouts, as a rule all variable compensation should be subject to adjustment.

6) *Does the Guidance adequately cover compensation incentives that may be relevant to addressing misconduct risk in all sectors of the financial industry? Are there additional specific provisions that should be considered to better address misconduct risks in particular financial sectors? Are there specific provisions in the guidance that may not be relevant to a particular financial sector?*

The guidance covers the primary compensation incentives relevant to addressing misconduct risk. In addition, we believe that at senior levels of any financial institution, using the compensation structure to ensure that management has a material interest in the company, including beyond cessation of employment, can mitigate misconduct risk by encouraging a long-term perspective that is not skewed by any single target, metric or result.