Research Article

Critical Study on the Guidelines of Reserve Bank of India on Compensation Management System: Issued to Foreign Banks and Private Banks Operating in India(2012)

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Abstract:

The compensation practices, exclusively of enormous financial institutions, were one of the vital factors which contributed to the contemporary global financial crisis. Employees were often rewarded for increasing the short-term profit without sufficient recognition of the risks and long-term consequences that their activities posed to the organizations. These obstinate incentives intensified the excessive risk taking that rigorously endangered the global financial system. Thus compensation issue has become the Centre juncture of the regulatory reforms.

The Basel Committee on Banking Supervision (BCBS)in May 2011 conveyed the a consultative paper to all the Central Banks of member states of BCBS which is titled "*Range of Methodologies for Risk and Performance Alignment of Remuneration"* and in July 2011 the BCBS in consultation with the FSB has also published *"Pillar 3 disclosure requirements for remuneration"*. The guidelines of Reserve Bank on compensation policy were issued by RBI on 13 January 2012 for Private Banks and Foreign Banks operating in India after considering all publication from Basel Committee and FSB on Banking Supervision and considering the compensation aspects of Indian Banks. An attempt has been made in this paper to explain the Guidelines issued by the Reserve Bank of India on Compensation Managements system of Foreign Banks and Private Banks operating in India and the Principles which have formed the basis of these Guidelines. This paper could be considered as vital seed to existing branch of knowledge in Banking Industry and would be useful for Scholars, Strategist, Bankers, Policy Architects and Researchers.

Keywords: Guidelines of RBI, Compensation management system, Effective Governance, Remuneration Committee Risk Management Committee, Basel Report,

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I. Introduction

In modern time period, it have been observed that the World Economy is moving through some convoluted circumstances as bankruptcy and impoverishment of banking & financial institutions and debt crisis in major economies of the world. The depiction has become very indeterminate leading to recession in major economies US, Europe and Asia. This poses some grave questions about the endurance, progress and maintaining the sustainable development. Nevertheless numerous International institutions are of the opinion that Compensation Practices, exclusively of enormous financial institutions were one of the vital reasons which have contributed to the modern global Financial Crisis. It could be inferred that the Short-term profit without adequate appreciation of the Vital risks and the Long term embedded consequences were ignored. Employees were frequently rewarded for such demeanour which is potentially cribbing Bank to Greater risk side. Rewards and Compensation to employee has become crucial stage of the regulatory reforms because of many obstinate incentives strategies has enhanced the extreme Risk taking attitude which has rigorously endangered the global financial system. This paper is an attempt to review the background and the reasons due to which the RBI has taken such steps.

II. Historical Background

Banking Sector in India was devised in the last decades of 18th century. First few banks were The General Bank of India, which was formed 1786, and Bank of Hindustan, which was initiated in 1770; both being defunct now. Further, the Bank of Calcutta, later retiled as Bank of Bengal, was formed in 2nd June 1806. All presidency banks were merged to form the Imperial Bank of India in 1921. Reserve Bank of India Act was enacted in year 1934 & Reserve Bank of India (RBI) was constituted as an apex body without major government ownership to regulate Banking in India. In 1949 the Banking Regulations Act was enacted and implemented. This regulation brought RBI under government control. RBI was entrusted with wide ranging authority for control of banks& supervision. RBI Act also entrusted licensing powers & the authority to conduct inspections by RBI.

RBI gained control of the Imperial Bank of India which was re-titled as State Bank of India in 1955.Banking Sector in India had emerged as vital tool to expedite the speed of development of the Indian economy from 1960s. The Government of India dispensed an ordinance and nationalised 14 largest commercial banks with effect from the midnight of July 19, 1969. A second measure of nationalization of 6 more commercial banks were followed in

1980. The purpose stated for the nationalization was to give the government effective control of credit delivery and regulation. With the second measure of nationalization, the Government of India controlled around 91% of the banking business of India. In the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalised banks from 20 to 19.

Recently, we have seen the economic crisis of USA in 2008-09 and now the European crisis 2010-12. The general scenario of the world economy is very critical. It is the banking rules and regulation framework of India which has prevented it from the world economic crisis. In order to understand the challenges and opportunities of Indian Banking Industry, first of all, we need to understand the general scenario and structure of Indian Banking Industry as explained in below sections.

