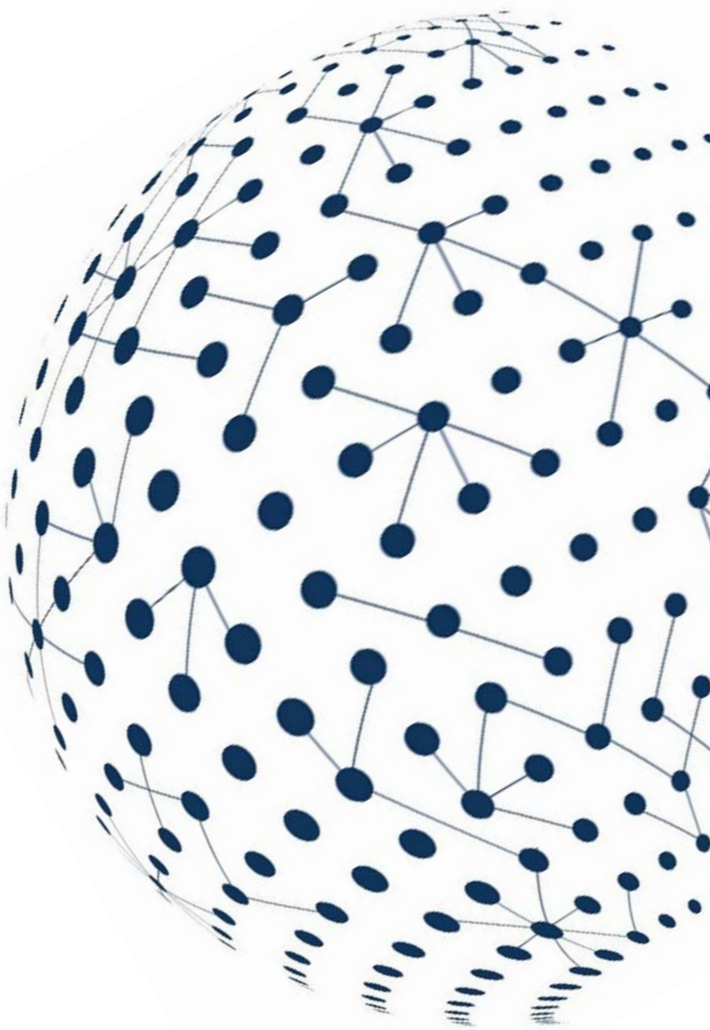
FINANCIAL STABILITY BOARD

Peer Review of the United Kingdom

Review Report



14 April 2021

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Table of Contents

Foreword

Financial Stability Board (FSB) member jurisdictions have committed, under the FSB Charter and in the *FSB Framework for Strengthening Adherence to International Standards,*[1] to undergo periodic peer reviews. To fulfil this responsibility, the FSB has established a regular programme of country and thematic peer reviews of its member jurisdictions.

Country reviews focus on the implementation and effectiveness of regulatory, supervisory or other financial sector policies in a specific FSB jurisdiction. They examine the steps taken or planned by national/regional authorities to address IMF-World Bank Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes recommendations on financial regulation and supervision as well as on institutional and market infrastructure that are deemed most important and relevant to the FSB's core mandate of promoting financial stability. Country reviews can also focus on regulatory, supervisory or other financial sector policy issues not covered in the FSAP that are timely and topical for the jurisdiction and for the broader FSB membership. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, or its compliance with international financial standards.

FSB jurisdictions have committed to undergo an FSAP assessment every five years; peer reviews taking place typically two to three years following an FSAP will complement that cycle. As part of this commitment, the United Kingdom (UK) volunteered to undergo a peer review in 2020.

This report describes the findings and conclusions of the UK peer review, including the key elements of the discussion in the FSB's Standing Committee on Standards Implementation (SCSI) in February 2021. It is the second FSB peer review of the UK and is based on the objectives and guidelines for the conduct of peer reviews set forth in the *Handbook for FSB Peer Reviews.*[2]

The analysis and conclusions of this peer review are based on the responses to a questionnaire by financial authorities in the UK, and reflect information on the progress of relevant reforms as of February 2021. The review has also benefited from dialogue with the UK authorities and market participants as well as discussion in the FSB SCSI. The review process and report preparation largely took place prior to UK changes to reflect the fifth EU Capital Requirements Directive (CRD V); accordingly the report does not examine these changes in depth.

The draft report for discussion was prepared by a team chaired by Unathi Kamlana (South African Reserve Bank) and comprising Pei Hong Mok (Monetary Authority of Singapore), Domenico Perna (Bank of Italy) and Sabrina Rabbani (Australian Prudential Regulation Authority). Simonetta Iannotti and Michael Januska (FSB Secretariat) and Kalai Naidoo (South African Reserve Bank) provided support to the team and contributed to the preparation of the report.

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1 See the *FSB Framework for Strengthening Adherence to International Standards* (January 2010).

2 See the *Handbook for FSB Peer Reviews* (April 2017).

Abbreviations

AIFM	Alternative Investment Fund Managers
BEAR	Banking Executive Accountability Regime (Australia)
BIPRU	FCA's Prudential sourcebook for Banks, Building Societies and Investment Firms
BRRDII	Bank Recovery and Resolution Directive II (EU)
CRD V	Fifth Capital Requirements Directive (EU)
CRR	Capital Requirements Regulation (EU)
D-SIB	Domestic Systemically Important Banks
EBA	European Banking Authority
EC	European Commission
EU	European Union
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FSB	Financial Stability Board
FSAP	IMF-World Bank Financial Sector Assessment Program
IFPRU	FCA's Prudential sourcebook for Investment Firms
MAS	Monetary Authority of Singapore
MiFID	Markets in Financial Instruments Directive (EU)
MRT	Material risk taker
NBFI	Non-bank financial intermediation
OTC	Over-the-counter
P&S	Principles and Implementation Standards (FSB)
PRA	Prudential Regulation Authority
RPS	Remuneration Policy Statement
SCSI	Standing Committee on Standards Implementation
SM&CR	Senior Managers and Certification Regime
SMF	Senior Management Function
UCITS	Undertakings for Collective Investment in Transferable Securities

Executive summary

Background and objectives

The main purpose of this peer review is to examine the steps taken by the authorities to implement the FSB Principles and Implementation Standards (P&S) and assess the effectiveness of financial sector compensation reforms in the UK. The review also briefly considers compensation-related developments in relation to the COVID-19 pandemic and Brexit.

Main findings

The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) (the Authorities) have implemented financial sector compensation reforms in the UK that are consistent with the P&S. The initial focus was on the banking sector but over time the Authorities have increasingly implemented the P&S in the insurance and asset management sectors. For all three sectors the Authorities have adopted a risk-based and proportional regulatory and supervisory approach. In addition, there is strong cooperation and information-sharing between the PRA and FCA and clear communication with the industry about their remuneration expectations. Such communication, including through the publication of letters to Remuneration Committee Chairs, has helped firms understand and embed the requirements over time. Other initiatives such as the Senior Managers and Certification Regime (SM&CR), the FCA 5 Conduct Questions Programme and research published on conduct and culture complement the remuneration regime. In combination with the SM&CR, the remuneration regime has helped firms become more disciplined in mapping responsibilities and resulted in greater consistency and transparency on acceptable remuneration practices.

With implementation well-advanced, the Authorities are increasingly focused on evaluating the effectiveness of the regime and require firms to periodically review the design and implementation of their remuneration policies. The UK is the first FSB jurisdiction to conduct an effectiveness review with a focus on performance adjustment, including the use by firms of tools such as clawback, malus and in-year adjustment. In parallel, the PRA reviewed the SM&CR regime for banks and insurers, publishing the results in December 2020.

Some of the Authorities' approaches to implement the P&S are at the forefront of FSB members' work on compensation and can serve as examples of good practice for other jurisdictions to consider. These include setting expectations through public communication to Remuneration Committee Chairs; a supervisory approach that focuses on close interaction between prudential and conduct rules and reinforces accountability with links to compensation outcomes; and a focus on evaluating the regime's effectiveness. At the same time, steps can be taken to further strengthen the financial sector compensation framework in a few areas. These include: reviewing the interaction between the UK's remuneration regimes and the SM&CR; improving the efficiency of data collection; considering other supervisory approaches for assessing the effectiveness of the regime; and providing additional guidance to the insurance sector.

Review the interaction between the SM&CR and compensation

The remuneration and SM&CR regimes were set up with different, albeit complementary, objectives, and there has been progress to date in their concurrent application. The linkages between the two regimes provide the Authorities with comfort that accountability has practical consequences that contribute to prudent risk taking behaviour. However, the link could be made more clear. In some instances, the application of performance adjustment tools to material risk takers (MRTs) who are also Senior Management Functions (SMFs) may be applied inconsistently between firms. MRTs and SMFs have separate but overlapping identification criteria and, as reported by some industry participants, this could generate confusion and contribute to a general reluctance towards proactive risk taking ("a culture of fear"). The Authorities should consider further strengthening the alignment between the two regimes.

Improving the efficiency of data collection

Remuneration data collection differs based on the size and type of firms, in line with the Authorities' proportionate approach to regulation and supervision. With regard to regulatory reporting, the largest (level one) banks and investment firms must provide remuneration data on their MRTs across all business areas while level one, two and three banking and investment firms provide data on all employees with total remuneration of €1 million or more per year. Additionally, the Authorities provide firms with self-assessment templates and tables, called Remuneration Policy Statements (RPS). Supervisors expect level one banks and investment firms to submit the data on their remuneration policies and practices by completing these templates annually. This can require a large amount of information; indeed some firms indicate they have to prepare summaries for Authorities overlaying the RPS, or that rarely is the information submitted to the Authorities also useful for internal purposes. In addition, the RPS are analysed manually by the Authorities. However, with increased attention by the Authorities on understanding the effects and effectiveness of the regime, data needs will change, including for the need to examine trends across a larger number of players.

The Authorities should consider streamlining and automating the data collection and analysis for level one banks and investment firms. They could also consider collecting remuneration data from a broader range of firms whilst having regard to the cost and complexity for all stakeholders, including minimising the burden on firms where possible. This would enable the Authorities to conduct a sample-based review of the remuneration arrangements across a broader range of firms to support a wider view of industry practices. For example, they might consider asking level two and three firms to submit the RPS periodically (such as every three to four years). The ongoing work by the Authorities to implement a new data collection platform and streamline various aspects of the reporting process offers an opportunity to review the cost, complexity and benefits of information collected for firms of varying sizes.

Assessing the effectiveness of the regime

The Authorities' approach to supervising remuneration arrangements and outcomes are integrated within their respective supervisory approaches. The FCA focuses on the key drivers of culture within firms, including their approach to rewarding and incentivising staff. The PRA prioritises firms with the potential to adversely impact the UK's financial system. Both Authorities use additional means to assess firms' remuneration practices, such as desk-based reviews; meetings with senior management and other firm personnel; surveys; deep dives; and thematic reviews. Through various forms of supervisory interaction, the Authorities challenge firms on how they satisfy themselves of the effectiveness of their remuneration decisions and practices.

The Authorities also give annual feedback to level one banks and investment firms and the FCA has published findings through letters to the Remuneration Committee Chairs of level one firms.

Additional thematic reviews could, where appropriate, complement business as usual supervisory activities. Onsite activities such as sample testing, processes/systems walkthroughs and conversations with staff could give further sense of a firm's risk awareness and dynamics. The results of these market practices could be shared with the industry or published as observations of good and poor practice, to uplift remuneration standards or to better discern any trends and potential issues for the effectiveness of the regime.

Providing additional guidance on remuneration for the insurance sector

The Solvency II remuneration requirements were directly applicable to UK insurance and reinsurance firms, so the PRA did not introduce a rule-based framework for insurers as it has for banks and investment firms. Following the UK's withdrawal from the EU, these requirements have been retained in UK law through the EU Withdrawal Act 2018. However, the PRA has observed a wide range of interpretations by firms of Solvency II remuneration requirements, and that, while firms' interpretations of the rules have improved over time, inconsistencies in their approaches to implementation remain apparent – with particular respect to the long-term performance of MRTs and the structure of remuneration of control functions. In consideration of these recent findings, and in light of the HM Treasury's consultations on the Future Regulatory Framework and review of the Solvency II regime, the Authorities should consider drafting detailed guidance to promote clarity and consistency of outcomes, especially for larger insurers.

Recommendations

In response to the aforementioned findings and issues, the peer review has identified the following recommendations to the Authorities:

1. The Authorities should review the interaction between the SM&CR and remuneration framework, including how the interplay between the SM&CR and remuneration rules/codes reward diligent and proactive risk management.

2. The Authorities should review the current reporting and other data collection from level one banks and investment firms to determine whether there is basis to streamline these into more targeted data requests. They should also consider whether a more structured approach to collecting data from other firms, for example level two and three banks and investment firms, would be useful for the Authorities to perform trend or industry analyses of the compensation practices for these firms.

