



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

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Prudential Regulation Authority and Financial Conduct Authority announce new rules on remuneration

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) are today publishing new remuneration rules which include changes to deferral and clawback of variable remuneration (e.g. bonuses). The new framework aims to further align risk and individual reward in the banking sector, to discourage irresponsible risk-taking and short-termism and to encourage more effective risk management.

The new rules apply to banks, building societies, and PRA-designated investment firms, including UK branches of non-EEA headquartered firms.

Andrew Bailey, Deputy Governor for Prudential Regulation, Bank of England and CEO of the Prudential Regulation Authority said:

"Effective financial regulation involves creating appropriate incentives to encourage individuals to take greater responsibility for their actions. Our intention is that people in positions of responsibility are rewarded for behaviour which fosters a culture of effective risk management and thus promotes the safety and soundness of individual institutions."

Martin Wheatley, Financial Conduct Authority CEO, commented:

"Today's rules are part of a wider package that is being announced over the summer to embed an accountable culture in the City. Our rules will now mean that senior managers face clawback of bonuses for up to 10 years, if misconduct comes to light."

"This is a crucial step to rebuild public trust in financial services, and allows firms and regulators to build long term decision making and effective risk management into people's pay packets."

The primary changes are:

- Extending deferral (the period during which variable remuneration is withheld following the end of the accrual period) to seven years for Senior Managers, five years for risk managers with senior, managerial

or supervisory roles at PRA-regulated firms and three to five years for all other staff whose actions could have a material impact on a firm (material risk takers);

- The FCA is introducing clawback rules (where staff members return part or all of variable remuneration that has already been paid) for periods of seven years from award of variable remuneration for all material risk takers, which were already applied by the PRA. Both the PRA and the FCA clawback rules will be strengthened by a requirement for a possible three additional years for Senior Managers (10 years in total) at the end of the seven year period where a firm or regulatory authorities have commenced inquiries into potential material failures;
- Prohibiting variable pay for Non-Executive Directors;
- Making explicit that no variable pay including all discretionary payments should be paid to the management of a firm in receipt of taxpayer support; and
- Strengthening the PRA requirements on dual-regulated firms to apply more effective risk adjustment to variable remuneration.

The clawback and deferral rules will apply to variable remuneration awarded for performance periods beginning on or after 1 January 2016, while other requirements will apply from 1 July 2015.

Last year's consultation paper sought views on a number of options for addressing the issue of buy-outs, in which a firm compensates a new employee for any unpaid remuneration that is cancelled when they leave their previous firm (meaning that the employee can sometimes avoid malus reductions by changing firms). Following responses to the consultation paper, the PRA and FCA will now explore further the option of requiring buy-out awards to be held in a form that permits them to be subject to malus by the previous employer.

The FCA is also issuing new General Guidance on ex-post risk adjustment. This is the adjustment of variable remuneration to take account of a specific risk or adverse performance. The guidance is intended to share the latest good practice observed in the 2014 remuneration round and clarify the FCA's expectations on how relevant firms should meet the Remuneration Code requirements on ex-post risk adjustment.

When the new European Banking Authority remuneration guidelines are published, the PRA and FCA may need to consult on any consequential rule changes which may be required.

ENDS

Notes to Editors

- [Policy Statement 12/15: Strengthening the alignment of risk and reward: new remuneration rules](#)
- [Supervisory Statement 27/15: Remuneration](#)
- [Consultation Paper CP15/14: Strengthening the alignment of risk and reward: new remuneration rules](#)