Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards

Sixth progress report

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Executive Summary

In the aftermath of the global financial crisis, the Financial Stability Board (FSB) developed a set of Principles and Implementation Standards ("P&S")[1] to promote sound compensation practices and align compensation with prudent risk-taking, particularly at financial institutions that are considered significant for the purpose of the P&S. The P&S are intended to reduce incentives towards excessive risk-taking that may arise from the structure of compensation schemes and aim to ensure that compensation frameworks are supported by sound governance and risk management practices. They are not intended to prescribe particular designs or levels of individual compensation. Authorities expected evidence of material progress in the implementation of the Principles by the 2009 compensation round.

The P&S address a key issue that contributed to the financial crisis that began in 2007: inappropriate risk-taking that was incentivised by compensation structures offering employees rewards for increasing short-term profit or revenue, without adequate recognition of longer-term risks posed by their activities.

More than 10 years have passed since the global financial crisis and the issuance of the P&S by the FSB. This progress report looks at how compensation practices have evolved since 2009 and highlights remaining points of attention and areas of potential emerging risk.

As detailed in the previous progress report, all FSB jurisdictions have implemented the P&S for sound compensation for all banks considered significant for the purposes of the P&S.[2] While most banks have put in place practices and procedures which reduce the potential for inappropriate risk-taking, their effectiveness is still being tested. At most banks, further work is required to validate that practices and procedures operate effectively and cover all compensation-related risks. International supervisory dialogue has facilitated increased attention to compensation design and implementation, contributing to better practice. Supervisory attention to compensation issues was stepped up and dedicated supervisory resources increased and continue to increase in several jurisdictions. Authorities remain focused on compensation practices, with many now incorporating assessment of compensation practice as part of ongoing supervisory review processes. Generally, increased supervisory focus takes the form of deeper dives into specific thematic issues and has contributed to increasingly effective compensation practices and stronger alignment of risk and reward.

Implementation for insurers and asset managers

The P&S are intended to apply to financial institutions that are significant for the purposes of compensation standards, including banks, insurers and asset managers. In most jurisdictions, identified institutions are mainly in the banking sector. Fewer jurisdictions have implemented the requirements for the insurance and asset management sectors. In some cases supervisors have determined that insurers or asset managers in their jurisdictions are not considered

[1] FSB, *Principles for Sound Compensation Practices*, April 2009; *Implementation Standards for the FSB Principles for Sound Compensation Practices*, September 2009

[2] The colour-coded table on implementation in *Implementation and Effects of the G20 Financial Regulatory Reforms: Fourth Annual Report* is based on implementation progress for these banks.

significant for purposes of implementing the P&S. In many cases however, in those jurisdictions the asset management businesses within banking groups that are deemed significant are subject to consolidated application of standards and supervision and hence also subject to the national implementation of the P&S at the entity-wide level.

It is important that jurisdictions consider compensation practices for significant firms in all financial sectors to ensure these support prudent risk-taking and good conduct.

Achievements and next steps for banks

The focus of activity for this report is on implementation of the P&S for banks. While the report conveys information on implementation, it does not necessarily assess effectiveness of related programmes. For example, a bank may be reported as having a monitoring programme in place, but there may still be a need to improve that programme. It is important to understand that while the progress report contains information on implementation of the P&S, it should not be interpreted to support the view that no additional improvement is necessary.

Banks that are significant for the purposes of the P&S have been the main area of focus of supervisory authorities in almost all jurisdictions. In many cases, the supervisory review has comprised a large number of institutions. These banks in particular have taken additional strides in terms of developing and implementing compensation frameworks.

Generally, the report on implementation finds that:

- Boards appear more active and engaged and compensation processes are now conducted with greater oversight. While human resources (HR) functions still play a key role, there is now more significant input from risk, compliance and other control functions. The areas of attentions extend now to all types of risk (financial and non-financial). In a few cases, banks have developed more robust monitoring practices including initial efforts to back test and validate relationships among measures of financial performance, risks taken, risk outcomes, and amounts of incentive compensation awards/payouts.

- Compensation arrangements now have longer time horizons, include mechanisms that better align them with effective risk management practices and include a wider range of financial and non-financial risk assessment criteria.

- While senior executives and all other material risk takers (MRTs) remain the main area of focus, with more granular risk identification processes and enhanced governance procedures, increasingly compensation and risk governance frameworks apply a baseline set of expectations and compensation-related risk management practices to all employees.

- In recent years, there has been an increased focus on compensation as a tool to address conduct risk, driven at least in part by recent and recurrent instances of misconduct including collusion in the manipulation of wholesale markets and retail mis-selling schemes. Since the financial crisis, fines and legal costs for misconduct by global banks are estimated to have reached more than $320 billion.[3] The wider direct and indirect

[3] Boston Consulting Group, *Global Risk 2017: Staying the course in banking,* March 2017 (http://image-src.bcg.com/BCG_COM/BCG-Staying-the-Course-in-Banking-Mar-2017_tcm9-146794.pdf)

costs to consumers or counterparties, the financial system and the economy from misconduct at financial institutions are harder to estimate.

- There is now greater emphasis on *how* results are achieved. Where applied effectively, this is often considered more impactful than changes in compensation structures. Increasing efforts are spent calibrating performance goals to achieve desired behaviours, and non-financial performance metrics and the use of gateways for accessing variable compensation are more widespread. At the same time, banks report that there are often competing interests. For instance, investors who may tend to focus on measureable short-term profits rather than non-financial metrics. Firms are striving for effective balance.

- The next challenge is developing frameworks for assessing the effectiveness of compensation policies and practices in balancing risk and reward. Compensation systems should be monitored and reviewed to ensure that they operate as intended. A good design is not sufficient – the system must also function well. It cannot do so without adequate controls. Monitoring in turn will require well-targeted data collection and analysis, more robust monitoring regimes including supporting quality assurance processes and appropriate documentation, development of supporting management information systems, and reporting procedures.

- Compensation policies and practices provide incentives that are relevant as banks seek to promote practices that support market integrity and fair treatment of customers. An important step going forward will be to ensure front office functions take ownership to embed a foundational cultural shift into day-to-day operations and behaviours.

- The key question now for firms and supervisors is whether the shift in the areas of focus and behaviour can be considered permanent, and the extent to which the progress shown in compensation practices is culturally embedded and permeates the banks at every level.

- Banks indicate that it is vital for the banking industry to continue to be competitive with new digital and technological challengers, and attracting and retaining talent is a key factor in remaining both competitive and profitable.

- Some banks highlight level playing field issues, in particular competition between jurisdictions where supervisory and regulatory standards are more prescriptive and jurisdictions which take a different approach.

Challenges for all financial sectors

Effective and consistent implementation of risk-sensitive compensation practices for financial institutions in a rapidly evolving financial system should remain the focus for authorities. As supervisors continue to monitor compensation practices at financial institutions that are significant for the purpose of the P&S, they will need to ensure that compensation remains aligned with prudent risk-taking, and fully reflects evolving risks and new areas of vulnerabilities as they emerge. A focus on compensation practices that incentivise prudent risk-taking is as relevant today as it was when the P&S were initially agreed.

Ten years on from the introduction of the P&S, work on assessing the effectiveness of compensation-related reforms could help determine the degree to which the P&S and their implementation have achieved policymakers' objectives as well as any unintended consequences, and mitigate the challenge of emerging compensation risks that are relevant for financial stability.

1. Introduction

The global financial crisis highlighted a range of financial vulnerabilities related to compensation practices at the largest financial institutions. In the run up to the crisis, compensation practices and the incentives they created had not been adequately considered by regulators and supervisors in terms of their impact on behaviours that may impact financial stability, and most boards of directors viewed compensation systems as being largely unrelated to risk management and risk governance. Compensation practices were not the sole cause of the financial crisis, but they certainly were a contributing cause ─ a fact for example recognised by 98% of respondents to a survey of banks engaged in wholesale banking activities conducted in 2009 by the Institute of International Finance[4] and publicly by a number of individual financial institutions.

As policy responses to the global financial crisis were introduced, authorities considered the extent to which compensation-related risks arose as a result of incentives to take imprudent risks that ultimately were not consistent with the long-term health of financial organisations. For example, offering large payments to managers or employees to produce sizable increases in short-term revenue or profit ─ without regard for the potentially substantial short or long-term risks associated with that revenue or profit may have encouraged risk-taking that was beyond the capability of financial institutions to manage and control. An employee who is given incentives to increase short-term revenue or profit, without regard to risk, will naturally be attracted to opportunities to expose the organisation to more risk (e.g. activities that carry higher risk, typically yield higher short-term revenue). For example, the Turner Review in the UK concluded that:

> "It is nevertheless likely that past remuneration policies, acting in combination with capital requirements and accounting rules, have created incentives for some executives and traders to take excessive risks and have resulted in large payments in reward for activities which seemed profit making at the time but subsequently proved harmful to the institution, and in some cases to the entire system."[5]

In 2009, in response to these considerations the Financial Stability Forum, which would later become the FSB, developed a set of *Principles for Sound Compensation Practices* followed by Implementation Standards to promote better compensation practices in particular at those financial institutions that are considered significant for the purpose of compensation. The Principles are intended to reduce incentives towards excessive risk-taking that may arise from the structure of compensation schemes and aim to ensure effective governance of compensation, alignment of compensation with prudent risk-taking and effective supervisory oversight and stakeholder engagement in compensation.

After the crisis the FSB reached the following conclusion which it set out in the Principles:

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4 Institute of International Finance, *Compensation in Financial Services: Industry Progress and the Agenda for Change,* March 2009.

5 Financial Services Authority, *The Turner Review: A regulatory response to the global banking crisis*, March 2009 (http://www.fsa.gov.uk/pubs/other/turner_review.pdf).

> "Compensation practices at large financial institutions are one factor among many that contributed to the financial crisis that began in 2007. High short-term profits led to generous bonus payments to employees without adequate regard to the longer-term risks they imposed on their firms. These perverse incentives amplified the excessive risk-taking that severely threatened the global financial system and left firms with fewer resources to absorb losses as risks materialised. The lack of attention to risk also contributed to the large, in some cases extreme absolute level of compensation in the industry. These deficiencies call for official action to ensure that compensation practices in the financial industry are sound. While national authorities may continue to consider short-term measures to constrain compensation at institutions that receive government assistance, it is essential that steps also be taken immediately to make compensation systems as a whole sound going forward."

In developing the P&S, authorities stressed the need for policies to help ensure that incentive compensation arrangements do not encourage short-term profits at the expense of excessive short- and longer-term risks to the organisation. Risk-taking is the core business of financial institutions that intermediate financial activities among different actors and through time. It is essential for prudent risk-taking that appropriate incentives are provided to all those that take (material) risks on behalf of their institutions, and that compensation processes recognise together with the financial benefits of employee activities the full spectrum of risks (including operational and conduct risks) and their impact on safety and soundness.

Recent misconduct events have underscored the role sound compensation practices have to play in promoting desired behaviours by setting and embedding an effective risk culture. Compensation and related performance management mechanisms can influence behaviour through performance objectives and related compliance and conduct goals. These should include assessments of risk management, and provide tools to remediate the results of unsafe and unsound activities by creating the expectation that compensation will be adjusted when risk and control events occur in order to better align financial results with underlying risk. These mechanisms can help prevent conduct risk and signal the importance that financial institutions place on effective risk management and acceptable standards of behaviour, including adherence to internal risk management standards and compliance with regulations.

After the P&S were developed, the FSB conducted two peer reviews of the implementation of the P&S in 2010 and 2011 and since then has continued to assess implementation through regular progress reports. More than 10 years on from the global financial crisis, this progress report provides an update on the implementation of the P&S in FSB jurisdictions and changes that have occurred in compensation frameworks at financial institutions, focusing on banks and in particular those that are considered significant for the purpose of the P&S. It also presents some considerations on the longer term developments and status of better practice, and highlights the remaining areas of attention and future challenges.

1.2 Report methodology

The analysis and conclusions presented in this progress report leverage input from FSB member jurisdictions provided by means of a stocktake questionnaire that focused in particular on the period 2017-2018. To the extent possible, the questionnaire asked members to report on longer term developments. Some of the questions highlight longer-term trends and changes in compensation practices since the financial crisis. The report elaborates on these, together with information from previous reports and from workshops with market participants, in order to highlight trends in compensation practices. The focus of the report is on firms considered significant for the purposes of the P&S. Most of the information contained in this report pertains to practice in the banking sector (which in a number of cases includes practices in asset management and insurance activities that are part of bank groups). Some jurisdictions provided only information on banks, with no specific information on independent asset management, or insurance activities.[6]

For questionnaire responses related to banks in the euro zone the European Central Bank (ECB) provided the answers and therefore is listed as one jurisdiction in responses instead of five separate FSB jurisdictions (France, Germany, Italy, Netherlands, Spain). As a result in these instances the total would be 20 responses rather than the FSB's 24 member jurisdictions.[7, 8]

[6] The report has been prepared by the FSB Compensation Monitoring Contact Group (CMCG), a group of supervisors from FSB supervisory authorities that work on compensation issues. They meet to share information on developments in compensation at financial institutions. All CMCG members are from supervisory authorities that supervise banks and a subset also supervise insurers and asset managers.

[7] Compensation regulation of banks in the euro zone is not completely harmonised. Differences depend on the national implementation of the European Unions' Capital Requirements Directive IV. ECB supervision is therefore conducted on the basis of the relevant national regulation.

