FINANCIAL
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Consultation Paper

CP26/27**

Remuneration: Solo-regulated firms' rules reform

July 2026

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We are asking for comments on this Consultation Paper (CP) by **16 September 2026.**

You can send them to us using the form on our website.

Or in writing to:

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Chapter 1

Summary

Why we are consulting

1.1 Remuneration drives individual behaviour and influences firms' cultures. Poorly designed remuneration can reward short-term performance without sufficient regard to later risks, contributing to poor client outcomes, conflicts of interest, misconduct and market integrity concerns. A well-designed approach can have the opposite effect.

1.2 We have a remuneration framework that applies to certain solo-regulated firms: alternative investment fund managers (AIFM) (SYSC 19B), UCITS management companies (UCITS) (SYSC 19E) and MIFIDPRU investment firms (SYSC 19G).

1.3 This framework derives from banking regulation and EU reforms following the 2008 global financial crisis. This was designed to address excessive risk-taking and weak incentives among banks, and, over time, these remuneration requirements were also applied to non-bank firms. These included asset managers and investment firms, even though their business models, risks and incentives are different.

1.4 Feedback from stakeholders, alongside our own experience, suggests the rules are difficult to apply and may impose unnecessary burden, particularly for firms that don't pose systemic risk.

1.5 Firms have told us it can be difficult to navigate multiple regimes. Sometimes they have duplicated requirements or need to apply the most stringent regime even if it's not the most appropriate one.

1.6 Feedback also suggests that this approach is unusual internationally. Other major jurisdictions apply more principles-based or supervisory approaches to non-bank remuneration.

1.7 More recent reforms, delivered jointly with the Prudential Regulation Authority (PRA) for banks, building societies and PRA-designated investment firms, have further highlighted the need for change for solo-regulated firms to ensure consistency.

1.8 We want to introduce a simpler, clearer and more proportionate framework for AIFMs, UCITS management companies and MIFIDPRU investment firms.

What we want to achieve

1.9 We want to:

- Promote remuneration practices that encourage good conduct, healthy culture, and align with the interests of clients, funds and investors

- Keep remuneration requirements proportionate to firms' size, activities and risk profiles. These will affect remuneration arrangements and outcomes
- Simplify the regulatory framework to improve clarity and usability for firms and allow for effective supervision
- Reduce additional regulatory burden where prescriptive rules are not needed to achieve good outcomes, while maintaining safeguards

1.10 These aims support our objective to facilitate the international competitiveness and growth of the UK economy, by creating a regulatory environment that lets firms compete, attract talent and grow responsibly.

What we are proposing

1.11 We propose to:

- Replace the three existing remuneration codes (the AIFM Remuneration Code (SYSC 19B), the UCITS Remuneration Code (SYSC 19E) and the MIFIDPRU Remuneration Code (SYSC 19G)) with a single, consolidated new code for in-scope solo-regulated firms (SYSC 19AA).
- Move away from detailed, prescriptive rules towards a more outcomes-focused approach based on firm governance and accountability.
- Refocus the scope of the remuneration regime so that it applies only to firms that pose greater potential risks to consumers and markets.
- Introduce greater flexibility in deferral, malus and clawback, with responsibility resting more heavily on firms' governance structures and the management body's judgement.
- Simplify and update definitions and terminology to reflect the new code and the removal of the existing ones. Make consequential amendments across the Handbook, including to the glossary, SYSC and other relevant sourcebooks.
- Set out transitional and sequencing arrangements, including how the new code would apply alongside forthcoming changes to the AIFM framework, so firms are clear about how and when requirements would take effect.
- Revoke existing non-Handbook guidance where it's no longer relevant and incorporate elements into the new code.

1.12 We have developed these proposals by engaging with a wide range of stakeholders, including firms, trade bodies, academics and advisors.

1.13 Ahead of this consultation, we launched a voluntary survey to gather data on remuneration practices, including compliance costs and the use of deferral, malus and clawback. Responses have been used to inform the cost benefit analysis (CBA) in annex 1.

Wider FCA work on AIFM reform

1.14 Our proposals sit alongside our work on the future regulatory framework of AIFMs. Following our Call for Input on the future regulatory framework for AIFMs, we have been considering how to tailor requirements more effectively to different types of firms, while supporting good outcomes for investors and maintaining the UK's attractiveness as a place to do business. Alongside this Consultation Paper, we are publishing a separate consultation paper on AIFM reform, which readers should also refer to (CP26/28 The UK AIFM Regime).

1.15 This work, together with HM Treasury's role in reshaping the legislative framework, has informed our thinking on the appropriate scope and design of the changes to our remuneration requirements set out in this consultation.

1.16 We are working with HM Treasury to ensure that changes to relevant legislative provisions, including the AIFMD Level 2 Regulation (Regulation 231/2016/EU), support these reforms. This regulation currently contains remuneration provisions underpinning the AIFM Remuneration Code, including Article 60(2)(h) (management responsibility for remuneration policy) and Article 107(4) (remuneration disclosures). HMT has publicly indicated its intention to commence the revocation of the AIFMD Level 2 Regulations, which will remove from statute the legislation relating to remuneration requirements for AIFMs. This will enable us to put in place a replacement remuneration regime for in-scope solo-regulated firms. On that basis, this CP includes proposals relating to AIFMs. We intend to publish final rules, and related changes, to coincide with the point at which, the revocation of these provisions has taken effect.

When the changes will take effect

1.17 We propose that the new remuneration rules and guidance come into force the day after we publish the relevant Policy Statement (except for AIFMs as explained in 1.19). Depending on feedback to this consultation, we anticipate publishing in Q1 2027.

1.18 The new code would apply from that date to remuneration relating to performance periods beginning on or after the commencement date.

1.19 For AIFMs, and to align with the wider AIFM reform, part of which includes changes to the definitions and thresholds used to categorise AIFM firms, the new code would apply into two stages - initially to full scope UK AIFMs from the commencement date in 1.17, and subsequently to medium and large UK AIFMs once the AIFM reforms take effect.

Chapter 2

Changes to the FCA remuneration regime: Our proposals

Overview of this chapter

2.1 Here are our proposals to reform the remuneration framework for AIFMs, UCITS management companies and MIFIDPRU investment firms. We explain the rationale for each one, how it would operate, and how it contributes to a more proportionate, outcomes-focused regime.

2.2 The proposals are intended to maintain the core outcomes of the remuneration framework by supporting good conduct, healthy culture, effective governance and alignment with the interests of clients, funds and investors, while reducing unnecessary compliance burden and supporting competition, growth and international competitiveness.

Table 1: Overview of proposals

Area	Proposal
Remuneration framework	Introduce a single solo-regulated firms remuneration code (SYSC 19AA), replacing SYSC 19B, 19E and 19G.
Outcomes-focused approach	Shift from prescriptive rules to an outcomes-focused framework, with greater reliance on firm governance and management body judgement.
Application and structure	Apply the new code to all staff through general remuneration requirements, with additional targeted provisions for material risk takers to reflect their potential impact on firm outcomes.
Deferral	Replace fixed deferral structures with a principles-based requirement (with a threshold-based alternative consulted on).
Performance adjustment mechanisms	Retain malus and clawback as available tools but remove mandatory application requirements.
Governance	Remove the requirement for mandatory remuneration committees and annual independent review, while retaining general governance and oversight expectations.
Reporting	Revoke the MIF008 remuneration reporting template and the corresponding reporting requirement for MIFIDPRU firms.
Scope changes (AIFMS and UCITS)	The scope of firms this applies to will change to include only medium and large AIFMs (once AIFM reforms are implemented) and continue to apply to UK UCITS management companies.

Area	Proposal
Scope changes (MIFIDPRU)	• Remove all small and non-interconnected (SNI) MIFIDPRU firms from remuneration requirements, so the new code would apply to non-SNI MIFIDPRU investment firms. • Remove the current tiered remuneration regime and apply a single framework under the new code.
Definition of a material risk taker (MRTs)	Narrow and focus the definition of 'material risk taker' to include a staff member at a solo-regulated firm whose activities or remuneration incentives have a material impact on: i)the firm's conduct in relation to its clients and investors, ii) the interests of the investors, the AIFs and the UCITs schemes, or iii) its compliance with regulatory obligations.

A single remuneration code for FCA solo-regulated firms

2.3 We propose to replace the three existing remuneration codes for in-scope FCA solo-regulated firms with a single, consolidated new code. This would involve revoking the AIFM remuneration code (SYSC 19B), the UCITS remuneration code (SYSC 19E) and the MIFIDPRU remuneration code (SYSC 19G) and introducing a new code in SYSC 19AA (solo-regulated firms remuneration code).

2.4 The new code would apply a consistent framework across all firms in scope, while allowing firms to apply the rules in a way that reflects their size, structure and activities. This would remove duplication, improve clarity and reduce complexity, particularly for firms currently subject to multiple overlapping remuneration regimes.

2.5 We want these reforms to reduce complexity and burden but recognise that the move to a new framework represents more than a structural consolidation of the existing codes. It reflects a shift towards a more outcomes-focused and proportionate approach, with greater reliance on firm judgement and governance.

2.6 However, where firms' existing arrangements already deliver the outcomes we expect, they shouldn't need to redesign them solely as a result of these changes. Firms that are compliant with the existing UK codes, or equivalent EU codes, should generally expect to remain compliant under the proposed new code.

Question 1: **Do you agree with our proposal to replace the existing remuneration codes with a single new code for in-scope FCA solo-regulated firms? If not, what alternative approach would better meet our objectives?**

An outcome-focused framework

2.7 We want to put greater emphasis on remuneration policies that:

- Promote good conduct, healthy culture and effective governance.

- Align remuneration with the interests of clients, funds and investors, considering the nature of the firm's activities and their outcomes.
- Reflect the individual risks created by the firms and their staff.

2.8 To achieve this, we expect firms to have strong governance and effective oversight of their remuneration arrangements. We don't want to prescribe specific structures unless we need to.

2.9 We recognise that a less prescriptive framework may result in firms adopting different remuneration structures and approaches. Firms may deliver these outcomes in varying ways, but doing so through policies that reflect their specific business models and risk profiles will be more effective than a single, uniform approach.

Question 2: **Do you agree with our proposal to adopt a more outcomes-focused and less prescriptive remuneration framework for FCA solo-regulated firms? If not, which elements of the current framework do you think we should retain, and why?**

Application of the new code to individuals

2.10 We propose that the code will apply to individuals at two levels and is structured as such:

- Staff, to whom general remuneration requirements apply; and
- Material risk takers (MRTs), to whom additional remuneration requirements (the remuneration principles) apply.

2.11 For the purposes of the code, we propose that 'staff' includes all individuals working for the firm, including employees, partners or members, secondees, and where relevant, an employee of other entities within the group, who provide services to the firm. For the definition of MRTs, please refer to our proposal in paras 2.41-2.44.

2.12 This distinction ensures that:

- Core requirements apply across the firm to all staff; and
- More targeted requirements apply to material risk takers.

2.13 This distinction reflects our objective to move to a more proportionate and risk focused framework. While all staff can influence a firm's culture and conduct, the most significant risks arise from individuals whose activities have a material impact on the firm's risk profile or on client and investor outcomes. Our proposals reflect this, placing additional requirements onto MRTs.

Question 3: **Do you agree with our proposals to apply general requirements to all staff and targeted requirements to material risk takers? If not, what changes would you make and why?**

General remuneration requirements

2.14 Under the new code, we propose that firms must establish, implement and maintain remuneration policies and practices that apply to all staff. In addition to the outcomes listed above (para 2.7), we propose that firms must:

- Ensure appropriate governance and oversight of remuneration by the management body, including documentation.
- Ensure that staff in control functions are remunerated on the basis of the objectives linked to their function independent of the performance of the business areas they control; and where they are senior officers in such functions, their remuneration is overseen by the management body.
- Remuneration policies must contain measures to avoid conflicts of interest.

2.15 We also propose guidance clarifying that firms may use a range of remuneration tools, appropriate to their business model and the risks arising from their activities, to support the design and implementation of their remuneration policies.

Question 4: **Do you agree with our proposed general requirements on firms' remuneration policies and practices and the guidance on remuneration tools?**

Remuneration principles for MRTs

2.16 In addition to the general requirements, we propose that firms must comply with remuneration principles for MRTs. These include:

- making a clear distinction between fixed and variable remuneration
- maintaining an appropriate balance between fixed and variable remuneration
- assessing performance using both financial and non-financial criteria (including conduct and risk management)
- guaranteed variable remuneration (see paras 2.25)
- ensuring severance pay reflects performance and does not reward failure
- deferral of variable remuneration (see para 2.18-2.23)
- performance adjustment mechanisms (see para 2.24)

2.17 The following sections set out in more detail our proposals on specific remuneration principles.

Question 5: **Do you agree with our proposed remuneration principles for material risk takers?**

Deferral of variable remuneration

2.18 The existing remuneration codes have historically required firms to use deferral, malus and clawback to align pay with longer-term performance and risk. Although these tools remain relevant, our engagement suggests that their effectiveness depends on how they are designed. Prescriptive, banking-derived requirements don't always suit AIFMs, UCITS management companies and MIFIDPRU investment firms.

2.19 We propose to retain a deferral requirement but move towards a more principles-based rule. However, we recognise that firms vary in how they use and value deferral as a remuneration tool and may want the new code to retain a mandatory element. So we are presenting two options: our core, preferred option, which is principles-based (included in the draft instrument in Appendix 1), and an alternative option based on thresholds (explained in paragraph 2.21). We welcome your views and evidence on both.

2.20 *Core preferred option: Principles-based deferral rule*

- Under this approach, we would introduce a principles-based requirement for firms to apply deferral, if the management body decides that it would be appropriate that the firm's remuneration practices should include a policy on deferred variable remuneration for material risk takers. The management body would be responsible for determining the structures and duration of deferral mechanisms based on business characteristics, such as investor time horizons in asset and fund management, rather than deferral being imposed uniformly.
- Rules would not prescribe minimum deferral periods, instead leaving it up to the management body to decide the content of the policy on deferral (as part of their remuneration policies) and design any subsequent schemes to meet stakeholders' needs. This would increase accountability on firms, whilst providing flexibility to design arrangements that best reflect their circumstances.
- We would no longer mandate minimum deferral periods or fixed structures such as minimum percentage requirements, cash and instruments split, vesting schedules and holding periods for shares and instruments. Instead, we'd expect firms to consider whether using these tools will support good conduct, a healthy culture and effective oversight of remuneration outcomes.
- We do not propose to prescribe the form of deferral. Firms will have flexibility to use structures that best support effective incentives and align with stakeholders' interests, including options such as carried interest.
- This could be supported by non-Handbook guidance setting out our supervisory expectations and examples of good practice.

2.21 *Alternative option: Threshold-based deferral rule*

- Under this option, mandatory deferral would apply to firms above specified thresholds, alongside a minimum deferral period. For any firm below the threshold, only the principle-based deferral rule as set out above would apply.
- To minimise the additional burden on firms, we would align thresholds and deferral periods for in-scope solo-regulated firms with classifications used in regulatory frameworks elsewhere.
- One option could be the thresholds used in the remuneration part of the PRA Rulebook (which applies to dual-regulated firms under SYSC 19D). Under that regime, the PRA's proportionality framework allows:

- firms with total assets below £4bn to disapply requirements relating to deferral, payment in instruments, and retention
- firms with total assets between £4bn and £20bn to disapply these requirements proportionately, subject to the nature, scale and complexity of their activities and their overall risk profile

- A similar approach could be a clear and familiar way to determine when more prescriptive deferral requirements should apply, while ensuring that smaller firms aren't subject to requirements disproportionate to the risks they pose. However, asset-based thresholds used in the dual-regulated regime may not directly translate to all FCA solo-regulated firms, particularly those whose assets under management, revenue or business model are more relevant indicators of risk.
- We welcome your views on whether thresholds aligned to the dual-regulated regime would be appropriate in this context. If not, let us know what alternative metrics or threshold levels would better reflect the size, activities and risk profile of in-scope FCA solo-regulated firms.
- Regardless of the threshold selected, we propose that firms below them would not be subject to mandatory deferral. We'd still expect them to adopt remuneration arrangements that meet the outcomes of the new code, including appropriate consideration of deferral, malus and clawback. This is in line with the principle-based deferral rule above.
- Depending on consultation responses, we will determine how this option will work in practice, and share more details on the thresholds used.

2.22 These options reflect that we are proposing to rely more on firm's governance and management body judgement, consistent with our strategic focus on accountability and outcomes. Management bodies would need to be explicit about whether, and how they are using deferral and how this supports good conduct and alignment with client and investor interests.

2.23 We propose that firms should apply deferral in a way that is proportionate to the risks arising from their activities and remuneration structures, and that supports good conduct, effective risk management and alignment with the interests of clients, funds and investors.