3. As part of the Authorities' initiative to assess the effectiveness of remuneration rules, they should consider complementing business as usual supervision practices and the data analytics performed on the RPS submissions (for level one banks and investment firms) with additional thematic reviews and onsite visits. Results of such reviews could be published to guide implementation by the industry.

4. The Authorities should consider supplementing the Solvency II remuneration requirements with more detailed guidance for the insurance sector in order to ensure effective risk alignment and avoid potential inconsistent interpretation by firms.

1. Introduction

The UK completed its first FSB peer review in 2013,[3] which examined the macroprudential policy framework, microprudential supervision, and the supervision and oversight of central counterparties. The review concluded that good progress had been made in addressing the 2011 IMF FSAP recommendations across all three areas, although many of the reforms were ongoing.

The UK subsequently underwent an FSAP Update in 2016.[4] The FSAP found the UK financial system to be much stronger and more resilient than in 2011, reflecting to a large extent post-crisis regulatory reforms. The IMF's 2020 Article IV consultation noted progress made on several of the FSAP recommendations, highlighted that coordinated fiscal, monetary and financial sector policy response has helped hold down unemployment and insolvencies in the wake of the COVID-19 pandemic, and observed that the UK financial sector regulatory and supervisory framework has been stable and strong.[5]

Implementation of the core G20 financial regulatory reforms in the UK is progressing. Progress is most advanced for compensation-related reforms, OTC derivatives reforms, and those aimed at enhancing the resilience of non-bank financial intermediation (NBFI). Implementation is progressing, although relatively less advanced for Basel III reforms and reforms aimed at ending too-big-to-fail. Annex 1 provides background information on the UK's implementation status of G20 reforms, and steps taken to date and actions planned by the UK authorities in core reform areas (not covered in this peer review) where implementation has not yet been completed.

This peer review examines implementation of financial sector compensation reforms in the UK. It focuses on the steps taken by the Authorities to implement the FSB's Principles[6] and Implementation Standards[7] ("P&S"), and in particular:

- the regulatory policy and supervisory approaches to deliver effective risk alignment between firms' outcomes and compensation;
- the roles of accountability and how compensation policies can be used as incentive tools, including to deliver with respect to supervisory priorities;
- the relationship between an effective compensation regime, conduct and culture; and
- the approach to assessing the consistency of compensation outcomes and the effectiveness of compensation policies.

In addition, Annex 2 lists the high level objectives of the P&S, Annex 3 illustrates the link between EU legislative instruments and UK rules, Annex 4 summarises the PRA and FCA approaches to supervising compensation practices and Annex 5 lists the main features of the RPS template.

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3 See *Peer Review of the United Kingdom* by the FSB (September 2013).

4 See *United Kingdom: Financial System Stability Assessment* (June 2016, IMF Country Report No. 16/167) and *United Kingdom: Detailed Assessment of Observance on the Basel Core Principles for Effective Banking Supervision* (June 2016, IMF Country Report No. 16/166).

5 See *United Kingdom: 2020 Article IV Consultation* (December 2020, IMF Country Report No. 20/320).

6 See *Principles for Sound Compensation Practices* (2009).

7 See *Implementation Standards for the FSB Principles for Sound Compensation Practices* (2009).

1.1. The FSB Principles and Implementation Standards

In the aftermath of the global financial crisis, the FSB developed the P&S to promote sound compensation practices that support prudent risk-taking behaviour, particularly of employees that are considered “material risk takers” (MRTs). The P&S aim to reduce incentives towards excessive risk-taking that may arise from compensation and to ensure that compensation policies are supported by sound governance and risk management practices; importantly they are not intended to prescribe particular designs or levels of individual compensation.

The P&S comprise nine Principles and 19 Standards. The high-level objectives of the P&S cover three specific areas: governance of compensation, risk alignment, and external stakeholder engagement (see Annex 2). They are intended to apply to financial institutions that are significant for the purposes of the standards, including banks, insurers and asset managers.

According to the latest FSB report on implementing the P&S, all FSB jurisdictions have implemented the P&S for sound compensation for all banks considered significant for the purposes of the P&S.[8] Fewer jurisdictions have implemented the requirements for the insurance and asset management sectors. The UK Authorities reported that implementation covers all the Principles for insurers (through legislation or supervision) and asset managers (through regulation). The UK is among eight FSB jurisdictions to report implementation of all Principles for these two sectors.[9]

2. Steps taken and actions planned

2.1. UK regulatory and supervisory framework for compensation

The P&S were first implemented in the UK in January 2010 by the Financial Services Authority (FSA). The Financial Services Act 2010 required that FSA rules on remuneration be consistent with the P&S.

2.1.1 Responsible authorities and scope of framework

The FSA was divided in 2013 into the Prudential Regulation Authority (PRA) (within the Bank of England) and the Financial Conduct Authority (FCA). These are the competent authorities for supervising compensation policies and practices (hereafter referred to as “the Authorities”).[10] The PRA is responsible for the prudential regulation and supervision of around 1,500 deposit takers (banks, building societies and credit unions), insurance companies and designated

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8 See *Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards: Sixth progress report* by the FSB (June 2019). In most jurisdictions, institutions identified by national authorities as significant for the purposes of the P&S are mainly in the banking sector. In that report, five UK banks are considered significant for the purposes of the P&S: Barclays, HSBC, Lloyds Banking Group, RBS and Standard Chartered.

9 There are other jurisdictions with one or more principle considered not applicable (France, Indonesia, Russia, South Africa and Turkey) or for whom the principles are not applicable to a sector (Australia, Hong Kong, Japan, US for asset managers, and Saudi Arabia for asset managers and insurers), for example because they have no significant asset managers against which the P&S would apply.

10 Both are independent regulators accountable to Parliament, and the Treasury which is responsible for the UK financial services regulatory framework.

investment firms.[11] The FCA is the prudential supervisor for another 49,000 firms and is the conduct regulator for nearly 60,000 financial firms, including the firms prudentially supervised by the PRA ("dual-regulated firms").

The UK Authorities' approach to supervising remuneration arrangements are integrated within their respective supervisory approaches, which are judgement-led, forward looking and based on key risks that can arise from business models to the stability of the UK economy, and the potential for harm to consumers and markets. In order to prioritise activities, the FCA focuses on the key drivers of culture within firms, including a firm's approach to rewarding and incentivising staff; the PRA prioritises firms with the potential to adversely impact the UK's financial system.

The main areas covered by the regulation and supervisory expectations for remuneration set by the Authorities are largely similar and include:

- remuneration policy supporting business strategy, objectives, values and long-term interests of the firm;
- avoiding conflicts of interest;
- governance around the remuneration policy;
- independence and authority of control functions;
- performance measurement and risk adjustment;
- risk alignment of pension policy;
- measures to prevent personal investment strategies and avoidance of the Rules/Codes, and;
- remuneration structures, including ratios between fixed and variable remuneration, performance assessment, guaranteed variable remuneration, early termination, pay-out in retained shares, units or other instruments, deferral and performance adjustment (including malus and clawback).

The PRA and FCA collaborate closely on remuneration. There is a statutory requirement for co-ordination between the Authorities on policy-making and supervision[12], and a Memorandum of Understanding (MoU) between the PRA and FCA describes how this duty to coordinate is fulfilled.[13] On remuneration policy, materials to be published by one Authority are shared with the other for comment to ensure that the policy is aligned, and where appropriate, the PRA and FCA will publish joint statements. For supervision of remuneration, domestic supervisory colleges are held on specific groups or firms with a view to identifying risks and mitigating actions as well as the impact of the approaches on the objectives of the Authorities. The PRA and FCA have established respective data committees whose membership includes a representative from the other authority to ensure that the Authorities do not duplicate data requests to firms. Joint

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11 See PRA Statement of Policy on its approach to the designation of investment firms for prudential supervision.

12 See Financial Services and Markets Act 2000.

13 See the Memorandum of Understanding between the FCA and the PRA.

supervisory calls and meetings are regularly held with the larger or more systemic dual-regulated firms.

The UK regulatory framework for compensation is based on two aspects of the EU framework. The first is the transposition of relevant EU directives, which in some areas permit jurisdictions to go beyond the minimum standards (and which the UK has sometimes used) to provide more stringent requirements (see Annex 3).[14] The second is the direct application to firms of measures which previously applied by virtue of EU law and have now been retained in UK law through the EU Withdrawal Act 2018. These include the European Commission's Delegated Regulation (EU) No 604/2014 ("Delegated Regulation") for MRT Identification[15] for banks and investment firms and the Solvency II Delegated Regulation[16] which sets out remuneration requirements applicable to insurers and reinsurers subject to the Solvency II Directive ("Solvency II firms"). Box 1 describes the UK remuneration regime in more detail.

Box 1– Scope of the UK framework on compensation

Banking

The PRA remuneration rules for banks and dual-regulated investment firms apply to firms in scope of the Capital Requirements Regulation (CRR), including third country banks and dual-regulated investment firms, in relation to their activities carried on from an establishment in the UK. These PRA rules are contained within the Remuneration Part of the PRA Rulebook. The PRA's expectations of firms on how to comply with the Remuneration Part, including on proportionality, MRTs, the application of malus and clawback, and other elements are set out in Remuneration - Supervisory Statement 2/17. In accordance with CRD, PRA remuneration rules apply on solo, consolidated and sub-consolidated levels. The PRA also supervises the eight largest investment firms and has the power to designate investment firms for prudential supervision by the PRA provided certain conditions are met.[17]

The FCA remuneration code applicable to CRR firms is the Dual-regulated firms Remuneration Code, and has the same scope as the PRA remuneration rules.

Insurance

The Solvency II remuneration requirements were directly applicable to all UK insurance and reinsurance firms within the scope of Solvency II. Following the UK's withdrawal from the EU, these requirements have been retained in UK law through the EU Withdrawal Act 2018. The PRA's expectations of how Solvency II firms should comply with the key Solvency II remuneration requirements are set out in Solvency II: Remuneration requirements - Supervisory Statement 10/16 which covers identification of Solvency II staff (including MRTs), deferral, performance measures, proportionality and disclosure to the PRA.

Investment Firms

The FCA has a separate remuneration code for the different types of investment firms:

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14 Relevant EU legislation are: the CRR/CRD, Alternative Investment Fund Managers Directive (AIFMD), Undertakings for Collective Investment in Transferable Securities Directive (UCITSD), and Markets in Financial Instruments Directive II (MiFID II). When transposing EU legislation, the PRA and FCA indicate in the PRA Rulebook and FCA Remuneration Codes, respectively, the specific directives transposed as well as a reference to respective P&S to which the rules correspond.

15 See Commission Delegated Regulation (EU) No 604/2014.

16 See Commission Delegated Regulation (EU) 2015/35.

17 The criteria for designated investment firms are detailed in the *Statement of Policy Designation of investment firms for prudential supervision by the Prudential Regulation Authority March 2013*.

- **Firms in scope of the FCA's Prudential sourcebook for Investment Firms (IFPRU investment firms)**: The IFPRU Remuneration Code applies to all investment firms providing investment services under the EU Markets in Financial Instruments Directive (MiFID) that are sufficiently important to be subject to full prudential supervision under the UK version of CRR.
- **Firms in scope of the FCA's Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU firms):** The BIPRU Remuneration Code applies to investment firms which provide investment services under MiFID but which are not subject to full prudential supervision under the UK version of CRR.
- **Alternative Investment Fund Managers (AIFM):** The AIFM Remuneration Code applies to AIFMs which are established in the UK and authorised to carry on the regulated activity of managing an alternative investment fund. Only AIFMs with portfolios of funds with assets under management above a certain threshold fall within the scope of the Code.[18]
- **Firms managing undertakings for Collective Investment in Transferable Securities (UCITS)**: The UCITS Remuneration Code applies to companies established in the UK that manage UCITS schemes in the form of unit trusts, common funds or investment companies (collective portfolio management).

Each investment firm falls in the scope of either the Dual-regulated firms, IFPRU or BIPRU Remuneration Codes. AIFMs and UCITS firms will usually also be in scope of one of these three codes. Where a firm is in scope of both the IFPRU and AIFM or UCITS Remuneration Codes, it must comply with both. Where a firm is in scope of both the BIPRU and AIFM or UCITS Remuneration Codes, it must demonstrate compliance only with the AIFM or UCITS Code.

Cross-sector application

In addition, the FCA has rules that apply to a broad range of firms and aim to ensure sales staff and advisers are not remunerated in a way that creates incentives for them to sell products inappropriately or that conflicts with their duty to act in the best interest of their clients.

Senior Managers and Certification Regime (SM&CR)

The SM&CR complements the UK framework for compensation. It is a tool to promote better prudential and conduct outcomes across a range of areas - including remuneration - by linking, as appropriate, accountability and risk mitigation actions to responsible individuals (see Section 2.4).