[8] The following country codes are used for each of the jurisdictions: AR – Argentina; AU – Australia; BR – Brazil; Ca – Canada; CN – China; FR – France; DE – Germany; HK – Hong Kong; IN – India; ID – Indonesia; IT – Italy; JP – Japan; KR – Korea; MX – Mexico; NL – Netherlands; RU – Russia; SA – Saudi Arabia; SG – Singapore; SSM – Single Supervisory Mechanism; ZA – South Africa; ES – Spain; CH – Switzerland; TR –Turkey; UK – United Kingdom; US – United States.

2. Fault lines and long term developments

2.1 Pre-crisis compensation schemes incentivised excessive risk-taking

Compensation practices before the crisis were characterised by a number of recurring themes that contributed to a poor governance and risk management practices with the design and implementation of compensation frameworks:

- Most governing bodies or "boards of directors" viewed compensation systems as being largely unrelated to risk management and risk governance and firms did not engage in regular reviews of the risk management, control and corporate governance processes that could support prudent compensation practices.
- Board-level compensation committees focused mainly on compensation of the most senior executives, with decisions about the compensation of all other employees delegated to the firm's senior management. There was little focus on how the compensation of employees, other than senior executives, who had the ability to expose firms to material risks could affect the risks those employees took and the way they behaved.
- Because firms did not consider risk in the design of incentive compensation arrangements, firms rarely involved risk management and control personnel when developing compensation policies and carrying out incentive compensation arrangements. Firms had not properly identified the risks posed by their incentive schemes to ensure effective controls were in place, and some schemes were so complex that management did not understand them.
- Material risk-adjustment of variable compensation was not widespread. Performance goals and hurdles were often set to reflect management profit and loss, and often suffered from several weaknesses, the exclusion of certain costs, the quality and independence of valuations, and rewards that gave current year credit for expected future revenues. For example, an employee who made a high-risk loan may have generated more revenue in the short run than one who made a low-risk loan. Incentive compensation arrangements based solely on the level of short-term revenue paid more to the employee taking more risk, thereby incentivising employees to take more, sometimes imprudent, risk. Another example specific to the practices that prevailed in the lead up to the subprime crisis relates to mortgage origination. In this area, sales incentives payments based on a loan's terms or conditions created incentives for loan originators to provide consumers loans with higher interest rates or other less favourable terms, such as prepayment penalties. Processors were financially incentivised to put volume ahead of quality when institutions changed compensation plans to provide bonuses based solely on loan volume and offsets for poor loan quality were discontinued. Mortgage originators profited again when loans were securitised. Exacerbating poor design of incentive-based compensation arrangements that rewarded volume over quality were risk management weaknesses including declining standards, documentation that was no longer verified, and warnings from internal audit departments and concerned employees that were ignored.
- Financial performance was overwhelmingly the focus of the targets; and conduct (i.e. the way employees met their targets) was rarely a component considered in compensation policies or decisions. Discretionary judgments played a large role in determining

compensation outcomes, and were relatively unbounded by formal policies and procedures. Pre-crisis, compensation tools - such as malus and clawback - were virtually unknown in many jurisdictions, and, even where potentially used in contracts, not widely applied. Therefore, ex post adjustment of compensation awards was either not possible or not applied. As a result, compensation policies before the crisis created poor incentive structures.

- Accountability was limited and conflict of interests were pervasive and substantially reduced the effectiveness of managerial oversight mechanisms. For example, some sales managers earned a bonus based on the volume of sales made by the staff they supervised. This created a conflict of interest for managers who also played a significant role in checking the sales of their staff, the risks of which were not adequately managed.

2.2 Long-term efforts and changes in bank compensation practices

The P&S were issued in the aftermath of the global financial crisis to align compensation with prudent risk-taking, particularly at significant financial institutions. The high level objectives of the P&S cover three specific areas: governance of compensation, risk alignment, and external stakeholder engagement. The Principles require compensation practices in the financial industry to align employees' incentives with the long-term profitability of the firm. The Principles call for effective governance of compensation, and for compensation to be adjusted for all types of risk, to be symmetric with risk outcomes, and to be sensitive to the time horizon of risks.

The Implementation Standards set out detailed specific standards on compensation governance, structure and disclosure to strengthen adherence to the FSB *Principles for Sound Compensation Practices*, including independent and effective board oversight of compensation policies and practices; linkages of the total variable compensation pool to the overall performance of the firm and the need to maintain a sound capital base; compensation structure and risk alignment, including deferral, malus and/or clawback arrangements; limitations on guaranteed bonuses; enhanced public disclosure and transparency of compensation; and enhanced supervisory oversight of compensation, including corrective measures if necessary.

The P&S provide an international framework for the regulation and supervision of compensation practices at financial institutions, while the Pillar 3 disclosure standards developed by the Basel Committee on Banking Supervision provide a framework for disclosure of compensation policies and practices. After the P&S were issued, in some jurisdictions amendments were made to national legislation to provide supervisors in those jurisdictions with the powers needed to effectively regulate compensation practices. In all jurisdictions regulators have developed new rules and/or processes for supervising compensation policies and practices.

Supervisory practices have evolved significantly post-crisis. The supervisory focus on compensation issues has increased and as a result so have the resources that supervisory authorities dedicate to compensation. While oversight of compensation practices has generally improved, supervisors also recognise that oversight and risk management practices in this area must continue to be strengthened.

Table 1

High level objectives of the P&S and examples of intended outcomes of reforms to compensation policies[9]	
Objectives and indicators supporting assessment of effective implementation	**Intended policy outcome**
The high-level objectives of the P&S cover three specific areas: governance of compensation, risk alignment, and external stakeholder engagement.	
Governance of compensation	
• **Boards have a dedicated committee to govern compensation arrangements.** • **Boards actively oversee the compensation system's design and operation.** • **Staff engaged in financial and risk control are independent and have appropriate authority.** • **Firms include the risk management and control function in the performance assessment process.** • **Compensation systems are subject to robust controls and periodic reviews to ensure integrity.** • **Compensation and risk outcomes are regularly reviewed for consistency with intentions.** • **Firms have in place monitoring systems to effectively monitor and review compensation policies and practices.**	• Alignment with the long-term interests of the entity. • Effective oversight of compensation programmes by the board and senior management. • Effective governance of compensation. • Compensation outcomes in line with the firm's agreed reward plans and the long term interests of the firm and its stakeholders.
Risk alignment	
• **Compensation is adjusted for all types of risk.** • **Compensation outcomes are symmetric with risk outcomes at the firm level.** • **Firms identify material risk takers for compensation purposes.** • **The mix of cash, equity and other forms of compensation is consistent with risk alignment.** • **Firms use an appropriate mix of quantitative and qualitative methods in making ex ante risk adjustments.** • **Firms make use of malus or clawback where there have been material breaches.**	• Alignment with prudent risk-taking and risk appetite. • Promoting effective and sound risk management. • Appropriate balance of risk and reward. • Effective risk management framework/controls with respect to compensation.
External Stakeholder engagement	
• **Firms' compensation policies are publicly disclosed and timely.** • **Firms' compensation policies (including on compensation governance and risk alignment) are clear and comprehensive.** • **Shareholders and other stakeholders are engaged with firms on compensation policies.**	• Promote market discipline • Promote effective supervisory dialogue

[9] Adapted from tables 2 and 3 of FSB, *Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards: Fifth progress report*, July 2017.

Compensation practices have evolved over the past 10 years and are now generally characterised by a number of common elements including:

- Enhanced governance frameworks, including heightened board oversight of compensation practices and outcomes;
- Increased participation by control functions in the design and monitoring of compensation practices; development of formalised policies and procedures; Implementation of advanced monitoring and validation practices;
- Identification of MRTs and the introduction of new forms of compensation, with a declining use of options and the introduction in some cases of debt-based forms of compensation;
- More rigorous risk adjustment practices, with enhanced deferral and more regular use of risk compensation tools such as in-year adjustment, malus/forfeiture and clawback. Risk adjustment regimes cover a larger population of employees and operate under an expanded set of conditions;
- More generally increased emphasis is now placed on values and behaviours, and non-financial risk indicators are more common; and
- New disclosure requirements; and
- Heightened and more proactive supervisory engagement.

2.2.1 Board governance

Effective governance, including active oversight of the development and operation of firms' incentive compensation policies, systems, and related controls is important to ensuring a sound incentive compensation regime. FSB jurisdictions report heightened levels of governance of compensation at banks and significantly increased board oversight in a number of jurisdictions. Corporate governance frameworks are more attentive to risk-taking incentives created by the incentive compensation process for employees throughout the firm. The role of boards of directors in incentive compensation has expanded, as has the amount of risk information provided to boards related to incentive compensation. Board committees are now more engaged than before the financial crisis and lead on deliberations on compensation programmes. Boards more thoroughly understand both the technicalities and the implications of different compensation structures, including those on individual compensation outcomes for senior executives. In a number of FSB jurisdictions boards now include an increased number of independent board members, in some cases responsible also for compensation.

2.2.2 Control functions

Risk management processes and internal controls surrounding compensation have changed significantly post-crisis. Risk management and control personnel are engaged in the design and operation of incentive compensation arrangements of employees beyond senior executives to ensure that risk is properly considered. At many firms, for example, risk adjustment is overseen either by HR (in coordination with various control functions) or by a management committee that typically reports to the board and is composed of senior members of control functions including, for example, finance, independent risk management, compliance, legal, operational risk and internal audit. Personnel in the office of Chief Risk Officer may play a central role in evaluating ex ante risk adjustments and risk-based metrics, meeting with compliance and HR to discuss risk and compliance issues, assisting with refinement of the firm's documentation for year-end compensation decisions; leading or participating in clawback reviews; reviewing significant proposed changes to compensation structure and design; presenting an annual risk assessment to the board of directors or its committees; evaluating whether arrangements encourage excessive risk-taking, and leading back-testing exercises.

At some firms, HR functions are also beginning to play more of a control function role (including tracking of compensation-related risks and subsequent compensation adjustments, and monitoring the quality of documentation surrounding compensation decisions). At firms with better practice, HR, legal, and other control functions monitor award documentation to ensure that decision-making adheres to guidelines and help managers provide improved commentary to support compensation decision-making.

At the level of the board, human resources, risk management, finance, and audit committees work with compensation committees to ensure that compensation systems attain multiple objectives, including appropriate risk-taking.[10] Such consultation helps to more fully inform the decision-making of the compensation committee, in particular where related risk issues are discussed. For example, HR can provide informed judgment on the rationale for certain design features that are utilised in incentive-based compensation arrangements. And risk management can identify and monitor potential mitigating controls and support assessments through the provision of data on risks and risk outcomes. Risk management and other control functions are critical to developing and analysing various types of risk indicators, and compensation committees benefit from such expertise and information. Several regulators note that at banks where risk-management personnel are intensely involved in basic design decisions for the incentive compensation system, as well as in determining details of the risk-related elements of the incentive compensation process overall, progress on balanced risk-taking incentives has tended to be faster.

2.2.3 Risk alignment

Properly identifying risks attendant to employees' activities and setting suitable balancing mechanisms are critical elements of providing balanced risk-taking incentives that now characterise, to a greater extent, incentive compensation arrangements.

The main objective of compensation reforms was to encourage banks to incorporate the risks related to incentive compensation into their broader risk management frameworks and ensure that incentive compensation arrangements are compatible with effective controls and risk-management. This has been achieved ex ante by introducing measures for risk alignment such as the use of longer term financial metrics for compensation (e.g. financial performance measures linked to the risk assessment frameworks, and measures linked to the banks' capital

[10] See, for instance *FSB 2015 Workshop on Compensation Practices (April 14, 2015),* available at http://www.fsb.org/wp-content/uploads/Summary-of-the-April-2015-FSB-workshop-on-compensation-practices.pdf.

and liquidity positions) and through the use of non-financial metrics. As a result risk functions have become significantly more involved in these processes.

In some cases, where risk adjustments are applied based on a formula, incentive compensation decisions are made using measures of financial performance that are risk adjusted, i.e. net of a risk charge or "haircut" based on a quantitative measure of risk. Such adjustments offset increases in financial performance (or reductions in costs) that are associated with increased risk-taking. The use of mechanical risk adjustments is possible when suitable quantitative risk measures are available, and the effectiveness of this type of risk adjustment depends on the quality of the risk measure. For example, one leading edge practice, observed at some banks, is to assess a charge against internal profit measures for liquidity risk that takes into account stressed conditions and to use this adjusted profit measure in determining incentive compensation awards.

2.2.4 Variable compensation, compensation deferral and compensation form

The placement of a significant proportion of variable compensation that remains "at risk" of adjustment is a cornerstone of effective compensation regimes. The compensation reforms seek to promote compensation policies that (i) set an appropriate deferral period length, (ii) ensure that all variable compensation can be subject to compensation tools and (iii) ensure an appropriate mix of different elements (e.g. cash, shares, debt).

Effective deferral practices are particularly important. Deferred incentive compensation contributes to prudent incentives because risk-taking and risk outcomes often become clearer over time. If payout of a portion of incentive compensation awards is deferred for a period of time after the award date, late-arriving information about risk-taking and outcomes of such risk-taking can be used to alter the payouts in ways that will improve the balance of risk-taking incentives. Without deferral, or with short deferral periods, malus is a less effective tool and more emphasis needs to be placed on either in-year risk adjustment or clawback. Since risks such as misconduct may have a long tail and might not emerge within a performance year, short deferral periods can mean firms need to rely on clawback, which many jurisdictions report facing legal barriers or difficulties with its application.

