

City HR

Reward Roundtable

8 June 2023



Agenda

1. Review of year end processes and learnings
2. UK regulatory reform - update on timelines and current client interest
3. Remuneration Committee scope and current activity
4. DEI - pay transparency and pay gap reporting; EU Pay Transparency Directive; CSRD

Regulatory update

FCA consultation on enhancing proportionality of remuneration rules for small firms

- CP published on 12 May 2023: FCA proposals are **to a great extent aligned** with the PRA's but some differences of terminology remain and there is **one inconsistency** (on buy-outs, see table).
- Short consultation period (4 weeks) to ensure FCA can publish **final rules at same time as PRA in Q4 2023**.
- CP includes proposals for consequential changes to FCA non-Handbook guidance documents.
- CP is also used to align FCA rules with PRA rules on MRT definition, and to amend non-Handbook guidance to reflect bonus cap proposals.

Technical detail

Element of proposals	Alignment with PRA proposals
Total assets threshold increasing from £13bn to £20bn	Alignment
Minor change to calculation of total assets	Alignment
Changes to additional criteria to be met by firms with total assets between £4bn and £20bn	Alignment through cross-reference to PRA rules, eliminating risk of inconsistencies in the future
Small firms to be exempted from rules on malus and clawback	Alignment ; also helpful clarification that small firms would still need to: <ul style="list-style-type: none">● have a risk adjustment approach with ex ante and ex post adjustments; and● ensure total bonus pool is considerably contracted where firm has subdued or negative financial performance.
Small firms to be exempted from rules on buy-outs	Inconsistency . FCA has no detailed process rules but hasn't exempted small firms from the rule that buy-outs must be aligned with the long term interests of the new employer, including appropriate retention, deferral and clawback arrangements. Appears to be an oversight.

Regulatory change: preparing for PY 2024

The below changes are expected to apply from a firm's next performance year after the final rules are published. For many firms, this will be the PY beginning in 2024.

Removal of bonus cap

- CP from December 2022; final rules expected **Q3 2023**
- Bonuses in respect of PY 2023 paid out in 2024 to remain subject to bonus cap
- **All firms** should:
 - Consider their maximum variable/fixed ratio for 2024
 - Make relevant changes to remuneration policies
 - Assess what governance is required for the changes

Changes to proportionality thresholds

Small firms to be exempt from rules on malus, clawback and buy-outs

- PRA Strong and simple framework: definition of a 'simpler-regime firm'
- CP from April 2022; revised proposals as part of CP in November 2022

- PRA: enhancing proportionality of remuneration rules for small firms
- CP from February 2023

- FCA: enhancing proportionality of remuneration rules for small firms
- CP from May 2023

Finalised conditions to qualify as a 'simpler-regime firm'

Some 'simpler-regime firm' conditions are also conditions for being a 'small CRR firm'

FCA rules to cross-reference relevant PRA rules to ensure consistency of definitions

