



Committee of European Banking Supervisors

DRAFT HIGH-LEVEL PRINCIPLES OF REMUNERATION POLICIES

The Federation of Finnish Financial Services (FFFS) welcomes the opportunity to comment on the CEBS consultation regarding draft high-level principles of remuneration policies.

FFFS considers it appropriate that CEBS gives common principles concerning remuneration policies. The FFFS considers it important that the principles steer the practices at the common level and that the reward practices are not regulated too much in detail. When adopting the principles into practice, consideration should be given to the different size and operations model of the service providers in the financial sector. The sufficient flexibility should be granted when adopting the principles. At the same time, it should naturally be taken care that the principles ensure the level playing field.

Regarding the details of principles, we would like to state the following:

General

i. The financial institution should adopt an overall remuneration policy that is in line with its business strategy and risk tolerance, objectives, values and long-term interests. It should not encourage excessive risk-taking. The remuneration policy should cover the institution as a whole and contain specific arrangements that take into account the respective roles of senior management, risk takers and control functions. Control functions should also be adequately rewarded to attract skilled individuals.

The principle can be supported. Financial institutions should not be encouraged to excessive risk-taking. The boundary of “encouragement to risk taking” is however not clear enough. The meaning of money as a spur varies for different people in different situations. Also other things, such as ambitions, may cause excessive risk-taking under favourable circumstances. Supervisory function and precautionary measures connected merely to financial factors are not necessarily sufficient, but special attention should be paid to the efficiency of bonus systems, follow-up of performance and to proactive risk management.

ii. The remuneration policy should be transparent internally and adequately disclosed externally.

The principles can be supported. However, when they are adopted the different nature of the different kind service providers should be taken into account. E.g disclosure requirements imposed on public companies can not be applied as such to not-public companies.



GOVERNANCE

iii. The management body, in its supervisory function, should determine the remuneration of the management body, in its management function². In addition it should have oversight of the overall remuneration policy of the firm. The implementation of the remuneration policy should be subject to central and independent review.

The principles can be supported. The set demands for the required arrangements should be in proportion among other things with the size of the company.

MEASUREMENT OF PERFORMANCE AS A BASIS FOR REMUNERATION

iv. Where the pay award is performance related, remuneration should be based on a combination of the individual performance's assessment, the performance of the business unit and the overall results of the company or group. When defining the individual performance other factors apart from financial performance should be considered. The measurement of performance, as a basis for bonus awards, should include an adjustment for risks and cost of capital.

The principle is too detailed and would unnecessarily interface with the internal decisions of each company.

The last paragraph of the item in which it is stated "The remuneration of non-executive directors should not be linked to the financial institution's short term results but take into account other factors, such as the time invested and their respective responsibilities", remains unclear. It may mean that for the staff that is not in a leading position, the goals should be defined by taking into consideration the content of the work. This may not however mean that the results of the company, business unit or similar does not affect the amount of the reward. Systematic evaluation of the performance is an important management tool that is used as one element when defining the base pay and bonuses. This way, for example, the viewpoints concerning quality and development can also be taken into account.

FORM OF REMUNERATION

v. There should be a proportionate ratio between base pay and bonus. Where a significant bonus is paid, the bonus should not be a pure upfront cash payment but contain a flexible, deferred component; it should consider the risk horizon of the underlying performance.

The principles can be supported as a general rule. However, it is very difficult to determine what would be the right proportionate ratio between base pay and bonus. Eventually, it seems to depend considerably on the duties of the post in question.

FEDERATION OF FINNISH FINANCIAL SERVICES

Erkki Kontkanen
Head of Financial Industry Legislation & Taxation