The regulatory or supervisory requirements on deferral differ between FSB member jurisdictions, with some taking a principles based approach and others utilising a prescriptive or rules-based standards. A number of jurisdictions set regulatory requirements or supervisory expectations on deferral that range from three to five years, with one jurisdiction requiring longer deferral. In order to take the long tail of certain risks into greater consideration, in Australia and the UK deferral requirements have increased to better capture the potential long term over which misconduct incidents can manifest their effects and/or to reflect the seniority of the MRTs and their ability to impact a firm's risk profile. In the UK, the minimum deferral period for MRTs who hold certain senior management roles is seven years. Clawback can also be applied in the UK for at least seven years from the date of award and there is scope to extend to 10 years in certain circumstances.

Market practice, such as the use of cash-stock tables discussed later in this document, may also influence the length of deferral and has contributed to diverse practice.

The way in which deferral periods and compensation mix interact can provide powerful incentives. This is an area where continued attention is needed on the part of regulatory and supervisory authorities, since responses to the questionnaire suggest that deferral and composition of compensation arrangements continue to significantly differ across jurisdictions, with no significant changes observed in the last two years.

2.2.5 Use of non-financial metrics

Post-crisis risk adjustment practices have included a notable increase in the use of non-financial metrics when assessing performance. Banks report a range of data employed to more effectively assess staff performance being added to performance management metrics. Examples include, among others, metrics related to: (i) effectiveness and operation of control and compliance, (ii) customer outcomes, (ii) market integrity objectives, (iii) reputation, and (iv) alignment with firms' strategies or values. There is an increasing use of non-financial indicators in compensation and performance management processes that include assessments of "what" and "how" staff achieve their performance in order to ensure a focus on long-term sustainability. Banks are increasingly using mixed scorecards against which they assess performance, as well as gateways in which a certain condition has to be met (e.g. completion of compulsory training) before any variable compensation is awarded.

2.2.6 Material risk takers

Pre-crisis compensation oversight tended to be focused most intensively on a limited number of senior executives. The adoption of the P&S led to a broader focus on individuals that take material risks at banks and could therefore expose their institutions to significant risk.

The majority of FSB jurisdictions require banks to identify MRTs or have a supervisory expectation that they do so,[11] as a result of regulation or supervisory guidance. Generally this also specifies regular reviews of identification outcomes. In some jurisdictions the list of MRTs is discussed or approved by supervisors in an annual process.

There is considerable variation between jurisdictions in terms of the number of individuals identified as MRTs. Factors that could account for some of this difference include (i) the size of financial sectors and of individual institutions, (ii) larger jurisdictions are more likely to have financial institutions which have a significant geographic footprint and therefore may have executives identified as MRTs in a number of different jurisdictions; (iii) since MRTs assessments are based on both qualitative and quantitative criteria this could entail a certain level of subjectivity by institutions, and (iv) in some jurisdictions a significant portion of MRTs are identified as a result of being identified as part of a group.

[11] While "MRTs" is a term used by many jurisdictions, not all FSB members use this term. In addition to MRTs, this population of employees may be referenced as "covered employees" (US), Key Risk Takers (Switzerland) and "identified persons" (SSM).

Evolution in MRT populations

In those jurisdictions that gather data the number of MRTs identified increased in the initial years in which identification was first required and has recently plateaued. Significant banks that participated in a workshop[12] organised as part of the information gathering for this report noted that the MRT identification processes have become more structured and consistent across businesses and between banks, in part as a result of increased regulatory and supervisory guidance. In many banks the process for MRT identification draws heavily on risk assessments conducted by control functions and risk identification exercises conducted by lines of business. While investment and corporate bankers have traditionally made up a significant proportion of identified staff due to the magnitude of the balance sheet risks they can pose, increasingly firms apply compensation policies considerations to a group of employees that extend beyond the senior executives and identified MRTs. This development has been driven in particular by the increased level of attention devoted to conduct risk considerations.

2.2.7 Compensation tools

Compensation adjustment tools such as in-year adjustments, malus and clawback generally now cover more individuals and under a broader range of circumstances at many banks. Post-crisis FSB members report increased use and application of in-year risk adjustment (i.e. adjustments before an award is made) and malus,[13] but less application of clawback (i.e. after an award is vested). In-year adjustment tends to be the most commonly used tool given relatively fewer legal constraints since the changes are made before the employee is awarded any compensation. Many jurisdictions continue to report that there are some legal difficulties for firms in implementing or applying compensation tools, in particular clawback, either domestically or for globally active banks operating in jurisdictions where application of such tools is not legally feasible or may be more challenging.

2.2.8 Stakeholder engagement

Stakeholder engagement is an important pillar that indicates the extent to which compensation practices are considered by investors and represent an important element of market discipline. Public disclosure is an important part of regulatory regimes and is meant to provide public information that stakeholders, in particular investors, can use to make decisions about the extent to which banks have effectively risk-aligned compensation policies. Developments and reforms in stakeholder engagement have been driven by both the implementation of the compensation-related elements in the Basel Committee on Banking Supervision's Pillar 3 disclosures and national regulatory requirements.

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[12] FSB, *FSB compensation workshop: Key takeaways*, March 2019 (http://www.fsb.org/2019/03/fsb-compensation-workshop-key-takeaways/)

[13] In this report malus refers to financial institutions removing rights to deferred compensation that has been awarded but not vested. The exact definition may vary between jurisdictions with some authorities defining malus as only being applied following a risk event whereas in other jurisdictions malus reductions also include the reduction of malus for instance when an employee leaves a firm before compensation has vested. In line with the P&S in most jurisdictions deferred compensation vests on a pro-rata basis.

Although many banks publicly disclose details on their compensation in a timely manner, this is an area however where the assessment of effectiveness is particularly difficult. In particular, the extent to which these disclosures provide investors with the information needed for market discipline around compensation policies has not been fully explored by the FSB and is not necessarily part of the supervisors' dialogue with firms (or investors). It is not therefore possible at this stage to fully assess the effectiveness of such disclosure regimes beyond a general assessment of compliance. Some supervisors have also noted that the proliferation of disclosure requirements does not necessarily add to transparency on compensation practices.

3. National implementation of the P&S

In the years following the publication of the P&S, FSB members implemented the elements of the P&S and other compensation objectives through legislative, regulatory and supervisory mechanisms. Following the initial activity, implementation measures have considerably slowed with a focus on embedding approaches in supervisory and firm practices. However, there continues to be differences between implementation of the P&S in different financial sectors.

Table 2 provides an update on changes that jurisdictions have implemented since the last progress report.

Table 2

Changes to regulatory frameworks and/or supervisory guidance since the last progress report[14]
Brazil – The Central Bank of Brazil set out non-enforceable guidance on supervisory expectations regarding corporate governance, including compensation, in December 2018.[15] The document determines best practices with regard to compensation structure and its governance, and composition and responsibilities of board-level compensation committees, among other. Brazil's insurance regulator (SUSEP) is developing a new rule, which will set up compensation rules for the insurance market. SUSEP and the Central Bank of Brazil representatives have established a technical cooperation program to support this development.
Italy – the Bank of Italy binding regulation on compensation policies and practices for banks/banking groups were updated in 2018; on that occasion, the FSB supplementary guidance was implemented into the Italian regulation (for the very few parts not already considered therein). IVASS provisions on compensation policies for insurance undertakings were updated in 2018; the FSB supplementary guidance was taken into account for the implementation of insurance regulatory framework and of the letter to market regarding the application of proportionality principle on governance system and remuneration.
Russia – The Bank of Russia issued recommendations on organisation of compensation systems and disclosure of information of compensation systems in non-credit financial institutions (non-governmental pension funds, professional securities market participants, management companies and insurance companies). These recommendations mostly implemented the P&S for non-credit financial institutions.

[14] In November 2016, the European Commission published two legislative proposals aiming at revising the Capital Requirements Regulation and the Capital Requirements Directive (CRR/CRD). In the context of the revision of the CRD, the Commission proposed to adjust the remuneration requirements for credit institutions to make the rules more proportionate. Following a political agreement at the end of 2018, co-legislators – the Council of the European Union and the European Parliament – are now in the process of formally adopting the revised CRR and CRD including the new remuneration rules.

[15] https://www3.bcb.gov.br/gmn/visualizacao/listarDocumentosManualPublico.do?method=listarDocumentosManualPublico&idManual=1

3.1 Banks

The P&S have been implemented for banks in all FSB jurisdictions, mostly with a focus on banks that are significant for the purposes of the P&S.

Annex A provides a breakdown of implementation by Principles and Standards for banks and table 3 (below) provides an update on how outstanding implementation issues are being addressed.

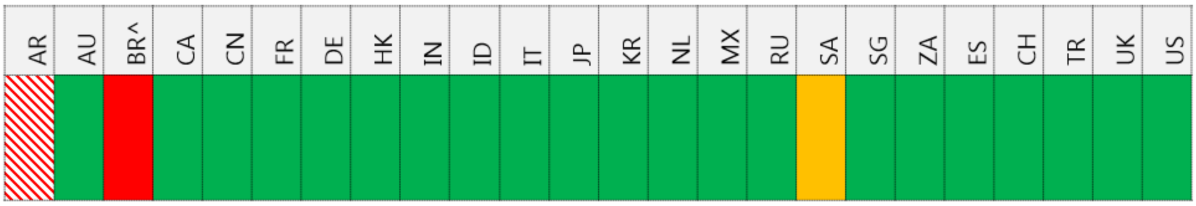
Table 3

Country	Remaining gaps in national implementation	Principles or Standards not implemented	Reason/additional information
Argentina	Effective alignment with risk-taking	Standard 5 (partly) and 10	In Argentina there are legal restrictions on clawback clauses. With regard to Standard 10, it has not been legally established that supervisors can restructure compensation schemes of a banking institution. The Financial Law N° 21526 Section 35 and complementary measures establish the legal framework for the restructuring of such institutions. See http://www.bcra.gov.ar/pdfs/marco/MarcoLegalCompleto.pdf.
Brazil	Effective alignment with risk-taking	Standards 10, 14, 15 (partly)	The implementation of Standard 14 is under preparation. Standard 10 is not applicable in Brazil as the Fiscal Responsibility Law prohibits the injection of public funds in failing banks. Current regulation (Resolution CMN 4,019, September 2011) allows the Central Bank of Brazil to set limits to fixed and variable remuneration in cases of inappropriate exposure to risks, deterioration of the institution's financial situation and internal control deficiencies. After the 2012 progress report Brazilian authorities started studies regarding the implementation of standard 14, which is still in course. In February 2013 the Brazilian Central Bank published Pillar 3 compensation disclosures requirements (Circular 3930: https://www.bcb.gov.br/pre/normativos/busca/downloadNormativo.asp?arquivo=/Lists/Normativos/Attachments/50723/Circ_3930_v1_O.pdf) which will come into force after 1 January 2020.
China	Effective alignment with risk-taking	Principle 7 Standard 8	Currently, compensation is overwhelmingly paid in cash. China is considering increasing the use of long-term incentive plans with stock-linked instruments.
India	~~Effective alignment with risk-taking~~	~~Standard 12~~	RBI compensation guidelines address this previous implementation gap: (https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=6938&Mode=0)
Russia	Effective alignment with risk-taking	Standard 8 (partly)	Legislative and market practice constraints (most institutions are non-listed companies, and remuneration with debt instruments is not allowed).

Country	Remaining gaps in national implementation	Principles or Standards not implemented	Reason/additional information
South Africa	Effective alignment with risk-taking	Principle 5 Standards 5, 10	The P&S on effecting changes in remuneration structures of executives in financial institutions and more specifically malus and clawback has not yet been fully and formally addressed in the South African regulatory framework. Although the King Report on Corporate Governance contains similar requirements, it is a form of moral suasion and not part of the regulatory framework. As part of the process for establishing a regulatory framework for the regulation and supervision of financial conglomerates, South Africa has released a set of prudential standards. The Draft Financial Conglomerate Prudential Standard on Corporate Governance and Risk Management requires the board of the holding company of a financial conglomerate to ensure the adoption of a remuneration policy that includes provisions for a fixed period for variable remuneration, malus and clawbacks as well as allowance for deferrals over a certain amount or percentage.
US	Disclosure	Principle 15	The US is in the process of preparing a rule related to Pillar 3 compensation disclosure guidance. Much of the information required by the BCBS guidance is already disclosed by major banking organisations.

3.2 Insurers

Implementation of the P&S for insurers Table 4



Green = FSB members report implementing at least some of the P&S for insurers (see table 6 for details); Amber = No significant financial institutions so regime not applied; Hatched red = Responding authorities do not have legal jurisdiction for the sector and could not respond. Red = No regime that implements the P&S. ^Brazil's Superintendence of Private Insurance (SUSEP) is developing new compensation rules for the insurance market. Source: Based on self-reporting.

Implementation of the Principles and Standards for the insurance sector is generally less advanced than the banking sector. Table 4 shows those jurisdictions that have implemented a compensation regime consistent with the P&S and table 6 provides a breakdown of the measures adopted to implement the Principles.

