

7. Finance: Sound Compensation

Commitment [#92]:

“We reaffirmed the importance of fully implementing the FSB’s standards for sound compensation.”

Seoul Summit Document

Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina	-1		
Australia			+1
Brazil		0	
Canada			+1
China			+1
France		0	
Germany			+1
India		0	
Indonesia		0	
Italy		0	
Japan			+1
Korea			+1
Mexico			+1
Russia		0	
Saudi Arabia		0	
South Africa		0	
Turkey		0	
United Kingdom			+1
United States		0	
European Union			+1
Average Score		+0.35	

Background:

During the 2009 G20 London Ministerial Meeting, G20 Finance Ministers and Central Bank Governors acknowledged the role that compensation strategies in significant financial institutions played in promoting the accumulation of risks that led to the global financial crisis and called on the Financial Stability Board to develop comprehensive proposals to develop framework on corporate governance and compensation practices. G20 Finance Ministers and Central Bank Governors have specifically urged that the practices should align with the following FSB principles:

- greater disclosure and transparency of the level and structure of remuneration for those whose actions have a material impact on risk taking;
- global standards on pay structure, including on deferral, effective clawback, the relationship between fixed and variable remuneration, and guaranteed bonuses, to ensure compensation practices are aligned with long-term value creation and financial stability; and

- corporate governance reforms to ensure appropriate board oversight of compensation and risk, including greater independence and accountability of board compensation committees.⁶³⁴

On 25 September 2009 the FSB released FSB Principles for Sound Compensation Practices – Implementation Standards document to submit to the Pittsburgh Summit for leaders for review.⁶³⁵

The FSB outlined seven main standards for implementation which include governance, compensation and capital, pay structure and risk alignment, disclosure, and supervisory oversight. Under the governance standard, the FSB advises that significant financial institutions should establish a remuneration committee to govern the structure and organisation of the compensation system’s design and operation on behalf of the board of directors. Under the compensation and capital standard, the FSB recommends that total variable compensation should not limit the firms’ abilities to strengthen their capital base and that national supervisors should set a limit on the percentage of variable compensation of the total net revenues when it is inconsistent with the maintenance of a sound capital base. The pay structure and risk alignment standard will require financial institutions to take into account for a range of risks when determining the size of the variable compensation pool and its allocation. Disclosure standard will require financial institutions to produce an annual report on compensation that shall be available to the public. And under the supervisory oversight standard, requires national supervisors to ensure effective implementation, monitoring, and oversight practices and to coordinate internationally to ensure that the standards are implemented across jurisdictions.⁶³⁶

At the G20 Pittsburgh Summit, leaders acknowledged that reforming compensation policies and practices is an essential part of increasing financial stability and resilience and called on firms across the nations to implement the sound compensation practices.⁶³⁷ During the G20 Toronto Summit, the leaders noted that implementation of the FSB standards for sound compensation was not yet complete and encouraged all countries and financial institutions to fully implement the FSB principles.⁶³⁸ In November 2010, the leaders reaffirmed their commitment to fully implementing the practices while at the G20 Seoul Summit.

Commitment Features:

The commitment calls for implementation of FSB standards for sound compensation. The FSB Principles for Sound Compensation Practices consist of seven implementation standards including governance, compensation and capital, pay structure and risk alignment, disclosure, and supervisory oversight.⁶³⁹ In order to fully implement the standards, members are required to approve new directives, regulations, laws, or amendments that enforce significant financial institutions to adopt the principles and standards.

⁶³⁴G20 Banking Statement, G20 Information Centre (Toronto) 5 September 2009. Date of Access: 9 February 2011 <http://www.g20.utoronto.ca/2009/2009banking0905.html>

⁶³⁵ FSB Principles for Sound Compensation Practices, Financial Stability Board (Basel) 25 September 2009. Date of Access: 9 February 2011. http://www.financialstabilityboard.org/publications/r_090925c.pdf?frames=0

⁶³⁶ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶³⁷ G20 Leaders Statement: The Pittsburgh Summit, G20 Information Centre (Toronto) 24-25 September 2009. Date of Access: 9 February 2011. <http://www.g20.utoronto.ca/2009/2009communique0925.html>

⁶³⁸ The G20 Toronto Declaration, The G20 Research Group (Toronto) 26 June 2010. Date of Access: 9 February 2011. <http://www.g20.utoronto.ca/2010/to-communique.html>

⁶³⁹ FSB Principles for Sound Compensation Practices Financial Stability Board (Basel) 25 September 2009. Date of Access: 9 February 2011. http://www.financialstabilityboard.org/publications/r_090925c.pdf

Given that the commitment has been agreed upon back in 2009 and reiterated over the subsequent summits, members are required to fully implement all five standards in register a full compliance. Only new amendments that have been implemented post Seoul Summit will be scored. Members who have already implemented all standards will register a score of +1.

Scoring Guidelines:

-1	Member does not take any actions towards the implementation of the FSB’s standards for sound compensation OR takes actions that go against these standards.
0	Member partially implements the FSB standards for sound compensation by doing one of the following: (1) implements 3 of the 5 standards fully OR (2) implements components from all 5 standards.
+1	Member fully implements the 5 standards for sound compensation.

Argentina: -1

Argentina has not complied with its commitment to fully implement FSB standards for sound compensation, as reaffirmed in the G20 Seoul Summit in November 2010.

In March 2010 a preliminary review on compensation conducted by the Financial Stability Board indicated that Argentina had not yet implemented measures for the assessed Principles and Standards.⁶⁴⁰

On 6 May 2010, the Central Bank announced an agreement for the collaboration of the Superintendence of Financial and Exchange Entities (SEFyC) with the Argentine Federation of Professional Councils of Economic Sciences (FACPCE), in a Study Commission in order to develop a plan to implement the International Financial Reporting Standard.⁶⁴¹ The agreement also stated that a Technical Committee would be established, and that it would be responsible for elaborating and supervising the implementation of the standards.⁶⁴²

On 18-19 February 2011 in Paris, the representation of Argentina participated in the meeting of Finance Ministers and Central Bank Governors, where the joint communiqué was released by all members urging all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices agreed by the G20 Leaders in Pittsburgh” and called on the FSB “to undertake ongoing monitoring in this area and look forward to receiving the results of a second thorough FSB peer review midyear to identify remaining gaps.”⁶⁴³

The Central Bank of Argentina has not taken any concrete actions towards the implementation of FSB standards for sound compensation since the G20 Summit in November 2010. Therefore,

