

Sound Remuneration Practices for Licensed Banks

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Industry Comments	Ref.	CBB Initiative
General Comments:		
<p>A bank noted that the principle of fair compensation does not encourage short-term unwarranted risk taking; therefore in general the principles of Basel as stated in the proposed regulations are good. However, as Basel itself stated, a ‘one size fits all’ approach will not work; many of the principles and implementing regulations are not applicable for a retail commercial bank like us.</p> <p>The 8 Principles mentioned in the document titled “Sound Compensation Practices for Licensed Banks” are very comprehensive. The objectives of creating balanced approaches for compensation practices in Financial Institutions by giving importance to present and potential risk apart from the performance goals, will no doubt, improve the health of the institutions and in the long run would help the Country’s economy at large.</p> <p>The gravity and scope of the document will, however, necessitate a phased approach while including the recommendations in the CBB rulebook as regulatory requirements.</p> <p>In addition, these principles are not valid for commercial banks and implementation of many of the principles are still not clear (e.g. reputation risk), therefore it is suggested that CBB puts together a task force to look at separate relevant guidelines for (i) commercial retail banks and (ii) investment banks, while complying with the spirit of the Basel principles.</p>	G-1	<p>Basel issued these principles to all banks regardless of their business model. To ensure local competitiveness, CBB believes that these principles should be applied to all banks operating in Bahrain</p> <p>Moreover, licensees will have to undertake a gap analysis and provide detailed steps and a timeline to comply. Transitional rules were also issued when the Rules were officially released at the end of November.</p>

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<p>A bank agrees that sound practices with respect to compensation policies, should address the basic issue of aligning risk and performance to remuneration. The controls, rules and limits within financial institutions must create incentives, such that the interest of the shareholders and that of its management are aligned to achieve financial stability. It is however equally important to recognize that this stability will be achieved only upon retaining and deploying the skills of the senior management team of any financial institution.</p> <p>The process of reviewing remuneration practices for employees and Boards of financial institutions in Bahrain commenced primarily with the introduction of the new corporate governance code in January 2011. This has been implemented by all CBB licensees and listed companies on the Bahrain Bourse. However, the proposed consultation paper on compensation practices, single out only financial institutions – namely banks. Other large listed / unlisted non-financial corporations in Bahrain will not be required to change their remuneration disclosures. Consequently, they are concerned that the reporting of commercially (and internally) sensitive information, could have the unintended consequence of Boards making remuneration decisions based wholly on what is required to be disclosed rather than what is in best interests of the institution.</p>	G-2	<p>Disagree; this will not lead to unintended consequences. The proposed rules on remuneration were designed to take into account the unique risks associated with the banking industry and have been advocated internationally by standard setting bodies, namely the Basel Committee on Banking Supervision and the Financial Stability Board.</p>
<p>A bank noted that they have a unique situation, where they have only 6 shareholders and are licensed and registered as a closed joint stock company.</p>	G-3	<p>As a bank licensee, these proposed rules need to apply to all banks, as banks deal with the public and therefore should be treated in a consistent manner whether they are closed stock companies or listed companies.</p>
<p>A bank noted that, as a general statement, directionally the bank is fully supportive of the concept of linking rewards to financial performance and that bonus distribution after claw-back reflects that actual profit realized over time.</p> <p>There are some specific details in the proposed amendment that they would like to discuss at a later stage. For the present, they have the following points to draw attention to in response to the proposed amendments.</p> <ol style="list-style-type: none"> 1. One size remuneration policy does not fit all financial institutions. The bank in Bahrain is not an Investment Bank, Retail Bank or Hedge-fund. It is a Commercial Offshore bank. This consultation paper appears to apply across the whole banking sector in Bahrain whereas in the UK, for example, banks have been separated into tiers and the remuneration policy is applied differently (if at all) as 	G-4	<p>Please refer to comment under G-1 and</p> <ol style="list-style-type: none"> 1. The European parliament on Wednesday 6th March agreed on a mandatory 1:1 ratio on variable pay relative to salary, which can rise to 2:1 with explicit shareholder approval. These new requirement is even more stringent than the proposed consultation and is applicable to all banks in

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<p>applicable to the relevant tier. Of note, as a recently designated Tier 3 FI, ABCIB in London has been exempted from the policy and is no longer subject to the deferral regime in the UK.</p> <ol style="list-style-type: none"> 2. The bank has a very strong Internal Capital Allocation Policy (ICAP) and they are very aware of the need to maintain a high level of capital adequacy. Their treasury income is largely derived from marketable investment grade securities and they have applied revised lower limits to further mitigate the associated risks. 3. The bank has a Variable Compensation Scheme (VCS) which is based solely on performance and is founded on a combination of top-down award-focused and bottom-up performance-based strategies for the purpose of bonus pool calculation and individual bonus allocation. This scheme has been in place since 2008. Of note, the VCS is only triggered in circumstances where the bank’s group achieves its target. If the bank fails to achieve the minimum threshold of net profitability, the VCS does not operate for that year. 4. The Board of Directors has placed a cap on the aggregate spend on bonuses paid which does not exceed 9% of the profits realized. This is relatively modest when compared to Investment Banks that typically pay a considerably higher percentage of bonus. 5. The President & Chief Executive does not control the bonus process rather the bonus process follows a plan approved by the Board and executed by the HR function. 6. The duties of the Nomination & Compensation Committee (NCC) are currently set out in the bank’s Corporate Governance Charter which incorporates the NCC charter. <p>In summary, while embracing the logic of ensuring variable compensation is based on actual rather than projected financial performance (and therefore the need for an element of deferral over subsequent years and provision for claw-back as required), they already have arrangements in place that satisfy all of the key requirements, that “one size does not fit all” and the profile of the bank is such that less onerous measures are appropriate than are outlined in the Discussion Paper.</p>		<p>Europe.</p> <p>(2-6)The current performance based strategies and compensation policy and procedures followed by the bank is considered a good foundation which should ease the implementation of the proposed rules vis-a- vis other banks that have no strong measures in place. Stringent remuneration rules are expected not only in Bahrain but on an international basis (hence the latest EU rules).</p> <p>When issued, the rules were significantly tailored from the original discussion document based on comments and discussion with the industry.</p>
<p>The bank noted that the process and framework should be flexible enough to take into consideration the institutions specifics business factors, competitive environment, and overall legal (commercial and labor) framework. It would be helpful for the CBB to issue a paper outlining the rational of each of the principles, and recommendations.</p> <p>Following are some of the key general points to highlight:</p> <ol style="list-style-type: none"> 1. Need clarity in the treatment of deferred payment in case the employee in one way or another no longer with the institution. 	<p>G-5</p>	<ol style="list-style-type: none"> 1. If the employee is no longer with the institution, the deferred payment will still be paid as agreed and may need to be subject to malus based on the timeline of the risk to which the deferred income is linked to. 2. The definition of remuneration

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<ol style="list-style-type: none">2. Need more clarity on definition of the fixed and variable component of remuneration. Suggest fixed remuneration to include salary and allowances and variable to include bonus and bonus schemes (ex-ante and ex-post), and consider the risk adjustment to the variable portion only.3. They are concerned that the paper calls for banks to assess their risk and determine their relative impact on remuneration, yet it also seem to impose a fixed/prescriptive minimum percentage and tenors of deferred payments and minimum allocation of such deferred payments in shares. By imposing such measures, banks are deprived of the flexibility to allow them to develop and decide on their specific parameters/metrics to be used in designing incentive systems and performance measures most appropriate for their own risk profiles and business characteristics.4. They are also concerned that the paper does not take into account the proportionality in the application of rules. Complexity, size, business model, risk tolerance and specialization of institution should be taken consideration in setting the parameters best suited to the organization. The suggested rules may well work for large, complex, or high risk institutions, but may prove cumbersome or detrimental to others.5. While they agree with the concept , philosophy and spirit of the proposed rules, they are also mindful of the potential impact on the competitive position, and staff movement that banks in Bahrain might face vs. other regional banks operating out of other jurisdiction and different (and possibly more flexible) regulatory rules in the region.6. They are not clear on how the CBB will assess compliance of the banks with the guidelines/rules under the various principles. References are made to the “auditors report”, however not clear of the mechanism by which the CBB will assess compliance or its frequency. They strongly recommend that the external auditors assesses the framework and methodology set by each bank, and not individual payouts, while the Board of Directors of each bank affirms to the CBB its compliance based on the review and recommendations of the respective Remuneration Committee.7. The definition of positions that are subject to the ‘risk adjusted’ treatment is confusing (e.g. of ‘approved persons’, ‘senior management’, ‘employees engaged in risk taking activities’, ‘employees engaged in control functions’). This is a wide list and for medium/small banks it can include a significant number of employees. Suggest a more specific and consistent definition focusing on a smaller and specific key personnel who’s position and activities have material impact on the risk profile of the bank.8. Disclosure: It is not clear if the required disclosure (in part or whole) would also be part of pillar III, a	<p>has been made clearer in the glossary.</p> <ol style="list-style-type: none">3. Fixed parameters are needed to ensure that as a minimum, strict measures are in place for sound remuneration practices.4. All licensed banks will have to adjust with the proposed remuneration practices and therefore will require significant changes and investments and should be treated in a consistent manner and in line with international standards applicable to bank licensees. A floor of BD100,000 was introduced for the application of the standard remuneration rules under Section HC-5.45. Disagree, such rules are started to be implemented in other regions to be in line with international standards. The GCC countries are gradually implementing the remuneration rules (KSA and Kuwait).6. The paper outlines in great details the various criteria that the CBB will consider in assessing compliance with the principles. The CBB is currently consulting on remuneration agreed upon procedures that will form the basis of the external audit review on remuneration practices.
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<p>more specific reference would be helpful. In any case, we do not support the detailed quantitative disclosures proposed nor the disclosure of commercially sensitive information. For example disclosure of the risk adjusted return of specific business or activities or the level of capital adequacy would qualify as sensitive and confidential and may be used (by public, and competition) to assess the pricing of bank products as an undesired consequence of the remuneration disclosures. They are therefore concerned that some of the quantitative disclosure of sensitive nature may not only be useful to competitors but be misused or misinterpreted by the market, and can have the unintended consequence of Boards making remuneration decisions based on what is required to be disclosed rather than what is in best interests of the company.</p> <p>9. The mechanism and disclosure requirement is intensive and cumbersome and would require considerable administration and controls, and additional investment in resources for an already lean organization. Suggest the CBB consider easing the requirement, and having a reasonable implementation period (not less than 2 years) and in a phased manner.</p>	<p>7. First, the released rules have added a BD100,000 floor outlined in Section HC-5.4. In addition, a definition of material risk-takers has been added to the Glossary. There is a difference between ‘control function personnel’ and ‘controlled functions’ as defined in the CBB Glossary – these have 2 very different meanings. ‘Control function personnel’ refer to individual involved in risk management, compliance or internal audit, independent of the business lines. These positions are all defined in reference to approved persons.</p> <p>8. The disclosures mandated in the annual report are in line with those of the Basel committee and therefore are mandated internationally and yes, could be considered part of Pillar III. Moreover, all the quantitative disclosures required under 6.1 (o to u) are aggregate and not individual and therefore these won’t be sensitive or place the bank in any competitive disadvantage. Banks are currently required under the PD Module to disclose the remuneration in aggregation.</p> <p>9. Transition rules have been introduced to facilitate the</p>
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		implementation process.
<p>A bank noted that it has long been a proponent of the principles underlying the proposed Remuneration Rules, including requiring a significant proportion of the variable compensation awarded to its professional employees to be deferred. However, there are a number of serious concerns regarding the proposed Remuneration Rules which are raised in the consultation.</p> <p>Competitive Disadvantage</p> <p>They are not aware that any other financial institution supervisory authority in the GCC has announced a similar intention to incorporate the FSB/BCBS principles and standards issued by the FSB and the BCBS into its regulatory framework. They are concerned that the implementation of these standards by the CBB without similar action being taken throughout the GCC could put Bahrain banks at a significant competitive disadvantage vis-à-vis GCC financial institutions that are based outside of Bahrain in their ability to attract and retain highly qualified professional employees.</p> <p>In addition, the proposed Remuneration Rules are stated to be applicable throughout a Bahrain’s bank’s group. Although the UK Financial Services Authority (the “FSA”) has implemented a Remuneration Code that reflects the FSB/BCBS principles and standards, the Remuneration Code only applies to financial institutions in the UK that satisfy certain size criteria, with the result that the Remuneration Code does not apply to many regulated financial firms in the UK. In addition, asset management firms in the US are not subject to any remuneration rules unless they are part of a group that is regulated in the US as a bank.</p> <p>Consequently, the application of the Proposed Remuneration Rules to the bank’s operations in the UK and the US could also have a serious impact upon the bank’s ability to attract and retain highly qualified professional employees in these countries.</p> <p>The Concept of Proportionality.</p> <p>The May 2011 BCBS paper entitled Range of Methodologies for Risk and Performance Alignment of Remuneration (the “BCBS Paper”) states that proportionality “is a key principle to consider for the implementation and supervision of the FSB Principles and Standards on Sound Compensation Practices.” The BCBS Paper states (in Section 1.5) that “a key rationale for proportionality is a proportionate relation between the benefit in terms of regulatory objective to the costs caused coming with regulatory requirements and supervisory action.”</p> <p>It further states that “proportionality is a case by case situation, which will require judgments by banks and supervisors. Institutions should be able to explain/justify choices made. Financial institutions need to</p>	<p>G-6</p>	<p>Please refer to comment G-1 above. Other GCC jurisdictions have started to implement some of these Basel rules (KSA, as an example). HC-5.4.5 states that local rules should apply to the remuneration schemes of affiliates and branches. So if these are located in jurisdictions outside Bahrain, then the local rules should be complied with.</p> <p>Transitional rules were introduced when the Rules were released at the end of November.</p> <p>A BD100,000 floor was introduced when the Rules were issued in November 2013.</p>

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demonstrate that the practices they adopt to adjust variable remuneration for relative risks are appropriate to the size and risk profile of their businesses.”