This is a joint regime between the PRA and FCA, first introduced for banks in 2016 and later extended in full to insurers and FCA solo-regulated firms. The regime has sought to underpin the link between seniority and accountability following instances of firm failure and misconduct that arose during the global financial crisis and afterwards.

2.1.2 International cooperation

Many UK financial sector firms have operations overseas and many foreign-domiciled firms have subsidiaries or branches in the UK. International deposit takers, investment firms, insurers and asset managers are therefore supervised by the Authorities on a cooperative international basis.

The UK authorities maintain dialogues with a number of key jurisdictions to discuss and coordinate on financial regulatory issues, including compensation. For example, coordination with international regulators underpins the day-to-day work of the UK Authorities to support

[18] For AIFMs which manage portfolios of funds that are unleveraged and have no redemption rights exercisable for five years following the initial investment in each fund, the threshold is EUR 500 million. In other cases, the threshold is EUR 100 million.

effective supervision, enforcement action, the sharing of best practices and learning from others to shape policy approaches to particular issues.

2.1.3 Proportionality

As is the case for the majority of FSB jurisdictions,[19] the Authorities have adopted a risk-based and proportional regulatory and supervisory approach for firms across the banking, insurance and asset management sectors (see Box 2).[20]

Box 2– The application of proportionality in the UK

Banks[21], dual-regulated investment firms and IFPRU investment firms are separated into three categories (proportionality level one, two or three) based generally on relevant total assets (see Table 1).[22] BIPRU firms, UCITs and AIFMs are not separated into proportionality levels but all are subject to a general proportionality rule.[23]

The Authorities have not introduced proportionality levels for insurers. The PRA's expectations for implementing article 275 of Solvency II regulation are only applicable to significant firms (defined as PRA impact category 1 & 2).[24] Smaller firms (PRA impact Category 3-5) are expected to apply Solvency II principles in a way which is appropriate to their size and complexity.[25]

Table 1: Proportionality levels – Banks, dual-regulated investment firms and IFPRU investment firms

Proportionality level	Type of firm	Relevant total assets (where applicable)
Proportionality level one	Banks, building societies and designated investment firms; IFPRU investment firms.	Exceeding £50 billion
Proportionality level two		Between £15 billion and £50 billion

[19] The majority of FSB jurisdictions report allowing for a proportionate application of regulation or supervisory requirements related to compensation See *Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards: Sixth progress report* by the FSB (June 2019).

[20] See *The Prudential Regulation Authority's approach to banking supervision* (October 2018), *The Prudential Regulation Authority's approach to insurance supervision* (October 2018) and *FCA Mission: Approach to Supervision* (April 2019). These generally provide for firms to comply with the remuneration rules in a way and to the extent that it is appropriate to its size, internal organization and the nature, scope, complexity of its activities.

[21] The PRA regulates banks and building societies, collectively referred to in this report as 'banks'. Table 1 reflects the proportionality split under the UK implementation of CRDIV; information on the changes arising from the implementation of CRD V are summarised in Box 3.

[22] Where firms within the same group fall into different proportionality levels, all firms in the group are reallocated into the highest proportionality level of a firm within the group. Level one firms make up 99.9% of aggregated total assets across dual-regulated credit institutions and investment firms.

[23] BIPRU firms are, by definition, those firms that are not considered to be sufficiently significant to be subject to full prudential supervision under CRD IV, and therefore are not separated into proportionality levels. UCITS firms have not been distinguished into proportionality levels while separate guidance has been provided for AIFM firms. UCITS firms are to consider AIFM guidance as a guide to FCA expectations.

[24] For further information on the PRA's Impact Categories see PRA's approach to insurance supervision.

[25] Insurers are distributed among 5 categories. Significant firms (PRA impact categories 1-2) are expected to comply with the requirements set by article 275 of the Solvency II Regulation, and considered material for purposes of the P&S. The PRA expects smaller firms (PRA impact categories 3-5) to reflect Solvency II principles in their compensation policies in a proportionate way.

Proportionality level three	Bank or building society.	Not exceeding £15 billion
	Full scope investment firm.	Not exceeding £15 billion
	Limited licence investment firm or limited activity investment firm.	Not applicable

Source: Bank of England

The expectation of firms depends on their classification.

- Banks and dual-regulated investment firms within proportionality levels one and two must apply all the PRA and FCA's remuneration rules. Firms in proportionality level three may disapply certain rules, as may BIPRU firms.[26] The asset management remuneration codes are applied proportionally to the different types of asset managers, with the applicable rules based on the significance and the risk profile of the firm.[27]
- Supervisory resources are allocated on a proportional basis. For proportionality level one firms, the PRA and FCA have dedicated supervision teams that assess remuneration topics as part of a comprehensive assessment. For level two and three firms, remuneration is supervised on a risk-based approach, with level two firms having a greater level of supervisory interaction and level three firms likely to form part of a supervisor's wider portfolio of firms. Similarly, the FCA's supervisory approach for asset management firms focuses on their business models and culture, and is carried out through dedicated supervision teams for the firms with the greatest impact (fixed firms), and in aggregate for firms supervised within a specific portfolio (supervision by portfolio of firms).
- Data collection requirements and expectations differ across proportionality levels. With regard to regulatory reporting, level one banks and investment firms must provide remuneration data on their MRTs across all business areas, while level one, two and three banks and investment firms provide data on all employees with total remuneration of EUR 1 million or more per year. The UK Authorities also provide RPS templates with which further data is collected annually from level one banks and investment firms.[28] Level two and three banks and investment firms must provide the RPS to the Authorities upon request.

Proportionality can also be applied by firms to individuals in the firm. The Authorities do not expect firms to apply the remuneration rules relating to guaranteed variable remuneration; retained shares or other instruments; deferral; and performance adjustment where two conditions are satisfied:

(i) the individual's variable remuneration is no more than 33% of their total remuneration and

(ii) the individual's total remuneration is no more than £500,000.

[26] Level three firms may disapply the rules on retained shares or other instruments, deferral, performance adjustment (including rules relating to clawback) and buy-outs. In addition, they are not required to set an appropriate ratio between the fixed and variable components of total remuneration or to ensure that the variable component does not exceed 100% of the fixed component (or up to 200% with shareholder approval). They are, however, required to maintain an appropriate balance between fixed and variable remuneration. Banks, dual-regulated investment firms and IFPRU investment firms, regardless of their proportionality level need to submit MRT exclusion requests to the PRA if there are any. The FCA also reviews the exclusions from a conduct perspective.

[27] IFPRU and BIPRU firms are subject to requirements similar to banks and the AIFMs and UCITS firms are subjected to more high-level rules with detailed guidelines provided by ESMA.

[28] A high-level overview of the data collected for level one firms in terms of the RPS is provided in Annex 5. Full details are available on the Bank of England website.

2.1.4 Brexit and the remuneration framework

In line with the EU Withdrawal Agreement, the UK Government implemented EU legislation that required transposition before the end of 2020.[29] This includes the Fifth Capital Requirements Directive (CRD V) and the Bank Recovery and Resolution Directive II (BRRDII). The PRA published in December 2020 its final approach on CRD V[30] and the FCA also published its final rules and guidance (see Box 3).[31] The UK Government made a statutory instrument to implement certain aspects of BRRDII[32], and the PRA made relevant amendments to its rules.

Box 3– Remuneration policy changes following the transposition of CRD V

In transposing CRD V, the PRA and FCA amended various remuneration rules, guidance and supervisory expectations applicable to UK dual-regulated banks and PRA-designated investment firms. The changes apply to remuneration awarded in respect of a performance year beginning on or after 29 December 2020.[33]

Following these changes, more firms and individuals will be subject to all the remuneration rules. All banks and dual-regulated investment firms will be required to apply the maximum ratio between fixed and variable remuneration, and all firms must ensure that variable remuneration for MRTs is subject to performance adjustment (malus and clawback).

Proportionality levels one, two and three (as described in Box 2) still apply for certain supervisory expectations. However, these categories are no longer relevant for the proportionate disapplication of the remuneration rules. Under the new regime, the disapplication of requirements for payment in instruments, deferral and discretionary pension benefits, is allowed for:

- Firms with total assets equal to or below £4 billion over the previous four-year period; or
- Firms with total assets between £4 billion and £13 billion, as long as they also meet other conditions that qualify them as “small firms” (e.g. the size and complexity of its activities, and the size of its trading book).

Additional changes include:

- The minimum deferral period for all firms has increased from three to four years (with some MRTs continuing to be subject to longer minimum periods).
- In firms of any size, requirements on payment in instruments, deferral and discretionary pension benefits do not need to be applied to individuals with variable remuneration less than £44,000 and where this represents less than one third of their total remuneration.

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29 The European Union (Withdrawal) Act 2018, as amended by the EU (Withdrawal Agreement) Act 2020, incorporates all directly applicable EU legislation (including Regulations and Decisions) into UK law and preserves existing UK implementation of EU law as it has effect in EU law immediately before the end of the Transition Period (“retained EU law”). To ensure that retained EU law is operable in a UK-only context at the end of the Transition Period, it has been necessary to amend certain aspects of the legislation to reflect the UK’s position outside of the EU (“onshoring”). The UK approach to onshoring ensures that, as far as possible, the same rules that applied prior to the end of the Transition Period will apply immediately after the Transition Period. However, it has been necessary to make some changes to reflect the new relationship between the UK and the EU.

30 The Policy Statement (PS29/30) includes final PRA Rulebook instruments, Statements of Policy, Supervisory Statements, and templates. See *Capital Requirements Directive V* (PRA, December 2020).

31 This includes updated rules and revised versions of relevant guidance documents. See Updating the Dual-regulated firms Remuneration Code to reflect CRD V (FCA, December 2020).

32 Bank Recovery and Resolution Directive II (PRA, December 2020). See *Transposition of the Bank Recovery and Resolution Directive II: consultation* (June 2020).

33 See the PRA Policy Statement (PS29/20) Capital Requirements Directive V (December 2020) and the FCA Policy Statement (PS20/16) Updating the Dual-regulated firms Remuneration Code to reflect CRD V (December 2020).

- Firms may choose to apply slightly shorter minimum deferral and clawback periods to MRTs with total remuneration below £500,000 and variable remuneration less than 33% of total remuneration, although minimum CRD V derived requirements remain applicable.
- Listed firms may use share-linked instruments for the non-cash component (this possibility had previously been limited to non-listed firms).
- PRA and FCA rules now provide more detail around how to identify certain categories of staff whose professional activities have a material impact on a firm's risk profile (MRTs).

The EU Investment Firm Directive and Regulation (IFD/IFR) will only apply in the EU from June 2021, after the end of the transition period. As such, this regime will not automatically apply in the UK. HM Treasury intends to take powers through the Financial Services Bill to enable the introduction of an updated prudential regime for investment firms in the UK. In December 2020, the FCA launched a consultation on the design of a new prudential regime for UK firms authorised under MiFID.[34]

2.2. Approaches to deliver effective risk alignment

Risk alignment is a key pillar of the P&S.[35] Aligning compensation policies with the long-term interests of firms helps to reduce the incentives for opportunistic, short-term behaviour, which can contribute to financial instability. Risk alignment involves both ex ante and ex post alignment of compensation.[36] High-level objectives of the P&S for effective risk alignment are that:

- compensation is adjusted for all types of risk;
- compensation outcomes are symmetric with risk outcomes at the firm level;
- firms identify MRTs for compensation purposes;
- the mix of cash, equity and other forms of compensation is consistent with risk alignment;
- firms use an appropriate mix of quantitative and qualitative methods in making ex ante risk adjustments; and
- firms make use of malus and/or clawback where there have been material breaches.

PRA remuneration rules and FCA remuneration codes establish standards for firms to operate a remuneration framework which rewards performance and allows for risk adjustments for adverse outcomes.

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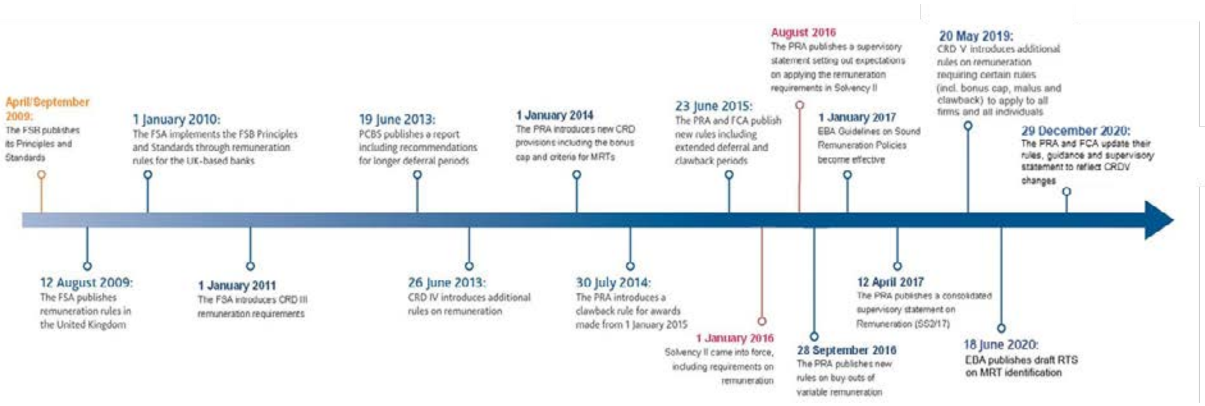
34 See *A new UK prudential regime for MiFID investment firms* (FCA, December 2020).

