

Being better informed

FS regulatory, accounting and audit bulletin

PwC FS Regulation

Q3 2014

In this quarter's edition:

DFSA new depositor
protection rules

D-SIB framework for
Qatar

SCA updates brokerage
regulations

G-SII's new capital needs

Compensation practices



Executive summary

Welcome to this edition of “Being better informed”, our quarterly FS regulatory, accounting and audit bulletin, which aims to keep you up to speed with significant developments and their implications across all the financial services sectors.



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Banks, insurers and asset managers operating in the ME have felt the increasing pressure of incoming regulation either through their own home country regulator or due to pressures from international counterparts who want to understand ME counterparties' compliance with globally relevant capital, risk management, AML-CFT, or other compliance requirements.

In this bulletin we bring to you further insights into some of the current developments in regulatory frameworks, both regionally and globally.

In our last quarter's update, I observed that GCC central banks had taken incremental steps in aligning their rules to implement Basel III. In this issue, we showcase further GCC examples of new Basel III aligned rules.

Additionally, the regulatory reform agenda of the regional regulators is continuing to broaden as is evident from the other representative and illustrative announcements we outline in this edition of the BBI.

Qatar's D-SIB framework announced recently showed QCB's determination to continue to upgrade its capital adequacy framework to help incorporate additional buffer for systemically important banks. Bahrain had recently announced its rules for recovery and resolution planning.

IMF's pat on the back of Saudi Arabia, a G20 member country, for its economic development performance is also noteworthy. This quarter we have included a high level assessment of incoming regulation impacting compensation practices for banks. Compensation practices at large financial institutions were a key

contributing factor to the global financial crisis. The FSB Principles for Sound Compensation Practices and their Implementation Standards (Principles and Standards, P&S) were developed to align compensation with prudent risk-taking, particularly at significant financial institutions. Regional regulators have used a variety of approaches to convergence with principles laid down by the FSB. The featured article looks at some of the examples and the steps firms should consider moving toward.

This bulletin is not meant to be comprehensive; however we will endeavour to increase coverage in relation to the significant regulator announcements in the financial services.

Your feedback is important to us so we can continue to make this bulletin more meaningful to its readers.

How to read this bulletin?

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Middle East announcements

Capital and liquidity

D-SIB framework in Qatar

Qatar Central Bank issued a circular on Domestic Systemically Important Banks (D-SIB) Framework and guidance regarding the additional D-SIB buffer for D-SIBs over and above the minimum mandated capital requirements. QCB is now in the process of implementing this D-SIB framework in its move towards full Basel III Pillar I implementation.

QCB has defined the framework to identify and treat D-SIBs after an extensive Quantitative Impact Study based on December 2013 position that involved national banks as well as branches of foreign banks.

D-SIBs would also be required to have their capital plans and recovery plans reviewed by an independent firm before sharing them with the QCB on an annual basis. The current framework is focused on recovery and not resolution as such.

QFCRA consults on a swathe of rules

The QFCRA released *two consultation papers*; the Banking Business

Prudential Rules, Investment Management and Advisory Rules on 21 September 2014 and another on Approved Individuals Regime and miscellaneous amendments on 22 September 2014. The new rules aim to differentiate between the sectors of banking business and investment and advisory business.

Banking Business Prudential Rules 2014: The proposed rules expand the prudential framework to align it with the international guidelines. The rules apply to authorised firms that accept deposits, provide credit, deal in investments as principal, or undertake Islamic financial management. The rules focus on macro and micro supervisory processes, prudential reporting and prudential rules.

Investment Management and Advisory Rules 2014: The proposed rules apply to firms undertaking investment management and advisory business. The rules focus on revising the existing prudential framework.

Approved Individuals Regime and miscellaneous amendments: The proposed rules introduce a new approval process that places clearer accountability and responsibility on firms for the appointment of competent

and fit and proper staff. The rules focus on Board members, senior executives and persons in key control positions and make certain enhancements to the knowledge competency requirements.

