

# **BANK OF RUSSIA**

## **INSTRUCTION**

**№ 154-I OF JUNE 17, 2014**

### **ON THE PROCEDURE FOR ASSESSING REMUNERATION SYSTEMS OF CREDIT INSTITUTIONS AND THE PROCEDURE FOR SUBMITTING TO CREDIT INSTITUTIONS ORDERS TO ELIMINATE VIOLATIONS IDENTIFIED IN THEIR REMUNERATION SYSTEMS**

According to Federal Law № 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)' (Compendium of Legislation of the Russian Federation, 2002, № 28, Art. 2790; 2003, № 2, Art. 157; № 52, Art. 5032; 2004, № 27, Art. 2711; № 31, Art. 3233; 2005, № 25, Art. 2426; № 30, Art. 3101; 2006, № 19, Art. 2061; № 25, Art. 2648; 2007, № 1, Art. 9, Art. 10; № 10, Art. 1151; № 18, Art. 2117; 2008, № 42, Art. 4696, Art. 4699; № 44, Art. 4982; № 52, Art. 6229, Art. 6231; 2009, № 1, Art. 25; № 29, Art. 3629; № 48, Art. 5731; 2010, № 45, Art. 5756; 2011, № 7, Art. 907; № 27, Art. 3873; № 43, Art. 5973; № 48, Art. 6728; 2012, № 50, Art. 6954; № 53, Art. 7591, Art. 7607; 2013, № 11, Art. 1076; № 14, Art. 1649; № 19, Art. 2329; № 27, Art. 3438, Art. 3476, Art. 3477; № 30, Art. 4084; № 49, Art. 6336; № 51, Art. 6695, Art. 6699; № 52, Art. 6975; 2014, № 19, Art. 2311, Art. 2317) (hereinafter, the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)') and the Federal Law 'On Banks and Banking Activities' (as amended by Federal Law № 17-FZ, dated 3 February 1996) (Bulletin of the Congress of People's Deputies of the RSFSR and the Supreme Soviet of the RSFSR, 1990, № 27, Art. 357, Compendium of Legislation of the Russian Federation, 1996, № 6, Art. 492; 1998, № 31, Art. 3829; 1999, № 28, Art. 3459, Art. 3469; 2001, №

26, Art. 2586; № 33, Art. 3424; 2002, № 12, Art. 1093; 2003, № 27, Art. 2700; № 50, Art. 4855; № 52, Art. 5033, Art. 5037; 2004, № 27, Art. 2711; № 31, Art. 3233; 2005, № 1, Art. 18, Art. 45; № 30, Art. 3117; 2006, № 6, Art. 636; № 19, Art. 2061; № 31, Art. 3439; № 52, Art. 5497; 2007, № 1, Art. 9; № 22, Art. 2563; № 31, Art. 4011; № 41, Art. 4845; № 45, Art. 5425; № 50, Art. 6238; 2008, № 10, Art. 895; 2009, № 1, Art. 23; № 9, Art. 1043; № 18, Art. 2153; № 23, Art. 2776; № 30, Art. 3739; № 48, Art. 5731; № 52, Art. 6428; 2010, № 8, Art. 775; № 27, Art. 3432; № 30, Art. 4012; № 31, Art. 4193; № 47, Art. 6028; 2011, № 7, Art. 905; № 27, Art. 3873, Art. 3880; № 29, Art. 4291; № 48, Art. 6728, Art. 6730; № 49, Art. 7069; № 50, Art. 7351; 2012, № 27, Art. 3588; № 31, Art. 4333; № 50, Art. 6954; № 53, Art. 7605, Art. 7607; 2013, № 11, Art. 1076; № 19, Art. 2317, Art. 2329; № 26, Art. 3207; № 27, Art. 3438, Art. 3477; № 30, Art. 4048; № 40, Art. 5036; № 49, Art. 6336; № 51, Art. 6683, Art. 6699; 2014, № 6, Art. 563; № 19, Art. 2311, Art. 2317) (hereinafter the Federal Law 'On Banks and Banking Activities'), this Instruction establishes the procedure for the Bank of Russia to assess remuneration systems of credit institutions and the procedure for submitting to credit institutions orders to eliminate violations identified in their remuneration systems.

