



South African Reserve Bank

From the Office of  
the Registrar of Banks

Confidential

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**To: All banks, controlling companies and branches of foreign institutions**

**Circular 4/2011 issued in terms of section 6 (4) of the Banks Act, 1990**

**Meetings to be held during the 2011 calendar year with:  
Boards of directors**

### Executive summary

**This circular serves to inform all reporting banks of the flavour-of-the-year topic for meetings with the boards of directors of banks during 2011.**

#### **1. Introduction**

1.1 In order to assist the Office of the Registrar of Banks (Office) to discharge its responsibilities, the meetings with banks' boards of directors to be held during the 2011 calendar year will consist of a discussion of the following important topic that is receiving extensive international scrutiny:

1.1.1 Compliance with the Financial Stability Board (FSB) Principles for Sound Compensation Practices and the future disclosure thereof.

#### **2. Sound compensation practices**

##### **2.1 Background**

The Basel Committee on Banking Supervision (Basel Committee) has identified compensation practices at financial institutions as one of the factors among many that contributed to the global financial crisis during 2007. Various discussion documents on sound compensation practices were subsequently issued, together with a consultative document on Pillar 3 Disclosure Requirements for Remuneration. The objective of the proposed disclosure requirements was that banks should disclose clear, comprehensive and timely information about their remuneration practices with the overarching goal of promoting more effective market discipline. In an endeavour to promote a level playing field in the banking industry, consistency of disclosure requirements would contribute to a greater

convergence of disclosure practices. This, in turn, will allow meaningful assessments of banks' remuneration practices by market participants.

- 2.1.1 The following documents on compensation practices were issued:
  - 2.1.1.1 The Financial Stability Forum – “FSF Sound Compensation Practices” on 2 April 2009.
  - 2.1.1.2 The BCBS – “Enhancements to the Basel II Framework” in July 2009.
  - 2.1.1.3 The FSB – “FSB Sound Compensation Practices, Implementation Standards” on 25 September 2009.
  - 2.1.1.4 Subsequently, the Basel Committee issued a consultative document in December 2010 entitled “Pillar 3 disclosure requirements for remuneration”, for comment by 25 February 2011.
- 2.1.2 During the 2010 calendar year this Office requested banks, controlling companies and branches of foreign institutions (hereafter jointly referred to as “banks”) to conduct a self-assessment that was based on a questionnaire pertaining to the Principles for Sound Compensation Practices and Implementation Standards issued by the FSB. The purpose of the questionnaire was for this Office to establish the level of compliance by banks with the principles and standards recently issued by the FSB.
- 2.1.3 The results of the self-assessment indicated that the implementation of the aforementioned principles and standards required further work and attention by both this Office and banks to ensure an acceptable level of compliance.
- 2.1.4 However, in a subsequent development and in view of the continued prominence and importance of executive remuneration highlighted by the FSB and the country assessments to be undertaken during 2011, the Group of Twenty Leaders, at the Toronto Summit, encouraged all countries and financial institutions to fully implement the FSB Principles for Sound Compensation Practices and their Implementation Standards by the end of 2010, and called on the FSB to undertake ongoing monitoring in this area.
- 2.1.5 To respond to this call, the FSB committed to conduct a further and more detailed peer review of implementation in 2011, as recommended by the FSB's first thematic peer review completed in March 2010. The follow-up review will assess the progress made by significant financial institutions in implementing the FSB Principles and Standards, as well as the impact on the compensation practices of national policy measures taken to implement the FSB Principles and Standards.
- 2.1.6 In line with this Office's mission and in order to improve transparency and disclosure, the “flavour-of-the-year” topic for 2011 will therefore focus on remuneration practices of banks.
- 2.1.7 You are hereby requested to complete the “Second FSB thematic peer review of compensation practices”, “questionnaire for firms”, attached as Annexure A, the purpose of which is to take stock of the compensation

policies and practices of significant banking firms across all FSB member jurisdictions and to assess their progress in implementing the FSB Principles and Standards.

- 2.1.8 Furthermore, you are requested to submit the completed questionnaire under signature of the Chief Executive Officer at least one month before the scheduled board meeting at which the flavour-of-the-year discussions will take place, together with the pro-forma pillar 3 remuneration disclosures that are based on the requirements of the consultative document titled "Pillar 3 disclosure requirements for remuneration" that was issued by the Basel Committee in December 2010. The completed questionnaire should be marked for the attention of your bank's relationship manager at this Office.

### **3. Format of the presentation**

- 3.1 The chairman of the Remuneration Committee will be required to give a presentation on the following aspects:
- 3.1.1 A discussion of the bank's response to each of the individual items contained in the FSB questionnaire attached hereto as Annexure A also indicating, *inter alia*, in each instance the level of compliance with each individual practice.
- 3.1.2 A gap analysis and planned actions (with timelines) to rectify any non-compliance with the above-mentioned principles and standards.
- 3.1.3 Pro-forma Pillar 3 remuneration disclosures that are based on the requirements of the consultative document titled "Pillar 3 disclosure requirements for remuneration" that was issued by the Basel Committee in December 2010.

### **4. Acknowledgement of receipt**

- 4.1 Two additional copies of this circular are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.



E M Kruger

**Registrar of Banks**

The previous circular issued was Banks Act Circular 3/2011, dated 9 March 2011.