



Following the joint consultation by the PRA and FCA published in November 2024, the PRA has today **published its Policy Statement (PS12/25)** setting out the final changes to banking remuneration rules. The final rules comprise a further increase in flexibility around senior banker pay from the proposals set out in the consultation.

The PRA has gone further than may have been expected. Firms can reduce deferral periods and other mechanistic changes from **this performance year**, and for **unvested awards from prior performance years**. Deferral is reduced to 4 years for **all Material Risk Takers ('MRTs')**. It is also notable that additional guidance on performance adjustment 'up the management chain' has been dialled down. Most other elements of the Policy are broadly in line with the initial consultation.

Key amendments to existing rules in the Policy statement include:

- All MRTs (including Senior Manager Function holders ('SMF's)) are now subject to the same 4-year minimum deferral period.
- Requirement for 50% of variable remuneration to be awarded in instruments remains, but firms can now decide to accommodate this fully in the deferred part i.e. non-deferred variable remuneration can be fully awarded in up-front cash.
- Higher deferral proportion (60%) now applies on a marginal (rather than 'whole bonus') basis, with the 40% deferral rate applying to the first £660,000 of all bonus awards.
- Firms are not expected to set a retention period for deferred instruments. A 1-year retention period still applies to upfront instruments.
- **Rule changes related to deferral, payment in instruments and retention periods on instruments may be applied, on an optional basis, to a firm's performance year which is ongoing on 15 October 2025, and/or to remuneration that has been awarded in previous performance years but not yet vested.**
- All other changes come into force on 16 October 2025 and apply to firms' performance years starting after that date.

Other points of interest:

- Firms may pay interest or dividends on deferred remuneration.

- Removal of the expectation for firms to notify supervisors of retention awards (still needs to be disclosed in remuneration policy statements ('RPS')).
- Raising the pay threshold below which firms may disapply certain remuneration rules from £44,000 variable remuneration to £660,000 total pay (and, as in the current rules, variable pay no more than 33% of total pay).
- Single quantitative MRT identification threshold whereby firms are expected to consider identifying as MRTs individuals within their 0.3% of highest earners.
- Reintroduced an exemption from certain rules on remuneration structures for individuals who have been MRTs for less than 3 months.
- Removal of the expectation for firms to seek regulatory approval to exclude any individuals solely identified by quantitative criteria from MRT categorisation.
- Updated governance expectations for firms to ensure the involvement of the relevant functions throughout the MRT identification process.
- No material additional guidance on performance adjustment, or adjusting the remuneration of accountable individuals up the 'management chain'.
- FCA changing the structure of Handbook so it largely cross-refers to the PRA's Rules including exempting 'small firms' from requirements related to buy-outs.

Aon Point of View:

- The ability to adjust the structure of this year's bonus awards means firms need to finalise as soon as possible any decisions on awards to be made in Q1 2026 (assuming a calendar performance year). It is likely many firms will move to take advantage of this.
- The ability to adjust in-flight awards presents an additional opportunity, but firms will need to decide if, when and how to do this. There will be logistical points around current internal governance and plan rules. If vesting is shortened, the precise timing of payments will need to be considered in the context of the firm's existing payment cycles.
- Firms could look to utilise the accelerated deferral timeline as a lever in discussions with employees on the broader fixed to variable pay mix, with many firms looking to change this since the removal of the Bonus Cap at the end of 2023. It is likely the release of this Policy, and its contents, will result in some acceleration of timelines within firms with respect to changes in broader pay mix approach.
- The PRA has given firms flexibility on how to implement the payment of dividends on deferred awards, so firms will now need to finalise an approach on this assuming they wish to take advantage of the change in the near term.
- Small/Level 3 firms, that can disapply many of the mechanistic elements around deferral, will be less affected by these changes specifically; however, where the Policy addresses MRT identification and governance around the MRT list, Small Firms should ensure they adapt their approach accordingly.

The PRA Policy Statement PS21/25 can be found [here](#), with the updated PRA Supervisory Statement SS2/17 found [here](#).

We will continue to monitor regulatory updates from the PRA and FCA and will keep you informed of any further developments. If you would like to discuss the changes and their impact on your firm and the market in more detail please contact **John Dady** (john.dady@aon.co.uk), **Fiona Pilcher** (fiona.pilcher@aon.co.uk), **Hamda Ahmed** (hamda.ahmed@aon.co.uk) or your usual Aon contact.