For those jurisdictions that have implemented the P&S for insurers the implementation approaches taken are a mixture of legislation, regulation and supervision.[16] Generally, the

[16] In Italy, for example, the general rules established in the secondary law are supplemented by recently issued guidelines to the market (July 2018) which include more detailed recommendations for more complex or risky undertakings.

approaches adopted for insurers are less prescriptive than those for banks,[17] with a number of the Principles not having been implemented into legislation or regulation i.e. only applied through supervisory guidance. In a number of jurisdictions supervision of insurance is undertaken by different authorities to those that regulate banks, or is undertaken by a combination of supervisors, and therefore approaches vary.

3.3 Asset managers

Implementation of the P&S for asset managers Table 5

AR	AU	BR	CA	CN	FR	DE	HK	IN	ID	IT	JP	KR	NL	MX	RU	SA	SG^	ZA	ES	CH	TR	UK	US
	B		B				A				B					A							A

Green = FSB members report implementing at least some of the P&S for asset managers (see table 7 for details); Amber = A No asset managers identified as significant for the purposes of the P&S/B Regime only applies to banks (consolidated); Hatched red = Responding authorities do not have legal jurisdiction for the sector and could not respond. Red = No regime that implements the P&S. ^Asset managers in Singapore are not considered significant for the purposes of the P&S. The P&S are applied to asset managers as appropriate and on a risk-proportionate basis. Source: Based on self-reporting.

The asset management sector is less advanced than the banking and insurance sectors in terms of the implementation of the Principles and Standards which vary across jurisdictions and are in large part driven by the structure of the regulatory regime and whether asset management firms are considered significant for the purposes of the P&S. Table 5 shows those jurisdictions that have implemented a compensation regime that seeks to implement the P&S for covered firms and table 7 provides a breakdown of the measures adopted to implement the Principles.

Implementation of the Principles and Standards is less advanced for asset managers that are not in banking groups. Authorities from 10 jurisdictions[18] report that either (i) they have no significant asset managers against which the P&S would apply;[19] or (ii) do not have legal jurisdiction for the sector and accordingly, they have not implemented the P&S for asset managers. In a number of jurisdictions asset management activities at banking entities are

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[17] In the EU in general, there is a legal framework on compensation requirements applicable to all insurers implemented through Solvency II. Particularly, Article 275 of the Solvency II Delegated Regulation sets out remuneration requirements which are directly binding on EU insurers. The requirements are broadly consistent with the P&S. Please refer to Box 2 in the previous in the FSB, *Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards: Fifth progress report*, July 2017.

[18] AR, AU, BR, CA, CN, HK, IN, JP, SA, US

[19] In the EU there is a legal framework on compensation requirements implemented through MiFID II (for investment firms providing investment firms in general and portfolio management in particular) and UCITS and AIFMD (for UCITS managers and alternative investment funds managers) applicable to all institutions. In Spain for example, even though there are no significant financial institutions in this sector, those legal acts, as implemented in Spain, set out remuneration requirements, substantially aligned with the P&S, which are binding on investment firms (Article 27 of the MiFID II Delegated Regulation) and asset managers (as per Articles 14a and 14b of the UCITS Directive and Articles 13 and 22(2)(e) and (f) of, and Annex II to the AIFMD). In the Netherlands the legislator broadened the scope of parts of the CRD IV banking legislation on remuneration to other financial institutions, such as insurers and asset managers.

covered by the relevant bank compensation regulation or supervisory guidance. In addition, in some jurisdictions, compensation regimes apply that are required by other regulations, for example disclosure based for investor protection purposes. While some of those regulations might be extensive, the alignment of their objectives with the P&S has not been fully explored at this stage.

For those jurisdictions that have implemented the Principles and Standards there is a mixed picture with regard to the extent to which they have been implemented by legislation, regulation or supervision.

National implementation of the Principles for insurers and asset managers

Insurers **Table 6**

	AR	AU	BR	CA	CN	FR	DE	HK	IN	ID	IT	JP	KR	NL	MX	RU	SA	SG	ZA	ES	CH	TR	UK	US
P1	0	L	X	S	R	L	R	S	LR	S	L	S	L	L	X	S	N/A	R	R	L	R	S	L	S
P2	0	L	X	L	R	L	R	S	LR	S	R	S	L	L	X	S	N/A	R	R	L	R	S	L	S
P3	0	L	X	L	R	L	R	S	LR	N/A	R	S	L	L	X	S	N/A	R	R	L	R	S	S	RS
P4	0	L	X	S	R	L	R	S	R	N/A	R	S	L	L	X	S	N/A	R	N/A	L	R	N/A	L	S
P5	0	L	X	S	R	L	R	S	R	R	R	S	L	L	X	S	N/A	R	N/A	L	R	N/A	S	S
P6	0	L	X	S	R	L	R	S	R	N/A	R	S	L	L	X	S	N/A	R	R	L	R	N/A	S	S
P7	0	S	X	S	R	N/A	R	S	R	N/A	R	S	L	L	X	S	N/A	R	S	L	R	N/A	L	S
P8	0	S	X	S	R	L	L	S	R	S	S	S	L	S	R	N/A	N/A	S	S	L	R	N/A	S	S
P9	0	L	X	S	R	L	R	S	LR	R	R	S	L	L	R	S	N/A	S	N/A	L	R	S	S	LRS

Asset managers **Table 7**

	AR	AU	BR	CA	CN	FR	DE	HK	IN	ID	IT	JP	KR	NL	MX	RU	SA	SG	ZA	ES	CH	TR	UK	US
P1	0	N/A	X	N/A	X	L	L	N/A	X	S	R	N/A	L	L	S	S	N/A	S	S	L	R	S	R	N/A
P2	0	N/A	X	N/A	X	L	L	N/A	X	S	R	N/A	L	L	S	S	N/A	S	L	L	R	S	R	N/A
P3	0	N/A	X	N/A	X	L	L	N/A	X	N/A	R	N/A	L	L	R	S	N/A	S	L	L	R	S	R	N/A
P4	0	N/A	X	N/A	X	L	L	N/A	X	N/A	R	N/A	L	L	S	S	N/A	S	L	L	R	N/A	R	N/A
P5	0	N/A	X	N/A	X	L	L	N/A	X	R	R	N/A	L	L	S	S	N/A	S	S	L	R	N/A	R	N/A
P6	0	N/A	X	N/A	X	L	L	N/A	X	N/A	R	N/A	L	L	S	S	N/A	S	S	L	R	N/A	R	N/A
P7	0	N/A	X	N/A	X	L	L	N/A	X	N/A	R	N/A	L	L	S	S	N/A	S	S	L	R	N/A	R	N/A
P8	0	N/A	X	N/A	X	L	S	N/A	X	S	R	N/A	L	S	S	N/A	N/A	S	L	L	R	N/A	R	N/A
P9	0	N/A	X	N/A	X	L	L	N/A	X	R	R	N/A	L	L	S	S	N/A	S	S	L	R	S	R	N/A

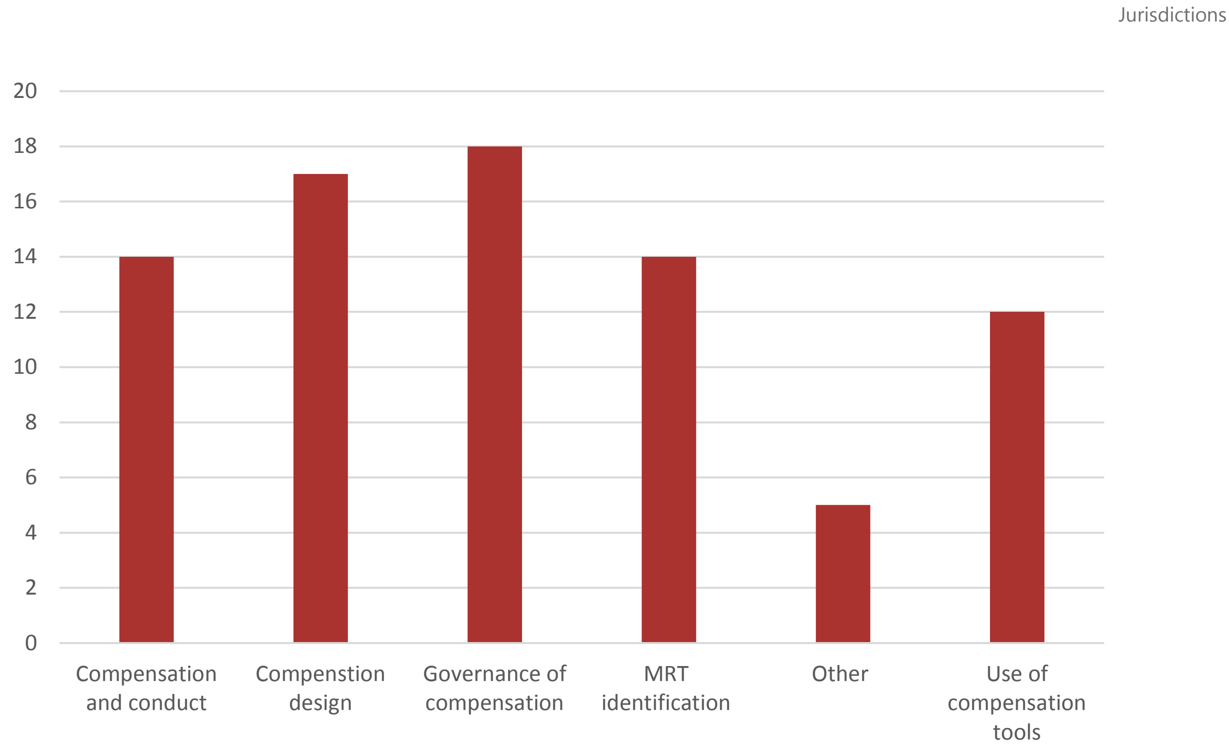
0 = No information provided; X = P&S not implemented; N/A = not applicable; L = legislation; R = regulation; S = supervision
Source: Based on self-reporting.

4. Supervisory activities for banks

Supervisory practices for banks have evolved significantly post-crisis. The supervisory focus on compensation issues has increased and as a result so have the resources that supervisory authorities dedicate to compensation. In the last two years, Australia, Hong Kong and Singapore report that additional supervisory resources have been provided to more effectively supervise compensation issues.[20]

Supervisory dialogue with banks about compensation policies and outcomes is a key tool for ensuring that policies have been effectively implemented. To this end, FSB jurisdictions place a great emphasis on undertaking supervisory activities at banks, particularly those considered significant for the purposes of the Principles and Standards. This section considers the trends in supervisory activity at banks that have occurred since January 2017.

Supervisory discussions with banks' senior management and control functions — Graph 1



Identified trends in supervision of compensation policies and practices at banks are:

- Engagement with senior management – All FSB jurisdictions report that they discuss compensation policies and outcomes with banks' senior management and control functions and that they highlight the importance of compensation policies setting the right incentives. Graph 1 sets out the issues that supervisors discussed with banks' senior management. Fourteen jurisdictions report that they undertake

[20] Supervisory resources and structures also vary across authorities and jurisdictions depending on the scope and number of firms they regulate.

engagement with non-executive board members and 13 with RemCo members and 15 with senior executives[21] (see table 8).

- Proportionality – the majority of jurisdictions report that they have regimes in place that allow for a proportionate application of regulation or supervisory requirements related to compensation. Fourteen jurisdictions report that regulation allows for proportionate application for groups of employees and 16 jurisdictions report proportionate application is granted in the supervision of firms' compensation policies and practices (see table 8).

Table 8

Supervisory engagement

	AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
NEDs	■	■	■	■		■		■			■			■	■	■	■	■	■	■
RemCo		■	■	■		■		■			■			■	■	■	■	■	■	■
Senior Execs	■	■	■	■		■		■		■	■		■	■	■	■	■		■	■

Proportionality

	AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
Employees			■		■	■	■		■	■	■	■		■	■		■	■	■	■
Supervision		■	■	■	■	■	■		■	■	■	■		■	■		■	■	■	■

5.3 Risk alignment

Supervisory activities can take a number of different forms including bilateral engagement with firms as part of ongoing supervisory activities, dedicated supervisory examinations, ad hoc surveys of current market practice, consideration of compensation issues in broader risk management supervisory examinations and also thematic or horizontal reviews that look at an issue across firms.

Twelve jurisdictions report that they have undertaken thematic reviews that include review of compensation practices since January 2017 (see table 9). Four jurisdictions report that they completed thematic or other horizontal reviews before January 2017 that included compensation as an area of focus, together with other topics reviewed.[22]

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[21] Broadly "senior executives" refers at a minimum to employees that are chief executive officers (CEOs), or senior executives immediately in the reporting line of CEOs. CEOs and their direct reports will often be classed as material risk takers. "Other MRTs" includes others MRTs not captured in the "senior executives" group and therefore it is likely to represent a much larger group. However, these definitions differs between FSB member jurisdictions. For example, SSM jurisdictions, observations refer to the MRTs category as a whole, without any distinction between senior executives and other MRTs. This because the related regulation (Commission Delegated Regulation 604/14) establishes unique criteria to classify staff as MRTs ("identified staff"). The US per its Guidance on Sound Compensation Policies distinguishes between senior executives (which extends beyond direct reports of the CEO), MRTs (individual risk takers) and Other MRTs (usually groups of material risk takers).

[22] AU, CA, SSM, US

Table 9

Thematic reviews

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
■	■	■		■	■					■		■	■			■	■	■	■

Conduct has also been an important theme with 14 jurisdictions[23] reporting that they have or intend to discuss some of the themes that are also highlighted in the FSB's Supplementary Guidance, among other topics.

