البنك المركزي السعودي
SAMA
Saudi Central Bank

البنك المركزي السعودي
الرقم: 44049096
التاريخ: 1444/06/12
المرفقات: 18 ورقة

تعميم

السادة/ المحترمون

السلام عليكم ورحمة الله وبركاته،

الموضوع: قواعد مكافآت البنوك.

استناداً إلى نظام البنك المركزي السعودي الصادر بالمرسوم الملكي رقم م/٣٦ وتاريخ ١٤٤٢/٠٤/١١هـ، ونظام مراقبة البنوك الصادر بالمرسوم الملكي رقم م/٥ وتاريخ ١٣٨٦/٠٢/٢٢هـ، وإشارة إلى قواعد ممارسات التعويضات الصادرة عن البنك المركزي السعودي بموجب تعميم رقم 26194/BCS/12580 وتاريخ ١٤٣١/٠٥/١٩هـ.

مرافق قواعد مكافآت البنوك التي تحل محل قواعد ممارسات التعويضات المُشار إليها أعلاه، والتي تهدف إلى ضمان قيام البنوك بوضع إطار حوكمة ملائم لمنح المكافآت وإدارة المخاطر بشكل فعال.

للإحاطة والعمل بموجبه اعتبارًا من ١ يونيو ٢٠٢٣م.

الذيب

وتقبلوا تحياتي،

الفرحان

يزيد بن أحمد آل الشيخ
وكيل المحافظ للرقابة

الشايع

نطاق التوزيع:
- البنوك والمصارف العاملة بالمملكة

رغد

Saudi Central Bank (SAMA)

Banks Remuneration Rules

January 2023

البنك المركزي السعودي
SAMA
Saudi Central Bank

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1. General Requirements

1.1 Background

These Banks Remuneration Rules shall supersede the existing Rules on Compensation Practices issued vide circular no. 26194/BCS/12580 dated 3 May 2010. Saudi Central Bank (SAMA) has updated these rules for the purpose of addressing the risk of misconduct that may be associated with improper reward practices.

1.2 Objective

The objective of these rules is to set the minimum requirements and provide supervisory guidance to banks in formulation of their policies, procedures and practices on remuneration to ensure financial soundness and promote effective risk management.

These rules are aimed at dealing with risks posed by the remuneration practices, and not at determining the absolute amount of remuneration, which will continue to be determined by banks in line with their remuneration policies. However, banks shall comply with the regulatory caps on remuneration, if any, as specified by SAMA or any other regulatory authority.

1.3 Scope of Application

These rules shall apply to banks as follows:

1. All locally incorporated banks licensed and operating in Saudi Arabia.
2. Where a locally incorporated bank has majority owned subsidiary(ies) operating in the financial sector, it will either formulate group level Remuneration Policy and practices consistent with these rules for application across the group or will ensure that the subsidiary's Remuneration Policy and practices are in line with these rules.
3. Where a locally incorporated bank has majority owned subsidiary(ies) outside Saudi Arabia, it will ensure that the Remuneration Policy and practices of such subsidiary or branch are in accordance with these rules provided that there is no inconsistency with the legal and regulatory requirements of the host country.
4. Foreign Banks Branches (FBB) licensed and operating in Saudi Arabia shall also follow these rules in designing their Remuneration Policy and practices for Saudi operations, taking into consideration the following:
    a. The responsibilities of the Board of Directors, relative committees and General Assembly stated in these rules should lie with the authority responsible for

overseeing the business and operations of the FBB at the Head Office/Regional Office.

b. Minimum percentages required in clause number 40 of these Rules shall not be applicable.

1.4 Effective Date

These updated rules shall come into force starting from 1 June 2023, and all banks shall take necessary measures to ensure compliance thereof. Banks shall also ensure that all employment contracts including contracts already in force at time of issuance of these updated rules are consistent with the rules by 1 June 2023.