The BCBS paper also states that “different business models may justify different implementation across institutions as well as within institutions.”

The bank does not believe that the Proposed Remuneration Regulations reflect any of these aspects of proportionality.

In addition, the proposed Remuneration Rules do not reflect the BCBS Paper’s concept that proportionality should be applied on a case-by-case basis and an institution “should be able to explain / justify choices made”. Instead, there is a “one size fits all” approach in the Proposed Remuneration Rules. It is strongly felt that Bahrain banks should be able to determine, for valid reasons that they can articulate in writing to both the CBB and in its public disclosures, the manner in which risk and performance are aligned in their remuneration decisions, rather than being subject to rigid rules that apply to all banks without regard to whether such rules are sensible for a specific institution given its business model and without regard to whether such rules should apply across the board to all groups of material risk takers within a bank.

If a bank has a remuneration program for certain employees that significantly aligns risk and performance with respect to a substantial proportion of variable remuneration, then it should be permissible for that bank to determine not to apply certain of the Proposed Remuneration Rules to that group of employees.

Timing of Implementation

If issued in their current form by the CBB, the Proposed Remuneration Rules are likely to require very significant changes to the compensation practices of banks in Bahrain.

This will be both time consuming and resource-intensive.

It is significant to note that Paragraph 31 of the BCBS Paper states:

“Performance measures and their relation to remuneration packages should be clearly defined at the beginning of the performance measurement period to ensure the employees perceive the incentive mechanism. The usual annual determination of bonuses should be based on rules, process and objectives known in advance, recognising that some discretion will be needed”.

This concept certainly should apply to changes in remuneration programs of the magnitude required by the Proposed Remuneration Rules.

On this basis, it is respectfully suggested that Bahrain banks be given a minimum of twelve months to

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<p>implement the required changes in their remuneration programs and risk systems and to notify the affected employees. The materials referred to in Section 7.2 of the Consultation Paper will be submitted when the self-assessment referred to in Section 7.2 is requested by the CBB.</p>		
<p>A bank noted that some of the macro observations to be considered in translating the international guidance issued by the Financial Stability Board and the Basel Committee on Banking and Supervision into domestic rules include:</p> <ul style="list-style-type: none"> • Some of the reward mechanisms may be viewed by employees as a disincentive (such as deferral of variable compensation for 5 years and awarding variable compensation as shares or share-linked instruments), which may result in banks in Bahrain being unable to attract and retain talent if similar requirements are not implemented simultaneously across the GCC • The intention of awarding variable compensation as shares or share-linked instruments is to create incentives aligned with long-term value creation and the time horizon of risk. However given the relative lack of liquidity in the stock market in Bahrain and given that the majority of banks are not listed, this may not result in achieving the desired objective of aligning incentives to long term value-creation and time horizon of risk. <p>Foreign branches, affiliates and subsidiaries would require to formulate their remuneration structure in line with local practice and the requirements set by the respective local regulatory bodies in order to remain competitive and attractive to employees in their respective jurisdictions.</p> <ul style="list-style-type: none"> • CBB to consider implementing the final guidelines in a phased manner to ensure banks are provided sufficient time to comply with the broad principles and implement mechanisms to comply with the broad principles <p>In addition, CBB to consider issuing guidelines / definitions for the following to ensure consistency in application:</p> <ul style="list-style-type: none"> • ‘material risk takers’ (Clause 4. 3) • ‘control functions’ (Clause 4.7) • ‘appropriate level of authority’ (Clause 4. 8(h)) • ‘substantial portion’ (Clause 5.8(a)) • ‘remuneration’ – this term appears to be used to imply ‘variable remuneration’ and ‘total remuneration’ (e.g. Clause 5.8(a)) interchangeably 	<p>G-7</p>	<p>Please refer to comments G-1 and G-6 above.</p> <p>The deferral has been amended to 3 years.</p> <p>Other non-cash remuneration schemes are permitted in lieu of shares.</p> <p>Transitional rules were introduced when the rules were issued in November 2013.</p> <p>Material risk takers and remuneration are defined terms in the glossary, as well as the ‘control functions’ have been defined using wording currently used in the CBB Rulebook. Other terms will require bank judgement to be exercised.</p>

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<ul style="list-style-type: none"> • ‘increase significantly’ (Clause 5.8(b)) 		
<p>A bank noted that it is not clear to which level these practices apply on Overseas Conventional Banks. At the same time; the principles deal with the Board of Directors’ duties and responsibilities, and discuss the remuneration committee principles and function under the other jurisdiction’s rules.</p> <p>If these practices applied on the Overseas Conventional Banks; what are the actions should be taken if there are differences with the applied rules at the parent entity?</p>	G-8	<p>HC-5.4.4 states where banks are operating as foreign affiliates (and in some cases branches) they will need to satisfy the CBB that they meet the legal requirements of the most strict jurisdiction with respect to compensation for their operations in Bahrain.</p>
<p>A bank suggested that as proposed, the regulations may have substantial and potentially unintended impacts on individual professionals, institutions, and the relative competitive position of Bahrain.</p> <p>Competitive Position: If the regulations of Bahrain are less favourable than other GCC countries this may have a profound effect on the ability of institutions to retain and attract high calibre staff. Such inability from a strategic perspective may lead to a “Brain Drain” from Bahrain. Like many other important regulatory developments we hope that regulators across the GCC harmonise their initiatives. Further, the CBB should compare with other regulators in competing jurisdictions, to ensure Bahrain’s competitive position is maintained. The opposite side of the legislation, along with that of Bahrain’s competitive position, is the impact on staff.</p> <p>Duration: While the legislation is designed to stop the actions of a few, it is the majority of staff whom are impacted. Feedback received from discussions with industry practitioners is that extending payments to the time frames suggested, is beyond most practitioners time horizons. It is international best practice to have a time horizon of 3 years and we support continuation of the same.</p> <p>Saving Money: Another very important philosophical consideration absent from the proposals is the concept of saving money i.e. avoiding loss should also be appropriately rewarded, as opposed to contraction of variable remuneration during loss making years due to actions of others. To illustrate, a credit officer who makes a decision not to onboard/deal with a risky client who in turn saves the institution from financial grief should be rewarded.</p> <p>Non Risk Staff and Performance:</p>	G-9	<p>Please refer to comments G-1, G-2 and G-6 above.</p> <p>The CBB has discussed the rules at the “Banking Supervision Committee” of the Gulf Cooperation Council-Secretariat General to ensure that the other jurisdictions also comply with international standards. KSA and Kuwait have issued similar rules.</p> <p>3 year deferral has been introduced in the final November 2013 release.</p> <p>The paper recognizes such action but also implies that if the bank is facing financial difficulties, it should not award such remuneration until such time as it is financial stable and therefore deferral would apply.</p> <p>Non-risk staff are considered under those in ‘control functions’ and cover staff in Risk Management,</p>

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<p>Continuing with the earlier concept, non-risk staff (including assurance staff etc.) should also be rewarded for meeting/exceeding their KPI's even if the institution does not perform well. This has not been appropriately considered.</p> <p>Detailed Commentary:</p> <p>Please note that the feedback presented has broader market feedback than only direct relevance and applicability to the current practices of the bank. Given the substantive nature of the proposals they would hope that the CBB will issue a second consultation paper before they are required to develop detailed plans and timelines.</p> <p>Moreover, the proposed principles issued by the CBB are addressed to only licensed banks and excludes other financial institutions and private sector corporations. Non-standardization of remuneration practices puts the banking industry in a less favourable position hence encouraging professionals wishing to obtain remunerations earlier than later to join firms in other industries.</p> <p>These proposed principles include some stringent requirements which if implemented will be at odds with remuneration practices followed in various industries. Less stringent remuneration practices in other GCC/ non GCC countries may render the Bahrain's banking market less attractive, hence depriving local banks access to highly qualified professionals.</p>		<p>Internal Audit, Operations, Financial Controls, AML and Compliance Functions (see HC-5.4.7 to HC-5.4.9).</p> <p>CBB met with all the banks to discuss the proposals further and substantially amended the final rules issued in November 2013</p> <p>The CBB is considering the application of remuneration rules for other financial institutions as well.</p>
<p>A bank is of the view that while most of the principles stated in the consultation paper (especially with respect to deferred remuneration proposal and linking remuneration packages to risk taking activities as per Basel) may require amendment of their existing policies / involvement of their Head Office based in another jurisdiction, it has specific comments on the disclosure requirements Appendix 2 Principle 8 (see below).</p>	G-10	No comment
<p>A bank noted that the challenge with regards to complying with the contents of the consultation paper is fundamentally based on the fact that they are only a branch of a foreign bank whereby their local organisational structure is not comparable to those referenced in the consultation paper and exclude a local board of directors and their associated committees although they have the required governance structure necessary for the operation of a branch of a foreign bank.</p>	G-11	See comment G-8.
<p>A bank noted that the Group is broadly supportive of the overall spirit and intent of the guidelines. The bank's lead regulator is the another regulator. It, like Central Bank of Bahrain's plan, has already formally issued its own remuneration guidelines in 2009, which are designed to mirror the principles adopted by the G20 countries and which are enshrined in the Financial Stability Board (FSB)'s</p>	G-12	See comment G-8.

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<p>Principles for Sound Compensation Practices and their Implementation Standards. Having reviewed the consultation paper they are supportive of the guidelines as they are anyways adhering to the FSA guidelines, however given their branch licence, in Bahrain they feel that that following are not be applicable to them in Bahrain:</p> <ol style="list-style-type: none"> 1. All references to “Board of directors” duties and responsibilities and pay as they do not have a local board in Bahrain and remain maintain a branch structure. Such reference should be to the group board of directors at the head office for the branches of overseas banks. 2. All references to “Approved Persons” and their pay including data submission as per Appendix 1 and 2: As a foreign based organisation they do submit appropriate submissions to their lead regulator and these include any approved persons as per the lead regulator’s criteria. They would like to understand if they need to have a separate list of approved persons in Bahrain. <p>In summary, the Group remains supportive of a principles-based approach and the objective of aligning remuneration policy with risk management, as well as the linking of remuneration practice to capital planning in order that risk management is holistic.</p>		<ol style="list-style-type: none"> 1. Agree 2. Yes, any remuneration to approved persons in Bahrain are subject to the reporting requirements to the CBB under Appendix 2.
<p>A bank noted that the draft regulation appears to aim towards ensuring that locally incorporated banks in Bahrain (including their foreign branches and affiliates, if any) follow the best international practices for determining remuneration structures that promote fairness and better governance processes. It is understood that the branches of foreign banks such as the bank are excluded, and would continue to be governed by the primary regulator of the parent company; which should satisfy the CBB requirements for a branch of a foreign bank at a group / parent entity level while also preventing the overlapping of rules. Confirmation to their understanding is requested.</p>	G-13	See comment G-8.
<p>A bank noted they are a branch of a foreign Bank operating in the Kingdom of Bahrain under a retail license issued by the CBB. None of their employees in Bahrain including the CBB approved Personnel are paid long term Incentives, Severance Packages, Options or Hiring Bonuses in Bahrain. No bonuses are paid to foreign-Based Officials who are posted to handle Bahrain operations of the bank. The Locally recruited staff is paid the statutory bonus equivalent to 1 month’s salary once in a year and the same is not linked to performance or for risk taking. The provisions in the consultation paper therefore, we presume do not apply to us. Therefore, as a branch of foreign bank, may they be exempted from the reporting requirements as laid out in the consultation paper?</p>	G-14	See comment G-8. And reporting requirements will apply for approved persons in Bahrain, in particular, Appendix BR-14 and BR-15 reporting to CBB. The requirements are applicable to fix and variable remuneration and therefore it does not affect bonus payments only.