Some jurisdictions report periodically collecting data from banks on their compensation policies and actions. In Switzerland and the UK jurisdictions supervisors discuss the firms' annual decisions on compensation pools, which help them to assess whether banks are meeting the regulatory requirements. Also, a number of jurisdictions report that compensation outcomes are discussed in some ways as part of regular engagement on governance issues.

Aligning compensation and risk outcomes is a key focus of post-crisis supervisory work on compensation to ensure that compensation regimes are more focused on long-term outcomes. Eleven jurisdictions[24] report that as a result of thematic work they undertook during the period they identified areas where risk management/alignment could be strengthened at significant banks. Jurisdictions report the following issues as a result of that work, or other supervisory reviews undertaken:

- Concerns about overly complex scorecards which had so many metrics that they obscured the incentives banks were trying to create.
- It is important for firms to be able to effectively document compensation outcomes employing a clear and robust process. There is a need for banks to improve the documentation of their performance evaluation and risk adjustment processes to ensure performance ratings and adjustments were supported by robust justifications.
- Concerns about inconsistent implementation of group-compensation policies, including use of malus and clawback and the use of risk adjusted performance criteria, as a result of different national regulation.
- Need for firms to develop systems to better track compensation and risk outcomes and to utilise some form of quality assurance process as part of monitoring programmes which, in turn, could be used to indicate early warnings of misconduct. Importance of accountability processes, which are used following significant incidents e.g. the use of compensation tools following a major compliance breach.

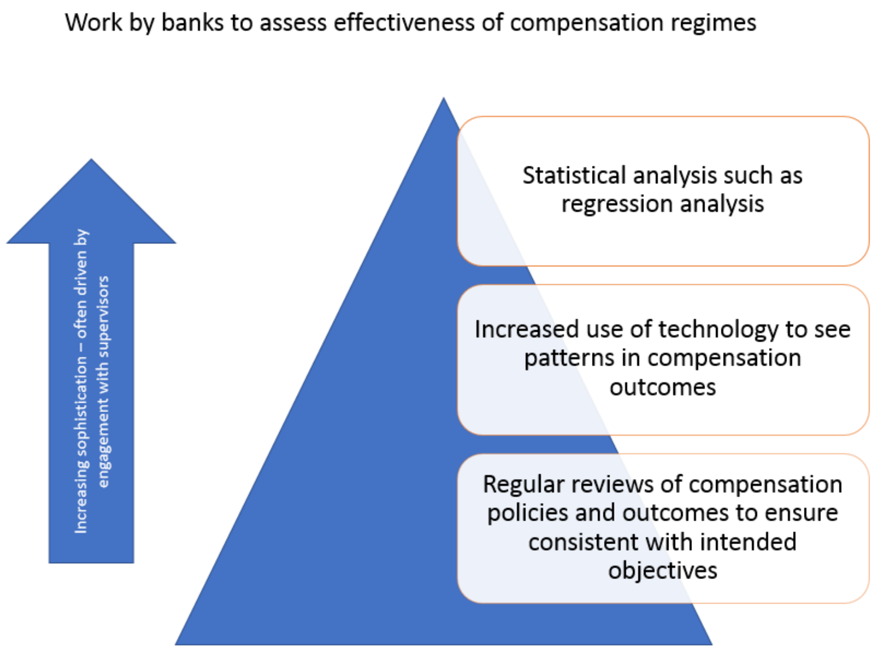
Evidence from the work of the FSB's Compensation Monitoring Contact Group (CMCG) shows that supervisory engagement and discussion with banks on compensation policies results in more robust outcomes. The questionnaire responses show also that in a number of jurisdictions supervisors have continued to examine the effectiveness of the policies and

[23] AR, AU, BR, CA, CN, HK, JP, KR, SA, SG, SSM, CH, UK, US
[24] AU, BR, CA, CN, HK, SG, SSM, CH, TR, UK, US

processes that firms have in place, and started to explore whether compliance with agreed standards ensures that the intended objectives of compensation reforms are met in a manner that is efficient and robust.

Work by banks to assess effectiveness of compensation regimes

Figure 1



The focus on effectiveness considers whether compensation frameworks are risk aligned and the extent to which bank boards have a clear oversight of the compensation frameworks. Also, supervisors consider whether firms undertake regular reviews of the policies and outcomes to ensure that the policy is being effectively applied.

Case study: Australia

In April 2018, the Australian Prudential Regulation Authority (APRA) released the results of a review of remuneration practices[1] at large financial institutions which found considerable room for improvement in the design and implementation of executive remuneration structures.

The review examined whether policies and practices in regulated institutions were meeting the objectives of APRA's prudential framework: that remuneration frameworks operate to encourage behaviour that supports risk management frameworks and institutions' long-term financial soundness.

APRA's review comprised detailed analysis of executive remuneration practices and outcomes from a sample of 12 regulated institutions across the authorised deposit-taking institutions (ADIs), insurance and superannuation sectors. The sample of institutions reviewed collectively accounts for a material proportion of the total assets of the Australian financial system.

The review found that remuneration frameworks and practices did not consistently and effectively promote sound risk management and long-term financial soundness, and fell short of the better practices set out in APRA's existing guidance.

The report identified the need for improvement in:

- ensuring practices were adopted that were appropriate to the institution's size, complexity and risk profile;
- the extent to which risk outcomes were assessed, and weighted, within performance scorecards;
- enforcement of accountability mechanisms in response to poor risk outcomes; and
- evidence of the rationale for remuneration decisions.

In response to the findings, APRA is considering ways to strengthen its prudential framework and approach to supervision. Revised prudential standards and guidance will also take into account the findings from the Prudential Inquiry into the Commonwealth Bank of Australia and the Royal Commission into Banking, Superannuation and Financial Services, as well as international best practice.

5. Developments in practices at significant banks

All FSB jurisdictions have implemented the P&S for significant banks. However, legislative and regulatory measures are not sufficient on their own to bring about change. Supervisory and bank practices also needed to change. Since the previous progress report FSB member authorities have continued to focus on embedding the practices set out in the P&S.

This section of the report considers the incremental changes and additional data available since the last progress report was published in 2017. This progress report presents new information that considers the extent to which the different elements of the P&S has been embedded.

5.1 Board governance

Since implementing the P&S FSB jurisdictions have reported heightened levels of governance of compensation at banks and significantly increased board oversight in a number of jurisdictions. In particular, as a result of the post-crisis reforms risk and audit committees play an important role in the governance of compensation processes, to an extent they would not have previously.

Table 12 provides assessments by FSB members on the extent to which the core elements of the P&S related to governance have been implemented with regard to language used in the P&S. Overall, the conclusions show that practices consistent with the P&S have been embedded at significant banks in most FSB jurisdictions. However, the table also highlights areas in which there is a need for further improvements to ensure that practices and outcomes are consistent with the legislative and regulatory frameworks that jurisdictions have put in place.

Most FSB jurisdictions report that banks have implemented governance systems to focus more on risk-taking incentives created by the incentive compensation process frameworks. Russia reports that not all their significant banks have board committees to oversee compensation systems. Sixteen jurisdictions report that Remuneration Committees (RemCos) at all significant banks work closely with risk committees in the evaluation of incentives created by compensation systems.[25] Brazil and Canada report that most significant banks do this and Australia reports that none do this. Additionally, two jurisdictions[26] report that most significant banks review compensation and risk outcomes for consistency with the intentions set out in their compensation policy. Australia reports that none of its significant banks do this and all other jurisdictions report that all their significant banks do this.

All FSB jurisdictions report that bank boards are involved in a number of ways with compensation policies. However, in Australia not all bank boards review compensation policies.

5.2 Control functions

Control functions have an important role to play ensuring that policies are effectively followed, consistently applied and reported to oversight bodies. Fifteen jurisdictions (see table 10) report that control functions are required to be involved in award decisions for senior executives and

[25] AR, CN, HK, IN, ID, JP, KR, MX, SA, SG, SSM, ZA, CH, TR, UK, US
[26] RU, TR

certain "other MRTs" as a supervisory expectation or requirement. Five jurisdictions report that even though there are not specific supervisory requirements, banks have implemented such requirements.[27] With award decisions for senior executives, risk functions are involved in 19 jurisdictions,[28] compliance functions in 17 jurisdictions[29] and human resources in 15.[30]

Table 10

Control functions are required or expected to be involved in award decisions

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
■		■	■	■	■	■	■	■			■		■	■		■	■	■	■

5.3 Risk alignment

Risk alignment is at the core of the reforms to compensation and therefore it is a matter on which supervisors and banks are focused. Seventeen jurisdictions (see table 11) report banks linking compensation for senior executives to risk appetite frameworks and 16 jurisdictions report that banks use financial factors and ratios related to financial metrics.[31] The trends for senior executives are similar to those practices that have been adopted to align compensation practices for "all other MRTs".

Table 11

Linking compensation for senior executives to risk appetite frameworks

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
■	■	■	■	■	■	■	■	■	■				■	■	■	■	■	■	■

Other Employees

Practices are more varied for the wider "all other employees" category, where jurisdictions generally do not mandate a particular approach. This variation in approaches likely reflects the differing levels of risk that these employees take compared to senior executives and all other MRTs. However, in 11 jurisdictions performance management processes and compensation programmes at banks align with the risk appetite framework.[32] Banks in the same number of jurisdictions use financial metrics.[33]

Fifteen jurisdictions[34] report that in practice all banks link compensation to the firm's risk appetite framework with five jurisdictions reporting that not all banks have done this.[35]

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[27] AU, KR, MX, SA, ZA
[28] AR, AU, BR, CA, CN, HK, IN, ID, JP, KR, RU, SA, SG, SSM, ZA, CH, TR, UK, US
[29] AR, AU, BR, CA, CN, HK, IN, ID, KR, MX, RU, SG, SSM, CH, TR, UK, US
[30] AR, AU, BR, CA, HK, ID, RU, SA, SG, SSM, ZA, CH, TR, UK, US
[31] AR, AU, BR, CA, HK, ID, JP, KR, MX, SG, SSM, ZA, CH, TR, UK, US
[32] AR, AU, BR, CA HK, ID, SSM, ZA, TR, UK, US
[33] AR, AU, BR, CA, HK, ID, MX, SSM, TR, UK, US
[34] AU, CA, CN, HK, ID, KR, MX, RU, SA, SG, ZA, CH, TR, UK, US
[35] AR, BR, IN, JP, SSM

Table 13 provides assessments by FSB members on the extent to which the core elements of the P&S related to risk alignment have been implemented with regard to statements that describe effective implementation of the P&S.

5.4 Variable compensation, compensation deferral and compensation form

Responses to the questionnaire suggest that deferral and composition form (i.e. the instruments such as cash, stock and debt in which an award is made) differ significantly across jurisdictions and that there has not been a significant change in the last two years, although not all jurisdictions collect this data.

The amount of variable to fixed compensation and the form of compensation can be an important factor that can have an impact on incentives. Compensation can include fixed cash elements, plus variable cash, shares or share-linked instruments. The variable elements can be subject to deferral and retention requirements.

Effective implementation by jurisdiction for significant banks

Table 12: Governance

	AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
Boards have a board committee to oversee the compensation system's design and operation.	A	A	A	A	A	A	A	A	A	A	A	M	A	A	A	A	A	A	A	A
Boards and/or board committee are actively involved in monitoring and reviewing the firms' compensation system to ensure the system operates as intended.	A	A	M	A	A	A	A	A	A	A	A	M	A	A	A	A	A	A	A	A
The board's compensation committee actively works with the board risk committee in the evaluation of incentives created by the compensation system.	A	N	M	M	A	A	A	A	A	A	A		A	A	A	A	A	A	A	A
The design of compensation systems are subject to controls and periodic reviews to promote integrity.	A	A	M	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Firms regularly review compensation and risk outcomes for consistency with the intentions of the underlying compensation system.	A	N	A	A	A	A	A	A	A	A	A	M	A	A	A	A	A	M	A	A
Firms have in place monitoring systems to monitor and review compensation policies.	A	N	A	A	A	A	A	A	A	A	A		A	A	A	A	A	M	A	A

Table 13: Risk alignment

	AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
Compensation is adjusted for all types of risk.	A	N	M	A	A	A	A	A	A	A	A	M	A	A	A	A	A	A	A	A
Firms identify senior executives as well as other employees who have a material impact on the risk exposure of the firm (MRTs).	A	M	M	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
The mix of cash, equity and other forms of compensation is consistent with risk alignment.	A	A	M	A	N	A	A	A	A	M	A		A	A	A	A	A	N	A	A

Statements apply to: A = All significant banks M = Most significant banks N = No significant banks.

Table 14: Stakeholder engagement

	AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
Firms' compensation policies are publicly disclosed and timely.	A	A	A[36]	A	A	A	M	A	A	A	A	A	A	A	A	A	A	A	A	A
Firms' compensation policies (including on compensation governance and risk alignment) are clear and comprehensively disclosed.	A	A	M	A	A	A	M	A	A	A	A	M	A	A	A	A	A	A	A	A

Statements apply to: A = All significant banks M = Most significant banks N = No significant banks.

