

The Council of Banking Employers in Romania

Bucharest, 03 June 2015



To: The European Banking Authority
From: The Council of Banking Employers in Romania

Subject: Questions on "Sound Remuneration Policies – CRD IV"

Dear Madam/Sir,

The Council of Banking Employers in Romania, the employers' organization of the Romanian banking sector, is kindly requiring your assistance in clarifying certain aspects contained in the "Sound Remuneration Policies – Capital Requirements Directive IV", with the aim of soundly transposing the requirements of the European Union's Regulations and Directives.

CPBR's member banks are Banca Comerciala Romana, BRD - Groupe Societe Generale, Raiffeisen Bank, UniCredit-Tiriac Bank, ING Bank Romania and Volksbank Romania. The six banks together own about half of total assets in Romania's banking system, while their employees make more than a third of all employees in Romania's banking sector.

Context:

Considering the EU's Regulations 575/2013 and 604/2014, as well as Directive 36/2013, each country translated and transposed them into local regulations, which resulted in different approaches from a country to another (there is no unified approach.)

The multinational EU institutions have employees (employed by parent companies but in a state of international mobility) – who are "identified staff" in the European countries of destination, where they exercise their positions. A different local reward policy could create issues for their intra-group mobility (in terms of acceptance, payment method and personal cash flow), and possibly higher rates of turnover for these highly-qualified employees.

A non-discriminatory policy, however, is part of all EU institutions as the core value of our organizational culture.

Having the same job types, but nevertheless being located in different EU countries (where the implementation of EU Regulations and Directives vary) may result in creating discrepancies among such employees. This is also the case as we all encourage intra-group mobility in order to better use their competencies, but also to answer to the subsidiary's business need.

Therefore, we believe that a certain standardization at European level would bring many benefits for personal treatment, more homogenous HR policies, proper treatment of the loyalty of our employees, higher motivation in the sustainability of their activities and not least, the avoidance of lower-than-suitable turnover levels for employees that qualify for higher packages in their countries of origin within the EU.

Taking into consideration the public consultation paper issued by the European Banking Authority in March 2015 on sound remuneration policies under art. 74 (3) and 75 (2) of Directive 2013/36/EU and disclosures under art. 450 of Regulation EU no. 575/2013, we would appreciate further clarifications and details pertaining to the following aspects:

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1. Setting up a minimum threshold for applying the deferral payment method (Q15 of EBA's online Consultation form)

European groups in their countries of origin set up minimum thresholds below which the variable part will not be deferred and will be paid out in one-time payments. In countries where EU legislation was transposed in a more permissive way, as far as we understand, this threshold has also been formally transposed into local legislation.

In Romania, however, the National Bank of Romania's Regulation 5/2013 does not foresee such a minimum threshold.

Question:

As a general practice, the variable level is not set and/or paid out at a highly material level, either in absolute amount or considered as a percentage of the fixed remuneration.

Also, as retail activity is prevalent, the absolute amount of variable bonus is sometimes low and does not reflect the levels that encourages risk-taking at any price.

As concerns the "neutralization" of some functions such as per Chapter 8 (Proportionality) from the consultation paper, we would like to know if any of the proposals below could be considered:

- **either introducing uniformity at EU level: propose only variable parts that exceed a 25% threshold (considered for a low amount of variable remuneration) from the annual fixed remuneration, or setting up a threshold (e.g. 30.000 EUR) above which the variable remuneration to be deferred accordingly, or**
- **allowing for the implementation of the threshold from the parent company.**

In order to ensure compliance with all regulatory requirements while targeting a common and unitary approach at European level as well as at Romanian banks level and comparability between institutions (small/ medium/ large and their focus on different clients Retail/ SMEs/ Corporate), we consider that a more suitable approach would be to consider the weight of the variable part in annual fixed remuneration when applying the deferral method.

2. Ratio 2:1 (Q3 of EBA's online Consultation form)

According to UE directive 36/ 2013 the ratio between variable and fixed remuneration can reach up to 200%, subject to prior approval by General Meeting of Shareholders in certain conditions.

The Romanian regulator confirmed that at the time of transposing the EU regulations into local legislation through Regulation NBR 5/2013, the provisions regarding the possibility of requesting approval of a higher ratio than 1:1 by the General Meeting of Shareholders was not intended.

Considering the above presented context and looking forward, we would like to understand the following: **does the EBA intend to consider a uniform application at EU level regarding the 2:1 ratio if the parent institution has already approved in their General Meeting of Shareholders this rule and is further asking its subsidiaries to ensure compliance in terms of remuneration policies alignment?**

The side effect that an institution could experience is that it may unrealistically increase the fixed remuneration, not necessary in line with internal policies, in order to match a good or even exceptional annual performance or to reward special projects.

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3. Long-Time Incentives (LTI)

(Q3 of EBA's online Consultation form)

As per Chapter 11 (Categories of Remuneration) art. 120, if a person is employed in an EU legal entity in a third country – subsidiaries of EU parent institution she/he could receive a variable part from the parent institution as long-time incentives (LTI). Those LTIs are defined entirely in accordance with the parent institution rules/conditions and represent deferral instruments.

Taking into account the more restrictive ratio 1:1 applied locally and the clear fixed ratio between cash and instruments that regulates the deferred payments, including the LTI as part of the variable component, could have the following effects:

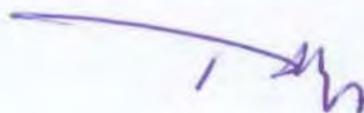
- distort the individual cash flow of the deferred person;
- diminish the effects of loyalty programs carried by financial institutions;
- diminish the real variable bonus of an identified staff.

Moreover, we also face the situation where an employee in international mobility comes from a 2:1 to a 1:1 ratio as documented in the respective local legislation, which is clearly less attractive for the employee and therefore does not support the employer need to attract highly qualified candidates/talents within the market.

Therefore the question raised is: how could such situations be managed in order be compliant in the context of the new local regulations, while also creating the optimal conditions to motivate our highly-qualified employees?

Thank you very much for your support and we look forward to hearing from you.

Sincerely,



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