



CEBS

[cp23@cebs.org](mailto:cp23@cebs.org)

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## **EAPB general comments on the CEBS High level principles on remuneration policies**

The European Association of Public Banks welcomes the opportunity to comment on the draft high level principles on remuneration policies. In the light of the financial crisis linking remuneration to the long-term success of a company appears reasonable for certain areas of operation of a financial institution. It is indeed important that no incentives are given for managers or certain employees, who work in areas which are subject to risk, to only focus on short-term results and to take excessive risk that would jeopardise the long-term sustainability of the institution.

We, however, have certain concerns as to the definition of what is long-term with regard to financial results. The term is very extensible and can have various degrees of importance, considering the wide range of areas of operation of financial institutions. For example in the trading section a conservative interpretation could be counterproductive, as the remuneration of traders is generally very variable. It could lead to a real conflict of aims with regard to the short-term motivation effects of variable remuneration.

The deferral of bonus payments over many years on the basis of ex-post-evaluations would, moreover, lead to unmanageable situations for institutions with a long term business model, such as promotional banks. In banking the sale (placement of loans) is separated in time from the realization of its financial results. In the activity of promotional banks the time gap is especially long. By the time a loan with a duration term of 20 years becomes entirely repaid it can easily happen that the employees will not be working at the same place anymore. Moreover measuring the long term performance is highly complex.

This is why we suggest that the deferred component of the remuneration should be linked to the financial results realized in the current year and the deferred due date not longer than 3 years. In certain business areas risk ratios could be included as a factor in calculating the bonus to take into consideration the long term risk.

We understand that according to the draft principles the supervisory function of an institution's management body should determine the remuneration of the managing



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function. However we do not agree with the proposal that a remuneration committee should be independent from the management body of the bank. The supervisory function of the management could only, for the sake of transparency, delegate its powers concerning remuneration to boards that are less independent.

Please do not hesitate to contact us, should you have any questions.

Kind regards,

A handwritten signature in black ink, appearing to read 'Schoppmann', written in a cursive style.

Henning Schoppmann  
EAPB

A handwritten signature in black ink, appearing to read 'Julien Ernoult', written in a cursive style.

Julien Ernoult  
EAPB