

City HR

Remuneration Regulatory Update

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Introduction



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Agenda:

1. Enhancing proportionality for small firms
2. Other updates: recent developments
3. Other updates: coming soon...

Enhancing proportionality for small firms

PRA CP5/23 on remuneration: enhancing proportionality for small firms

- PRA published CP on 27 February 2023.
- CP remains open for comment until 30 May 2023.

Key proposals

Aim: to increase the proportionality of the remuneration regime for small banks and building societies operating in the UK

Key elements:

- amends the current definitions of 'small CRR firm' and 'small third country CRR firm' to **allow more firms to benefit from proportionality** by:
 - increasing total assets threshold from £13bn to £20bn; and
 - changing the additional criteria firms with assets between £4bn and £20bn must meet.
- **exempts all 'small CRR firms' from the existing rules on malus/clawback and buy-outs.**

What it means for firms

No direct impact on firms with assets over £20bn.

Potential impact on firms with:

- **assets of £4bn to £13bn:** may become 'small CRR firm', remain 'small CRR firm' or lose 'small CRR firm' status;
- **assets of £13bn to £20bn:** may become 'small CRR firm' or remain 'not small CRR firm'.

All firms which qualify as '**small CRR firms**' will need to **consider what to do with their existing malus/clawback policies.**

Next steps

- **Final rules expected in Q4 2023.**
- New rules to apply from first performance year starting thereafter (**performance year starting 2024 for many firms**).
- **FCA proposals:** unclear when will be published and whether content / timing will be the same as the PRA proposals.

Other updates: recent developments

Removal of the bonus cap

- Joint PRA/FCA consultation closed on 31 March 2023.
- **Final rules pushed back from Q2 to Q3 2023.**
- May impact firms with year ends between June and September (assuming regulators confirm their proposal to apply the new rules from the first performance year starting after the final rules are published).

Senior Managers & Certification Regime consultations

- **PRA/FCA joint Discussion Paper on SM&CR** (published on 30 March; responses by 1 June 2023).
- DP invites thoughts on:
 - **Effectiveness of SM&CR** in reaching its aims, e.g. holding individuals to account;
 - **Scope**, e.g. whether changes could help to enhance international competitiveness of UK;
 - **Proportionality** of application to firms and individuals.
- **HMT published Call for Evidence on legislative framework of the SM&CR** (same timeline, similar content).

FCA Discussion Paper on sustainability-related governance, incentives and competence

- DP published on 10 February 2023; responses by 10 May 2023.
- **FCA is seeking views on how firms are approaching these topics, how firms can deliver on ESG objectives, and practical challenges they face.**
- One specific topic is **mechanisms for linking remuneration to sustainability-related metrics.**
- DP responses to be used by FCA to inform future approach to sustainability.

Other updates: coming soon....

PRA/FCA Consultation Paper/s on Diversity & Inclusion

- Joint FCA/PRA/BoE Discussion Paper of July 2021 around how regulators could support firms to make progress on D&I.
- CP postponed several times - now **expected Q2 2023**.
- One section of CP is expected to cover remuneration, but unlikely to include detailed/prescriptive rules.

EU Pay Transparency Directive

- New EU Directive was adopted by European Parliament on 30 March; expected to become **EU law later this year** after adoption by Council.
- EU Member States will have 3 years to transpose Directive into national law, so **during 2026**.
- **Directive contains far reaching pay transparency measures** with implications for pay philosophy and frameworks, payroll systems, HR operations and job architecture.

Examples of new requirements:

Gender pay gap figures to be published by all employers with over 100 workers (first date and frequency of reporting differs depending on how many workers an employer has)

Pay bandings to be provided to applicants as part of recruitment process

Employers must provide to their workers information on the criteria used to determine pay and pay progression

Workers to have a right to request information on the average pay of workers doing similar work, broken down by sex

Thank you

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