Factsheet: TBTF key parameters

Remuneration

Background

With regard to remuneration at systemically important banks (SIBs), in its report on banking stability of April 2024, the Federal Council proposed that the legal framework for requirements and intervention options by the financial market supervisor (FINMA) be strengthened. In addition, an extension to other banks was to be examined. The new rules were aimed, firstly, at establishing banks' responsibility for ensuring a remuneration system that is geared towards the long term and, secondly, at strengthening the role of FINMA. The Parliamentary Investigation Committee (PInC) on "Management by the authorities – CS emergency merger" supported the Federal Council's approach on SIBs.

Solution proposed by the Federal Council: key parameters

- Remuneration systems must not provide employees with incentives to excessive risk-taking, and must not jeopardise compliance with regulatory requirements (especially as regards capital and liquidity) over the long term.
- The proposed legal amendments will impact variable remuneration ("bonuses") in particular. For example, bonus payments must not come at the expense of sound capitalisation.
- The remuneration-based measures are closely related to the **senior managers regime** (sanctions against misconduct).
- At the same time, remuneration-based measures can be imposed by FINMA during **early intervention**, especially with regard to SIBs, if it observes significant adverse developments.
- **All banks** must comply with minimal principles. Additional requirements apply to **SIBs**, as they pose a greater risk to the Swiss economy and the financial system.

All banks:

- Simple, legally enshrined principles define minimum requirements for remuneration systems.
- The Board of Directors is responsible for oversight.
- In the event of mismanagement, senior managers should be held accountable by the bank, including by means of remuneration-related measures.

Systemically important banks:

- Specific requirements for variable remuneration instruments (**"bonuses"**).
- At least part of the bonus payment must be postponed (**"retention periods"**).
- If the bank discovers misconduct, it must reduce or cancel retained (i.e. allocated but not yet paid out) remuneration (**"malus"**).
- It must be possible to demand the return of variable remuneration payment components that have already been paid out (**"clawback"**).
- When allocating new variable remuneration, the bank must also consider whether a person has engaged in misconduct in the past. In other words, the new variable remuneration should be reduced.

FINMA's role:

- Monitors compliance with the requirements
- Can order corrections to the remuneration system, for example if it is not transparent enough or if it encourages risk-taking.
- Assesses whether people who have engaged in misconduct have been sufficiently sanctioned by the bank through remuneration-based or other measures. If not, FINMA can take measures of its own, such as cancelling or reducing bonuses.
- However, in the event of misconduct, it can also take further-reaching measures, such as withdrawing recognition of the guarantee of irreproachable business conduct, or prohibiting someone from practising a profession.

No prohibition or limitation of variable remuneration

In its report on banking stability, the Federal Council rejected the idea of limiting or prohibiting variable remuneration. The PinC is not calling for this either. Academic studies show that there are clear disadvantages. For instance, higher fixed salaries are observed as a side-effect. This increases the entity's fixed costs, which limits the options for cost-cutting, especially during a crisis.