Final rules 2023

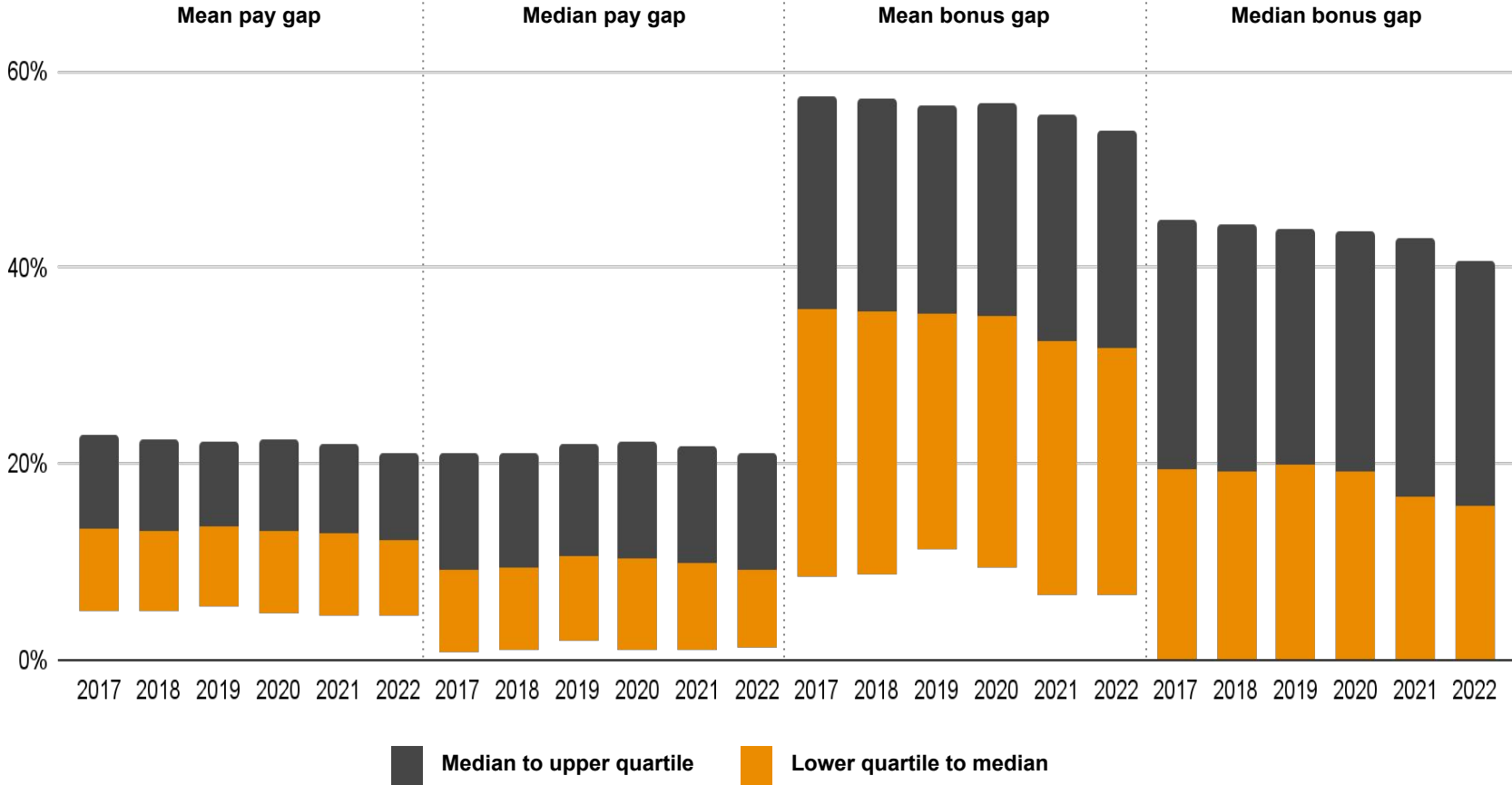
PRA and FCA to publish final rules at same time in **Q4 2023**

- **Firms with total assets between £4bn and £20bn** should consider whether they will remain/become a 'small CRR firm' under the new rules.
- **Firms which will be 'small CRR firms' from next PY** should consider whether they wish to make changes to their remuneration policies on malus/clawback and buy-outs.