[36] Circular 3930 was issued in February 2019 to implement Basel III Pillar 3 disclosure standards and will come into force on 1 January 2020. The most systemically important banks will be required to disclose the compensation policy of their directors and senior executives. (https://www.bcb.gov.br/pre/normativos/busca/downloadNormativo.asp?arquivo=/Lists/Normativos/Attachments/50723/Circ_3930_v1_O.pdf)

Post-crisis there was a significant increase in deferral of compensation however with reforms now largely implemented deferral levels have remained fairly constant. The compensation questionnaire asked member jurisdictions about fixed to variable ratios, deferral policies and practices and the form that compensation awards took in compensation at significant banks since January 2017. Responses indicate that while 15 jurisdictions report that compensation market practices have not changed significantly,[37] four report that there have been material changes.[38] Four jurisdictions report that variable compensation has increased for senior executives[39] and three jurisdictions indicate it has increased for "other MRTs".[40]

Variable compensation and the percentage of deferral also depend on the overall economic situation, and the size of the statistical sample (both regarding the number of banks and the length of the period) is too small to allow any solid conclusions.

Deferral period length

Market practice, as well as regulation or supervisory guidance, may influence the length of deferral and has contributed to diverse practice. For instance, substantial deferral fractions can be achieved in different ways. In the US firms use a cash-stock table that increases the deferral rate as the amount of incentive compensation increases and in Europe regulation requires that the deferral rate is linked to the amount of the variable compensation which is balanced between cash and instruments. As a practical matter, this results in substantial deferral rates for senior executives and for more highly compensated employees. Deferral is also strengthened through regulatory requirements or supervisory expectations. Supervisors in 16 jurisdictions have requirements or expectations for the number of years compensation needs to be deferred for senior executives and 13 jurisdictions do for some other MRTs (see table 15). In those jurisdictions in which requirements exist there remains a variance between the number of years for which deferral is required. For instance, for senior executives deferral requirements vary between one year in Mexico and seven years in the UK. However, three years tends to be the typical requirement with 15 jurisdictions having adopted this requirement. For other MRTs 11 jurisdictions have requirements or supervisory expectations of three years.[41]

[37] BR, CA, CN, IN, ID, JP, HK, RU, ZA, SA, SG, SSM, TR, UK, US
[38] AR, AU, KR, MX
[39] AR, JP, KR, MX
[40] AR, KR, MX
[41] BR, CA, CN, HK, IN, ID, RU, SG, CH, TR, US

Table 15

Supervisory requirements/expectations on compensation deferral for senior executives

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
	■	■	■	■	■	■		■	■		■	■	■	■		■	■	■	■

Supervisory requirements/expectations on compensation deferral for "other MRTs"

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
		■		■	■	■		■	■		■	■	■	■		■	■	■	■

In terms of trends around the percentage of deferral to which employees are subject to, the responses to the questionnaire are mixed. Switzerland and the US report a decrease in the percentage of deferral compared to total compensation for all staff groups (i.e. senior executives, other MRTs and all other employees) and Korea reports a decrease for senior executives and other MRTs only. Meanwhile, Japan reports an increase in deferral for senior executives.

Deferred compensation subject to compensation tools

There are eight jurisdictions in which less than 100% of deferred variable compensation could be subject to malus or clawback for senior executives.[42] Two jurisdictions did not collect this information.[43]

Proportion of variable compensation

There are significant differences between jurisdictions on the average percentage of variable compensation to total compensation for senior executives and "other MRTs" at significant banks. For senior executives this ranges between 87% in Canada to 27% in Mexico with a mean of 57%, using a simple mean average. For "other MRTs" this ranges between 80% in Canada to 21% in Turkey with a mean of 49%.[44]

Lower variable compensation means less compensation "at risk" of adjustment and limits the potential impact on incentives created through the use of compensation tools and thus may constrain a firm's ability to align risk-taking with longer term results. Some authorities have raised concerns that a reduction in variable compensation over time means that there is a smaller component of compensation that can be subject to malus or clawback. On the other hand, some authorities believe a high weighting of the variable compensation can lead to

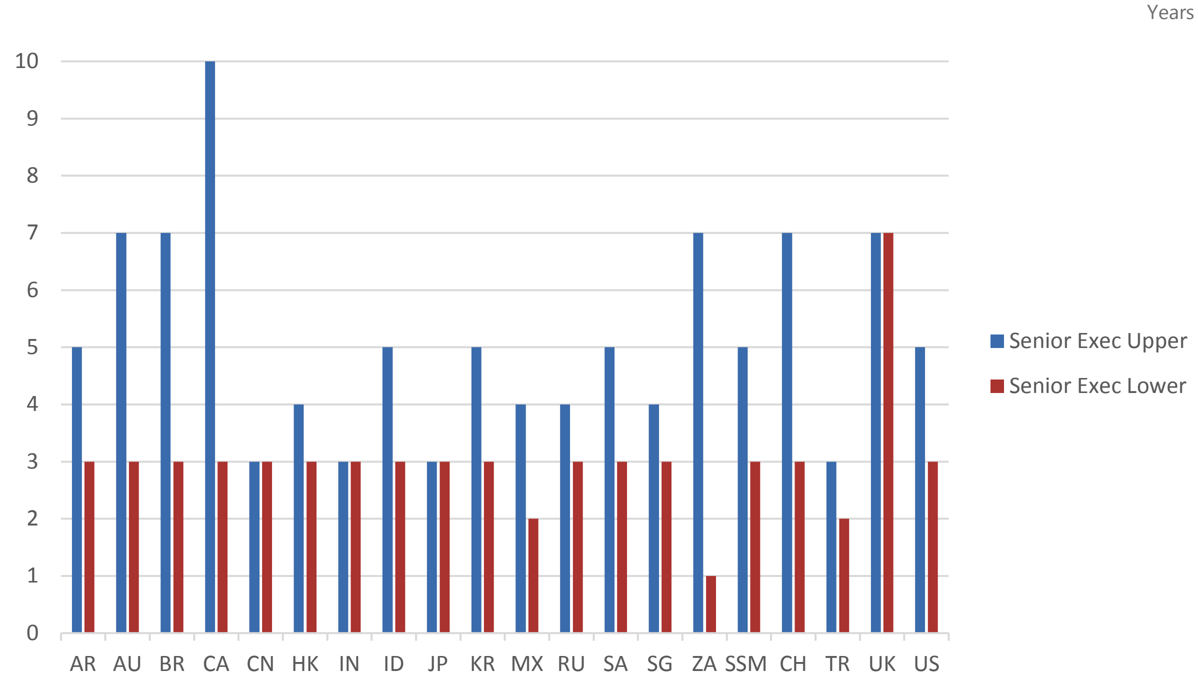
[42] BR, ID, JP, KR, MX, RU, SA, CH

[43] IN, ZA

[44] Data was not provided for all FSB jurisdictions therefore this is an average of data from those jurisdictions that provided information. Note that this may be measured ex post and may include ex post data for some countries. For those countries, a low percentage of variable compensation could be impacted by several factors, including the percentage of total compensation deferred as well as negative performance at the firm or individual level.

Range of market practice for the number of years compensation is deferred[46] for senior executives

Graph 2



The data in this graph generally reflects the absolute outliers in the number of years in which compensation is deferred therefore data could be affected by a small number of employees. To avoid providing bank specific data, the information listed for Hong Kong is for a larger sample of banks. Note that deferral periods of less than three years sometimes occur as part of arrangements where the majority of deferred pay is subject to a three-year deferral.

excessive risk-taking and some jurisdictions have set regulatory limits as a maximum ratio between the fixed and the variable component of the total compensation.

Four jurisdictions report that for some significant banks, or in one case all, the mix of cash, equity and other forms of compensation awarded to employees is not consistent with risk alignment.[45]

A number of banks expressed concerns about the bonus cap and its impact on their ability to compete for talent globally.

Compensation form

Cash and equity continue to be main elements of variable compensation for senior executives with 19 jurisdictions reporting the use of cash[47] and 19 reporting the use of equity.[48] The use of debt instruments is more limited with only three jurisdictions reporting that debt instruments are included in the compensation packages of senior executives.[49]

[45] BR, CN, KR, TR

[46] The definition of "three year deferral" under the FSB P&S is pro rata and would permit firms to vest up to 1/3 of deferred amounts in each of the three years. In other words, three year deferral would not imply all amounts are cliff vested at the end of three years.

[47] AR, AU, BR, CA, CN, HK, JP, ID, IN, MX, RU, SA, SG, SSM, ZA, CH, TR, UK, US
[48] AR, AU, BR, CA, CN, HK, IN, JP, KR, MX, RU, SA, SG, SSM, ZA, CH, TR, UK, US
[49] AU, SSM, CH

5.5 Material risk takers

The identification of MRTs in FSB member jurisdictions allows for a proportionate application of compensation policies and tools so that those people who can take material risk are compensated in a way that allows for effective risk alignment without the need to apply such policies across all employees.

Regulatory requirements or supervisory guidance are in place in 17 jurisdictions[50] and are therefore key drivers for the MRT identification processes in banks in those jurisdictions. India and South Africa do not have regulatory or supervisory guidance on MRT identification.

Significant banks utilise a variety of methodologies to identify MRTs, except where defined by regulation, but there are a number of factors that commonly drive the identification of MRTs including: (i) 15 jurisdictions in which job grade or rank within a bank are a determinant of MRT selection; (ii) 16 jurisdictions the level of an individual's risk responsibility and oversight is one of the factors that determines MRT selection; (iii) 12 jurisdictions the amount of P&L that an individual can expose the bank to is considered as one of the factors; (iv) 10 jurisdictions levels of pay are a factor that is considered in the determination of whether an employee is an MRT; and (v) 10 jurisdictions in which MRTs are identified as a result of being part of a group, i.e. member of a unit that takes risk (see table 16).[51]

Table 16

	AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
Job	■	■	■	■		■			■	■		■	■	■	■	■	■		■	■
Risk	■	■	■	■		■	■		■			■	■	■	■	■	■	■	■	■
P&L	■	■	■	■		■			■				■		■		■	■	■	■
Pay	■	■		■		■			■					■	■		■		■	■
Groups			■			■	■				■		■		■	■	■		■	■

5.6 Compensation tools

Use of compensation tools

Post-crisis FSB members report increased use and application of in-year risk adjustment (i.e. adjustments before an award is made) and malus, but less application of clawback[52] (i.e. after an award is made). In-year adjustment tends to be the most commonly used tool given relatively fewer legal constraints since the changes are made before the employee is awarded the compensation.

[50] AR, AU, BR, CA, CN, HK, ID, JP, MX, RU, SA, SG, SSM, CH, TR, UK, US

[51] In a number of jurisdictions MRTs are captured by virtue of the fact that they belong to a certain group. This might be because they are part of a certain business or because they are subject to the same or similar incentive compensation arrangements and who, in the aggregate, may expose the organisation to material amounts of risk, even if no individual employee is likely to expose the organisation to material risk (e.g., loan officers who, as a group, originate loans that account for a material amount of the organisation's credit risk).

[52] See footnote 13 which provides further context on the definition of malus and the data collected under this category.

Some supervisory authorities collect data on the application of compensation tools as it helps them to understand the extent to which firms are applying compensation policies. Canada, the SSM and the US[53] collect this data as needed, or on an ad hoc basis. Others, such as the SSM collect part of this data annually limited to the MRTs population; in the UK, supervisors receive very detailed information annually including at the individual level.

On the other hand, data on the application of malus is not routinely collected by supervisors in six jurisdictions with regard to senior executives,[54] seven jurisdictions for "other MRTs"[55] and nine jurisdictions for all other employees.[56] Six jurisdictions report that they do not regularly collect information on the use of compensation tools with regard to in-year adjustment for senior executives.[57] Seven jurisdictions report that they do not regularly collect this information for "other MRTs"[58] and nine jurisdictions for "all other employees".[59]

Supervisors are less likely to routinely collect data on the application of clawback. Ten jurisdictions do not collect this information for senior executives,[60] this rises to 11 for "other MRTs"[61] and 12 for "all other employees".[62]

Application of compensation tools

With the caveats set out above about the number of FSB jurisdictions that do not collect data on compensation tools, the section below considers the trends from those jurisdictions that do collect the data.

With regard to in-year adjustments for senior executives Hong Kong and the US report reduced application; Argentina, India and Singapore report increased application; and eight jurisdictions[63] report a constant pattern. Similarly there is a mixed picture for the application of malus for senior executives with the US and Korea reporting a decrease, Argentina, India and Switzerland reporting an increase and six jurisdictions[64] reporting a constant pattern. For the application of clawback on senior executives India reported increased use, Korea reported decreased use and eight jurisdictions[65] reported no change.

These trends on the application of compensation tools are not easy to interpret for a number of reasons:

- Time inconsistency in use of compensation tools – since most banks will often apply in-year adjustments even for historic issues unrelated to current awards there is often no link between when an event occurred and the year in which an in-year adjustment is

[53] Analysis of compensation tools in the US extends beyond MRTs.
[54] AU, CN, ID, RU, ZA, TR
[55] AU, CN, IN, ID, RU, ZA, TR
[56] AR, AU, CA, CN, IN, ID, JP, RU, ZA
[57] AU, CA, CN, ID, RU, ZA
[58] AU, CA, CN, IN, ID, RU, ZA
[59] AR, AU, CA, CN, IN, ID, RU, SG, ZA
[60] AR, AU, BR, CA, CN, ID, RU, ZA, CH, TR
[61] AR, AU, BR, CA, CN, IN, ID, RU, ZA, CH, TR
[62] AR, AU, BR, CA, IN, ID, JP, KR, RU, ZA, CH, TR
[63] BR, JP, KR, MX, SA, CH, TR, UK
[64] BR, HK, JP, MX, SG, SA
[65] CA, HK, JP, MX, SG, SA, UK, US

applied. This is because in-year adjustment is an easier tool to apply than malus or clawback.