1.5 Definitions

SAMA:	Saudi Central Bank.
Rules:	Banks Remuneration Rules.
Senior Management:	The functions, roles and responsibilities entrusted to those positions who take, propose and implement strategic decisions and manage the Financial Institution's business processes including senior management positions that requires SAMA's non-objection for appointment.
Control Functions:	Those functions that have a responsibility independent from management to provide objective assessment, reporting and/or assurance including risk management function, compliance function, and internal audit function.
Misconduct:	Conduct that falls short of expected standards, including legal, professional, internal conduct and ethical standards.
Remuneration System:	Bank's internal remuneration policies and procedures including structure, roles and controls of the remuneration and the actual implementation and application thereof by the bank.
In-year adjustment:	Downward adjustment of an anticipated annual variable remuneration award to reflect the impact of a negative event or behavior.

Malus: Permits the bank to reduce the value of all or part of deferred remuneration based on ex post risk adjustment before it has vested.

Clawback: Under this process the individual has to return ownership of an amount of variable remuneration paid in the past or which has already vested to the bank under certain conditions.

2. Governance of Remuneration

1. Banks shall comply with all corporate governance requirements with regards to remuneration as specified by SAMA or any regulatory authority, as applicable.

2.1 Board of Directors Responsibilities

2. The Board of Directors (the Board) of a bank shall be responsible for the overall design and oversight of the remuneration system that promote prudent risk-taking behaviors and business practices and accordingly shall not delegate this responsibility to senior management.

3. The Board shall be ultimately responsible for promoting effective governance, sound remuneration practices, ethical behavior and compliance with laws, regulations, and internal conduct standards, and for ensuring accountability for misconduct; in addition to the following:
   a. Overseeing and holding senior management accountable for implementing and participating in the design of the remuneration system that effectively delineates how remuneration tools address misconduct risk or other imprudent risk taking behavior.

   b. Engaging actively with senior management, including challenging senior management's remuneration assessments and recommendations if warranted when serious or recurring misconduct occurs and ensure that root cause analysis is performed, lessons learned are promulgated bank-wide and new policies are adopted, as necessary, to prevent it from happening again.

4. The Board shall ensure that senior management puts in place policies and procedures that ensure effective control and adherence to these rules, and any relevant Laws, Regulations, Principles and Standards.

5. The Board shall review and, if satisfied, approve the remunerations of the senior management based on the recommendations of the Nomination and Remuneration Committee.

6. The Board shall ensure that an annual review of the remuneration (internally through Internal Audit or externally commissioned by a recognized firm) is carried out independently without the intervention of senior management. The review must assess the compliance with these rules and any relevant Laws, Regulations, Principles and Standards, as well as the bank's internal policies that are prepared according to these rules. The Board shall takes into account the results of such a review when making decisions related to remuneration, and could briefly disclose those results in the Board of Directors Annual Report.

2.2 Formation and Responsibilities of the Nomination and Remuneration Committee

7. Banks shall have a Nomination and Remuneration Committee comprising of at least three members. The composition and responsibilities of the committee shall be consistent with SAMA's Key Principles of Governance in Financial Institutions and any other requirements set by any regulatory authority, as applicable.

8. The General Assembly, upon the proposal of the Board, shall lay down the terms of reference of the Nomination and Remuneration Committee, which should include its work controls, responsibilities, procedures for appointing committee members, their membership duration and remuneration. A copy of the terms of reference of the Nomination and Remuneration Committee shall be submitted to SAMA along-with the Compliance Report for every cycle.

9. The Nomination and Remuneration Committee should work closely with the bank's Risk Management Committee and/or the Chief Risk Officer in the evaluation of the incentives created by the remuneration system.

10. The Nomination and Remuneration Committee shall review the implementation of the Remuneration Policy at-least on a half-yearly basis to ensure achievement of its stated objectives.

11. The Nomination and Remuneration Committee shall closely review and monitor the remuneration for highest paid staff to verify compliance with the Remuneration Policy, and to avoid misuse.

2.3 Senior Management Responsibilities

12. Senior management should implement the remuneration system that promotes effective governance, sound remuneration practices, ethical behavior and comply with laws, regulations, and internal conduct standards.