⁶⁴⁰ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁴¹ Acuerdo de Colaboración Entre la Superintendencia de Entidades Financieras y Cambiaras (SEFyC) y la Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE), Central Bank of the Republic of Argentina (Buenos Aires) 6 May 2010. Date of Access: March 26 2011. http://www.bcra.gob.ar/pdfs/acuerdos/ACUERDO_FACPCE_SEFyC.pdf

⁶⁴² Acuerdo de Colaboración Entre la Superintendencia de Entidades Financieras y Cambiaras (SEFyC) y la Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE), Central Bank of the Republic of Argentina (Buenos Aires) 6 May 2010. Date of Access: March 26 2011. http://www.bcra.gob.ar/pdfs/acuerdos/ACUERDO_FACPCE_SEFyC.pdf

⁶⁴³ 2011 G20 Financial Ministerial Communiqué, G20 Information Center (Toronto) 19 February 2011. Date of Access: 26 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

Argentina has not fully complied with its commitment to continue implementing FSB standards for sound compensation and registers a score of -1.

Analyst: Nerin Ali

Australia: +1

Australia has received a score of +1 for fully implementing the five standards for sound compensation.

The Reserve Bank of Australia introduced a financial regulatory structure in July 1998, including the transfer of responsibility for the supervision of banks to a new integrated regulator, the Australian Prudential Regulation Authority (APRA), and the establishment of a Payments System Board in order to safeguard financial stability.⁶⁴⁴

On 30 March 2010, the Financial Stability Board issued a Peer Review Report of Principles and Standards endorsed by G20 leaders at the London Summit in April 2009 and Pittsburgh in September 2009. In terms of supervisory oversight, Australia was deemed to have performed “substantial supervisory activity to communicate to institutions expectations with respect to compliance with the Principles and Standards or the respective national rules, and to determine the status of compliance.”⁶⁴⁵ In terms of compensation and capital, Australia is “implementing the FSB Principles and Standards by way of a mix of enforceable rules and supervisory oversight” within the context of already-existing corporate governance standards; requiring “board attestations to be submitted to the relevant national authorities in their new rules as required under Standard 1.”⁶⁴⁶ In terms of pay structure and risk alignment, Australia has incorporated in their regulatory and supervisory frameworks the requirement that compensation be aligned with prudent risk-taking, with the “requirement that compensation outcomes be symmetric with risk outcomes is a regular feature of existing regulatory and supervisory frameworks on compensation”; allowing a transitional period in relation to existing labour contracts until such time as they are due for renewal, or the end of March 2013 depending on whichever is sooner.⁶⁴⁷ In terms of disclosure, Australia has introduced new rules to implement Principle 9 and Standard 15 on top of existing public disclosure requirements, including compensation rules.⁶⁴⁸

On 15 February 2011, the FSB released a Report of the Financial Stability Board to G20 Finance Ministers and Central Bank Governors, indicating the progress in implementation of G20 recommendations for strengthening financial stability. Australia has a country peer review scheduled for 2011, further strengthening the country’s adherence to international supervisory and regulatory standards.⁶⁴⁹

⁶⁴⁴ About Financial Stability, Reserve Bank of Australia (Sydney) 2011. Date of Access: 31 March 2011. <http://www.rba.gov.au/fin-stability/about.html>.

⁶⁴⁵ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁴⁶ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁴⁷ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁴⁸ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁴⁹ Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Financial Stability Board (Basel) 15 February 2011. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_110219.pdf

On 18-19 February 2011 in Paris, Australia under the auspices of G20 Finance Ministers and Central Bank Governors urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices agreed by the G20 Leaders in Pittsburgh” and called on the FSB “to undertake ongoing monitoring in this area and look forward to receiving the results of a second thorough FSB peer review midyear to identify remaining gaps.”⁶⁵⁰

Hence Australia has been awarded +1 for full implementation of FSB standards.

Analyst: Vanessa Cheng

Brazil: 0

Brazil has received a score of 0 for partially implementing the FSB standards for sound compensation.

In September 2010 the G20 Commitments Progress Table issued by the European Commission indicated that Brazil has begun implementing Basel II in 2005, noting that full implementation should not take place later than 2012. There is no Deposit Guarantee Scheme or insurance arrangement, but there is a draft law on cross-border crisis management in place.⁶⁵¹ In terms of compensation, the banking supervisor is currently considering issuing recommendations on compensation, with regulations expected to be proposed by the end of 2010. As for accounting standards, Brazilian listed companies and banks are required to publish their financial statements starting with reporting periods ending in 2010.⁶⁵²

On 30 March 2010 the Financial Stability Board issued a Peer Review Report of Principles and Standards endorsed by G20 leaders at the London Summit in April 2009 and Pittsburgh in September 2009. In terms of supervisory oversight, Brazil has had close dialogue with the industry and reviews of firms’ practices, including on-site visits.⁶⁵³ In regards to payout structures, Brazil had incorporated specific minimum expectations for amounts to be deferred, as well as specified the deferral period under Principle 7.⁶⁵⁴ Brazil’s proposed regulations are along the lines of deferred compensation to be “dependent on the firm’s long-term value creation,” and for the compensation awarded in either shares or something else in equal standing to represent “at least 50% of the total amount of variable compensation awarded to the professionals.”⁶⁵⁵

In 2001 and 2009, reforms of the Corporations Law improved minority shareholders rights as well as standards for disclosures, while in December the Securities and Exchange Commission established a wide-ranging set of disclosure rules with Instruction No. 480 taking effect in

⁶⁵⁰ 2011 G20 Financial Ministerial Communiqué, G20 Information Center (Toronto) 19 February 2011. Date of Access: 26 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

⁶⁵¹ G20 Commitments Progress Table, European Commission (Brussels) September 2010. Date of Access: 1 April 2011. http://ec.europa.eu/commission_2010-2014/barnier/docs/news/2010/g20_roadmap/101001-impl-table_en.pdf.

⁶⁵² G20 Commitments Progress Table, European Commission (Brussels) September 2010. Date of Access: 1 April 2011. http://ec.europa.eu/commission_2010-2014/barnier/docs/news/2010/g20_roadmap/101001-impl-table_en.pdf.

⁶⁵³ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁵⁴ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁵⁵ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

January 2010. All these acts were expected to result in “monumental” reform corporate governance practices in Brazil.⁶⁵⁶

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, Brazil, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁶⁵⁷

Hence Brazil has been awarded a score of 0 for partial implementation of FSB standards.

