Basel Committee
on Banking Supervision

Pillar 3 disclosure requirements for remuneration

July 2011

BANK FOR INTERNATIONAL SETTLEMENTS

Copies of publications are available from:

Bank for International Settlements
Communications
CH-4002 Basel, Switzerland

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Fax: +41 61 280 9100 and +41 61 280 8100

ISBN print: 92-9131- 873-6
ISBN web: 92-9197- 873-6

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I. Background and objectives

1. In July 2009, as part of its *Enhancements to the Basel II framework*, the Basel Committee on Banking Supervision introduced supplemental Pillar 2 guidance to address a number of risk management weaknesses revealed during the financial crisis that began in 2007. In this context, the Committee notably incorporated within Pillar 2 the Financial Stability Board's *Principles for Sound Compensation Practices*, which were issued in April 2009 to improve compensation practices and strengthen supervision in this area. Paragrapah 94 of the supplemental Pillar 2 guidance included the principle that "*Firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders, including in particular shareholders*".[1]

2. In its *Peer Review Report on Compensation* (March 2010), the Financial Stability Board (FSB) noted differences in the existing disclosure requirements on compensation across jurisdictions and noted that these differences could hamper the comparability of the disclosed facts and, as a consequence, the effectiveness of disclosure as a whole. Accordingly, to promote greater convergence of disclosure on compensation, the FSB made the following recommendation:

Recommendation 8: "The Basel Committee in consultation with the FSB should consider incorporating disclosure requirements for compensation into Pillar 3 of Basel II, to add greater specificity to the current requirements for compensation disclosure under Pillar 2, by the end of 2010."

3. The Pillar 3 disclosure requirements proposed by the Basel Committee respond to this recommendation. The Committee believes that these additional Pillar 3 requirements on remuneration will support effective market discipline and will allow market participants to assess the quality of the compensation practices and the quality of support for a firm's strategy and risk posture. The requirements have been designed to be sufficiently granular and detailed to allow meaningful assessments by market participants of a bank's compensation practices, while not requiring disclosure of sensitive or confidential information.

4. The Committee's additional Pillar 3 disclosure requirements on remuneration cover the main components of sound compensation practices, consistent with paragraphs 86 to 92 of the *Supplemental Pillar 2 Guidance* issued in July 2009 and the corresponding FSB principles. As a result, banks will be requested to disclose qualitative and quantitative information about their remuneration practices and policies covering the following areas:

- The governance/committee structures (paragraph 86)
- The design/operation of remuneration structure, frequency of review (paragraph 87)
- The independence of remuneration for risk/compliance staff (paragraph 88)
- The risk adjustment methodologies (paragraph 89)
- The link between remuneration and performance (paragraph 90)

[1] For further discussion, see Supplemental Pillar 2 Guidance ("Sound compensation practices" section) of the Committee's July 2009 *Enhancements to the Basel II framework*, available at www.bis.org/publ/bcbs157.htm).

- The long-term performance measures (deferral, malus, clawback – paragraph 91)
- The types of remuneration (cash/equity, fixed/variable – paragraph 92)

The structure and content of the disclosure requirements also take account of the considerations listed in the FSB's Implementation Standard 15 on disclosure. They also build upon the concepts and terminology used by the Basel Committee in its report on *Range of methodologies for risk and performance alignment of remuneration*, published in May 2011.

II. Pillar 3 disclosure requirements

5. The disclosure requirements for remuneration should be incorporated into the Pillar 3 disclosure of banks. Unless specifically noted below, the general principles and rules governing Pillar 3 apply.

The Basel Committee expects banks to comply with these requirements from 1 January 2012.

Scope of application

6. It is recognised that there is a broad spectrum of banks that are subject to Basel II and that the proposed disclosures may not be relevant for all such banks or for all their business lines. In certain jurisdictions, banks subject to Basel II may not be of sufficient size to have a separate Remuneration Committee, or may not have resources to implement a fully functional deferral and performance adjustment scheme.

7. Pillar 3 remuneration disclosure requirements therefore may include thresholds of materiality or proportionality, based on those already applying to existing Pillar 3 disclosures. This may have two aspects:

- whether the bank as a whole is exempt fully or partly from disclosure, depending on the risk profile of the bank, and
- whether certain types of disclosure may be exempted on grounds that the information is not material, or is proprietary or confidential.