## Chapter 1. **General Provisions**

1.1. The purpose of assessing remuneration systems of credit institutions is to:  
ensure financial soundness of credit institutions;  
make sure that remuneration systems of credit institutions correspond to the nature and scope of their operations, performance, and the level and combination of assumed risks.

1.2. The remuneration system of a credit institution is assessed by the Systemically Important Banks Supervision Department of the Bank of Russia, if the activities of such credit institution are supervised by the said department and (or) a Bank of Russia regional branch, if the activities of the credit institution are

supervised by the Bank of Russia regional branch (hereinafter, the authorised structural unit of the Bank of Russia), with regard to the outcomes of its risk management both on the whole and in terms of remuneration paid to persons listed in Article 57<sup>3</sup> of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

1.3. The authorised structural unit of the Bank of Russia is to recognise the credit institution's remuneration system as appropriate to the nature and scope of its operations, its performance, and the level and combination of the assumed risks, if the credit institution meets the conditions set out in Chapter 2 hereof, subject to the specifics described in Chapter 3 of this Instruction.

## Chapter 2.

### **Level and Combination of Assumed Risks**

2.1. The credit institution's board of directors (supervisory board) is to address the issues of organising, monitoring and controlling the remuneration system and assessing its appropriateness to the credit institution's strategy, the nature and scope of its operations, performance, and the level and combination of the assumed risks; in particular:

it approves documents that set forth the procedure for establishing salaries and compensatory, incentive and social payments payable to the sole executive body and members of the collegial executive body (hereinafter, members of executive bodies) regardless of their performance (hereinafter, fixed part of remuneration), and the procedure for determining the amount, forms and vesting of compensatory and incentive performance-based payments (hereinafter, variable part of remuneration) to members of executive bodies and other executives (employees) who make decisions on the credit institution's implementation of operations and other transactions whose outcomes may affect its compliance with the required ratios or lead to other situations which pose a threat to the interests of its depositors or

creditors, including the grounds for taking measures to prevent its insolvency (bankruptcy) (hereinafter, other material risk takers), as well as the personnel of internal control units and units that identify and assess risks, set risk limits, determine capital requirements for covering risks, and control the said limits for individual portfolios and business lines, and for the credit institution as a whole (hereinafter, risk management units);

it makes decisions at least once every calendar year on preserving or revising the documents mentioned in the second paragraph of this clause, depending on the changes in the credit institution's operating environment, including due to changes in the credit institution's strategy, the nature or scope of its operations, performance, or the level and combination of the assumed risks;

it approves the amount of the credit institution's remuneration fund;

it considers at least once every calendar year the proposals (if any) of internal control units and risk management units on improving the remuneration system and the reports of the unit(s) responsible for monitoring the remuneration system;

it reviews independent assessments of the remuneration system (for example, as part of the annual external auditor's report) and the information provided by the risk management committee (if any);

it controls the payment of large remunerations recognised as such as per the internal documents on the remuneration system under the procedure established by the credit institution's board of directors (supervisory board).

2.2. The credit institution's board of directors (supervisory board) is to have a special functioning body responsible for drafting resolutions to be adopted by the credit institution's board of directors (supervisory board) on issues provided for by Clause 2.1 hereof (for example, a remuneration committee).

2.2.1. Members of the credit institution's board of directors (supervisory board) included in the special body described in the first paragraph of this clause are not members of the credit institution's executive bodies.

2.2.2. The majority of members of the credit institution's board of directors

(supervisory board) included in the special body described in the first paragraph of this clause shall have sufficient experience or qualification to make the decisions stipulated in Clause 2.1 hereof (in particular, they shall have a degree in law or economics and (or) work experience in managing bank risks and organising remuneration systems).