Question 6: **Which approach to deferral (principles-based or threshold-based) do you consider most appropriate, and why?**

Question 7: **If you prefer threshold-based deferral, do you have a view on which thresholds and other deferral features (including deferral periods) we should use?**

2.24 *Performance adjustment mechanisms*

- We propose that firms must consider whether it would be appropriate to establish and implement performance adjustment mechanisms (such as malus and clawback) as tools to support good conduct, compliance and risk management expectations but we don't propose making them mandatory.

Question 8: **Do you agree with our proposal to require firms to consider performance adjustment mechanisms (such as malus and clawback) without mandating them? If not, what should be required and why?**

2.25 *Guaranteed variable remuneration*

- We propose to simplify how firms treat guaranteed variable remuneration. Under the new code, it would be permitted under specific circumstances, primarily in the context of hiring or to compensate for remuneration that new employees forfeit when leaving a previous employer.
  - Such awards will be time limited and must not create an ongoing entitlement for the employee. We also propose that any guaranteed variable remuneration be subject to appropriate adjustment, reduction, or recovery, consistent with the firm's remuneration policies and our expectations on conduct, governance and risk alignment set out in the new code.
  - The approach is intended to support firms in recruitment and retention whilst ensuring that these awards remain subject to risk alignment and do not undermine the overall objectives of the remuneration framework

Question 9: **Do you agree with our proposals on guaranteed variable remuneration? If not, what changes should we make and why?**

Governance of remuneration arrangements

2.26 We propose to remove several prescriptive governance and reporting requirements relating to remuneration, while maintaining our expectations on accountability and oversight.

Removal of mandatory remuneration committees

2.27 We propose to remove requirements that mandate firms to establish a remuneration committee. Firms would no longer need to adopt specific committee structures as part of their governance. If it has chosen to establish a remuneration committee, that committee may continue to support oversight, but this wouldn't be mandatory.

Removal of annual remuneration reviews

2.28 We also propose to remove prescriptive requirements for firms to conduct a formal annual remuneration review.

2.29 Instead, we'd expect firms to make sure their remuneration arrangements are subject to governance and oversight as part of their wider systems and controls. They can still determine how and when to review their remuneration policies and practices, taking account of their business model, size and risk profile.

Revoking MIFIDPRU remuneration reporting and disclosure requirements

2.30 We propose to revoke the MIF008 remuneration reporting template and the corresponding reporting requirement for MIFIDPRU firms. We also propose to delete the remuneration disclosure requirements in MIFIDPRU 8.6. Our review indicates these disclosures make limited contributions to improving risk management or conduct outcomes, whilst imposing operational burden. Their objectives are already addressed through existing governance and supervisory arrangements and retaining them would lead to duplication. Under the new code, this information is no longer necessary to support effective supervision.

2.31 Firms will be expected to continue maintaining appropriate records that demonstrate how remuneration policies operate in practice, consistent with existing record-keeping expectations in the Handbook.

Question 10: Do you agree with our proposals to simplify governance requirements for remuneration by removing prescriptive requirements (including mandatory remuneration committees, remuneration disclosures, annual independent reviews, and reporting requirements)? If not, which elements should we retain, and why?

Scope of the remuneration regime

2.32 We propose to apply the new code to a defined group of FCA solo-regulated firms. This approach is intended to simplify the current framework, improve clarity, and remove unnecessary complexity.

AIFMS and UCITS

2.33 Under the new code, we propose to include in scope:

- UK AIFMs: full-scope UK AIFMs initially, transitioning to medium and large UK AIFMs in line with the framework and definitions proposed in the AIFM consultation paper (CP26/28 The UK AIFM Regime).
- UK UCITS management companies: will continue to be subject to remuneration requirements under the new code.

2.34 This aligns the scope of the remuneration framework with the broader AIFM reforms occurring in parallel. It ensures that remuneration requirements continue to apply to relevant firms throughout the transition, with the applicable AIFM categorisation updated once those reforms are implemented.

2.35 How this consultation interacts with the AIFMD reforms will depend on the sequencing of the respective policy statements and the coming into force of the relevant rules. If the AIFMD Policy Statement (PS) is published and the proposed rules come into force before, or at the same time as, the Remuneration PS, the Remuneration PS will give effect to the transition to the new categories of AIFMs. But if the AIFMD PS is published and the rules come into force after the Remuneration PS, the AIFMD PS and rules will instead give effect to the new categories.

2.36 This is why we are seeking views on the application of the proposed new code under both the current AIFM categorisation and the proposed future categorisation. The implementation of the latter will be taken forward either in the Remuneration PS or the AIFMD PS, depending on when the AIFMD PS is published.

2.37 For AIFMs, the new code will also simplify the framework by consolidating remuneration requirements within the Handbook. Under the current regime, elements of the AIFM remuneration framework sit in non-Handbook guidance ('Finalised Guidance: General guidance on the AIFM Remuneration code (SYSC 19B)'). Under our proposals, remuneration requirements will be in one place improving accessibility and clarity for firms.

Question 11: **Do you agree with our proposal to include medium and large UK AIFMs (once the AIFM reforms are implemented) and UK UCITS management companies within the scope of the new code? If not, how should the scope be adjusted?**

MIFIDPRU investment firms

2.38 We propose to remove all small and non-interconnected (SNI) MIFIDPRU investment firms from remuneration requirements, so the new code would apply to non-SNI MIFIDPRU investment firms. This reflects our assessment that these firms are smaller, and so are less likely to create the kind of conduct or market harms that justify applying detailed remuneration requirements.

2.39 The existing MIFIDPRU remuneration code (SYSC 19G) applies a tiered structure (basic, standard and extended) based on thresholds and firm characteristics. We propose to remove this and associated thresholds, replacing it with a single, focused framework under the new code.

2.40 These changes are intended to clarify which firms are subject to remuneration requirements and how those apply, while avoiding the need for firms to assess themselves against multiple tiers or overlapping regimes. It also reduces the risk of firms defaulting to more stringent requirements for simplicity or legal certainty, regardless of whether those requirements are proportionate to their business models or risk profiles.

Question 12: **Do you agree with removing small and non-interconnected (SNI) MIFIDPRU investment firms from remuneration requirements so that the new Code would only apply to non-SNI MIFIDPRU investment firms?**

Question 13: **Do you agree that removing the existing tiered structure and thresholds under the existing MIFIDPRU Remuneration Code (SYSC 19G) and replacing them with a single, outcomes-focused framework in the new code would**

simplify the regime and improve clarity for these firms? If not, are there elements of the current tiered approach that you consider necessary to retain in the new Code?

Narrowed definition of 'material risk taker'

2.41 We propose to narrow and refocus the definition of 'material risk taker' (MRT). Under the proposed glossary definition, an MRT is a staff member at an in-scope solo-regulated firm whose professional activities or remuneration incentives have a material impact on any of the following:

- the firm's conduct in relation to its clients, and investors
- the interests of investors, the AIFs, the UCITS schemes
- the firm's compliance with obligations under the regulatory system

2.42 This is intended to better target individuals whose roles and incentives are most relevant to the remuneration outcomes we are seeking and reduces reliance on prescriptive role-based approaches.

2.43 MRTs are currently a defined certification function under the Senior Managers and Certification Regime (SM&CR) (see SYSC 27.8.15R). As well as making the necessary amendments to reflect the introduction of the new code, revising the MRT definition would mean that some individuals who currently fall within scope of certification solely as MRTs would no longer be subject to annual certification, unless they also perform another certification function.

2.44 We note that the Certification Regime itself is under review as part of the SM&CR reforms, and we expect to consult more widely on potential changes to certification later this year. While this consultation does not propose reforms to the Certification Regime, respondents should be aware that the broader framework is subject to ongoing review and may change further.

Question 14: **Do you agree with our proposal to narrow and refocus the definition of a material risk taker? If not, what changes would you suggest, and why?**

Revocation of non-Handbook guidance

2.45 We propose to revoke non-Handbook guidance associated with the existing AIFM and MIFIDPRU remuneration regimes where it no longer supports the revised approach. This includes:

- 'Finalised Guidance: General guidance on the AIFM remuneration code (SYSC 19B)'
- 'FG23/6: General guidance on the application of ex-post risk adjustment to variable remuneration'

Question 15: Do you agree with our proposal to revoke the relevant non-Handbook remuneration guidance? If not, what should we retain, and why?

2.46 We're considering whether additional non-Handbook guidance would help support implementation of the outcomes-focused framework.

Question 16: Do you consider that non-Handbook guidance is needed to help firms apply the remuneration proposals? If so, which areas or issues should it cover?

Consequential Handbook changes

2.47 We propose to make necessary consequential amendments across the Handbook (see table 2):

Table 2: summary of handbook changes

Sourcebook	Summary of changes
Glossary	Updated definitions
SYSC	Updates to reflect the replacement of SYSC 19B, 19E and 19G with SYSC 19AA
MIFIDPRU	Updates to reflect the removal of the remuneration committee (MIFIDPRU 7) and disclosures (MIFIDPRU 8.6)
SUP	Updates to reflect removal of reporting (MIF008)
Other sourcebooks	Removal of legacy remuneration code references

Chapter 3

Measuring success

3.1 Under the Financial Services and Markets Act (FSMA) 2023, we are required to keep rules in our Handbook under review. We consider whether rules are meeting their intended outcomes in a proportionate way, taking account of the availability of data, the nature of the proposals, and the costs of monitoring for us and for firms.

Intended outcomes

3.2 The reforms proposed in this CP are intended to:

- Maintain the core outcomes of the remuneration framework, including promoting good conduct, healthy culture, effective governance and alignment with the interests of clients, funds and investors.
- Support competition, growth and international competitiveness by enabling firms to design remuneration arrangements that better reflect their business models and risk profiles.
- Reduce unnecessary compliance and operational burdens associated with prescriptive remuneration requirements.

Approach to monitoring

3.3 The nature of these proposals means it's difficult to define quantitative indicators that would allow us to isolate and measure the direct impact of these reforms.

3.4 Outcomes associated with remuneration are complex and interact closely with other regulatory frameworks, including the SM&CR and Consumer Duty, some of which we're consulting on simultaneously.

3.5 Changes to remuneration outcomes are likely to emerge gradually and may not be attributable to this package of reforms alone.

3.6 In addition, several proposals intentionally reduce prescriptive reporting and data collection requirements. Introducing new routine data collection for monitoring purposes would be inconsistent with the objectives of the reforms, and disproportionate to any likely benefits.

3.7 Considering this, we consider that a predominantly supervisory-led approach to monitoring is the most appropriate and proportionate way to assess whether the reforms are working in the way we want them to.

Indicators and evidence

3.8 We will assess this using existing supervisory tools and intelligence. This will include:

- Supervisory assessments of firms' remuneration governance, decision-making and alignment with conduct and risk outcomes.
- Intelligence from our supervision, authorisations and firm engagements relating to conduct, governance and remuneration-related harms.
- Evidence arising from enforcement cases, skilled person reviews or other deep dive supervisory work where remuneration practices are relevant.
- Feedback from firms, trade bodies and professional advisers on how the new framework is operating in practice.

3.9 This will be informed by our ongoing supervisory engagement, firm assessments, and other regulatory activities, rather than by new reporting requirements.

Review of the rules

3.10 We do not propose to undertake a formal impact evaluation. Given the qualitative nature of the intended outcomes and the interaction with other regulatory reforms, we don't believe a standalone evaluation would provide robust evidence of success.

3.11 Instead, we'll keep the rules under review as part of our normal supervisory activity and wider rule review framework, and will consider whether further reviews are appropriate in light of experience, stakeholder feedback and market developments.

Annex 1

Cost benefit analysis

Executive summary

1. We propose to reform the remuneration framework for FCA solo-regulated firms. The current framework comprises three remuneration codes that have developed over time and are not fully aligned with the business models and risk profiles of firms in scope. This has resulted in a regime that is complex and may impose costs that are not proportionate to the risks these firms pose. Reforms for dual-regulated firms have also created inconsistencies across the regime.

2. We propose to replace the existing codes with a single, outcomes-focused framework. We will remove certain firms from scope, including (SNI) MIFIDPRU investment firms and smaller AIFMs, and reduce prescriptive requirements for firms that remain in scope.

3. Our analysis takes a proportionate approach, reflecting the nature of the proposals and data limitations. We use internal FCA data, regulatory reporting and targeted survey evidence to estimate compliance costs. We apply a simplified modelling approach and present results as bounded ranges, with a midpoint used for aggregate reporting.

4. We estimate that the proposals will deliver material reductions in compliance costs. Savings arise primarily from removing smaller firms from scope, eliminating prescriptive requirements and simplifying the framework through a single code. We estimate total net benefits to firms with a **Net Present Value of £290.87m** over a 10 year appraisal period and an **Equivalent Annual Net Direct Cost to Business of -£32.01m**, representing a reduction in regulatory burden.

5. The proposals may also deliver wider economic benefits by increasing flexibility in remuneration design. Firms may better align pay with their business models and compete more effectively for skilled staff. By reducing the cost of doing business, the reforms may also support the attractiveness of the UK as a location for financial services activity. We assess these effects qualitatively due to uncertainty.

6. The proposals give rise to some costs and risks. Firms will incur **one-off familiarisation and gap analysis costs**, estimated at **around £1.77m**. Removing prescriptive requirements may increase the risk of weaker alignment between short-term incentives and longer term outcomes in some firms.

7. We consider these risks manageable. They are mitigated by the wider regulatory framework, including high level requirements, the Senior Managers and Certification Regime, Conduct Rules, the Consumer Duty, and supervisory oversight. Overall, the proposals deliver substantial cost savings and improved proportionality while maintaining appropriate safeguards for conduct and investor protection.

Introduction

8. The Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Section 138I defines a CBA as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

9. This CBA estimates the significant impacts of our proposals. Where practicable, we quantify impacts in monetary terms; otherwise, we assess them qualitatively. We evaluate all expected impacts and use this assessment to form a judgement on the appropriate level of regulatory intervention.

Rationale for remuneration rules

10. The way firms structure pay can materially influence behaviour of their staff and subsequently affect consumer outcomes. Remuneration typically combines fixed pay with variable components linked to performance. When well designed, variable pay can reward activities that improve outcomes for clients and investors, such as generating sustainable returns.

11. However, remuneration structures can also create incentives for behaviour that leads to harm. Individuals may be rewarded for actions that increase short-term performance while increasing the risk of adverse outcomes that materialise later.

12. This creates three market failures:

- **Principal-agent problems** where individuals who are supposed to act on behalf of their clients face incentives that are not fully aligned with their clients' interests.
- **Moral hazard** where individuals can increase personal reward by taking greater risk, particularly where gains are realised in the short term, but losses fall on others.
- **Externalities** where the costs of risk-taking behaviour are borne by clients, firms or wider markets rather than the decision maker.

13. These issues are reinforced by **time-inconsistency**. Risks may crystallise after remuneration has been paid, allowing individuals to benefit from actions that later result in harm.

14. Remuneration rules seek to address these failures by aligning incentives with longer term outcomes. Tools such as deferral, malus and clawback link pay to performance over the period in which risks materialise. More broadly, the rules aim to ensure that pay supports sound risk management, good conduct and effective oversight.

15. Poorly designed incentives can contribute to poor client outcomes, conflicts of interest and market integrity risks. Clients often cannot observe or respond to these incentives, so market discipline alone may not address the problem.

Firms in scope of remuneration rules

16. Our proposals apply to solo-regulated firms that are currently subject to one of three remuneration codes in our Handbook:

- The MIFIDPRU Remuneration Code (SYSC 19G), which applies to authorised investment firms;
- The AIFM Remuneration Code (SYSC 19B), which applies to UK alternative investment fund managers; and
- The UCITS Remuneration Code (SYSC 19E) which applies to UCITS management companies.

17. Investment firms form the largest and most diverse group, with around 2,800 firms including asset and wealth managers, brokers and advisers. They serve both retail and professional clients. The regime distinguishes between small and non interconnected (SNI) firms and larger firms, with SNI firms subject to simpler requirements.

18. Alternative investment fund managers include private equity and hedge fund managers, primarily serving institutional investors, with around 700 firms in scope. UCITS management companies manage regulated funds for retail investors, with around 100 firms in scope.

Drivers of remuneration reform

19. The current remuneration framework for solo-regulated firms has developed over time and reflects approaches designed for systemically important banks. While it provides a structured approach to managing incentive related risks, it has resulted in a regime that is complex and may not be aligned with the characteristics of the firms in scope.

20. The existing framework imposes ongoing compliance costs through prescriptive requirements such as deferral arrangements, remuneration committees and detailed reporting. While these tools can support risk management, applying them across a wide range of non-systemic firms can result in costs that are not proportionate to the risks they address, particularly for smaller firms.

