



*European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken*

**Committee of European
Banking Supervisors**

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CP23@c-eps.org

Draft high-level principles of Remuneration Policies (CP 23)

Ladies, Gentlemen,

The European Association of Co-operative Banks (EACB) welcomes the opportunity to comment on CEBS's draft high level principles of remuneration policies.

Please find our remarks on the following pages. Do not hesitate to come back to us with any questions.

Yours sincerely,

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GENERAL REMARKS

The members of the EACB support the High Level Principles in general, while at the same time being mindful of the need to leave enough freedom for implementation at the various levels of Member States and individual firms. This will require flexibility and caution.

These principles should correspond to standards set at the global level and avoid competitive distortions for EU banks.

Scope

In the fourth paragraph, CEBS states that further consideration will be given to how the supervisory review and evaluation process (SREP), which includes an assessment of all risks to a company, can address those risks emanating from the remuneration policy. Within this process supervisors will consider the range of measures, available under Pillar 2, to address and mitigate these risks.

Based on the present principles, EACB considers it important to develop standards for supervisors on how to judge the remuneration system at several categories of banks.

EACB members would like to recall that the remuneration systems for retail banking are different from those employed for e.g. corporate and investment banking (CIB). Therefore, it would be appropriate for CEBS to identify where remuneration is particularly risk-related and relevant from a supervisory perspective so that banks can develop appropriate answers.

At the same time, it would also be important to develop standards on how to incorporate them in the SREP process, including the determination of possibly a penalty under Pillar 2.

The Character of these High Level Principles

While the members of the EACB support the general approach of the principles, we nevertheless ask for clarification regarding the nature of these principles and the degree to which they are subject to supervision: While some requirements are highly important to these principles (e.g. *“Any policy should aim at aligning personal and company objectives with a view to a long-term”*)¹ they could prove difficult for supervisors to apply in practice.

Labour Law

In most Member States, the remuneration of the vast majority of employees in the banking sector is clearly defined by national collective agreements and sector

¹ See first paragraph of page 2 of the Draft High Level Principles.



agreements. Thus it is important to avoid jeopardising the balance of agreements negotiated between unions and employer representatives.

The members of the EACB also think that these principles should not have a direct impact on individual employment arrangements.

The Role of Remuneration Policies

We suggest introducing some words about the role of remuneration policies in the context of a bank's system of management and planning:

A sustainable policy towards risk is, in the first place, implemented by means of a bank's system of management and planning (setting also the institution's business objectives, risk strategies and risk profile). A bank's remuneration policy is not a stand-alone issue but closely related to the (risk) management, control and planning system, in particular where there are variable elements of remuneration (e.g. performance related).

Thus, as remuneration policies are complementary to bank's system of planning and (risk) management, it has to be assessed whether they support the major goals as defined by those systems. In fact, the goals, as set by the bank's system of management and planning have to be implemented into the bank's remuneration policy in a consistent manner so that remuneration incentives support the efforts for achieving those goals.

Thus, the bank's management and planning system, defining the bank's business objectives throughout all business lines and for all units and members of staff is the "core system", from which all subordinate systems, such as remuneration policies, get their input.

The members of the EACB think that CEBS should approach the high-level principles more from this angle, which could make them more pragmatic regarding certain details.

Proportionality

Furthermore, we suggest mentioning the principle of proportionality as well: While it may be required to demonstrate for certain levels of hierarchy that the remuneration policy is aligned to the bank's interest, it may be sufficient for lower levels to demonstrate that such policy is not harmful.



SPECIFIC REMARKS

EACB would like to make the following comments on specific elements:

Principle i:

- *Overall remuneration policy in line with business strategy and risk tolerance:*

CEBS states that any policy should aim at aligning personal and company objectives with a view to the long-term including the overall business strategy as well as other company values such as the compliance with culture, ethics, behaviour towards customers, etc.

We fully support this approach in principle, which is in line the with the business model of co-operative banks. We nevertheless suggest clarifying that it does not require that complex objectives (e.g. demanding reflections on company cultures, ethics, etc) are set for every single employee in his daily business.

While the goals set for certain senior management are by definition complex, we think that it is sufficient if the goals for lower staff levels are set in the light of company objectives (e.g. culture, value, avoidance of excess risk) and that general guidelines (in particular compliance) are respected. While it may be desirable that employees have a good understanding of the company's general objectives, we presume that the objective will be best achieved when they have clear goals and rules to stick to.

The specific goals and objectives of a bank need to be established in such a way that the risk situation of the whole business is adequately managed, independent of which hierarchy level they have been formulated. A management system that provides proportionate target corridors and other action margins for all hierarchy levels, will avoid assuming unreasonable risks.

- *"Control" functions:*

CEBS states that control functions should be adequately compensated in accordance with their own objectives and not in relation to the performance of the business units they control.

In this respect, EACB suggest clarifying that "control" functions to which CEBS refers to are those carried out by the specific, independent control and audit units and not simply those senior staff member (e.g. Head of Unit). In fact, the current drafting could lead to misunderstandings and contradictions with what is set out in principle iv (measurement of performance as a basis for remuneration).



Principle iii:

- Management body

EACB suggests that CEBS clarifies the following principle, “the management body, in its supervisory function, should determine the remuneration of the management body, in its management function”. Indeed, the current formulation is ambiguous and may lead to believe that the management decides on its own remuneration, which is not currently the case (the common practice is that the board of directors decides the remuneration of the general manager).

Whereas EACB agrees in principle that one should pay specific attention to preventing incentives for excessive risk taking and other behaviour, EACB suggests that CEBS provides some clarification for the following item : “any policy should be subject to regular (at least annual) and independent internal review.”

EACB does not understand what CEBS means by “an adequate involvement of the shareholders”. This should be clarified, especially for the cooperative banking community.

Principle iv:

We would like to suggest carefully considering to the extent to which questions of the measurement of performance are subject to banking supervision, such as performance related pay. We take the view that CEBS should limit itself to ensuring that the measurement of performance is in line with a bank’s risk objectives. Prescribing a mix of parameters seems to go beyond the necessary.

- *Measurement of a combination of performances as basis for remuneration:*

CEBS establishes that where the pay 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.

We have serious doubts about the appropriateness of performance related pay being based, as a general rule, on a combination of individual performance, business unit and overall results. In fact, there may be cases where such a wide combination may be seen as appropriate. Furthermore, there may be cases where, it only makes sense to focus on the results of a group as a team. However, as a general rule, performance related pay has to focus primarily on an employee’s individual level of responsibility and tasks. The possibility of remuneration, which is solely based on the performance of an individual, should not be limited without good reasons.

Where performance is almost exclusively related to individual efforts (e.g. derivatives trader), any relation to unit results could create disincentives and encourage strong performers to change company, since they might perceive the system as “unjust”.



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- *Assessment of other non-financial factors:*

CEBS states that for individual performance assessment, other non-financial factors should also be considered such as acquired skills, personal development, etc.

EACB is of the opinion that the individual performance measurement based on said factors should not fall within the scope of supervision.

Principle v:

- Proportionate ratio between pay base and bonus

EACB agrees with the general idea that the variable part of remuneration should not be disproportionate. However, we think that it is not realistic to establish a fix ratio. Instead, it seems more appropriate to focus on a more general principle.