Diversity, Equity and Inclusion

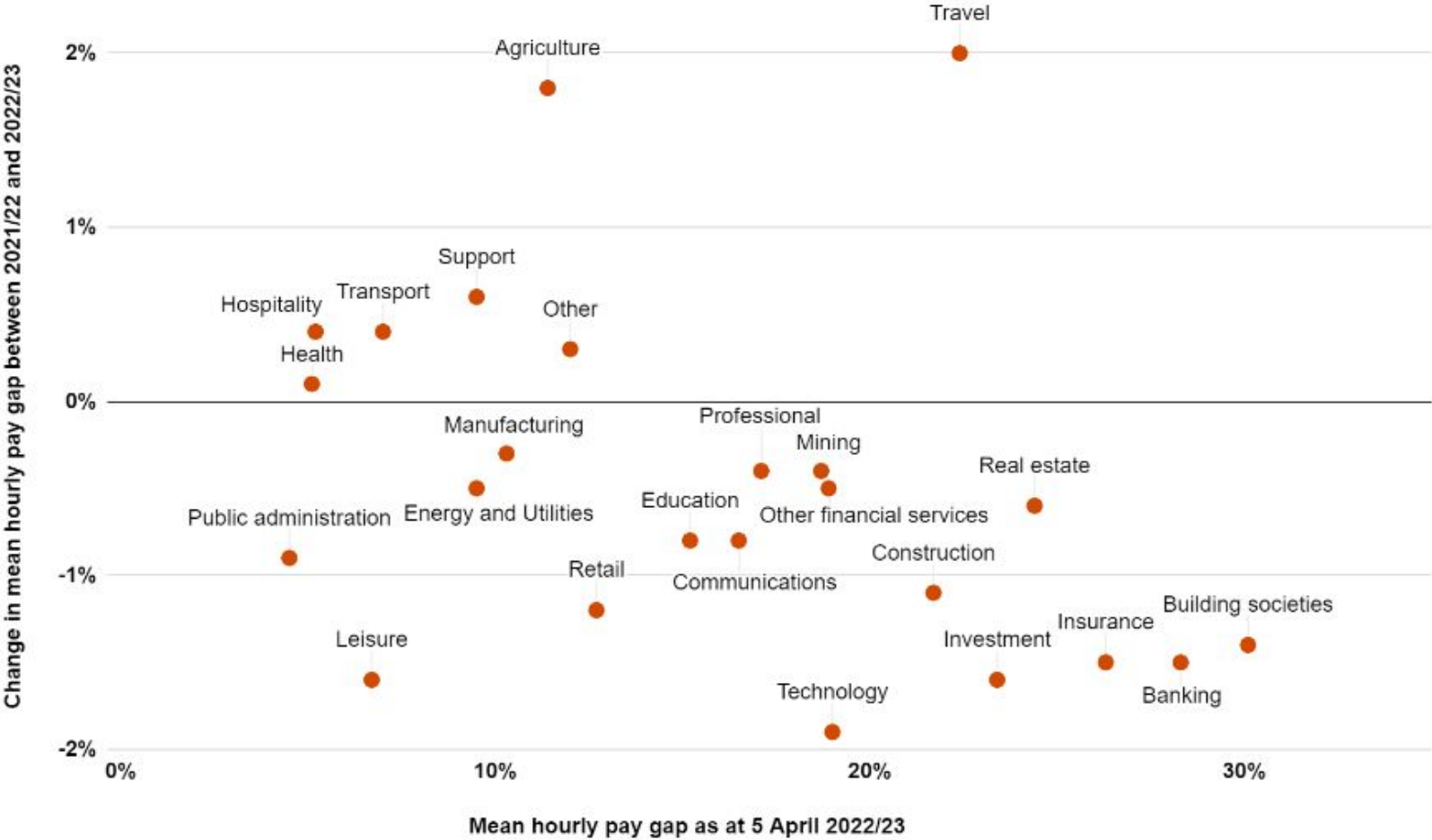
Key trends

Year on Year reduction in pay gaps

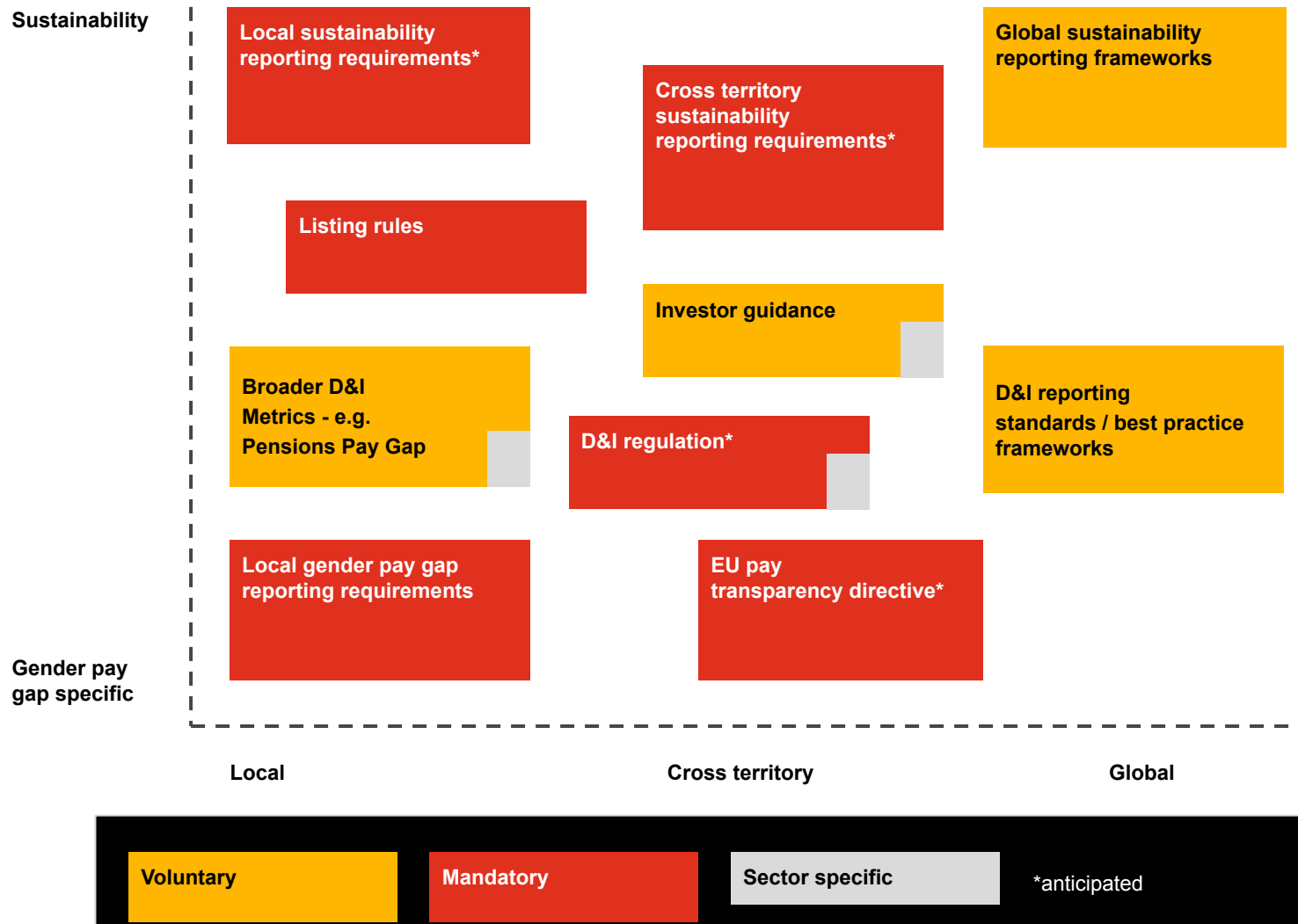


Sector analysis: change in mean pay gap

2022/23 mean gender pay gap and YoY change in mean gender pay gap



Considerations for broader reporting



Overview of the new EU Pay Transparency Directive

What is it and what is the purpose?

- New legislation to **ensure the right to equal pay** is upheld across EU
- **All organisations with workers in any EU member state will be impacted by some areas of the Directive**

Workers will:

- Be able to **request average pay levels for workers, provide within 2 months**
- Be **provided with compensation** if the employer is non-compliant

What

When

EU Pay Transparency Directive

Workers

Employers

When will it be introduced?

- All EU member states must transpose the directive into **local law by 2026**

Employers will be required to:

- **Recruitment Process:** Obligation for Employers to provide information in relation to pay levels as part of the Recruitment process
- **Not ask about candidates pay history**
- **Publish pay gap data-** various thresholds provide guidance of when this is requirement- minimum level of 100 employees
- **Conduct an “equal pay” assessment** if a pay gap of 5% cannot be justified based on gender-neutral factors
- **Potential pay fines** if not compliant

Thank you

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