21. Recent reforms to remuneration requirements for dual-regulated firms have reduced the level of prescription for some higher risk firms. This has created inconsistencies within the regulatory framework, where solo-regulated firms may face more prescriptive requirements than firms with higher systemic risk. These differences can distort competition and weaken the coherence of the overall regime.

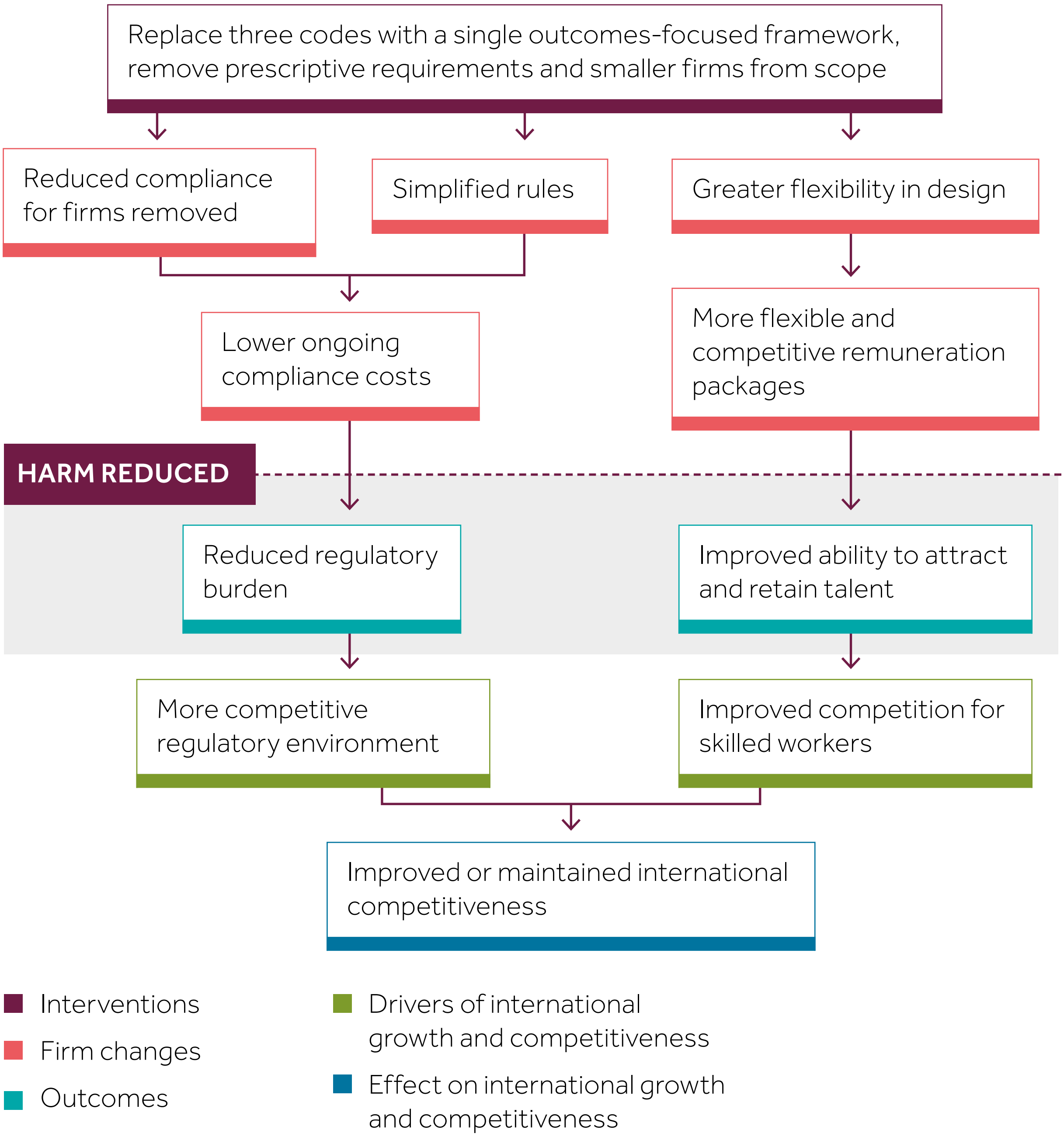
Our proposed intervention

22. We propose to replace the three existing remuneration codes with a single, consolidated and outcomes-focused code. This will remove overlapping rules, thresholds and tiering that currently create complexity and increase compliance costs for firms operating across multiple regimes.

23. We will remove two groups of smaller firms from scope entirely: SNI firms in scope of the MiFIDPRU code and small AIFMs. This reflects their lower risk profiles and removes requirements where the expected regulatory benefits are limited. For other firms we will remove prescriptive requirements and set out a small number of high-level, outcomes-focused requirements. Full detail on our proposals are set out in Chapter 2.

24. The causal chain in Figure A below sets out how we expect these changes to reduce unnecessary regulatory burden while maintaining appropriate safeguards, leading to improved proportionality and more efficient market outcomes.

Figure A: Causal chain



Alternative options considered

25. We considered two alternative options to reform the existing framework. Our assessment of these is set out in the table below.

Table 3: Summary of alternative options

Option considered	Rationale for dismissal
Withdraw the remuneration codes without replacement	Removing the remuneration codes entirely would deliver the greatest reduction in compliance costs and maximise flexibility for firms. However, it would eliminate direct regulatory tools for aligning incentives with risk and conduct outcomes, increasing the risk of harmful behaviour. We consider this would create an unacceptable risk to consumer protection and market integrity.
Consolidate the existing codes while retaining prescriptive requirements	Consolidating the existing codes into a single framework would improve clarity and reduce duplication. However, it would retain the core prescriptive requirements that drive regulatory burden and would not address misalignment with firms' business models. It would also maintain requirements that are more onerous than those applied to some higher-risk dual-regulated firms. We therefore consider this option would deliver only limited benefits.

Analytical approach

Proportionality

26. We take a proportionate approach to this analysis, reflecting the nature of the proposed intervention. In this context, extensive data collection and highly granular modelling across all firms and requirements are not justified.

Data

27. We use internal FCA datasets, drawing on authorisation data and regulatory returns, to identify the population of firms in scope and group them by regime and characteristics. These data allow us to construct a consistent population base for the analysis.

28. We do not have sufficiently granular data to map each firm to the full set of remuneration requirements across the three codes. Differences in thresholds, proportionality rules and qualitative criteria limit comparability across regimes. To address this, we group firms into categories that reflect the broad level of requirements they face, such as size or significance within each regime.

29. We supplement this data with evidence from a targeted voluntary survey, which provides indicative estimates of staff time associated with key remuneration related activities. We use these survey responses alongside internal data and regulatory reporting to estimate the scale and distribution of compliance costs.

Scope of quantification

30. Our analysis focuses on estimating reductions in compliance costs from the proposed reforms. These are the most directly attributable impacts and can be estimated using available data.

31. We quantify costs associated with key activities driven by prescriptive requirements, including:

- understanding and interpreting remuneration requirements;
- meeting regulatory reporting requirements (the MIF008 report);
- maintaining Remuneration Committees (RemCos)
- operating deferral arrangements;
- applying malus and clawback;

32. We focus on activities that change under the proposals, rather than attempting to capture all existing compliance costs. We do not quantify impacts where it is not possible to isolate incremental regulatory costs, such as broader remuneration design, performance management or internal governance processes. We also exclude technology and systems costs, given variation across firms and the risk of double counting.

33. We also do not quantify the impact of wider behavioural effects, including changes in recruitment, competition and international attractiveness.

Uncertainty

34. Estimating the impact of these proposals involves uncertainty, particularly under an outcomes-focused framework where firms have flexibility in how they design remuneration arrangements. While removing prescriptive rules should reduce compliance costs, firms will retain some processes to meet regulatory expectations.

35. The scale of cost reduction depends on firms' responses. Some may retain existing arrangements, while others may simplify them. We reflect this uncertainty using bounded ranges for key cost components. Low and high scenarios represent different degrees of behavioural change.

36. We report central estimates using the midpoint of these ranges to provide a consistent basis for aggregated metrics, including Net Present Value and Equivalent Annual Net Direct Cost to Business. The assumptions underlying these ranges are set out in Table 4.

Table 4: Assumed levels of cost reduction

	Assumed reduction in costs under new code	
	Low	High
Understanding and interpreting remuneration requirements	20%	30%
Deferral	10%	20%
Malus	10%	20%
Remuneration Committee (set up cost)	100%	100%
Remuneration Committee (ongoing administration)	10%	20%

Standard CBA assumptions

37. In line with our Statement of Policy on CBA (7.13 to 7.38) we have applied the following standard assumptions in our analysis:

- **Appraisal period:** 10 years, starting 2027-28
- **Discount rate:** 3.5 per cent
- **Price base year:** 2026-27 (current prices on publication of the consultation)
- **Present value base year:** 2027-28 (the first year of the appraisal period)

Baseline

38. The baseline for this analysis is a counterfactual in which firms continue to operate under the existing remuneration framework.

39. Under this framework, firms undertake compliance activities to meet prescriptive requirements on remuneration structures, governance and reporting. These activities generate ongoing costs, which form the baseline against which we assess the impact of the proposed reforms.

Distribution of costs across firm population

40. Compliance costs do not fall uniformly across firms. The level of requirements varies by remuneration code, thresholds within each code, and the size and complexity of the firm. More prescriptive requirements-such as deferral, formal governance structures and reporting-tend to apply to larger or more complex firms, while smaller firms are subject to simpler requirements or exemptions..

41. To reflect this variation, we group firms according to the level of remuneration requirements they face.

MiFIDPRU

42. Under the MiFIDPRU code, firms are categorised according to size and interconnectedness. Small and Non-Interconnected (SNI) firms are considered lower risk and are subject to simplified remuneration requirements.

43. Non SNI firms face more extensive requirements, including malus and clawback, with additional obligations for larger non SNI firms, such as deferral and remuneration committees.

44. Our analysis therefore distinguishes between three groups:

- **SNI firms,** which face simplified requirements;
- **Regular non SNI firms,** which are subject to moderate requirements; and
- **Large non SNI firms,** which face additional requirements including deferral and governance through RemCos.

AIFM

45. For AIFMs, remuneration requirements apply on a proportional basis. Smaller AIFMs are exempt and are excluded from our analysis. Among firms in scope, more prescriptive requirements apply to "significant" AIFMs, including the use of deferral, malus and clawback and the establishment of RemCos. Other AIFMs are subject to fewer prescriptive requirements. We therefore distinguish between **Significant AIFM** and **Regular AIFM** firms. To determine numbers of firms in scope we used the proportionality thresholds in Table 2 of our SYSC19B guidance.

UCITS

46. All UCITS management companies are subject to remuneration requirements, but the extent of those requirements depends on whether a firm is considered "significant". Significant UCITS firms are expected to establish a RemCo and apply more formal governance arrangements, while other firms are subject to more limited requirements. There are no fixed quantitative thresholds for significance, and this is determined based on qualitative factors.

47. We therefore distinguish between **Significant UCITS** and **Regular UCITS** firms.

Population mapping

48. We map firms into these categories to estimate how compliance costs are distributed. This mapping provides the basis for applying unit cost estimates across firm groups. Table B sets out the number of firms in each category, based on internal FCA data.

49. We make simplifying assumptions where required to reflect how costs arise in practice. A small proportion of firms in each category are assumed to incur one-off costs associated with establishing remuneration structures, such as deferral schemes or RemCos, reflecting new entry. Entry and exit rates are low, so we assume a static population over the appraisal period, with inflows and outflows offsetting each other.

Table 5: Estimated number of firms in scope of remuneration costs

	MIFIDPRU	MIFIDPRU	MIFIDPRU	AIFM	AIFM	UCITS	UCITS
	Large non-SNI	Regular non-SNI	SNI	Significant	Regular	Significant	Regular
Population	**150**	**982**	**1665**	**162**	**540**	**11**	**101**
Understanding and interpreting remuneration requirements							
Deferral scheme							
Malus and clawback							
Remuneration Committee							
MIF008 reports							

Baseline compliance costs

50. Compliance activities require staff time across a range of functions within firms. We treat this as an economic cost, reflecting the opportunity cost of labour, in line with our Statement of Policy on CBA (paras 9.8 to 9.12).

51. To estimate these costs, we use survey evidence to construct a stylised representation of firm activity. This provides indicative unit cost estimates across firm categories. We distinguish between one-off costs (such as establishing governance structures) and ongoing costs (such as administering deferral or reporting).

52. Table 6 presents estimated unit costs by activity and firm type. These estimates underpin the calculation of total baseline costs and expected savings under the proposed reforms.

Table 6: Estimated unit cost, existing remuneration requirements

	MIFIDPRU		MIFIDPRU		MIFIDPRU		AIFM		AIFM		UCITS		UCITS	
Cost per firm, £	Large non-SNI		Regular non-SNI		SNI		Significant		Regular		Significant		Regular	
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
Understanding and interpreting remuneration requirements (annual)	15,000	30,000	10,000	20,000	5,000	10,000	15,000	30,000	10,000	20,000	10,000	20,000	5,000	10,000
Deferral scheme (initial set up)	50,000	100,000					50,000	100,000			50,000	100,000	25,000	50,000
Deferral scheme (annual administration)	5,000	12,000					5,000	12,000			5,000	12,000	3,000	8,000
Malus (per event)	2,000	3,000	2,000	3,000			2,000	3,000			2,000	3,000	2,000	3,000
Clawback (per event)	3,000	5,000	3,000	5,000			3,000	5,000			3,000	5,000	3,000	5,000
Remuneration Committee (initial set up)	5,000	15,000					5,000	15,000			5,000	15,000		
Remuneration Committee (annual)	1,500	3,000					1,500	3,000			1,500	3,000		
MIF008 reports (annual)	3,000	6,000	3,000	6,000	1,500	3,000								

Summary of impacts

Social impact

	PV Benefits (£m)	PV Costs (£m)	NPV
Total impact	**292.64**	**1.77**	**290.87**
-of which direct	292.64	1.77	290.87
-of which indirect			

Business impact

	10-year PV (£m)	EANDCB (£m)
Total net direct cost to business	**-290.87**	**-32.01**

Summary of impacts

Impact type	Benefits (£m)		Costs (£m)	
(all direct impacts)	Year 1	Year 2 onwards	Year 1	Year 2 onwards
Impacts to firms				
Familiarisation and gap analysis			1.77	
Removing SNI firms from scope	16.23	16.23		
Reclassification removing some AIFM firms from scope		6.95		
Revoking MiFIDPRU remuneration reporting requirements	5.09	5.09		
Removing prescriptive requirements on RemCos	0.20	0.20		
Removing prescriptive requirements on Deferral	0.64	0.64		

Impact type	Benefits (£m)		Costs (£m)	
(all direct impacts)	Year 1	Year 2 onwards	Year 1	Year 2 onwards
Removing prescriptive requirements relating to malus and clawback	0.08	0.08		
Regulatory simplification from creating a single code		6.35		
Total	**22.24**	**35.54**	**1.77**	**0.00**

Benefits

53. The proposals deliver two broad benefits, both accruing to business:

- **Reductions in compliance costs** from simplifying the requirements into a single code, removing prescriptive requirements and reducing the population of firms in scope.
- **Wider competitiveness and growth effects** arising from increased flexibility in remuneration structures and reduced regulatory constraints. These effects are more difficult to quantify and are therefore assessed qualitatively (see our "Competitiveness and growth" section).

Reductions in compliance cost

54. Table 7 summarises the expected annual reduction in compliance costs. Some impacts differ between Year 1 and subsequent years, reflecting the reclassification of AIFM firms from Year 2 onwards.

Table 7: Summary of reductions in compliance costs

£m	Year 1			Year 2 onwards		
	Low	Central	High	Low	Central	High
Removing SNI from scope	10.82	16.23	21.65	10.82	16.23	21.65
Reclassifying of AIFM firms	0.00	0.00	0.00	4.63	6.95	9.26
Removing MIF008 reporting requirements	3.40	5.09	6.79	3.40	5.09	6.79
Removing prescriptive rules on RemCos	0.09	0.20	0.32	0.09	0.20	0.32

£m	Year 1 Low	Central	High	Year 2 onwards Low	Central	High
Removing prescriptive rules on Deferral	0.22	0.64	1.05	0.22	0.64	1.05
Removing prescriptive rules on malus & clawback	0.04	0.08	0.12	0.04	0.08	0.12
Simplifying from creating a single code	0.00	0.00	0.00	3.18	6.35	9.53

55. A key driver of cost savings is the removal of certain categories of firms from the scope. Where firms are no longer subject to the regime, the associated compliance costs fall away in full.

Removing SNI firms from scope

56. All 1,665 MiFIDPRU SNI investment firms will be brought out of scope of the requirements.

57. Based on our estimates of baseline compliance costs, this is expected to deliver annual savings of between **£10.82m** and **£21.65m**, as set out in Table 9.

