FINANCIAL CONDUCT AUTHORITY

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Chair, Remuneration Committee
[of proportionality level one Banks,
Building Societies and PRA designated
investment firms]

30 October 2023

Dear [Chair of the Remuneration Committee]

We are writing to you with some important points for you to consider in your capacity as the Remuneration Committee Chair.

We expect the economic environment to remain challenging for the foreseeable future and for cost of living pressures to continue for consumers. In light of this, your role is key in ensuring that your firm's remuneration policies and practices continue to incentivise a consumer-centred approach that ensures good outcomes for consumers across all products and services. No doubt you will also remain cognisant of inflationary pressures in the macro environment when considering your approach to remuneration, and we know many of you have been focused on supporting your lower-paid staff through the current cost of living challenges.

We have written to Remuneration Committee Chairs on consistent themes annually for several years. In future, we plan to provide a longer time interval between letters to give you greater certainty of approach. As a result, following this letter, we do not intend to write to you again collectively for at least 2 years. This does not impact your responsibility to ensure your firm's remuneration policies promote effective risk management and support positive behaviours. This letter highlights some key areas for you to consider and factor into your firm's remuneration approach.

Ratio between fixed and variable components of total remuneration

Recently, we and the Prudential Regulation Authority published PS23/15. We aim to make the remuneration regime more effective by increasing the proportion of compensation at risk and subject to the incentive-setting tools in the remuneration framework. This should also give firms greater flexibility to adjust variable remuneration to absorb losses in a downturn, or to respond to any material poor performance or misconduct that subsequently comes to light.

Putting consumers' needs first

The Consumer Duty came into effect from 31 July 2023 for products and services that are open to new customers or available for existing customers to renew. It will also apply to closed book products from 31 July 2024.

Firms should prioritise embedding the Consumer Duty in their business to provide customers with products and services that meet their needs and offer fair value on an ongoing basis. While banks continue to transform their businesses in line with changing technology and customer behaviour, they should consider the impact changes to the services they offer will have on consumers, including the most vulnerable.

Senior Managers and boards, especially those whose role is most relevant to the Duty, are accountable for complying with the Duty. We encourage you to consider how you can use relevant risk metrics and performance criteria to help inform both individual and firm-wide remuneration decisions, including making remuneration adjustments if progress in embedding the Duty falls short.

Our website gives more information for firms.

Culture and accountability

Recent market events have highlighted the ongoing importance of building and nurturing healthy corporate cultures. We want firms to recognise the role culture plays in shaping outcomes, and to understand and shape their own healthy cultures.

A healthy culture is characterised by a well-articulated and embedded corporate purpose, effective governance, good risk management, strong operational resilience, sound leadership and an inclusive approach to your people. But a healthy culture is not a standalone objective; rather, it is integral to achieving success in terms of business performance and conduct, of firms becoming truly consumer-centred in line with the Consumer Duty's requirements.

We expect your firm to encourage a culture, in which staff feel able to speak up, particularly where they see something which could affect the outcomes for consumers or markets or create a significant risk for the firm.

We expect the roles and responsibilities in a firm to be clearly explained, with clear goals and expectations to enable an effective system of individual accountability. Firms should take responsibility for ensuring the fitness and propriety of senior managers and certified staff and that the standards set by our conduct rules are met. If standards fall short, including as a result of non-financial misconduct, firms should ensure prompt and robust action is taken. Firms should also ensure that there is a clear, strong and evidenced link between behaviours and remuneration outcomes, including appropriate, timely and transparent adjustments.

Diversity and inclusion

Alongside the Prudential Regulation Authority, we published in September our consultation paper CP23/20 on a package of proposals on D&I in the financial services sector. We would welcome your engagement on these proposals and we know that many firms have initiatives underway to narrow the large pay gaps that persist across the industry.

We will also continue to expect firms to maintain gender neutral pay policies in line with our existing requirements and make sure that awards of variable remuneration do not discriminate on the basis of any protected characteristic.

Sustainability in finance

A growing number of firms have committed to sustainability-related objectives – most notably net zero commitments. Where a firm has made such claims and commitments, we expect that the firm will link appropriately its strategy, governance arrangements and remuneration structures to these. We also expect firms to ensure they have the relevant skills and capabilities across the organisation.

The Transition Plan Taskforce (TPT), led by the Government and which we are closely involved in, is currently finalising a Disclosure Framework for credible climate transition plans. The TPT similarly recognises that a credible strategy to deliver on climate commitments will require fundamental changes to governance, culture and people strategies, including remuneration and incentives. For instance, the TPT recommends that a firm disclose how it plans to align its remuneration and incentive structures with the strategic ambition of its transition plan. While the TPT's Disclosure Framework was developed in the context of the climate transition, firms may find its conceptual underpinning and key considerations relevant more widely.

Next steps

We expect you to take this letter into account in your role as the Remuneration Committee Chair and welcome your response on how you will be adopting the principles outlined above.

We look forward to continued engagement with you as part of our standard supervisory cycle. If you have any queries, please contact your supervisor.

Yours sincerely

Executive Director
Markets & International
Consumers & Competition