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<p>A bank noted that the only concern is that how can they control this issue as a branch of a foreign bank? By other mean they need to know which part of the consolation paper is applicable on them.</p>	G-15	See comment G-8
<p>A bank noted that the proposed remuneration practices may not be largely relevant for Retail/Commercial Banks. For commercial banks, like the bank, risk- taking is governed by tight policies/parameters/controls and all exposures are only taken after a detailed, multi-signature approval process, which could also include Board Committee or Board. Therefore, it is difficult to assign the responsibility of taking risk in commercial banks to particular individuals. Also Bahrain’s market environment and Banks’ size may not warrant such complexities in defining and implementing of risk taking and deferred payments. Implementation would require extensive know-how, resources, systems and budget to be allocated and manual handling would be extremely difficult. Therefore, the Bank would have to adopt new systems to facilitate the monitoring of accounting and risk assessment processes, particularly given the dynamic nature of risk components/factors which would affect the remuneration process. There is no expertise available internally and in market at present. The following is strongly recommended:</p> <ol style="list-style-type: none"> a.The consultation may be given more time for banks to internally understand the complexities and the system requirements i.e. 6 months to 1 year. b.Thereafter, CBB may constitute a committee which should look into the specific and implementation provisions and to have uniformity and consensus with the Banks. c.A phased approach with specific guidelines, targets and achievable for implementation across a period of not less than 3 years. Procedural/operational arrangements in implementation should be clarified particularly the recommended strategies and methodologies. d.As mentioned earlier this exercise would involve substantial costs and resources at all levels internally and considering the size of banks and market, a more simplistic approach may be adopted to meet the goals. 	G-16	<p>Please refer to comment G-1. The CBB met with all banks to discuss the proposals further and considerably altered the proposals when issuing the final rules in November 2013 and provided a transition period for the implementation.</p>
<p>A bank agrees in principle to align compensation practices to the risk and performance of an entity and related approved persons and material risk takers, nevertheless, the CBB should take on board the following objective factors impacting implementation on the suggested basis:</p> <ol style="list-style-type: none"> 1. Nature, lack of availability and liquidity of capital instruments, in the local capital market - Bahrain Bourse and its relevance with compensation packages prevalent locally and regionally. Non-cash equity based/variable and deferred compensation packages are applicable currently in developed markets/ jurisdictions which enjoy liquid markets with ease of ability to transact at market set prices. 	G-17	<p>Please refer to comment under G-16. Non-cash instruments can include items other than shares.</p>

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<p>A unilateral application will put local licensed banks at a distinct dis-advantage regionally in terms of attracting the requisite qualified talent pool on the basis proposed. This regional/ international diversity will adversely impact local banks from being able to effectively manage the human resource pool aligned to respective risk profiles and job responsibilities.</p> <p>2. Furthermore, the alignment of risks to compensation packages in the region is challenging and impractical given the evolving liquidity and capital regimes under Basel-III in the GCC exacerbated by the dynamic and rapidly evolving exogenous factors strongly influencing regional risks.</p> <p>Moreover, in the bank, the Board of Directors lays down the Human Resources Policy for the entire bank staff and closely monitors the compensation, remuneration, promotion, reward and performance management policies and processes for all staff in the bank. It has also established a Compensation (Remuneration) Committee with an approved Terms of Reference to provide an efficient mechanism for reviewing the Bank’s compensation policies and arrangement for its Directors, management & staff. Their policies are annually reviewed so that they remain in compliance with international standards. In view of the above, it is strongly recommended that the adoption of standards issued by the FSB and BCBS be modified and deferred pending factors above and that alternative more regionally compatible arrangements are structured.</p>		
<p>A bank noted the following:</p> <p>1. Corporate Governance/ Disclosure: Corporate governance is covered to a great extent under Principles 1-3, and Disclosure under Principle 8. The bank appreciates these best industry practices, and in fact is already in substantial compliance with most of these requirements. If any additional requirements need to be implemented under these principles when the Consultative paper is finalized, the Bank would endeavor to do so at the earliest.</p> <p>2. Remuneration Principles linked to Risk Taken: As is apparent from the objective of the paper, these are meant for “reducing the incentives for inappropriate risk-taking by banks and thereby to protect consumers and the wider economy from the consequences of such inappropriate risk-taking.” (Para 2.5 of Paper). The underlying assumption under the Consultative papers control mechanism for curbing “Discretionary excess in Risk taking” is that Profit maximization is the reason for discretionary excess, and that it can be curbed, amongst other measures, by remuneration in-kind, namely shares of the same organization (which can be encashed by the recipient in due course on the Stock market). This model does not apply to entities which are driven by a different economic model, with different</p>	G-18	<p>1. No comment.</p> <p>2. To be considered, however, there is no harm to apply remuneration practices even though the objective of the bank is different.</p>

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<p>ownership, namely specially licensed banks like the bank or similar government-owned institutions. The bank’s economic model does not allow for discretionary excess in risk taking or overemphasis on profit maximization. This is because it has only 2 major lines of Business; the mortgage loans (which consists of 90% social mortgage loan backed by the Ministry of Housing) plus Housing Development on lands granted to it by the government to support provision of social housing.</p> <p>The change of objective (from profit maximization to social satisfaction) does not reduce the quotient of administrative, financial and management skills required in achieving success in these government owned/controlled organizations. As such, in addition to being inappropriate to the effective operating model, mandating the proposed variable remuneration requirements on such entities, would make it impossible to attract or retain talent needed to make these organizations succeed and would have the totally unintended effect of compromising organizational effectiveness.</p> <p>In view of the above, CBB is requested to take into consideration the fact that discretionary excessive risk taking is negligible in entities like the bank, as they are government owned, are also subject to scrutiny/approval of the Council of Ministers, have economic models that are NOT based on price/profit maximization, operate in market segments that are socially driven (e.g. social loans/low cost housing etc.); and, in view of these marked/major differentiators from the profit-driven models of other commercial financial organizations, these specialized licensees need to be outside the mandatory framework as set out in the Consultative paper (other than governance/disclosure aspects).</p>		
<p>A bank noted that the bank’s group provides a steer to its branches and subsidiaries worldwide on strategic direction and govern our rewards practices, in line with its lead regulator’s guidelines.</p>	G-19	No comment.
<p>A bank will have no problem in complying to the draft circular issued by the CBB.</p>	G-20	No comment.
<p>A bank wish to notify you that their Bahrain Branch (which is an overseas conventional retail bank), the equivalent arrangements of principles and practices outlined in the consultation draft are in place at the parent entity level. The parent entity is regulated by the foreign regulator and is a listed company in its home jurisdiction & other countries. Accordingly it is governed by the provisions of the applicable regulations and listing agreements entered by the provisions of the stock exchanges.</p> <p>The regulations has provided guidelines on compensation of Whole Time Directors/ Chief Executive Officers/ Risk takers and Control function staff etc. These regulations were issued by the home regulator to incorporate the recommendations of The Financial Stability Board (FSB) Principles for Sound</p>	G-21	Noted.

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Compensation Practices and the Basel Committee on Banking Supervision (BCBS) recommendations. The parent entity has accordingly reviewed its compensation practices to be in line with the RBI regulations.		
A bank noted that they are a wholesale bank overseas branch. All the decisions influencing Bank's future is taken by Head Office. Bahrain Branch staff are paid monthly salary and year-end bonus which is decided according to the profitability by the Head Office. Therefore, there is no difficulty on reporting.	G-22	See comment G-8.

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Specific comments			
Proposed Rule	Bank's comments		CBB Initiative
1.4 Banks will be provided with transitional arrangements for the implementation of these measures.	<p>A bank noted that it is not clear what the 'transitional arrangement' entails, and the period that will be given to banks to implement. Given the scope, scale and complexity of the requirements, we suggest a minimum of two years and in a phased manner.</p> <p>A bank requested that there be a clear timetable for introducing the new requirements, so that there is sufficient time to allow the development of compliant policies. They also requested that there be a suitable transitional interval before the final rules come into effect. Transitional guidance will be needed to assist Boards and the remuneration committees in adapting to the changes.</p> <p>Transitional arrangements will also enable us to communicate with shareholders and other stakeholders at the outset, to guard against unrealistic short-term expectations or repercussions that may arise.</p>	<p>SP-1</p> <p>SP-2</p>	<p>When the final rules were issued in November 2013 the cover letter stated: The CBB will allow for a transition period until end of June 2014 for the implementation of these rules. This means that the subject Rules will be effective from 1st July 2014.</p> <p>Please refer to comment under SP-1.</p>

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<p>with local rules that apply to the remuneration schemes of their affiliates and branches.</p>	<p>the higher of the two apply or would host country regulation supersede? In case of their Indian branch, Reserve Bank of India has already specified detailed remuneration regulations including principles and methodologies to be followed by all licensees. On the other hand, Kuwait Branch may be at a disadvantage, vis-a-vis local banks, if such policies are not prescribed by the local regulator, the Central Bank of Kuwait.</p> <p>Furthermore, the treatment of Bank subsidiaries and affiliates which are not CBB licensees, such as their subsidiary, has not been clarified. Would such entities be subject to the CBB regulation?</p> <p>A bank noted that it is not clear in the document if the remuneration practices of foreign affiliates and branches will also be subject to review by external auditors, and in-turn by the CBB, and what is the ruling in case the principles, or disclosure requirements are in conflict with the foreign legal or regulatory requirements.</p> <p>A bank noted that they understand branches but foreign affiliates are far fetched in view of the fact that the affiliates would have their own regulators. They can only endeavour to make recommendations to the affiliates.</p>	<p>SP-6</p> <p>SP-7</p>	<p>subsidiaries and branches take steps so that the remuneration practices are compliant with the policy defined at the group level. Such steps must include ensuring compliance with local rules that apply to the remuneration schemes of their subsidiaries and branches.</p> <p>Please refer to SP-5 comment</p> <p>Please refer to SP-5 comment</p>
<p>3.2 In a “top-down” or “award-focused” strategy, a bank chooses the amount of its overall bonus pool for a given year depending on the bank’s performance and then allocates the pool among employees, with the allocation depending to a greater extent, but not entirely, on the contributions of business units and</p>	<p>A bank noted that the resolution of legacy assets may not be complete considering long on-going legal proceedings. In such cases, how would the Bank assess the applicable time frame and responsible personnel over time? How would the court’s decision (favourable vs. unfavourable) be considered when implementing the various remuneration methodologies/strategies for the incumbent?</p> <p>Guidelines seem to suggest that ‘current’ incumbent need to be</p>	<p>SP-8</p>	<p>In such instances, other factors will need to be considered, particularly when employees responsible for such legacy assets are no longer employed by the bank and clawbacks, where possible, may need to be exercised. However, there may be a need to defer the variable remuneration of some staff should the bank lack the</p>

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<p>employees to short-term profit. A portion of bonuses may be deferred, and a portion of deferred bonuses may be paid in equity-linked instruments such as stocks or options. The award-focused architecture does not reliably reduce bank-wide employee remuneration when large losses are experienced on legacy assets. This is because bonus awards depend on activity during the performance year, not on legacy losses, and deferred payouts are reduced for poor performance only if the portion paid in equity-linked instruments is large and if the bank's stock price falls.</p>	<p>'penalised' for legacy NPAs. If true, this might not be appropriate or justified, particularly in case where personnel in charge have changed or resigned.</p> <p>A bank noted that although this mechanism in principle is excellent for long term commitment and linking rewards to future growth it does not work for entities such as theirs which is a closed joint stock company and stock options may not have much value as their shares are not publicly traded.</p>	<p>SP-9</p>	<p>necessary liquidity or its deteriorating capital position prevents the payment of variable pay.</p> <p>See also comment under G-17.</p>
<p>3.4 In a "bottom-up" or "payment-focused" strategy, incentives operate at the level of individual employees. If unsound risk-taking incentives due to an excessive focus on short-term results are the problem, then individual employees' remuneration arrangements must be altered so that risk influences the amount of remuneration that employees ultimately receive not just short-term profit. Employee risk-taking behaviour is more likely to change if employees expect their remuneration to be reduced if they take undue risk. The bank-wide bonus pool will not necessarily be fixed at some fraction of net revenue. The size of the pool will</p>	<p>A bank noted that the bottom up approach is of limited (if any) value as it does not take into account the overall performance, and risk of the institution but rather of the individual. Institutions set the bonus pool on the overall performance and not at individual level, also the bottom up approach may steer employees to prioritize their interest above that of the team and institution.</p>	<p>SP-10</p>	<p>The "bottom-up" strategy aims to make employee-pay sensitive to risk. This will also link the contribution of the individual with their performance. It will not steer them to prioritize their interest above the team.</p>

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<p>be the sum of individual employees' awards. That is, the awards will determine the pool rather than the pool determining the awards.</p>			
<p>3.5 Under the bottom-up strategy, Principles 4 and 6 are central because they are most focused on ways to make individual employee-pay sensitive to risk. They are also central to any other mechanism. Any employee's pay can be risk-adjusted either by reducing the bonus award as risk rises or by making the ultimate amount of deferred payouts sensitive to the long-run outcomes of that employee's own risk choices, or both. Risk adjustments are purely for ex ante risk – bonus awards do not necessarily fall when risk outcomes are bad for legacy positions.</p>	<p>A bank noted that the key concept appears to be that employees taking higher risk need to be 'penalised' by either reducing bonus award or deferring bonus over a long period. This might not be appropriate, as some divisions by definition take on higher risk exposures than others, as mandated by the Bank. It would be more appropriate to compare actual risk taken, vis-a vis budgeted parameters, and only if those are exceeded should the 'risk taker' be penalized.</p>	<p>SP-11</p>	<p>The concept does not penalize high risk takers; however, it makes them cautious and careful of the risk that they are going to encounter. Therefore, the payouts are a result of the outcome of the exposure.</p>
<p>4.1 The CBB believes that it is essential that banks have in place an effective governance of the remuneration policy.</p>	<p>A bank noted that this is in the form of guidance once the changes happen the terms of reference of remuneration committee will be amended accordingly.</p>	<p>SP-12</p>	<p>No comment.</p>
<p>Principle 1: The bank's board of directors must actively oversee the remuneration system's design and operation for approved persons as well as material risk-takers. The chief executive officer and management team should not primarily control the remuneration system. Members of the remuneration</p>	<p>A bank noted that Principles no. 1 and 2 underline the involvement of firm's Board of Directors in overseeing the compensation system's design and operation. It essentially requires a Board Remuneration Committee (RemCo), with a clear role to perform, as an integral part of the governance structure. These requirements should be immediately enforced with an understanding that it may take some time before the RemCo will mature to deliver on all aspects of its responsibilities.</p>	<p>SP-13</p>	<p>Agree; please refer to comment SP-1.</p>