Reclassification of AIFM firms removing some firms from scope

58. We also expect a significant proportion of AIFMs to be removed from scope as a result of planned reforms to the AIFM regime. Under these reforms, smaller firms will be reclassified and excluded from remuneration requirements.

59. We estimate that 463 firms currently classified as Regular AIFMs will be reclassified as small AIFMs and removed from scope when we introduce the AIFM reforms on which we are consulting (CP26/28 The UK AIFM Regime). The remaining firms will continue to be subject to the streamlined remuneration framework.

60. Based on our estimates of baseline costs, this is expected to deliver annual savings of between **£4.63m and £9.26m**, as set out in Table 10. These savings are assumed to arise from the second year of the appraisal period, reflecting the expected timing of implementation.

Revoking MiFIDPRU remuneration reporting requirements

61. Under the proposals, the requirement for MiFIDPRU firms to submit remuneration reports (MIF008) will be removed. This eliminates the ongoing costs associated with collecting, validating and reporting remuneration data.

62. The removal of SNI firms from scope already eliminates reporting costs for those firms. To avoid double counting, we include here only the additional savings for non SNI firms that will remain within the scope of the remuneration framework.

63. Based on our estimates of baseline reporting costs, revoking the MIF008 requirement for these firms is expected to deliver annual savings of between **£3.40m and £6.79m**, as set out in Table 11.

Removing prescriptive requirements involving Remuneration Committees

64. Under the current framework, certain firms are required to establish and maintain Remuneration Committees (RemCos), giving rise to both one-off set up costs and ongoing administrative costs.

65. The proposals remove the requirement to operate a RemCo. As a result, firms will no longer need to establish new committees solely to meet regulatory requirements, and we expect the associated set up costs to fall away.

66. For firms that currently operate a RemCo, we expect some to retain these structures where they support internal governance. However, firms may also simplify these arrangements or integrate them into existing governance processes. To reflect this, we assume a reduction of between 10% and 20% in the ongoing cost of administering RemCos.

67. Based on these assumptions, we estimate that removing prescriptive requirements for Remuneration Committees will deliver annual savings of between **£0.09m and £0.32m**, as set out in Table 12.

Removing prescriptive requirements relating to deferral

68. Under the current framework, certain firms are required to operate deferral arrangements, giving rise to both set up costs and ongoing administrative costs. These include designing compliant schemes, tracking deferred awards and applying vesting and retention requirements over time.

69. The proposals remove the prescriptive requirement to operate deferral schemes. However, we expect that many firms will continue to use deferral as part of their remuneration structures where this supports their business model and internal risk management. As a result, compliance costs are expected to fall, but not to be eliminated entirely.

70. Given this, we assume that the overall cost of operating deferral arrangements is reduced by between 10% and 20%. The lower bound reflects more limited changes, where firms retain existing arrangements with only modest simplification. The upper bound reflects more substantial simplification, including reduced administrative complexity and fewer new schemes being established.

71. On this basis, we estimate that removing prescriptive deferral requirements will deliver annual savings of between **£0.22m and £1.05m**. Further detail is set out in Table 13.

72. In this analysis, we reduced the population of Significant AIFM firms from 162 to 137. This is because around 25 Private Equity firms already benefit from a carried interest exemption so a large share of their variable remuneration benefits from an exemption

from existing rules. The potential savings from removing prescriptive requirements would be much less significant for these firms, so we have excluded them.

Removing prescriptive requirements relating to malus and clawback

73. Under the current framework, certain firms are required to apply malus and clawback to variable remuneration, giving rise to operational costs associated with monitoring triggers, assessing outcomes and implementing adjustments.

74. The proposals remove the mandatory requirement to apply these tools. Firms will retain discretion to use malus and clawback where appropriate, and we expect that these mechanisms will continue to be used in some cases.

75. To reflect this, we assume a reduction of between 10% and 20% in the overall cost of applying malus. Given the relatively low frequency of these events, the associated cost savings are modest. Clawback is used relatively rarely and so we do not expect there to be any significant changes to the cost of clawback following our proposals.

76. On this basis, we estimate that removing prescriptive requirements for malus and clawback will deliver annual savings of between £0.06m and £0.17m in the first year, and between **£0.04m and £0.12m** in subsequent years, as some Regular AIFM firms are removed from scope. More detail is set out in Table 14.

77. We have data on the extent of malus and clawback for MiFIDPRU firms where it is reported in MIF008. We have used averages over the past three years for non-SNI MiFIDPRU firms as a rough proxy to estimate the per-firm rate of malus across AIFM and UCITS codes.

78. Again, in this analysis, we reduced the population of Significant AIFM firms from 162 to 137 to adjust for around 25 Private Equity firms that already benefit from a carried interest exemption.

Regulatory simplification from creating a single code

79. Under the current framework, firms must interpret and apply three separate remuneration codes, which have similar structures but different thresholds, definitions and detailed requirements. This creates ongoing costs associated with understanding and interpreting the rules, particularly for firms operating across multiple regimes.

80. The proposals consolidate these into a single remuneration code. This is expected to reduce the cost of understanding and applying the rules by removing duplication, improving clarity and simplifying how firms assess their obligations.

81. To reflect this, we assume that the cost of understanding and interpreting remuneration requirements is reduced by between 20% and 30%. The lower bound reflects more limited gains from simplification, while the upper bound reflects more substantial reductions in complexity and duplication.

82. On this basis, we estimate that simplifying the framework to a single code will deliver annual savings of between **£3.18m and £9.53m**, as set out in Table 15.

83. We expect that it will take firms some time to adjust their practices in line with the new requirements. In Year 1 we assume there will be an increase in costs relative to the baseline, which we have counted as a familiarisation cost (see "Costs" section below). We have therefore assumed that savings to understanding and interpreting the requirements start to take effect from Year 2.

Costs

84. While the proposals reduce costs to business overall, they give rise to some short-term adjustment costs and may increase certain risks to market outcomes.

Familiarisation costs

85. Firms will incur one-off costs in familiarising themselves with the new remuneration framework and assessing changes required to their existing policies, governance and remuneration arrangements.

86. We estimate these familiarisation and gap analysis costs using the Standardised Cost Model set out in our Statement of Policy on CBA (p 75 to 77). This includes time spent by compliance and legal staff reviewing the new rules and assessing their implications.

87. On this basis, we estimate a total one-off cost of **approximately £1.77m** across the affected firm population, incurred in the first year of implementation.

Potential costs to market outcomes

88. The proposals reduce the use of prescriptive tools designed to align incentives with longer term outcomes. This may increase the risk of certain behaviours in some firms.

89. In particular, reducing or removing requirements such as deferral, malus and clawback may:

- Increase the proportion of remuneration paid in immediate cash, strengthening incentives for short-term performance;
- Reduce the ability to adjust pay after risks have crystallised; and
- Weaken the link between remuneration and longer term outcomes.

90. Moving to a more outcomes-focused framework may also increase reliance on supervisory judgement. In the absence of prescriptive benchmarks, identifying and challenging poorly aligned practices may be less straightforward in some cases. Greater flexibility may also lead to wider variation in remuneration practices across firms.

Risk rebalancing

91. We have assessed these effects as part of a broader trade off between reducing regulatory burden and maintaining safeguards. The primary risks from remuneration in solo-regulated firms relate to conduct and investor protection, including poor client

outcomes, conflicts of interest and market integrity concerns. These risks are typically non systemic.

92. We expect existing regulatory frameworks to mitigate these risks. Firms remain subject to high level requirements to ensure remuneration supports sound risk management and good conduct. The Senior Managers and Certification Regime, Conduct Rules and Consumer Duty reinforce accountability and expectations for firm behaviour.

93. Supervisory oversight and enforcement powers provide further safeguards. Where remuneration practices lead to harm, supervisors can intervene and require firms to make changes. Firms may also continue to use tools such as deferral, malus and clawback where appropriate.

Competitiveness and growth effects

94. In addition to reducing compliance costs, we expect the proposals to deliver wider economic benefits related to our secondary objective for competitiveness and growth by increasing flexibility in how firms design and operate remuneration arrangements. These effects are uncertain, depend on firm behaviour and market conditions, and are therefore not quantified.

95. Removing prescriptive requirements allows firms to align remuneration more closely with their business model, risk profile and organisational structure. Firms can simplify arrangements where existing rules impose standardised approaches that are not proportionate to their activities, reducing complexity and improving efficiency.

96. Greater flexibility may also improve labour market outcomes. Firms compete for skilled and mobile workers through remuneration, and fewer constraints on pay structures allow them to design packages that better reflect roles and market conditions. This may support recruitment and retention and reduce distortions between solo-regulated and dual-regulated firms, improving the allocation of labour.

97. By reducing differences between the UK regime and more outcomes-focused based approaches internationally, the proposals may also support the attractiveness of the UK as a location for financial services activity.

Question 17: **Do you agree with the assumptions set out in Tables 4 and 6 of our Cost Benefit Analysis regarding the expected reduction in and existing compliance costs under the proposed remuneration code? Do you have any other comments on our Cost Benefit Analysis? Please provide supporting evidence, including quantified estimates where possible.**

CBA Panel review

98. We consulted our CBA Panel on an earlier draft of this CBA. We have set out our response to the Panel comments below.

Table 8: Summary of CBA panel comments

CBA Panel comments	Our response
The market The Panel considers that the CBA identifies the relevant population of solo-regulated firms but could better distinguish between firm types and the risks they pose to market outcomes. In particular, the analysis would benefit from clearer segmentation across SNI firms, non-SNI firms, AIFMs and UCITS firms, and how remuneration-related harms differ across these groups. A more differentiated treatment of firm behaviour, size and business model would improve the credibility of both the baseline and the assessment of impacts.	Given the limited data available we made a high-level stylisation of firms in scope of the regulations. To develop a more differentiated treatment would have required a comprehensive data collection exercise to understand better the differences in firm cost structure and how these were affected by remuneration rules. This would have involved an additional cost burden to firms. We did not regard this as proportionate.
Problem and rationale for intervention The Panel agrees that a high-level treatment of options is proportionate in this context. However, the analysis would benefit from clearer articulation of the trade-offs being made. In particular, the CBA does not sufficiently explore intermediate options between full deregulation and the current regime, or which elements of the framework are ineffective versus those that may still deliver value for market outcomes. This limits assurance that the preferred option represents the most efficient policy choice. There was also discussion around whether the intervention is outcomes-based, as opposed to preventative governance measures.	We discuss the trade-offs in our "risk rebalancing" section.

CBA Panel comments	Our response
Assessment of costs and benefits **Baseline and counterfactual.** The baseline is generally set out clearly, but there was a question as to whether some costs associated with malus and clawback are attributed to firm categories where these requirements do not apply. **Evidence and data.** The Panel considers that the evidence base is relatively limited in this case and relies on simplifying assumptions, survey-based evidence and qualitative judgement. **Assumptions.** A central driver of the analysis is reduced cost assumptions as a result of the new regime. Given these appear to be based on judgements made, it was asserted that further testing could be employed to test different outcomes via breakeven and sensitivity analysis. **Economic analysis.** The Panel notes that the quantified benefits are driven almost entirely by reductions in compliance costs. While this is appropriate for a deregulatory intervention, the analysis provides limited insight into market outcomes. In particular the costs are modelled in detail, but benefits in terms of conduct, investor protection or market functioning are not assessed as thoroughly. There is also a lack of quantification of the potential costs associated with increased risk to market outcomes.	In the final analysis we removed the following costs from the baseline: malus and clawback for MiFIDPRU SNI firms malus, clawback and deferral for AIFM Regular firms
Risk and uncertainty Risk and uncertainty are acknowledged in the CBA but could be explored in more sufficient depth. Key risks include lack of quantification of downside risks to the market of this deregulation and limited discussion around definition of what constitutes an acceptable increase of that risk. As mentioned above, illustrative scenario analysis of adverse outcomes and breakeven analysis would give greater clarity on how risks have been assessed.	We discuss risks in our "risk rebalancing" section.

CBA Panel comments	Our response
Wider economic impacts The Panel recognises that the primary objective of this deregulation is to improve international competitiveness (presumably through attracting staff) but the wider impacts in the CBA are largely qualitative. There is not sufficient explanation of the causal links between deregulation and growth. The Panel noted that it would be helpful to understand whether there is evidence from international firms to demonstrate how deregulation in this area would improve firms' ability to hire.	The absence of data meant it was not possible to undertake a full impact evaluation and establish a causal link between simplification of remuneration rules and growth.
Monitoring and evaluation The Panel acknowledges that the FCA does not plan on undertaking a formal evaluation of this policy but argues that it would be helpful to understand whether the intended competitiveness arguments and market outcomes have been realised or not.	We set out our approach to monitoring in Chapter 3 "Measuring success".

Annex 2

Detailed tables of estimated cost savings

Table 9: Cost savings from removing SNI firms from scope

	MIFIDPRU	
	SNI	
Firms in Scope	1665	
	Low	High
Annual cost per firm of understanding and interpreting remuneration requirements (£)	5,000	10,000
Annual cost per firm of MIF008 reports (£)	1,500	3,000
Total cost per firm	6,500	13,000
Total population cost	10,822,500	21,645,000

Table 10: Cost savings from reclassification of AIFM firms

	AIFM	
	Regular being reclassified	
Firms in Scope	463	
	Low	High
Annual cost per firm of understanding and interpreting remuneration requirements (£)	10,000	20,000
Total population cost of understanding and interpreting remuneration requirements (£)	4,630,000	9,260,000

Table 11: Cost savings from revoking MiFIDPRU remuneration requirements

	MIFIDPRU		MIFIDPRU	
	Large non-SNI		Regular non-SNI	
Firms in Scope	150		982	
	Low	High	Low	High
Annual cost per firm of MIF008 reports (£)	3,000	6,000	3,000	6,000
Total population cost	450,000	900,000	2,946,000	5,892,000
	All firms in scope			
	Low	High		
Total population cost	3,396,000	6,792,000		

Table 12: Cost savings from removing prescriptive requirements involving Remuneration Committees

	MIFIDPRU		AIFM		UCITS	
	Large non-SNI		Significant		Significant	
Firms in Scope	150		162		11	
	Low	High	Low	High	Low	High
Setting up new RemCos						
Number of new RemCos per year	1.5		6.5		0.1	
Cost per firm of setting up RemCo (£)	5,000	15,000	5,000	15,000	5,000	15,000
Total population cost of new RemCos (£)	**7,500**	**22,500**	**32,400**	**97,200**	**550**	**1,650**
Ongoing administration of RemCos						
Annual cost per firm of administering RemCos (£)	1,500	3,000	1,500	3,000	1,500	3,000
Total population cost of administering RemCos (£)	**225,000**	**450,000**	**243,000**	**486,000**	**16,500**	**33,000**

	All firms in scope	
	Low	High
Total population cost of new RemCos (£)	40,450	121,350
Assumed savings to new RemCo costs	100%	100%
Savings to new RemCo costs (£)	**40,450**	**121,350**
Total population cost of administering RemCos (£)	484,500	969,000
Assumed savings to administering RemCos (£)	10%	20%
Savings to new RemCo costs (£)	**48,450**	**193,800**
Total RemCo savings (£)	**88,900**	**315,150**

Table 13: Cost savings from removing prescriptive requirements on deferral

	MIFIDPRU		AIFM		UCITS		UCITS	
	Large non-SNI		Significant		Significant		Regular	
Firms in Scope	150		137		11		101	
	Low	High	Low	High	Low	High	Low	High
Setting up new deferral schemes								
Number of new deferral schemes per year	1.5		6.5		0.1		1.0	
Cost per firm of setting up a deferral scheme (£)	50,000	100,000	50,000	100,000	50,000	100,000	25,000	50,000
Total population cost of new deferral schemes (£)	75,000	150,000	324,000	648,000	5,500	11,000	25,250	50,500
Ongoing administration of deferral schemes								
Annual cost per firm of administering deferral schemes (£)	5,000	12,000	5,000	12,000	5,000	12,000	3,000	8,000
Total annual population cost of administering deferral schemes (£)	750,000	1,800,000	685,000	1,644,000	55,000	132,000	303,000	808,000
Deferral schemes (set up plus administration costs)								
Total annual population cost of deferral schemes (£)	825,000	1,950,000	1,009,000	2,292,000	60,500	143,000	328,250	858,500
Assumed savings to deferral schemes	10%	20%	10%	20%	10%	20%	10%	20%
Population savings to deferral schemes (£)	82,500	390,000	100,900	458,400	6,050	28,600	32,825	171,700

	All firms in scope	
	Low	High
Total population cost of deferral (£)	2,222,750	5,243,500
Assumed savings to deferral	10%	20%
Total population savings to deferral (£)	222,275	1,048,700

Table 14: Cost savings from removing prescriptive requirements relating to malus

	MIFIDPRU		MIFIDPRU		AIFM		UCITS		UCITS	
	Large non-SNI		Regular non-SNI		Significant		Significant		Regular	
Firms in Scope	150		982		137		11		101	
	Low	High	Low	High	Low	High	Low	High	Low	High
Number of malus events	20	20	140	140	20	20	1	1	15	15
Cost of applying malus per event (£)	2,000	3,000	2,000	3,000	2,000	3,000	2,000	3,000	2,000	3,000
Population cost of applying malus (£)	40,000	60,000	280,000	420,000	40,000	60,000	2,000	3,000	30,000	45,000
Assumed savings to malus	10%	20%	10%	20%	10%	20%	10%	20%	10%	20%
Population savings to malus (£)	4,000	12,000	28,000	84,000	4,000	12,000	200	600	3,000	9,000

	All firms in scope	
	Low	High
Total population cost	392,000	588,000
Assumed savings to malus	10%	20%
Total population savings to malus (£)	**39,200**	**117,600**

Table 15: Cost savings to understanding and interpreting remuneration requirements

	MIFIDPRU		MIFIDPRU		AIFM		AIFM		UCITS		UCITS	
	Large non-SNI		Regular non-SNI		Significant		Regular remaining in scope		Significant		Regular	
Firms in Scope	150		982		162		77		11		101	
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
Annual cost per firm of understanding and interpreting remuneration requirements (£)	15,000	30,000	10,000	20,000	15,000	30,000	10,000	20,000	10,000	20,000	5,000	10,000
Annual population cost of understanding and interpreting remuneration requirements (£)	**2,250,000**	**4,500,000**	**9,820,000**	**19,640,000**	**2,430,000**	**4,860,000**	**770,000**	**1,540,000**	**110,000**	**220,000**	**505,000**	**1,010,000**

	All firms in scope	
	Low	High
Total population cost	15,885,000	31,770,000
Assumed savings from streamlining to a single code	20%	30%
Savings to understanding and interpreting remuneration requirements	3,177,000	9,531,000

Annex 3

Questions in this paper

Question 1: Do you agree with our proposal to replace the existing remuneration codes with a single new code for in-scope FCA solo-regulated firms? If not, what alternative approach would better meet our objectives?