The consultations close **3 November 2014**.

UAE sit at Basel Committee

Banking supervisors and central bankers from around the world discussed the BCBS's post-crisis reform agenda at the *18th international conference of banking supervisors* on 22 September 2014. The Committee invited representatives from UAE CB to join as observers for the first time.

On the capital agenda the BCBS reviewed an updated list of G-SIBs based on end-2013 data. In conjunction with the FSB it plans to publish the list of G-SIBs in Q4 2014. Banks identified as G-SIBs will have to hold an additional capital buffer from the beginning of 2016. On liquidity, the BCBS endorsed the final details of Basel III's NSFR. It plans to release the final standards in Q4 2014 too, which will then take effect from the start of 2018.

The BCBS discussed a range of policy and supervisory actions that it has initiated to address excessive variability in risk-weighted assets. These actions

include a review of the standardised approaches, the introduction of capital floors, greater restrictions on modelling parameters and assumptions, and improved disclosure. It plans to elaborate on these measures in its report to the November 2014 G20 Summit.

Consumer protection

SAMA updates consumer credit rules

SAMA announced new *Regulations for Consumer Financing* on 12 July 2014. These rules supersede the previous regulations for Consumer Credit.

The regulation applies to all consumer financing except leases, real estate financing and margin lending. It includes detailed guidance on the form and content of these agreements, for example the amendments, annual percentage rate, fees and charges. It also clarifies the requirements and obligation of creditors and borrowers most notably listing detailed rules on disclosure requirements to further support transparency and clarity.

DFSA introduces new protection rules

The DFSA Board introduced new Rules in respect of Depositor Protection, and made amendments in respect of Client Money Distribution Rules, in the *COB*

module of the *DFSA Rulebook* on 24 August 2014.

The DFSA found that the majority of jurisdictions reviewed have, or are introducing, some forms of depositor preference. International regulatory standards are converging on the need for some degree of protection for deposits in bank accounts. It is of note that the recent EU Bank Recovery and Resolution Directive requires, among other things that eligible deposits (in that case, deposits from natural persons) have a higher priority ranking in insolvency than the claims of ordinary unsecured creditors. The UK has already implemented this requirement in the Financial Services (Banking Reform) Act 2013.

The additional amendments to the Client Money Distribution Rules are to correct anomalies in the cross references. The DFSA Board was satisfied that any delay in the making of the new and amended rules would be prejudicial to the interests of the DIFC. Accordingly the rules were not consulted upon.

Financial advice

CBB enhance financial advice programme

The CBB requested confirmation for BIBF's Financial Advice Programme (FAP) Level 2 courses on 24 July 2014.

BIBF in conjunction with CBB has delivered FAP Level 1 programme since 2011, a mandatory foundation course for all financial advisors in Bahrain with less than three years of experience. FAP Level 2 is a mandatory enhanced programme covering more sophisticated and complex aspects of financial planning and is aimed at those with three to five years of experience and those who have completed FAP Level 1.

Senior Management should monitor the process and Compliance Officers are required to annually report members of staff who have attended, successfully completed and those that are required to attend the relevant FAP courses.

IMF

IMF congratulate Saudi Arabia

The IMF Executive Board labelled Saudi Arabia as one of the best performing G20 countries in its recent *annual economic consultation* published 21 July 2014.

The IMF welcomed Saudi Arabia's vital role in stabilizing the global oil market and provision of financial assistance to countries across the Middle East region. Overall, the Saudi economy grew 4% in 2013 and is expected to grow 4.5% in 2014. Specifically the IMF highlighted that credit in 2013 remained at robust levels, predominantly driven by a well-capitalised banking system but encouraged to further deepen capital markets. The IMF noted that monetary policy was unchanged and consistent with the exchange rate peg.

