Recommendations for consistent national reporting of data on the use of compensation tools to address misconduct risk

General Comments: Recent history provides abundant evidence of misconduct within the financial sector and the role that compensation arrangements have played. As an organization dedicated to promoting the highest standards of conduct, the International Insurance Foundation whole-heartedly supports the FSB recommendations.

At the same time we cannot help but note that the recommendations reveal some of the same flaws that contributed to the problems they are intended to correct. The specific detailed items do not live up to the salutary objectives discussed in the introduction. The proposed "Data Set" is backward-looking and negative when financial sector supervisors need to be forward-looking and positive.

A compliance-based approach will not by itself prevent future misconduct. No matter how refined the rules, someone will circumvent them. Supervisors also need an aspirational approach. They should foster heathy corporate cultures by encouraging firms to provide sufficient incentives for positive conduct to crowd out temptations for misconduct.

The FSB invites comments on the following specific questions:

1. *Is the proposed "Data Set" sufficient to help (a) supervisors and (b) firms to monitor the effectiveness of the use of compensation tools to address misconduct*?

No. It is necessary, but far from sufficient. Although the document defines the scope as extending "well beyond the population of identified material risk takers," the specific items in the proposed "Data Set" seem narrowly focused on rogue trading when inappropriate advice and misselling are far more pervasive types of misconduct and more damaging to the essential public trust in the financial system.

2. I*f not, which additional data/information should be collected*?

Firms routinely track abundant information regarding the qualifications and performance of their personnel, and they often incorporate such information into positive compensation incentives. Supervisors should encourage firms to assist in benchmarking measures of professional qualifications, continuing education, staff development, consumer satisfaction, longevity of customer relationships, community service, contributions to overall financial literacy, and other steps that enhance the financial system.

3. *Are there any impediments to (a) firms and (b) supervisors in (i) gathering or (ii) using the Data Set*?

Not necessarily. Supervisors should work collaboratively with firms to develop the most efficient means to collect and to learn from relevant data.

4. *Are there any elements in the "Data Set" that may not be relevant to a particular financial sector*?

No. To say otherwise opens the possibility of potentially disastrous loopholes.

5. *Are there any additional elements that should instead be considered for a particular financial sector*?

Yes. The compensation arrangements of intermediaries significantly influence behavior in the insurance and investment sectors.

6. *What elements of the Data Set are not already utilised by firms in their own monitoring ofcompensation and misconduct risk management practices*?

Ideally, none.

7. *What types of information have been most useful to firms in their monitoring and assessments of potential misconduct, and when assessing the effectiveness of compensation tools*?

Customer feedback, surveys, internal and external audits, investment analysts, press reports, and especially internal dialog.

8. *What are the most important changes that have occurred in firms' management of compensation and conduct risk in recent years? Do the current Recommendations focus enough on these developments that may help to better achieve alignment of risk and reward*?

Although recent events have heightened awareness and the current Recommendations are a further step in the right direction, they focus mostly on preventing misconduct rather than on fostering a healthy corporate culture in which misconduct would be less likely. For example, the bullets under Core Data element A.2 only address misconduct-specific items. The additional information mentioned in elements A.2.1-6 is critical, not merely supplementary. In particular A.2.6 cites only a vague general category which encompasses the very items that should be specified and measured.

9. *How do firms monitor and validate the use of compensation tools when misconduct occurs to ensure an appropriate balance between risk and reward? What analytics support firms' judgments in these areas*?

Good question. Supervisors should expect firms to answer it and to learn from it.