Analyst: Vanessa Cheng

Canada: +1

Canada has fully complied with its commitment to fully implement the FSB standards and principles for sound compensation into the domestic compensation practices.⁶⁵⁸ According to the Financial Stability Peer Review, Canadian Securities Administrators (CSA) administer supervisory guidance and oversight to implement the FSB sound compensation principles and standards in all five areas including governance, compensation, and capital, pay structure and alignment, disclosure, and supervisory oversight into national regulation.⁶⁵⁹

In regards to institutional coverage, Canada applies all five FSB principles to all financial institutions and all five principles and fifteen standards to six large banking institutions and three insurance conglomerates.⁶⁶⁰

On 19 November 2010, the Canadian Securities Administrators (CSA) proposed amendments to Form 51-102F6 *Statement of Executive Compensation* that are to take effect for 2012 proxy season, requiring companies to comply for financial years ending on or after 31 October 2011.⁶⁶¹ The proposed amendments will require companies to provide disclosure of the fair value of share-based awards, explain how compensation policies take risk into account, limit circumstances in which companies can avoid disclosing performance targets, disclose risk accounted for in compensation practices, the level of compensation expertise that the Compensation Committee members have, whether executives and directors are permitted to hedge their equity-based compensation and other securities, and disclose fees paid to compensation consultants for

⁶⁵⁶ Brazil Principles of Corporate Governance, Financial Standards Foundation (New York) May 2010. Date of Access: 1 April 2011. <http://www.estandardsforum.org/brazil/standards/principles-of-corporate-governance>.

⁶⁵⁷ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

⁶⁵⁸ Thematic Review on Compensation – Peer Review, Financial Stability Board (Basel) 30 March 2010. Date of Access: 20 March 2010. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁵⁹ Thematic Review on Compensation – Peer Review, Financial Stability Board (Basel) 30 March 2010. Date of Access: 20 March 2010. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁶⁰ Thematic Review on Compensation – Peer Review, Financial Stability Board (Basel) 30 March 2010. Date of Access: 20 March 2010. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁶¹ CSA propose amendments to executive compensation disclosure, Canadian Securities Law (Toronto) 19 November 2010. Date of Access: 20 March 2011. <http://www.canadiansecuritieslaw.com/2010/11/articles/continuous-timely-disclosure/csa-propose-amendments-to-executive-compensation-disclosure/>

executive compensation.⁶⁶² The members of the Compensation Committee are also required to be independent and non-executive directors.⁶⁶³

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, Canada, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁶⁶⁴

Hence Canada receives a score of +1 for fully adopting the FSB principles on sound compensation and taking a proactive stance on encouraging all jurisdictions to adhere to FSB principles.

Analyst: Kamil Wolski

China: +1

China has fully complied with its commitment to implement FSB standards for sound compensation. Chinese authorities have implemented the FSB standards for sound compensation in regards to governance, pay structure and risk alignment compensation and capital, disclosure, and supervisory oversight.

In April 2010, the China Banking Regulatory Commission (CBRC) issued *Supervisory Guidelines on Compensation Practices of Commercial Banks* requiring banking industry to adopt new regulation.⁶⁶⁵ The Supervisory Guidelines closes align with the principles and standards outlined by the FSB. Under Article 5 of the Supervisory Guidelines, the CBRC limits variable compensation to a fixed amount so as to not limit any firm’s capital base.⁶⁶⁶ Article 22 of the Supervisory Guidelines provides for banks to report their disclosure practices, fully in compliance with FSB standards.⁶⁶⁷ The FSB has noted the Supervisory Guidelines include specific guidelines regarding deferral amounts and deferral periods, as per the FSB requirements.⁶⁶⁸

According to the 2010 FSB Report on Progress since the Washington Summit, the CBRC has conducted two ad hoc assessments on implementation of *Principles for Sound Compensation Practices by Small & Medium-Sized Commercial Banks* and urged every bank to comply with the

⁶⁶² Changes to Executive Compensation Disclosure in Canada, Thompson Reuters (New York) 7 December 2010. Date of Access: 20 March 2011. <http://www.complinet.com/dodd-frank/news/analysis/article/changes-to-executive-compensation-disclosure-in-canada.html>

⁶⁶³ Executive Compensation Principles, Canadian Coalition for Good Governance (Toronto) 2009. Date of Access: 20 March 2011 http://www.ccg.ca/site/ccgg/assets/pdf/2009_Executive_Compensation_Principles.pdf

⁶⁶⁴ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

⁶⁶⁵ G20 Commitments Progress Table, European Commission (Brussels) September 2010. Date of Access: 24 March 2011. http://ec.europa.eu/commission_2010-2014/barnier/docs/news/2010/g20_roadmap/101001-impl-table_en.pdf.

⁶⁶⁶ Supervisory Guidelines on Compensation Practices, China Banking Regulatory Commission (Beijing) 10 April 2010. Date of Access: 22 March 2011. <http://www.cbrc.gov.cn/english/home/jsp/docView.jsp?docID=20100318BF85212411002720FF85059A28185100>.

⁶⁶⁷ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 23 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf.

⁶⁶⁸ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 23 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf.

Principles.⁶⁶⁹ Additionally, the CSRC encourages the establishment of appropriate and effective performance assessment and incentive mechanisms, and has issued the *Code of Corporate Governance for Securities Firms (Provisional)* and the *Regulations on Supervision over Securities Firms*, which stipulate the remuneration system of securities and futures financial institutions in line with the FSB *Principles for Sound Compensation Practices and Implementation Standards*. The CIRC has adopted a series of measures to regulate the compensation management procedures and performance assessment in insurance companies.⁶⁷⁰

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, China, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁶⁷¹

Hence China is awarded a score of +1 for full compliance.

Analyst: Brandon Bailey

France: 0

France has partially complied with its commitment to implement the Financial Stability Board’s standards for sound compensation.

The FSB Thematic Peer Review of April 2011 on G20 Progress indicates that France is working towards implementation of the FSB principles and standards on sound compensation in the banking sector, insurance sector, and the asset management sector.⁶⁷² The Review indicates that has undertaken a regulatory approach to adopting the FSB principles and standards on sound compensation. On the European level, France is subject to Capital Requirements Directive III (CRD III) and is subject to its remuneration requirements that go beyond the FSB principles and standards.⁶⁷³

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, France, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁶⁷⁴

Thus France receives a score of 0.