III. General Banking Scenario in India

The general Banking scenario in India has become very dynamic now-a-days. Before pre-liberalization era, the picture of Indian Banking was completely different as the Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance.

The Reserve Bank of India was nationalized on January 1, 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India." The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors. In the early 1990s, the then Narasimha Rao government embarked on a policy of liberalization, licensing a small number of private banks. The next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 74% with some restrictions. The new policy shook the Banking sector in India completely. Bankers, till this date were often used to the practice “method of 4-6-4” (Borrow at 4%; Lend at 6%; of functioning. The innovative wave escorted in a modern outlook and tech savvy methods of working for traditional banks. All this led to the retail affluent in India. Reserve Bank of India, the Central Bank of State of India thus now act as supreme regulator for the issue of Bank Notes, for keeping of reserves with a view to securing monetary stability in India and generally to operate the currency any credit system of the country to its advantage.

IV. Structure of Indian Banking Industry

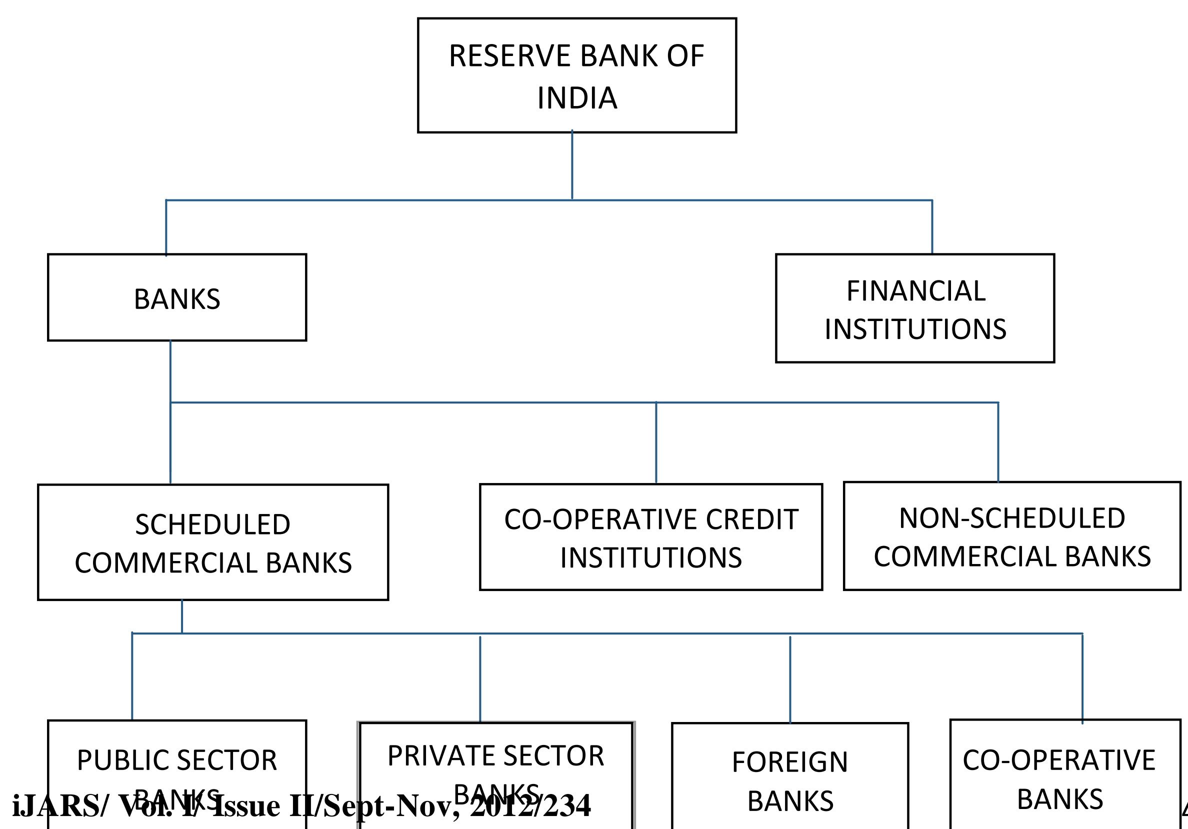
In India, Banking Industry functions under the parasol of Reserve Bank of India – the regulator and the Central Bank. Banking Sector in India mainly consists of:

• Commercial Banks (Scheduled and Non–Scheduled under Reserve Bank of India Act 1934)

