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New Remuneration Regulations

The Swedish Financial Supervisory Authority (Sw. Finansinspektionen) (SFSA) issued new regulations on 1 March 2011 in order to implement some of the provisions under the Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitizations and the supervisory review of remuneration policies (CRD III).

It is widely recognized that weaknesses in the regulatory framework on risk management of financial institutions contributed to the global financial crisis. CRD III constitutes steps in the reform process and outlines clear principles imposing limitations on the possibility to design remuneration structures. The purpose is to diminish incentives for intolerable risk taking and shortsightedness.

The new regulations issued by the SFSA are intended to tighten the framework and to improve the financial institutions' risk management through requirements on remuneration policies and variable remunerations. It will, however, as previously was the case, be left to the recipient financial institutions to identify, gauge, steer and control their risks, including the risks related to variable remuneration.

The new regulations include a requirement to analyze risks related to remunerations policies and practices, identifying certain categories of staff which may have a material impact on the financial institution's risk profile and making sure that the variable remunerations do not have a negative effect on the financial institution's capital base. Variable remunerations must constitute a balanced proportion of the total remuneration and fixed remuneration shall represent a proportion of the employees' total remuneration large enough to make it possible to pay no variable remuneration at all.

40 - 60 per cent of the variable remuneration for certain categories of employees must be deferred for three to five years. In financial institutions with risk weighted assets amounting to SEK 500 billion or more, at least 50 per cent of the total value of the variable remuneration to executive management must consist of shares, share-linked instruments or other non-cash instruments (as defined in the regulations).

The new regulations entered into force on 1 March 2011. To increase the effectiveness, the regulations will also apply to remunerations based on contracts concluded before 1 March 2011, which are approved or paid after this date and in respect of remunerations for services provided during 2010 that have been approved but have not been paid before 1 March 2011. The 50 per cent requirement referred to above for financial institutions with risk weighted assets amounting to SEK 500 billion or more does not need to be applied with regard to variable remuneration for services provided before 1 March 2011 which are approved or paid before 1 July 2011.

Financial Institutions affected by the regulations shall no later than 31 August 2011 inform the SFSA of any outstanding remuneration liabilities due to remuneration policies which do not comply with the regulations.

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