Question 2: Do you agree with our proposal to adopt a more outcomes-focused and less prescriptive remuneration framework for FCA solo-regulated firms? If not, which elements of the current framework do you think we should retain, and why?

Question 3: Do you agree with our proposals to apply general requirements to all staff and targeted requirements to material risk takers? If not, what changes would you make and why?

Question 4: Do you agree with our proposed general requirements on firms' remuneration policies and practices and the guidance on remuneration tools?

Question 5: Do you agree with our proposed remuneration principles for material risk takers?

Question 6: Which approach to deferral (principles-based or threshold-based) do you consider most appropriate, and why?

Question 7: If you prefer threshold-based deferral, do you have a view on which thresholds and other deferral features (including deferral periods) we should use?

Question 8: Do you agree with our proposal to require firms to consider performance adjustment mechanisms (such as malus and clawback) without mandating them? If not, what should be required and why?

Question 9: Do you agree with our proposals on guaranteed variable remuneration? If not, what changes should we make and why?

Question 10: Do you agree with our proposals to simplify governance requirements for remuneration by removing prescriptive requirements (including mandatory remuneration committees, remuneration disclosures, annual independent reviews, and reporting requirements)? If not, which elements should we retain, and why?

Question 11: Do you agree with our proposal to include medium and large UK AIFMs (once AIFM reforms are implemented) and UK UCITS management companies within scope of the new code? If not, how should the scope be adjusted?

Question 12: Do you agree with removing small and non-interconnected (SNI) MIFIDPRU investment firms from remuneration requirements so that the new Code would only apply to non-SNI MIFIDPRU investment firms?

Question 13: Do you agree that removing the existing tiered structure and thresholds under the existing MIFIDPRU Remuneration Code (SYSC 19G) and replacing them with a single, outcomes-focused framework in the new Code would simplify the regime and improve clarity for these firms? If not, are there elements of the current tiered approach that you consider necessary to retain in the new Code?

Question 14: Do you agree with our proposal to narrow and refocus the definition of a material risk taker? If not, what changes would you propose, and why?

Question 15: Do you agree with our proposal to revoke the relevant non-Handbook remuneration guidance? If not, what should be retained, and for what purpose?

Question 16: Do you consider that non-Handbook guidance is needed to help firms apply the remuneration proposals? If so, which areas or issues should it cover?

Question 17: Do you agree with the assumptions set out in Tables 4 and 6 of our Cost Benefit Analysis regarding the expected reduction in and existing compliance costs under the proposed remuneration code? Do you have any other comments on our Cost Benefit Analysis? Please provide supporting evidence, including quantified estimates where possible.

Annex 4

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

7. Additionally, as these proposals constitute Part 9C rules under FSMA (as amended by the Financial Services and Markets Act 2023), we must comply with the specific requirements of section 143H FSMA. This requires that our consultation is accompanied by:

- (a) An explanation of the provision that the FCA has considered it appropriate to include in the rules given the risks specified in or under section 143C(2), and
- (b) An explanation of the ways in which having regard to the matters specified in or under section 143G(1) has affected the proposed rules.

The FCA's objectives and regulatory principles: Compatibility statement

Strategic objective (s1B FSMA)

8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they aim to provide greater flexibility to firms in determining their remuneration policies and practices, allowing firms to apply remuneration requirements that are proportionate to the risks they pose to consumers and the market.

9. In addition, by consolidating and reducing duplicative remuneration requirements through the creation of one new code that replaces the three existing ones, we improve market functioning through greater clarity and accessibility.

Operational objectives

10. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of enhancing competition in the interests of consumers. They are also relevant to the FCA's objectives of maintaining market integrity and protecting consumers.

11. The proposals presented in this consultation aim to promote competition by implementing remuneration requirements that are more proportionate to the risks firms pose to consumers and the market. They put more onus on firm's management bodies to design and implement appropriate policies that encourage healthy cultures. We believe this may in turn contribute to firms' ability to attract and retain staff, reduce compliance costs (which can be directed elsewhere) and grow their business.

12. The proposals also support market integrity and consumer protection by maintaining clear expectations that remuneration promotes sound conduct, effective risk management and appropriate governance. By requiring firms to align remuneration with client and investor interests, whilst placing accountability on the management body, the framework is intended to reduce incentives for misconduct and poor outcomes and enable effective supervisory oversight and intervention where risks arise.

Secondary International Competitiveness and Growth Objective (s1B(4A))

13. We consider these proposals also further advance the FCA's secondary objective to advance international competitiveness and growth. As outlined above, we believe the proposed changes will offer more flexibility to firms to implement policies that support their needs. An updated remuneration regime could also improve the attractiveness of the UK as a place to do business, encourage new entrants into the market and support existing firms to broaden their business lines. The increased flexibility here could also support with attracting talent into the sector (both from other sectors and jurisdictions). These outcomes taken together would support the sustainable growth and international competitiveness of the UK economy.

Regulatory principles (s3B FSMA)

14. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in section 3B FSMA.

The need to use our resources in the most efficient and economic way

15. The aim of these proposals is to increase the extent to which in-scope solo-regulated firms can apply remuneration requirements in a proportionate way. Enabling more firms to benefit from proportionality and an outcomes-focused approach may help reduce the number of modification or waiver requests the FCA receives. This should reduce resource pressure on the FCA in responding to and processing these, while also reducing burden to firms to submit and manage these.

The principle that a burden or restriction should be proportionate to the benefits

16. The CBA in Annex 1 sets out the costs and benefits of our proposals. As outlined in our CBA, firms who meet the updated proportionality criteria would have the flexibility to consider the extent to which to make changes to their remuneration policies and practices. If a firm considers the costs of a change outweigh the benefits they could continue with their current approach. Furthermore, given the context of our proposals in this CP, any firm that is currently compliant with the existing solo-regulated Codes should also be compliant with the new proposals.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

17. In developing these proposals, we have considered our duty under these Acts. Overall, we do not consider our proposals will have an impact on these targets.

The general principle that consumers should take responsibility for their decisions

18. Our proposals are not relevant to the principle of consumer decision-making.

The responsibilities of senior management in relation to compliance with requirements imposed under FSMA, especially where they relate to consumers

19. Our proposals support the aim of the SM&CR to make individuals accountable for their conduct and competence.

The desirability of exercising our functions in a way that recognises the differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

20. Our proposals seek to simplify remuneration requirements for in-scope solo-regulated firms, bringing different types of firms under one single code. This new Code allows for more flexibility depending on a firm's requirements and the level of risk they pose to the UK financial system.

21. We explain our proposed approach to mutual societies at paras 25.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information to advance our [operational and secondary] objectives

22. Our proposals do not require firms to publish information. We do not expect that our proposals will result in firms publishing information regarding persons subject to requirements imposed under FSMA.

The principle that we should exercise our functions as transparently as possible

23. This consultation sets out our proposed changes to rules and guidance and seeks feedback from stakeholders. We believe this is consistent with the principle of exercising our functions transparently. We will engage with the industry and other stakeholders to obtain feedback during this consultation process.

In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA).

24. We do not expect our proposals to have any impact on the extent to which businesses can be used for a purpose connected with financial crime.

Treasury recommendations about economic policy

25. The proposals in this consultation are consistent with the recommendations made by the Treasury in the November 2024 remit letter (under section 1JA of FSMA) . In particular, they support the international competitiveness and growth of the UK financial services sector by simplifying and consolidating the remuneration framework for solo-regulated firms, reducing fragmentation and unnecessary regulatory burden.

Expected effect on mutual societies

26. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies. Only solo-regulated firms (as defined in this CP) are in scope of the proposed rules. At present, there are no mutual societies authorised as solo-regulated firms, though our approach provides flexibility to accommodate such entities should they seek authorisation in the future.

Compatibility with the duty to promote effective competition in the interests of consumers

27. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. We consider that the proposals will support enhancing competition in the UK.

Compatibility with the requirement to detail engagement with statutory panels

28. We spoke to the FCA's Practitioner Panel and the Smaller Business Practitioner Panel about these proposals and both were supportive of them.

Equality and diversity

29. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

30. We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.

31. Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other anti-discrimination legislation applies). But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

Legislative and Regulatory Reform Act 2006 (LRRA)

32. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are:

- transparent – we are consulting on our proposed guidance changes
- accountable – stakeholders will have an opportunity to feedback on our proposals, and we will consider all evidence received prior to finalising the rules and guidance
- proportionate – we consider our proposals to result in a more proportionate regime for impacted firms
- consistent – the proposed changes to our guidance will help clarify our expectations of firms, resulting in a more consistent application of the requirements

- targeted only at cases in which action in needed – we consider that these proposals are needed given the evidence from some firms set out in our CBA

33. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider that they are consistent with the principles of the Regulators' Code.

34. We consider that this consultation is clear and provides information that supports firms in meeting their responsibility to comply with the new Code.

Amendments to Part 9c rules for FCA investment firms (section 143H FSMA)

Introduction

35. This consultation includes proposals which require making, amending and revoking certain rules applying to FCA investment firms:

- Amending MIFIDPRU to remove requirements relating to remuneration committees and disclosures;
- Deleting SYSC 19G (MIFIDPRU Remuneration Code);
- Making SYSC 19AA (solo-regulated firms Remuneration Code), which would also apply to a subset of FCA investment firms: non-SNI MIFIDPRU investment firms.

36. The FCA's rules for FCA investment firms in MIFIDPRU and SYSC 19G were made using powers in Part 9C FSMA. These rules (known as 'Part 9C rules') are subject to additional accountability requirements which are addressed in this section.

Explanation of risks addressed (s143C(2))

37. Section 143H(1)(a) FSMA requires us to explain the provisions we have considered appropriate to include in our rules given the risks specified in sections 143C(2). The risks specified in sections 143c(2) are:

- Risks to consumers arising from FCA investment firms;
- Risks to the integrity of the UK financial system;
- Risks to which FCA investment firms are exposed, and
- Any other risks specified by the Treasury by regulations.

38. Our proposals on remuneration requirements in the CP address these risks in the following ways:

39. **Risks to consumers (section 143C(2)(a)):** Remuneration structures can incentivise behaviour that leads to poor outcomes for clients, funds and investors. The proposed rules address this by requiring firms to ensure remuneration supports good conduct and aligns with stakeholder interests. The new Code focuses on outcomes, requires firms to consider performance adjustment mechanisms where appropriate, and targets the regime to firms and individuals most likely to give rise to harm.

40. **Risks to market integrity (section 143C(2)(b)):** Inappropriate remuneration practices can undermine market integrity through poor governance and misaligned incentives. The proposed rules address this by maintaining clear expectations on governance and oversight, with accountability resting with the firm and its management body. While reducing prescription, the framework retains core expectations that enable effective supervision of remuneration practices. This is intended to ensure remuneration continues to support sound conduct and market integrity.

41. **Risks to which firms are exposed (s143C(2)(c)):** A complex and prescriptive framework can increase operational and compliance risks for firms. The proposed rules address this by simplifying and consolidating the regime into a single Code, removing detailed prescriptive requirements and applying a more proportionate scope. This is intended to reduce complexity and support firms in managing risks more effectively.

42. HM Treasury has not specified any other risks under section 143C(2)(d) that would be relevant to these proposals

International Standards & Treasury Matters (s143G(1))

43. In accordance with section 143G(1) FSMA, when making Part 9C rules, the FCA must, among other things, have regard to any relevant standards set by an international standard-setting body and any other matter specified by HM Treasury by regulations

44. We have had regard to relevant international standards, including those developed by the Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO). These standards emphasise the role of remuneration in supporting prudent risk management, sound governance and effective conduct, including through risk alignment, deferral and oversight by the management body. We consider the proposed framework is consistent with these standards. In doing so, we have taken into account that such standards are primarily designed for larger, systemically significant firms, and have ensured that our proposals are proportionate to the size, complexity and risk profile of FCA investment firms.

45. The Treasury has not specified any other matters under section 143G(1)(d) that would apply to these proposals.

Equivalence Considerations (s143G(3))

46. In accordance with section 143G(3) FSMA, we have considered the likely effect of the rules on relevant equivalence decisions.

47. We have also discussed with the Treasury the likely effect on equivalence decisions as part of the process of drafting the rules in this consultation paper. These considerations have supported our approach of moving towards a more outcomes-focused and proportionate framework for FCA investment firms, whilst retaining appropriate governance and accountability.

Annex 5

Abbreviations in this document

Abbreviation	Description
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Manager Directive
CBA	Cost Benefit Analysis
CEO	Chief Executive Officer
CP	Consultation Paper
EANDCB	Equivalent Annual Net Direct Cost to Business
FCA	Financial Conduct Authority
FG	Finalised Guidance
FSB	Financial Stability Board
FSMA	Financial Services and Markets Act
HMT	His Majesty's Treasury
IOSCO	International Organization of Securities Commissions
LRRA	Legislative and Regulatory Reform Act 2006
MIFIDPRU	Prudential Sourcebook for MiFID investment firms
MRT	Material Risk Taker
NPV	Net Present Value
PRA	Prudential Regulation Authority
PS	Policy Statement
SM&CR	Senior Managers and Certification Regime
SNI	Small and Non-Interconnected

Abbreviation	Description
SUP	Supervision (FCA Handbook sourcebook)
SYSC	Senior Management Arrangements, Systems and Controls
UCITS	Undertakings for Collective Investment in Transferable Securities

Appendix 1

Draft Handbook text

SENIOR MANAGEMENT ARRANGEMENTS, SYSTEMS AND CONTROLS (SOLO-REGULATED FIRMS REMUNERATION CODE AND CONSEQUENTIAL AMENDMENTS) INSTRUMENT 202X

Powers exercised

A. The Financial Conduct Authority ("FCA") makes this instrument in the exercise of the following powers and related provisions in or under:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137H (General rules about remuneration);
(c) section 137T (General supplementary powers);
(d) section 139A (Power of the FCA to give guidance);
(e) section 247 (Trust scheme rules); and
(f) section 261I (Contractual scheme rules);

(2) regulation 6 (FCA rules) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and

(3) the other rules and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. Part 1 of Annexes A and B, and Annexes C to H come into force on [*date 1*].

[*Editor's note*: Part 1 of Annexes A and B will come into force on 'date 1' which corresponds to the commencement date of the rules consulted on in the consultation paper 'Remuneration: Solo-regulated firms' rules reform' (CP26/27) when they are made final.]

D. Part 2 of Annexes A and B come into force on [*date 2*].

[*Editor's note*: Part 2 of Annexes A and B will come into force on 'date 2' which corresponds to the commencement date of the rules consulted on in the consultation paper 'The UK AIFM Regime' (CP26/28) when they are made final.]