35 Principles 4-7 and Standards 4-14 of the P&S are part of the risk alignment pillar. The other pillars are governance of compensation and external shareholder engagement.

36 Ex ante risk alignment involves developing compensation policies, structures and performance objectives that are aligned to the firms' risk governance and management framework, including its risk appetite framework, in order to avoid excessive risk-taking behaviour based on short term goals. Ex post alignment describes activities undertaken after a performance period to align compensation with the outcomes that the firm has seen.

Chart 1 below provides an overview of the evolution of the PRA and FCA rules and expectations since the publication of the FSB's P&S with respect to the EU's CRR and Solvency II.

Evolution of UK rules and expectations for the banking and insurance sectors following the FSB's P&S **Chart 1**



2.2.1 Adjusting for all types of risk and ensuring compensation outcomes are symmetric

The PRA and FCA rules require the consideration of all types of risk and that variable compensation is related to risk outcomes at the firm level. Banks, dual-regulated investment firms and IFPRU investment firms must ensure that any measurement of performance to calculate variable compensation includes adjustments for all types of current and future risks; take into account the cost and quantity of capital and liquidity involved; and the timing and likelihood of potential future revenue, based on profits.[37] They must also ensure that: performance assessments are based on long-term performance; performance-based remuneration is staggered over a period that takes account of the business cycle of the firms and its business risks; variable remuneration payments do not limit the firm's ability to strengthen its capital base; and in negative performance periods, variable remuneration is adjusted through reduced payments as well as recovery from malus and clawback.

Banks, dual-regulated investment firms and IFPRU investment firms are also required to submit information on the number of staff earning total remuneration of €1m or more annually (known as "high earners"). The FCA reviews the data submitted for the highest earners in the asset management function annually. For banks and dual-regulated investment firms, there are several points throughout the remuneration cycle where the PRA conducts supervisory activities to ensure variable remuneration distribution does not adversely impact a firm's financial stability.[38] Table 2 includes the factors that firms account for when adjusting the size of the bonus pool to reflect overall firm performance.

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[37] To determine profits for this purpose, a firm must adjust its fair valuation accounting model profit figure by the incremental change in its regulatory prudent valuation adjustment figure across the relevant performance period. All UK dual-regulated firms are required to file quarterly prudent valuation returns with the PRA.

[38] For example: firms are expected to take into account financial performance when calculating the bonus pool; the PRA conducts capital affordability assessments prior to pay-out distribution; firms are expected to notify the PRA ahead of making distributions; and there are automatic restrictions on distributions if a firm uses its capital buffers.

Insurers (under Solvency II) are expected to ensure that the measurement of performance, as a basis for variable remuneration, includes a downward adjustment for exposure to current and future risks, taking into account the firm's risk profile and the cost of capital.

The FCA requires that AIFMs and UCITS firms ensure that remuneration policies are in line with the interests of the AIFM or the management company and the AIFs or UCITS managed. As set out above, firms must ensure their assessments of performance are set in multi-year frameworks in order to ensure that the assessment process is based on longer-term performance.

At different stages during 2020, the PRA and FCA communicated and, where deemed appropriate, updated their expectations for remuneration and dividend payments in response to COVID-19 (see Box 4).

Box 4 – Remuneration and COVID-19

In March 2020, the Bank of England set the UK countercyclical capital buffer (CCyB) rate at 0%. This was accompanied by a PRA statement setting out expectations for firms' remuneration policies and practices under the SM&CR.[39] Firms were expected to take reasonable steps to ensure that proposals to amend bonus pools as a result of the CCyB rate reduction were appropriately discussed, recorded and challenged, and consistent with the maintenance of a sound capital base.

Later that month, the PRA wrote letters to large UK banks setting out its expectations for these firms to not pay cash bonuses to senior staff (including all MRTs) to ensure they can maintain adequate capital resources. The PRA also highlighted the Board's role in considering necessary actions regarding accrual, payment and vesting of variable remuneration over coming months. The letter noted that "*The PRA stands ready to consider use of supervisory powers should [the] group not agree to take such action*."[40]

The PRA also wrote to UK insurers, noting that in making decisions on variable remuneration, Boards are expected to pay close attention to the need to protect policy holders and maintain safety and soundness, and in doing so ensure that their firm can play its part in supporting the real economy throughout the economic disruption arising from COVID-19.

In December 2020, the PRA updated its expectations on the payment of cash bonuses by large UK banks to senior staff, including MRTs, noting that *"The PRA expects firms to exercise a high degree of caution and prudence in determining the size of any cash bonuses granted to senior staff given the uncertain outlook and the need for banks to deploy capital to support the wider economy."*[41] Accordingly, the PRA notes that it will be scrutinising pay-outs closely.

The FCA in March 2020 communicated its expectation for solo-regulated firms that discretionary distributions of capital, including to meet a variable remuneration decision, are considered in a prudent manner given the current market circumstances.[42]

The Authorities will be in a position to draw some cross-firm conclusions about the impact of COVID on firms' remuneration decisions when further data for the performance year 2020/2021 becomes available during 2021.

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39 See PRA statement accompanying measures announced by the Financial Policy Committee (March 2020).

40 See Letters from Sam Woods to UK deposit takers on dividend payments, share buybacks and cash bonuses (March 2020).

41 See PRA statement on capital distributions by large UK banks (December 2020).

42 See FCA's expectations on financial resilience for FCA solo-regulated firms – statement update (March 2020).

2.2.2 Identifying material risk-takers

MRTs for banks and investment firms are identified according to the European Commission's Delegated Regulation for MRT Identification.[43] In addition, the Authorities expect firms to take a holistic view by identifying as an MRT any person whose activities may expose the firm to material risk, even if they do not fall within the mandatory criteria under the Delegated Regulation. At end-2018, about 9,000 MRTs were identified by the 15 UK domestic systemically important banks (D-SIBs), making up 1% of total employees of these D-SIBs. In the asset management sector, the IFPRU investment firms identify MRTs on the same basis as other dual-regulated firms with the RTS being applicable. BIPRU, AIFM and UCITs firms apply the same high-level definition of MRTs but are not subject to the Delegated Regulation for identifying MRTs. The FCA provides guidance to BIPRU firms on MRT identification.

The FCA and PRA, through the annual review of the remuneration practices of level one banks and investment firms, have observed that many firms have developed their own specific criteria (e.g. criteria linked to job grade or earning level) to identify MRTs. These internal criteria have captured staff that would not have necessarily been captured under the mandatory qualitative and quantitative criteria prescribed by the Delegated Regulation. Examples include additional heads of risk and support functions such as conduct risk, reputational risk, strategy, operational risk and financial crime.[44]

For the insurance sector, the Solvency II remuneration requirements (that have been retained in UK law through the EU Withdrawal Act 2018) require specific remuneration arrangements, such as performance adjustment, to apply to staff whose professional activities have a material impact on the institution's risk profile. The PRA provides some high-level expectations but has not prescribed specific criteria for identification of MRTs. The responsibility rests with the insurer to develop consistent materiality thresholds across their identification process by considering various factors.'

The PRA has noted that some firms have captured a considerable number of Solvency II staff based on the application of a range of quantitative and qualitative criteria whilst other firms have adopted a narrow approach only identify MRTs concentrated at the highest level of management. In addition, the PRA has observed disproportionally high MRTs numbers in 'operational systems and controls areas' and lower numbers in areas such as 'investment management', 'underwriting and pricing' where higher numbers would have been expected [45]

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43 The Delegated Regulation has been retained in UK law via the EU Withdrawal Act 2018. The PRA SS2/17 provides further expectations for identifying part-year MRTs, individuals in credit and trading risk roles and the exclusions process, supported by the FCA's General Guidance on Proportionality. MRTs can be excluded where they are scoped in because of only quantitative criteria in the Delegated Regulation and where a firm is able to motivate to excluding an individual from identification as an MRT if their professional activities do not have a material impact on the firm's risk profile. Firms may notify or seek approval from the PRA and FCA to exclude such individuals. Supervisors review applications to assess the professional activities of the individual and their impact on the risk profile of the firm.

44 See 2016 FCA letter to Remuneration Committee Chairs.

45 See the PRA's 2019 Letter to Insurance Remuneration Committee Chairs.

2.2.3 *Risk adjustments, forms of compensation and tools*

Banks, dual-regulated investment firms and IFPRU investment firms are required to incorporate a risk adjustment framework in their remuneration arrangements, which includes tools that allow adjustments (both at the bonus pool level and at the individual level), and triggers under which adjustments should take place. Triggers for adjustments are explicit for banks and investment firms, with a more high-level approach applying to insurers, AIFMs and UCITS firms.

Table 2: Triggers impacting downward adjustments to variable remuneration distribution in banking and investment firms

Bonus Pool considerations	Individual considerations
Cost and quantity of capital and liquidity	Conduct which resulted in significant losses
Potential future revenues	Failed to meet appropriate standards of fitness and propriety
Current and future risks	Misbehaviour or material error
Profits and financial performance	Firm or relevant business unit suffers material downturn
	Material failure in risk management Delivery against supervisory priorities

Firms are required to have in place a mechanism to determine which triggers require the application of adjustment tool(s) (in-year adjustments, malus or clawback). There is an expectation that firms explain clearly and transparently how they have quantified the level of remuneration adjustment, to be commensurate to the risk outcomes. The Authorities do not prescribe the remuneration adjustment, nor the adjustment tool, but provide guidance to assist firms to take account of relevant matters in determining appropriate adjustments and tools.

One of the tools to implement risk alignment is the use of deferral of variable remuneration. Deferred incentive compensation contributes to prudent incentives because risk-taking and risk outcomes often become clearer over time.[46] Longer deferral periods together with the application of malus are often the most practical tools to account for the longer time horizon of certain risks, and globally remuneration arrangements now generally have longer time horizons, with a number of authorities setting minimum regulatory standards for deferral ranging from three to five years.[47]

The Authorities have applied a longer deferral period than many FSB jurisdictions. The UK deferral rules applicable to banks, dual-regulated investment firms, and IFPRU investment firms, split the MRT population into three categories, using the SM&CR and Delegated Regulation frameworks. Senior managers are subject to at least seven-year deferral of variable compensation, risk managers to at least five-year deferral and all other MRTs to three to five-year deferral.

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46 Deferrals are an effective lever for risk management as it allows late-arriving information to have an impact on remuneration outcomes, which therefore may not be fully captured by in-year adjustments.

47 See *Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards: Sixth progress report* by the FSB (June 2019).

In addition, for banks, dual- regulated investment firms and IFPRU investment firms at least 50% of the variable remuneration must be in shares or non-cash instruments, and all variable remuneration is subject to malus and clawback. In considering the most important features in how in-year adjustments, malus and clawback triggers are structured and applied in practice, banks and investment firms are expected to reduce unvested deferred variable remuneration, as a minimum if there is reasonable evidence of employee misbehaviour or material error, the firm or the relevant business unit suffers material downturn to its business performance, or there is a material failure in risk management.[48]

The Authorities provide guidance on ex-post adjustments including that it can be applied collectively at bonus pool level to groups of employees and individuals. In addition, firms are required to explain how they have adjusted remuneration to take account of poor behaviour. The Authorities expect firms to develop and maintain procedures for deciding cases that could result in in-year adjustments, and their guidance sets out the elements for inclusion. This is a valuable source of information in understanding how firms are expected to apply in practice rules on the remuneration adjustment.

PRA and FCA supervisors assess firms' use of malus and clawback for material events in proportionality level one banks and dual-regulated investment firms annually through the annual RPS submissions. Supervisors use their broader knowledge and judgement of the firm and any particular risk events that may have arisen to form a view on the appropriateness of adjustments. For smaller firms this analysis is carried out based on the judgement of risk. In line with the SM&CR, it is the responsibility of the firm to explain why it considers the decisions taken are appropriate and the information provided should be sufficient for the Authorities to assess the firm's ex-post risk adjustment decisions.