2.3. The credit institution is to ensure the completeness of its internal documents regulating its remuneration system, namely:

the credit institution's internal documents are to contain provisions on determining its total variable part of remuneration subject to quantitative and qualitative indicators enabling the credit institution to align it with all relevant risks, as well as profitability (examples of quantitative and qualitative indicators used for adjusting remunerations are provided in Appendix 1 hereto);

the credit institution's internal documents are to regulate all forms of remuneration used and all types of payments stipulated by its remuneration system, as well as payments that as per the Russian Federation legislation and (or) the credit institution's internal documents are not officially part of the remuneration system, are non-standard, or the amount of which is not adjusted subject to the risks assumed by the credit institution as per the agreements concluded with the credit institution's employees (for example, refund of accommodation and insurance expenses, pension contributions, other similar payments, and payments made to the credit institution's personnel by other legal persons related to the credit institution);

the credit institution's internal documents are to define the procedure for assessing the efficiency of the design and operation of its remuneration system and the unit(s) responsible for monitoring the remuneration system;

the credit institution's internal documents are to define the list of material risk takers (other than members of the credit institution's executive bodies), including credit institution employees mentioned in Appendix 2 hereto.

2.4. When determining the amount of remuneration payable to its employees, the credit institution is to align it with the levels of risks it is exposed to as a result of

their actions, including:

for the credit institution's units that perform risk operations (transactions) (business lines), the variable part of remuneration is to be calculated with regard to the quantitative indicators characterising the risks assumed by the credit institution within the scope of such units' activities and the expected return on such operations (transactions), the amount of equity capital required to cover the assumed risks, and the volume and cost of borrowed and other raised funds required to cover an unexpected shortage of liquidity;

in calculating the target remunerations (before adjustments) payable to members of the executive bodies and other material risk takers for the planned period, the variable part of remuneration depending on the level of seniority and responsibility is to be no less than 40 per cent of the total remuneration;

for members of the executive bodies and other material risk takers, the credit institution's internal documents are to provide for a deferral with a subsequent adjustment of at least 40 per cent of the variable part of remuneration based on the time within which they provide financial results (for at least 3 years, with the exception of operations whose final financial results are determined earlier), including the possibility of reducing or withholding the variable part of remuneration in the case of a negative financial result for the credit institution as a whole or for a certain business line (including by determining the amount of payments in the variable part of remuneration and their vesting after the period sufficient to assess the performance);

for members of the executive bodies and other material risk takers, the credit institution's internal documents are to provide for a combination of monetary and non-monetary forms of remuneration sensitive to the credit institution's performance and level of risks assumed (if there is no appropriate non-monetary form of remuneration, the employment agreements are to provide for an adjustment of the deferred part of remuneration subject to changes in the cost of shares (their derivatives) of the credit institution as of the dates stipulated by its remuneration

system);

the fifth paragraph of this clause does not apply to credit institutions incorporated as limited liability companies, and where the current (fair) value of credit institutions' shares (their derivatives) cannot be determined based on market quotations or indicative prices (quotations) provided by brokers and (or) pricing agencies having the appropriate qualification and experience in determining the prices (quotations) of financial instruments.

2.5. The activities of the internal control units and risk management units (if there is no separate structural unit – the activities of the credit institution's employees entrusted with the respective risk management functions) mentioned in sub-clauses 2.2.1–2.2.3 of Clause 2.2 of Bank of Russia Regulation № 242-P, dated 16 December 2003, 'On Organising Internal Controls in Credit Institutions and Banking Groups', registered by the Ministry of Justice of the Russian Federation on 27 January 2004 under № 5489, 22 December 2004 under № 6222, 20 March 2009 under № 13547, and 30 June 2014 under № 32913 (Bank of Russia Bulletin № 7, dated 4 February 2004; № 74, dated 31 December 2004; № 21, dated 1 April 2009; and № 63, dated 9 July 2014) are to be duly organised, namely:

within the scope of their competence, internal control units and risk management units are to develop proposals and (or) recommendations for the indicators used for the deferral and adjustment of payments within the variable part of remuneration, and for the improvement of the credit institution's documents regulating its remuneration system, depending on the credit institution's performance subject to the level of risks taken by the credit institution, its units and employees, as well as changes in the credit institution's strategy and the nature and scope of its operations; the remuneration fund for internal control units and risk management units is not to be dependent on the financial result of the structural units (bodies) that make decisions on bank operations and other transactions;

the remuneration system is to take into account the quality of performance by the employees of internal control units and risk management units of tasks assigned to

them under the regulations (or similar internal documents) on the given units of the credit institution;

the fixed part of remuneration is to be no less than 50 per cent of the total volume of remunerations paid to the employees of internal control units and risk management units.