Method and frequency of disclosure

8. Banks will be expected to publish the disclosures on an annual basis at a minimum. Banks should aim to publish as soon as practicable after the information is available.

9. Banks will be expected as far as possible to disclose the requested information on remuneration on one site or in one document. Banks may however refer to a different site or document:

- if an equivalent disclosure has already been made under an accounting or listing requirement relating to the same time period (in such cases, the bank's regulator will have discretion to recognise the existing disclosures that are acceptable); or
- to indicate where additional information (not explicitly required under Pillar 3) may be found.

In such cases, the bank must ensure that access to the site or document is readily available and public.

10. To improve clarity of disclosure, supervisors may request the information to be disclosed:

- in table and/or chart format.
- for previous years as well as the current reporting year (where providing quantitative historical baselines aids interpretation, supervisors should request that quantitative information for previous years be shown, although this requirement may be waived during the first year and banks may be permitted to report historical data only as far back as the first year of application of these requirements).

Key disclosures

11. The following are the main disclosures on remuneration that banks should include in their Pillar 3 document. Banks are strongly encouraged not only to disclose the required information, but to articulate as far as possible how these factors complement and support their overall risk management framework.

The requested quantitative disclosures detailed below should only cover senior management and other material risk takers and be broken down between these two categories.

<table>
<tr><th colspan="3">Remuneration</th></tr>
<tr><td rowspan="3">Qualitative disclosures</td><td>(a)</td><td>Information relating to the bodies that oversee remuneration. Disclosures should include:
• Name, composition and mandate of the main body overseeing remuneration.
• External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.
• A description of the scope of the bank’s remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.
• A description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each group.</td></tr>
<tr><td>(b)</td><td>Information relating to the design and structure of remuneration processes. Disclosures should include:
• An overview of the key features and objectives of remuneration policy.
• Whether the remuneration committee reviewed the firm’s remuneration policy during the past year, and if so, an overview of any changes that were made.
• A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.</td></tr>
<tr><td>(c)</td><td>Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include:
• An overview of the key risks that the bank takes into account when implementing remuneration measures.
• An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed).
• A discussion of the ways in which these measures affect remuneration.
• A discussion of how the nature and type of these measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration.</td></tr>
</table>

<table>
<tr><td></td><td>(d)</td><td>Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include:
An overview of main performance metrics for bank, top-level business lines and individuals.
A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.
A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak.[2]</td></tr>
<tr><td></td><td>(e)</td><td>Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance. Disclosures should include:
A discussion of the bank's policy on deferral and vesting of variable remuneration and, if If the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.
A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through clawback arrangements.</td></tr>
<tr><td></td><td>(f)</td><td>Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms. Disclosures should include:
An overview of the forms of variable remuneration offered (ie cash, shares and share-linked instruments and other forms[3]).
A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.</td></tr>
<tr><td>Quantitative disclosures</td><td>(g)</td><td>Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.</td></tr>
<tr><td></td><td>(h)</td><td>Number of employees having received a variable remuneration award during the financial year.
Number and total amount of guaranteed bonuses awarded during the financial year.
Number and total amount of sign-on awards made during the financial year.
Number and total amount of severance payments made during the financial year..</td></tr>
<tr><td></td><td>(i)</td><td>Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.
Total amount of deferred remuneration paid out in the financial year..</td></tr>
<tr><td></td><td>(j)</td><td>Breakdown of amount of remuneration awards for the financial year to show:
- fixed and variable.
- deferred and non-deferred.
- different forms used (cash, shares and share-linked instruments, other forms).
Example for reporting in Table A (Annex).</td></tr>
</table>

[2] This should include the bank's criteria for determining "weak" performance metrics.

[3] A description of the elements corresponding to other forms of variable remuneration (if any) should be provided.

	(k)	Quantitative information about employees' exposure to implicit (eg fluctuations in the value of shares or performance units) and explicit adjustments (eg eg malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration: • Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments. • Total amount of reductions during the financial year due to ex post explicit adjustments. • Total amount of reductions during the financial year due to ex post implicit adjustments.

Annex

Table A to be completed separately for (a) senior management and (b) other material risk takers.

Table A

Total value of remuneration awards for the current fiscal year	**Unrestricted**	**Deferred**
Fixed remuneration		
• Cash-based	x	x
• Shares and share-linked instruments	x	x
• Other	x	x
Variable remuneration		
• Cash-based	x	x
• Shares and share-linked instruments	x	x
• Other	x	x