• Co-operative Banks (Scheduled and Non–Scheduled under Reserve Bank of India Act 1934)

In India, commercial banking structure consists of: Scheduled Commercial Banks and Unscheduled Bank. Scheduled commercial Banks constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (60) of the RBI Act. Although all co-operative banks are not Schedule commercial banks, however Some co-operative banks are scheduled commercial banks. Being a part of the second schedule confers some privileges to the bank in terms of access to accommodation by RBI during the times of their functioning.
There are 295 scheduled commercial banks as per the Second Schedule of Reserve Bank of India Act1934 as modified up to 28 Feb 2009.
For the purpose of functioning, the Reserve Bank of India categories them as public sector banks, private sector banks and foreign banks.

Fig.1: The Commercial Banking Structure in India



V. Cause and Background for the Issuance of Guidelines by Reserve Bank of India on Compensation Management system 2012.

It is fundamentally and primarily impossible for any country to isolate itself from world economy. Therefore, for sustainable development, Nation has to adopt amalgamation process in the form of globalization and liberalization as in 1991 India banquet the red carpet for foreign Investments.

Domestic enterprises are impacted with challenges due to advent of globalization as they are inexorable to contend with global troupes. There are 35 Foreign Banks functioning in India, which becomes a foremost challenge for Nationalized and private sector banks. These foreign banks are large in extent, technically innovative and having existence in worldwide arcade, which renders wide range of services to Indian and foreign customers.

Reserve Bank of India Act 1934 and the Banking Regulation Act 1949 renders enormous charge and authority with RBI. The above chart indicates the province of the RBI power and Control in Indian Banking Sector. Indian Banking sector is regarded as Plinth and Backbone of Indian economy. In Indian Banking sector, the Public sector Banks, Private Banks, Foreign Banks and Co-operative Banks play vital role. The critical analysis of Guideline issued by RBI dated 13 January 2012 enlighten us the intention inferring the measures for regulating the compensation packages for Private and Foreign Banks which needs to be amended. Few reports issued during Dec 2011 and Jan 2012 have conveyed that the compensation packages of employees especially the higher officials of prominent private Banks in India is around 10 to 15 times higher than that that of Public Sector Banks.

Recommendation of Financial Stability Board and Basel Committee and RBI measures

Financial Stability Board was evolved from the Financial Stability Forum (FSF), an association of finance ministries, central bankers, and international financial bodies. FSF was established in 1999 to advocate international financial stability, after consultations among Central Bank Governors and Finance Ministers of the G7 countries. FSF facilitated assistance and facilitation on regulation and surveillance of financial institutions, transactions and functioning. FSF was administered by a secretariat housed at the Bank for International Settlements in Basel, Switzerland.

Financial Stability Board (FSB) is an international body that monitors and makes recommendations in regard with global financial system. It was established after the 2009 G-20 London summit in April 2009 as a successor to the Financial Stability Forum. The Board consists of all G-20 major economies, FSF members, and the European Commission. It is

based in Basel, Switzerland. Following Nations and organizations are listed as members of the Financial Stability Board (FSB): 2012

Argentina	India	Singapore
Australia	Indonesia	South Africa
Brazil	Italy	South Korea
Canada	Japan	Spain
China	Mexico	Switzerland
France	The Netherlands	Turkey
Germany	Russia	United Kingdom
Hong Kong	Saudi Arabia	United States

Organizations

- Organisation for Economic Co-operation and Development
- International Monetary Fund
- European Commission
- Bank for International Settlements
- European Central Bank
- The World Bank

To deal with the concerns in a synchronized manner across various jurisdictions, the Financial Stability Board (FSB) has recommended a set of principles and implementation standards on sound compensation practices in April and September 2009, respectively. The principles are intended to condense incentives towards excessive risk taking that may arise from the composition of compensation schemes. The principles describe for effective governance of compensation, alignment of compensation system with prudent risk taking, effective supervisory oversight and stakeholder engagement. The principles have been approved by the G-20 countries and the Basel Committee on Banking Supervision (BCBS) and are under implementation across jurisdictions. In July 2011 the BCBS in consultation with the FSB has also published “Pillar 3 disclosure requirements for remuneration”. The Basel Committee on Banking Supervision (BCBS) has since published in May 2011 the final report on “Range of Methodologies for Risk and Performance Alignment of Remuneration”. The main objectives of the report are to convey certain remuneration practices and methodologies that support sound incentives and also the elements influencing the effectiveness of risk alignment that should be considered by banks while developing their methodologies and by supervisors, when reviewing and assessing bank’s practices.