Amendments to the FCA Handbook

E. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Code of Conduct sourcebook (COCON)	Annex C
Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)	Annex D
Supervision manual (SUP)	Annex E
Collective Investment Schemes sourcebook (COLL)	Annex F
Consumer Credit sourcebook (CONC)	Annex G
Investment Funds sourcebook (FUND)	Annex H

Notes

F. In the Annexes to this instrument, the notes (indicated by "**Note**:" and "*Editor's note*:") are included for the convenience of readers but do not form part of the legislative text.

Citation

G. This instrument may be cited as the Senior Management Arrangements, Systems and Controls (Solo-Regulated Firms Remuneration Code and Consequential Amendments) Instrument 202X.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Part 1: comes into force on [*date 1*].

[*Editor's note*: Part 1 of Annex A will come into force on 'date 1' which corresponds to the commencement date of the rules consulted on in the consultation paper 'Remuneration: Solo-regulated firms' rules reform' (CP26/27) when they are made final.]

Insert the following definitions in the appropriate alphabetical position. The text is not underlined.

solo-remuneration principles	(in *SYSC* 19AA) the *rules* and *guidance* on *remuneration* in *SYSC* 19AA.4 to *SYSC* 19AA.9.
solo-regulated firms Remuneration Code	*SYSC* 19AA (Solo-regulated firms Remuneration Code).
solo-regulated firm	(in *SYSC* 19AA) a *firm* that is: (a) a *full-scope UK AIFM*; (b) a *UK UCITS management company* that manages a *UCITS scheme*; or (c) a *non-SNI MIFIDPRU investment firm*.
staff	(in *SYSC* 19AA and in paragraph (3) of the definition of *material risk taker*) any *individual* who is: (a) an *employee* of; (b) a *partner* or a member (in the case of a partnership structure) of; (c) an *employee* of other entities in the *group* who provides services to; or (d) a secondee of, a *solo-regulated firm*.

Amend the following definitions as shown.

control functions

…

(2) (in *SYSC* ~~19G~~ 19AA) a function (including, but not limited to, a risk management function, compliance function and internal audit function) that is independent from the ~~*business units*~~ business areas it controls and that is responsible for providing an objective assessment of the *firm's* risks, and for reviewing and reporting on those risks.

investor

(1) (other than in (2)) has the meaning in regulation 3(1) of the *Securitisation Regulations 2024*.

(2) (in *SYSC* 19AA and in paragraph (3) of the definition of *material risk taker*) any *person* who invests in an *AIF* or a *UCITS scheme*, or who is the *client* of a *solo-regulated firm*.

management body

(1) (other than in (2), ~~or~~ (3), (4) or (5)) the *governing body* and *senior personnel* who are empowered to set the *person's* strategy, objectives and overall direction, and which oversee and monitor management decision-making in the following:

…

(2) (in *COLL* ~~and in *SYSC* 19E~~) the *governing body* of a *management company* or *depositary* of a *UCITS scheme*, as applicable, with ultimate decision-making authority comprising the supervisory and the managerial function or only the managerial function, if the two functions are separated.

…

(4) …

(5) (in *SYSC* 19AA):

(a) (in relation to a *non-SNI MIFIDPRU investment firm*) has the meaning in (1);

(b) (in relation to *UK UCITS management company* that manages a *UCITS scheme*) has the meaning in (2); or

(c) (in relation to a *full-scope UK AIFM*) the *governing body*.

material risk taker	(1)	~~(in *SYSC* 19G) has the meaning in *SYSC* 19G.5.1R and (where *SYSC* 19G applies on a consolidated basis) *SYSC* 19G.5.7R(2).~~ [deleted]
	(2)	(in *SYSC* 19D and ~~*SYSC* 27~~ *SYSC* 27.8.15R (in relation to row (1) in the Table: Definition of material risk taker)) has the meaning in *rule* 3.1 of the *PRA Remuneration Rules*.
	(3)	(in *SYSC* 19AA and *SYSC* 27.8.15R (in relation to row (4) in the Table: Definition of material risk taker)) a *staff* member at a *solo-regulated firm* whose professional activities or *remuneration* incentives have a material impact on the following: (a) the *solo-regulated firm's* conduct in relation to its *clients* and *investors*; (b) the interests of the *investors*, the *AIFs* and the *UCITS schemes*; or (c) the *solo-regulated firm's* compliance with its obligations under the *regulatory system*.
parent undertaking	…	
	(4)	(for the purposes of *MIFIDPRU*~~, *SYSC 19G* (MIFIDPRU Remuneration Code)~~ and otherwise in relation to an *investment firm group*): …
remuneration	(1)	(except where (2), (3), (4), (5)~~,~~ ~~or~~ (6) or (7) apply) any form of remuneration, including salaries~~, *discretionary pension benefits*~~ and benefits of any kind. [Note: article 92(2) of *CRD*]
	…	
	(6)	…
	(7)	(in *SYSC* 19AA): (a) any form of remuneration provided or awarded in connection with *employment* by a *solo-regulated firm*; (b) any amount paid directly by, or on behalf of:

(i) the *AIF*, including *carried interest*; or

(ii) the *UCITS scheme*, including performance fees,

that is for the benefit of a *material risk taker*; and

(c) any transfer of *units* or *shares* of the *AIF* or the *UCITS scheme* that is for the benefit of a *material risk taker*.

subsidiary	…
	(2) (in relation to *MiFID business*, other than for the purposes of *MIFIDPRU*~~, *SYSC 19G* (MIFIDPRU Remuneration Code)~~ and the definition of an *investment firm group*) a subsidiary undertaking within the meaning of article 2(10) and article 22 of the *Accounting Directive*, including any subsidiary of a subsidiary undertaking of an ultimate *parent undertaking*.
	(3) (for the purposes of *MIFIDPRU*~~, *SYSC 19G* (MIFIDPRU Remuneration Code)~~ and in the definition of an *investment firm group*) an *undertaking* which is a subsidiary undertaking under section 1162 of the Companies Act 2006, read with Schedule 7 to that Act.
	…

Delete the following definitions. The text is not struck through.

AIFM Remuneration Code	as set out in *SYSC* 19B (AIFM Remuneration Code).
AIFM Remuneration Code staff	(for an *AIFM*) has the meaning given in *SYSC* 19B.1.3R.
AIFM remuneration principles	the principles set out in *SYSC* 19B.1.5 R to *SYSC* 19B.1.24R.
business unit	(in *SYSC* 19G) a separate organisational or legal entity, business line or geographical location within a *firm*.
convertible instrument	(in *SYSC* 19G) an instrument the terms of which require the principal amount of that instrument to be converted into an instrument that qualifies as *common equity tier 1 capital* if a trigger event occurs.

discretionary pension benefit	(1)	[deleted]
	(2)	(in *SYSC* 19G (MIFIDPRU Remuneration Code)) has the meaning in article 4(1)(73) of the *UK CRR*.
eligible instrument	(in *SYSC* 19G) instruments falling within *SYSC* 19G.6.19R.	
managerial responsibility	(1)	[deleted]
	(2)	(in *SYSC* 19G) a situation in which a staff member heads a *business unit* or a *control function* and is directly accountable to the *management body* as a whole, to a member of the *management body* or to *senior management*.
MIFIDPRU Remuneration Code	as set out in *SYSC* 19G (MIFIDPRU Remuneration Code).	
UCITS Remuneration Code	as set out in *SYSC* 19E (UCITS Remuneration Code).	
UCITS Remuneration Code staff	has the meaning in *SYSC* 19E.2.2R.	
UCITS remuneration principles	the principles set out in *SYSC* 19E.2.5R to *SYSC* 19E.2.27R.	
write-down instrument	(in *SYSC* 19G) an instrument the terms of which require the principal amount of that instrument to be written down on the occurrence of a trigger event.	

Part 2: Comes into force on [*date 2*]

[*Editor's note*: Part 2 of Annex A will come into force on 'date 2' which corresponds to the commencement date of the rules consulted on in the consultation paper 'The UK AIFM Regime' (CP26/28) when they are made final.]

Amend the following definitions as shown.

[*Editor's note*: The changes suggested below take into account the changes suggested in Part 1 of this Annex. They also take into account the proposals and legislative changes suggested in the consultation paper 'The UK AIFM Regime' (CP26/28) as if they were made final.]

management body	…
	(5) (in *SYSC* 19AA):
	…
	(c) (in relation to a ~~*full-scope UK AIFM*~~ *medium UK AIFM* or a *large UK AIFM*) ~~the~~ has the meaning in paragraph (2) of the definition of *governing body*.
solo-regulated firm	(in *SYSC* 19AA) a *firm* that is:
	(1) a ~~*full-scope UK AIFM*~~ *medium UK AIFM* or a *large UK AIFM*;
	…

Annex B

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Part 1: comes into force on [*date 1*]

[*Editor's note*: Part 1 of Annex B will come into force on 'date 1' which corresponds to the commencement date of the rules consulted on in the consultation paper 'Remuneration: Solo-regulated firms' rules reform' (CP26/27) when they are made final.]

1 Application and purpose

…

1.1A Application

1.1A.1 G The application of this sourcebook is summarised at a high level in the following table. The detailed application is cut back in *SYSC* 1 Annex 1 and in the text of each chapter.

Type of firm	**Applicable chapters**
…	
Any other *SMCR firm*	Chapters 4 to 12, 15A, 18, <u>19AA,</u> 19D, 19F, ~~19G,~~ 21, 22, 23, 24, 25, 26, 27, 28, 28A
Every other *firm*	Chapters 4 to 12, 15A, 18, <u>19AA,</u> 19D, 19F, ~~19G,~~ 21, 22, 28, 28A

…

1.1A.1A G The application of this sourcebook to specific *firms* that are not *PRA-authorised persons* is summarised at a high level in the following table. The detailed application is cut back in *SYSC* 1 Annex 1 and in the text of each chapter.

Type of firm	**Applicable chapters**
Full-scope UK AIFM	Chapters 4 to 10, 12, 18, ~~19B,~~ 19AA, 19F.2, 22, 21, 22, 23, 24, 25, 26, 27, 28, 28A
MIFIDPRU investment firm (including an *overseas firm* that would have been a *MIFIDPRU investment firm* if it had been a *UK domestic firm*, except that ~~*SYSC* 19G~~ *SYSC* 19AA does not apply to such a *firm*)	Chapters 4 to 10, 12, 18, 19AA, 19F, ~~19G,~~ 21, 22, 23, 24, 25, 26, 27, 28, 28A

…

4 General organisational requirements

4.1 General requirements

…

General requirements

…

4.1.1A R A *full-scope UK AIFM* must comply with the ~~*AIFM Remuneration Code*~~ *solo-regulated firms Remuneration Code*.

~~[**Note**: article 13(1) of *AIFMD*]~~

…

4.1.1D R A *UK UCITS management company* must comply with the ~~*UCITS Remuneration Code*~~ *solo-regulated firms Remuneration Code* if it manages a *UCITS scheme*.

~~[**Note**: article 14a(1) of the *UCITS Directive*]~~

…

4.1.2 R For a *common platform firm*, the arrangements, processes and mechanisms referred to in *SYSC* 4.1.1R must be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the business model and of the *common platform firm's* activities and must take into account the specific technical criteria described in *SYSC* 4.1.1-

AR(3), *SYSC* 5.1.7R, *SYSC* 7 and whichever of the following is applicable:

…

(2) (for a *full-scope UK AIFM*) ~~*SYSC* 19B (AIFM Remuneration Code)~~ *SYSC* 19AA (Solo-regulated firms Remuneration Code);

…

(6) (for a ~~*firm* to which *SYSC* 19G applies~~ *non-SNI MIFIDPRU investment firm*) ~~*SYSC* 19G (MIFIDPRU Remuneration Code)~~ *SYSC* 19AA (Solo-regulated firms Remuneration Code).

…

6 Compliance, internal audit and financial crime

6.1 Compliance

…

Compliance function

…

6.1.4-A G In setting the method of determining the *remuneration* of *relevant persons* involved in the compliance function:

…

(5) ~~firms that *SYSC 19G* applies to~~ *non-SNI MIFIDPRU investment firms* will also need to comply with the ~~*MIFIDPRU Remuneration Code*~~ *solo-regulated firms Remuneration Code*.

6.1.4-AA G In setting the method of determining the *remuneration* of *relevant persons* involved in the compliance function, *full-scope UK AIFMs* will need to comply with the ~~*AIFM Remuneration Code*~~ *solo-regulated firms Remuneration Code*.

…

7 Risk control

7.1 Risk control requirements

…

Risk management

…

7.1.7BA G In setting the method of determining the *remuneration* of *employees* involved in the risk management function~~,~~ *full-scope UK AIFMs* will need to comply with the ~~*AIFM Remuneration Code*~~ *solo-regulated firms Remuneration Code*.

7.1.7BD G In setting the method of determining the *remuneration* of *employees* involved in the risk management function, ~~*firms* that *SYSC* 19G applies to~~ *non-SNI MIFIDPRU investment firms* will also need to comply with the ~~*MIFIDPRU Remuneration Code*~~ *solo-regulated firms Remuneration Code*.

…

Insert the following new chapter, SYSC 19AA, after SYSC 18 (Whistleblowing). All the text is new and is not underlined.

[*Editor's note*: SYSC 19 (Remuneration Code) was deleted on 31 December 2010 and SYSC 19A (IFPRU Remuneration Code) was deleted on 1 January 2021.]

19AA Solo-regulated firms Remuneration Code

19AA.1 Application and purpose

Application

19AA.1.1 R (1) The *solo-regulated firms Remuneration Code* applies to:

(a) a *full-scope UK AIFM*;

(b) a *UK UCITS management company* that manages a *UCITS scheme*; and

(c) a *non-SNI MIFIDPRU investment firm*.

(2) For the purpose of this chapter, the *firms* in (1) are collectively referred to as *solo-regulated firms*.

Purpose

19AA.1.2 G The purpose of the *solo-regulated firms Remuneration Code* is to ensure that *solo-regulated firms* have *remuneration* policies that:

(1) promote good conduct, healthy culture and appropriate accountability;

(2) align *remuneration* with the interests of their *clients* and *investors*, having regard to the nature of their activities and the outcomes they deliver; and

(3) appropriately reflect the risks created by the *solo-regulated firms* and the *individuals* they reward.

19AA.1.3 G The *solo-regulated firms Remuneration Code* expands upon the general organisational requirements in *SYSC* 4 and operates alongside other *Handbook* requirements on governance, conduct, conflicts of interest and senior management accountability.

19AA.2 General requirements

Application

19AA.2.1 R A *solo-regulated firm* must comply with the requirements in *SYSC* 19AA.2 (General requirements) in relation to all its *staff* (whether they are *material risk takers* or not).

Remuneration policies and practices

19AA.2.2 R (1) A *solo-regulated firm* must establish, implement and maintain *remuneration* policies and practices that:

(a) promote good conduct and healthy culture;

(b) align *remuneration* with the interests of the *solo-regulated firm's clients*, *funds* and *investors*; and

(c) are consistent with, and promote, sound and effective risk management.

(2) The *remuneration* policies and practices in (1) must cover all aspects of *remuneration* within the scope of the *solo-regulated firms Remuneration Code*.

Proportionality

19AA.2.3 R A *solo-regulated firm's remuneration* policies and practices must be appropriate for, and proportionate to, the nature, scale and complexity of its business model and the risks arising from its activities.

Oversight of remuneration policies and practices

19AA.2.4 R A *solo-regulated firm* must have appropriate governance arrangements to approve, oversee and periodically review its *remuneration* policies and practices, and to ensure their effective implementation.

19AA.2.5 G Where a *solo-regulated firm* is a member of a *group*, the *FCA* considers that it can comply with the governance arrangements in *SYSC* 19AA.2.4R on an individual basis or at *group* level provided the governance arrangements used enable the effective oversight of the *solo-regulated firm's remuneration* policies and practices.

Control functions

19AA.2.6 R A *solo-regulated firm* must ensure that its *staff* engaged in *control functions* are compensated according to the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

19AA.2.7 R A *solo-regulated firm* must ensure the *remuneration* of its *staff* that are senior officers in *control functions* is directly overseen by the *management body* or a remuneration committee (where such a committee exists).

19AA.2.8 G Where a *solo-regulated firm* is a member of a *group*, the *FCA* considers that it can comply with *SYSC* 19AA.2.7R on an individual basis or at *group* level provided the *management body* or the remuneration committee (where such a committee exists) has effective oversight of the *remuneration* of the senior officers in *control functions*.

Avoiding conflicts of interest

19AA.2.9 R A *solo-regulated firm* must ensure that its *remuneration* policies and practices contain measures to avoid conflicts of interest.

Record-keeping

19AA.2.10 G In line with the record-keeping requirements in *SYSC* 9, a *solo-regulated firm* should ensure that its *remuneration* policies and practices (including performance assessment processes and decisions) are documented clearly.

