Financial Conduct Authority

FCA FINANCIAL CONDUCT AUTHORITY

Remuneration - revising the code

1. **Why are the FCA and PRA revising the Remuneration Code now?**
   The Parliamentary Commission on Banking Standards (PCBS) Report concluded that, while the disciplines imposed by the Code since its introduction in 2010 have had an impact on firms' behaviours, there continues to be a misalignment between long-term risk and reward. We agree that more can be done to better align risk and reward. So we are proposing changes to the Remuneration Code. These changes compliment parallel changes being introduced to the Approved Persons Regime.

2. **What firms will this affect?**
   These changes will apply to:
   - banks
   - building societies
   - PRA-designated investment firms (which are dual regulated) and
   - branches of non-EEA banks or building societies

3. **Which people will this affect?**
   These proposals will affect all 'material risk takers' in the affected firms. These are employees who, as defined by EU law, have a significant impact on the risk profile of the firm. The existing Remuneration Code already covers these people.

4. **Why does the FCA have 4 Remuneration Codes?**

   The firms we regulate are subject to different rules and Directives. The Remuneration Codes are:

   - SYSC 19A – this Code covers IFPRU investment firms (which are FCA solo-regulated). Some minor consequential changes have been made to this code as a result of the new rules.
   - SYSC 19B – this Code covers Alternative Investment Fund Managers (subject to AIFMD). These firms are FCS solo-regulated and no changes to this code have been made.
   - SYSC 19C - this Code covers BIPRU firms (which are FCA solo-regulated). Some minor consequential changes have been made to this code as a result of the new rules.
   - SYSC 19D – this Code is **new** and impacts those firms outlined in paragraph 2.

5. **Why have the FCA and PRA introduced different rules on deferral?**
   In our Consultation Paper, the FCA and PRA proposed five-year clawback for all material risk takers (MRTs) below Senior Manager. We received substantive feedback to this proposal, in particular regarding scope.

   Respondents commented that in seeking to apply the increased deferral periods to all MRTs we were failing to take account of the breadth of the MRT population. This had substantially

expanded this year following the application of an EBA regulatory technical standard (RTS) to identifying staff with a material impact on the risk profile of a firm. This significant increase in the population of MRTs was also observed in supervisory evidence we and the PRA gathered on remuneration after the consultation.

With the PRA, we believe it would be disproportionate to apply five-year deferral to all MRTs below Senior Manager, particularly for those with relatively junior roles with limited authority to commit the firm to risk. However, given the number of firms to which the rules apply and our existing approach to proportionality, the PRA maintains that five-year deferral is appropriate for those MRTs with senior, managerial or supervisory roles.

So the PRA will differentiate between 'risk managers' and other MRTs, using the qualitative criteria of the EBA RTS. Risk managers will be subject to five-year deferral, and all other MRTs will be subject to CRD IV minimum (three to five years).

We, the FCA, will maintain the CRD minimum deferral period for all MRTs below Senior Manager. This is in part to ensure consistency for these staff in FCA solo-regulated firms. It is also because the risk-manager category is based on EBA RTS criteria that are largely prudentially-based, tailoring it to the identification of staff whose actions present greater prudential rather than conduct risk

In summary:

- **Senior Managers** as defined under the SMR must apply deferral periods of **no less than seven years** to variable remuneration awards, with no vesting before the third anniversary of award, and vesting no faster than on a pro rata basis. (PRA and FCA requirement)

- **Risk managers** must apply deferral periods of **no less than five years** to variable remuneration awards, with vesting no faster than pro rata from year one. (PRA requirement).

- **All other MRTs** must apply at least three years, by applying the CRD deferral requirements of no less than **three to five years** to variable remuneration awards, with vesting no faster than pro rata from year one. (PRA and FCA requirement).

6. **Will firms have to have different deferral periods for the same staff?**
   No. As dual-regulated firms will be required to comply with the PRA minimum deferral requirements, they will also be compliant with the FCA deferral requirements.

7. **When are these reforms expected to come into force?**
   The new rules on deferral and clawback will come into force for performance years starting on or after **1 January 2016**. The new rules on Non-Executive Directors, the updated General Guidance on Ex-Post Risk adjustment, and all other new or amended rules will come into force from **1 July 2015**.

8. **Will the FCA and PRA have to make more changes to the Remuneration Code as a result of the European Banking Authority's (EBA) guidelines on remuneration?**
   On 4 March, the EBA consulted on guidelines on sound remuneration policies. These draft guidelines clarify how firms and Member States should be implementing the remuneration rules in CRD IV, which came into force on 1 January 2014. This consultation closed on 4 June,

and the EBA are expected to release final guidelines later in the year. Once the final guidelines are issued, we – with the PRA – will consider whether changes to the existing Remuneration Code are required.