Thus after consideration of the above consultative Paper, Reserve Bank of India finalized the compensation guidelines for implementation by private sector and foreign banks from the financial year 2012-13 and were published on 13 January 2012. These guidelines shall supersede the Reserve Bank's existing guidelines relating to compensation.

As hitherto, foreign banks and private sector functioning in India would be required to obtain regulatory approval for grant of remuneration to WTDs/ CEOs in terms of Section 35B of the Banking Regulation Act, 1949 (B.R. Act, 1949). Approval process shall include, inter alia, an assessment whether the compensation policies and practices are in accordance with the FSB Principles.

VI. Critical Analysis on the Guidelines of RBI and its Explanation

The final Guidelines were issued by RBI on 13th January 2012 to all the Foreign and Private Banks. The Guidelines of RBI are explained under four main title parts and Two Appendix which are explained as below.

A. The Financial Stability Board (FSB) Principles for Sound Compensation Practices.

B. Compensation guidelines to Private Sector Banks.

C. Compensation Guidelines to Foreign Banks.

D. Regulatory and Supervisory Approval / Oversight

A. The Financial Stability Board (FSB) Principles for Sound Compensation Practices.

The Principles for Sound Compensation Practices issued by the FSB in April 2009 aim to ensure effective governance of compensation, alignment of compensation with prudent risk taking and effective supervisory oversight and stakeholder engagement in compensation. The Principles in brief are as under:

(i) Effective governance of compensation

- The firm's board of directors must actively oversee the compensation system's design and operation.
- The firm's board of directors must monitor and review the compensation system to ensure the system operates as intended.
- Staff engaged in financial and risk control must be independent, have appropriate authority, and be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm.

(ii) Effective alignment of compensation with prudent risk taking

- Compensation must be adjusted for all types of risk.
- Compensation outcomes must be symmetric with risk outcomes.
- Compensation payout schedules must be sensitive to the time horizon of risks.
- The mix of cash, equity and other forms of compensation must be consistent with risk alignment.

(iii) Effective supervisory oversight and engagement by stakeholders

- Supervisory review of compensation practices must be rigorous and sustained, and deficiencies must be addressed promptly with supervisory action.
- Firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders.

Implementation Standards issued by the FSB in September 2009 focus on areas in which especially required rapid progress. They do not fully cover all aspects of the FSB Principles but prioritise areas that should be addressed by firms and supervisors to achieve effective global implementation of the Principles.

The guidelines delineated below are based on the above mentioned Principles and Implementation Standards of the FSB, as well as current statutory and regulatory framework in India. Banks are required to take steps immediately to implement the guidelines by putting in place necessary policy/ infrastructure.

B. Compensation guidelines to Private Sector Banks.

1. Effective governance of compensation

1.1 Guideline 1: Compensation Policy

Banks should formulate and adopt a comprehensive compensation policy covering all their employees and conduct annual review thereof. The policy should cover all aspects of the compensation structure such as fixed pay, perquisites, bonus, guaranteed pay, severance package, stock, pension plan, gratuity, etc., taking into account these guidelines. The process of framing/reviewing the policy should be completed by March 2012 for implementation from the financial year 2012-13.

1.2 Guideline 2: Board and Remuneration Committee (RC)

The Board of directors of banks should constitute a Remuneration Committee (RC) of the Board to oversee the framing, review and implementation of compensation policy of the bank on behalf of the board. The RC should have a minimum of three members and should include at least one member from Risk Management Committee of the Board. The majority of members of the RC should be independent non-executive directors. The RC should work in close coordination with Risk Management Committee of the bank, in order to achieve effective alignment between remuneration and risks. The RC should also ensure that the cost/income ratio of the bank supports the remuneration package consistent with maintenance of sound capital adequacy ratio.

2. Effective alignment of compensation with prudent risk taking

2.1 Guideline 3: For Whole Time Directors / Chief Executive Officers

Banks should ensure that for the WTDs / CEOs:

(a) Compensation is adjusted for all types of risk,

(b) Compensation outcomes are symmetric with risk outcomes, and

(c) Compensation payouts are sensitive to the time horizon of the risk.