Guidance on remuneration tools

19AA.2.11 G When establishing and implementing its *remuneration* policies and practices, a *solo-regulated firm* may choose to use a range of *remuneration* tools that are appropriate to its business model and the risks arising from its activities. *SYSC* 19AA.2.12G contains a non-exhaustive list of such tools.

19AA.2.12 G For the purpose of *SYSC* 19AA.2.11G, examples of the *remuneration* tools include payments to *staff* consisting of any of the following, for example:

(1) *shares* or, subject to the *solo-regulated firm's* legal structure, equivalent ownership interests, where they are *transferable securities*;

(2) *units* or *shares* of the *AIF* or *UCITS scheme* concerned, or equivalent ownership interests;

(3) *share*-linked instruments or, subject to the *solo-regulated firm's* legal structure, equivalent non-cash instruments;

(4) non-cash instruments (including those settled in cash) which reflect the instruments of the portfolios managed; or

(5) other non-cash instruments or alternative arrangements that align *remuneration* with the interests of the *solo-regulated firm's clients* and *investors*, having regard to the nature of its activities and the outcomes it delivers.

19AA.3 Solo-remuneration principles: material risk takers

Application

19AA.3.1 R A *solo-regulated firm* must comply with the *solo-remuneration principles* in relation to its *material risk takers*.

Identification of material risk takers

19AA.3.2 G A *material risk taker* is defined in the *Glossary* for the purpose of this chapter as a *staff* member at a *solo-regulated firm* whose professional activities or *remuneration* incentives have a material impact on the following:

(1) the *solo-regulated firm's* conduct in relation to its *clients* and *investors*;

(2) the interests of the *investors*, the *AIFs* and the *UCITS schemes*; or

(3) the *solo-regulated firm's* compliance with its obligations under the *regulatory system*.

19AA.3.3 G (1) When identifying a *material risk taker*, the *FCA* expects that a *solo-regulated firm* should focus on the substance of the *staff* member's role and the *remuneration* incentives rather than their job title or seniority. Paragraph (2) includes a non-exhaustive list of examples of such cases.

(2) For the purposes of (1), examples where, in the *FCA's* view, a *staff* member is likely to be a *material risk taker* include where they:

(a) have authority to take decisions that can materially affect *investors'* outcomes, the treatment of *clients* or market integrity;

(b) are responsible for key strategic decisions;

(c) are responsible for significant revenue or material assets under management, or for approving transactions;

(d) can commit the *solo-regulated firm*, its *clients* or *investors* to risk exposures or business strategies that may cause material harm;

(e) are able to influence the design, approval or distribution of products or services in a way that may cause material harm; or

(f) have *remuneration* that is materially linked to outcomes where poor conduct or misaligned incentives may cause material harm.

19AA.4 Remuneration Principle 1: Fixed and variable components of remuneration

Categorising fixed and variable remuneration

19AA.4.1 R A *solo-regulated firm* must ensure that its *remuneration* policies and practices in relation to its *material risk takers* make a clear distinction between fixed and variable *remuneration*.

Balance of fixed and variable components of total remuneration

19AA.4.2 R A *solo-regulated firm* must ensure that the structure of a *material risk taker's* fixed and variable *remuneration*:

(1) is appropriate to the *solo-regulated firm's* business model and risk profile, and consistent with its *remuneration* policies and practices; and

(2) includes a sufficiently high fixed component of the total *remuneration* to allow variable *remuneration* components to be reduced or not paid where appropriate.

19AA.5 Remuneration Principle 2: Assessment of performance

19AA.5.1 R Where *remuneration* is performance-related, a *solo-regulated firm* must ensure that the assessment of a *material risk taker's* performance reflects both financial and non-financial criteria.

19AA.5.2 G In assessing a *material risk taker's* performance, the *FCA* expects that a *solo-regulated firm* should have regard to factors that are relevant to its business model and risks such as:

(1) the *material risk taker's* conduct; and

(2) how far the *material risk taker* adheres to effective risk management and complies with the obligations under the *regulatory system*.

19AA.6 Remuneration Principle 3: Guaranteed variable remuneration

19AA.6.1 R (1) A *solo-regulated firm* may only award, pay or provide guaranteed variable *remuneration* to a *material risk taker* where the conditions in (2) are met.

(2) The conditions in (1) are that the guaranteed variable *remuneration*:

(a) is made in the context of hiring a new *material risk taker* or compensating the *material risk taker* for *remuneration* forfeited on leaving the previous employment;

(b) is time-limited and does not create an ongoing entitlement to guaranteed variable *remuneration*; and

(c) is subject to appropriate adjustment, reduction or recovery under the *solo-regulated firm's remuneration* policies and practices, including in cases of misconduct or where misaligned incentives may cause material harm.

19AA.6.2 G The *FCA* considers that guaranteed variable *remuneration* may include 'sign-on bonuses' or compensation for *remuneration* forfeited on leaving a previous employer. *Solo-regulated firms* should ensure that such awards are consistent with their *remuneration* policies and do not undermine incentives for good conduct, alignment with the interests of their *clients* and *investors*, or effective risk management.

19AA. 7 Remuneration Principle 4: Severance pay

19AA.7.1 R A *solo-regulated firm* must ensure that payments to a *material risk taker* relating to the early termination of their employment contract reflect the *material risk taker's* performance and do not reward failure or misconduct.

19AA.7.2 G A *solo-regulated firm* should set out, in its *remuneration* policies and practices, whether severance payments may be paid, and any maximum amount or criteria for determining the amount.

19AA.8 Remuneration Principle 5: Deferral

[*Editor's note*: For the purposes of this consultation, there are 2 proposed options on the deferral of variable remuneration for material risk takers. This instrument includes proposed rules and guidance in relation to the core preferred option (Principles-based deferral rules) in SYSC 19AA.8 (Remuneration Principle 5: Deferral). The alternative option (Threshold-based deferral rules) is proposed in chapter 2 of the consultation paper 'Remuneration: Solo-regulated firms' rules reform' (CP26/27).]

19AA.8.1 R (1) A *solo-regulated firm's management body* must decide whether it would be appropriate for the *remuneration* policies and practices to include a policy on the deferral of variable *remuneration* for *material risk takers*.

(2) Where a *solo-regulated firm's management body* decides under (1) that deferral is appropriate, the *solo-regulated firm* must award, pay or provide deferred variable *remuneration* to its *material risk takers* in accordance with its *remuneration* policies and practices.

19AA.8.2 G When deciding whether to provide for deferred variable *remuneration* as part of its *remuneration* policies and practices (in accordance with *SYSC* 19AA.8.1R(1)), the *FCA* expects the *solo-regulated firm's management body* to take into account the following factors:

(1) the *solo regulated firm's* business cycle and the nature of its business;

(2) the interests and time horizons of the *solo-regulated firm's clients* and *investors*; and

(3) the activities and responsibilities of the *material risk takers* concerned.

19AA.8.3 G Where a *solo-regulated firm* decides to establish a policy on deferred variable *remuneration* as part of its *remuneration* policies and practices (in accordance with *SYSC* 19AA.8.1R(1)), the *FCA* expects the *solo-regulated firm's management body* to ensure the following are included:

(1) the situations in which it would be appropriate for variable *remuneration* to be deferred;

(2) the proportion of variable *remuneration* that must be deferred;

(3) the length of the deferral period;

(4) the speed of vesting of the variable *remuneration* to be deferred; and

(5) whether the variable *remuneration* to be deferred is paid out in instruments or cash.

19AA.8.4 G In the *FCA's* view, it may be appropriate to use deferred variable *remuneration* where a *material risk taker* carries out:

(1) trading activities where *remuneration* may be earned upfront, but where profit or loss emerges later;

(2) activities relating to the *solo-regulated firm's* obligations under the *Consumer Duty* where outcomes can only be assessed over longer time horizons, for example:

(a) the design of products or services to meet *customer's* needs; or

(b) communications to *customers*; or

(3) managing money or assets for *AIFs*, *UCITS schemes* and their *investors*.

19AA. 9 Remuneration Principle 6: Performance adjustments

19AA.9.1 R A *solo-regulated firm* must consider whether it would be appropriate to establish and implement performance adjustment mechanisms in relation to the variable *remuneration* of *material risk takers* where outcomes are inconsistent with the *solo-regulated firm's* expectations on conduct, compliance or risk management.

19AA.9.2 G When a *solo-regulated firm* considers it appropriate to establish and implement performance adjustment mechanisms under *SYSC* 19AA.9.1R, the *FCA* expects those mechanisms to enable the *solo-regulated firm*:

(1) to make proportionate adjustments to a *material risk taker's* variable *remuneration*; and

(2) to prevent the *material risk taker* from benefitting from their misconduct.

19AA.9.3 G In the *FCA's* view, examples of performance adjustment mechanisms to variable *remuneration* include the following:

(1) reductions to, or decisions not to vest, deferred *remuneration*;

(2) in-year adjustments;

(3) malus; and

(4) clawback.

19AA.9.4 G When applying performance adjustment mechanisms to variable *remuneration*, a *solo-regulated firm* should take a proportionate approach having regard to the nature of its activities and the risks involved.

19AA.10 Avoidance of the solo-regulated firms Remuneration Code

19AA.10.1 R A *solo-regulated firm* must not pay variable *remuneration* through financial vehicles or methods that facilitate non-compliance with the *solo-regulated firms Remuneration Code*.

19AA.10.2 G (1) The effect of *SYSC* 19AA.10.1R is to prevent a *solo-regulated firm* from avoiding the application of the requirements on variable *remuneration* by using *remuneration* structures that do not comply with the substance of the requirements. This includes, for example, using arrangements where variable *remuneration* is considered fixed *remuneration* in legal form while preserving the economic substance of variable *remuneration*.

(2) The *FCA* expects a *solo-regulated firm* to apply the *solo-regulated firms Remuneration Code* in a manner consistent with its purpose under *SYSC* 19AA.1.2G and *SYSC* 19AA.1.3G. Accordingly, in assessing compliance with the *solo-regulated firms Remuneration Code*, the *FCA* will have regard to the substance and effect of the *solo-regulated firm's remuneration* arrangements rather than their legal or contractual form.

SYSC 19B (AIFM Remuneration Code), SYSC 19E (UCITS Remuneration Code) and SYSC 19G (MIFIDPRU Remuneration Code) are deleted in their entirety. The deleted text is not shown but the chapters are marked [deleted] as shown below.

SYSC 19B AIFM Remuneration Code <u>[deleted]</u>

…

SYSC 19E UCITS Remuneration Code <u>[deleted]</u>

…

SYSC 19G MIFIDPRU Remuneration Code <u>[deleted]</u>

Amend the following as shown.

21 Risk control: additional guidance

21.1 Risk control: guidance on governance arrangements

…

Chief Risk Officer

21.1.2 G (1) A Chief Risk Officer should:

…

(j) provide risk-focused advice and information into the setting and individual application of the *firm's remuneration* policy (~~Where the *MIFIDPRU Remuneration Code* applies, see in particular *SYSC* 19G.3.2G(2).~~ Where the *dual-regulated firms Remuneration Code* applies, see the *PRA's* Supervisory Statement on Remuneration).

[**Note:** The *PRA's* Supervisory Statement on remuneration is available on the *PRA* website at http://www.bankofengland.co.uk/pra/Pages/default.aspx.]

…

27 Senior managers and certification regime: Certification regime

…

27.8 Definitions of the FCA certification functions

…

Material risk takers

…

27.8.15 R Table: Definition of material risk taker

Type of SMCR firm	Employees included
…	
(4) A *firm* subject to ~~*SYSC* 19G.5 (application of remuneration requirements to material risk takers)~~ <u>*SYSC* 19AA.1 (application provisions for the solo-regulated firms</u>	Each staff member identified as a *material risk taker* of the *firm* in column (1).

Remuneration Code) including an overseas *SMCR firm*	
…	
(6) ~~A *firm* falling within *SYSC* 19B.1 (application provisions for the remuneration code for a full scope UK AIFM)~~ [deleted]	~~Each member of the *AIFM Remuneration Code staff* of the *firm* in column (1).~~
(7) ~~An *above-threshold non-UK AIFM*~~ [deleted]	~~In relation to a *firm* in column (1), the definition of *AIFM Remuneration Code staff* is extended so that it includes *employees* of this kind of *firm* in the same way as it includes *employees* of *firms* in row (6) of this table.~~
…	
(10) ~~A *firm* falling within *SYSC* 19E.1 (application provisions for remuneration code for UCITS management companies)~~ [deleted]	~~Each member of the *UCITS Remuneration Code staff* of the *firm* in column (1).~~
…	
Note: The definition of the *persons* included in column (2) applies in relation to an *EEA SMCR firm* in one of the rows of column (1) in the same way as it does to other *overseas SMCR firms* in that row. The ~~definitions~~ definition of *material risk taker* ~~and *AIFM Remuneration Code staff* apply~~ applies accordingly. Where an *overseas SMCR firm* would be subject to ~~*SYSC* 19G.5~~ *SYSC* 19AA (Solo-regulated firms Remuneration Code) if it were a *UK SMCR firm*, row (4) applies in the same way as it applies to *UK SMCR firms*, and the definition of *material risk taker* in column (2) applies accordingly.	

Insert the following new transitional provisions, SYSC TP 15, after SYSC TP 14 (Miscellaneous transitional provisions relating to the Senior Managers and Certification Regime). All the text is new and is not underlined.

TP 15 Solo-regulated firms Remuneration Code: transitional provision

Application

TP 15.1 R *SYSC* TP 15 applies to an undertaking to whom the *solo-regulated firms Remuneration Code* will apply for the first time in the performance period beginning on or after [*Editor's note*: insert commencement date].

Definitions

TP 15.2 G (1) For the purpose of *SYSC* TP 15, the definitions listed in (2) should be read as they had effect in the *Glossary* on [*Editor's note*: insert date immediately prior to commencement date]:

(2) The definitions in the *Glossary* referred to in (1) are:

(a) 'AIFM Remuneration Code';

(b) 'MIFIDPRU Remuneration Code';

(c) 'UCITS Remuneration Code'; and

(d) 'UCITS Remuneration Code staff'.

Duration of transitional

TP 15.3 R *SYSC* TP 15 applies to *remuneration* awarded for performance or services provided in the performance period before the performance period to which the *solo-regulated firms Remuneration Code* first applies.

TP 15.4 G While the *solo-regulated firms Remuneration Code* comes into force on [*Editor's note*: insert commencement date], it only applies to performance periods that begin on or after that date. This transitional provision therefore addresses the position for *remuneration* for performance or services provided in any performance period prior to the performance period to which the *solo-regulated firms Remuneration Code* first applies.

Transitional

TP 15.5 R (1) Where an *undertaking* was subject to any of the remuneration codes listed in (2) immediately before the *solo-regulated firms Remuneration Code* came into force, that remuneration code (and any related reporting requirements) continues to apply in accordance with *SYSC* TP 15.3R.

		(2)	The remuneration codes referred to in (1) are: (a) *SYSC* 19B (AIFM Remuneration Code); (b) *SYSC* 19E (UCITS Remuneration Code); and (c) *SYSC* 19G (MIFIDPRU Remuneration Code).
TP 15.6	G	(1)	The effect of the transitional provision in *SYSC* TP 15.5R is to preserve the application of the AIFM Remuneration Code, the UCITS Remuneration Code and the MIFIDPRU Remuneration Code to performance or services provided in any performance period prior to the performance period to which the *solo-regulated firms Remuneration Code* first applies.
		(2)	This means, for example, that *remuneration* paid to a member of the UCITS Remuneration Code staff of a *UK UCITS management company* that manages a *UCITS scheme* for performance in a performance period from 2025 to 2026 would continue to be subject to the remuneration rules in *SYSC* 19E (UCITS Remuneration Code).
		(3)	As the application of the transitional provision is determined by the date of the performance period in which the performance or services were provided (not when the *remuneration* was awarded or paid out), this would remain the case even if the member of the UCITS Remuneration Code staff was paid the remuneration after the *solo-regulated firms Remuneration Code* applied to a *solo-regulated firm*.

Insert the following new schedule, SYSC Sch 7, after SYSC Sch 6 (Rules that can be waived). All the text is new and is not underlined.

Sch 7	**List of Part 9C rules**	
7.1	G	This schedule contains a list of *Part 9C rules* for the purposes of section 143F(2) of the *Act*.
7.2	G	For the purposes of *SYSC* Sch 7 7.1G, every *rule* that applies to a *non-SNI MIFIDPRU investment firm* in *SYSC* 19AA (Solo-regulated firms Remuneration Code) is a *Part 9C rule*.

Part 2: comes into force on [*date 2*]

[*Editor's note*: Part 2 of Annex B will come into force on 'date 2' which corresponds to the commencement date of the rules consulted on in the consultation paper 'The UK AIFM Regime' (CP26/28) when they are made final.]