Analyst: Mila Khodskaya

⁶⁶⁹ FSB-G20 Monitoring Progress – China September 2010, Financial Stability Board (Basel) March 2011. Date of Access: 1 April 2011. http://www.financialstabilityboard.org/publications/r_110401e.pdf

⁶⁷⁰ FSB-G20 Monitoring Progress – China September 2010, Financial Stability Board (Basel) March 2011. Date of Access: 1 April 2011. http://www.financialstabilityboard.org/publications/r_110401e.pdf

⁶⁷¹ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

⁶⁷² FSB-G20 Monitoring Progress – France, Financial Stability Board (Basel) 11 April 2011. Date of Access: 14 May 2011. http://www.financialstabilityboard.org/publications/r_110401f.pdf

⁶⁷³ FSB-G20 Monitoring Progress – France, Financial Stability Board (Basel) 11 April 2011. Date of Access: 14 May 2011. http://www.financialstabilityboard.org/publications/r_110401f.pdf

⁶⁷⁴ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

Germany: +1

Germany has fully complied with its commitment to implement the Financial Stability Board's standards for sound compensation.

The FSB Thematic Peer Review of April 2011 on G20 Progress indicates that Germany has implemented the FSB principles and standards on sound compensation. Further, in December 2009, the Federal Financial Supervisory Authorities (BaFin) published new requirements for remuneration policies of banks and insurers for the banking and the insurance sector.⁶⁷⁵ The new provisions incorporate the FSB principles for sound compensation.⁶⁷⁶

The legislative amendments allowed the Ministry of Finance to transform the BaFin circulars into ministerial ordinances and the new law implements FSB-Standard 3 which allows the supervisory authority to limit variable compensation when it is inconsistent with the maintenance of a sound capital base.⁶⁷⁷

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, Germany, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁶⁷⁸

Thus Germany receives a score of +1.

Analyst: Mila Khodskaya

India: 0

India has partially complied with its commitment to implement the Financial Stability Board's standards for sound compensation.

FSB Thematic Review states that regulatory or supervisory guidance for standards implementation in India is currently under consideration.⁶⁷⁹ Requirements with respect to board members' compensation have been incorporated into law for all listed companies in India.⁶⁸⁰ India is also considering incorporating Standard 14 on hedging strategies and insurance in their compensation regulations and supervisory activities.⁶⁸¹

⁶⁷⁵ FSB-G20 Monitoring Progress – Germany, Financial Stability Board (Basel) 11 April 2011. Date of Access: 14 May 2011. http://www.financialstabilityboard.org/publications/r_110401g.pdf

⁶⁷⁶ FSB-G20 Monitoring Progress – Germany, Financial Stability Board (Basel) 11 April 2011. Date of Access: 14 May 2011. http://www.financialstabilityboard.org/publications/r_110401g.pdf

⁶⁷⁷ FSB-G20 Monitoring Progress – Germany, Financial Stability Board (Basel) 11 April 2011. Date of Access: 14 May 2011. http://www.financialstabilityboard.org/publications/r_110401g.pdf

⁶⁷⁸ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

⁶⁷⁹ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁸⁰ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁸¹ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

In December 2009, the Ministry of Corporate Affairs in India proposed corporate governance voluntary guidelines.⁶⁸² In relation to remuneration, the guidelines dictated that while remunerations should be high enough to attract the quality of directors required, the remuneration packages should still be balanced and reflect short and long-term performance objectives. In addition it proposed that companies have a separate remunerations committee to determine remunerations for all executive directors.⁶⁸³

On 2 July 2010, the Reserve Bank of India (RBI) published guidelines stating Head Offices of foreign banks should submit to the RBI an annual declaration that the compensation structure of their Indian branches is in line with FSB Principles.⁶⁸⁴ The annual increase in fixed pay of directors should not generally exceed 10-15%. If variable pay constitutes a substantial portion of total pay, 40-60% of the variable pay must be deferred for a minimum of three years.⁶⁸⁵

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, India, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁶⁸⁶

Hence India receives a score of 0 for taking a proactive stance on adopting the FSB standards onto the national framework.

Analyst: Shyama Talukdar

Indonesia: 0

Indonesia has partially complied with its commitments to reaffirm the importance of fully implementing the Financial Stability Board’s standards for sound compensation.

According to the FSB Thematic Review as at March 2010, regulations or supervisory guidance and possible implementation initiatives are under consideration in Indonesia.⁶⁸⁷ The Review also indicates that alignment of compensation with prudent risk-taking has not been addressed by Indonesian authorities.⁶⁸⁸ Additionally, hedging strategies and insurance in compensation regulation and supervisory activities are under consideration.⁶⁸⁹

⁶⁸² Speech of Sri R.Bandyopadhyay, Ministry of Corporate Affairs (Mumbai) 14 December 2010 . Date of Access: 5 April 2011. http://www.mca.gov.in/Ministry/secy_icw2010.html

⁶⁸³ Speech of Sri R.Bandyopadhyay, Ministry of Corporate Affairs (Mumbai) 14 December 2010 . Date of Access: 5 April 2011. http://www.mca.gov.in/Ministry/secy_icw2010.html

⁶⁸⁴ Guidelines on Compensation of Whole Time Directors/Chief Executive Officers/Risk takers and Control function staff, Reserve Bank of India (Mumbai) 2 July 2010 . Date of Access: 5 April 2011. http://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2223

⁶⁸⁵ Guidelines on Compensation of Whole Time Directors/Chief Executive Officers/Risk takers and Control function staff, Reserve Bank of India (Mumbai) 2 July 2010 . Date of Access: 5 April 2011. http://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2223

⁶⁸⁶ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

⁶⁸⁷ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁸⁸ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁶⁸⁹ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, Italy, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁶⁹⁰

Thus Indonesia registers a score of 0 for lack of action on implementing the FSB standards for sound compensation.

Analyst: Shyama Talukdar

Italy: 0

Italy has partially complied with its commitment to implement FSB standards for sound compensation.

Prior to the Seoul Summit, the Financial Stability Board (FSB) noted that Italy had made steps toward implementing a financial oversight model that includes enforceable regulation and supervisory oversight.⁶⁹¹ The FSB’s 27 January 2011 peer review of Italy noted that Italian policy priority has recently emphasized oversight and monitoring of liquidity and funding risks. The FSB has noted Italy has implemented a “prudent regulatory and supervisory stance.”⁶⁹²

In a general overview of sound compensation implementation leading up to the Seoul Summit, the FSB had noted Italy had conducted a review of significant financial institutions against FSB principles and standards and made recommendations for improvement where necessary.⁶⁹³

Italian law does not provide supervisors the authority to limit variable compensation.⁶⁹⁴ Italian supervisors have not limited variable compensation as required by the FSB. However, financial stress tests in the EU have shown that the five largest Italian banking groups have a strong capital base.⁶⁹⁵ While the FSB urges that the share of compensation that is variable be “substantial,” Italy does not specify or enforce that a particular share of compensation be variable.⁶⁹⁶

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, Italy, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁶⁹⁷

⁶⁹⁰ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

⁶⁹¹ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 23 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf.