For insurers, firms are expected under Solvency II to ensure, among other things, that:

- where remuneration schemes include both fixed and variable components, such components shall be balanced;
- where variable remuneration is performance-related, the total amount of the variable remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall result of the undertaking or the group to which the undertakings belongs;
- the payment of a substantial portion of the variable remuneration component, irrespective of the form in which it is to be paid, shall contain a flexible, deferred component (of at least three years) that takes account of the nature and time horizon of the undertaking's business; and
- financial and non-financial criteria shall be taken into account when assessing an individual's performance.

[48] The approach is further supported by the PRA supervisory guidance on triggers for in-year adjustment, malus and clawback, the FCA General guidance on the application of ex-post risk adjustment to variable remuneration, as well as the assessment criteria.

2.2.4 Data collection

In line with the proportionate approach to regulation and supervision, remuneration data collection differs based on the size and type of firms. With regard to regulatory reporting, level one banks and investment firms must provide remuneration data on their MRTs across all business areas, while level one, two and three banking and investment firms provide data on all employees with total remuneration of EUR 1 million or more per year. This data allows the Authorities to assess remuneration trends and practices and to review the number of individuals receiving total remuneration of EUR 1 million or more annually. When the UK was a member of the EU, the Authorities provided this information to the European Banking Authority (EBA) who publishes information on the remuneration practices of banks and other financial sector participants.[49]

Firms in all sectors are required to ensure that their remuneration policies, practices and procedures are clear and documented. To assist with this, the Authorities provide self-assessment templates and tables, called Remuneration Policy Statements (RPS). These are used to assess compliance with the remuneration requirements.

Level one banks and investment firms are expected to submit their RPS annually. Level two and three firms are encouraged to use the RPS as they can be required to submit them to the Authorities upon request.[50] Separate RPS are available for each of the FCA remuneration codes applicable to different types of asset managers.

With regard to significant insurers (PRA impact category one or two firms[51]), the PRA collected data in 2017, 2018 and 2019 through an RPS that is closely aligned to Solvency II Regulation to enable an assessment of firms' implementation of the requirements. These firms are asked to provide details, inter alia on the remuneration schedule, the remuneration policy, the financial and non-financial performance metrics, Solvency II identified staff, risk adjustment – bonus pool size, bonus schemes and executive incentive schemes. The Authorities conduct cross-firm and key issue trends analysis and periodically communicate these outcomes to the firms, for example through a "Dear Remco Chair" letter.[52]

The Bank of England and the FCA are currently in the process of transforming the way in which they gather, host and use regulatory data. A new online system for collecting and storing regulatory data is already being rolled out to firms, which makes it easier for them to submit their data. The Authorities are also exploring how they might automate and streamline various aspects of the regulatory reporting process. The core aims are to decrease the burden on industry and increase the timeliness and effectiveness of data in supporting supervisory judgements.

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49 The Data on High Earners (2018 Data) report notes that 73% of the high earners in the EU are located in the UK.

50 Level two firms are not required to submit their RPS questionnaire and tables unless requested to do so by the PRA or FCA, but they should be reviewed and approved by the firm's body with responsibility for remuneration policies. For level three firms the questionnaire and tables set out the questions the PRA would likely ask if it reviewed the firm's remuneration policies. The RPS templates for smaller firms are less detailed but include all necessary information for the purposes of assessment.

51 As defined in the PRA Approach to Insurance Supervision.

52 See the PRA's 2019 Letter to Insurance Remuneration Committee Chairs.

2.3. Roles of accountability and compensation policies as incentive tools to deliver on supervisory priorities

2.3.1 Role of accountability to deliver on priorities

The PRA and FCA SM&CR is the key framework by which the Authorities assign accountability to senior individuals in regulated firms. For dual-regulated firms it is a jointly regulated regime.[53] Following its implementation in the banking sector in 2016, the SM&CR was extended to insurers in December 2018 and to FCA solo-regulated firms in December 2019.

The *Senior Managers* element of the regime imposes explicit individual accountability obligations to persons who are responsible for key activities of a firm, including the prudent management of risk. This encourages senior individuals to take greater responsibility for their actions and provides a framework for firms (and PRA/FCA) to hold those senior individuals to account. The *Certification Regime* element ensures that risk-taking staff below the level of Senior Managers are fit and proper, take personal responsibility for their actions, and meet the FCA's Conduct Rules. The SM&CR aims to effectively embed accountability - where senior individuals are responsible for both their decisions and actions, as well as those who work for them. Results from a recent survey for the PRA evaluation of the SM&CR found that 96% of sampled firms reported that the regime had brought about positive and meaningful changes to behaviours in industry.[54]

Accountability is increasingly becoming a focus area for regulators internationally as a tool to clarify roles and responsibilities and enable consequence management.[55] Other jurisdictions have adopted or are looking closely at broad-based accountability frameworks similar to the SM&CR. Similar regimes to the UK exist in Hong Kong through the Manager-in-Charge regime and Australia through the Banking Executive Accountability Regime (BEAR).[56] The Monetary Authority of Singapore (MAS) issued guidelines on individual accountability and conduct in September 2020[57] and the United States proposed supervisory guidance which delineates the roles and responsibilities related to risk management to ensure the independence of risk.

In the UK, through the SM&CR, a firm needs to satisfy itself that individual Senior Managers are fit and proper, and are taking reasonable steps in overseeing the functions they are responsible for, which must be documented in a Statement of Responsibilities (a single document setting out the roles and responsibilities of the individual and how they fit in with the firm's overall governance and management arrangements). All dual-regulated firms and FCA Enhanced

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53 The regime was developed in response to the 2013 recommendations of the Report of the Parliamentary Commission on Banking Standards: Changing banking for good. The aim of the SM&CR regime was to bring about a genuine change in culture at all levels within the banking sector by strengthening accountability and governance in the way a firm operates.

54 See PRA Evaluation of the Senior Managers and Certification Regime (SM&CR) (December 2020).

55 The FSB published *Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors* in 2018, which includes, amongst other focus areas, supervisory guidance to strengthen individual responsibility and accountability. The toolkit outlines collective and individual accountability and responsibility similar to the UK and Hong Kong regimes.

56 The BEAR framework in Australia is the only regime which has specific requirements around remuneration, with direct alignment between accountability and consequence management through remuneration.

57 See https://www.mas.gov.sg/regulation/guidelines/guidelines-on-individual-accountability-and-conduct.

firms[58] must maintain responsibility maps and reporting line details for management and governance arrangements, to ensure accountability and responsibility is appropriately cascaded. The regime provides the PRA and FCA with a supervisory tool across key functions (including remuneration), by ensuring supervisors can align risk mitigation actions to accountable individuals. Firms are expected to assign a Senior Manager tasked with delivering a major supervisory priority. Overall, the SM&CR drives to improve culture, governance and accountability in firms. Its purpose is clear for supervision - to improve individual accountability which can, in turn, deter misconduct. For further information on the link between culture, conduct and compensation, see Section 2.4.

2.3.2 Link between accountability and compensation policies

PRA and FCA rules state that a firm which is significant in terms of size, scope and complexity, must establish a Remuneration Committee. This governing committee is responsible for ensuring that the firm is operating within the remuneration rules and codes as set out by the relevant authority. The SM&CR further expands on this, by establishing individual accountability for overseeing the development and implementation of remuneration practices. Where a firm has a remuneration committee, the Senior Manager Function (SMF) with the remuneration prescribed responsibility would be the Remuneration Committee Chair.[59] This explicit accountability of a senior manager is intended to ensure that a firm's governance arrangements are effective in identifying, managing and mitigating the risk that compensation practices may encourage inappropriate and adverse outcomes.

As part of supervisory activities, PRA and FCA expect Chairs of the Remuneration Committee to explain how they satisfy themselves of the effectiveness of the firm's remuneration decisions and practices. After the annual remuneration review cycle for banks and dual-regulated investment firms, the Authorities provide feedback to firms, which set out the findings of the review. These findings are published on the FCA's website.[60] These letters further emphasise the accountability expectations placed on Remuneration Committee chairs publicly. Similarly, the PRA wrote to the Remuneration Committee Chairs of significant insurers in July 2019 on the implementation of Solvency II remuneration requirements.[61] Whilst not explicitly focused on remuneration, letters sent by the FCA to asset management firms highlight expectations in relation to the implementation of the SM&CR regime.[62]

Additional examples of alignment between the remuneration rules and the SM&CR include:

- all persons identified as MRTs under the remuneration rules will be either a Senior Manager or Certified Function under the SM&CR; and

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58 The SM&CR for solo-regulated firms splits firms into three categories: Limited Scope, Core and Enhanced. There are six thresholds that result in a firm being classified as Enhanced but in general they are those firms whose size, complexity and potential impact on consumers or markets warrant more attention. See SM&CR categorisation for solo-regulated firms.

59 For firms without a Remuneration Committee Chair, responsibility for overseeing remuneration practices is assigned to another SMF.

60 See 2020 FCA Letter to Remuneration Committee Chair. Letters from previous years are also available online.

61 See 2019 PRA letter to Remuneration Committee Chair.

62 See 2020 FCA letter to Chief Executive.

- within the banking sector, certain Senior Managers under the accountability regime are subject to the seven-year deferral of variable remuneration as outlined in PRA and FCA rules, to align with the risk profile of these firms.

The two frameworks complement each other to establish accountability and consequence management to deliver on supervisory priorities. The SM&CR establishes the ‘who’ – to ensure clear risk adjustments and consequences can be applied to those who are accountable in the event of a material failure, while the PRA remuneration rules and FCA remuneration codes set out the ‘what’ and ‘how’ - the parameters for risk adjustments to remuneration.[63]

There has been progress in the application of both regimes concurrently. The PRA has found evidence of effective alignment of accountability and remuneration consequences in practice, where a number of SMFs have been subject to variable remuneration reductions following material events. Over half of the reductions were due to indirect involvement through an oversight function, demonstrating that the SMFs are still ultimately accountable under the SM&CR. Prior to the SM&CR, such adjustments may not have occurred – demonstrating the effective delivery of supervisory priorities.

As part of its further work in improving alignment between the SM&CR and remuneration for banking and insurers, the Authorities are:

- seeking feedback on the benefits of further articulating the link between the SM&CR and remuneration adjustments. The recent PRA evaluation found that pay adjustments are not necessarily larger or more frequent for individuals in scope of the SM&CR;[64]

- asking Remuneration Committee Chairs to explain how the success or failure of the SMF to manage risk will be reflected in remuneration. Accountability is explicitly outlined in the Statement of Responsibility, and translated into impact on variable remuneration through scorecard design; and

- requiring Remuneration Committees to explain the appropriateness of their consequence management.

2.4. Relationship between an effective compensation regime, conduct and culture

The FSB’s sixth progress report observed that in recent years there has been an increased focus on compensation as a tool to address conduct risk.

The Authorities have made significant contributions to the link between compensation and conduct issues through the strengthening of accountability regimes. The Authorities also require firms to make both financial and non-financial criteria, such as individual adherence to effective risk management, an integral part of performance assessment. As a result, variable

[63] See Good cop/bad cop, Sam Woods (2018), PRA.

[64] See PRA Evaluation of the Senior Managers and Certification Regime (SM&CR) (December 2020).

remuneration can be used as a tool to reinforce and embed positive conduct in the organisation at all levels.[65] The approach is further strengthened by focusing on a culture of accountability to progress the remuneration outcomes at a defined level (senior management), and encapsulated in the SM&CR framework as described in Section 2.3.

The Authorities have two Prescribed Responsibilities for culture under the SM&CR, supporting the interplay between individual and collective responsibility of the Board. As the conduct regulator, the FCA recognises that a firm's strategy on rewarding and incentivising its people is one of the four key drivers of behaviour and a significant contributor to the culture of a firm, alongside the firm's purpose, its leadership and its governance arrangements. The FCA's remuneration rules therefore seek to incentivise positive behaviours and discourage poor conduct.

In addition, the FCA has undertaken work on transforming culture in financial services, including by implementing a 5 Conduct Questions Programme, to help firms improve their conduct risk management and, ultimately, drive cultural change.[66] The Programme was initially applied to banks from 2015 but has since been rolled out more widely across wholesale financial services including asset managers. Firms are required to develop their own definitions of conduct risk, aligned to the nature, scale and complexity of the firm's business model and are expected to take into consideration the purpose of the firm. Firms are also expected to explain to the FCA the success of the Programme, areas that did not work as intended, and efforts that were made to change conduct. These lessons are reported back to the industry on an annual basis. This approach is applied across the firm to all staff, and not limited to MRTs only.

The supervisory plans of the FCA incorporates the review of remuneration practices to ensure that approaches to rewarding and incentivising all staff reinforce healthy cultures and do not drive behaviours that are likely to lead to harm to consumers or markets.[67]

In terms of the assessment of the impact of a firm's compensation regime on culture and conduct, the Authorities, as a result of requirements to report breaches, have a view of all conduct-related matters that result in a disciplinary hearing on an annual basis or within seven days, when the person involved is a senior manager.