2.6. The credit institution is to bring the documents on its remuneration system to the knowledge of all its employees against signature, and make sure they are strictly met.

2.7. The credit institution is to ensure regular (at least once a calendar year), full and true disclosure of information about its remuneration system, including information on:

the procedure and terms of payment and the total amount of payments (remunerations) as per Bank of Russia Ordinance № 3081-U, dated 25 October 2013, 'On Disclosing Information on Activities by Credit Institutions' registered by the Ministry of Justice of the Russian Federation on 9 September 2013 under № 30567 (Bank of Russia Bulletin № 73, dated 18 December 2013);

the total amount and structure of payments (remunerations), including the deferral of the variable part of remuneration, to material risk takers other than the persons listed in Bank of Russia Ordinance № 3081-U, dated 25 October 2013, 'On Disclosing Information on Activities by Credit Institutions';

the total volume of fixed and variable parts of remuneration paid to members of the executive bodies and other material risk takers;

the total volume of payments made in the reporting year upon dismissal of members of the executive bodies and other employees who take risks, and the largest payment without specifying the employee's name;

the total volume of adjustments to the remunerations paid to members of the executive bodies and other material risk takers.

The structure of information disclosed by credit institutions as described in paragraphs two to six of this clause and the methods of its disclosure are to be

determined by the credit institution.

### Chapter 3.

#### **Combination of Assumed Risks for Certain Credit Institutions**

3.1. When assessing the appropriateness of a credit institution's remuneration system to the nature and scope of its operations, performance, and the level and combination of the assumed risks, the Bank of Russia authorised structural unit is to take into account the specifics described in Clauses 3.2 and 3.3 hereof.

3.2. For a credit institution with assets of up to 50 billion rubles and (or) with funds raised from individuals under bank deposit and bank account agreements of up to 10 billion rubles, in making a decision on the appropriateness of the credit institution's remuneration system to the nature and scope of its operations, performance, and the level and combination of the assumed risks, the Bank of Russia authorised structural unit shall be guided by the following.

3.2.1. Clause 2.2 hereof shall be deemed fulfilled if the functions for drafting resolutions of the credit institution's board of directors (supervisory board) on the issues stipulated by Clause 2.1 hereof are vested in a single member of the credit institution's board of directors (supervisory board) who is not a member of its executive bodies, or in a special body created within the credit institution's board of directors (supervisory board) as described in the first paragraph of Clause 2.2 hereof.

3.2.2. The second paragraph of Clause 2.3 and the second paragraph of Clause 2.4 hereof shall be deemed fulfilled if the credit institution uses quantitative and (or) qualitative indicators that characterise its profitability and assumed risks to adjust the variable part of remuneration at the level of the credit institution as a whole, at the level of its units (business lines), and at the level of individual employees.

3.2.3. The provision set forth by the fifth paragraph of Clause 2.4 hereof does not apply.

3.3. The remuneration system of a credit institution with assets exceeding 50

billion rubles and (or) funds raised from individuals under bank deposit and bank account agreements of over 10 billion rubles is to be assessed as per Chapter 2 hereof after the lapse of six months since the day the excess was registered.

Chapter 4.

**System to the Nature and Scope of Its Operations, Performance, and the Level and Combination of Assumed Risks, and to Take Corrective Actions**

4.1. The Bank of Russia authorised structural unit is to assess the credit institution's remuneration system as of 1 October of the current calendar year.

4.2. The Bank of Russia authorised structural units are to monitor the remuneration systems of credit institutions. If any inappropriateness of the credit institution's remuneration system to the nature and scope of its operations, performance, or the level and combination of the assumed risks is identified, the Bank of Russia authorised structural unit is to take actions prescribed by Clauses 4.4 and 4.5 hereof within five calendar days from the date the respective grounds arose.

