

Financial Stability Board  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 Basel  
Switzerland

6 July 2018

(Submitted via email to [fsb@fsb.org](mailto:fsb@fsb.org))

Dear Sir/Madam,

**Standard Chartered's response to the Financial Stability Board's (FSB) consultative document on *Recommendations for consistent national reporting of data on the use of compensation tools to address misconduct risk***

Standard Chartered welcomes the opportunity to respond to the consultative document and supports the work of the FSB in addressing misconduct risk. Compensation plays an important role in driving conduct and has an impact on the overall culture of an organisation.

As part of Standard Chartered's work on Culture since 2016 we have defined our Purpose: *Driving commerce and prosperity through our unique diversity*, and developed a set of valued behaviours that our people need to demonstrate in order for us to deliver this.

Having defined the valued behaviours that we expect our colleagues to demonstrate, we are now focused on embedding them. This work is about making the right things easy and the wrong things hard. We are covering the whole employee lifecycle – ensuring we select the right people, develop the right skills, appropriately manage and stop anything contrary to our valued behaviours, and assess performance and reward people for positive demonstration of valued behaviours.

We know that we are more likely to have the right behaviours delivered consistently and, therefore, the right culture if we incentivise and reward those behaviours. Standard Chartered agrees that mitigating misconduct risk requires a multifaceted approach and compensation practices have the potential to be a key driver of behaviour and conduct at both the individual and organisational level.

Broadly, the Recommendations set out in the consultative document are supported. While guidance is helpful, flexibility should be retained for organisations to determine the approach that is appropriate for them. Judgement, supported by appropriate governance, should continue to play an important role in compensation decisions. We have three key points:

### **1. Addressing misconduct risk extends beyond compensation**

We believe that addressing misconduct risk requires a multifaceted approach, as recognised by the FSB in its April 2018 toolkit for firms and supervisors on strengthening governance frameworks

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to mitigate misconduct risk.<sup>1</sup> While compensation can be a driver of conduct, it will remain difficult for firms to assess the isolated impact of compensation adjustments on reducing or improving misconduct issues. Accordingly, we recommend that the FSB clarifies that the Recommendations and Data Set proposed in the consultative document enable firms to monitor how compensation tools are being used to address misconduct risk, but other conduct interventions need to be included when assessing whether such interventions are effective at addressing misconduct risk.

## **2. The focus should be on high severity issues**

To facilitate the practical implementation of the Recommendations set out in the consultative document, as well as to aid effective, efficient and risk-sensitive supervision, we recommend that the FSB focuses on high severity issues. This does not preclude supervisory requests for data on individual low severity cases, but ensures a proportionate approach and an appropriate focus on high severity cases.

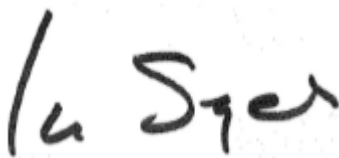
## **3. Data privacy concerns**

As an internationally active bank, Standard Chartered is subject to multiple regulatory frameworks that govern data privacy. We therefore recommend that the FSB clarifies that data requested or provided under the proposed Data Set should not breach compliance with regulatory obligations. Further, we note that some data contained within the proposed Data Set pertains to ongoing investigations into misconduct cases. It may not always be appropriate to provide such data if legal cases or internal investigations have not yet concluded.

The accompanying annex to this letter details our comments in response to the specific questions outlined in the consultative document.

We would be happy to discuss any of the points raised in more detail.

Yours sincerely,



**Ian Sayers**

Global Head, Group Regulatory Liaison and Acting Global Head, Regulatory Reform  
Compliance

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<sup>1</sup> <http://www.fsb.org/wp-content/uploads/P200418.pdf>

## **ANNEX – Responses to the questions outlined in the consultative document**

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

We believe that the FSB’s proposed Data Set is sufficient to allow supervisors and firms to monitor how compensation tools, such as in-year adjustments, malus and clawback, are being used. However, it will remain difficult for firms and supervisors to isolate how effective remuneration adjustments on an individual, business, or firm-wide basis have been at addressing misconduct.

Over the past five years, Standard Chartered has introduced a number of interventions to provide clarity on the standards of conduct and behaviour that are expected from colleagues. It is therefore difficult to determine whether it is the use of compensation tools alone that has been effective at reducing or improving misconduct issues, or, as we believe more likely, whether it is a combination of interventions.

The FSB recognises that addressing misconduct risk requires a multifaceted approach in its April 2018 toolkit on strengthening governance frameworks to mitigate misconduct risk. Standard Chartered supports the measures within that toolkit, as well as the broader recognition that issues around misconduct and misconduct risk are wider than compensation, although we understand that compensation can be a driver.

Accordingly, we recommend that the FSB clarifies that the Data Set pertains to the effective monitoring of the use of compensation tools, as part of a firms’ broader efforts to address misconduct risk.

### **2. If not, which additional data/information should be collected?**

We support the fact that the Recommendations contained within the consultative document do not prohibit firms from submitting data that is additional to the proposed core and additional Data Sets. We believe that additional data may be relevant on a case by case basis.

As an example, Standard Chartered’s conduct plan, which aims to reduce misconduct risk, also includes our commitment to our ‘Fair Pay Charter’. This Charter does not relate to the use of compensation tools to address cases of misconduct but we believe that initiatives such as this contribute to the overall culture of a firm, which can reduce the occurrence of misconduct.

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

Standard Chartered gathers and uses risk, control and conduct data in performance and compensation decisions. To ensure the practical implementation, effective and efficient supervision, and sufficient time and resources at national competent authorities (NCAs) to complete meaningful assessments of data, we recommend that a sensible approach would be to focus on high severity issues. This does not preclude supervisory requests for data on individual low severity cases, but ensures a proportionate approach and an appropriate focus on high severity cases.