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	<ul style="list-style-type: none"> • The regional bank’s Board. • Regional Chief Executive Officer. • Regional Head of Human Resource. <p>A bank suggested that the remuneration committee consist of a majority of non-executive, independent directors (as opposed to stipulating that all of them should be non-executive/ independent). It is a known fact that several banks in Bahrain have a controlling shareholder. The Remuneration Committee is hence likely to include one (or more) Executive Directors, who are representatives of the controlling shareholder. What is important is to ensure that these Executive representatives do not overshadow/control the independent Directors.</p> <p>It is also suggested that the word ‘committees’ be excluded (members of the remuneration committee must have independence of any risk taking function or committees). The Corporate Governance Code/ CBB rulebook, permits non-executive, independent directors to be members of the Board Audit Committee. In their opinion, to have a completely independent and mutually exclusive set of Directors for the Remuneration Committee, is not feasible.</p> <p>A bank noted that this overlaps with the authority given to the remuneration committee, BOD should only approve the framework but not necessarily overseeing the entire process.</p>	<p>SP-16</p> <p>SP-17</p> <p>SP-18</p>	<p>See comment under SP-14</p> <p>See comment under SP-14</p> <p>Disagree- The BOD should oversee the entire remuneration process and that’s the objective of having a remuneration committee. See also SP-14.</p>
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<p>Principle 2:</p> <p>The bank’s board of directors must approve, monitor and review the remuneration system to ensure the system operates as intended. The remuneration system must include effective controls. The practical operation of the system must be regularly reviewed for compliance with regulations, internal policies and bank procedures. Remuneration outcomes, risk measurements, and risk outcomes must be regularly reviewed for consistency with the Board approved risk appetite.</p>	<p>A bank please refer to its comment on Principle 1.</p> <p>A bank noted the management implements the remuneration system within the Board approved HR policy/ framework with allocations approved by the CC. Incentives are discretionarily aligned to the Bank’s performance (top down approach) while individual level incentive bonuses are based on performances versus risks undertaken in compliance with Board approved risk framework and results thereof.</p> <p>It is recommended to consider a more detailed evaluation and assessment of the potential adverse impact on local banks of divergent regional practices on employment of right calibre prospective candidates or retention of existing staff through adoption of a mandatory variable / risk based and a deferred component / vesting based remuneration system locally by the CBB. One must also bear in mind the divergence in capital market dynamics and operations together with its attractiveness more akin to the international prominent capital markets.</p> <p>A bank noted that if remuneration system refers to remuneration policy, then the proposed rule will be contradicting with rule HC-5.2.1 (a) “Review the conventional bank licensee’s remuneration policies for the approved persons, which must be approved by the shareholders and be consistent with the corporate values and strategy of the bank”. Rule HC-5.2.1 (a) states that approval of the remuneration policies for approved persons must be at the shareholders’ level and not the board level.</p>	<p>SP-19</p> <p>SP-20</p> <p>SP-21</p>	<p>No comment.</p> <p>Please be advised that licensees will have to undertake a gap analysis and provide detailed steps and a timeline to comply. Based on the gap analysis, CBB will make the necessary amendments and may develop further transitional rules.</p> <p>First the remuneration should be approved by the board, before being presented for shareholder approval.</p>
<p>4.3 The Remuneration Committee must approve the remuneration package of all approved persons, and all material risk takers.</p>	<p>A bank recommended to define the “Risk Takers” positions or tasks/roles in order to have a consistent measurement by all Banks.</p> <p>A bank noted that the terms “material risk takers” and “control functions” have not been adequately defined in the document. It is</p>	<p>SP-22</p> <p>SP-23</p>	<p>Agree; “material risk takers” has been defined in the glossary.</p> <p>Please refer to comment SP-22 above. And the term ‘control functions’ has been replaced by</p>

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	<p>not clear at what seniority level should the Bank consider individuals being identified as material risk takers. Officials at every level will require taking risks as part of their activity. If such terms are not clearly defined, and if the ‘materiality’ threshold is not specified, then such a group may include a significantly large population of Bank employees. The materiality threshold should therefore be specified for retail and wholesale banks separately.</p> <p>A bank noted that subject to a level playing field in terms of a risk based remuneration system and a transition phase, approval by the CC of packages relating to all approved persons and material risk takers can only be until proven efficient prior to moving downwards to all material risk takers since these systems requires enhancement / development in terms of MIS & infrastructure/ HR operating expertise. Please note the bank’s comments in principle 2 above.</p> <p>A bank noted that introducing a requirement for the Remuneration Committee to approve the fixed remuneration package to new employees classified as approved persons or material risk takers is likely to be time consuming and significantly increase the on-boarding process for a large number of employees & may ultimately result in banks losing potential talent. Clarification if this is applicable to:</p> <ul style="list-style-type: none"> • Directors of closely held banks (who are appointed by shareholders) • Financial Instruments Traders (as per LR-1A.1.3, Financial Instruments Traders do not require prior approval) <p>A bank noted that for clear guidance is required to assist banks in appropriately identifying & monitoring “material risk takers”.</p>	<p>Risk Management, Internal Audit, Operations, Financial Controls, AML and Compliance Functions.</p> <p>Do not agree that materiality should be defined differently for retail and wholesale banks.</p> <p>SP-24</p> <p>SP-25</p> <p>SP-26</p>	<p>Risk Management, Internal Audit, Operations, Financial Controls, AML and Compliance Functions.</p> <p>Do not agree that materiality should be defined differently for retail and wholesale banks.</p> <p>Please refer to comment SP-20 above.</p> <p>CBB has introduced floor threshold of BD100,000 to alleviate the burden on banks.</p> <p>Financial instrument traders are only included if they fall under the definition of material risk-takers and whose total remuneration package is above the BD100,000 level..</p> <p>Please refer to comment SP-22 above.</p>
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<p>4.4 The external auditor must conduct an annual remuneration audit that is conducted independently of management and submitted directly to the CBB. The audit must assess compliance with the CBB principles on remuneration, and the results must be disclosed in the annual report. An example of a positive audit may be one that outlines how the bank's remuneration payout schedules are sensitive to the time horizon of risks and variable remuneration is adjusted accordingly. An example of a negative audit may be one that notes that the bank has failed to implement the requirement that a minimum of 50% of the variable compensation must be awarded in shares or share-linked instruments.</p>	<p>A bank noted that external auditors may not have the expertise in conducting HR remuneration audit and falls outside the scope of a financial statements audit. A one-line disclosure in the standard audit section in the annual report on the remuneration audit should suffice.</p>	<p>SP-27</p>	<p>The review to be conducted by the external auditor will be in line with remuneration agreed upon procedures as developed by the CBB, which are currently being consulted with the external auditors.</p>
	<p>A bank noted that this will result in banks incurring significant costs in addition to the costs already incurred for the annual audit of the financial statements and Agreed Upon Procedures reviews of the Prudential Returns and banks' compliance with the CBB's Module PD. In addition, the requirement to publish the result of this audit in the annual report may require banks to significantly accelerate their employee evaluation and compensation review procedures to ensure compliance with this time frame. There is no indication that consideration has been given by the CBB to these costs and whether such costs are proportionate to the perceived benefits.</p>	<p>SP-28</p>	<p>The independent verification of the bank's compliance with the new remuneration rules is important. This requirement has been reduced to a 'review' as opposed to an 'audit' and is no longer required to be included in the annual report.</p>
	<p>A bank noted that enhancing the scope of the external auditors to include an annual remuneration audit is likely to result in additional cost to banks.</p>	<p>SP-29</p>	<p>See SP-28 above.</p>
	<p>A bank noted that not all banks in Bahrain have introduced stock allocation or distribution schemes for their employees. Introduction of the requirements leads to the following:</p> <ul style="list-style-type: none"> • Granting shares to employees dilutes the ownership of the bank. Various shareholders may not wish to provide such share distribution schemes; • Implementation of the requirement leads to re-visiting the memorandums of associations and hence having changes approved in an extra-ordinary general assembly; 	<p>SP-30</p>	<p>See comment under G-7</p> <p>Banks should do all the necessary changes to meet these requirements including the amendment of the M&A.</p>

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	<ul style="list-style-type: none"> • Re-defining the bank’s business strategy based on the new capital structure; • Employees may not wish to be compensated by shares hence encouraging them to serve non-banking industries; • Re-negotiation of variable remuneration schemes may discourage employees hence deterring them from performing to the best of their abilities. <p>A bank noted that external auditors to submit directly to the CBB without sharing their findings with the remuneration committee or the board is not practical, or in the best interest of stakeholders, in case of misreporting or interpretation or mistakes and or if an immediate corrective action can be taken.</p> <p>Also a minimum of 50% of the variable remuneration have to be awarded in shares should not be applied to all banks of all sizes considering that this would result in smaller banks to keep on growing their capital base unnecessarily, and may not be in line with their risk profile. Also it is not clear of the disclosure level of the ‘results’ of the audit is the same to be published in the annual report. In their view External Auditors should review the framework and process and not actual individual payouts. As such the disclosure in the Annual Report is only to confirm general compliance to CBB rules and guidelines, and total amount for the bank and not individual payouts. The proportion of cash and shares awards in remuneration depends on the position and nature of the business, and should not be fixed at min. 50%. i.e. should be proportional to the size, risk assessment and complexity of the business as defined by management and approved by the board rather than by the CBB or auditors.</p>	<p>SP-31</p>	<p>The design of the remuneration of agreed upon procedures to be completed by the external auditor will require the bank’s input and therefore will be discussed with the bank before submitted to the CBB. See comment under G-7</p> <p>See comment under SP-28.</p>
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<p>4.5 The Board's remuneration must be fixed so that total remuneration (including sitting fees) must not exceed 5% of the bank's net profit in any financial year. Board sitting fees must be limited to a maximum of BD500 per person for attending each meeting.</p>	<p>A bank noted that the current sitting fee of a director at the bank is BD 500 per meeting. The chairman of the committee has normally additional responsibilities and is required to be paid a higher amount. Furthermore, clarification is requested on the basis for BD 500 being the maximum threshold, given that the Basel documents do not specify such a monetary limit. It is felt that the ceiling of BD 500 is generally too low and determining the level for such amounts, like all remunerations in banks, should be left at the discretion of the bank.</p> <p>In addition, the Board's remuneration must be fixed so that total remuneration including sitting fees must not exceed 5% of the Bank's net profit in any financial year. The fixed part of remuneration including sitting fees has to be paid to directors as expenses irrespective of the bank making profit or loss. The above clause should apply in case of any variable remuneration paid to directors and the fixed remuneration, as mentioned above, would be necessary to attract 'independent' directors.</p>	<p>SP-32</p>	<p>The sitting fee Rule has been deleted from the final version issued in November 2013.</p>
	<p>A bank noted that they do not understand this rule. Is the CBB suggesting that directors receive a standard retainer fee, supplemented to a minor extent by meeting attendance fees? They have always felt that directors should be remunerated based upon their attendance of Board meetings. If the CBB is suggesting that directors should receive a standard retainer, they do not understand the rationale for this new rule and they believe that it is inconsistent with HC-5.2.1, which expressly refers to remunerating directors based upon meeting attendance.</p>	<p>SP-33</p>	<p>See comment under SP-32.</p>