4.3. When assessing the credit institution's remuneration system, the Bank of Russia authorised structural unit is to review the documents that define the credit institution's remuneration policy and system:

the credit institution's articles of association and the regulation on its board of directors (supervisory board);

internal documents on the credit institution's remuneration policy approved by its board of directors (supervisory board) as per Clause 3 of Article 11<sup>1-1</sup> of the Federal Law 'On Banks and Banking Activities';

the collective agreement (or the local regulation on the credit institution's remuneration system);

employment agreements with the persons listed in the second paragraph of Clause 2.1 hereof;

agreements with the credit institution's employees for material benefits (pension

insurance agreements, loan agreements, agreements for the reimbursement of accommodation or training expenses, and other similar agreements);  
agreements for remuneration of persons listed in the second paragraph of Clause 2.1 hereof from other members of the banking group;  
the remuneration committee charter (if any) created within the credit institution's board of directors (supervisory board);  
the internal audit, the internal control (compliance function), and the risk management function charters;  
the minutes of meetings held by the credit institution's managing bodies to address the payment of remunerations;  
the credit institution's internal documents that set forth the procedure and criteria for defining other material risk takers, or a group of such employees, or the list of such employees;  
orders on payment of remunerations;  
the credit institution's annual report;  
the securities issuer's report;  
other documents required for assessing the credit institution's remuneration system.

The credit institution shall, at the request of the Bank of Russia authorised structural unit, provide copies of the above documents (if any) within 10 business days from the receipt of such a request.

The request is to be sent by the head (deputy head) of the Bank of Russia authorised structural unit or their deputies.

The request is not to be sent if the documents mentioned in this clause were provided to the Bank of Russia authorised structural unit in the current calendar year and the credit institution issues a written confirmation that no amendments have been made.

The Bank of Russia is to ensure the confidentiality of information provided by credit institutions about their remuneration systems as per the requirements of federal laws.

4.4. The Bank of Russia authorised structural unit is to inform the credit institution of any inappropriateness of its remuneration system to the nature and

scope of its operations, performance, or the level and combination of the assumed risks within the assessment of the economic condition and the financial situation of credit institutions.

If the credit institution does not agree that its remuneration system is inappropriate to the nature and scope of its operations, performance, or the level and combination of the assumed risks, it has the right to submit a substantiated objection to the Bank of Russia authorised structural unit within 10 business days after being notified of the assessment outcomes.

The Bank of Russia authorised structural unit shall review the credit institution's substantiated objection within 10 business days from its receipt.

4.5. In the event the credit institution fails to provide a substantiated objection to the Bank of Russia authorised structural unit within the timeframe set forth by Clause 4.4 hereof, or if after reviewing the credit institution's substantiated objection the Bank of Russia authorised structural unit does not change its opinion regarding the inappropriateness of the credit institution's remuneration system to the nature and scope of its operations, performance, or the level and combination of the assumed risks, including if the credit institution's remuneration policy lacks provisions on deferral and subsequent adjustment of the variable part of remuneration paid to members of the executive bodies and other material risk takers based on the time period over which the outcomes of their activities are realised, including the possibility of reducing or withholding deferred remuneration payments in the event of a negative financial result for the credit institution as a whole or for a certain business line, the Bank of Russia authorised structural unit shall, within 30 business days from the date of notifying the credit institution of the inappropriateness of its remuneration system to the nature and scope of its operations, performance, or the level and combination of the assumed risks, send an order to the credit institution to eliminate the identified violations.

4.6. If the Bank of Russia's order to eliminate the violations identified in the credit institution's remuneration system is not carried out within the period of time

set by the Bank of Russia authorised structural unit, the Bank of Russia has the right to take measures against the credit institution as established by Article 74 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)'.

## Chapter 5.

5.1. This Instruction shall be officially published in the Bank of Russia Bulletin and shall take effect as of 1 January 2015 as per the resolution of the Bank of Russia Board of Directors (Minutes of the Bank of Russia Board of Directors meeting № 29, dated 29 May 2014).