- Discovery time lag – for significant incidents there may be a lag in the discovery of the incident (e.g. mis-selling incidents can take years to emerge, or inappropriate credit risk decisions which take years to become non-performing loans), plus an additional lag will normally occur for internal, and possibly regulatory, investigation processes. This means that compensation tools may not be applied until many years after an incident occurs and therefore are a lagging indicator.[66]
- Differing underlying trends – the application of tools is only as good as the detection systems. Fewer incidents of applications of compensation tools can represent fewer incidents or it can indicate that detection systems are not working. Equally, increased application of compensation tools may reflect improved detection of incidents. Additionally, another element might cloud the interpretation of results on the application of compensation tools. Since the financial crisis there is a decreased use of variable remuneration in some jurisdictions. A smaller component of variable remuneration also means that there is a smaller component available for compensation tools, such as malus or clawback. Equally, the introduction of regulatory limits in some jurisdictions as a maximum ratio between the fixed and the variable component of the total remuneration might have affected the underlying trends.

As a result in analysing data on the application of compensation tools it is important for banks and supervisors to consider the data in the wider context about what they know about the processes and governance that banks have in place.

Legal difficulties using compensation tools

For those banks that have not previously applied malus and/or clawback internal hurdles to doing so are likely to be high. Fifteen jurisdictions[67] report that there are some legal difficulties for their firms in implementing or applying compensation tools, either domestically or for globally active banks operating in jurisdictions where application of such tools is not legally feasible or may be more challenging. Jurisdictions report that the greatest barriers are for clawback with four[68] jurisdictions reporting that clawback is not permitted under local law. Germany has recently legislated for the applicability of clawback within its regulatory framework though some legal difficulties regarding labour law might still exist. Only six[69] jurisdictions report that there are no legal difficulties with using these tools, at least domestically.

5.7 Stakeholder engagement

Stakeholder engagement involves both disclosure of the details about compensation frameworks and the outcomes of compensation decisions. Engagement is normally with

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[66] For instance, with regard to the manipulation of Libor, there was evidence on manipulation in early 2005, issues were raised with regulators in late 2007 but enforcement action wasn't completed until mid-2012. This shows the considerable tail that can emerge with misconduct cases and the difficulties that can emerge where deferral periods are shorter than the time it takes for misconduct cases to emerge or for them to be settled.

[67] AR, AU, BR, CA, CN, HK, JP, MX, RU, SA, SSM, CH, TR, US, UK

[68] AR, BR, MX, RU

[69] IN, ID, KR, SG, ZA, UK

shareholders about the extent to which the frameworks create incentives that are risk adjusted and in the long term interests of the bank. All significant banks in 18 jurisdictions publicly disclose details on their compensation in a timely manner.[70] However, Brazil noted that not all significant banks' policies are publicly disclosed in a timely manner and three jurisdictions reported that policies are clearly and comprehensively disclosed in most, but not all, significant banks.[71]

The extent to which these disclosures provide investors with the information needed for market discipline around compensation policies is however not fully explored, and not necessarily part of the supervisors' dialogue with firms (or investors) at this stage. It is not therefore possible to assess the effectiveness of such disclosure regimes.

Despite the importance of stakeholder engagement only 11 jurisdictions report that board members at all significant banks engage with investors, investment analysts or proxy firms in relation to compensation issues.[72]

Table 14 provides assessments by FSB members on the extent to which the core elements of the P&S related to stakeholder engagement have been implemented with regard to statements that describe effective implementation of the P&S.

[70] AR, AU, CA, CN, HK, ID, JP, KR, MX, RU, SA, SG, SSM, ZA, CH, TR, UK, US
[71] BR, IN, RU
[72] AU, CA, CN, ID, JP, SA, SG, CH, TR, UK, US

6. Recent developments

The following section considers more recent developments in the area of compensation and issues that supervisors have focused on over the last two years.

6.1 Increased focus on conduct

Conduct is increasingly a focus for both supervisors and banks in FSB jurisdictions given the significant examples of misconduct that have been identified in a number of banks in the post-crisis period. The FSB's 2015 Workplan on Measures to Reduce Misconduct Risk promoted incentives for good behaviour through:

- Standards and codes of behaviour, such as the *FX Global Code*, and reforms to benchmark-setting practices;
- A toolkit of measures to address misconduct in wholesale markets developed by the International Organization of Securities Commissions, based on national approaches; and
- A series of measures to address the role of incentives provided by compensation policies and of firms' governance frameworks to mitigate misconduct risk.

As part of this work, the FSB examined the role of compensation incentives in its 2017 progress report. In March 2018 the FSB published *Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices*[73] that provides firms and supervisors with a framework to consider how compensation practices and tools, such as in-year bonus adjustments, malus or clawback, can be used to reduce misconduct risk and address misconduct incidents. In November, the FSB published *Recommendations for national supervisors: Reporting on the use of compensation tools to address potential misconduct risk.*[74] The Recommendations set out the types of data that can support improved monitoring by supervisory authorities on the use of compensation tools to address misconduct risk in significant financial institutions.

Given the attention FSB member authorities are paying to these issues, it is not surprising that banks are putting a particular focus on steps they can take to reduce misconduct.

The increased focus on conduct risk continues to shape conversations around behavioural impacts and how to incentivise and reward desired cultures. In the roundtables organised by the FSB, banks agreed that compensation had a role to play in improving conduct standards in firms. A number of banks mentioned the importance of tackling what would have previously been considered minor infractions in order to set a clear expectation for staff that misconduct would not be tolerated. Several banks emphasised that there had been a fundamental shift towards incentivising and rewarding positive behaviours, while embedding the conduct agenda

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73 FSB, *Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices*, March 2018 (http://www.fsb.org/2018/03/supplementary-guidance-to-the-fsb-principles-and-standards-on-sound-compensation-practices-2/).

74 FSB, *Recommendations for national supervisors: Reporting on the use of compensation tools to address potential misconduct risk,* November 2018 (http://www.fsb.org/2018/11/recommendations-for-national-supervisors-reporting-on-the-use-of-compensation-tools-to-address-potential-misconduct-risk/).

at every level of the employee population. Employees are increasingly proactive about their own accountability and the set of behaviours for which they are responsible. There is also increased focus on the accountability of line and senior management. As one bank noted, "people at the top of the house need to understand they're responsible for incidents further down the chain".

Mixed scorecards

Mixed or balanced scorecards are used to compute compensation outcomes and include a mixture of financial and non-financial metrics against which employees are scored. This is a mechanism that banks have used to provide the right incentives to employees to reduce misconduct. The use of mixed scorecards has become widespread at banks. Eighteen jurisdictions report that banks use mixed scorecards for senior executives and "other MRTs" (see table 17). Firms often develop mixed scorecards in the absence of regulatory or supervisory requirements since only seven jurisdictions[75] require them for either senior executives or "other MRTs" and 11 jurisdictions do not require them.[76]

Table 17

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US

Non-financial metrics

Post-crisis risk adjustment practices have included a notable increase in the use of non-financial metrics when assessing performance. Banks report a range of data employed to more effectively assess staff performance. This includes indicators of control and compliance added to performance management metrics with a greater focus on customer outcomes. There is an increasing use of non-financial indicators in compensation and performance management processes that include assessments of "what" and "how" staff achieve their performance in order to ensure a focus on long-term sustainability. Banks are increasingly using mixed scorecards against which they assess performance, as well as gateways in which a certain condition has to be met (e.g. completion of compulsory training) before any variable compensation is awarded.

Sixteen jurisdictions report that banks link compensation to non-financial risks. These developments are in part related to the increased focus that supervisors and banks have given misconduct issues (see table 18). Banks have taken steps to consider the manner in which employees conduct their business. This means that performance management processes consider both "what" and "how" employees achieve their outcomes which, in turn, has a bearing on their final compensation. Eighteen jurisdictions report that banks include "what" and "how" as part of their performance scoring and only India reports that banks do not use this (see table 18).

[75] CN, HK, SG, SA, CH, TR, UK

[76] AR, AU, BR, CA, IN, ID, JP, MX, RU, SA, US

Table 18

Compensation linked to non-financial risks

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
	■	■	■	■	■			■	■			■	■	■	■	■	■	■	■

Compensation linked to "What" and "How"

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
■	■	■	■	■	■		■	■	■	■		■	■	■	■	■	■	■	■

Gateways

Gateways are binary decisions about compensation awards in which employers decide not to award any variable compensation as a result of misconduct or material poor performance by employees. Gateways are generally applied for serious or repeated breaches of standards and/or in relation to significant financial losses. Nineteen jurisdictions report that banks apply gateways to senior executives' compensation and also 19 jurisdictions report that banks apply them to "other MRTs" (see table 19).

Table 19

Gateways for senior executives

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
■	■	■	■	■	■		■	■	■	■	■	■	■	■	■	■	■	■	■

Gateways for "other MRTs"

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
■	■	■	■	■	■		■	■	■	■	■	■	■	■	■	■	■	■	■

Regardless of the practices on gateways, there is a clear indication from supervisors they expect compensation actions to be taken where a significant compliance breach occurs. All jurisdictions reported that they would expect there to be an impact on compensation (e.g. the application of compensation tools) where significant compliance breaches occur. All jurisdictions report that in the case of material risk management failures a significant impact on compensation would be expected.

6.2 Use of technology

Banks and supervisors report on the important role that technology can play in assessing the effectiveness of the application of compensation policies. For instance, in terms of bringing together disparate data to help managers make more effective decisions on compensation and analysing data points on compensation outcomes to ensure policies and processes have been followed.

There are significant differences between banks and jurisdictions in terms of the use of technology to make compensation processes more effective. In some instances, basic technology is used to gather and aggregate compensation data. Often information is held across a number of different databases and, this might require a significant degree of manual intervention, which increases operational risks and makes it more difficult to ensure consistent outcomes. Some firms have taken steps to rationalise and integrate such systems. At the more advanced end of the spectrum are those firms that use a range of technologies and advanced analytics as part of their compensation processes including: (i) data analytics tools to identify and monitor adverse behaviour using rules to identify outliers ; (ii) surveillance programmes to help detect misconduct; (iii) the use of forensic investigation software, leveraging on big data, to conduct investigative reviews and in some instances to review policies; and (iv) the use of technology to implement back testing of compensation outcomes to monitor alignment with compensation policies.

Eleven jurisdictions report that banks have increased their use of technology post-crisis to identify issues with compensation. Twelve jurisdictions report that technology is used to monitor compensation processes and 10 report its use for assessing effectiveness. Four jurisdictions report that there has not been any increased use of technology in compensation processes during the period covered by the questionnaire (see table 20).[77]

Table 20

Identify issues with compensation

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
■		■		■			■	■	■			■		■		■		■	■

Monitor compensation practices

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
■		■		■			■	■	■	■		■		■		■		■	■

Assessing effectiveness

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US
■		■		■			■		■			■		■		■		■	■

[77] AU, IN, MX, TR

Only a limited number of supervisors report having a detailed understanding of the extent to which firms use technology to identify, monitor, and assess effectiveness of compensation policies and outcomes. Those jurisdictions that have considered these issues report on the significant benefits that firms have when they use technology to improve the delivery and effectiveness of their compensation policies.

7. Continuing to embed change

7.1 Concerns about inconsistent application across banks

Feedback from industry during workshops and from FSB members highlights increased efforts to ensure greater consistency in terms of compensation outcomes. These better practices are driven by a number of actions including (i) consistent application of policies and processes; (ii) often by the centralisation of activities to allow for greater consistency; (iii) improved reporting to oversight committees and in particular direct reporting of control functions to board committees; (iv) greater transparency throughout the compensation process to encourage more consistent outcomes; and (v) improved and more consistent guidance and training on the application of compensation policies.

Firms' application of policies

However, despite this progress some banks emphasise that consistent application of compensation frameworks across the entire enterprise has been a challenge, in part because of differences in national regulatory regimes. Additionally, sometimes overlapping regulatory requirements may result in banks carrying out similar activities but compensation being regulated in different ways and, in some cases, under the same incentive-based compensation arrangements. Banks also note that implementation in different operating entities can result in inconsistent outcomes. For instance, where an accountable executive in a subsidiary is captured but a more senior manager at a group level is not captured in an MRT identification exercise.

Not all jurisdictions have assessed the consistency of compensation policy implementation within banks or across banks. Of those who have, a number of jurisdictions confirm that there is not always consistent implementation of bank compensation policies within banks i.e. the application of policies may vary between employees based on either their business unit, the country in which they are based or how much revenue they generate. These trends will be of interest to supervisors to the extent they may highlight inconsistencies. In particular, five jurisdictions report that most, but not all, significant banks apply policies and compensation consistently across business units,[78] five jurisdictions report this inconsistency across geographies[79] and three jurisdictions report it for employees based on the revenue they generate.[80]

Fourteen jurisdictions report that all significant banks apply compensation policies/tools consistently across different levels of seniority.[81] Australia reports that there is not consistent application.

