

# Saudi Arabian Monetary Agency

Banking Supervision Dept.

T11199 / B.C.S 1075A

30 April, 2012

From : Saudi Arabian Monetary Agency  
To : All Banks  
Attention : Managing Directors, Chief Executive Officers and  
General Managers  
Subject : **Establishment of the Bilateral Complaint Handling  
Process (BCHP) on Compensation Practices**

Compensation practices at large financial institutions were a key contributing factor to the global financial crisis. The FSB *Principles for Sound Compensation Practices*<sup>1</sup> and their *Implementation Standards*<sup>2</sup> (Principles and Standards, P&S) were developed to align compensation with prudent risk-taking, particularly at significant financial institutions. The October 2011 FSB Peer review on compensation practices<sup>3</sup> found that concerns by the firms over inconsistent implementation of the P&S across jurisdictions might hinder their full adherence to the P&S and give rise to an uneven playing field in the market for highly skilled employees. The peer review report recommended the establishment of a bilateral complaint handling process (BCHP) among national supervisory authorities in FSB member jurisdictions to address level playing field concerns of individual firms. This recommendation was endorsed by G20 Leaders at their Cannes Summit in November 2011.

The purpose of this letter is to inform banks operating in Saudi Arabia of the main features of the BCHP and how it will be applied in Saudi Arabia. Under the BCHP, national supervisors will address evidence-based complaints raised by financial institutions that document a competitive disadvantage as a result of the inconsistent

<sup>1</sup> See [http://www.financialstabilityboard.org/publications/r\\_0904b.pdf](http://www.financialstabilityboard.org/publications/r_0904b.pdf).

<sup>2</sup> See [http://www.financialstabilityboard.org/publications/r\\_090925c.pdf](http://www.financialstabilityboard.org/publications/r_090925c.pdf).

<sup>3</sup> See [http://www.financialstabilityboard.org/publications/r\\_111011a.pdf](http://www.financialstabilityboard.org/publications/r_111011a.pdf)

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implementation of the P&S by firms headquartered in other jurisdictions, particularly with regard to Standards 6-9, 11 and 14.

The BCHP is effective immediately and will address complaints involving compensation practices that occurred since January 2012.

The BCHP is expected to generate evidence-based information on specific cases of inconsistent implementation of the P&S that have been brought to the attention of national supervisors and to encourage supervisory dialogue on these issues. Specific sources of concern relative to the application of the P&S will be verified and addressed by bilateral exchanges among supervisory authorities. Over time, the analysis of firm-specific cases is expected to provide more clarity on the application of the P&S across firms and jurisdictions.

Saudi banks wishing to file a complaint should provide to SAMA evidence substantiating why the specific compensation practice at the competitor firm located in another jurisdiction might be deemed to be inconsistent with the P&S. The complaint should include detailed information on the relevant elements of the pay package offered by the firm to the employee and (where available) elements of the pay package offered by the competitor firm. A difference in the level of pay is not in itself deemed to be evidence of an uneven playing field, nor are improvements in the pay package attributable to general career moves that involve promotions in title and level of responsibility. Annex I provides a template of the information required for filing the complaint.

SAMA will examine the information received and may request to discuss the information with the bank filing the complaint.

Complaints that are deemed by SAMA to be well substantiated based on the information provided will be brought by SAMA to the attention of the authority having supervisory responsibility for the competitor firm. The purpose of the bilateral exchange will be to share information on the specific source of concerns relative to the application of the P&S, in order to verify those concerns and to address them as needed. Under normal circumstances, the BCHP is expected to resolve the complaint within three months of the date it is brought to the attention of the supervisory authority having responsibility for the competitor firm. Once the

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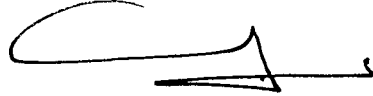
process is concluded, the outcome of the complaint will be communicated by SAMA to the Saudi bank that has filed the complaint.

More information on the objectives of the BCHP and its main features, including on the treatment of confidential information submitted by the firms, as well as on public reporting by the FSB on compensation practices can be found on the FSB's website (<http://www.financialstabilityboard.org/activities/compensation/>).

The BCHP complaints should be addressed to the Director of our Banking Supervision Department.

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**Abdulrahman Al-Hamidy**  
**Vice Governor**

**Encl:** As above

**Annex I**

**Information template to be completed by banks filing a complaint**

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| 1. Date the complaint is filed  | 2. Date(s) of the events that are the object of complaint  |
| 3. Identity of complaining bank (Firm 1)  | 4. Identity of firm that is object of the complaint (Firm 2)   |
| 5. Home jurisdiction of Firms 1 and 2   | 6. Jurisdiction where the complaint has arisen   |
| 7. Description of the complaint, including the specific P&S involved and the reason why the specific compensation practice is inconsistent with the P&S.  | 8. Nature and magnitude of the competitive disadvantage caused by the inconsistent application of the P&S  |
| 9. Information about the employee(s) at Firm 1 (rank, title, function, whether designated as Material Risk Taker)   | 10. If relevant, information on the employee(s) at Firm 2 (rank, title, function, whether designated as Material Risk Taker)   |
| 11. Information on relevant elements of the pay practices or package at Firm 1, including for example: <ul style="list-style-type: none"><li>• Actual payouts and bonus</li><li>• Relationship between fixed and variable remuneration</li><li>• Deferral arrangements</li><li>• Clawbacks</li><li>• Guarantees</li></ul>   | 12. Information on relevant elements of the pay practices or package at Firm 2 (on a best effort basis), including for example: <ul style="list-style-type: none"><li>• Actual payouts and bonus</li><li>• Relationship between fixed and variable remuneration</li><li>• Deferral arrangements</li><li>• Clawbacks</li><li>• Guarantees</li></ul> If relevant elements of the pay package are not available, please provide other evidence that supports the complaint. |
| 13. Other information (applicable in the case of an employee move), for example: <ul style="list-style-type: none"><li>• Whether the firm can confirm that the difference in pay package is the most important / an important reason for an employee move.</li><li>• Whether the employee received a higher base salary, a higher expected bonus or a promotion in title by moving to the new firm.</li></ul> |  |