13. Senior Management shall be responsible for the following:
    a. Promote, develop and communicate conduct expectations and clearly link remuneration and conduct standards, including as part of the performance assessment process and ensure that the potential consequences of misconduct on remuneration are clearly explained to all employees.

    b. Follow-up on the publication of the desired aspirations of every department in the bank regarding ethical behavior and work practices that are in compliance with the laws, regulations and internal standards of behavior, and the application and achievement of these aspirations.

    c. Identify, monitor and report on relevant indicators of misconduct risk in every department in the bank, as well as monitor the role of each department in the bank in escalating and remediating identified deficiencies or other important matters in an appropriate and timely fashion, in such a way as to allow inclusion of relevant feedback and changes in the performance assessment process if needed.

14. Senior management shall submit a report to the Nomination and Remuneration Committee on a semi-annual basis at least on measures taken and steps to be taken within the framework of applying the Banks Remuneration Rules issued by SAMA and any relevant Laws, Regulations, Principles and Standards.

2.4 Misconduct

15. Banks should have an internal definition of misconduct based on their characteristics, values and business, which promotes adherence to legal, professional, internal conduct and ethical standards.

16. The bank's risk appetite statements should reflect clear and well-understood values and conduct standards that are tailored and cascaded to individual business units and taken into account when assessing performance and promotion potential. Individuals should be held accountable for ensuring that their own conduct is consistent with these standards.

2.5 Remuneration Policy

17. Banks shall have a written Remuneration Policy for Senior Management approved by General Assembly, and a Remuneration Policy for all other employees approved by the Board of Directors. The Remuneration Policy shall ensures the achievement of prudent management of the risks associated with remuneration.

18. The Remuneration Policy should be designed to attract and retain quality staff with sufficient knowledge, skills and expertise to effectively conduct the business of the bank.

19. The Remuneration Policy should, inter-alia, cover the following areas:
    a. The objectives of the Remuneration system (with focus on promoting effective risk management and achieving financial soundness and stability of the bank).

    b. Scope of policy should cover all levels and categories of employees whether regular or contractual as well as outsourcing arrangements with third-party service providers.

    c. Broad structure of the Remuneration system (including but not limited to linking remuneration with performance and alignment of remuneration with risk taking).

    d. Determinants of the mix of remuneration components (including but not limited to fixed and variable components; cash, equity and other non-cash benefits).

    e. Description and details of major perquisites to be made part of the remuneration.

    f. Authority matrix clarifying management's approval limits for remunerations and any constraints that require approval from Nomination and Remuneration Committee.

    g. A clear description of the responsibilities of the control functions, as well as human resources, related to participating in designing appropriate remuneration policies, developing performance indicators related to risk and behavior, and identifying, monitoring and reporting misconduct.

    h. Criteria to be used for determining the value for allocation of the shares in relation to remuneration.

20. The Remuneration Policy should not be solely based on industry practices but should also take into account the business model, financial condition, operating performance and business prospects of the bank.

21. The review of Remuneration Policy to assess its adequacy and effectiveness should be made an integral part of the bank's risk management framework.

3. Performance Measurement

22. Banks shall have a performance measurement system in place to evaluate and measure the performance of its employees at various levels in an objective manner.

23. Procedures and processes for performance appraisal and measurement should be clearly stated and documented. Such procedures and processes should provide for avoidance of undue influence and conflict of interest situations, and be transparent to the employees concerned.

24. Performance measurement procedures and processes should provide for measuring individual contribution, to the extent practicable, to the overall performance of the bank. The individual contributions measured should, however, be supplemented with managerial judgment in determining the performance based remuneration of an employee. Conduct goals and performance targets should work together as a part of employees' remuneration to drive good behavior and address potential conflicts of interest.

25. Performance assessments and remuneration outcomes should consider all risks, including those associated with the bank main activities and those stemming from conduct that may not be consistent with laws and regulatory requirements, internal policies and procedures or the bank's risk management framework. These factors should be given due weightage in performance measurement.

26. Gross revenue or profit earned should not be the sole factor when setting performance objectives and when measuring performance. Other factors including, at a minimum, risks associated with the underlying transactions, ethical behavior, quality of business transacted, customer satisfaction and risk adjusted return on capital should also be taken into account, wherever practicable, in performance management.