⁶⁹² Peer Review of Italy, Financial Stability Board (Basel) 27 January 2011. Date of Access: 24 March 2011. http://www.financialstabilityboard.org/publications/r_110207b.pdf.

⁶⁹³ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 23 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf.

⁶⁹⁴ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 23 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf.

⁶⁹⁵ Peer Review of Italy, Financial Stability Board (Basel) 27 January 2011. Date of Access: 24 March 2011. http://www.financialstabilityboard.org/publications/r_110207b.pdf.

⁶⁹⁶ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 23 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf.

⁶⁹⁷ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

On 24 February 2011, the Commissione Nazionale per le Società e la Borsa (CONSOB) issued a set of interim recommendations regarding disclosure on remuneration.⁶⁹⁸ This followed an Italian Legislative Decree, issued on 30 December 2010, that called for a “systematic definition of the regulation on transparency of remuneration.”⁶⁹⁹ As of now, a long-term systematic implementation plan has yet to be prepared or applied.

Italy has made efforts to coordinate supervisory practices internationally, particularly within the EU and with the permission of the European Council.⁷⁰⁰ However, the Bank of Italy has not been given authority to remove directors or senior officers, which falls short of implementing suggestions from the Capital Requirements Directive III on remuneration policies of banks.⁷⁰¹

Italy has demonstrated partial compliance. It has implemented the FSB standards for sound compensation in regards to governance, compensation and capital. It has taken steps toward implementing standards for pay structure and risk alignment, disclosure, and supervisory oversight. Therefore, Italy is awarded a score of 0 for partial compliance.

Analyst: Brandon Bailey

Japan: +1

Japan has fully complied with its commitment to implement the FSB Principles and Standards. This is confirmed in the FSB peer review report that was published in March 2010.

The National Diet of Japan carried out policies in line with all five FSB standards before the Seoul Summit.^{683,684} Japanese firms are required to have a supervisory board composed mostly of non-executive members to ensure conformity to the FSB and Japan’s Financial Services Agency (FSA).

On 26 March 2010, the FSA also took steps to change the pay structure of large firms.⁶⁸⁶ No real numbers have been released, but the Japanese government has stated that a “substantial portion” of variable compensation for executives must be awarded in shares. It is also inducing firms to increase the deferred portion of variable compensation where it was below 40-60%.⁶⁸⁷

There is a view among FSB members that numerical elements of the FSB implementation standards 6 – 9, regarding pay structure and risk alignment, are not binding criteria but just examples. With this recognition, the FSB peer review report on compensation in 2010 mentioned that Japan already took supervisory approach to implement the FSB standards 6 – 9.⁷⁰²

⁶⁹⁸ Communication n. DEM/11012984, Commissione Nazionale per le Società e la Borsa (Rome) 24 February 2011. Date of Access: 19 March 2011. <http://www.consob.it/mainen/documenti/english/resolutions/c11012984e.pdf>.

⁶⁹⁹ Communication n. DEM/11012984, Commissione Nazionale per le Società e la Borsa (Rome) 24 February 2011. Date of Access: 19 March 2011. <http://www.consob.it/mainen/documenti/english/resolutions/c11012984e.pdf>.

⁷⁰⁰ Peer Review of Italy, Financial Stability Board (Basel) 27 January 2011. Date of Access: 24 March 2011. http://www.financialstabilityboard.org/publications/r_110207b.pdf.

⁷⁰¹ Peer Review of Italy, Financial Stability Board (Basel) 27 January 2011. Date of Access: 24 March 2011. http://www.financialstabilityboard.org/publications/r_110207b.pdf.

⁷⁰² Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

On 31 March 2010, Japan's FSA also implemented new regulations for the disclosure of remuneration. Any companies with executives making over YEN100 million or USD1.1 million must disclose a yearly report with the details on compensation.⁶⁸⁹

On 1 April 2010, the FSA implemented its revised supervisory guidelines, which refer specifically to the supervision of all Japanese financial institutions, including international firms. They focus on the clarification of management policies, responsibility allocation, risk management, and compensation structure.⁶⁹¹

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, Japan, under the auspices of the G20 members, urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁶⁹²

Japan has completely implemented the FSB Standards for Sound Compensation.⁶⁹³ Thus Japan has been awarded of a score of +1.

Analyst: Enko Koceku

Korea: +1

Korea has fully complied with its commitments to fully implement the Financial Stability Board's standards for sound compensation.

According to the FSB Thematic Review as at 30 March 2010, FSB principles and standards are applied to all financial institutions, including insurance companies, investment firms and asset management companies in Korea.⁷⁰³ Korea utilizes primarily a supervisory approach to FSB principles and standards on sound compensation which includes principles and guidance to the financial institutions. Principles apply insurance companies and investment firms and asset management companies.⁷⁰⁴ The Thematic Review also states that Korea have introduced new rules to implement on disclosure and will require firms to release annual reports on compensation to the public on a timely basis.⁷⁰⁵

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, Russia, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁷⁰⁶

Therefore, Korea receives a score of +1.

Analyst: Shyama Talukdar

Mexico: +1

Mexico has fully complied with the commitment to fully implement FSB standards for sound compensation, as reaffirmed in the G20 Seoul Summit in November 2010.

⁷⁰³ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011.

http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁷⁰⁴ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011.

http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁷⁰⁵ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011.

http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁷⁰⁶ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

Prior to the Seoul Summit, Mexico had already implemented measures in compliance with the FSB standards. On 28 July 2010 the President of Mexico Felipe Calderón established the Financial System Stability Council in direct compliance with the G20 commitment.⁷⁰⁷

On 6 October 2010 the Bank of Mexico's financial stability board formally began operations.⁷⁰⁸ Its functions include identifying risks to the system, making recommendations on macroprudential policies and regulations to maintain stability, as well as, "actively participating in international groups working under the aegis of the Financial Stability Board."⁷⁰⁹

On 18 November 2010 the Governor of the Central Bank of Mexico Agustín Carstens reiterated the importance of the role of the Financial System Stability Council as a "structure through which you could have formal coordination of policy between the financial authorities."⁷¹⁰ The council is made up of "members of the Bank of Mexico, Ministry of Finance, Deposit Insurance Institute, Pension Fund Supervisor, Insurance Supervisor and the Banking and Securities Supervisor who will meet at least once a quarter."⁷¹¹

On 18-19 February 2011, during the 2011 G20 Finance Ministerial Meeting, the Finance Ministers and Central Bank Governors reaffirmed commitment to FSB standards.⁷¹² Mexico has continued to implement the initiatives and measures established prior to the G20 Summit in November in compliance to FSB standards.

