



Experiences, Solutions & Expectations



***The Past, Present & Future:
CRD III and IV
– Experiences, Solutions & Expectations***

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A Look Back....

- HOW did we get to this point?
- WHAT is CRD III – really?
 - What has been mandated? And WHEN?
 - What has been done?
 - What could have been changed?
- WHO is really impacted?
- WHY, what prompted?
- WHERE? (Nordics, UK, others)

Scope of Today's Discussion

- Challenges met up until this point
- Challenges anticipated (CRD IV)
- Reaction – from those impacted, and those implementing
- Were there “unintended consequences?”
- Advice / Observations / and maybe some Critiques

Basic Economics - Unintended Consequences and Lost Opportunity

- Unintended Consequences
 - “NEW” Coke – Case Study
 - A Groupon offer that is TOO effective!
 - “Predictive Text” or Spell Check (especially in your text messages – wish it were not there?)
- Missed Opportunities
 - Sean Connery and Lord of the Rings
 - Pete Best and The Beatles



CRD III and Unintended Consequences and Missed Opportunities

- Impacts on Fixed Salary and Talent Pool:
 - **Retention** – Basic concept of compensation (cash and equity) is to provide incentive and productivity stimulus
 - Replacement costs can be as high as 5X Annual Salary for Senior Management
 - If there are available replacements
 - **Global Philosophy** – A corporate culture of compensation for a multi-national – is it a competitive disadvantage?
 - Both factors lead to Fixed vs. Variable Discussion (anticipated as CRD IV) and question of expansion to non-FS sectors?

A Look at the Present... CRD III Case Studies – What Was it Like?

- Panelists to discuss:
 - Implementation
 - Board Review / Compensation Committee Review
 - Communications – Key Challenges and Constituencies
 - Employees impacted
 - Public Disclosures
 - Working Groups / New Contacts (Finance, Accounting, External Reporting)
 - Regulators
 - Disclosure

Contextual Overview

European and Nordic banking

- About 8000 credit institutions accounting for 53% of global banking assets will be subject to CRD IV regulation
- EU corporate funding is around 70% debt vs. around 20% in the US
- European banks dominate international credit flow
 - Emerging Europe: 93% or \$1,300bn out of \$1,400bn
 - Africa/Middle East: 83% or \$500bn out of \$600bn
 - Latin America: 65% or \$850bn out of \$1,300bn
 - Emerging Asia: 50% or \$900bn out of \$1,800bn
- Economies of scale – ca. total assets
 - Deutsche Bank – \$2,600bn
 - PNB Paribas – \$2,400bn
 - UBS/ING – \$1,500bn
 - Nordea – \$900bn
 - Danske Bank – \$900bn
 - SEB – \$350bn
 - Swedbank – \$280bn

Market Insight

Mercer's Financial Services Executive Compensation Snapshot Survey (July 2012)

- 63 financial institutions – 2/3 banks and 50% in Europe
- Around 70% have STI deferral plan or forward-looking LTI plan or both
- Deferral plan designs
 - Performance contingencies are most prevalent in Europe – 40% of companies in the US have performance based criteria vs. only 75% in Europe
 - 70% of companies with performance contingencies base them on corporate results
 - 2/3 of companies in Europe use two performance measures
- Forward-looking LTI plan design
 - 80% of European companies have performance shares
 - 15% all companies indicated a shift from options to share-based plans
 - Most common metrics are ROE and TSR
- Claw-backs and malus clauses
 - Claw-back provisions are triggered on individual level
 - Malus is applied when a business unit and/or corporate performance levels are not met

CRD III – Has it had an Impact? Has it had the “expected” impact?

- Panelists to discuss Results:
 - Compensation Levels – “Balancing Act?”
 - Employee Reactions
 - Compensation Committee Reactions
 - New Teams / Partnerships
 - Human Resource and Accounting Involvement – Were there Growing Pains?
 - External Reporting. Audit, Control?

A look Ahead. CRD III – Challenges, and What are Expectations for Change?

- Panelists to discuss most difficult parts of CRD III Implementation
 - Did it impact a Retention Philosophy?
 - Did it create a consideration for Regional Planning vs. Global Philosophy?
 - Did it have an impact in Regulator Perception? Public Perception?
 - Did it change management's approach to compensation?



CRD III Plans – A little different based on Country

- As an overview, CRD III practices are different by country (choose by panelists)
 - Sweden
 - Norway
 - Europe (Other examples)
 - US – Yes, Dodd Frank may look a lot like CRD
- Accounting Impact (and impact on corporate financial reporting) will be different for each approach

Basic Concepts of Performance Accounting Issues

- CRD II, in simplest terms, introduces 3 features into financial reporting
 - Clawbacks
 - Deferred Compensations, and
 - Performance
- EPS, DTA, Expense – all impacted

CRD IV – Real World Expectations

- Fixed vs. Variable Salary
 - Adjusting the Fixed to offset the Cap on Variable
- Uniform Adoption, or Regional Interpretation
 - Will it be different from CRD III?
 - What about Non-Financial Services?

Thank You