27. The performance measurement of senior management should be based on longer-term performance of the bank and accordingly the performance-based component of their remuneration should not be based solely on the current year's performance. The performance assessments of senior management and other employees who have an

oversight responsibility within the bank should also include considerations regarding their relevant oversight responsibility in relation to the risk of misconduct within their business line.

4. Determining Remuneration

4.1 Alignment of Remuneration with Risk

28. Banks shall ensure that the incentives provided by their remuneration system take into consideration risk, capital, liquidity and the likelihood and timeliness of earnings.

29. An employee's remuneration should take into account all existing and potential risks including difficult-to-measure risks such as liquidity, cost of capital, reputation, regulatory and misconduct risks. Furthermore, the size of the variable remuneration pool and its allocation within the bank should take into account the full range of risks.

30. The processes for managing misconduct risks through remuneration system should include, at a minimum, ex ante processes that embed non-financial assessment criteria such as the quality of risk management, degree of compliance with laws and regulations and broader conduct objectives of the bank, including fair treatment of customers, into individual performance management and remuneration at all levels of the bank and as part of the broader governance and risk management framework. Such processes should be supported by ongoing programs including formal training courses that reinforce appropriate standards of behavior.

31. Control functions and Human Resources function should be adequately involved in remuneration design and decision-making to ensure effective remuneration incentives in addressing misconduct risk.

32. Remuneration payments should be sensitive to the time horizon of risks and, if needed, the variable component of remuneration should be deferred where risks are realized over long periods.

33. Banks shall employ an appropriate technique/criteria to adjust their accounting profits for the full range of identifiable risks keeping in view the size and complexity of its operations.

34. Adequate amounts of variable remuneration should be placed at risk of reduction, to help alignment of remuneration outcomes with adverse outcomes and/or risks that may manifest only with time.

4.2 Remuneration Structure

35. The remuneration structures for various levels of employees should be designed to promote effective risk management and achieve remuneration objectives.

36. The mix of forms of remuneration should vary depending on the employee's position and role, it should take into account the full range of financial and non-financial incentives in an employment relationship, and may include cash, equity and other forms of remuneration.

37. The proportion of fixed and variable components of remuneration for different business lines should be determined taking into account the nature and level of responsibilities of an employee, business area in which they work, and the Remuneration Policy of the bank. Banks should, however, ensure that total variable remuneration does not limit their ability to strengthen their capital base.

38. The remuneration structure of employees working in control functions should be designed to ensure objectivity and independence of these functions. In this regard, it should be ensured that performance measurement and determination of remuneration of such employees are not dealt with by any person working in/associated with the business areas monitored by the control functions.

39. The determination of bonus pool should take into account the overall performance of the bank whereas its distribution to individual employees should be based on performance of the employee as well as that of the business unit or division in which they work. There should, however, be no guaranteed minimum bonuses and similar other payments, other than an employee's salary, that are not based on performance.

40. Current and potential risks should be taken into account when determining the size and distribution of the variable remuneration. The variable remuneration of senior management as well as other employees whose actions have a material impact on the risk exposure of the bank should, therefore, be determined in line with the following:
    a. A substantial proportion of remuneration should be variable and paid on the basis of individual, business-unit and bank-wide measures that adequately measure performance.
    b. A substantial proportion of variable remuneration, of at least 40 percent, should be awarded in shares or share-linked instruments (or, where appropriate, other non-cash instruments) and should be subject to an appropriate share retention policy.
    c. A substantial portion of variable remuneration, of at least 40 percent, should be payable under deferral arrangements over a period of years.

d. These proportions should increase significantly along with the level of seniority and/or responsibility. For the most senior managers and the most highly paid employees, the percentage of variable remuneration that is deferred should be substantially higher of at least above 60 percent.

41. The deferral period for remuneration should not be less than three years based on the nature of the business, its risks and the activities of the concerned employee.

42. The remaining portion of the deferred remuneration can be paid as cash remuneration vesting gradually. In the event of negative contributions of the bank and/or the relevant line of business in any year during the vesting period, any unvested portions are to be clawed back, subject to the realized performance of the bank and the business line.