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	<p>BD500. Representing a financial institution in its board requires quality individuals with a significant commitment of time. Market practice generally compensates as Sitting Fees a sum equivalent to the time cost of the individual. Board members are expected to meet at least 4 times in a year plus attendance at Board subcommittee meetings. They believe that the board member Sitting Fee ceiling be fixed at USD 30,000-USD 50,000.</p> <ul style="list-style-type: none"> • The requirement for payout of remuneration not exceeding 5% of net profit is not in line with the requirements outlined in the Bahrain Commercial Companies Law (10% of net profits after deducting the legal reserve and distributing a profit of not less than 5% of the paid-up capital). They believe that the threshold should be raised to 10%. <p>A bank recommended that this rule be reworded in line with Article 188 of the Bahrain’s Commercial Companies Law of 2001. This stipulates the aggregate remuneration of the chairman and members of the Board, to be less than 10% of the net profits after deducting the legal reserves and distributing a profit of not less than 5% of the company's paid-up capital. The proposed sitting fees of BD 500 per person should be exclusive of all travel, lodging and reasonable incidental expenses incurred by the Board member in the course of his/her attending the Board Meeting.</p> <p>A bank noted that it does not address the chairman’s remuneration vis-a-vis other directors as the practice has been in Bahrain and the GCC that the chairman is remunerated at a higher rate than other directors.</p> <p>A bank noted the following:</p> <p>(i) Is the sitting fees independent of the financial performance (i.e.</p>	<p>SP-36</p> <p>SP-37</p> <p>SP-38</p>	<p>The CBB can impose stricter requirements than the CCL due to the unique nature of banks in dealing with the public, which the CBB has a duty to do as per CBB Law.</p> <p>Please refer to comments SP-32 and SP-35.</p> <p>Please refer to comment under SP-32</p> <p>Please refer to comments under SP-32 and SP-35</p>
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	<p>Will banks be able to pay sitting fees during loss years)? Furthermore, the 5% threshold is stricter than the 10% threshold stated in the Commercial Companies Law which might affect banks' abilities to attract and retain good board members. (ii) Board sitting fees maximum of BD 500 conflicts with the guidelines under the High Level Control Module, which states that: “HC-5.4 Standard for all Remuneration: <i>HC-5.4.1 Remuneration of approved persons must be sufficient enough to attract, retain and motivate persons of the quality needed to run the conventional bank licensee successfully, but the conventional bank licensee must avoid paying more than is necessary for that purpose.”</i> Approved persons definition includes Board Members.</p>		
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<p>4.6 The following criteria will be used by the CBB in assessing whether the bank complies with Principles 1 and 2:</p> <p>a. Whether the remuneration policy is aligned with the risk management framework of the bank;</p> <p>b. Whether the Board of directors has approved and annually reviewed the remuneration policy;</p> <p>c. Whether the Board Remuneration Committee has approved and submitted to the Board its recommendations regarding remunerations;</p> <p>d. Whether the remuneration to be paid to the highest paid employees of the bank are based on a pre-determined materiality threshold;</p> <p>e. Whether the Board Remuneration Committee’s approval of remuneration was made independent of advice provided by senior management;</p> <p>f. Whether the Board Remuneration Committee has unfettered access to information and analyses from risk and control function personnel (e.g. risk management, finance, compliance, internal audit and human resources);</p> <p>g. Whether the Board Remuneration Committee has engaged appropriate control function</p>	<p>A bank noted that it is mentioned under these principles that remuneration to be paid to the highest paid employees have to be based on a pre-determined ‘materiality threshold’. The guidelines for defining ‘materiality threshold’ should be clarified by CBB.</p> <p>In addition, the proposed compliance assessment with principles 1 & 2 of whether the remuneration policy is in alignment with the Bank’s risk management framework requires further elaboration. The Bank’s risk management framework is a complex structure and aligning all types of risks to remuneration would not be realistic. The bank also noted that Remuneration Committee needs to formally stress-test and back-test the remuneration policy on an annual basis. No methodology has been provided for this. Expertise would not be available internally for such an exercise and external consultant’s help might need to be sought. At present, we feel that the market does not have such expertise.</p> <p>A bank noted the following that (d) needs clarification, (h) for annual stress-testing or back-testing on the remuneration policy will be impractical as there are no clear cut standards to be followed, (i) external auditor role in Remuneration review needs to be clearly defined in light of employee confidentiality rights and the requirements in (ii & iii) are not within external auditor’s expertise and ambit.</p> <p>A bank noted that for sub paragraph (a) along with the guidelines provided by the BCBS, clarification within the CBB rules as to the criteria to be followed for aligning the remuneration policy with the risk management framework will help in standardizing practices across banks.</p> <ul style="list-style-type: none">sub paragraph (c), it is common practice to receive feedback from senior management on achievement of targets, performance,	<p>SP-39</p> <p>SP-40</p> <p>SP-41</p>	<p>“Materiality” should be decided by the Board and subject to review by external auditors.</p> <p>HC-5.2.1B provides guidance on stress testing</p> <p>Please refer to comment SP-39 & SP-27 above.</p> <p>No comment</p>
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<p>personnel in its deliberations and to what extent;</p> <p>h. Whether the Board Remuneration Committee has formally stress tested and back-tested the remuneration policy on an annual basis; and</p> <p>i. Whether the external auditors, through their annual audit of remunerations made or to be made, have assessed the remuneration policy’s compliance with the CBB’s principles on remuneration including:</p> <p>i. Ensuring that all material remuneration plans/programs (including those for senior managers and employees whose actions have a material impact on the risk exposure of the bank) are covered;</p> <p>ii. Assessing the appropriateness of the plans/programs relative to organisational goals, objectives and risk profile of the bank; and</p> <p>iii. Assessing the appropriateness of remuneration payouts in relation to the risks in the business undertaken.</p>	<p>profit and loss, prior to the recommendation of the remuneration to be granted. Senior management being the source of information needs to provide the requisite details to the Committee in order to allow it to independently analyze and judge the remuneration to be awarded. Senior management may provide the information for consideration and recommendations; however, the decision for setting the remuneration needs to be taken by the independent directors in the absence of senior management.</p> <ul style="list-style-type: none"> • Sub paragraph (h), clarity is required on the methodology of conducting stress testing and back testing of the remuneration policy. Guidelines for stress testing and back-testing should be provided to standardize practices across the industry. <p>A bank noted that sub paragraph (h) is ambiguous. Further details are requested from the CBB on their expectations with respect to the methodology of stress testing/ back testing.</p> <p>A bank noted that in addition to clause 5.4, 5.12, and 5.16 it is not clear how the CBB will assess compliance with the criteria, whether through annual reporting by the bank through confirmation by its Board of Directors, or through the Auditors report, or the frequency of such assessment or reporting.</p> <ul style="list-style-type: none"> • Subparagraph (d) it is not clear what the “predetermined materiality threshold” are, how defined or determined by whom. • Section 4.6 (e) : Board Remuneration committee approval is made independent of advice provided by management regardless of the fact that qualitative valuation of staff shall be part of the remuneration decision, so in essence management recommendation has to be taken into consideration (refer to section 5.4 (j)). Therefore the committee needs management recommendations that are based on the assessment of the employees’ performance. 	<p>SP-42</p> <p>SP-43</p>	<p>Please refer to comment SP-39 above.</p> <p>Please refer to comment SP-39 above.</p> <p>The CBB will use a variety of means in assessing compliance, including an analysis of remuneration reports provided to the CBB (Appendix 2), review by the external auditor and CBB onsite inspections</p> <ul style="list-style-type: none"> • Please refer to comment SP-39 above. • The final decision is made by the remuneration board therefore, the approval is independent. • Please refer to comment SP-39
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	<ul style="list-style-type: none">• Section 4.6 (i-i) it is not clear if the decimation of materiality of risk is per accounting standards. Also the document referred to different types of staff where various sections may apply. It is suggested to have a clear definition and restrict to a narrow rather than expand the segment of management to cover materiality.• Section 4.6 (i-ii): Individual payout should not be part of the External Auditors review scope. Board of Directors or the Remunerations Committee confirmation should be sufficient. <p>A bank noted that (d) and (h) are not clear.</p>	SP-44	<p>above.</p> <ul style="list-style-type: none">• The external auditors will only assess the appropriateness of remuneration payouts and the compliance. <p>Please refer to comment SP-39 above.</p>
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<p>Principle 3:</p> <p>The bank’s approved persons engaged in control functions must be independent, have appropriate authority, and be remunerated in a manner that is independent of the business areas they oversee and commensurate with their key role in the bank. Effective independence and appropriate authority of such staff are necessary to preserve the integrity of financial and risk management’s influence on incentive remuneration.</p>	<p>A bank noted that the requirements in Principle 3, may be enforced by the CBB immediately.</p> <p>A bank noted that the proposed compliance assessment of whether the board committees would be engaged in control function personnel performance reviews in relation to their responsibility would require further clarification in terms of each Committee handling the review of relevant personnel. For instance, would it be acceptable for the Risk Committee to be engaged in risk management personnel’s performance review and for the Audit Committee to be involved in the performance review of internal audit and compliance personnel or would CBB prefer that such assessment is to be handled by a single committee like the Remuneration Committee? This point needs to be clarified.</p> <p>A bank agrees on control function remuneration to be linked to performance objectives built on their core functional responsibilities rather than on business objectives, as actually implemented.</p> <p>A bank noted that it is not clear how this can be implemented.</p>	<p>SP-45</p> <p>SP-46</p> <p>SP-47</p> <p>SP-48</p>	<p>No comment.</p> <p>The “Independent review” of remuneration is the purpose of having a “remuneration committee” with majority independent board members. Audit is allowed to review the internal audit performance and so the risk committee is allowed to assess risk management personnel, and submit their assessment for the independent review by the remuneration committee. The board committees role and responsibilities are discussed in detail in Module HC.</p> <p>Noted</p> <p>Please refer to comment SP-46.</p>
<p>4.7 For employees in the control functions:</p> <p>a. Remuneration must be determined independently of other business areas and be adequate to attract qualified and experienced staff; and</p> <p>b. Performance measures must be based principally on the achievement of the objectives and targets, if any, of</p>	<p>A bank noted that it is not clear if this applies to the individual’s target or of the business they oversee.</p> <p>A bank noted that for the sake of consistency and clarity, it is recommended that the CBB define “control functions” in the context of Principle 3.</p>	<p>SP-49</p> <p>SP-50</p>	<p>It applies to both, individual’s target and the business they oversee.</p> <p>‘Control functions’ will be defined and includes staff with compliance, internal audit and risk management responsibilities. There is a difference between ‘control function personnel’ and ‘controlled functions’ as defined in the CBB</p>

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<p>their functions.</p>		<p>Glossary – these have 2 very different meanings. ‘Control function personnel’ refer to individual involved in risk management, compliance or internal audit, independent of the business lines. To have a clear definition of the scope of this paper, Principle 3 is talking about the Policing people described above, however the scope of this paper covers all approved persons as defined in Module LR, the policing people such as internal audit, compliance and risk management which Principle 3 is about and other material risk takers.</p>
<p>4.8 The following criteria will be used by the CBB in assessing whether the bank complies with Principle 3:</p> <p>a. The remuneration structure of control function personnel must not compromise their independence or create conflicts of interest in either carrying out an advice function to the Board Remuneration Committee or their control functions;</p> <p>b. Whether the remuneration of control function personnel was based on function-specific objectives and not determined by the individual financial performance of the business areas</p>	<p>A bank noted that the document suggests that remuneration for control function personnel should be weighted in favour of fixed component. However, the rationale for this is not clear. Having a variable component should be appropriate, as long as the criteria for variable component are not linked to business performance, as in the current case for control functions in the Bank. Also, if implemented, this could result in fixed component having to be adjusted upwards to compensate. Low variable component would not provide control functions with incentive to outperform their objectives.</p> <p>Also, the remuneration of control functions including the variable pay should not be linked to the financial performance of the bank and must be set independently at all times.</p> <p>Another requirement is that control function personnel should have the appropriate level of authority. It is not clear how this is linked to remuneration. Would the appropriate level of authority</p>	<p>SP-51</p> <p>Remuneration for staff in ‘control functions’ must be weighted towards fixed components to ensure that potential conflicts of interest in carrying such sensitive duties are avoided.</p> <p>Agreed.</p> <p>Typically, the level of a position within a bank is a factor in setting the fixed remuneration component</p>

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<p>they monitor;</p> <p>c. Whether control function personnel have been placed in a position where, for example, approving a transaction, making decisions or giving advice on risk and financial control matters could be linked to their performance-based remuneration;</p> <p>d. Whether the control function management, as opposed to business line management, had the responsibility for the performance appraisal process, including preparation and sign off on the performance appraisal documents, for control function personnel;</p> <p>e. Whether the Board Risk Management, Audit, Remuneration and Nominating committees have been actively engaged in control function personnel performance reviews in relation to their responsibility;</p> <p>f. Whether the remuneration levels of control function personnel, as compared to those of the professionals of the monitored business areas, are sufficient to carry out their function effectively;</p> <p>g. Whether the mix of fixed and variable remuneration for control function personnel has been weighted in favour of fixed</p>	<p>allow the Remuneration Committee to delegate the assessment of control functions' performance to HR personnel?</p> <p>A bank noted that: (e) Senior executive performance appraisal /allocations are approved by the RC. Audit Committee covers GH-Audit and Compliance respectively; (f) Reviewed and assessed through periodical independent surveys and are competitive commensurate to job responsibilities; and (h) Needs clarification.</p> <p>A bank noted that the requirement for the respective Board Committees to be actively involved in the performance reviews of personnel is likely to be difficult given that as per current reporting lines very few personnel directly report to the Board or its Committees.</p> <p>A bank noted the following:</p> <ul style="list-style-type: none"> • Subparagraph (d): the functions specific objective may be related to and part of the individual performance of the business area they monitor. • Subparagraph (c): this is integral to the decision making process. Performance of the business is linked to the decisions and hence to the individual performance. Bad decisions lead to bad performance, and good decisions to good performance to be rewarded. • Subparagraph (d): control function personnel can also be part of business line management (head of brokerage, investment, asset management, etc.) we need clearer definition of "control function" • Subparagraph (e): Board committees cannot (from a practical perspective) and should not be engaged in 'active' personnel 	<p>SP-52</p> <p>SP-53</p> <p>SP-54</p>	<p>for staff in 'control functions'. There will be further details on the level of authority in future updates dealing specifically with internal audit and compliance functions</p> <p>See third comment under SP-51.</p> <p>This can still be accomplished through proper management reports presented to the various board committees.</p> <p>Control function management should be independent of business line management.</p> <p>'control function;' to be defined see comment SP-50.</p>
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<p>remuneration; and h. Whether the control function personnel have the appropriate level of authority.</p>	<p>performance reviews other than a few key individuals. This is management domain and committees may review the overall process.</p> <ul style="list-style-type: none"> • Subparagraph (f): This is a function of experience and competence rather than compensation. Pay should be linked to responsibility and risk and not necessarily control vs. non control functions. • Subparagraph (g): The mix of fixed to variable should be in line with the structure approved by the remuneration committee and the board based on the risk profile and controls of the bank. 		<p>But remuneration for ‘control functions’ should be weighted towards a fixed portion due to the unique nature of their duties and the need for true independence from business line decisions.</p>
<p>Principle 4: Remuneration must be adjusted for all types of risk. Two employees who generate the same short-run profit but take different amounts of risk on behalf of their bank should not be treated the same by the remuneration system. In general, both quantitative measures and human judgement should play a role in determining risk adjustments. Risk adjustments should account for all types of risk, including intangible and difficult-to-measure risks such as reputation risk, liquidity risk, and the cost of capital.</p>	<p>A bank noted that although the requirements in principle 4 are in the interest of Financial Institutions, but the implementation of this principle has to be suitably modified for commercial banks like their bank. Retail Banks focus primarily on core commercial banking activities and accordingly, the results duly reflect the risks and rewards for that year. Hence, this principle is not much of relevance to commercial banks. It is also to be noted that risk adjustments for reputation risk, liquidity risk and cost of capital is very complicated and difficult to measure.</p> <p>A bank noted that regarding the “all types of risk”; it’s recommended to define all the types of risk should be taken into consideration to have a consistent measurement applied by all banks. Also, and for the same reason; what are the criteria that should be considered when measuring the “difficult to measure” risks.</p>	<p>SP-55</p> <p>SP-56</p>	<p>Noted.</p> <p>These principles are intended to be high level since it would be difficult to have “one size fit all”, each bank should define the relevant risks involved based on their business model and the risk appetite approved by its board..</p>