Therefore, Mexico has fully complied with its commitment to continue implementing FSB standards for sound compensation, which it reaffirmed in the G20 Seoul Summit.

Analyst: Nerin Ali

Russia: 0

Russia has partially complied with the commitment on implementing the FSB's standards for sound compensation.

⁷⁰⁷México Presenta Consejo de Estabilidad, CNN Expansión.com (Mexico City) 28 July 2010. Date of Access: 25 March 2011. <http://www.cnnexpansion.com/economia/2010/07/28/mexico-economia-calderon-estabilidad-cnn>

⁷⁰⁸ Interview with Agustín Carstens, Central Banking Publications (London) 18 November 2011. Date of Access: 27 March 2011. <http://www.banxico.org.mx/publicaciones-y-discursos/discursos-y-presentaciones/discursos/%7B99C0013D-9603-4C9A-2F5C-E9B872C4D955%7D.pdf>

⁷⁰⁹ Interview with Agustín Carstens, Central Banking Publications (London) 18 November 2011. Date of Access: 27 March 2011. <http://www.banxico.org.mx/publicaciones-y-discursos/discursos-y-presentaciones/discursos/%7B99C0013D-9603-4C9A-2F5C-E9B872C4D955%7D.pdf>

⁷¹⁰ Interview with Agustín Carstens, Central Banking Publications (London) 18 November 2011. Date of Access: 25 March 2011. <http://www.banxico.org.mx/publicaciones-y-discursos/discursos-y-presentaciones/discursos/%7B99C0013D-9603-4C9A-2F5C-E9B872C4D955%7D.pdf>

⁷¹¹ Interview with Agustín Carstens, Central Banking Publications (London) 18 November 2011. Date of Access: 27 March 2011. <http://www.banxico.org.mx/publicaciones-y-discursos/discursos-y-presentaciones/discursos/%7B99C0013D-9603-4C9A-2F5C-E9B872C4D955%7D.pdf>

⁷¹² 2011 G20 Financial Ministerial Communiqué, G20 Information Center (Toronto) 19 February 2011. Date of Access: 26 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

On 5 January 2011, Russian President signed a law requiring state enterprises to create supervisory boards overseeing compensation systems' design and usage of companies' profits for paying compensations.⁷¹³ This action is in line with the FSB recommendations on governance.

On 17 February 2010, Russian President charged the Government to make decisions aimed at aligning of compensation systems in banks and companies with the government participation in accordance with the FSB standards.⁷¹⁴

Following this instruction, on 22 December 2010, the Russian Government approved general approaches to developing compensation systems in banks and companies with the government participation, implying limitations on compensation in such institutions during financial distress and obliging such institutions to include information about compensations in their annual reports.⁷¹⁵

On 30 December 2008, the Russia Central Bank issued the ordinance requiring setting the procedure for credit institutions to present to the Bank authorized representatives information about their compensation practices.⁷¹⁶ This action is in line with the FSB recommendations on supervisory oversight.

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, Russia, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁷¹⁷

Russia has taken measures to implement 4 of the 5 FSB's standards for sound compensation. Thus it has been awarded a score of 0.

Analyst: Andrey Shelepov

South Africa: 0

South Africa has partially complied with its commitment to implement the FSB standards for sound compensation, as reaffirmed in the G20 Seoul Summit in November, 2010.

The FSB Thematic Review indicates that regulatory or supervisory guidance is still in the preparatory stage in South Africa as at March 2010.⁷¹⁸ The Review also indicates that South

⁷¹³ Law to improve efficacy and transparency of state corporations, Office of the President (Moscow) 5 January 2011. Date of Access: 4 April 2011. <http://eng.kremlin.ru/acts/1594>.

⁷¹⁴ The List of Instructions following the Meeting of the Presidential Council for the Financial Market Development is Approved, Office of the President (Moscow) 17 February 2010. Date of Access: 4 April 2011. <http://kremlin.ru/news/6889>.

⁷¹⁵ On Approval of General Approaches to Unification of Remuneration Systems in Banks and Companies with Governmental Stake by the Government of the Russian Federation, Russian Ministry of Economic Development (Moscow) 19 January 2011. Date of Access: 4 April 2011. http://www.economy.gov.ru/minec/activity/sections/instdev/doc20110119_06.

⁷¹⁶ The Bank of Russia Bulletin №8 (1099), Bank of Russia (Moscow) 9 February 2009. Date of Access: 4 April 2011. <http://cbr.ru/Publ/Vestnik/ves090220011.zip>.

⁷¹⁷ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

⁷¹⁸ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

Africa is planning a self-assessment with respect to the Principles and Standards.⁷¹⁹ Additionally, South Africa has not incorporated hedging strategies and insurance in its compensation regulation activities.⁷²⁰

Hence South Africa receives a score of 0 for taking steps towards adopting initiatives in line with the FSB principles and standards on sound compensation.

Analyst: Mila Khodskaya

Saudi Arabia: 0

Saudi Arabia has partially complied with its commitment to implement the FSB standards for sound compensation, as reaffirmed in the G20 Seoul Summit in November, 2010.

In March 2010 a preliminary review on compensation conducted by the Financial Stability Board indicated that Saudi Arabia had implemented some regulatory or supervisory measures for the assessed Principles and Standards.⁷²¹

On 31 October 2010, the Governor of the Saudi Arabian Monetary Agency Mohammed Bin Sulaiman Al Jassar reiterated the importance of remuneration reforms in the banking sector as addressed by the FSB agenda, and cited the longstanding “proactive attitude of the Saudi Arabian Monetary Agency.”⁷²² He referred specifically to measures such as “capping the remunerations for boards of directors and their audit committees, encouraging banks to set remuneration committees.”⁷²³

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, Saudi Arabia, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁷²⁴

Saudi Arabia has continued to implement the initiatives and measures established prior to the G20 Summit in November in compliance to FSB standards. Therefore, Saudi Arabia has partially complied with the commitment and receives a score of 0.