4.3 Remuneration Adjustment

43. Remuneration system should provide for mechanisms to adjust variable remuneration, including, for instance, through in-year adjustment, and malus or clawback arrangements, which can reduce the variable remuneration after it is awarded or paid. Such mechanisms must be documented in the Bank’s policies and procedures.

44. The bank's poor financial performance during any period is expected to lead to a decrease in the total variable remuneration, taking into account both current remuneration and reductions in payment previously earned during that period. Banks should submit clear justifications of such decrease to SAMA as support documents along with the compliance report.

45. Remuneration adjustment should allow banks to adjust remuneration to account for risks that have subsequently occurred, including instances of employee misconduct or material error, material downturn in performance or a material failure of risk management.

46. Effective policies and procedures must be in place to set indicative criteria and cases that could trigger the use of remuneration adjustment and may result in reductions to variable remuneration regardless of the individual’s performance.

47. At a minimum, adjustment should occur in the following cases:
    a. In cases of misconduct that have led to significant loss to the bank, its customers or any party or;
    b. Where there is fraud, gross negligence or material failure of risk management controls, including violation of internal policies or any related rules or regulation.

48. Remuneration adjustment policies should take into account, as a minimum, those under review when determining accountability for adverse risk events; the liability or proximity to the misconduct, rank and role, individual's motivation (e.g. personal gain, malice, fraud, ignorance, lack of training), negligence in exercise of individual's duties, level of participation in and responsibility for the events under review, history of misconduct, actions that were taken or could have been taken to prevent such events from occurring, including any failures within the bank to internally supervise and oversee staff, and the root cause of the events triggering review.

49. When deciding the amounts of remuneration to be adjusted, performance and remuneration adjustment policies should take into account all relevant indicators of the severity of impact, which may include the cost of fines and regulatory actions, direct and indirect financial losses and/or the impact on profitability attributable to the relevant failure, any reputational damage, the impact of such events on customers, and costs to redress the events under review.

50. Where remuneration adjustments are made before the full impact of the risk management failures or misconduct is known, appropriate subsequent adjustments should be made to ensure that the final adjustment fully reflects the impact of the incident or misconduct.

51. Remuneration adjustment policies should provide that the granting and vesting of all awards made to individuals undergoing internal or external investigation may be frozen until the investigation has concluded and a decision has been made and communicated to the relevant employee(s).

52. The use of remuneration adjustment should not be limited to those most directly involved and responsible for misconduct, but it should extends beyond them. Specifically, adjustment should be considered for the heads of control functions and for employees in control or direct line of business functions who by virtue of their role could be considered responsible or accountable for the failure or for the weakness in the control framework relevant in the employee misconduct, if such failure or weakness was attributed to lack of due diligence or misuse. Also it should be considered for senior management or members of the Board or relevant committees who, while not directly responsible were either aware, or could have been reasonably expected to be aware due to their seniority or role in the bank, of the failure or misconduct at the time, but failed to take adequate steps to promptly address it.

53. Remuneration adjustment should be governed by clear procedures that:
    a. Indicate the authority to approve remuneration adjustment and processes of escalating to human resources, control functions, and senior management and deciding cases that may trigger the use of remuneration adjustment for misconduct.
    b. Ensure that control functions and human resources, are appropriately involved in the processes of remuneration adjustment, except for those persons who may also fall within the scope of the investigation.
    c. Make clear the role of discretion in such processes, who is authorized to use such discretion and how such discretion would be appropriately bound by supporting governance and risk management processes.
    d. Require adequate documentation and rationale of final decisions.
    e. Ensure transparency by clearly communicating in writing to all affected individuals the value of remuneration adjustments made to variable remuneration and the reasons for such adjustments. That includes noticing the Board or Nomination and Remuneration Committee.

5. Remuneration Control

5.1 Disclosure Requirements

54. Banks shall disclose in the Bank's Annual Financial Statements the aggregate quantitative information on remuneration paid to various categories of employees and their number with breakup of fixed and variable components and the forms of payment. The categorization of employees includes at a minimum senior management, employees engaged in control functions and outsourced employees.

