



The voice of banking  
& financial services

Committee of European Banking Supervisors  
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## **Re: Draft high-level principles of Remuneration Policies**

The BBA welcomes the opportunity to respond to CEBS consultation on the draft high-level principles of Remuneration Policies. The BBA is the leading association for the UK banking and financial services sector, speaking for 220 banking members from 60 countries on the full range of UK or international banking issues and engaging with 37 associated professional firms. Collectively providing the full range of services, our member banks make up the world's largest international banking centre, operating some 150 million accounts and contributing £50 billion annually to the UK economy.

The BBA supports the principles-based approach, and recognition that ultimate responsibility for remuneration policy lies with financial institutions and, where appropriate, their shareholders.

The scope of the proposals, targeting both regulators and regulated firms, emphasising the role of senior management, and risk takers and risk managers, and encompassing all levels of firms is correct. Risk management is a firm-wide issue and should not be pigeon-holed to a certain function.

The inclusion of remuneration practice in the supervisory review is sensible as risk management should be holistic.

The BBA agrees that remuneration policy should apply to all employees, and that regulators would review this on a risk-based approach. We believe that the references to risk takers and senior employees should be removed as it requires definitions to be provided on these terms which we believe would not be helpful. As an example every employee is a risk taker in the organisation, clearly though the levels of risk they that any individual takes will be dependent on their role.

### **General**

i. The BBA agrees with the principle that remuneration should be aligned with strategy and risk appetite, and align both employee and employer objectives, and promote long-term perspectives. However, we think that the specificity around senior management and risk takers should be removed.

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ii. Our members will continue to be bound by regulation concerning disclosures, but are concerned about automatic disclosure to other stakeholders, unless it is clear what this might really mean. Members are prepared to articulate general remuneration policy, but would not want to have to tailor policies and disclosure for different audiences. The BBA believes it should be made clear that this is a high level policy and principles-based rather than a very detailed policy. Our preference is that the disclosure would not be any different from the existing requirements in Directors' Remuneration Report, thereby preventing multiple documentation / messaging.

While we understand the concerns expressed by a number of commentators regarding the performance of a number of 'failed' institutions and their levels of remuneration, to achieve balanced compensation structures which reflect the risk profile of particular businesses, a holistic assessment is required which embraces all aspects of people management within the company. Just as one might evaluate the probity and soundness of a firm's management of market and credit risk, so too should the effectiveness of its people management strategies, policies and governance be measured.

### **Governance**

iii. The BBA agrees with the principle that ultimate oversight of remuneration policy and practice rests with the governing body. The concept of an independent Remuneration Committee is widely implemented in the United Kingdom, a best practice that we feel should be widely shared. Regular reviews of policy and practice, including the effects of such practice, and the inclusion of in-house and independent control functions are welcome.

The BBA accepts that remuneration policy should be subject to independent review, but that this needs some clarification. Is it expected that this will be done by external auditors, internal auditors or in some other form?

### **Measurement of Performance as a Basis for Remuneration**

iv. Our members do take individual and business performance into account when determining performance-related pay. Non-compliant behaviour cannot be compensated for by good financial performance. The inclusion of risk and cost of capital as part of the measurement of performance is an appropriate means of managing risk in a comprehensive manner, and is a more effective way of mitigating risks which are amplified by certain forms of remuneration.

The BBA agrees that bonus pools should be calculated with an adjustment for risk, but do not believe that this should go down to individual bonuses as calculating the cost of capital at an individual level would not be possible. Thus removal of the word bonuses from the principle would be more precise and practical. It would help to have guidance from CEBS as to how supervisors are thinking about risk-adjusted measures.

### **Form of Remuneration**

v. The BBA agrees that deferrals should be part of the remuneration policy and that large bonuses should not be awarded in upfront cash. We also agree that employees should not have to rely on bonuses alone, but we do not want to see this being made prescriptive to companies in any way shape or form – it must be a matter for company discretion as far as possible. An element of appropriateness and principle, rather than prescription, should be introduced here. Firms should have the autonomy to decide on the most appropriate form of remuneration so long as it is in keeping with sound risk management.

Clawing back paid compensation rather than deferred compensation will cause significant issues in some jurisdictions. We believe it would be better to focus on the forfeiture of deferred elements rather than the upfront cash elements. In addition, the use of the word “clawback” is not a helpful legal term in some jurisdictions. We would suggest the use of “forfeiture subject to performance conditions”

The BBA requests that the term escrow account is removed from the description of the principle as there are tax implications of escrow accounts in some jurisdictions which would make using an escrow account more punitive than it needs to be.

Remuneration policy and practice should be consistent with risk management and the avoidance of excessive risk. The level and form of remuneration are a matter for governing bodies and investors.

We hope that you have found our comments useful. Please do not hesitate to get in touch either via email ([sally.scutt@bba.org.uk](mailto:sally.scutt@bba.org.uk)) or via telephone on 020 7216 8945.

Yours sincerely,

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