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	<p>A bank noted that as mentioned before, higher risk takers are seemed to be penalized regardless that their actual role involves higher risk decision making, which may not be appropriate.</p> <p>A bank noted that this will require very sophisticated analyses of both a bank’s risks and its compensation systems and may require significant changes to its remuneration programs. As part of this process, banks may be required to invest in additional human resources personnel and systems as well as additional risk management personnel and systems.</p> <p>A bank noted that it would be very helpful for the CBB to give guidance on methodology for risk and remuneration alignment in order to have a consistent and standardized approach throughout all banks. Otherwise methodologies followed by various bank may vary widely with significant divergence of how the risk is assessed or linked to remuneration structures.</p>	SP-57 SP-58 SP-59	<p>Please refer to comment SP-11</p> <p>All licensed banks will have to adjust with the proposed remuneration practices and therefore will require significant changes and investments.</p> <p>Please refer to comment SP-56 above.</p>
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<p>5.1 Banks must ensure that total variable remuneration does not limit their ability to strengthen their capital base. The extent to which capital needs to be built up should be a function of a bank's current capital position and its ICAP.</p>	<p>A bank noted that clause 5.1 seems to suggest a linkage between remuneration and strengthening of capital base. How this linkage can be established for individuals is not clear.</p> <p>A bank noted that implementation of this principle requires the funds and the time in order to:</p> <ol style="list-style-type: none"> 1- Set a medium to long term planning and processing. 2- Setting the Criteria for variable remuneration. 3- Setting the criteria for the claw back system 4- Monitoring the remuneration system to measure its effectiveness 	<p>SP-60</p> <p>SP-61</p>	<p>This is clear. If a bank needs to strengthen its capital base, it will need to tailor its remuneration practices accordingly, such as by deferring variable remuneration, until such time as the capital base has been strengthened as needed.</p> <p>Noted.</p>
<p>5.2 The size of the variable remuneration pool and its allocation within the bank must take into account the full range of current and potential risks, and in particular:</p> <ol style="list-style-type: none"> (a) The cost and quantity of capital required to support the risks taken; (b) The cost and quantity of the liquidity risk assumed in the conduct of business; and (c) Consistency of the liquidity risk assumed in the conduct of business. 	<p>A bank noted that clause 5.2 requires variable remuneration to take into account cost/quantity of capital. Taking absolute amounts is not appropriate. It should again be vis-à-vis benchmarks/budget.</p> <p>Clause 5.2 also links remuneration to liquidity risk. Liquidity risk is monitored/ controlled at the bank-wide level, and it is not appropriate to allocate that division-wise. Proxies like deposit targets can be used, and are being used currently. Again, the assessment should be vis-a-vis budgets.</p>	<p>SP-62</p>	<p>For assessing the variable remuneration pool, it is important to take into account the cost and quantity of capital to support the risk, the liquidity risk assumed in order to quantify the portion of the remuneration that should be deferred and for how long based on the nature of the risk involved.</p>
<p>5.3 Paragraph 5.2 focuses on the overall size of the variable remuneration, at the overall bank level, in order to ensure that the recognition and accrual of variable remuneration will not compromise the financial</p>	<p>A bank noted that clause 5.3 would have to be reviewed as disclaimer of bank's obligation to pay the variable component would not be legally tenable.</p>	<p>SP-63</p>	<p>The remuneration policy should be clear that the deferral of variable remuneration does not oblige the bank to pay the variable remuneration, particularly when the anticipated outcome has not materialised or the bank's financial</p>

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<p>f. Whether severe risks or stress conditions have been taken into account. For example, conventional historical-simulation value-at-risk measures based on short historical periods are known to understate the severity of bad-tail risks in many situations. Stress-scenario measures are an alternative if the scenarios are severe;</p> <p>g. Whether the time horizon was taken into consideration in the risk adjustment process used to measure performance and the quality of the performance measure used. More stringent risk adjustments may be needed where measurement periods are short (and few losses are taken into account) than where measurement periods are long (and a large proportion of ultimate losses are already taken into account in the performance measure);</p> <p>h. Whether the degree of risk adjustment that is needed varies according to the nature of performance measures that influence variable remuneration. Financial performance measures are particularly important because they are often short-term;</p> <p>i. Whether performance measures take into account the quality of revenues that are used in constructing these measures, and, in particular, special attention must be paid to cases in which the performance measures have the effect of accelerating future revenues forward in time. Treating</p>			
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<p>uncertain, long-term revenues as though they are certain and already received can increase the tendency of performance measures to give employees incentives to take long-term risk. In that case, stronger risk adjustments are needed;</p> <p>j. Whether variable remuneration is sensitive to employees' performance with respect to conduct and behaviour. Unethical or unacceptable/bad behaviour should be enough to override good financial performance and diminish remuneration;</p> <p>k. Whether performance measures and risk adjustments have been tailored to the level and duties of employees. As an example, performance measures and risk adjustments for a specialised employee such as a trader are likely to work best when they focus on the employee's own activities. For the director of a business line, measures and adjustments for the business line as a whole are appropriate, perhaps with the addition of measures and adjustments for the bank as a whole. For senior executives, measures and adjustments should be for the bank as a whole;</p> <p>l. Whether total shareholders return for the period was used in the case of senior executives or in setting the size of a bank-wide bonus pool. However, these measures do not fully take risk into account and should be used in conjunction with other measures. Relative measures amongst or across</p>			
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<p>including through malus or clawback arrangements¹. Banks should however recognise the performance of staff who have achieved their targets or better, by way of deferred compensation, which may be paid once the bank’s performance improves.</p>	<p>amount. As per their understanding these cannot be applied and may lead to unnecessary litigations.</p> <p>A bank noted that while it may be practical to implement a ‘malus’ on a deferred bonus, the CBB should ensure the legal enforceability of a ‘clawback’ that requires an employee (or ex-employee) to return to the bank the remuneration that was previously paid out, prior to making it mandatory</p>	SP-77	Please refer to comment SP-75 above.
	<p>A bank noted that although the contraction of the bank’s total variable remuneration during loss making years makes sense due to the link between performances and short-term versus long-term profitability, the impact at an employee level may be detrimental. In the instance where an employee has worked hard and achieved the departmental goals and targets in profit making years and loss making years, contraction of the individual employees’ remuneration as a penalty for non-performance of others or the bank as a whole, may lead to damaged employee morale and a lack of incentive to achieve targets in the future.</p> <p>Moreover, deferring individual employee remuneration into the future (when performance approves and the bank makes profits) may not provide enough encouragement and incentive for employees to perform to the best of their capabilities. This may lead to loss of qualified personnel and could also pose key man risk to the bank in case of key positions falling vacant.</p> <p>A bank noted that this will encourage banks to increase the fixed</p>	SP-78	Disagree banks should not pay out remuneration, if no funds are available – deferral must then apply.

The increment of fixed pay maybe

¹ A “clawback” requires that an employee (or ex-employee) return to the bank the remuneration that was previously paid out to him/her. A “malus” is a feature of a remuneration arrangement that reduces the amount of a deferred bonus, so that the amount of the payout is less than the amount of the bonus award. What is important is that banks’ remuneration policies include practical and enforceable ways to reduce amounts of awards of variable pay that are ultimately paid to, and retained by, employees when risk outcomes are worse than expected.

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	<p>remuneration or the salaries and allowances to retain the staff instead of being able to use variable remuneration to the advantage of the stakeholders e.g. in a bad year for the bank there will be instances when units or individuals have reached or exceeded their targets and therefore the bank should be able to remunerate those staff with bonuses and not deferred bonuses. Also if non risk-takers staff meets targets they should be able to receive their bonus and it should not be deferred, or even in a loss year, some bonuses may need to be paid to retain key individuals in a highly competitive market.</p>	SP-79	<p>one of the negative consequences of the deferral policy Banks should not pay remuneration, if they do not have the funds to do so and should therefore defer remuneration in these circumstances. Staff whose performance is not linked to risk will not have a deferred portion in their bonus (i.e. they are not working in revenue/risk generation units), unless funds are simply not available – then the bank has no choice.</p>
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<p>5.8. For senior management as well as other employees whose actions have a material impact on the risk exposure of the bank:</p> <p>a. A substantial proportion of remuneration must be variable and paid on the basis of individual, business-unit and bank-wide measures that adequately measure performance; and</p> <p>b. These proportions must increase significantly along with the level of seniority and/or responsibility.</p>	<p>A bank noted that according to their group approved remuneration policy, fixed pay normally constitutes the majority proportion of total remuneration for senior management, and therefore will have challenges in meeting this requirement.</p>	<p>SP-80</p>	<p>Noted. The bank can further expand on this point as part of the required gap analysis to be completed and submitted to the CBB as per the cover letter issued in November 2013 when the final rules were released.</p>
<p>5.9. Guaranteed remuneration is not consistent with sound risk management or the pay-for-performance principle and must not be a part of prospective remuneration plans and policies. Exceptional minimum variable compensation must only occur in the context of hiring new staff and be limited to the first year.</p>	<p>A bank noted that the bank pays its personnel deferred salaries twice a year in the form of 13th & 14th salaries. Would this not be affected and would this not be treated as guaranteed remuneration? Would sales commissions/incentives paid to sales agents for promoting bank's products and services come under the requirements of the consultation?</p>	<p>SP-81</p>	<p>The CBB considers these as part of the guaranteed (or fixed) remuneration, unless these are subject to variable performance measures. Individual contracts will determine the exact nature of these payments.</p> <p>There is a need to clarify whether the 'sales agents are employees of the bank or not. If sales agent are 'not employees' of the bank therefore such payments are not included in the definition of remuneration as outlined in the Glossary for Volume 1. If 'sales agents are employees of the bank and considered 'material risk-takers', and are above the BD100,000 floor, then they are subject to these principles.</p>

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	<p>A bank noted that with the common practice of paying out one month bonus to employees in various organizations worldwide, limiting the variable compensation only to the first year of employment of new staff may not be very motivating for them to join the bank. Attractive bonus schemes serve as incentives for employees to perform in the best interests of the institution. Limiting rewards may deter employees from giving their best with the adage “why perform extraordinarily when rewards are not going to be allocated due to the ongoing global financial crises”. A usual excuse for even profit making employers to cut costs. Long term value is created when employees, those meeting targets, have certainty about the rewards to be received.</p> <p>A bank noted that it is common HR market practice in Bahrain, to offer a certain amount of guaranteed bonus to all employees irrespective of their seniority. If banks were to remove this privilege and limit it to the first year only, it will have an adverse impact on staff motivation and commitment. It will also have the repercussion of ‘talent brain drain’, as capable employees seek employment in other countries that have more flexible remuneration policies.</p> <p>A bank noted that perhaps the intention is to state “guaranteed bonus” and not “guaranteed remuneration”, since the fixed element of remuneration would by its very nature be “guaranteed” for the period of service.</p>	<p>SP-82</p> <p>SP-83</p> <p>SP-84</p>	<p>This payment philosophy is a thing of the past. All banks worldwide are in the midst of changing such practices in accordance with the views and rules being mandated by the international standard setters and are introducing remuneration linked to risks as well as deferral of remuneration linked to the timeline of risk. Moreover, if the rules are implemented consistently across all banks, employees have no other choice except to avoid excessive risk taking and to considered the bank’s long term profitability. There is an international tendency toward strengthening the remuneration policy (e.g. the EU latest cap on bonuses).</p> <p>Disagree. See comment under SP-82</p> <p>Guaranteed remuneration includes guaranteed bonuses by default and in accordance with the definition of remuneration under the Glossary in Volume 1.</p>
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<p>5.10 Existing contractual payments related to a termination of employment should be re-examined, and kept in place only if there is a clear basis for concluding that they are aligned with long-term value creation and prudent risk-taking; prospectively, any such payments must be related to performance achieved over time and designed in a way that does not reward failure.</p>	<p>A bank noted that the requirements require re-negotiation of existing contracts. Since contracts are binding, if the second party does not wish to re-negotiate then the bank is bound to abide by the stated terms. In the instance of termination of an existing contract due to downsizing for instance, the bank would be bound to pay the termination payments, unless proven that the employee is guilty of embezzlement and fraud or if the CBB regulations prevail. Further, re-negotiation considered not being in favour of existing employees/ directors may lead to damaged morale and ultimately valuable resources leaving the bank.</p> <p>A bank recommended that existing contractual payments related to termination of employment, to be re-examined. It is suggested that remuneration policies vis a vis termination, be governed by Bahrain’s Labor Law for the Private Sector that came into effect in September 2012.</p> <p>A bank noted that this may be difficult to implement without the agreement of the employee. The labor law does not allow existing contracts to be changed unilaterally, particularly if the fixed portion is to be amended/ reduced.</p> <p>Notation 1 of page 12: “Claw back”: Amounts once paid may be difficult to get back, however alternatives need to be considered to ensure in line with the labor law.</p> <p>A bank noted that this is not clear.</p>	<p>SP-85</p> <p>SP-86</p> <p>SP-87</p> <p>SP-88</p>	<p>The CBB Legal Unit noted that while this may be difficult to implement, it is a fact that every country is facing a similar challenge and yet, smart employers are able to universally change contractual terms.</p> <p>See comment SP-85</p> <p>See comment SP-85</p> <p>Please refer to comment SP-85 above.</p>
<p>5.11 Banks must demand from their employees that they commit themselves not to use personal hedging strategies or remuneration-</p>	<p>A bank would like to request more clarification for the following:</p> <ul style="list-style-type: none"> • We may receive commitment from employees not to use 	<p>SP-89</p>	