The IMF also advised Saudi Arabia to establish and implement:

- a macro-fiscal unit to strengthen public spending efficiency around a medium term framework integrating structural oil revenues and the national development plan
- monitoring of the monetary policy in response to rising equity prices and mortgage lending along with better synchronization across the regulators and refining liquidity management
- reduce the dependence on public sector jobs and continue to upgrade

skills through better education and training.

Regulatory reform

Amendments to the DFSA Rulebook

The DFSA Board, after considering consultation comments, made amendments to a number of the *DFSA Rulebook Modules* on 14 of August 2014. Of note, the DFSA made amendments to the prudential, AML, Islamic finance, and takeover rules modules. The Rulemaking Instruments came into force on the date the DIFC Laws Amendment Law 2014 came into force, on 21 August 2014.

CBB updates its handbooks

The CBB made changes to *Bahrain's regulatory handbooks* through the third quarter of 2014. The main changes are:

- Volume 1 (Conventional Banks) and Volume 2 (Islamic Banks): amendments to provide clarity on the implementation of the sound remuneration rules issued in January 2014
- Volume 3 (Insurance): amendments to the statutory reporting forms;
- Volume 5 (Specialised Licensees): clarifications on the Liquidity Risk

Management Module (LM) and Training and Competency Module (TC) (Type 3 – Finance Companies) and issuance of a new Risk Management Module (RM) (Type 6 – Microfinance Institutions); and

- Volume 6 (Capital Markets): amendments Market Intermediaries and Representatives Module (MIR) to align with other CBB regulations and requirements.

The CBB consulted on a new Client Assets Module (CL) under Volume 1 (Conventional Banks) and Volume 2 (Islamic Banks). The CL Module aims to restrict the commingling of client assets with those of the bank. The consultation closed on 11 September 2014 and CBB is likely to publish material feedback by Q4 2014. The other consultation issued was about Protected Cell Companies Law, which closed on 14 August 2014.

The CBB also published the feedback received on the consultation on Capital Adequacy Module (CA) under Volume 1 (Conventional Banks) and Volume 2 (Islamic Banks), along with the proposed amendments to CA.

SAMA governor welcomes new deputy
Dr. Fahad bin Abdullah Al-Mubarak, SAMA's governor, welcomed Abdulaziz

Bin Saleh Al-Furaih's *appointment as new vice governor* on 5 August 2014. He said that Mr. Al Furaih would be an added asset to SAMA's management in view of his experience in banking, particularly his most recent position as Deputy CEO in Riyadh Bank.

Al Furaih has several contributions in the field of accounting, including his memberships in the Accounting Standards Committee and in the Performance Quality Control Committee in the Saudi Organization for Certified Public Accountants. He also participated in the establishment and preparation of the first program designed to assure the quality of accounting offices' performance in Saudi Arabia.

Securities and derivatives ***SCA approves changes to brokerage trading regulations***

The SCA approved a new regulation and amended two other regulations at its *Board meeting* held 13 July 2014.

The SCA's *amendments* impact margin trading, settlement, clearance, and ownership transfer and securities custody which was prepared in coordination with the UAE securities market authorities and related stakeholders.

Key highlights of the new and amended regulations include:

- new approved regulations on investment management states that requires firms engaging in brokerage activities to acquire the SCA license, renew it annually and register with the SCA
- capital requirement increases for brokerage firms under the regulation for margin trading to increase their liquidity and the value of bank guarantees to safeguard the rights of clients
- changes to brokerage firm classifications into (i) those engaging in trading activities only (whilst the clearance and settlement operations are conducted through third parties) and (ii) those engaging in end to end trading clearance and settlement operations for their clients.

These changes are expected to open brokerage related activities in the UAE, provide greater security for clients and investors and a more regulated transparent regime for brokerage activities in the UAE.

Tax

QFCA amends tax regulations

The QFCA released an updated version of the *Qatar Financial Centre (QFC) Tax Regulations* on 14 July 2014.

The updates will facilitate Qatar owned entities investing in Qatar by permitting them to elect for a concessionary tax rate of zero percent to apply to their operations conducted from the QFC.

