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Re: CP 23 - Principles of remuneration policy

The Bank and Insurance Division of the Austrian Federal Economic Chamber, representing the whole Austrian Banking Industry, welcomes the opportunity to comment on the CEBS consultation regarding draft high-level principles of remuneration policies.

General considerations

There seems to be a political consensus that remuneration practices may have been a contributory factor to the market crisis, as they were not adjusted for risk and had a short-term focus. The reasons for excessive risk taking are however various and complex. Further research of establish correlations between remuneration practices and performance should be worthwhile considering in order to avoid the risk of unintended consequences.

Notwithstanding the work has already been done in this area at international level we are of the opinion that national responses in implementing principles in this area are more appropriate especially in the context of the principle of subsidiarity.

The need for banks to retain highly qualified staff and the need also not to undermine Europe's competitive position also should be taken into consideration. It is important to consider a consistent application of principles in remuneration principles, not only restricted to the banking industry.

Principles should be considered at EU and International level to address possible weaknesses in remuneration practices but those **principles should remain high-level** and should be restricted to managerial functions, risk-takers and control functions.

As high-level principles in this area are targeted to adequately address risks for the financial institution, only those functions and categories of employees which exposed the financial

institutions to financial risks linked to the performances of market instruments, should be taken into account.

It seems to be of high importance that any application of those principles would be implemented on a principles and risk based way. Not every principle should apply in the same way to every institution. A **proportionality principle** is important too in this context as substantial differences in business practices have to be taken into account.

The context how those principles may affect current employment contracts has to be taken into consideration. Companies need adequate time to potentially review and align their remuneration schemes.

Specific Comments

General

- i. The financial institution should adopt an overall remuneration policy that is in line with its business strategy and risk tolerance, objectives, values and long-term interests. It should not encourage excessive risk-taking. The remuneration policy should cover the institution as a whole and contain specific arrangements that take into account the respective roles of senior management, risk takers and control functions. Control functions should also be adequately rewarded to attract skilled individuals.*

In general we can agree with this principle. Employees shouldn't have incentives to act in ways that might undermine effective risk management.

A further major point is the impact of high level principles on existing contracts. Contracts signed before the adoption of these high level principles might contain provisions on remuneration that are not totally in line with these principles. Taking into consideration that companies have incentives to keep the best qualifications in their institutions, sufficient flexibility should therefore be granted to financial institutions in order to deal with these contracts. A sufficient grace period during which the company would need to comply with the new principles could solve this problem.

- ii. The remuneration policy should be transparent internally and adequately disclosed externally.*

In general we agree with the issue of transparency in this context, but the extent has to be further clarified.

The external disclosure of banks' remuneration policies could fit in the framework of Pillar 3 where banks would be able to disclose their remuneration as a general policy, but this external disclosure rule is not appropriate for non listed companies. Therefore, a proportional application of this principle is necessary in this context too.

As far as internal disclosure is concerned, flexibility should also be given to companies depending on whom this information is disclosed to. Different levels of disclosure should therefore be permitted.

GOVERNANCE

- iii. The management body, in its supervisory function, should determine the remuneration of the management body, in its management function¹. In addition it should have oversight of the overall remuneration policy of the firm. The implementation of the remuneration policy should be subject to central and independent review.*

For smaller institutions with less exposure to market risk (also taking into account national structures) a less sophisticated approach has to be found.

According to the nature, scale and complexity of the firm and its activities these principles will vary.

MEASUREMENT OF PERFORMANCE AS A BASIS FOR REMUNERATION

- iv. Where the pay award is performance related, remuneration should be based on a combination of the individual performance's assessment, the performance of the business unit and the overall results of the company or group. When defining the individual performance other factors apart from financial performance should be considered. The measurement of performance, as a basis for bonus awards, should include an adjustment for risks and cost of capital.*

Where the pay is performance related, individual and collective factors should be taken into account. The current draft principle asks for three different factors. The aim here should be to have a part of the performance based remuneration related to the collective performance without going into details. Flexibility should be given to each company in order to define its own collective criteria that could comprise the performance of the business unit, the overall results of the company. Sufficient incentives should remain under the control of each institution in order to maintain high motivation and efficiency within financial institutions.

FORM OF REMUNERATION

- v. There should be a proportionate ratio between base pay and bonus. Where a significant bonus is paid, the bonus should not be a pure upfront cash payment but contain a flexible, deferred component; it should consider the risk horizon of the underlying performance.*

It seems to be important to underline that sufficient flexibility should also be given to companies as the form of remuneration has to be considered primarily as a matter for each of them.

¹ For a definition of the management board in either its supervisory or management capacity, please refer to the definition provided on page 6 of CP03. The definition is designed to address both single and dual tier structures within the EU.

A transition period should be specified with appropriate time in this context.

Yours sincerely,

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