Related to this, we recommend that the proposed data to be collected by NCAs under Part B of the Data Set is limited to high-level and/or aggregated details. For example, the collection and use of data on outstanding cases of misconduct (per B.1) may be difficult if legal cases are ongoing or if internal processes have not yet come to conclusion.

Additional impediments may include the cross-border transfer of sensitive data for events that span more than one NCA’s jurisdiction. Requests for, and the provision of, such data would need to comply with regulatory requirements on data privacy. Further, the data requested in Part B may give rise to a problem for firms if the management of sensitive data is opened more broadly, due to supplementary data that is requested or additional reporting to the supervisor, i.e. providing more granular detail on all cases. A related concern here is around resourcing to carry out the data requests, above what is done today.

Also, while guidance is helpful, flexibility should be retained for organisations to determine the approach that is appropriate for them. Judgement, underpinned by robust and appropriate governance, should continue to play an important role in compensation decisions.

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

As a global systemically important bank, we believe that the proposed Data Set is relevant for the banking sector. In line with section 4 of the consultative document, Standard Chartered supports proportionate and risk-based implementation, which considers the cost of implementation balanced with the supervisory objectives. This extends to the case where subsidiaries are small operators in local markets.

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

No comment.

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

In common with our answer above, the Group reports to the Management Team and Board (per B1.3) on misconduct cases and conducts internal mapping on root causes (B1.5) on material risk and control issues and/or failures. This helps the Group to focus on the most severe breaches and extends wider than the consideration of compensation adjustments. To preserve the effective implementation of these tools, and to allow firms to continue to dedicate resource to their wider goals of improving culture and mitigating misconduct risk, we recommend that a sensible approach would be to focus on high severity issues.

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

For the monitoring and assessment of potential misconduct: Standard Chartered has a number of well-established risk, control and conduct processes that help monitor and assess potential misconduct.

For higher severity misconduct issues, a management team level committee monitors material matters that occur throughout the performance year and determines whether a review into how individuals discharged their responsibilities is required, which may lead to the use of compensation tools, amongst other outcomes. This includes events where risks have crystallised but also cases where risks are yet to crystallise and are therefore being actively monitored.

For lower severity misconduct issues, a dashboard is available to line managers on a year-round basis that details any risk, control and conduct issues for their team members. This supports line managers at year-end when they are required to affirm that risk, control and conduct issues have been taken into consideration when making performance rating and variable remuneration proposals.

We are developing a Group Conduct Metrics Dashboard that provides an aggregated view of conduct breaches to senior leaders and the Compliance team to monitor conduct indicators.

For the assessment of effectiveness of compensation tools: As per our response to Question 1, Standard Chartered does not assess the effectiveness of compensation tools alone in its monitoring of conduct and/or culture, given the difficulties in isolating the impact of compensation adjustments from other conduct interventions. We do, however, monitor how compensation tools are being used.

We would also highlight the importance of the third line, internal audit, in continuing to ensure more effective compensation practices and outcomes, as well as to input to the overall mission of improving conduct and culture.

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

At a Group and business unit level, balanced scorecards play an integral role in the determination of discretionary variable remuneration. The scorecards take into consideration financial and non-financial targets, including those related to conduct and remediation programmes. This incentivises improvements in shareholder returns whilst ensuring that returns are not generated by excessive risk-taking.

Individual incentives are determined with reference to Group, business area and individual performance. This ensures that employees are aligned to deliver long-term sustainable growth and that variable remuneration recognises the achievement, conduct, behaviour and values of employees. Individual performance is assessed annually in relation to what employees have achieved and how they have achieved it, based on the valued behaviours they have demonstrated. This includes rewarding exemplary behaviour.

The Group has a well-established risk-adjustment framework for determining Group incentives. This provides a verifiable mechanism for measuring performance with risk adjustment applied afterwards in a clear and transparent manner.

The Recommendations, particularly with reference to Part B of the Data Set, focus on a very specific element of risk and reward alignment, i.e. the use of compensation tools to address misconduct. Accordingly, the Recommendations do not cover broader developments of risk and reward alignment, such as those described above. This is, however, balanced by the data included in Part A of the Data Set, which focuses on the broader alignment of compensation frameworks and risk management. The focus of the overall Data Set is therefore considered appropriate.

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

Consideration is given to whether compensation should be adjusted when there is conduct that has resulted in significant losses to the Group, a material risk management failure, or where the individual has failed to meet appropriate standards of conduct, values and behaviour.

The majority of individual variable remuneration adjustments are made by managers at year-end as part of normal performance management processes, after taking into consideration any risk, control and conduct issues. Individual in-year adjustments are entered by line managers into the remuneration system during the Final Review, when annual decisions on performance ratings and variable remuneration are made. Once adjustments have been entered into the remuneration system and reviewed by management and Human Resources, the in-year adjustments can then be reported.

Decisions on the application of malus and clawback, and the use of compensation tools in respect of high severity risk, control and conduct matters, can only be made by the management team level committee described in our answer to Question 7. This committee is also responsible for ensuring that risk adjustment of remuneration processes are designed and operating effectively, as well as for overseeing all compensation adjustments.

Compensation adjustments should be proportionate to the severity of the event. In determining a reasonable outcome, factors such as the impact of the event, the intent of the individual, the significance of the event, the speed of remediation and the frequency of issues are considered. As per our response to Question 3, judgement and appropriate governance play an important role in compensation decisions. Flexibility should be retained in the guidance to ensure that organisations are able to determine the approach that is appropriate for them.

Anomaly reports and specific data checks are completed on an annual basis to ensure that the use of compensation tools is aligned to internal practices and criteria.