Based on their observations thus far, the Authorities attribute the change in culture on remuneration to their remuneration rules, which derive from the P&S, as well as the SM&CR, which complements the compensation reforms to support prudent decision-making and accountability across the most senior decision-makers in firms.

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65 The requirement to have a mixed scorecard is comparable to six other FSB jurisdictions (China, Hong Kong, Singapore, Saudi Arabia, Switzerland and Turkey) that have similar requirements.

66 See the FCA's 5 Conduct Questions Programme, and its latest report, *'Messages from the Engine Room' 5 Conduct Questions* (September 2020), which focused on wholesale banking.

67 The FCA gathers information from a broad set of sources when analysing the drivers of culture. This includes complaints data, information from whistleblowers; regulatory reports and notifications of conduct rule breaches.

2.5. Assessing consistency of outcomes and effectiveness of compensation policies

The Authorities are evaluating the effectiveness of their regime. In 2018, the PRA launched a multi-year project to evaluate the effectiveness of the remuneration rules in banks and dual-regulated investment firms and assess the extent to which their objectives have been achieved and unintended side effects minimised. The UK is among the first FSB jurisdictions to conduct an effectiveness review[68] with a focus on performance adjustment, including the use by firms of tools such as clawback, malus and in-year adjustment. The review is still ongoing, particularly on areas relating to MRT identification, bonus pools, labour market issues and regulatory arbitrage, and is expected to be completed in 2021.[69] The PRA expects to conduct similar internal evaluations every three to five years. In parallel, the UK recently published the results of its review of the SM&CR regime.[70]

The Authorities also require firms to periodically review the design and implementation of their remuneration policies. Firms are required to ensure that the remuneration policies are subject to a central and independent internal review for compliance, and may be requested to share key findings of these reviews with the Authorities. The supervisory expectation is for firms to go beyond a compliance exercise and look at whether remuneration is driving the right outcomes and adjust their policies in case of unintended consequences, for example in case of misconduct or mis-selling due to remuneration incentives. Supervisors look at the effectiveness of firms' remuneration through the one to two years supervisory cycle– to look at aspects such as balance of financial and non-financial measures, and measures relating to reputation and building positive customer outcomes. Both Authorities use a variety of means to assess a firm's remuneration practices. This can take the form of surveys and desk-based reviews; and meetings with senior management and other firm personnel. These aspects enable supervisors to challenge firms and form a judgement on effectiveness at the individual firm level, and address these through supervisory letters to the firms and action plans required as needed. The Authorities may also use other means to gather information and assess firm's remuneration practices which complement business as usual supervisory practices. These may be in the form of industry round tables, deep dives and thematic reviews covering a wider range of firms.

Both the Authorities and interviewed firms have spoken of a significant transformation observed in the last 10-15 years, with firms having been on a journey to internalise all the various dimensions that speak to effectiveness. Supervisory engagements with firms indicates that remuneration requirements are now very embedded within firms' regimes.

The combination of various compensation tools have contributed to firms incorporating remuneration principles into their day-to-day operations. These tools include deferrals; the need to handle misconduct cases; the accountability through SM&CR and the constant messaging from supervisors on culture and conduct issues; the focus on governance; and the expectations

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68 See *Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards: Sixth compensation progress report* (FSB, June 2019), including a UK case study "Evaluation of the Bank of England's remuneration rules".

69 In addition to the PRA project, the FCA is conducting a survey on compensation arrangements by wholesale brokers to understand the approaches to rewarding and managing people within this portfolio of firms.

70 See the PRA's *Evaluation of the Senior Managers and Certification Regime* (December 2020).

on the Remuneration Committees to be involved in the bonus pool setting process, and to consider cultural aspects. The focus of remuneration goes now beyond financial performance to touch on whether cultural factors and standards of behaviour are in line with expectations.

3 Conclusions and recommendations

The UK Authorities have implemented financial sector compensation reforms that are consistent with the FSB P&S and are proportionate across entity types and sizes. While the initial focus was on the banking sector, over time the Authorities have increasingly implemented the P&S in the insurance and asset management sectors. In addition, there is strong cooperation and information-sharing between the PRA and FCA and clear communication with the industry about their remuneration expectations. Such communication, including through the publication of letters to Remuneration Committee Chairs, has helped firms understand and embed the requirements over time. Other initiatives such as the SM&CR, the FCA 5 Conduct Questions Programme and research published on conduct and culture complement the UK remuneration regime. In combination with the SM&CR, the remuneration regime has helped firms become more disciplined in mapping responsibilities and has resulted in greater consistency and transparency on acceptable remuneration practices. With implementation well-advanced, the Authorities are increasingly focused on evaluating the effectiveness of the regime.

Some of the Authorities' approaches to implement the P&S are at the forefront of FSB members' work on compensation and can serve as examples of good practice for other jurisdictions to consider. These include setting expectations through public communication to Remuneration Committee Chairs; a supervisory approach that focuses on close interaction between prudential and conduct rules and reinforces accountability with links to compensation outcomes; and a focus on evaluating the regime's effectiveness.

At the same time, steps can be taken to further strengthen the financial sector compensation framework in a few areas. These include: reviewing the interaction between the remuneration regimes and the SM&CR; improving the efficiency of data collection; considering other supervisory approaches for assessing the effectiveness of the regime; and providing additional guidance for the insurance sector.

3.1 Review the interaction between the SM&CR and compensation

The remuneration and SM&CR regimes were set up with different, albeit complementary, objectives. They interact in various ways, and there has been progress to date in their concurrent application. The linkages between the two regimes provide the Authorities with comfort that accountability has practical consequences that contribute to prudent risk taking behaviour.

While steps have been taken to highlight the links between the SM&CR and remuneration[71], there is scope to make it even clearer to help mitigate any unintended consequences. In some instances, the application of performance adjustment tools to MRTs who are also SMFs may be applied inconsistently between firms. MRTs and SMFs have separate but overlapping

[71] See Good cop/bad cop, Sam Woods (2018), PRA

identification criteria and, as reported by some industry participants, this could generate confusion and contribute to a general reluctance towards proactive risk taking ("a culture of fear"). While there is a link between remuneration and accountability under the SM&CR, this link is not fully reflected in Authorities' expectations of firms (e.g. the corresponding PRA remuneration Supervisory Statements and FCA guidance). Unintended consequences could include a potential to curb entrepreneurship and innovation due to reluctance to take risks, an increase in fixed remuneration and a focus on fear culture and consequences, rather than rewarding good risk management.

Given the two frameworks are separate regimes, the Authorities acknowledged that the alignment of remuneration to the SM&CR must continually evolve, ensuring expectations for firms are clearer, including by outlining expectations in PRA supervisory statements and FCA guidance. The Authorities should consider further strengthening the interaction between the two regimes, remove any potential confusion between determining an SMF versus an MRT, and ultimately simplify and streamline the application of the two regimes across firms in different sectors and lines of business, and its supervision.

- **Recommendation 1:** The Authorities should review the interaction between the SM&CR and remuneration framework, including how the interplay between the SM&CR and remuneration rules/codes reward diligent and proactive risk management.

3.2 Improving the efficiency of data collection

The Authorities have taken a proportionate approach to data collection based on the size and significance of a firm. With regard to regulatory reporting, level one banks and investment firms must provide remuneration data on their MRTs across all business areas while other level one, two and three banks and investment firms provide data on all employees with total remuneration of €1 million or more per year. Additionally, supervisors expect the largest (level one) firms to submit further annual data on their remuneration policies and practices by completing the RPS templates. These templates can require a large amount of information, particularly for large or complex financial firms; indeed some firms indicate they have to prepare summaries for Authorities overlaying the RPS. Certain firms have indicated that rarely is the information submitted to the Authorities also useful for internal purposes. In addition, the RPS are analysed manually by the Authorities. However, with increased attention by the Authorities on understanding the effects and effectiveness of the regime, data needs will change, including for the need to examine trends across a larger number of players.

The Authorities should consider streamlining and automating the data collection and analysis for level one banks and investment firms. They could also consider collecting remuneration data from a broader range of firms whilst having regard to the cost and complexity for all stakeholders, including minimising the burden on firms where possible. This would enable the Authorities to conduct a sample-based review of the arrangements in these areas and support a wider view of industry practices. For example, they might consider asking level two and three firms to submit the RPS periodically (such as every three to four years).

The ongoing work by the Authorities to implement a new data collection platform and streamline various aspects of the reporting process offers an opportunity to review the cost, complexity and benefits of information collected for firms of varying sizes.

- **Recommendation 2:** The Authorities should review the current reporting and other data collection from level one banks and investment firms to determine whether there is basis to streamline these into more targeted data requests. They should also consider whether a more structured approach to collecting data from other firms, for example level two and three banks and investment firms, would be useful for the Authorities to perform trend or industry analyses of the compensation practices for these firms.

3.3 Assessing the effectiveness of the regime

Evaluating unintended effects on the functioning of the system as a whole can be particularly difficult. Some firms have highlighted the potentially negative impact of the remuneration rules on the ability of firms to attract and retain talent, especially for skills that are transferable to other sectors beyond financial services (e.g. technology or fintech firms). Compliance with the remuneration rules results in the financial industry being held to a higher standard compared to other sectors, and this may impact the dynamics of the labour force, which may be particularly relevant at a time when digital innovation and business developments in general may require attracting talent from outside the financial sector. These issues are not easy to substantiate and address.

The Authorities, through their various forms of supervisory interaction, challenge firms on how they satisfy themselves of the effectiveness of their remuneration decisions and practices. The Authorities also provide feedback to level one firms annually and the FCA has published the findings of their review.[72] Additional thematic reviews could complement business as usual supervisory activities by including not only data gathered through desk-based reviews and declarations, but onsite activities such as sample testing, processes/systems walkthroughs[73], and conversations with staff to get a sense of their risk awareness and dynamics within the firm. Such onsite activities can highlight implementation and behavioural issues that desktop reviews and declarations might not be able to identify. For systemically important or higher risk firms, a review of policies, procedures and information submissions could provide a sense of technical compliance with the remuneration rules, but may not always be sufficient to provide an assessment of implementation effectiveness. The results of these reviews could be shared with the industry or published to further uplift remuneration standards across the industry, or to better discern any trends and potential issues for the effectiveness of the regime.

Ineffective execution by firms could negate the intent of remuneration policies. Some examples of deficiencies identified during onsite reviews by other jurisdictions[74] include management placing more emphasis on staff's ability to meet financial targets even though the framework requires a balanced approach towards both financial and non-financial/behavioural targets, and

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72 See 2020 FCA *Letter to Remuneration Committee Chair* (July 2020).

73 Examples of onsite activities include sample reviews of performance evaluation forms, key performance indicators and balance scorecards of individuals, to verify how financial and non-financial factors are tracked and considered as part of remuneration and promotion decisions in practice. These could also include review of the processes related to consequence management and disciplinary actions to verify whether actions, such as remuneration adjustments, are commensurate with the severity of misconduct.

74 For example, MAS conducted a thematic inspection on incentive structures of selected banks, the scope of which included compliance with FSB's Principles and Standards for Sound Compensation Practices: *Incentive Structures in the Banking Industry* (March 2019). ECB and Bank of Italy frequently assess the effectiveness and consistency with relevant regulation of compensation schemes during general (as part of governance assessment) or targeted onsite inspections.

management circumventing internal policies by imposing financial penalties on staff for misconduct, but compensating them shortly after via a significant one-off financial reward. Although the Authorities have published observations on the effectiveness of firms' practices, the results of thematic and onsite reviews or deep-dives, and the state of existing market practices, would be useful feedback for firms to assess the effective implementation of the UK requirements. It would also further inform Authorities on the evolution of industry practices and provide more field-level information on possible unintended consequences such as the ability of firms to attract and retain talent, or cliff effects of the requirements across the industry.

- **Recommendation 3:** As part of the Authorities' initiative to assess the effectiveness of remuneration rules, they should consider complementing business as usual supervision practices and the data analytics performed on the RPS submissions (for level one banks and investment firms) with additional thematic reviews and onsite visits. Results of such reviews could be published to guide implementation by the industry.

3.4 Providing additional guidance on remuneration for the insurance sector

The Solvency II remuneration requirements were directly applicable to UK insurance and reinsurance firms, so the PRA did not introduce a rule-based framework for insurers as it has for banks and investment firms. Following the UK's withdrawal from the EU, these requirements have been retained in UK law through the EU Withdrawal Act 2018. However, the PRA has observed a wide range of interpretations of Solvency II remuneration requirements and that, while firms' interpretations of the rules had improved over time, inconsistencies in their approaches to implementation remain apparent – with particular respect to the long-term performance of MRTs and to the structured remuneration of control functions.[75] The Authorities also observed few insurance firms including business unit performance as part of their performance assessment for variable compensation; a strong reliance on financial metrics (instead of a balanced approach with non-financial measures) in measuring individual performance for bonus or long term incentive plan awards; and some narrow approaches to identifying MRTs.