55. Banks shall disclose in its Annual Financial Statements the salient features of its Remuneration Policy and its implications on the bank's risk profile as well as the composition and the mandate of the Nomination and Remuneration Committee. Such disclosure should also provide information on the overall design of remuneration system and the manner of its implementation, description of the manner of risk adjustment, linkage of remuneration with actual performance, deferral policy and vesting criteria, parameters for allocating cash versus other forms of remuneration, and achievement of the stated policy objectives.

5.2 Compliance Report

56. Banks are required to submit a semiannual Compliance Report to SAMA that includes an assessment of the bank's existing remuneration practices and alignment with these rules; by assuring full compliance, or highlighting gaps along with an action plan (how to cover the gap, responsible persons/ department and target date) in addition to updates on the progress of the action plan until all gaps are covered. The report should include the items mentioned in Appendix-I.

57. Banks shall submit, along-with the Compliance Report, the following about all types of remuneration:

    a. Details of total remuneration including break-up of fixed and variable remuneration, and remuneration adjustments as per Appendix-II;

    b. Details of remuneration of the top 12 highly compensated employees of the bank as per Appendix-III.

58. Banks shall submit its semiannual Compliance Report for the second half year before March 31, and for the first half of the year before August 31.

59. Banks shall submit the results of the annual review of the remuneration, and any consequential actions before March 31 of each year.

5.3 Supervisory Review

60. Banks are expected to use these rules in identification and assessment of risks arising out of remuneration policies and practices as part of its Internal Capital Adequacy Assessment Plan (ICAAP) and Internal Liquidity Adequacy Assessment Plan (ILAAP).

61. In case of material deficiencies from these rules or from the bank's policies, SAMA could direct the concerned bank for rectification of deficiencies and may also prescribe increased capital or liquidity requirements for such bank. SAMA may also impose penalty or any other necessary measures in case of serious violations.

62. If needed, SAMA may limit a bank's total variable remuneration as a percentage of total net revenues when it is inconsistent with the maintenance of a sound capital or liquidity base or with sound risk management practices. In addition, SAMA may also impose certain limits and constraints on bank's remuneration structure, forms and deferment.

Appendix-I

Coverage of the Compliance Report

The report should cover all actions taken by the bank to comply with SAMA rules or other related regulations. It should contain at a minimum the following information:

1. Composition of the Nomination and Remuneration Committee including the names, qualification, status (whether shareholder, independent, non-executive) and terms of reference of the Committee;
2. Confirmation to the effect that the bank has formulated a Remuneration Policy for Senior Management with the approval of the General Assembly, and a Remuneration Policy for all other employees approved by the Board of Directors. The policies should be annexed with the report;
3. Confirmation to the effect that all employment contracts negotiated or renegotiated after issuance of SAMA's rules are compliant with these rules. Also information regarding the number of contracts, if any, which were in force at the time of issuance of SAMA rules but are still non-compliant with these rules along-with the reasons thereof and the timeline for their regularization;
4. Details of the measures taken to ensure compliance with these rules by the bank's subsidiaries and the name and location of all such subsidiaries and branches to which these rules have been applied;
5. Categories of employees and their number to which the measures taken to implement SAMA rules apply. Such categories of employees should, inter-alia, include senior management, employees engaged in risk taking activities as defined in the Remuneration Policy, employees working in control functions, other employees of the bank and outsourced employees/service providers (engaged in material risk taking activities on behalf of the bank, if allowed under the SAMA's Rules on Outsourcing). Definitions for each category of those employees should be provided as well in detail;
6. Listing down the material changes to date in the remuneration practices of the bank/subsidiaries since implementation of these rules. Each of these changes should be elaborated with supporting information;

7. Description of / reference to the disclosures made in the bank's Board of Directors Annual Report with regard to risk management framework, internal controls and Remuneration Policy and practices;

8. Confirmation to the effect that the bank has established appropriate compliance arrangements by seeking commitment from their employees not to use personal hedging strategies or remuneration - and liability - related insurance to undermine the risk alignment effects embedded in their remuneration arrangements;

9. Any unexpected issues that have been encountered to date in the implementation of these rules should be enumerated;

10. Details of the steps planned for the next half-year for further refinement of the remuneration practices.