GOVERNOR

OF THE CENTRAL

BANK OF

THE RUSSIAN

FEDERATION

E.S. NABIULLINA

**Appendix 1**

to Bank of Russia Instruction № 154-I, dated 17 June 2014,  
'On the Procedure for Assessing Remuneration Systems of Credit Institutions  
and the Procedure for Submitting to Credit Institutions Orders to Eliminate  
Violations Identified in their Remuneration Systems'

**Examples of Quantitative and Qualitative Indicators for Adjusting Remunerations**

Indicators Level	Quantitative		Qualitative	
	Risks	Return	Risks	Return
1	2	3	4	5
Credit institution as a whole	Aggregate risk measure (capital for risk coverage) using the credit institution's internal methodologies. Negative return on investments in the credit institution's shares for the reporting year	Expected return on equity Expected return on assets	Independent assessments of the credit institution's financial soundness Change in the credit institution's competitive position in the market	Income stability for the credit institution as a whole, including: in comparison with previous reporting periods; share of income from non-recurrent

				operations <sup>1</sup> in the total income earned by the credit institution
Units (business lines), employees	Risk measure (capital for risk coverage) using the credit institution's internal methodologies of bank operations or other transactions made by a unit or an employee. Volume of possible losses caused by unstable funding raised by a unit or an employee (short term of funding, the possibility of its premature withdrawal by creditors, excess of the	Expected return on bank operations or other transactions made by a unit or an employee	Violation of the Russian Federation legislation, Bank of Russia regulations, or the credit institution's internal procedures. Violations of the accounting procedure or provision of false information about the unit's activities. Adjustments for errors in risk assessment methods applied for bank operations or other transactions made by a unit or an employee.	Stability of income from bank operations or other transactions made by a unit or an employee

<sup>1</sup> Other income (total for Section 7 of Chapter I of Reporting Form 0409102 'Statement of Financial Performance' (hereinafter, Form 0409102) (Appendix 4 to Bank of Russia Regulation № 385-P, dated 16 July 2012, 'On Accounting Rules in Credit Institutions Located in the Russian Federation', registered by the Ministry of Justice of the Russian Federation on 3 September 2012 under № 25350, 15 October 2012 under № 25670, 15 October 2013 under № 30198, 9 December 2013 under № 30568, 23 December 2013 under № 30721, and 27 December 2013 under № 30883 (Bank of Russia Bulletin № 56-57, dated 25 September 2012; № 62, dated 24 October 2012; № 57, dated 23 October 2013; № 74, dated 19 December 2013; № 1, dated 14 January 2014; and № 2, dated 15 January 2014), excluding fines, penalties, and forfeits for operations of raising and providing (investing) funds (Symbol 17101 of Form 0409102), other income referred to Other (Symbol 17306 of Form 0409102) and income of past years identified in the reporting year (total for Subsection 2, Section 7, Chapter I of Form 0409102), as well as other operating income from the disposal (sale) of property (Symbol 16302 of Form 0409102).

	funding costs over the market benchmarks for similar funding sources)		Increase (decrease) in the number of customer complaints and claims regarding bank operations or other transactions made by a unit or an employee.	
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**Appendix 2**

to Bank of Russia Instruction № 154-I, dated 17 June 2014,  
 'On the Procedure for Assessing Remuneration System of Credit Institutions  
 and the Procedure for Submitting to Credit Institutions Orders to Eliminate  
 Violations Identified in their Remuneration Systems'

**List of Credit Institution Material Risk Takers (other than executive officers)**

№	Operations and transactions made by credit institution	Employees
	1	2
1	Placement of funds on one's own behalf and at one's own expense, placement of precious metals, acquisition of rights of claim from parties to fulfil their monetary obligations, issue of bank guarantees, sureties for third parties providing for the fulfilment of monetary obligations	Heads and other employees of units (business lines) who make independent decisions (including members of the collegial bodies) on material terms of operations and other transactions made by the credit institution
2	Raising of funds from individuals and corporate entities in the currency of the Russian Federation and in foreign currency, acceptance of precious metals on deposit	Heads of units (business lines)
3	Foreign exchange dealing	Head and other employees of the unit (business line) who make independent decisions (including members of the collegial bodies) on material terms of operations and other transactions made by the credit institution

4	Purchase and sale of foreign currency in cash	Head of unit (business line)
5	Trust management of funds and other property under agreements with individuals and corporate entities	Head of unit (business line)
6	Brokerage activities	Head of unit (business line)
7	Dealer activities (except for intraday trade operations with financial instruments within the limits excluding high risk taking)	Head and other employees of the unit (business line) who make independent decisions (including members of the governing bodies) on material terms of operations and other transactions made by the credit institution