In April 2020, EIOPA published an Opinion on the supervision of remuneration principles in the insurance and reinsurance sector which addresses how to ensure consistent practices in the application of remuneration principles under Solvency II. [76] Due to the timings of the review, the

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75 The Authorities have shared these findings, including in the 2019 Letter to Remuneration Committee Chairs that cover risk alignment and conduct and culture.

76 The Authorities' observations are in line with the April 2020 EIOPA Opinion on the supervision of remuneration principles in the insurance and reinsurance sector (EIOPA Opinion). EIOPA identifies that while the Solvency II Regulation makes provisions for sound remuneration practices, the remuneration principles defined therein are high-level and leave considerable discretion to undertakings and supervisory authorities. The EIOPA Opinion aims to enhance supervisory convergence by focussing on a set of remuneration principles identified in the Solvency II Regulation being: (i) the balance between fixed and variable remuneration; (ii) deferring of a substantial portion of variable remuneration; (iii) the use of financial and non-financial criteria in performance management; (iv) downward adjustment of performance management for exposure to current and future risks; and (v) termination payments must be risk aligned and not reward failure. EIOPA through the opinion seeks to provide guidance to supervisory authorities on how to challenge the application of these principles within a risk-based and supervisory judgement approach as well as to ensure consistent practices in the application of the remuneration principles included in Solvency II.

effect of the Opinion is not yet observable. As recently noted by the PRA,[77] HM Treasury's consultations on the Future Regulatory Framework and review of the Solvency II regime provide an opportunity to tailor the regulatory regime to the UK market, while continuing to support the fundamental principles and framework underlying Solvency II.[78]

In consideration of the above, the Authorities should consider providing more detailed guidance to promote clarity and consistency of outcomes, especially for larger insurers.

- **Recommendation 4:** The Authorities should consider supplementing the Solvency II remuneration requirements with more detailed guidance for the insurance sector in order to ensure effective risk alignment and avoid potential inconsistent interpretations by firms.

77 See *Prudential Regulation Authority insurance supervision: 2021 priorities* (December 2020).

78 Objectives of the review are to ensure that the regulatory framework provides for an appropriate amount of capital for the insurance sector, for a high degree of policyholder protection, and for suitable standards of governance, risk management, and transparency.

Annex 1: The United Kingdom's implementation of G20 reforms (as of October 2020)

This FSB Jurisdictional Profile presents the status of implementation of G20 financial regulatory reforms, drawing on information from various sources. The tables below distinguish between priority areas that undergo more intensive monitoring and detailed reporting via progress reports and peer reviews, and other areas of reform whose monitoring is based on annual survey responses by FSB member jurisdictions. See here for further information.

IMPLEMENTATION STATUS OF REFORMS IN PRIORITY AREAS

Reform Area	BASEL III^						COMPENSATION	OVER-THE-COUNTER (OTC) DERIVATIVES				RESOLUTION				NON-BANK FINANCIAL INTERMEDIATION	
	Risk-based capital	Liquidity Coverage Ratio (LCR)	Require-ments for SIBs	Large exposures framework	Leverage ratio	Net Stable Funding Ratio (NSFR)		Trade reporting	Central clearing	Platform trading	Margin	Minimum external TLAC requirement for G-SIBs	Transfer / bail-in / temporary stay powers for banks	Recovery and resolution planning for systemic banks	Transfer / bridge / run-off powers for insurers	Money market funds (MMFs)	Securiti-sation
Agreed phase-in (completed) date	*2013 (2019)*	*2015 (2019)*	*2016 (2019)*	*2019*	*2018*	*2018*		*end-2012*	*end-2012*	*end-2012*	*2016 (2022)*	*2019/2025 (2022/2028)*					
Status	MNC	LC	C														

Legend	Final rule or framework implemented. Final rule published but not implemented, draft regulation published or framework being implemented. Draft regulation not published or no framework in place (dark red colour indicates that deadline has lapsed). Requirements reported as non-applicable. Basel III: **C**=Compliant, **LC**=Largely compliant, **MNC**=Materially non-compliant, **NC**=Non-compliant. △=Final rules implemented but certain elements are not finalised. OTC derivatives: R/F=Further action required to remove barriers to full trade reporting (R) or to access trade repository data by foreign authority (F). Non-bank financial intermediation: */**=Implementation is more advanced in one or more/all elements of at least one reform area (money market funds), or in one or more / all sectors of the market (securitisation). Further information on the legend.
Notes	G-SIBs=Global Systemically Important Banks. TLAC=Total Loss-Absorbing Capacity.
Source	FSB, *Implementation and Effects of the G20 Financial Regulatory Reforms: 2020 Annual Report*, November 2020.

IMPLEMENTATION STATUS OF REFORMS IN **OTHER AREAS**

Reform area	**Hedge funds**			**Securitisation**			**Supervision**				**Macroprudential frameworks and tools**	
	Registration, appropriate disclosures and oversight of hedge funds	Establishment of international information sharing framework	Enhancing counterparty risk manage-ment	Strengthen-ing of regulatory and capital framework for monolines	Strengthening supervisory requirements or best practices for investment in structured products	Enhanced disclosure of securitised products	Consistent, consolidated supervision and regulation of SIFIs	Establishing supervisory colleges and conducting risk assessments	Supervisory exchange of information and coordination	Strengthen-ing resources and effective supervision	Establishing regulatory framework for macroprudential oversight	Enhancing system-wide monitoring and the use of macropru-dential instruments
Status	REF*	REF	REF*	REF*	REF	REF	REF	N/A*	REF	REF	REF	REF

Reform area	**Credit rating agencies**		**Accounting standards**	**Risk management**		**Deposit insurance**	**Integrity and efficiency of financial markets**		**Financial consumer protection**
	Enhancing regulation and supervision of CRAs	Reducing the reliance on ratings	Consistent application of high-quality accounting standards	Enhancing guidance to strengthen banks' risk management practices	Enhanced risk disclosures by financial institutions		Enhancing market integrity and efficiency	Regulation and supervision of commodity markets	
Status	REF*	REF	REF	REF	REF	REF	REF	REF	REF

Legend	REF=Implementation reported as completed. IOG=Implementation reported as ongoing. ABN=Applicable but no action envisaged at the moment. N/A=Not applicable. *=collected in previous year(s) for all members.
Notes	The FSB has not undertaken an evaluation of survey responses to verify the status or assess the effectiveness of implementation. In a number of cases, the complexity of the reforms and the summarised nature of the responses does not allow for straightforward comparisons across jurisdictions or reform areas. In particular, reforms whose status in a particular area is reported as complete should not be interpreted to mean that no further policy steps (or follow-up supervisory work) are anticipated in that area. CRA = Credit Rating Agency, SIFI = Systemically important financial institution.
Source	FSB, *Jurisdictions' Responses to the 2019 IMN Survey*. The 2020 survey was not undertaken due to the FSB re-prioritisation of its 2020 work programme to focus on responding to the COVID-19 pandemic.

Other information	Latest IMF-World Bank FSAP: Jun 2016	Latest FSB Country Peer Review: 2013	Home jurisdiction of G-SIBs: yes	Signatory of IOSCO MMoU: yes	Signatory of IAIS MMoU: yes

The following table presents the steps taken to date and actions planned by the UK authorities in core reform areas (not covered in this peer review) where implementation has not yet been completed. The actions mentioned below have not been examined as part of the peer review and are presented solely for purposes of transparency and completeness.

Reform area	*Steps taken to date and actions planned (including timeframes)*
Basel III	
Risk based capital	The UK will legislate to enable implementation of the latest Basel standards. The UK authorities remain committed to implementing international standards.
Large exposures framework	The UK authorities have set out their intention and commitment to implement the Basel III standards by 1 January 2022, which includes the large exposures framework. The authorities recently published a consultation on their proposed implementation of large exposures.
Leverage ratio	The UK's Financial Policy Committee (FPC) and Prudential Regulation Committee (PRC) introduced a UK leverage ratio framework for global systemically important banks (G-SIBs) and other major domestic UK banks and building societies in 2016, ahead of international standards. That decision reflected the number of systemically important banks in the UK; the size of the UK banking system; and the importance, therefore, of being able to manage effectively model risk and to respond consistently to risks to financial stability The UK leverage ratio framework is composed of a 3.25% minimum, as well as buffers for globally and domestically systemically important institutions, and a countercyclical leverage buffer. Buffers are scaled at 35% of their risk-weighted equivalents, to preserve the relative bindingness of the leverage and risk-weighted frameworks both across firms (the systemic buffers) and over time (the countercyclical buffer). In addition, the UK framework requires that UK banks meet the majority of their leverage ratio requirements and buffers with the highest-quality capital, common equity tier 1 CET1): all buffers have to be met with CET1 capital, and at least 75% of the minimum requirement has to be met with CET1 capital. In line with Basel, the UK framework exempts currency-matched claims on central banks to ensure that the leverage ratio framework does not act as a barrier to the effective implementation of any policy measures that lead to an increase in claims on central banks, in particular an increase in central bank reserves. The 3.25% minimum had been recalibrated from 3% so as not to alter the level of resilience as a result of adjusting the definition of the exposure measure. In its June 2018 Financial Stability Report, the FPC concluded that the UK leverage ratio framework required the seven major UK banks to hold broadly similar levels of capital to the finalised Basel III leverage ratio, but that this capital was of higher quality. Developments since 2018 have increased the capital required in the UK leverage ratio framework. These include: (i) additional leverage ratio buffers for banks that are systemically important to the UK economy. The introduction of these buffers mean that the UK leverage ratio framework now requires the seven major UK banks to hold broadly similar levels of capital to, and of higher quality than, the finalised Basel III

	leverage ratio even when the UK countercyclical capital buffer rate is set at 0%; (ii) a higher countercyclical leverage ratio buffer reflecting the FPC's decision to increase the UK countercyclical buffer rate it intends to set when risk are neither elevated nor subdued from 1% to 2% (the CCyB is currently set at 0%). As such, the UK framework requires more and higher quality capital than Basel III in a standard risk environment. The FPC and PRC intend to conduct a review of the UK leverage ratio framework in light of international standards once there is further clarity on how EU law might affect UK firms.
Resolution	
Transfer/bridge/run-off powers for insurers	The UK legislative framework provides the financial services regulators with the powers to manage the solvent or insolvent run off of an insurer and transfer business to support the ongoing servicing of insurance contracts. The PRA's objectives require it to act to protect policyholders' rights. Under section FSMA 55J, and subject to certain conditions, the PRA or FCA can vary or cancel the scope of permission of any firms it authorises. The UK applies a bifurcated scope of permission with regard to insurers, separating the permission of an insurer to effect insurance contracts (i.e. write new business) from the permission to carry-out insurance contracts (authorising a firm to service contracts and pay claims, including in a solvent or insolvent run-off of its business). An insurer facing solvency difficulties can propose to use a scheme of arrangement or restructuring plan under Part 26 or 26A of the Companies Act 2006 to reach a binding compromise with its creditors with a view to achieving a run-off of its business. Under section FSMA 55M, the PRA can impose or vary a requirement on a UK firm. This could be used, subject to conditions, to direct an insurer to restructure and dispose of its business or its liabilities and assets. The PRA may use this power, for example, to direct an insurer to transfer an insurance portfolio under Part VII of FSMA., or impose other requirements on management in a run-off. In an insolvency, the insolvency practitioner must carry on the long term business of the insurer with a view to the business being transferred as a going concern. The UK regime for insurers does not currently include a bridge tool.

Annex 2: High level objectives of the P&S

High level objectives of the P&S and examples of intended outcomes of reforms to compensation policies[79]	
Objectives and indicators supporting assessment of effective implementation	**Intended policy outcome**
The high-level objectives of the P&S cover three specific areas: governance of compensation, risk alignment, and external stakeholder engagement.	
Governance of compensation	
• **Boards have a dedicated committee to govern compensation arrangements.** • **Boards actively oversee the compensation system's design and operation.** • **Staff engaged in financial and risk control are independent and have appropriate authority.** • **Firms include the risk management and control function in the performance assessment process.** • **Compensation systems are subject to robust controls and periodic reviews to ensure integrity.** • **Compensation and risk outcomes are regularly reviewed for consistency with intentions.** • **Firms have in place monitoring systems to effectively monitor and review compensation policies and practices.**	• Alignment with the long-term interests of the entity. • Effective oversight of compensation programmes by the board and senior management. • Effective governance of compensation. • Compensation outcomes in line with the firm's agreed reward plans and the long term interests of the firm and its stakeholders.
Risk alignment	
• **Compensation is adjusted for all types of risk.** • **Compensation outcomes are symmetric with risk outcomes at the firm level.** • **Firms identify material risk takers for compensation purposes.** • **The mix of cash, equity and other forms of compensation is consistent with risk alignment.** • **Firms use an appropriate mix of quantitative and qualitative methods in making ex ante risk adjustments.** • **Firms make use of malus or clawback where there have been material breaches.**	• Alignment with prudent risk-taking and risk appetite. • Promoting effective and sound risk management. • Appropriate balance of risk and reward. • Effective risk management framework/controls with respect to compensation.
External Stakeholder engagement	
• **Firms' compensation policies are publicly disclosed and timely.**	• Promote market discipline • Promote effective supervisory dialogue

[79] See FSB, *Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards: Sixth progress report*, June 2019.

