

## S U M M A R Y

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### **Variable Remuneration Report January 2010**

There is a considerable need to apply a long-term perspective to variable remuneration systems. This is the conclusion of Finansinspektionen's survey of the remuneration systems in the financial sector that was conducted in 2009.

#### **Variable remuneration survey**

Finansinspektionen (FI) conducted a survey in November 2009 of the variable remuneration (bonuses) paid in the financial sector during 2009.

The survey covered around 20 primarily large and medium-sized banks, investment firms, insurance companies and fund management companies. All employees were included.

#### **Summary**

The new regulation governing remuneration policies in the financial sector<sup>1</sup> that entered into force on 1 January 2010 primarily emphasises the importance of more long-term elements and risk-adjustment in the design of the remuneration system. The results of the survey indicate that many companies will need to make significant adjustments to their remuneration systems.

FI would like to highlight two observations in particular:

- The variable remuneration paid in 2009 was based on a short vesting period and had a short payment period. Almost all of the distributed variable remuneration was earned over a period of one year or less and paid out within one year.

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<sup>1</sup> Finansinspektionen's regulations and general guidelines governing remuneration policies in credit institutions, investment firms and fund management companies (FFFS 2009:6) and Finansinspektionen's general guidelines regarding remuneration policies in insurance undertakings, exchanges, clearing organisations and institutions for the issuance of electronic money (FFFS 2009:7).

- Of the variable remuneration based on quantitative criteria, only slightly more than 40 per cent was adjusted for risk.

When interpreting the results of the survey, it is important to keep the following in mind:

- The survey was part of FI's work in preparing the supervision that will be carried out on remuneration starting in 2010. The survey is based on the variable remuneration paid or distributed in 2009 and thereby reflects the conditions in effect in 2008. At that point in time, there were no specific rules or generally accepted principles in place for the design of remuneration systems in the financial sector.
- The survey concerns an area for which companies previously did not need to report detailed information. This means that there are no harmonised definitions of, for example, personnel categories or remuneration structures, and the results of the survey should therefore be interpreted with some caution.

After taking these reservations into consideration, FI still believes that the survey as a whole provides a fair overview of the variable remuneration paid in the financial sector in 2009.

### **General methodology**

The survey included around 20 primarily large and medium-sized banks, investment firms, insurance companies and fund management companies. All of the employees in the Swedish operations of these companies were included in the survey. The survey results encompass more than 48,000 employees, i.e. most of the employees in the financial sector.

The survey is based on variable remuneration paid or distributed in 2009. Because variable remuneration is normally paid with a lag, the results primarily reflect the conditions in effect in 2008. At that point in time, there were no specific rules or generally accepted principles in place for the design of remuneration systems in the financial sector, a fact that is important to keep in mind. The survey did not distinguish between employees who can influence the risk level of the company and other employees, but rather divided the employees into different categories.

Two of these categories in particular – "advisor/salesperson" and "specialists" – are in practice difficult to define uniformly and the companies were therefore allowed to define these categories themselves. This means that the definitions vary between the companies. For example, "advisor/salesperson" can be a private advisor at an office, an insurance salesperson or an account manager in the capital markets division. A "specialist" can be an equity analyst, a specialist in corporate finance or a fixed income trader. As a result, these categories include

a very wide span of positions that have relatively significant differences in their level and type of variable remuneration.

The survey consisted of primarily five questions for each employee category: (1) how many of the employees receive variable remuneration; (2) how large was the variable remuneration distributed in 2009 in relation to the fixed remuneration paid in 2008; (3) what portion of the variable remuneration had a vesting period of less than one year; (4) what portion of the variable remuneration had a payment period of less than one year; and (5) what type of criteria was the variable remuneration based on.