Analyst: Nerin Ali

Turkey: 0

Turkey has received a score of 0 for partially implementing the FSB standards for sound compensation.

⁷¹⁹ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁷²⁰ Thematic Review on Compensation, FSB (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁷²¹ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 25 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0

⁷²² Speech of H.E. Dr. Mohammed Bin Sulaiman Al Jassar Governor of SAMA at the Kuwait Financial Forum, Saudi Arabian Monetary Agency (Riyadh) October 31 2010. Date of Access: March 27 2011. <http://www.sama.gov.sa/sites/samaen/News/Pages/SpeechAtKuwait.aspx>

⁷²³ Speech of H.E. Dr. Mohammed Bin Sulaiman Al Jassar Governor of SAMA at the Kuwait Financial Forum, Saudi Arabian Monetary Agency (Riyadh) October 31 2010. Date of Access: March 27 2011. <http://www.sama.gov.sa/sites/samaen/News/Pages/SpeechAtKuwait.aspx>

⁷²⁴ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

On 30 March 2010 the Financial Stability Board issued a Peer Review Report of Principles and Standards endorsed by G20 leaders at the London Summit in April 2009 and Pittsburgh in September 2009. In terms of payout structures, Turkey intends on addressing this area in their regulation and supervisory activities as they currently do not do so.⁷²⁵ In terms of payout structures, deferral arrangements are also under consideration.⁷²⁶ As for the compensation framework, Turkey's banks' compensation programs currently do not have any guaranteed bonuses, or they have been limited to one year.⁷²⁷

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, Turkey, under the auspices of the G20 members urged all jurisdictions to "fully implement the FSB principles and standards on sounder compensation practices" and called on the FSB to "undertake ongoing monitoring in this area."⁷²⁸

Hence Turkey has been awarded a score of 0 for partial implementation of FSB standards.

Analyst: Vanessa Cheng

United Kingdom: +1

The United Kingdom has fully complied with its commitment to implement FSB standards for sound compensation.

Prior to the Seoul Summit, the UK Financial Services Authority (FSA)'s Remuneration Code applied to only the largest banks and building societies.⁷²⁹ On 17 December 2010 the FSA published an updated Remuneration Code applying to 2700 firms including all banks and building societies.⁷³⁰ The updated Remuneration Code aims to align remuneration policies in the EU to apply practices that are 'consistent with effective risk management' and includes guaranteed bonuses in line with FSB standards.⁷³¹

As dictated by the FSB guidelines, the FSA Remuneration Code directs that at least 50% of variable remuneration should consist of shares and be subject to an appropriate retention period.⁷³²

⁷²⁵ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0, 12.

⁷²⁶ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0, 12.

⁷²⁷ Thematic Review on Compensation, Financial Stability Board (Basel) 30 March 2010. Date of Access: 31 March 2011. http://www.financialstabilityboard.org/publications/r_100330a.pdf?frames=0, 12.

⁷²⁸ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

⁷²⁹ FSA publishes revise Remuneration Code, Financial Services Authority (London) 17 December 2010. Date of Access: 19 March 2011. <http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/180.shtml>.

⁷³⁰ FSA publishes revise Remuneration Code, Financial Services Authority (London) 17 December 2010. Date of Access: 19 March 2011. <http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/180.shtml>.

⁷³¹ FSA publishes revise Remuneration Code, Financial Services Authority (London) 17 December 2010. Date of Access: 19 March 2011. <http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/180.shtml>.

⁷³² FSA publishes revise Remuneration Code, Financial Services Authority (London) 17 December 2010. Date of Access: 19 March 2011. <http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/180.shtml>.

Under the updated Remuneration Code firms are required to submit a detailed annual report on compensation including remuneration and pay-outs. The most important firms are mandated to submit their first report before December 2011.⁷³³ In November 2010 the FSA released a set of proposals designed to adhere to the Capital Requirements Directive and FSB standards.⁷³⁴ On 16 November 2010 the FSA announced changes to mortgage sales requiring the prominent disclosure of how intermediaries are paid.⁷³⁵

On 13 December 2010 FSA CEO Hector Sants outlined the creation of the Prudential Regulation Authority (PRA) and other reforms to supervisory practices.⁷³⁶ The PRA requires supervisors to consider risk, capital, and liquidity in making judgments.⁷³⁷ In their 2011-2012 Business Plan, the FSA announced plans to “embed” their supervisory approach by enforcing new requirements on risk governance and controls beginning in May 2011 and by ensuring the revised European Code on remuneration has been rigorously applied since its implementation on 1 January 2011.⁷³⁸

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, The United Kingdom, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁷³⁹

The United Kingdom has implemented the FSB standards for sound compensation in regards to governance, compensation and capital, pay structure and risk alignment, disclosure, and supervisory oversight. Therefore, the United Kingdom is awarded a score of +1 for full compliance.

Analyst: Brandon Bailey

United States: 0

The United States has partially complied with its commitment to implement the FSB standards for sound compensation. The commitments to these principles have been reaffirmed but not much has been done to progress and actively enforce these standards.

⁷³³ FSA publishes revise Remuneration Code, Financial Services Authority (London) 17 December 2010. Date of Access: 19 March 2011. <http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/180.shtml>.

⁷³⁴ Implementing CRD3 requirements on the disclosure of remuneration, Financial Services Authority (London) November 2010. Date of Access: 21 March 2011. http://www.fsa.gov.uk/pubs/cp/cp10_27.pdf.

⁷³⁵ FSA recommends changes to mortgage sales to achieve a sustainable mortgage market, Financial Services Authority (London) 16 November 2010. Date of Access: 19 March 2011. <http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/164.shtml>.

⁷³⁶ FSA Chief Executive outlines progress in reforming supervisory practices, Financial Services Authority (London) 13 December 2010. Date of Access: 21 March 2011. <http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/174.shtml>.

⁷³⁷ FSA Chief Executive outlines progress in reforming supervisory practices, Financial Services Authority (London) 13 December 2010. Date of Access: 21 March 2011. <http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/174.shtml>.

⁷³⁸ Business Plan 2011/12, Financial Services Authority (London) 2011. Date of Access: 21 March 2011. http://www.fsa.gov.uk/pubs/plan/pb2011_12.pdf.

