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The UK Consults on Changes to Its Remuneration Rules

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The UK's Financial Conduct Authority ("FCA") and Prudential Regulation Authority ("PRA") have issued a joint **consultation** aimed at making dual-regulated firms' remuneration regimes more effective, simple and proportionate while still ensuring accountability for risk taking. As a reminder, dual-regulated firms include banks, building societies and larger investment firms, whereby the PRA is the prudential regulator and the FCA is the conduct regulator.

CP 16/24 (FCA CP 24/23) (the "CP") propose to amend rules on: variable remuneration; the identification of 'material risk takers' ("MRTs") subject to the remuneration rules; MRT proportionality thresholds; and the link between remuneration and individual accountability. In addition, the FCA would amend its rulebook so that in the case of dual-regulated firms it largely cross-refers to the PRA's remuneration rules.

1. *Identifying MRTs*

MRTs are currently identified through minimum qualitative role based tests and quantitative remuneration based tests. The CP proposes creating a single qualitative threshold and giving firms more discretion through allowing them to exclude individuals solely identified via the quantitative threshold from MRT categorisation without regulatory pre-approval.

2. *Enhancing proportionality for MRTs*

Currently, higher paid MRTs in firms classified as larger and more significant are subject to stricter deferral and clawback requirements than other firms, including a four to seven year deferral period (as opposed to a four year deferral requirement). In order to reduce complexity, the CP proposes raising the threshold below which firms my disapply remuneration rules such as deferral and payment in instruments as well as adjusting the clawback period.

3. *Remuneration and individual accountability*

The senior managers and certification regime ("SMCR") addresses the accountability and responsibility of senior managers to both their employers and regulators. Similarly, the remuneration regime seeks to align financial incentives of MRTs and the long term interests of their firms and the general public. The CP proposes to link the accountability and remuneration regimes by introducing a rule and expectations for firms to consider adjusting remuneration up the management chain in the event of 'adverse outcomes,' as well as introducing a rule and expectations to the effect that senior management are accountable for their performance against PRA supervisory priorities.

4. *Deferral and retention periods*

While deferral periods for variable remuneration are intended to align individual interests with long-term performance, current requirements for at least a seven year deferral for PRA senior managers (leading to a spread of deferral periods across the board of between three and seven years) has proved complex and potentially ineffective (the PRA has determined that longer deferral periods may have resulted in firms increasing fixed pay to compensate). The CP is therefore proposing a simplified two-tier deferral period of between three and five years, depending on seniority.

Next steps

The consultation period closes on 13 March 2025, and the PRA reminds firms that it expects them to continue to comply with the European Banking Authority's 2015 guidelines on sound remuneration policies.