- **Firms’ compensation policies (including on compensation governance and risk alignment) are clear and comprehensive.**
- **Shareholders and other stakeholders are engaged with firms on compensation policies.**

Annex 3: Transposition of EU framework on remuneration with UK rules and guidance

European Union Legislative Instruments[80]	PRA and FCA rules and guidance
Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV)	PRA Rulebook – Remuneration Part PRA Supervisory Statement – SS2/17 - Remuneration FCA Dual-regulated firms Remuneration Code - SYSC 19D FCA General Guidance on proportionality: SYSC 19D FCA IFPRU Remuneration Code – SYSC 19A FCA General Guidance on proportionality: SYSC 19A
Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 on capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies (CRD III)	FCA BIPRU Remuneration Code - SYSC 19C FCA General Guidance on proportionality: SYSC 19C
Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers (AIFMD)	FCA AIFM Remuneration Code - SYSC 19B FCA General Guidance on the SYSC 19B
Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)	FCA UCITS Remuneration Code – SYSC 19 E
Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (MIFID)	FCA Remuneration and performance management of sales staff - SYSC 19F
Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)	PRA Supervisory Statement – 10/16 - 'Solvency II: Remuneration requirements'

80 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R0575#
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013L0036#
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011L0061
https://eur-lex.europa.eu/eli/dir/2009/65/2014-09-17
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02014L0065-20200326
https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32009L0138

Annex 4: The PRA and FCA approach to supervising compensation practices by sector

Banking sector:

The PRA and FCA joint approach for level one firms

On an annual basis, for level one firms, PRA supervision teams with the support of colleagues from Prudential Policy Directorate and in parallel, the FCA supervision teams with the support of colleagues from the Conduct Specialists Department:

- Review changes to the firm's remuneration policy, review incentives and outcomes in view of firm's performance, risk profile, activities; specific events and responsibilities, and any other matters of supervisory interest;
- Review approach to MRT identification and formally approve exclusions above EUR 750k;
- Check compliance of MRT pay data, including risk-adjustments, with the rules (including deferral, fixed to variable pay, payment in instruments etc.);
- Meet with the Remuneration Committee Chair (usually a joint meeting including both authorities), discuss SMF population's remuneration reflects progress against key supervisory priorities and risks;
- Ensure capital adequacy ahead of bonus pay outs; (PRA only)
- Review retention bonuses and other forms of guaranteed remuneration;
- Supervision provide joint feedback in the form of a letter to the firm from the PRA and the FCA. This letter will include any changes the firm is expected to make the following year. Where urgent supervisory (and enforcement) action is needed the Authorities engage further as appropriate.

PRA and FCA *joint* approach to level two and three firms	• Review MRT exclusions • Review exceptions or out of policy arrangements. • Review retention bonuses • Ad hoc reviews of policies and actions on the basis of, among others, firm circumstances, risk events, and supervisory review cycle/deep dives. See section below on supervisory approach.
PRA Supervisory approach for supervising	**Judgement based** • The PRA's approach relies significantly on judgement. Supervisors reach judgements on the risks that a firm is running, the risks that it poses to PRA objectives, whether the firm is likely to continue to meet the Threshold Conditions, and how to address any problems or shortcomings. • Supervisory judgements are based on evidence and analysis. It is, however, inherent in a forward-looking system that, at times, the supervisor's judgement will be at variance with that of the firm. Furthermore, there will be occasions when events will show that the

all banks[81] **(in addition to remuneration specific approach outlined above)**	supervisor's judgement, in hindsight, was wrong. To minimise such outcomes, the PRA is staffed by teams with strong, relevant skills and experience, and our major judgements and decisions involve the most senior and experienced staff and directors. The PRA engages with the boards and senior management of firms in forming its decisions, using this dialogue both to ensure that the PRA take account of all relevant information in reaching its judgements, and to communicate clearly the rationale for them. Firms should not, however, approach their relationship with the PRA as a negotiation.
	Forward looking • The approach is forward-looking, assessing firms not just against current risks, but also against those that could plausibly arise further ahead. And where the PRA judge it necessary to intervene to mitigate the risks a firm is creating, it seeks to do so at an early stage. To support this, firms should be open and straightforward in their dealings with the PRA, taking the initiative to raise issues of possible concern also at an early stage. The PRA will respond proportionately. In this way, trust can be fostered on both sides.
	Focused on key risks • Supervision focuses on issues firms that, in its judgement, pose the greatest risk to the stability of the UK financial system. Consistent with PRA objectives, it aims to concentrate on material issues when engaging with firms. The frequency and intensity of the supervision applied by the PRA to a particular firm therefore increases in line with the risk it poses its objectives.
FCA supervisory principles[82] **for all banks (in addition to the remuneration specific approach shown above)**	**Forward looking** • Aim to pre-empt or address poor conduct so that the risk and any associated harm does not materialise or if harm is likely to materialise to ensure it does not cause significant harm to consumers or markets.
	Focus on strategy and business models • Assess firms' strategies and business models to identify emerging risk of harm and to ensure supervisory activity mitigates the risk presented by individual firms or within a portfolio of firms. Identify poor alignment between firms' profit incentive and the interests of consumers and markets functioning well.
	Focus on culture and governance • Look at what drives behaviour in a firm. Address the key drivers of behaviour which are likely to cause harm. These include the firm's purpose (as it is understood by its employees), the attitude, behaviour, competence and compliance of the firm's leadership, the firm's

[81] See PRA Approach to banking supervision, October 2018.

[82] See FCA Mission: Approach to Supervision, April 2019.

approach to managing and rewarding people (e.g. staff competence and incentives), and the firm's governance arrangements, controls and key processes (e.g. for whistleblowing or complaint handling).

- Assess effectiveness of governance framework in addition to the design. Focus on a firm's conduct risk framework, whether the firm has effective governance arrangements in place to identify the risk of harm to consumers and markets, and whether they have a strategy in place to manage and mitigate those risks

Focus on individual as well as firm accountability

- Approve and hold to account the most senior individuals whose decisions and personal conduct have a significant effect on the conduct of their firm.
- Along with the PRA, introduced the SM&CR to deposit takers in 2016 to make all financial services employees more accountable for their conduct and competence.
- As part of the SM&CR, also expect firms to take responsibility for certifying the competence and integrity of employees with the potential to cause significant harm.

Proportionate and risk-based

- Use understanding of markets and firms' business models to target firms where misconduct would cause the most harm, (especially to vulnerable consumers or important markets) and firms where misconduct is most likely to be significant.
- Systematically use intelligence to target engagement from a broad set of sources. This includes complaints data, whistle-blowers, FCA firm and consumer contact centre, regulatory returns, other regulators and competitor firms.

Two-way communication

- Engage directly with consumers and their representatives to understand issues they face and target firms that may be causing harm.
- Engage with industry, firms and other market participants to understand how they are responding to market-wide events, firm-specific events and/or the regulatory framework and to adjust our opinions and approach where appropriate.
- Clear with firms and individuals about good and poor practice that is observed.

Co-ordinated

- Ensure supervision teams work closely with those in its Authorisations, Market Oversight, Policy, Competition and Enforcement functions to reach robust decisions and share information and provide consistent messages.
- Share intelligence with other regulatory bodies such as the Bank of England, the Payment Systems Regulator and the Financial Ombudsman Service and the Pensions Regulator.
- As a supervisor of global firms and global markets, work with regulators overseas to supervise these firms and markets and on issues which are common across national borders.

	Put right systematic harm that has occurred and stop it happening again • Where systematic harm is likely, move to quickly stop the harm occurring – e.g. through imposing an Own Initiative Requirement (OIREQ) on the firm. Then work to ensure that the firm addresses the drivers of culture and its business model and strategy to prevent a recurrence. • Where serious misconduct is suspected, the issue is referred to the Enforcement Division for an enforcement investigation. • Seek to obtain redress for affected customers –by requiring a redress scheme, or by engaging directly with the firm, also by working with other authorities such as the Financial Ombudsman Service.
	Insurance sector
PRA supervisory approach for insurers[83]	• The PRA expects firms to have in place sufficient controls to minimise incentives for excessive risk-taking by management and staff. Remuneration and incentive structures should reward careful and prudent management as set out in the Supervisory Statement which provides more detail on PRA expectations on the design and application of remuneration policies, practices and procedures by insurers.[84] • There are clear and direct links between the risks that that the PRA identifies and the actions it expects from insurers in consequence. For example, if the PRA identifies deficiencies in an excessive level of proposed employee remuneration, leading to risks to its financial health, we will require the insurer to take steps to tackle this.
FCA supervisory principles for Insurers[85]	**Focus on individual as well as firm accountability** • Approve and hold to account the most senior individuals whose decisions and personal conduct have a significant effect on the conduct of their firm. • Along with the PRA, introduced the SM&CR to insurers in 2018 to make all financial services employees more accountable for their conduct and competence. • As part of the SM&CR, also expect firms to take responsibility for certifying the competence and integrity of employees with the potential to cause significant harm.

83 For the PRA's overarching approach to supervision, please see the summary provided in the banking section. For insurance, see PRA Approach to insurance supervision.

84 See PRA Supervisory Statement (SS10/16) 'Solvency II: Remuneration Requirements'.

85 For the FCA's overarching approach to supervision, please see the summary provided in the banking section.

Asset management sector
FCA approach for solo-regulated IFPRU investment firms within scope of CRD IV
• Review MRT exclusions and formally approve exclusions above EUR 750k
• Approve exceptions or out of policy arrangements
FCA supervisory principles for asset managers[82]
Focus on individual as well as firm accountability • Approve and hold to account the most senior individuals whose decisions and personal conduct have a significant effect on the conduct of their firm. • Introduced the SM&CR to the majority of FCA solo-regulated firms in 2019 to make all financial services employees more accountable for their conduct and competence. • As part of the SM&CR, also expect firms to take responsibility for certifying the competence and integrity of employees with the potential to cause significant harm.

Annex 5: Elements of Remuneration Policy Statement (RPS) questionnaire for level one firms

The RPS template for level one firms documents changes to their policies and practices, including:

- Firm's remuneration schedule
- Remuneration schemes
- Framework for identifying MRTs
- Remuneration policies and how the firm assures that they are effective for promoting sound risk management
- Governance practices in the context of remuneration
- Remuneration of control functions
- Remuneration and capital
- Remuneration policies under exceptional government intervention (where appropriate)
- Approach to risk-adjustment (including bonus schemes and long-term incentive plans)
- Pension policy
- Personal investment strategies and how the firm ensures that employees are not undertaking personal hedging strategies
- How the firm ensures that their vehicles and methods facilitate full compliance
- Remuneration structures including assessment of performance, guaranteed variable remuneration and buy-outs, ratio of fixed to variable pay, retained shares or other instruments, deferral, criteria for application of malus, clawback and in-year adjustments

Tables 1a and 1b: MRTs, including all staff identified as an MRT for a given year, recording:

- the article of the Delegated Regulation on MRT identification which applies to that individual,
- the amount of fixed and variable pay (including the upfront and deferred portion)
- any specific award structures (e.g. buy-outs, guaranteed bonus award)

Table 2: Dynamics lists to record material business units within a group, corporate grades and location (used to assist the completion of Table 1)

Table 3a and 3b: Profit-based measurement and risk adjustment of the bonus pool, including distribution of deferred awards from previous years, upfront awards for the current year and distribution of awards deferred for future years.

Table 4: aggregate data on the composition of remuneration across different remuneration bandings for multiple performance years.

Table 5: High level data on the remuneration awarded at group level and split across major business lines for multiple performance years, including the calculations and adjustments made to the bonus pool and the amount paid out.

Table 6: guaranteed variable remuneration payed out to new hires and as a retention award (covering the whole firm and MRTs).

Table 7: Ex-post risk adjustment (malus and clawback) – including aggregate malus and clawback adjustments by event, the distribution of collective and individual adjustments

Table 8a and 8b: Notification of MRT exclusions for staff members awarded total remuneration of EUR 500,000 or more and application for approval to exclude staff members awarded total remuneration of EUR 750,000 or more.

Annex 1: performance adjustment report - intended to capture explanatory information of the approach taken alongside quantitative information requested as part of RPS Table 7.