

February 25, 2011

Comments on the Basel Committee on Banking Supervision's Consultative Document, *Pillar 3 Disclosure Requirements for Remuneration*

Japanese Bankers Association

We, the Japanese Bankers Association, would like to express our appreciation for this opportunity to comment on the consultative document, *Pillar 3 disclosure requirements for remuneration*, released December 27, 2010, by the Basel Committee on Banking Supervision.

We hope that our comments below will assist the Basel Committee in its further efforts.

1. General Points

We duly understand the need for reforming remuneration practices, including enhancing remuneration-related disclosures, for the purpose of stabilizing and strengthening the financial system. Furthermore, we believe that reaching some consensus on disclosure items on an international level would be effective. We sincerely hope that the following will be taken into consideration in future discussions, so that such proposals function effectively and continuously as meaningful tools.

We understand that the purpose of these rules is to allow the market to exercise its checks-and-balances function through such disclosure, specifically to determine whether remuneration payment methods for executive officers and employees (e.g. financial institution remuneration relativity to profits or linkage to company performance) has become a significant factor impacting a company's soundness. However, since financial institution remuneration systems vary according to business model, individual countries' labor practices, and other factors, the systems should not fit a single framework. Remuneration disclosure absolutely must reflect actual conditions of each country, variations in business models of each financial institution, and other factors.

Concerning this point, the Consultative Document assumes a framework based on European and U.S. financial institutions, which have extremely

high levels of compensation and highly variable bonuses and other factors. Should this proposal as written and in whole be applied to Japanese banks—which are based on the premise of lifetime employment as well as remuneration systems and levels based on age, job ability, etc.—we believe many disclosure items would not be meaningful to market players because of the difference in remuneration systems. Therefore, we think that the concerned authorities of each country should be allowed to seek disclosures according to factors like necessity and impact that the content of the remuneration system, degree of correlation with performance, and total remuneration payment amount will have on performance. The disclosures should duly consider the size of financial institutions, operational characteristics, the actual state of remuneration systems, etc., of the relevant country.

2. Specific Points

(1) Scope of Application (Paragraphs 6 and 7)

The principle of materiality in the third pillar of Basel II, etc., is to apply even when determining the targets of this proposed rule; however, we believe that the particular standards should take into due consideration the situation of each country, etc. Furthermore, the discretion of the concerned authorities of each country based on the average compensation level or employment practices of the relevant country should be approved.

Furthermore, as indicated in Paragraph 6, there is sufficient possibility that the disclosure method proposed may not be suitable for all banks. Therefore, Paragraph 7 states that all or some disclosures should be made exempt based on the risk profile of each bank, and that disclosures should be made exempt from the perspective of materiality of the information, privacy or confidentiality. The proposal indicates that disclosure levels should be determined based on the appropriateness for each case. We are aware that the essence of disclosures concerning remuneration is to properly disclose material information that should be disclosed, etc., in view of the risk situation of each entity, the location of material risk takers, and other factors. (It is unclear what the bases of this definition are, such as the degree of risk of operations the individual is involved in, the individual's degree of authority, or the variability of remuneration. Therefore, we note that this definition should be clearer.)

(2) Risk Measurement Method (Key disclosure items: Qualitative disclosures (c))

The method most appropriate for reflecting risk in remuneration differs depending on labor practices (lifetime employment practice, etc.), structure of the entire remuneration system (retirement benefits, etc.), and other matters. For example, in Japan, practices such as lifetime employment and the retirement benefit system may work to suppress excessive risk taking. Therefore, we believe that disclosure items based on assumptions reflecting measured risk in remunerations from a relatively short-term perspective may not necessarily suit the actual situation of all countries.

(3) Relationship between Remuneration and Performance (Key disclosure items: Qualitative disclosures (d) and quantitative disclosures (i))

- Variable Remuneration

We request that the definition of *variable remuneration* be made clear. The basic structure of bonuses awarded to Japanese bank executive officers and employees are pre-determined, and these are increased or decreased based on certain performance rationale. Although there is some variability, the range is extremely limited. The rationale behind this is fundamentally different from that of profit distribution-type bonuses generally awarded by European and U.S. financial institutions. Therefore, if all financial institutions make the same type of disclosure while the definition remains vague, we fear that unnecessary misunderstandings might occur.

- Guaranteed Bonuses, Sign-on Awards, etc.

The employment and retention strategies of individual companies are highly confidential information from the viewpoint of business strategy. We would like to avoid such disclosure (disclosures made should be limited to cases where payment exceeds a certain level, rate, or guarantee period, etc.).

(4) Measurement Standards of Long-term Performance (Key disclosure items: Qualitative disclosures (e))

The proposal assumes that variable remuneration can be deferred, but the method most appropriate for reflecting long-term performance in remuneration differs depending on labor practices (lifetime employment practices, etc.), the structure of the entire remuneration system (retirement

benefit systems, etc.), and the taxation system, among other things. For example, in Japan, practices such as lifetime employment and the retirement benefit system may reflect long-term performance (in suppressing excessive risk taking). We do not think that the disclosure items in the current proposal, which are based on the assumption that variable remuneration can be deferred, should be uniform disclosure items.

(5) Definition of Terminology in the Annex (Annex)

The Annex states that *tables [are] to be completed separately for (a) senior management, (b) other material risk takers, and (c) financial and risk control staff*. We request clearer definitions for each of these categories (a, b and c).