



Our Ref.: B1/15C
B9/92C

10 June 2011

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Report on the Range of Methodologies for Risk and Performance Alignment of Remuneration

On 12 May 2011, the Basel Committee on Banking Supervision (BCBS) issued a report on the “*Range of Methodologies for Risk and Performance Alignment of Remuneration*”. The report responds to a recommendation in a Financial Stability Board (FSB) report issued following the FSB’s Peer Review of the implementation of its Principles for Sound Compensation Practices and Implementation Standards conducted in the first quarter of 2010. The recommendation was to the effect that supervisors should support at the technical level the development of sound practices on risk and performance alignment of compensation schemes.

The main objectives of the BCBS’ report are to present (i) some remuneration practices and methodologies that support sound incentives and (ii) the challenges or elements influencing the effectiveness of risk alignment that should be considered by banks, when developing their methodologies, and supervisors, when reviewing and assessing banks’ practices. By providing some clarification on the design of risk-adjusted remuneration schemes, the report should help support and facilitate the broader adoption of sound compensation practices in the banking sector.

Given the relevance of the report to effective governance of compensation practices and alignment of compensation with prudent risk-taking, which are crucial to the stability of authorized institutions (AIs), I am writing to encourage AIs to study the report and where necessary, take action to bring their remuneration practices and methodologies into line with the sound practices set out in the report. The report is available on the website of the Bank for International Settlements (www.bis.org).

Should you have any questions regarding this letter, please feel free to contact your usual supervisory contacts at the HKMA.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn. Miss Natalie Li)