

City HR Reward Roundtable

- Regulation update
- Market trends
- What's on the mind of Reward professionals

14 September 2023



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Remuneration regulatory update

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PRA CP on Pillar 3 remuneration disclosures (1 of 2)

Overview

- PRA CP14/23 on Pillar 3 remuneration disclosures published on 19 July 2023.
- Consultation period runs until 20 September 2023.
- Relevant to **banks, building societies and PRA-designated investment firms**; not relevant to third country branches.
- Proposals:
 - to **amend the current classification** of firms used for remuneration disclosure purposes; and
 - to **reduce the amount of remuneration information that smaller firms must disclose** - in some cases to nothing.
- Final rules expected in Q4 2023.
- Changes to **apply from disclosures made in 2025** (about 2024 remuneration policy and outcomes).

Current rules

- For disclosure purposes, current classification:
 - **‘large institutions’**: broadly, firms with total assets of EUR 30bn or more
 - **‘small and non-complex institutions’**: a number of criteria must be met, including total assets of EUR 5bn or less
 - **‘other institutions’**: all other firms

Proposed new rules

- **‘Large institutions’** - definition unchanged.
- But for all other firms, disclosures to depend on:
 - whether they are a **‘small CRR firm’** (or a ‘simpler regime firm’ for prudential purposes); and
 - whether they have **issued securities that are admitted to trading on a regulated market**, e.g. London Stock Exchange or London Metal Exchange (‘listed’ or ‘non-listed’).

PRA CP on Pillar 3 remuneration disclosures (2 of 2)

Whether and how the amount of information to be disclosed would change under the proposals:

Category of firm		Qualitative disclosures	Level of change	Quantitative disclosures	Level of change
Large institution		All	No change	All	No change
'Small CRR firm' or 'simpler- regime firm'	Listed	Core information	Less	Core information	Much less
	Non-listed	None	Much less	None	Much less
Neither 'small CRR firm' nor 'simpler- regime firm'	Listed	All	No change	Almost all	No change
	Non-listed	Core information	No change	Most information	No change

Key points to note:

- All firms would need to **disclose their variable to fixed pay ratio** (except for firms exempt from all remuneration disclosures).
- Unclear **how many 'small CRR firms' qualify as 'non-listed'** and so would be exempt.
- Proposals are based on new definitions proposed in three other consultations, none of which have yet been finalised, so there is **considerable uncertainty**.
- The final rules on the full package are expected in **Q4 2023**.

Reminder of new definition of 'small CRR firm':

Under PRA/FCA proposals on enhancing proportionality for smaller firms, a 'small CRR firm' would be one with:

- assets of under £4bn; or
- assets of £4bn to £20bn **and** meets all the additional (revised) criteria, e.g. size of trading book.

In all cases, a firm cannot be a small CRR firm if it is in the same corporate group as another firm subject to the PRA banking remuneration rules and with total assets of over £20bn

Looking ahead

September or October?

- PRA / FCA final rules on removal of **bonus cap**
- PRA / FCA CPs on **Diversity and Inclusion**
- Annual FCA **RemCo Chair letter** on remuneration priorities?

Before end of 2023

- PRA / FCA final rules on **enhancing proportionality for smaller firms** in relation to remuneration
- PRA final rules on **remuneration disclosures** (and linked rules on definition of 'simpler-regime firms')

Into 2024

- Follow-up to DP on **Senior Managers & Certification Regime?**
- Follow-up to FCA DP on **sustainability-related governance, incentives and competence?**
- Finalisation of FRC's proposed changes to **UK Corporate Governance Code**
- Any further post-Brexit changes to remuneration rules???

Thank you

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