The amendments will also help them to invest overseas by introducing beneficial changes to the taxation of structures like holding companies and special purpose companies established in the QFC. Such structures previously could only be set up abroad but the latest changes to the QFC tax regulations and rules encourage their formation in Qatar, the Authority said.

The updated tax regulations are based on the experience of the QFC Tax Department since the regulations were first enacted in 2010, and are designed to improve the overall attractiveness of the QFC fiscal environment, by allowing QFC entities to benefit from a strong and transparent legal and regulatory environment.

International announcements

Benchmarks

Reforming FX benchmarks

The FSB consulted on *Foreign Exchange Benchmarks* on 15 July 2014. In February 2014, the FSB included an assessment of foreign exchange benchmarks in its ongoing work analysing financial benchmarks. A specially convened Foreign Exchange Benchmarks Group (FXBG) has carried out this work. The FXBG engaged with market participants around the world as well as carrying out its own analysis.

The FSB set out recommendations for views and feedback from market participants including:

- the methodology for calculating the WM/Reuters (WMR) benchmark rates
- reference rates published by central banks
- market infrastructure for executing fix trades
- market participants' behaviour when the major FX benchmarks are fixed (primarily the WMR 4pm London fix)

- recommendations from a forthcoming IOSCO review of the WMR fixes.

The consultation closed on 12 August. The FSB's final recommendations will be put to the G20 leaders in November at the Brisbane Summit.

Amending interest rate benchmarks

The FSB published its *final report on interest rate benchmarks* on 22 July 2014. An Official Sector Steering Group (OSSG), led by FCA CEO Martin Wheatley carried out the review, which had two strands. First, the OSSG considered principles for sound benchmarks, including assessing the major interest rate benchmarks against IOSCO's Principles for Financial Benchmarks. Second, the OSSG teased a Market Participants Group (MPG) with identifying additional benchmark rates and analysing what might happen more market participants used alternative rates.

The FSB recognises that different currencies face different challenges and therefore some divergence will occur in how reforms are implemented. But it believes that two key elements should apply across all currency areas:

- Greater use of transaction data to strengthen the use of existing IBORs to create 'IBOR+' rates

- Development of new 'nearly risk-free' rates as an alternative to existing benchmark rates.

The FSB recommends that currency groups from the MPG work with the private sector to implement the reforms. The FSB expects to see benchmark administrators consult on IBOR+ reforms by the end of 2015 and implement at least one risk-free rate by Q2 2016.

More improvement required

IOSCO published a review of benchmark administrators' implementation of its *Principles for Financial Benchmarks for Euribor, Libor and Tibor* on 22 July 2014. It found that all three administrators have made significant progress in implementing the majority of the Principles.

But IOSCO also found that they still need to make further progress in some areas. In particular it urged the LIBOR administrator to consider how it defines a conflict of interest and encouraged all three administrators to do further work on data sufficiency.

Capital and liquidity Reviewing the G-SIB framework

On 4 July 2014, the FSB launched two thematic peer reviews on the current

supervisory framework and approaches to G-SIFIs.

The FSB has directed the first *thematic review* to national supervisors, to take stock of how supervisors have changed, or plan to change, their prudential supervisory framework and approach for G-SIBs and D-SIBs.

In the second *thematic review*, the FSB is seeking to identify what G-SIBs view as the changes that have been the most and least effective in:

- influencing their risk behaviour
- enhancing risk governance
- supporting their resilience to financial shocks.

As part of the review, the FSB is also seeking feedback from other financial institutions, industry associations and stakeholders on the topics covered in both questionnaires. The consultation closed on 12 September 2014. It expects to publish a draft report outlining the key findings from the review in early 2015. The FSB then plans to co-ordinate with standard-setting bodies to develop policy recommendations in areas where challenges and obstacles remain.