⁷³⁹ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

The United States has continued to put into effect the reforms and principles set out in the Dodd-Frank Wall Street Reform and Consumer Protection Act of July 2010. On the U.S. Securities and Exchange Commission website, there is a list of numerous accomplishments which have been achieved to date.⁷⁴⁰ These include corporate governance and disclosure, auditing, oversight of investment advisers and broker-dealers, and other categories of recent accomplishments. In addition, there are various planned steps which are outlined for subsequent months in 2011, showing a commitment to continue implementing the standards set out in the Dodd-Frank Act.⁷⁴¹

In a report on 8 November 2010, the Financial Stability Board highlighted “Progress since the Washington Summit in the Implementation of the G20 Recommendations for Strengthening Financial Stability.” In this report, it was noted that some FSB members are currently examining the features of United States legislative changes in order to ensure that they can successfully propose “harmonizing legislative changes in their jurisdictions,” or rely on the suggestions of the FSB to determine whether or not legislative changes are necessary.⁷⁴²

On 18-19 February 2011, during the meeting of Finance Ministers and Central Bank Governors in Paris, the United States, under the auspices of the G20 members urged all jurisdictions to “fully implement the FSB principles and standards on sounder compensation practices” and called on the FSB to “undertake ongoing monitoring in this area.”⁷⁴³

Although meaningful steps have been taken to incorporate the Dodd-Frank Act into the financial reporting system, there are still many more aspects of the FSB standards for sound compensation which need to be implemented in the United States. Therefore, the United States has been given a score of 0 with regards to its commitment to apply all of the FSB standards for sound compensation.

Analyst: Tara Stankovic

European Union: +1

The European Union has fully complied with its commitment to implement the FSB standards and principles for sound compensation into the EU legislation in respect of compensation practices.

The EU took a regulatory approach by preparing the Directive 2010/76/EU of the European Parliament and the Council that amended previous directives (2006/48/EC and 2006/49/EC) in regards to supervisory of remuneration policies.⁷⁴⁴ The final legislative act was prepared on 24 November 2010 and published in Official Journal on 14 December 2010 entering into force on 15

⁷⁴⁰ Implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act, U.S. Securities and Exchange Commission (Washington D.C.) 18 March 2011. Date of Access: 26 March 2011.

<http://www.sec.gov/spotlight/dodd-frank.shtml>

⁷⁴¹ Implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act – Accomplishments, U.S. Securities and Exchange Commission (Washington D.C.) 18 March 2011. Date of Access: 26 March 2011. <http://www.sec.gov/spotlight/dodd-frank/accomplishments.shtml>

⁷⁴² Progress since the Washington Summit in the Implementation of the G20 Recommendations for Strengthening Financial Stability: Report of the Financial Stability Board to G20 Leaders, Financial Stability Board (Washington D.C.) 8 November 2011. Date of Access: 26 March 2011.

http://www.financialstabilityboard.org/publications/r_101111b.pdf

⁷⁴³ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>

⁷⁴⁴ The Legislative Observatory, European Parliament (Brussels), Date of Access: 22 March 2011 <http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=en&procnum=COD/2009/0099>

December 2010. Its official purpose is to strengthen rules for capital requirements and remuneration in credit institutions and investment firms.⁷⁴⁵

The Directive 2010/76/EU (the Directive) introduces a requirement that the remuneration policies of financial institutions be subject to supervisory oversight.⁷⁴⁶ This obliges supervisory authorities to perform regular compliance checks in regards to remuneration policies for the risk management of financial institutions. Moreover, supervisors may request financial institutions to take actions in order to rectify identified issues. In cases of non-compliance, they have the power to penalise financial institutions or impose other measures for breach of the Directive.⁷⁴⁷

It also validly obliges credit institutions and investment firms to develop and practise compensation policies that are in line with sound and effective risk management, that do not encourage excessive risk-taking and that value their long-term goals.⁷⁴⁸

Variable part of remuneration should constitute a balanced and flexible portion of total compensation. Its substantial portion should be deferred in time and must not only be in cash but also consist of shares, share-linked instruments or other equivalent non-cash instruments. Guaranteed bonuses should be prohibited as they are inconsistent with pay-for-performance rule.

According to the Directive, financial institutions must make sure the total variable remuneration does not adversely impact the strength of their capital base. In cases of exceptional government intervention, priority has to be directed towards enhancing sound nature of their capital base and any variable remuneration elements should remain in line with the idea of strong capital.⁷⁴⁹

The Directive also strengthens the requirements of disclosure and imposes transparency towards the market in relation to remuneration within credit institutions and investments firms. E.g. information regarding remuneration practices and compensation of staff whose professional activities have a material impact on the risk profile should be disclosed to all stakeholders (shareholders, employees, general public etc).⁷⁵⁰

Moreover, on 18-19 November 2011 in Paris, the representation of European Institutions participated in the meeting of Finance Ministers and Central Bank Governors, where the joint communiqué was released by all members (including the EU): “We urge all jurisdictions to fully implement the FSB principles and standards on sounder compensation practices agreed by the G20 Leaders in Pittsburgh and call on the FSB to undertake ongoing monitoring in this area and

⁷⁴⁵ The Legislative Observatory, European Parliament (Brussels), Date of Access: 22 March 2011 <http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=en&procnum=COD/2009/0099>

⁷⁴⁶ The Legislative Observatory, European Parliament (Brussels), Date of Access: 22 March 2011 <http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=en&procnum=COD/2009/0099>

⁷⁴⁷ The Legislative Observatory, European Parliament (Brussels), Date of Access: 22 March 2011 <http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=en&procnum=COD/2009/0099>

⁷⁴⁸ The Legislative Observatory, European Parliament (Brussels), Date of Access: 22 March 2011 <http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=en&procnum=COD/2009/0099>

⁷⁴⁹ The Legislative Observatory, European Parliament (Brussels), Date of Access: 22 March 2011 <http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=en&procnum=COD/2009/0099>

⁷⁵⁰ The Legislative Observatory, European Parliament (Brussels), Date of Access: 22 March 2011 <http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=en&procnum=COD/2009/0099>

look forward to receiving the results of a second thorough FSB peer review midyear to identify remaining gaps.”⁷⁵¹

Therefore, the European Union has been awarded a score of +1 for taking active steps in implementing the FSB standards and thus complying with the G20’s and FSB’s principles on sound compensation.

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⁷⁵¹ Communiqué by the G20 Finance Ministers and Central Bank Governors, G20 Information Centre (Toronto) 18-19 February 2011. Date of Access: 20 March 2011. <http://www.g20.utoronto.ca/2011/2011-finance-110219-en.html>