(d) The mix of cash, equity and other forms of compensation must be consistent with risk alignment.

A wide variety of measures of credit, market and liquidity risks may be used by banks in implementation of risk adjustment. The risk adjustment methods should preferably have both quantitative and judgmental elements.

2.1.1 Fixed pay

Banks are required to ensure that the fixed portion of compensation is reasonable, taking into account all relevant factors including the industry practice.

2.1.2 Variable pay composition and deferral

While designing the compensation arrangements it should be ensured that there is a proper balance between fixed pay and variable pay. However, variable pay should not exceed 70% of the fixed pay in a year. Within this ceiling, at higher levels of responsibility the proportion of variable pay should be higher. The variable pay could be in cash, or stock linked instruments or mix of both.

The Employees Stock Option Plan (ESOP) prevalent in India may be excluded from the components of variable pay. The deterioration in the financial performance of the bank should generally lead to a contraction in the total amount of variable remuneration paid.

Where the variable pay constitutes a substantial portion of the fixed pay, say 50% or more, an appropriate portion of the variable pay, say 40% to 60% must be deferred for over a period. The bank may define what is 'substantial' in its compensation policy. There should be proper balance between the cash and stock / share components (other than ESOP) in the variable pay in case the variable compensation contains stock or share linked instruments (other than ESOP).

Employees Stock Option Plan (ESOP) is kept outside the computation of the total compensation of an employee for the purpose of this guideline, but since it is used as a compensation as well as retention tool by banks, the extent of ESOP should be reasonable. However, norms for grant of ESOP should be framed by banks in conformity with relevant statutory provisions and SEBI guidelines, and should form part of the bank's compensation policy. The details of ESOP granted should also be disclosed in terms of the disclosure requirements stipulated in this guideline.

2.1.3 Variable pays –timing

In case of deferral arrangements of variable pay, the deferral period should not be less than three years. Compensation payable under deferral arrangements should vest no faster than on a pro rata basis.

2.1.4 Malus /Clawback

In the event of negative contributions of the bank and/or the relevant line of business in any year, the deferred compensation should be subjected to malus/clawback arrangements. A malus arrangement permits the bank to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred.

A Clawback, on the other hand, is a contractual agreement between the employee and the bank in which the employee agrees to return previously paid or vested remuneration to the bank under certain circumstances. Banks may put in place appropriate modalities to incorporate malus / clawback mechanism in respect of variable pay, taking into account relevant statutory and regulatory stipulations as applicable.

2.1.5 Guaranteed bonus

Guaranteed bonuses are not consistent with sound risk management or the pay-for performance principles and should not be part of compensation plan.

Therefore, joining / sign on bonus should only occur in the context of hiring new staff and be limited to first year. However, guaranteed bonus should be in the form of ESOPs only since payments in cash upfront would create perverse incentives. Further, banks should not grant severance pay other than accrued benefits (gratuity, pension, etc.) except in cases where it is mandatory by any statute.

2.1.6 Hedging

Banks should not provide any facility or funds or permit employees to insure or hedge their compensation structure to offset the risk alignment effects embedded in their compensation arrangement. To enforce the same, banks should establish appropriate compliance arrangements.

2.2 Guideline 4: For risk control and compliance staff

2.2.1 Members of staff engaged in financial and risk control should be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the bank. Effective independence and appropriate authority of such staff are necessary to preserve the integrity of financial and risk management's influence on incentive compensation. Back office and risk control employees play a key role in ensuring the integrity of risk measures. If their own compensation is importantly affected by short-term measures, their independence will be compromised. If their compensation is too low, the quality of such employees may be insufficient to their tasks and their authority may be undermined. The mix of fixed and variable compensation for control function personnel should be weighted in favour of fixed compensation.

2.2.2 Subject to the above, in devising compensation structure, banks may adopt principles similar to principles enunciated for WTD/CEO, as appropriate.

2.3 Guidelines 5: For other categories of staff

For the other categories of staff, banks may devise appropriate compensation structure. However, in doing so, banks may adopt principles similar to the principles enunciated for WTD/CEO as appropriate.