Insurance

G-SIIs' capital needs

The IAIS consulted for a second time on basic capital requirements (BCR) for G-SIIs on 9 July 2014. In its first consultation the IAIS sought feedback on designing the BCR. Here the IAIS is seeking input on a specific proposal to facilitate the final design and calibration of the BCR before it is delivered to the G20 summit in November 2014.

The IAIS is proposing that the BCR should be calculated on a consolidated group-wide basis, with all holding companies, insurance legal entities, banking legal entities and any other service companies included in the consolidation. The BCR has been developed to reflect major categories of risks impacting G-SIIs' business and to account for on- and off-balance-sheet exposures. It will be made up of:

- Insurance component
- Banking component applying the Basel III leverage ratio or risk weights
- Non-insurance component capturing other activities not currently subject to regulatory capital requirements.

The consultation provides an opportunity for the industry to comment on a specific BCR proposal based on an illustrative calibration level. IAIS will determine the actual calibration, after further analysis in July and August of information collected from field testing volunteers.

Developing the BCR is the first step towards applying group-wide global capital standards. Next the IAIS needs to develop G-SIIs' Higher Loss Absorbency (HLA), due to be completed by the end of 2015. The HLA will build on the BCR and address additional capital requirements for G-SIIs, reflecting their systemic importance in the international financial system. The third step will be the development of a risk based group-wide global insurance capital standard (ICS), due to be completed by the end of 2016. Internationally Active Insurance Groups (IAIGs) will have to apply that standard from 2019.

The consultation closed on 8 August 2014.

Stressing insurers

The IMF published Macprudential Solvency Stress Testing of the Insurance Sector on 22 July 2014. This paper reviews current solvency stress tests for insurance based on a comparative review of national

practices and the experiences from IMF's Financial Sector Assessment Program with the aim of providing practical guidelines.

The IMF recommends that national supervisory authorities move towards a more integrated stress testing approach, ideally based on a common framework for banking and insurance stress testing.

IAIS proposes new procedures

The IAIS published Draft IAIS procedures on meeting participation and the development of supervisory material and draft policy for consultation of stakeholders for consultation on 4 August 2014. This paper sets out a standard approach to IAIS consultations. The period for comment ended on 2 September 2014.

Securities & derivatives

Regulators seek views on securitisation

IOSCO and BCBS issued a questionnaire for market participants on developments in securitisation markets on 3 July 2014. Working alongside the IAIS and the IASB, IOSCO and the BCBS will feed the results of the questionnaire into a review of the securitisation markets since the global financial crisis.

The regulators seek views on:

- market developments in securitisation since the crisis
- market and regulatory developments which may be impediments to the development of sustainable securitisation markets
- increasing the participation of non-bank investors in securitisation markets
- the development of simple and transparent securitisation services.

The consultation closed on 25 July 2014.

Reviewing commodity storage costs

IOSCO launched a survey on the effect of storage warehouses on price formation in commodity derivatives markets on 1 August 2014. The IOSCO Committee on Commodity Derivatives believes that robust storage infrastructure is essential to the integrity of the price formation process but it is concerned that storage costs may increase the difference between the spot price and the settlement price paid on closing out a position.

IOSCO seeks feedback on:

- whether or not existing rules for storage infrastructures are clear

- operational practices that create inefficiencies in forming prices
- conflicts of interest arising from the ownership structure of storage infrastructures
- ambiguities arising from the process of collecting and disseminating information to the market.

In recent years market participants have accused warehouse owners of delaying delivery of commodities in order to increase their storage fees. In some cases, warehouse owners are also commodity derivative market participants. The survey asks whether or not the information available to a warehouse owner who also trades commodity derivatives gives rise to an unfair advantage.

The survey closes on **31 October 2014**.

Blocks to trade reporting

On 12 August 2014, the OTC Derivatives Regulators Group (ODRG) warned the FSB about barriers to implementing transaction reporting reforms. At the Pittsburgh Summit in 2009 G20 leaders committed to introduce reforms to report all OTC derivative transactions to trade repositories by the end of 2012.

