



The Bank of Russia has published a series of detailed requirements regarding remuneration systems at credit institutions, with particular regard to remuneration paid to individuals who assume risk. The Instruction contains a list of individuals that assume risks and requirements regarding the structure of their remuneration, risk assessment with regard to remuneration itself, and the possibility to adjust and cancel deferred remuneration. The Instruction will come into effect on 1 January 2015, and related inspections will begin in October 2015.

In accordance with the amendments introduced by Federal Law No.146-FZ of 2 July 2013, credit institutions are obliged to establish a remuneration system for management and individual employees who assume risk, enabling the institution to reduce or cancel the remuneration of these employees in the event that the activities of the institution have negative financial results.

These requirements were presented in detail in Bank of Russia Instruction No. 154-I of 17 June 2014 "On the procedure for assessing the

remuneration systems of credit institutions and sending instructions to eliminate payroll violations at credit institutions" ("the Instruction"), published on 8 August 2014 in the *Bank of Russia Bulletin*.

Organisations subject to the provisions of the Instruction

Credit institutions with net assets valued at over 50 billion RUB and/or funds of over 10 billion RUB attracted from individuals (i.e. the top 100 Russian banks) will be fully assessed for compliance with the Instruction. Other credit institutions are subject to a simplified procedure of assessment for compliance.

Main requirements of the Instruction

Individuals who assume risk

According to the Instruction, the Board of Directors of a credit institution is obliged to approve a list of individuals who assume risk, including:

- members of executive bodies
- Chief Accountant and Deputy Chief Accountant
- executives and other employees of business units that make their own decisions regarding

the essential conditions of transactions entered into by the credit institution, or other deals, taking into account the level of risk appetite of the credit institution in question

- Heads of business units that exercise internal control and conduct risk management.

Efficiency and risk assessment systems

The level of risk faced by a credit institution arising from the actions of employees should be taken into account when determining the level of remuneration to be paid to those employees.

Remuneration structure for individuals who assume risk

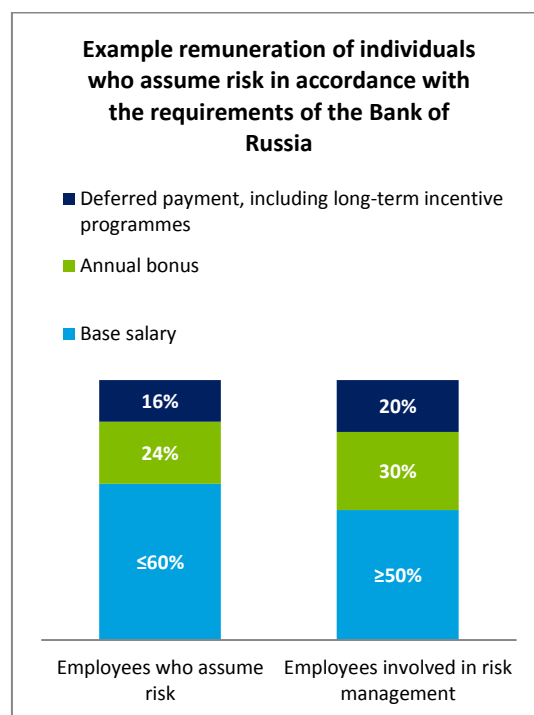
The total remuneration paid to an employee is a combination of fixed and variable parts, set out as follows:

- Variable remuneration must be no less than 40 percent of the total remuneration established on the basis of position and level of responsibility;
- The deferred payment (in installments) of, or amendment to, no less than 40 percent of variable remuneration should be carried out based on the period for which the financial results of individuals who assume risk are received (no less than three years, except with regard to transactions, the financial results of which are determined before the specified period), including the possibility of reducing or cancelling the variable remuneration in the event that the financial results of the credit institution or the relevant activities are negative.

Remuneration structure for individuals involved in risk management

Credit institutions are obliged to ensure that the remuneration of employees involved in risk management and internal control is conducted independently of the financial results of subdivisions that take decisions regarding the performance of banking operations and other transactions.

Employees' fixed income should be no less than 50 percent of their total remuneration.



Non-monetary remuneration

The Instruction also requires credit institutions whose fair share value can be determined on the basis of quoted or indicative prices to combine the monetary and non-monetary remuneration paid to employees who assume risk. This may be achieved via the payment of remuneration in the form of shares in the credit institution and other derivatives or by linking the monetary remuneration to the share prices.

Consequences of failure to fulfil the requirements

Upon conducting an inspection of a credit institution, the Bank of Russia shall provide that institution with detailed information on all instances of non-compliance of the remuneration system with the scale of the institution's operations, the results of its activities and the level of risk accepted. Within 30 business days of providing this information to the credit institution, the Bank of Russia shall send instructions for eliminating the violations. If the credit institution should fail to eliminate the violations by the stated deadline, the Bank of Russia may impose the measures set forth in Article 74 of the Federal Law "On the Central Bank of the Russian Federation (the Bank of Russia)", ranging from fines to the suspension of certain banking operations.

Next steps

This Instruction comes into effect on 1 January 2015. According to the Instruction, inspections of the remuneration systems of credit institutions will begin on 1 October 2015. Until that time, credit institutions should take the following steps:

- assess their payroll systems for compliance with the requirements of Federal Law No.146-FZ and the Instruction
- Determine the categories of employees who assume risk
- Develop and/or update risk assessment methodologies and procedures in risk management systems
- Develop policies and remuneration schemes based on KPI that enable the institution to take risk into account

- Develop a mechanism for calculating and paying deferred variable remuneration, and for amending and/or cancelling it
- Analyse existing long-term employee motivation programmes and/or develop new ones to ensure that they comply with the requirements of the Instruction
- Ensure that the required data on the remuneration system is disclosed in annual statements.

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