2.4 Banks are advised to refer to the BCBS report entitled Range of Methodologies for Risk and Performance Alignment of Remuneration published in May 2011 for guidance. A gist of the methodologies is furnished at the Appendix 1. The report is primarily of a technical nature and is not intended to be prescriptive. It intends to enhance the banks' and supervisors' understanding of risk-adjusted remuneration. This report, by providing some clarification on design of risk-adjusted remuneration schemes, could support and facilitate the greater adoption of sound practices in the banking sector.

3. Disclosure and engagement by stakeholders

3.1 Guideline 6: Disclosure

Banks are required to make disclosure on remuneration on an annual basis at the minimum, in their Annual Financial Statements.

3.2 To improve clarity on disclosure, banks may make the disclosures in table or chart format and make disclosures for previous as well as the current reporting year (previous year's disclosure need not be made when the disclosures are made for the first time). The key disclosures required to be made by banks have been given in the Appendix 2 to the guidelines.

C. Compensation Guidelines to Foreign Banks

1. At present, foreign banks are operating in India through branch mode of presence. The compensation policy of these banks is governed by their respective Head Office policies. In the light of the initiative taken by the FSB, G-20 and the BCBS endorsement of the FSB principles, it is expected that Head Offices of most of these banks would align their compensation policies in line with the FSB principles. Foreign Banks operating in India will, therefore, be required to submit a declaration to Reserve Bank annually from their Head Offices to the effect that their compensation structure in India, including that of CEO's, is in conformity with the FSB principles and standards. RBI would take this into account while according approval of CEOs' compensation.

2. The compensation proposals for CEOs and other staff of foreign banks operating in India which have not adopted the FSB principles in their home country are required to implement the compensation guidelines as prescribed for private sector banks in India, to the extent applicable to them.

D. Regulatory and Supervisory Approval / Oversight

1. Banks may be aware, that in terms of the Section 10(1)(b)(iii) of the Banking Regulation Act, 1949 (B.R. Act, 1949), no banking company shall employ or continue the employment of any person whose remuneration is, in the opinion of the Reserve Bank, excessive.

2. As hitherto, private sector and foreign banks operating in India would be required to obtain regulatory approval for grant of remuneration to WTDs/ CEOs in terms of Section 35B of the B.R. Act, 1949. The approval process will involve an assessment whether the compensation policies and practices are in accordance with the FSB Principles, including inter alia, whether there is appropriate balance between fixed and variable pay, whether adequate deferrals are built in the variable component and whether cost/ income ratio supports the remuneration package consistent with maintenance of sound capital adequacy ratio.

3. Banks' compensation policies would be subject to supervisory oversight including review under the Supervisory Review and Evaluation Process (SREP) under Pillar 2 of Basel II framework. Deficiencies would have the effect of increasing the risk profile of banks with attendant consequences including a requirement of additional capital if the deficiencies are very significant.

Appendix 1:

Methodologies for risk and performance alignment of remuneration

The Basel Committee on Banking Supervision (BCBS) in consultation with the FSB has published a report in May 2011 entitled Range of Methodologies for Risk and Performance Alignment of Remuneration. The main objectives of the report are to present (i) some remuneration practices and methodologies that support sound incentives and (ii) the challenges or elements influencing the effectiveness of risk alignment that should be considered by banks when developing their methodologies and by supervisors, when reviewing and assessing banks' practices.

Some of the key stipulations of the report are as under:

- In order for incentive-based remuneration to work, the variable part of remuneration should be truly and effectively variable and can even be reduced to zero in line with the symmetry principle defined by the FSB. A key element that supervisors expect is the ability for banks to demonstrate that the methodologies they developed to adjust variable remuneration to risk and performance are appropriate to their specific circumstances.
- The methodologies for adjusting remuneration to risk and performance should also be consistent with the general risk management and corporate governance framework.
- Performance measures and their relation to remuneration packages should be clearly defined at the beginning of the performance measurement period to ensure that the employees perceive the incentives mechanism. The usual annual determination of bonuses should be based on rules, processes and objectives known in advance, recognizing that some discretion will always be needed.

- Banks should use a combination of financial and non-financial measures to assess employee performance and adapt the measurement to each employee's specific situation. Qualitative factors (like knowledge, skills or abilities), might play an important role when it comes to judging and rewarding some activities- particularly when these serve to reinforce the bank's risk management goals.

- The nature and extent to which risk adjustments are needed depends first on the extent to which performance measures capture risks, but in all cases, some form of risk adjustment is needed as remuneration is often awarded before the final outcome of an activity is known. Risks taken need to be estimated (ex ante), risk outcomes observed (ex post) and both ex ante estimates and ex post outcomes should affect payoffs.