The ODRG is concerned that barriers are reducing the effectiveness of reporting and impeding the effective supervision of reporting entities. Specifically, the ODRG pointed to data protection laws, blocking statutes, state secrecy laws and bank secrecy laws as issues that are blocking the successful implementation of new rules. The ODRG called on the FSB to make a clear and unambiguous statement that jurisdictions need to remove all barriers to counterparty identifying information.

Supervision

Stricter supervision for UK branches

On 5 September 2014 the PRA finalised its approach to supervising international banks (*PS8/14* and *SS10/14*). The PRA will significantly tighten its supervision of non-European branches and will also restrict a branch's type and scale of business.

The PRA will assess three elements to determine whether it will permit the international bank to operate as a branch in the UK:

- equivalence of the Home State Supervisor (HSS)
- presence of Critical Economic Functions (CEFs)

- adequacy of the group and UK branch's resolution planning.

If the PRA is happy with those three areas, it will agree a split of prudential supervisory responsibilities with the HSS. If not, it will cancel the branch authorisation and require that the bank establish a subsidiary to conduct its UK operations or withdraw from the UK market. A similar analysis would apply to new entrants – the PRA could refuse new branch authorisation applications if they do not meet its expectations in these three areas.

The PRA makes some changes to its policy to reflect industry feedback:

- the criteria for HSS equivalence is clarified
- it defines the CEFs
- new definition of 'de minimis' retail deposits with quantified thresholds of £100 million and/or 5,000 customers
- delays implementing Branch Returns
- new SYSC attestation requirement.

The new approach is effective immediately. Many firms may have to make significant changes to their UK operations. Branches in the UK taking

any significant retail deposits may well need to move to a subsidiary structure, which has regulatory, legal and tax implications. Wholesale branches will need to ensure they keep their activities below a level that is critical to the UK economy. All branches in the UK will also need to get to grips quickly with the requirement to assess their compliance with the SYSC part of the Handbook.

Accounting

IFRS

IASB issues IFRS 9

The IASB published IFRS 9 - 'Financial instruments' on 24 July 2014. The final version includes requirements on the classification and measurement of financial assets and liabilities. It also includes an expected credit losses model that replaces the incurred loss impairment model.

Implementation of new revenue standard

The IASB and FASB joint transition resource group met for the first time in July 2014, to look at potential implementation issues relating to the new revenue standard.

Offsetting financial instruments for financial institutions

The IASB added guidance on the application of the offsetting rules to IAS 32 - 'Financial Instruments: Presentation' for annual periods beginning on or after 1 January 2014. This amendment has prompted many financial institutions to reassess when they offset financial instruments for accounting purposes. Offsetting is a complex area of accounting, where understanding the operational and

contractual arrangements is key to arriving at the right conclusion. The recent reassessments have highlighted the extent of these complexities.

Insurance contracts update

In July 2014, the IASB continued its discussions on the 2013 Exposure Draft Insurance Contracts (the 2013 ED).

At this meeting, the IASB continued to discuss insurance contracts with participating features. In particular the Board discussed the work required if insurers use the effective interest rate method for presentation of interest expense in profit or loss. For contracts without a participating feature, the IASB decided to retain its 2013 proposal to apply the discount rate that applied at initial recognition of an insurance contract for the accretion of interest on the contractual service margin and calculation of amounts that offset that margin.

The IASB also decided to adopt an accounting policy on recognizing changes in discount rate in either profit or loss or other comprehensive income, according to the requirements in IAS 8 for accounting policy changes, without any modifications. This outcome means that such a change will need to be applied retrospectively.

Amendments to IAS 12

The IASB published *ED/2014/3 Recognition of Deferred Tax Assets for Unrealised Losses - Proposed amendments to IAS 12* on 20 August 2014. IAS 12 addresses the accounting for income taxes, including deferred tax assets. The IASB is proposing to include new guidance in IAS 12 clarifying how to account for deferred tax assets related to debt instruments measured at fair value.