Banks have commented that developments such as the need to pay for skills and outputs rather than for roles or jobs, the introduction of flatter management structures, and the creation of new technical roles to foster innovation in financial technology, all pose new challenges in terms of MRT identification since they are often competing with industries that do not face similar regulatory requirements. Banks view these recruiting and retention challenges with some sense

[78] BR, CN, IN, SSM, UK
[79] BR, IN, JP, SG, SSM
[80] BR, IN, JP
[81] AR, CA, CN, HK, ID, JP, MX, SA, SG, SSM, ZA, CH, TR, UK

of urgency and have repeatedly stressed to supervisors the need to attract talent in order to remain competitive in a fast developing market which requires flexibility in dealing with a changing workforce.

Impact of inconsistent legislative, regulatory or supervisory practices

Banks have reported that differences between legislative, regulatory or supervisory practices in different jurisdictions present difficulties for them in implementing consistent compensation policies globally. While international standards provide a basis for agreed minimum standards it is of course at the discretion of jurisdictions whether they apply additional measures. Such differences may reflect different legal and political traditions and differing risks from compensation policies. However, banks may find such differences difficult to address given the global talent pool they compete for at the more senior levels.

Ten jurisdictions report that all or most of their significant banks find that they need to adjust their compensation policies and schemes in order to take account of legislative, regulatory or supervisory practices that are different to their home markets.[82] Differences include differences in deferral practices, the application of the bonus cap for those firms operating in the EU and differences in the requirements for the identification of MRTs. These differences can result in firms having to develop regional compensation policies and practices.

7.2 Effectiveness

Banks are increasingly considering the effectiveness of their compensation regimes. Generally, practices tend to be more advanced at larger banks which have more resources available to develop effective remuneration policies.

However, finding the right metrics and process for these reviews is not a simple task. There appears to be a significant difference in the approaches firms take in this area. Most firms are engaging in yearly review processes, analysing positive and negative outcomes, while a few supplement this with additional monitoring and validation efforts. Generally, firms stress the importance of shifting the focus from design of policies to compensation outcomes, and what the rules are meant to achieve rather than on the rules.

Also a number of authorities are now taking steps to consider the effectiveness of the regimes they put in place. Across jurisdictions, the focus is on (i) reducing excessive risk-taking through the use of sound and effective risk management and (ii) effective long-term alignment of compensation with the banks’ risk appetite.

Seven jurisdictions report that they have or plan to conduct an effectiveness review (table 21). Six jurisdictions meanwhile report that they have already conducted such a review and are making changes as a result of effectiveness reviews.[83] Four jurisdictions report that the changes focused on making regulatory regimes for compensation more proportionate[84] and three jurisdictions report changes to the scope of the regimes.[85]

[82] AU, CA, HK, IN, JP, KR, SG, CH, UK, US
[83] AU, MX, SSM, CH, TR, UK
[84] MX, SSM, CH, TR
[85] MX, SG, TR

Table 21

Jurisdictions planning or that have conducted an effectiveness review

AR	AU	BR	CA	CN	HK	IN	ID	JP	KR	MX	RU	SA	SG	SSM	ZA	CH	TR	UK	US

Banks in three jurisdictions[86] reported unintended consequences from the implementation of compensation standards and five[87] reported recruitment and retention issues. Anecdotal evidence suggests that firms find it more difficult to report and retain staff across sectors and industries where pay is not regulated to the same extent.

Case Study: Evaluation of the Bank of England's remuneration rules

There is increasing interest internationally in evaluation of the effects of regulation. For example, a framework for post-implementation evaluations was developed by the FSB in 2017 and is being applied to several of the post-crisis reforms. At the same time, the Basel Committee has started a programme of evaluating the reforms to banking standards. The Bank of England is playing a full part in this work.

The Bank believes that an evaluation should be a rigorous assessment of the effects regulation has on the financial system and the wider economy. It should consider whether regulation is achieving its aims and whether there are any unintended effects. Also, for there to be a proper evaluation, a policy needs to be built on clear objectives and to be in force to be able to observe its effects. For this reason, any evaluation will necessarily be a multi-year project.

This is the background against which the Bank has commenced work to evaluate the impact of its remuneration rules. This work will have a number of stages as the core elements of the remuneration regime are evaluated. The work undertaken so far has demonstrated that, for any evaluation to have any validity, it has to be strongly evidence based. As a regulator, the Bank collects annually significant amounts of information from the larger firms on their remuneration policies and practices including large quantums of data, both for its own use and to meet its international obligations. Whilst this data provided a good starting point for forensic evaluation, the Bank recognised that higher levels of granularity were necessary. A first priority, therefore, was to undertake a significant review and augmentation of the data to make it possible to draw verifiable conclusions. This is the process the Bank will continue to adopt for every stage in the evaluation process.

The first stage in the evaluation project has been to focus on performance adjustment including the use by firms of performance adjustment tools such as clawback, malus and in-year adjustment. Over the next period it is planned to undertake work on other aspects of the regime with the objective of securing a comprehensive overview of its impact.

[86] RU, TR, UK

[87] MX, RU, TR, UK, US

Annex A: Status of national implementation for banking organisations

The table below provides a snapshot of the status of implementation in FSB member jurisdictions as of December 2018. The table does not provide an assessment of the degree of compliance with the particular Principle or Standard, but is an indication of the extent to which regulatory or supervisory initiatives have been taken to implement the Principles and Standards (or elements thereof).[88] The table was developed by the FSB Secretariat based on the responses to the template by FSB member jurisdictions, and national entries have been checked for accuracy by the relevant authorities.

	AR	**AU**	**BR**	**CA**	**CN**	**FR**	**DE**	**HK**	**IN**	**ID**	**IT**	**JP**	**KR**	**MX**	**NL**	**RU**	**SA**	**SG**	**ZA**	**ES**	**CH**	**TR**	**UK**	**US**
Effective governance of compensation																								
P1	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	R	R	R	R	R	R	S	R	R
P2	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	R	R	R	R	R	R	S	R	S
S1	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	R	R	R	R	R	R	S	R	R
P3	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	R	R	R	R	R	R	S	R	S
S2	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	R	R	R	R	R	R	S	R	S
Effective alignment of compensation with prudent risk-taking																								
P4	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	R	R	R	R	R	R	S	R	S
S3	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	S	R	R	R	R	R	S	R	R
S4	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	S	R	S	R	R	R	S	R	S
P5	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	R	R	R	UC	R	R	S	R	S
S5	R*	R	R*	S	S	R*	R	S	R	R	R	S	R	R	R	R	R	S	UC	R	R	S	R	S
P6	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	S	R	R	R	R	R	S	R	S

[88] The effective implementation of the Principles and Standards can be achieved through a variety of approaches, including different mixes of regulation and supervisory oversight. R* for Standard 5 indicates that malus is legally established in regulation but clawback may have legal impediments to its application.

	AR	**AU**	**BR**	**CA**	**CN**	**FR**	**DE**	**HK**	**IN**	**ID**	**IT**	**JP**	**KR**	**MX**	**NL**	**RU**	**SA**	**SG**	**ZA**	**ES**	**CH**	**TR**	**UK**	**US**
S6	R	R	R	S	S	R	R	S	R	R-	R	S	R	R	R	S	R	S	R	R	R	S	R	S
S7	R	UC	R	S	S	R	R	S	R	R	R	S	R	R	R	S	R	S	R	R	R	S	R	S
P7	R	UC	R	S	IP	R	R	S	R	R	R	S	R	R	R	S	R	R	R	R	R	S	R	S
S8	R	UC	R	S	IP	R	R	S	R	R-	R	S	R	R	R	S-	R	S	R	R	R	S	R	S
S9	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	S	R	S	R	R	R	S	R	S
S10	NA	UC	NA	S	S	R	R	R	R	R	R	R	S	R	R	R	R	R	UC	R	R	R	R	R
S11	R	UC	R	S	S	R	R	S	R	R	R	S	R	R	R	S	R	S	R	R	R	S	R	S
S12	R	R	R	S	S	R	R	S	R	R	R	S	R	R	R	S	R	S	R	R	R	S	R	S
S14	R	UC	IP	S	S	R	R	S	R	R	R	S	R	R	R	S	S	S	R	R	R	S	R	S
S15	R	R	R	S	S	R	R	R	S	R (partly) (IP)	R	R	S	R	R	R	R	R	R	R	R	S	R	R

Legend: R – regulatory approach (including applicable laws, regulations, and a mix of both regulation and supervisory oversight); S – supervisory approach (including supervisory guidance and/or oversight); IP – initiatives under preparation; UC – initiatives under consideration; NA – not addressed or not relevant; Where a letter is followed by "-" it means that the Principle or Standard has only been partly met. (S16-19 are not included.)

Acronyms: AR – Argentina; AU – Australia; BR – Brazil; Ca – Canada; CN – China; FR – France; DE – Germany; HK – Hong Kong; IN – India; ID – Indonesia; IT – Italy; JP – Japan; KR – Korea; MX – Mexico; NL – Netherlands; RU – Russia; SA – Saudi Arabia; SG – Singapore; ZA – South Africa; ES – Spain; CH – Switzerland; TR –Turkey; UK – United Kingdom; US – United States.

Annex B: Banks considered significant for the purposes of the Principles and Standards

Country	Firms
Argentina	1. Banco de Galicia y Buenos Aires 2. Banco de la Nacion Argentina 3. Banco de la Provincia de Buenos Aires 4. Industrial and Commercial Bank of China 5. Citibank 6. BBVA Banco Frances 7. Banco de la Provincia de Cordoba 8. Banco Supervielle 9. Banco de la Ciudad de Buenos Aires 10. Banco Patagonia 11. Banco Hipotecario 12. Banco de San Juan 13. Banco Santander Rio 14. HSBC Bank Argentina 15. Banco Credicoop Cooperativo 16. Banco Itau Argentina 17. Banco Macro 18. Nuevo Banco de Santa Fe
Australia	19. Australia and New Zealand Banking Group 20. Commonwealth Bank of Australia 21. Macquarie Bank Limited 22. National Australia Bank 23. Westpac Banking Corporation
Brazil	24. Banco do Brasil 25. Caixa Econômica Federal 26. Banco Itaú Unibanco 27. Banco Bradesco 28. Banco Santander (Brasil) 29. Banco BTG Pactual 30. Banco Safra 31. Banco Votorantim
Canada	32. Royal Bank of Canada 33. Toronto Dominion Bank 34. Bank of Nova Scotia 35. Bank of Montreal 36. Canadian Imperial Bank of Commerce 37. National Bank of Canada
China	There is no legal definition in terms of banks that are considered significant for the purposes of the P&S.
France	38. BNP Paribas 39. BPCE 40. Crédit Agricole 41. Société Générale

Country	Firms
Germany	42. Commerzbank 43. Deutsche Bank 44. Landesbank Baden Württemberg
Hong Kong	45. The Hongkong and Shanghai Banking Corporation Limited 46. Standard Chartered Bank (Hong Kong) Limited
India	47. State Bank of India 48. ICICI Bank 49. HDFC Bank
Indonesia	All commercial banks should implement the P&S.
Italy	50. UniCredit 51. Intesa San Paolo
Japan	52. Mizuho Financial Group 53. Mitsubishi UFJ Financial Group 54. Sumitomo Mitsui Financial Group
Korea	55. Shinhan Bank 56. Woori Bank 57. Standard Chartered Bank Korea 58. KEB Hana Bank 59. Kookmin Bank 60. Citibank Korea 61. DaeGu Bank 62. Busan bank 63. The Kwangju Bank 64. Jeju Bank 65. Jeonbuk Bank 66. Gyoungnam Bank 67. Korea Development Bank 68. Industrial Bank of Korea 69. Nonghyup Bank 70. Suhyup Bank 71. K Bank 72. KaKaoBank of Korea Corp.
Mexico	73. BBVA Bancomer 74. CitiBanamex 75. HSBC 76. Banorte-IXE 77. Santander 78. Scotiabank
Netherlands	79. ING Group 80. Rabobank
Russia	81. Bank FC Otkritie 82. Credit Bank of Moscow 83. Gazprombank 84. JSC Alfa-Bank

Country	Firms
	85. Rosbank 86. Promsvyazbank 87. Raiffeisenbank 88. Russian Agricultural Bank 89. Sberbank 90. UniCredit Bank 91. VTB Bank
Saudi Arabia	92. National Commercial Bank 93. Samba Financial Group
Singapore	94. DBS Bank 95. Oversea-Chinese Banking Corporation 96. United Overseas Bank
South Africa[89]	97. ABSA 98. Capitec Bank 99. FirstRand Bank 100. Investec 101. Nedbank 102. Standard Bank
Spain	103. BBVA 104. Santander
Switzerland	105. Credit Suisse 106. UBS
Turkey	107. Garanti Bank 108. Yapi Kredi Bank
UK	109. Barclays 110. HSBC 111. Lloyds Banking Group 112. RBS 113. Standard Chartered
USA	114. Bank of America 115. Bank of New York Mellon 116. Citi 117. Goldman Sachs 118. JPMorgan 119. Morgan Stanley 120. State Street 121. Wells Fargo

[89] This list may change as a result of the work being undertaken by the South African reserve Banks' Financial Stability Department in respect of the development of a framework for the designation of Systemically Important Financial Institutions (Financial Sector Regulation Act, 2017).

Annex C: Members of CMCG

Argentina	**Adriana Antonelli** Senior Manager, Financial Institutions Central Bank of Argentina
Australia	**Chris Dreverman** Senior Manager, Governance, Culture and Remuneration Australian Prudential Regulation Authority
Brazil	**Fabio Coimbra** Analyst, Banking Operations and Payments system Department Central Bank of Brazil
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