- Risk adjustments need to take into account the nature of the risks involved and the time horizons over which they could emerge. The impact of remuneration adjustments should be linked to actions taken by employees and / or business units, and their impact on the level of risk taken on by the bank.

- The nature of the award process, which links the variable remuneration of each individual employee with bonus pools and the total amount of variable remuneration at a bank's level, is also an area that should be carefully considered by banks and supervisors, as it directly influences how and when performance and risk adjustment are or can be used.

Appendix 2:

The below appendix published by RBI In Its Guidelines is based upon the recommendation set forth by the Basel Committee in their Publication dated July 2011 titled as "Pillar 3 Discloser requirement for remuneration" Below are complete details of the appendix.

Disclosure requirements for remuneration

Remuneration		
Qualitative disclosures	(a)	Information relating to the composition and mandate of the Remuneration Committee.
	(b)	Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy.
	(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks.

	(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.
	(e)	A discussion of the bank's policy on deferral and vesting of variable remuneration and a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting.
	(f)	Description of the different forms of variable remuneration (i.e. cash, shares, ESOPs and other forms) that the bank utilizes and the rationale for using these different forms.
Quantitative disclosures (The quantitative disclosures should only cover Whole Time Directors / Chief Executive Officer/ Other Risk Takers)	(g)	Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.
	(h)	• Number and total amount of sign-on awards made during the financial year. • Details of guaranteed bonus, if any, paid as joining / sign on bonus. • Details of severance pay, in addition to accrued benefits, if any.
	(i)	• Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. • Total amount of deferred remuneration paid out in the financial year.
	(j)	• Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.
	(k)	• Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments. • Total amount of reductions during the financial year due to ex- post explicit adjustments. • Total amount of reductions during the financial year due to ex- post implicit adjustments.

VIII. Conclusion:

Principles stated by Basel Committee on Banking and Supervision (BCBS) in consultative Papers address supervisory review of compensation practices and transparency of disclosure of compensation practices in Banking Sector. The Guidance paper urges that national supervisors (Central Banks of member State) to limit variable compensation as a percentage of total net revenue when it is inconsistent with the maintenance of sound capital levels. In addition, the Guidance paper provides that national supervisors including Central Banks of Various States should coordinate their efforts so that compensation standards are implemented consistently across their respective jurisdictions. Furthermore, the vital Guidelines of Reserve Bank of India 2012 suggests that disclosure of compensation practices should also include criteria used for performance measurement and risk adjustment, the linkage between pay and performance, deferral policy and vesting criteria, and the parameters used for allocating cash versus other forms of compensation. The Principles of the Basel Committee's Guidance which represent an international attempt to articulate best practices for compensation practices at banks various levels are meticulously reflected in RBI Guidelines 2012. These Guidelines were circulated to all the Private Banks and Foreign Banks operating in India.

The intensions of RBI through these guidelines are to put a regulatory method to avoid the downfall of Banks operating in India. These Guidelines of RBI are drafted considering the socio-economic aspects of Banks operating in India. The Compensation aspect is vital in nature and these Guidelines of RBI are the initials attempts to regularize them and cover the Risk part. Earlier in Banking practices in India reveals that the Compensation management and risk management were two separate aspects, But these guidelines enlighten us that there is thin line of difference between these two aspect and they have vital incidental impact on each other. These guidelines specifically describes that Compensation practices are one of important factors which contributes for the global crisis, as the Employees of Banks were too often rewarded for increasing the short-term profit without adequate recognition of the risks and long-term consequences that their activities posed to the organizations. The imperative directions for constitution of Bank's own Remuneration Committee /Board and Risk Management Committee are elite and substantive steps take up by RBI considering the virtue of Indian Banking sector. The tenacious incentives amplified the excessive risk taking attitude that severely threatened the financial system in India.

In the developing country like India, the decline or even a threat of decline of any Private or Foreign Bank shall have an enormous impact on the socio-economic growth. Developed nations have overcome such decline, but RBI is completely aware that our country's economic system would take extensive and expensive efforts to overcome such crisis. Hence these guidelines acts as pivotal measure for the regularization and the structuring of the compensation policies of Private and Foreign Banks which shall act as boon for Indian Banking sector as well as safe-guard the socio-economic development.

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