

PRA/FCA final rules on remuneration reform for banks and building societies

The PRA and FCA have today published a joint [policy statement](#) with final rules and guidance on **changes to the remuneration requirements applicable to banks and building societies in the UK**. This is the follow-up to the joint [consultation paper](#) of November 2024.

The paper is directly relevant to all UK banks, building societies and PRA-designated investment firms, as well as to third country banks with branches in the UK. It will be of particular interest to larger firms that are in scope of the remuneration rules on deferral and pay-out in shares/instruments.

In summary, the regulators have:

- **Confirmed the changes** to the remuneration rules on which they consulted in November 2024;
- Made some **further changes** to provide firms with greater flexibility, most notably:
 - reducing minimum deferral periods for all MRTs to 4 years;
 - introducing marginal deferral for those subject to 60% deferral so that going forward only 40% of variable pay up to £660,000 must be deferred and 60% above that level only;
 - removing the requirement for an equal split between cash and instruments in both the upfront and deferred portions, instead allowing firms to pay a greater proportion of cash up front with a correspondingly higher proportion of instruments subject to deferral;
- Made some changes on **a number of further issues** that were not explicitly covered in the consultation, in particular:
 - confirming that interest may be accrued on deferred cash;
 - removing the expectation that firms notify the PRA before making retention awards;
 - reintroducing an exemption from the rules on deferral and payment in instruments for individuals who have been MRTs for less than 3 months;
 - clarifying some issues around the RPS tables, ahead of a planned consultation on remuneration reporting at a later stage; and
- Made some **minor clarifications** to the CP proposals on MRT identification and individual accountability.

Regarding the **timing of the changes**, the regulators have confirmed that:

- the changes relating to deferral, payment in instruments, vesting, retention periods and retention awards may be applied to a firm's **performance year which is currently ongoing**;
- these changes may also be applied to **in-flight remuneration**, i.e. that which has been awarded in previous years but has not yet vested; and

- all other changes apply from a firm's **next performance year** starting after 16 October 2025.

It is important to note that the regulators emphasise in the policy statement that the new rules are intended to provide firms with greater flexibility and they expect firms to carefully consider the risks associated with their business and the roles of specific MRTs when deciding how to utilise the flexibility. In particular, it is noted that the new 4-year deferral period is a minimum and should be tailored, meaning that it may be appropriate for some MRTs at some firms to be subject to longer deferral periods.

As well as confirming it will proceed with the removal of its remuneration rules and guidance which are duplicative of PRA rules, the **FCA** notes in the policy statement that:

- it will no longer issue bi-annual letters to the Remuneration Committee Chairs of the largest banks; and
- It continues to work on reviewing the operation and effectiveness of the Remuneration Codes applicable to MIFIDPRU investment firms, AIFMs and UCITS, and will provide an update in early 2026.