



Dear Member,

Please see the latest update from PwC on the PRA/FCA confirmed removal of the bonus cap:

As I'm sure you will have seen in the press, the PRA and FCA yesterday published a [joint Policy Statement](#) (PS) and final rules which confirm the removal of the bonus cap in the UK. Moreover, the implementation of the changes has been brought forward to allow firms to disapply the bonus cap from the current performance year. We set out below an overview of the changes and some key considerations for firms, which you may find useful.

Timing of changes

The regulators originally proposed removing the bonus cap from a firm's first performance year following the publication of the PS. For many firms, this would have been the year commencing on 1 January 2024. The final rules permit firms to disapply the cap for the performance year that is ongoing on 31 October 2023, meaning that variable pay in respect of 2023 is no longer subject to the cap.

Firms should consider to what extent they wish to make use of the possibility of disapplying the bonus cap for the current performance year. If a firm wishes to do so, it should make the necessary amendments to its remuneration policy in line with its usual governance process. Firms which obtained the permission of their shareholders, owners or members to increase the 1:1 cap to 2:1 should carefully check the wording of the original resolution to see whether it continues to bind the firm to the 2:1 ratio even after the removal of the regulatory cap.

Setting a ratio

Under the final rules, firms will still be required to define their own 'appropriate ratio'. The PRA and FCA have added guidance on the factors to be considered when doing so. This includes factors such as the firm's business activities and associated prudential and conduct risks, role of the individual (with an expectation that it will usually be appropriate to set a lower ratio for control functions) and potential scenarios, including one where a firm exceeds its financial objectives. The guidance makes it clear that the ratio should reflect the highest amount of variable pay than can be awarded in the most positive scenario.



Guaranteed variable pay

The PRA has clarified in the PS that guarantees (sign-on bonuses, etc.) should continue to be treated as variable pay for the purposes of calculating the variable to fixed ratio, and continue to be subject to the usual rules on variable pay, e.g. pay-out in shares/instruments, deferral, malus and clawback.

Part-year Material Risk Takers

Similarly, the PRA has also confirmed that there is to be no change to the expectation that firms should use an annualised rate when determining the fixed pay of a Material Risk Taker (MRT) who joins a firm part way through a performance year.

Potential for wider reforms of the remuneration rules

There are no changes to the other regulatory requirements on variable pay for MRTs. In particular, the rules on deferral, pay-out in shares or instruments, and malus/clawback remain unchanged.

However, the regulators have acknowledged comments received on other aspects of the remuneration rules including the point that deferral periods in the UK are considerably longer than in other jurisdictions resulting in a higher total remuneration being offered to remain competitive.

Although this issue is said to be beyond the scope of the bonus cap consultation, the PRA reiterates its intention to 'look more broadly at the whole structure of rules around remuneration', including how the rules 'can be streamlined and made more effective and proportionate'. It will take into account the feedback received as part of that work. The commitment made by the FCA is somewhat less definitive, as it is noted that it 'may also consider a wider review of its remuneration regime subject to strategic priorities'.

For more information email info@cityhr.co.uk