This closes to comments on **18 December 2014**

Compensation practices



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The global financial crisis prompted regulators to increase their scrutiny of financial services sector compensation and remuneration. This resulted in a number of international and regional rules and guidelines that govern remuneration. Over the past few years regulators in the Middle East have started to look at the issue of remuneration more closely. The approach of some of the regional regulators is explored below.

The Central Bank of Bahrain

CBB updated its rulebook in Q3 2014 for licensed banks in Bahrain. It now requires that banks' external auditors annually report on compliance with the remuneration rules, in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. This applies to approved persons and material risk takers and some rules also apply to those whose total annual remuneration exceeds BD100,000. The CBB also clarified that it expects remuneration committees to review the compensation amount of each individual approved person and material risk taker.

These new requirements came into effect after the banks prepared a gap analysis for the CBB at the end of 2013. CBB also requested banks to review their Articles of Association, remuneration policies and employment contracts to align them with the remuneration rules.

The Saudi Arabian Monetary Agency

SAMA surveyed the remuneration practices of banks at the end of 2009 before issuing draft rules in January 2010. SAMA requires banks to report their own compliance to these rules twice a year. Such reports would, at the minimum, cover

the membership of a bank's compensation committee, confirmation that its compensation policy is approved by the Board, list the material changes to the compensation practices of the bank and subsidiaries since implementation of the SAMA Rules and the FSB Principles and Standards, confirmation the bank has established appropriate compliance arrangements, and the detail of the steps planned for the next half-year for further refinement of the compensation practices.

In 2012 SAMA established a Bilateral Complaint Handling Process (BCHP) on compensation practices. Under BCHP, SAMA addresses complaints raised by financial institutions that document a competitive disadvantage, provided that the supporting evidence demonstrates a specific compensation practice at a competitor firm may be deemed as inconsistent with the FSB principles and standards.

The Central Bank of Lebanon

On 6 August 2014, the BDL published its *Basic Circular number 133* that covers the main requirements for Lebanese Banks. It requires banks to establish a compensation policy that is approved by the Board of Directors, revise and update the policy to fit the Bank's strategy and operations, and establish a remuneration committee made of non-executive board members to supervise and test the application of the aforementioned compensation policy.

Challenges ahead

In June the FSB *identified challenges* of implementation remuneration rules globally and in the region. Firms face a number of practical challenges including:

- selecting metrics to assess risk aligned performance
- educating Board members about compensation-related risk factors
- determining the extent of discretion that should be applied by the board and remuneration committee in implementing compensation policies
- adapting to different global and regional regulatory approaches
- enforceability of some of the contractual terms required for the use of malus and clawback clauses.

Firms should consider how their remuneration governance, policies and structures are aligned to principles required by regulators and document them to ensure that they can demonstrate both adequate documentation of processes and compliance with regulations. As regulators increasingly focus on the process and risk management aspects of remuneration, firms will need more sophisticated methods of risk measurement to support such approaches. We advise firms to ask themselves the following questions when assessing their remuneration arrangements:

- Have you considered the increasing compliance reporting obligations and the increased complexity for regional banks?
- Do you have adequate staff and infrastructure resources to manage the increased obligations?
- Did your board members undergo a training to update them on the latest regulation and key requirements, including criteria for the use of malus and clawback?
- Have you designed a mechanism for linking performance to compensation in the long term?
- Have you considered the enforceability of any claw back or malus clauses in your employment contracts?

Needless to say, increasing regulation is bringing more organisations and staff into the scope of remuneration rules and disclosure obligations and will limit existing compensation structures for many staff – changes which will have significant commercial impact. Such an exercise may involve engaging with parent companies, so review and remediation periods should be planned with adequate time for implementation and embedding new processes across group companies.