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<p>and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements. To this end, banks must, where necessary, establish appropriate compliance arrangements.</p>	<p>personal hedging strategies by signing a code of conduct or through the employment contract, however, what controls should be put into effect to monitor and control these;</p> <ul style="list-style-type: none"> • How can an employee obtain a remuneration and liability related insurance without knowledge and consent of the bank? Normally, the application process for these types of insurance coverage requires commitments and guarantees from the bank. <p>A bank presumes that the term ‘hedging strategies’ refers to the use of financial products like derivatives, loans on margin , repos etc. used by directors and employees to limit the risk attached on shares granted to them as part of their compensation. As derivatives are not offered in Middle East Bourses, this principle is not applicable for Bahrain based institutions.</p> <p>A bank noted that Employees can sign a declaration not to undertake such practice.</p>	<p>SP-90</p> <p>SP-91</p>	<p>This should be part of the bank’s internal audit process.</p> <p>Noted.</p> <p>Good option to consider</p>
<p>Principle 6:</p> <p>Remuneration payout schedules must be sensitive to the time horizon of risks. Profits and losses of different activities of a bank are realised over different periods of time. Variable remuneration payments must be deferred accordingly. Payments must not be finalised over short periods where risks are realised over long periods. Management must question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the</p>	<p>A bank noted that core commercial banking business is not depended on future profitability. All of their business is done based on CBB’s regulation on asset quality, provisioning norms etc. Based on the same all business bookings are done. Before calculating net profit, all related provisions are considered. Thus, this principle is also not applicable to commercial banks.</p> <p>A bank noted that divisions who book long term assets seem to be penalized which may not be appropriate.</p> <p>A bank noted that this proposal is akin to practices and relevance in sophisticated and developed markets.</p>	<p>SP-92</p> <p>SP-93</p> <p>SP-94</p>	<p>Disagree. Providing credit is an activity that is sensitive to the time horizon, particularly when lenders do not repay obligations when due because of a poor assessment of the lender’s ability to repay the credit.</p> <p>Remuneration needs to be aligned with the time horizon of risk. Staff dealing with long term assets may therefore have part of their variable remuneration deferred but will still be entitled to fair pay.</p>

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time of payout.	<p>A bank has serious concerns on the proposed changes with respect to the variable remuneration elaborated in Principle 6 and 7. They understand the rationale for the need to have a variable component in the CEO's and the five topmost business line employees. However, it is important to set such comparisons (senior management vs. rest of employees) in context.</p> <p>Total remuneration of senior management in an investment bank is affected by the cyclical nature of the Bank's activities – namely disinvestments, deleveraging, acquisitions etc. These activities require key skillsets. Remuneration for any group possessing key skills must always be related to market compensation levels, as opposed to a setting a threshold of 60% of variable remuneration. Also ambiguity on the true value of variable remuneration that is subject to a five year lockin period, will be tentative and unclear, it cannot be accurately determined in the year of the grant. Management takes decision's based on today's reality after an in-depth study of the potential businesses before investing in them. However, there is no guarantee that markets perform according to an organizations plan as the recent years have particularly demonstrated. Hence, management should only be held accountable if decision making process is found lacking in depth of study or for excessive risk taking against the risk appetite thresholds set by the Board of Director's.</p> <p>Losing skillsets due to the CEO/ Senior Manager's disenchantment of the five year lockin, could lead to the detrimental effect of higher turnover and a vacuum in the Bank's leadership. These considerations need to be clearly taken into account while drafting the proposed rules.</p>	SP-95	The rules have been revised to 3-year deferral period.
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<p>5.13 For approved persons as well as other employees whose actions have a material impact on the risk exposure of the bank:</p> <p>(a) At least 40% of the variable remuneration, must be payable under deferral arrangements over a period of at least 5 years; and</p> <p>(b) The proportions of variable remuneration must increase significantly along with the level of seniority and/or responsibility. For the CEO, his deputies and the other 5 most highly paid business line employees, at least 60% of the variable remuneration must be deferred for at least 5 years.</p>	<p>A bank noted that more clarification is to be provided on clauses 5.13 and 5.14. ‘Material risk takers’ and CE deferral arrangements have been specified as minimum of 5 years under 5.13, while it is also indicated that the deferral period should not be less than 3 years under 5.14.</p> <p>Under Clause 5.13.a and 5.13.b, the deferred portion of 40% and 60% are too high and the deferral period of 5 years is too long. It is suggested that initially the percentages may be set at a lower level and the deferral period should be three years. These limits can be gradually increased at a later stage.</p>	<p>SP-96</p>	<p>This has been corrected and all references have been made to 3-year period.</p>
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	<p>A bank cannot adhere to this principle as it is very difficult to defer variable remuneration payment by 40% for executives who earn variable remuneration that is lower than USD 750,000. The bank follows deferral guidelines for variable pay that are higher than certain threshold, as indicated below:</p> <table border="1" data-bbox="598 479 1297 787"> <thead> <tr> <th>Value of Total Variable Pay (USD)</th> <th>Deferral % (subject to variance)</th> </tr> </thead> <tbody> <tr> <td>Up to 75,000</td> <td>• 0%</td> </tr> <tr> <td>75,001 to 200,000</td> <td>• 10%</td> </tr> <tr> <td>200,001 to 350,000</td> <td>• 20%</td> </tr> <tr> <td>350,001 to 500,000</td> <td>• 30%</td> </tr> <tr> <td>500,001 to 750,000</td> <td>• 35%</td> </tr> <tr> <td>750,001 to 1,000,000</td> <td>• 40%</td> </tr> <tr> <td>Above 1,000,000</td> <td>• 50%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • Deferred remuneration will be in the form of restricted shares. • Non-deferred remuneration will be paid as cash. • Deferred restricted shares will vest annually over a three-year period: <ul style="list-style-type: none"> ○ 33% vesting on the first anniversary of grant ○ 33% on the second anniversary of grant ○ 34% on the third anniversary of grant <p>Their internal guidelines take into consideration all factors including and not limited to risk taking, compliance, behaviours, values, and a matrix of economic and financial factors which are assessed whilst designing rewards guidelines. FSA principles are adopted as code of best practice in this regards.</p>	Value of Total Variable Pay (USD)	Deferral % (subject to variance)	Up to 75,000	• 0%	75,001 to 200,000	• 10%	200,001 to 350,000	• 20%	350,001 to 500,000	• 30%	500,001 to 750,000	• 35%	750,001 to 1,000,000	• 40%	Above 1,000,000	• 50%	<p>SP-97</p>	<p>Deferral period has been changed to 3 years and such rules apply to approved persons and material risk-takers whose total remuneration package exceeds BD100,000. The bank will need to expand in its gap analysis provided to the CBB.</p>
Value of Total Variable Pay (USD)	Deferral % (subject to variance)																		
Up to 75,000	• 0%																		
75,001 to 200,000	• 10%																		
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	<p>A bank noted that that the relevant Financial Stability Board Standard, which is Standard 7 under FSB Principle 6, states that “the deferral period described above should not be less than three years, provided that the period is correctly aligned with the nature of the business, its risks and the activities of the employees in question.” In addition, the FSA’s Remuneration Code mandates a three year minimum vesting period, rather than a five year vesting period.</p> <p>The reference to a minimum deferral period of five years is thus inconsistent with the FSB Standards and the decision regarding vesting that has been made by at least one global leading financial regulator.</p> <p>They have reviewed international financial institution remuneration practices survey data and, based upon that review, they believe that a minimum vesting period of five years is not competitive internationally. Therefore, a five year vesting period could have a material adverse effect upon our ability to attract and retain talented professional employees.</p> <p>It is also noted that there is an internal inconsistency in the Proposed Remuneration Rules because Section 5.14 refers to a minimum vesting period of three years</p>	SP-98	The deferral period has been revised to 3 years in the final rules issued.
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	<p>A bank noted that in order to ensure that variable compensation continues to act as a mechanism for reward, motivation and retention, CBB to consider introducing a threshold (expressed as an absolute amount of variable remuneration, a multiple of fixed remuneration etc.) above which deferral of variable remuneration becomes applicable, as applying deferral on small amounts is likely to act as a disincentive to employees.</p> <p>In addition, a deferral period of 5 years appears more stringent than the more prevalent practice of 3 years prescribed in other jurisdictions.</p>	SP-99	Please refer to comment SP-97.
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	<p>A bank noted the following:</p> <ul style="list-style-type: none">• Clarification required on the minimum deferral period as 5.13 (a) requires deferral over a period of at least 5 years, whereas requirement 5.14 outlines that the deferral must not be less than 3 years. Clarification needs to be provided as to whether the 5 years is the minimum required or can this be reduced to 3 based on the nature of business to match the time horizons of risks and the objectives of the deferred remuneration instrument.• 5 years deferral as opposed to a minimum of 3 suggested by best practices regulations and also as opposed to the periods adopted by other organizations may not be acceptable and rather discouraging for employees. Employees would rather prefer lesser vesting periods.• When deferring payments into the future, we need to keep in consideration the time value of money. A dollar to be received today versus receiving it in 5 years does not have the same value due to various economic factors.• If an employee leaves the bank due to early retirement, resignation, or termination, as per many contracts this leads to loss of unvested shares and other benefits. The guidelines need to clarify that the employee is still entitled to receive the deferred payments. All current contracts with employees need to be revised to specify accordingly.	SP-100	<p>Please refer to comment SP-96 above.</p> <p>This will depend on the terms of the contract and Paragraph HC-5.4.17 applies.</p>
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	<p>A bank noted that there is a contradiction in the deferral period mentioned under Principle 6 and Principle 7. Under 5.13, 60% of the variable remuneration must be deferred for at least five years (for the CEO, the deputies and the five highly paid business line employees). 50% of this is in the form of shares that have to be held for at least five years. Technically speaking, the remaining 10% of the variable component, is payable as cash paid <u>after five years</u>. However under# 5.19, the remaining portion of the deferred remuneration can be paid as cash remuneration vesting over a minimum <u>three year period</u>.</p>	SP-101	Please refer to comment SP-96 above.
	<p>A bank noted that deferral of bonuses should be applied in relation to the unrealized profits portion of the bank’s profit for the year, in addition to other economic and risk adjusted capital adequacy benchmarks, and should not be taken as a fixed percentage increasing unnecessarily the future liabilities of the bank.</p> <p>Subparagraph (a): This contradicts the principle (6) of alignment of risk time horizon with deferred portion by setting a fixed minimum tenor of 5 years across the board. The percentage and tenor should be proportional to the complexity and nature of the business.</p> <p>Subparagraph (b): As mentioned above, this is unacceptable and arbitrary and does not take into account the proportionality of the business, or any of the risk measurements stipulated in the document.</p> <p>A bank recommended that the quantum of bonus for an employee will not exceed 70% of the total fixed pay in a year. If the quantum of bonus exceeds 50% of the total fixed pay, the payout say for 70% bonus will be 40% upfront and the balance 30% will be equally deferred over the next three years.</p>	SP-102	Please refer to comment SP-96 above.
	<p>A bank recommended that the quantum of bonus for an employee will not exceed 70% of the total fixed pay in a year. If the quantum of bonus exceeds 50% of the total fixed pay, the payout say for 70% bonus will be 40% upfront and the balance 30% will be equally deferred over the next three years.</p>	SP-103	Different approach, however the variable portion must also be further defined in terms of cash and non-cash amounts.

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<p>5.15 In the event of negative contributions of the bank and/or relevant line of business in any year during the vesting period, any unvested portions are to be clawed back, subject to the realised performance of the bank and the business line.</p>	<p>A bank noted that it would not be appropriate to penalize the staff by clawing back the entire unvested portion in case of one year negative performance across the deferral period. It might be acceptable to claw back only the unvested portion related to that specific year.</p> <p>A bank noted that negative contribution may not be related to excessive risk taken by the bank or employee, and the ‘claw back’ may not be appropriate. If conditions improve then will employee be re-compensated the clawed back amount?</p>	<p>SP-104</p> <p>SP-105</p>	<p>Please refer to comment SP-11 above. Claw back only the unvested portion related to that specific year with the negative contribution.</p> <p>Disagree. Someone has to be held responsible for a negative contribution and whose remuneration should be affected accordingly.</p>
<p>5.16 The following criteria will be used by the CBB in assessing whether the bank complies with Principle 6:</p> <p>(a) Whether the value of ultimate payouts was sensitive to risk outcomes, as well as to performance, during the whole of the deferral period. Such arrangements might increase payouts if risk outcomes are unusually good, but they should substantially reduce payouts if risk outcomes are unusually bad. The criteria for increased payouts should be sufficiently demanding to ensure that the payouts are not disproportionate to the improved risk and performance outcomes;</p> <p>(b) Whether the deferral period and the manner in which payouts are</p>	<p>A bank noted that for subparagraph (b): However, the paper prescribe a minimum percentage and minimum tenor of the variable payout regardless of these measures or alignment to the business.</p> <p>Subparagraph (e): not clear on the basis of the percentage. Additionally “the 5 most highly paid employees” does not take into account the size of the Bank and total number of employees. It should be proportional to the size and activity of the bank.</p>	<p>SP-106</p>	<p>Agree, it will assess based on the prescribed percentages, but this is stated as minimum. The time horizon of the risk could be beyond 3 years. The 3 year is a minimum.</p> <p>The rule applies only to those whose total remuneration is in excess of BD100,000 as per the final rules issued.</p>

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<p>spread over time match the time horizons of risks and the objective of a particular deferred remuneration instrument.</p> <p>(c) Whether the deferral arrangements of variable remuneration are in line with the minimum 5-year deferral period and consider the crystallisation of risks over several years;</p> <p>(d) Whether deferral arrangements have both top-down and bottom-up elements, with the relative importance of the two elements depending upon the employee’s organisational level, functional level, and pay level. The top-down elements will link payouts to the performance of risk outcomes for the individual employee’s activities or those of the employee’s specific business unit; and</p> <p>(e) Whether the variable compensation for the CEO and his deputies and the 5 most highly paid employees is in line with the minimum 60% requirement of total remuneration and minimum 40% requirement for other positions covered by these requirements.</p>			
<p>Principle 7:</p>	<p>A bank noted that principle 7 insist that the mix of cash, equity</p>	<p>SP-107</p>	<p>Other forms of non-cash</p>

