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CORPORATE & FINANCIAL
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European Banking Bonus Restrictions to Be Introduced

On July 7, the European Parliament approved, by a large majority, measures which will significantly restrict bonus payments by banks. They were passed in the context of amendments to the EU Capital Requirements Directive for banks and investment firms (proposal for a directive of the European Parliament and of the European Council 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).

The proportion of bonuses payable in cash may not exceed 30% of the total bonus amount (20% for large bonuses). Between 40% to 60% of all bonus must be deferred and can be clawed back if performance in subsequent years is not adequate. 50% of the total bonus would be paid as "contingent capital"—funds which can be called upon by the bank for use as capital if required. Bonuses must also be "capped to salary." Each bank will have to establish limits on bonuses related to salaries, based on EU guidelines. There will be more stringent rules applicable to part-nationalized banks.

The detailed provisions implementing the above guidelines have not yet been published.

Separate draft remuneration rules for fund managers falling within the ambit of the draft Alternative Investment Funds Directive are being considered in the ongoing trialogue process between the European Commission, Council and the Parliament, under which the competing drafts produced by the European Council and the Parliament are being harmonized. An agreed text is expected to be passed to the Parliament for a plenary vote in September.

Read more.

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