Glossary

ABC	Anti-Bribery and Corruption	CBO	Central Bank of Oman
ABS	Asset Backed Security	CCPs	Central Counterparties
AIF	Alternative Investment Fund	CDS	Credit Default Swaps
AIFM	Alternative Investment Fund Manager	CET1	Core Equity Tier 1
AIFMD	Alternative Investment Fund Managers Directive 2011/61/EU	CFTC	Commodities Futures Trading Commission (US)
AML	Anti-Money Laundering	CFT	Counter Terrorist Financing (translation)
Basel Committee	Basel Committee of Banking Supervision (of the BIS)	CGFS	Committee on the Global Financial System (of the BIS)
Basel II	Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework	CRD IV	Capital Requirements Directive 2013/36/EU
Basel III	Basel III: International Regulatory Framework for Banks	CRR	Regulation on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
BCBS	Basel Committee on Banking Supervision	CTF	Counter Terrorist Financing
BIBF	Bahrain Institute of Banking and Finance	DFSA	Dubai Financial Services Authority
BIS	Bank for International Settlements	Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act (US)
CBB	Central Bank of Bahrain	D-SIBs	Domestically Systemically Important Banks
CBK	Central Bank of Kuwait	EBA	European Banking Authority

EEA	European Economic Area	FTT	Financial Transaction Tax
EIOPA	European Insurance and Occupations Pension Authority	G30	Group of 30
EMIR	Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EC) No 648/2012	GAAP	Generally Accepted Accounting Principles
EP	European Parliament	GCC	Gulf Cooperation Council
ESMA	European Securities and Markets Authority	G-SIBs	Globally Systemically Important Banks
FASB	Financial Accounting Standards Board (US)	G-SIFIs	Globally Systemically Important Financial Institutions
FATCA	Foreign Account Tax Compliance Act (US)	G-SIIs	Globally Systemically Important Insurers
FATF	Financial Action Task Force	IAIS	International Association of Insurance Supervisors
FC	Financial counterparty under EMIR	IASB	International Accounting Standards Board
FCA	Financial Conduct Authority	IFRS	International Financial Reporting Standards
FDIC	Federal Deposit Insurance Corporation (US)	IFSB	Islamic Financial Services Board
FMI	Financial Market Infrastructure	IMF	International Monetary Fund
FRC	Financial Reporting Council	IOSCO	International Organisations of Securities Commissions
FSB	Financial Stability Board	ISDA	International Swaps and Derivatives Association
FSI	Financial Stability Institute (of the BIS)	ITS	Implementing Technical Standards
FSOC	Financial Stability Oversight Council	LCR	Liquidity coverage ratio
		LIBOR	London Interbank Offered Rate

MiFID	Markets in Financial Instruments Directive 2004/39/EC	SCA	Abu Dhabi's Securities and Commodities Authority
MiFID II	Proposed Markets in Financial Instruments Directive (recast) (COM(2011) 656 final)	SEC	Securities and Exchange Commission (US)
MiFIR	Proposed Markets in Financial Instruments Regulation (EC) (COM(2011) 652 final)	SIPP	Self-invested personal pension scheme
NAV	Net Asset Value	SOCA	Serious Organised Crime Agency
NSFR	Net stable funding ratio	Solvency II	Directive 2009/138/EC
OECD	Organisation for Economic Cooperation and Development	SSAP	Statements of Standard Accounting Practice
PCBS	Parliamentary Commission on Banking Standards	SYSC	Senior management arrangements Systems and Controls sourcebook, UK regulation
PRA	Prudential Regulation Authority	T2S	TARGET2-Securities
QCB	Qatar Central Bank	TR	Trade Repository
QFC Authority	Qatar Financial Centre Authority	UAECB	United Arab Emirates Central Bank
QFCA	Qatar Financial Centre Authority	UCITS	Undertakings for Collective Investments in Transferable Securities
QFCRA	Qatar Financial Centre Regulatory Authority		
RDR	Retail Distribution Review		
RRPs	Recovery and Resolution Plans		
RTS	Regulatory Technical Standards		
SAMA	Saudi Arabian Monetary Agency		

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