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<p>The mix of cash, equity and other forms of remuneration must be consistent with risk alignment. The mix will vary depending on the employee's position and role. The bank should be able to explain the rationale for its mix to the CBB.</p>	<p>and other forms of compensation must be consistent with risk alignment, with a substantial proportion, such as more than 50 percent of variable compensation should be awarded in shares and share-linked instruments. Such requirements will typically work well in countries where share prices will reflect long-term value creation and where the decisions taken by senior management have strong correlation to the share price. Given the context of Bahrain, these requirements do not have significant relevance. Also to note, the share price in the local market do not present the market realities.</p> <p>A bank noted that the component of remuneration pertaining to compulsory share allocation is also not appropriate in the context of financial institutions (like it/ other similar government-owned institutions), where</p> <ul style="list-style-type: none">- firstly, the shares are held entirely by the Government and dilution of the same for non-strategic considerations (e.g. as deferred stock option under a remuneration policy) may not serve the purposes of the State; and- secondly, because these would not be of any major value to the recipient as neither are they are listed on the Stock Exchange to enable encashment, nor is the corporate action done with any view to increase the traded value. (In fact, social obligation/ responsibility being the main objective and not profit maximization, linkage of share value to corporate behavior is tenuous.) <p>A bank noted that as mentioned under principle 6, split of variable pay is made in accordance to internal policy. They foresee challenges in adopting '5.17' and their views are that the thresholds proposed by Central Bank are higher than those communicated to</p>	<p>SP-108</p> <p>SP-109</p>	<p>remuneration are permitted. The purpose of the requirement of certain percentage to be awarded in shares and share-linked instruments is to link the remuneration payment to the long term profitability of the bank.</p> <p>Other forms of non-cash remuneration are permitted.</p> <p>This should be indicated in the bank's gap analysis that is to be submitted to the CBB for its review in line with the cover letter issued in November 2013..</p>
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	<p>them through their Regional Rewards who act in accordance to Group Policy and are guided by FSA principles in letter and spirit.</p> <p>A bank noted that it is not clear if allowances (housing, tickets, school, transportation etc.) are included in the fixed or variable remuneration. Also CBB should be concerned with the overall amount and impact on the company in line with its activities not individual mix and payouts. This should be the Board's responsibility.</p>	SP-110	<p>These all come under the definition of remuneration as defined in the Glossary for Volume 1.</p>
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5.17 As a minimum, 50% of variable remuneration (including both the deferred and und deferred portions of the variable remuneration) must be awarded in shares or share-linked instruments (or, where appropriate, other non-cash instruments). These instruments create incentives aligned with long-term value creation and the time horizon of risk. Awards in shares or share-linked instruments must be subject to a minimum share retention policy of 5 years from the time the shares are awarded.	<p>A bank noted that the current Employee Performance Share Plan (EPSP) of the Bank retains the shares or share-linked instruments for a minimum of 3 years. The consultation document proposes a minimum of 5 years for retention of shares. Would the Bank be required to change its current EPSP, which is already approved by the CBB, to meet with the requirements?</p>	SP-111	The rule has been changed to 3 years.
	<p>A bank noted that FSB Standard 8 under Principle 7 states that “awards in shares and share-linked instruments should be subject to an appropriate share retention policy”, rather than specifying the length of the retention period. They do not understand the basis for the CBB’s specification of five years and they believe that this also is not competitive internationally.</p>	SP-112	The share retention period has been changed to 3 years.
	<p>A bank noted that in order to ensure that variable compensation continues to act as a mechanism for reward, motivation and retention, CBB to consider introducing a threshold (expressed as an absolute amount of variable remuneration, a multiple of fixed remuneration, employees falling within certain grades / levels etc.) above which variable compensation may be awarded in shares, share-linked instruments or other non-cash instruments, as applying deferral on small amounts is likely to act as a disincentive to employees.</p> <p>In addition, clause 5.17 to 5.20: appears too prescriptive, with limited room for flexibility based on the bank’s nature of remuneration. CBB to consider allowing banks to have in place suitable long term incentive plans that do not necessarily mandate share-based payment.</p>	SP-113	Variable remuneration can be in the form of other non-cash remuneration and the share retention policy has been changed to 3 years.
	<p>A bank noted the following:</p> <ul style="list-style-type: none">• Please refer to the response provided for section 4.4 which	SP-114	Other examples could include

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	<p>relates to this requirement as well. Furthermore, in instances wherein the bank does not have in place any share allocation schemes for remuneration, what “other non-cash instruments” can be allocated?</p> <ul style="list-style-type: none">• Shares of public listed institutions are easy to dispose upon completion of the 5 years retention period. However, in case of private banks, resale of the shares greatly depends on the availability and willingness of buyers. If any employee serves the bank and leaves. At the end of the retention period, the banks’ long-term profitability may have suffered due to factors external to the organization. Hence leading to the employee not being able to dispose of those shares and thus the reward for hard work during the profitable years is lost. In the case of an employee leaving the bank, provisions should exist to enable the “buy back” of shares.		<p>options or real estate developed by the bank.</p> <p>The retention period has been changed to 3 years. Buy-back of shares may form part of renegotiated contracts under certain conditions but should also be subject to clawback.</p>
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	<p>A bank noted that traditionally, variable remuneration is awarded in a variety of formats including profit sharing, bonuses, deferred cash and stock options. The CBB's proposed rule that 50% of all variable remuneration should be awarded in shares or share linked instruments is not practical. The underlying reasons are as follows:</p> <ul style="list-style-type: none">• The majority of financial institutions in Bahrain are privately held entities (as opposed to being listed on a Bourse). They are dominated by controlling shareholders, who may not wish to dilute their stake in their companies.• The Memorandum and Articles of Association of certain financial institutions do not provide for employee stock option plans.• Even financial institutions that are listed may not have employee stock option plans in place. It would entail having to increase the share capital to issue new shares. This is a complex process and may not be acceptable to the majority/ controlling shareholders. Consequently, the requirement to award 50% of deferred and non-deferred portions of variable remuneration in shares or share linked instruments, is meaningless.• The need to have a minimum share retention policy of five years from the time the shares are awarded, is onerous.• The lack of liquidity in the shares of certain financial institutions in Bahrain, is evident and has been observed over the years. Under these circumstances, to force employees to accept 50% of their variable remuneration in equity instruments (assuming that this is legal and available), will have a detracting impact on their motivation and commitment. <p>Share options promoted in non-listed banks, can be converted into cash (after the lapse of the lockin period), only if the concerned bank offers to buy back the shares from the employee. The price</p>	SP-115	Other non-cash instruments can also be considered.
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	at which the Bank agrees to buy back the shares, can be subject to manipulation such that it is against the employee's interest.		
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	A bank noted that it is not clear what the 50% and minimum tenor of 5 years are based on. This does not take into account the proportionality of the bank's size, complexity and risk.	SP-116	Please refer to comment SP-112.
5.18 Where fixed or variable remuneration include common shares, the shares awarded must be limited to an annual aggregate limit of 10% of the total issued shares outstanding of the bank, at all times.	A bank noted that this requirement contradicts the basic requirement of paying out 50% of remuneration in non-cash instruments if the 10% of total issued shares outstanding threshold is reached.	SP-117	This issue will need to be addressed on a case by case basis when brought to the attention of the CBB.
Principle 8: Banks must disclose clear, comprehensive and timely information about their remuneration policies and practices to facilitate constructive engagement by all stakeholders. Stakeholders need to be able to evaluate the quality of support for the bank's strategy and risk posture. Appropriate disclosure related to risk management and other control systems will enable a bank's stakeholders to make informed decisions about their business relations with the bank.	A bank noted that since as on date, compensation related information is protected in the interest of confidentiality, it is not recommended to implement such detailed disclosure.	SP-118	Disagree- Do not require disclosure of individual remuneration in annual report – only policies and aggregate numbers are to be disclosed.
	A bank noted that disclosures appear to be too detailed/ elaborate. Some requirements are descriptive and general. It is recommended that a concise clear list so as to facilitate compliance with the requirements and eliminate ambiguity.	SP-119	The disclosure list is clear and detailed and there is no change required as it is in line with international standards..
6.1. Banks must disclose in their annual report qualitative and quantitative information about their remuneration practices and policies covering the following areas: (a) ...; (b) ...; (c) ...; i) ...; (d) ...;	A bank noted that key concepts/methodologies in the guidelines are 'deferred' compensation, 'malus' and 'claw-back'. It is not clear if such arrangements would be legally tenable/ enforceable. They were advised by consultants in respect to another jurisdiction that these clauses may not be tenable. In addition, no details/guidelines have been provided on how the 'claw back' and 'malus' would work. For example, what would be the parameters/triggers for claw back or malus? In case of retirement or resignation of employees within the deferred compensation	SP-120	Legal Unit confirmed that there is nothing in the Labour Law or other public law that prevents the enforcement of these concepts. In addition, HC-5.4.17 states: Existing contractual payments related to a termination of employment must be re-examined, and kept in place only if there is a clear basis for concluding that they

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<p>(e) ...;</p> <p>(f) ...;</p> <p>(g) The long-term performance measures (deferral, malus, clawback);</p> <p>(s) Number and total amount of severance payments made during the financial year, and highest such award to a single person;</p> <p>(t) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms; and</p> <p>(u) Total amount of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments.</p> <p>Disclosure of remuneration practices must cover approved persons (Board members approved persons in business lines and approved persons in control functions) and material risk takers and must be broken down between these four categories.</p>	<p>period, how would the Bank calculate payouts and/or claw-back arrangements?</p>		<p>are aligned with long-term value creation and prudent risk-taking. Prospectively, any such payments must be related to performance achieved over time and designed in a way that does not reward failure.</p>
	<p>A bank noted that it is not likely to be realistic to prosecute a malus clause on ex-employees, except in the case, lengthening the realization of any share-based instrument which can go down over time due to poor results and therefore reduce the expected reward outcome for the ex-employee. Evidence of independence of remuneration for control function staff requires clarification. Is the CBB prepared to consider a tiered approach where adherence is moderated according to the risk profile? The bank assumes that the entirety of the material risk takers as</p>	<p>SP-121</p>	

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	<p>quoted are all persons undertaking a “controlled function” in licensed banks which are pre-approved by the CBB (LR 1A.1.1). Needs clarity on extent of disclosure versus employee confidentiality. Individualized disclosures are not recommended as key staff will seek re-location. Other jurisdictions apply a group disclosure (Top 20/30 earners) which is a yardstick of balance / imbalance in income distribution without encroaching on individual compensation.</p>		<p>No public disclosure in annual report is requested for individual employees – just aggregate numbers broken down in key categories.</p>
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	<p>A bank noted that clause 6.1(o)-(u), the requirement to disclose confidential information to the level of detail required by these clauses is likely to result in the details of individual remuneration being compromised. An alternative may be for the bank to maintain the details required at their office, available for inspection at any time by the CBB and shareholders.</p>	SP-122	See comment SP-121
	<p>A bank noted the following: Subparagraph (j): The disclosures should be policy or principles-based, and at the bank wide or group level only. Subparagraph (k-i): The scope of disclosure of performance metrics should be bank wide only (not business unit or individual), and should be reported retrospectively, at a high level only, given the commercially sensitive nature of information. Also details for Board consideration and approval rather than CBB. Subparagraph (l): The disclosures should be policy or principles-based and at the bank wide or group level only. Subparagraph (m): The disclosures should be policy or principles-based and at the bank wide or group level only. Reference to “factors” should be replaced with “principles” and the disclosure should be limited to senior management only. Subparagraph (o): This is already part of pillar III disclosure. Moreover, this requirement is too broad based. Should be restricted to Board and clearly defined functions or senior management.</p>	SP-123	See comment SP-121
	<p>A bank noted that (r) and (s) are not clear. This is a very in depth disclosure requirement and must be discussed at the BAB level. (n) Board remuneration is normally decided and approved during the AGM and by that time banks usually have their annual report finalized and printed. How can banks disclose the remuneration</p>	SP-124	<p>(r) and (s) are very clear. Annual report may be printed but if there is a change at AGM, amendment can be published.</p>

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	amount in their annual report before being endorsed by the AGM? Perhaps the reference is to board sitting fees. Needs clarification		
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	Are they able to adhere to this requirement?		
<p>6.6 Banks must provide to the CBB details of its top 12 highly remunerated employees semi-annually for the period covering 1st January to 30th June and 1st July to 31st December. This report must be provided within 2 months of the end of the semi-annual period and must be in the format as outlined in Appendix 2.</p>	<p>A bank noted that the reporting requirement to CBB on top 12 highly remunerated employees is a very sensitive issue and may cause unfair situations in the small market of Bahrain. The total amounts could be disclosed in consistence with the HC Module requirements.</p>	SP-130	This information will be disclosed annually to CBB only and retained at the bank’s premises for review, upon CBB request (See BR-4A.4).
	<p>A bank noted that this clause is not encouraging for banks which have less staff strength on their payroll. For example a bank with 25 employees will end up disclosing salary details of almost 50% of its staff employees on “public domain” through disclosure in annual financials vis-à-vis a bank with huge number of staff on its payroll. Hence, for uniform corporate governance disclosures across banks of different sizes, it is suggested that instead of top 12, to use a specific percentage (such as 5-10% of the highly remunerated bank staff), which may require disclosure.</p>	SP-131	Please refer to comment under SP-130.
	<p>A bank noted that to provide CBB with the top 12 highly remunerated employees would be excessive for a bank of only 80 employees (as is the case with this bank) or less, this should be proportional to the size of the bank and number of employees e.g. top 5% or for remunerations higher than an absolute amount as a benchmark. Again suggest this is submitted annually. We also have concern over confidentiality and competitiveness in disclosing the remuneration of individuals.</p>	SP-132	Please refer to comment under SP-130.