[*Editor's note*: The changes suggested below take into account the changes suggested in Part 1 of this Annex. They also take into account the proposals and legislative changes suggested in the consultation paper 'The UK AIFM Regime' (CP26/28) as if they were made final.]

Amend the following as shown.

1 Application and purpose

…

1.1A Application

…

1.1A.1A G The application of this sourcebook to specific *firms* that are not *PRA-authorised persons* is summarised at a high level in the following table. The detailed application is cut back in *SYSC* 1 Annex 1 and in the text of each chapter.

Type of firm	**Applicable chapters**
~~*Full-scope UK AIFM*~~ *Medium UK AIFM* and *large UK AIFM*	Chapters 4 to 10, 12, 18, 19AA, 19F.2, 22, 21, 22, 23, 24, 25, 26, 27, 28, 28A
…	

4 General organisational requirements

4.1 General requirements

…

General requirements

…

4.1.1A R A ~~*full-scope UK AIFM*~~ *medium UK AIFM* and a *large UK AIFM* must comply with the *solo-regulated firms Remuneration Code*.

…

4.1.2 R For a *common platform firm*, the arrangements, processes and mechanisms referred to in *SYSC* 4.1.1R must be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the business model and of the *common platform firm's* activities and must take into account the specific technical criteria described in *SYSC* 4.1.1-AR(3), *SYSC* 5.1.7R, *SYSC* 7 and whichever of the following is applicable:

…

(2) (for a ~~*full-scope UK AIFM*~~ *medium UK AIFM* or a *large UK AIFM*) *SYSC* 19AA (Solo-regulated firms Remuneration Code);

…

…

6 Compliance, internal audit and financial crime

6.1 Compliance

…

Compliance function

…

6.1.4-AA G In setting the method of determining the *remuneration* of *relevant persons* involved in the compliance function, ~~*full-scope UK AIFMs*~~ *medium UK AIFMs* and *large UK AIFMs* will need to comply with the *solo-regulated firms Remuneration Code*.

…

7 Risk control

7.1 Risk control requirements

…

Risk management

…

7.1.7BA G In setting the method of determining the *remuneration* of *employees* involved in the risk management function, ~~*full-scope UK AIFMs*~~ *medium UK AIFMs* and *large UK AIFMs* will need to comply with the *solo-regulated firms Remuneration Code*.

…

19AA Solo-regulated firms Remuneration Code

19AA.1 Application and purpose

Application

19AA.1.1 R (1) The *solo-regulated firms Remuneration Code* applies to:

(a) a ~~*full-scope UK AIFM*~~ *medium UK AIFM*;

(aa) a *large UK AIFM*;

(b) a *UK UCITS management company* that manages a *UCITS scheme*; and

(c) a *non-SNI MIFIDPRU investment firm*.

(2) For the purpose of this chapter, the *firms* in (1) are collectively referred to as *solo-regulated firms*.

…

Annex C

Amendments to the Code of Conduct sourcebook (COCON)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless stated otherwise.

4 Specific guidance on conduct rules

…

4.2 Specific guidance on senior manager conduct rules

…

SC2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system.

…

4.2.16 G The following is a non-exhaustive list of examples of conduct that would be in breach of *rule* SC2.

…

(8) For a *senior conduct rules staff member* who is responsible for the compliance function, failing to ensure that:

…

(e) the method of determining the remuneration complies, where applicable, with the remuneration codes set out in ~~*SYSC* 19B,~~ <u>*SYSC* 19AA and</u> *SYSC* 19D~~, *SYSC* 19E and *SYSC* 19G~~ or, for a *Solvency II firm* or a *small non-directive insurer*, other relevant requirements in relation to remuneration.

…

…

Annex D

Amendments to the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Application

…

1.2 SNI MIFIDPRU investment firms

…

Application of senior management, remuneration and systems and controls requirements to SNI MIFIDPRU investment firms

1.2.18 R (1) Subject to (2) and (3), the following provisions do not apply to an *SNI MIFIDPRU investment firm*:

(a) *MIFIDPRU* 7.3 (Risk~~, remuneration~~ and nomination committees);

(b) ~~the provisions in *SYSC* 19G (MIFIDPRU Remuneration Code) which are not listed in *SYSC* 19G.1.6R(2).~~ [deleted]

(2) Subject to (4) ~~and (5)~~, if a *non-SNI MIFIDPRU investment firm* satisfies the conditions in *MIFIDPRU* 1.2.1R to be classified as an *SNI MIFIDPRU investment firm*, the provisions in (1) will cease to apply only:

…

(3) Subject to (4) ~~and (5)~~, if an *SNI MIFIDPRU investment firm* no longer satisfies the conditions in *MIFIDPRU* 1.2.1R to be classified as an *SNI MIFIDPRU investment firm*, it must:

(4) *MIFIDPRU* 7.3 (Risk~~, remuneration~~ and nomination committees) does not apply to a *non-SNI MIFIDPRU investment firm* if the *firm* meets the conditions in *MIFIDPRU* 7.1.4R.

(5) ~~The provisions listed in *SYSC* 19G.1.1R(4) do not apply to a *non-SNI MIFIDPRU investment firm* if the *firm* meets the conditions in *SYSC* 19G.1.1R(2).~~ [deleted]

…

2 Level of application of requirements

…

2.5 Prudential consolidation

…

Prudential consolidation in practice: governance requirements

2.5.51 G …

(2) The requirements in *MIFIDPRU* 7.3 (Risk~~, remuneration~~ and nomination committees) do not apply on a *consolidated basis*.

…

7 Governance and risk management

7.1 Application

…

7.1.2 G The following table summarises the content of *MIFIDPRU* 7:

Section	Summary of content
…	
MIFIDPRU 7.3	Requirements relating to risk~~, remuneration~~ and nomination committees
…	

7.1.3 R *MIFIDPRU* 7 applies as follows:

Section of *MIFIDPRU* 7	Application to *SNI MIFIDPRU investment firms*	Application to *non-SNI MIFIDPRU investment firms*	Application at the level of an *investment firm group*
…			
MIFIDPRU 7.3 (Risk~~, remuneration~~	Does not apply	Applies if the *firm* does not qualify for the exclusion in	Does not apply

and nomination committees)		*MIFIDPRU* 7.1.4R	
…			

7.1.4 R (1) *MIFIDPRU* 7.3 (Risk~~, remuneration~~ and nomination committees) does not apply to a *non-SNI MIFIDPRU investment firm*:

…

…

…

7.1.9 R …

(2) *MIFIDPRU* 7.3 (Risk~~, remuneration~~ and nomination committees) ceases to apply to the *firm* in (1) if:

…

…

…

7.2 Internal governance

…

7.2.2 G When establishing and maintaining the arrangements in *MIFIDPRU* 7.2.1R(1), a *firm* should consider at least the following:

(1) the requirements that apply to the *firm* under *MIFIDPRU* 7 and ~~*SYSC* 19G (MIFIDPRU Remuneration Code)~~ <u>*SYSC* 19AA (Solo-regulated firms Remuneration Code)</u>;

…

…

7.3 Risk~~, remuneration~~ and nomination committees

Risk committee

7.3.1 R …

(5A) In order to assist in the establishment of sound ~~remuneration~~ <u>*remuneration*</u> policies and practices, the risk committee must, without prejudice to the tasks of the remuneration committee <u>(where</u>

such a committee exists), examine whether incentives provided by the ~~remuneration~~ *remuneration* system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

…

7.3.2 G …

(3) Where a *firm* has established a risk committee, its responsibilities should typically include:

…

(f) providing advice to the *firm's* ~~*remuneration*~~ remuneration committee (where such a committee exists), as appropriate, in relation to the development, implementation and review of ~~remuneration~~ *remuneration* policies and practices that are consistent with, and promote, effective risk management;

…

~~Remuneration committee~~

7.3.3 R ~~(1)~~ ~~Subject to (2), a *non-SNI MIFIDPRU investment firm* to which this *rule* applies must establish a remuneration committee.~~

~~(2)~~ ~~The obligation in (1) will be deemed to be satisfied where:~~

~~(a)~~ ~~the *non-SNI MIFIDPRU investment firm* is part of an *investment firm group* that is subject to prudential consolidation in accordance with *MIFIDPRU* 2.5; and~~

~~(b)~~ ~~the *UK parent entity* has established a *remuneration* committee that:~~

~~(i)~~ ~~meets the requirements of *MIFIDPRU* 7.3.3R(3) (read in conjunction with *MIFIDPRU* 7.3.3R(4));~~

~~(ii)~~ ~~has the power to comply with those obligations on behalf of the *non-SNI MIFIDPRU investment firm*; and~~

~~(iii)~~ ~~has members with the appropriate knowledge, skills and expertise in relation to the *non-SNI MIFIDPRU investment firm*.~~

~~(3)~~ ~~Subject to (4), a *firm* must ensure that:~~

(a) ~~at least 50% of the members of the *remuneration* committee are members of the *management body* who do not perform any executive function in the *firm*; and~~

(b) ~~the chair of the *remuneration* committee is a member of the *management body* who does not perform any executive function in the *firm*.~~

(4) ~~The requirements in (3) do not apply to a *firm* that, solely because of its legal structure, cannot have members of the *management body* who do not perform any executive function in the *firm*.~~

(5) ~~A *firm* must ensure that the *remuneration* committee is constituted in a way that enables it to exercise competent and independent judgment on *remuneration* policies and practices and the incentives created for managing risk, capital and liquidity.~~

(6) ~~The *remuneration* committee must be responsible for preparing decisions regarding *remuneration*, including decisions which have implications for the risk and risk management of the *firm* and which are to be taken by the *management body*.~~

(7) ~~When preparing the decisions, the *remuneration* committee must take into account the public interest and the long-term interests of shareholders, investors and other stakeholders in the *firm*.~~ [deleted]

7.3.4 G (1) ~~*MIFIDPRU* 7.3.3R(3) only applies to *firms* that are required to establish a *remuneration* committee under *MIFIDPRU* 7.3.3R(1).~~

(2) ~~The chair may be included for the purposes of calculating the 50% referred to in *MIFIDPRU* 7.3.3R(3)(a).~~ [deleted]

…

Establishing committees at group level

7.3.7 G (1) A *firm* may apply to the *FCA* for a modification under section 138A of the *Act* to permit the *firm* to establish a risk committee~~,~~ ~~*remuneration* committee,~~ or nomination committee at *group* level instead of complying with the requirement on an individual basis.

…

…

7 Annex 3 Notification under MIFIDPRU 7.1 ~~and SYSC 19G.1~~ on the requirements to establish certain committees ~~or the additional remuneration requirements~~

7 Annex 3	R	[*Editor's note*: The form can be found at this address: [*Editor's note*: insert link to form]]

[*Editor's note*: The use of italics in this form is not indicative of terms in the Handbook Glossary.]

MIFIDPRU 7 Annex 3R

Notification under MIFIDPRU 7.1.9R ~~and SYSC 19G.1.8R~~ that a firm meets the conditions in MIFIDPRU 7.1.4R(1) ~~and SYSC 19G.1.1R(2)~~ and need not apply the requirements to establish certain committees ~~or the additional remuneration requirements~~

Notification under MIFIDPRU 7.1.12R ~~and SYSC 19G.1.11R~~ that a firm no longer meets the conditions in MIFIDPRU 7.1.4R(1) ~~and SYSC 19G.1.1R(2)~~ and must apply the requirements to establish certain committees ~~and the additional remuneration requirements~~

Details of Senior Manager responsible for this notification:

If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).

Name of individual	
Job title / position	
Individual reference number (if applicable)	

1. Please confirm which notification applies:

   a. The firm meets the conditions in MIFIDPRU 7.1.4R(1)(a) ~~or (b) and SYSC 19G.1.1R(2)(a) or (b)~~ ☐

   b. The firm no longer meets the conditions in MIFIDPRU 7.1.4R(1)(a) ~~or (b) and SYSC 19G.1.1R(2)(a) or (b)~~ ☐

2. Please confirm the applicability of the following threshold(s) to the firm:

   a. The value of the firm's on-balance sheet assets and off-balance sheet items over the last four-year period was an average of:

i.	£100m or less	☐
ii.	More than £100m but less than £300m	☐
iii.	More than £300m	☐

Section b. and c. should only be completed by firms who deal on own account.

b.	The exposure value of the firm's on- and off-balance sheet trading book business is £150m or less	☐
c.	The exposure value of the firm's on- and off-balance sheet derivatives business is £100m or less	☐

…

8 Disclosure

8.1 Disclosure

8.1.1 R (1) Subject to (2) ~~and (3)~~, the requirements in this chapter apply to a *non-SNI MIFIDPRU investment firm*.

…

(3) ~~*MIFIDPRU* 8.6 (Remuneration policies and practices) applies to every *MIFIDPRU investment firm*.~~ [deleted]

…

8.1.2 G ~~The requirements in *MIFIDPRU* 8.6 (Remuneration policies and practices) apply to all *MIFIDPRU investment firms*, with certain exceptions that are explained in that section.~~ [deleted]

…

Application: proportionality

…

8.1.9 G ~~By way of example, applying a proportionate approach to the qualitative disclosure requirements in *MIFIDPRU* 8.6 (Remuneration policies and practices) means that the *FCA* would expect a *non-SNI MIFIDPRU*~~

~~*investment firm* with a detailed *remuneration* policy to disclose more information than an *SNI MIFIDPRU investment firm*.~~ [deleted]

…

MIFIDPRU 8.6 (Remuneration policy and practices) is deleted in its entirety. The deleted text is not shown but the section is marked [deleted] as shown below.

8.6 Remuneration policy and practices [deleted]

Amend the following as shown.

TP 12 Disclosure requirements: transitional provisions

…				
	Delayed application of rules for a commodity and emission allowance dealer			
12.3	R	…		
		(2)	A *commodity and emission allowance dealer* is exempt from the following requirements in this chapter:	
			…	
			(c)	*MIFIDPRU* 8.4 (Own funds); and
			(d)	*MIFIDPRU* 8.5 (Own funds requirements)~~, and~~.
			(e)	~~*MIFIDPRU* 8.6 (Remuneration policies and practices).~~ [deleted]
…				

…

Sch 6 List of Part 9C rules

…

Sch 6.2 G (1) Except as specified in (2), each of the following is a ~~Part 9C rule~~ *Part 9C rule*:

(a) every *rule* in *MIFIDPRU*~~; and~~.

(b) ~~every *rule* in *SYSC* 19G (MIFIDPRU Remuneration Code).~~ [deleted]

…

Annex E

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

10C FCA senior managers regime for approved persons in SMCR firms

…

10C.5A FCA governing functions: Oversight

…

Chair of the remuneration committee function (SMF12)

10C.5A.10 R The *chair of the remuneration committee function* is the function of having responsibility for chairing, and overseeing the performance of, any committee responsible for the oversight of the design and the implementation of the *remuneration* policies of a *firm*, including, where applicable to the *firm*, a committee established in accordance with:

…

(2) ~~*SYSC* 19B.1.9R (AIFM Remuneration Principle 3: Governance);~~ [deleted]

…

(4) *rule* 7.4 of the *PRA Remuneration Rules*, as applied by *SYSC* 19D.1A.1R(1)~~;~~.

(5) ~~*SYSC* 19E.2.9R (UCITS Remuneration Principle 3: Governance); and~~ [deleted]

(6) ~~*MIFIDPRU* 7.3.3R (Remuneration committee).~~ [deleted]

…

16 Reporting requirements

…

16.3 General provisions on reporting

…

Structure of the chapter

16.3.2	G	This chapter has been split into the following sections, covering:
		…
		(24) ~~MIFIDPRU remuneration reporting (*SUP* 16.29);~~ [deleted]
		…

…

SUP 16.29 (MIFIDPRU Remuneration Report) is deleted in its entirety. The deleted text is not shown but the section is marked [deleted] as shown below.

16.29 MIFIDPRU Remuneration Report [deleted]

SUP 16 Annex 51 (MIF008 remuneration report) and SUP 16 Annex 52 (Guidance notes for the MIF008) are deleted in their entirety. The deleted text is not shown but the annexes are marked [deleted] as shown below.

16 Annex 51 MIF008 remuneration report [deleted]

16 Annex 52 Guidance notes for the MIF008 [deleted]

Annex F

Amendments to the Collective Investment Schemes sourcebook (COLL)

In this Annex, underlining indicates new text and striking through indicates deleted text.

4 Investor Relations

…

4.2 Pre-sale notifications

…

Table: contents of the prospectus

4.2.5 R This table belongs to *COLL* 4.2.2R (Publishing the prospectus).

…		
Remuneration Policy		
28	For a *UCITS scheme* and in relation to ~~*UCITS Remuneration Code staff*~~ <u>*material risk takers*</u>:	
	…	

…

…

4.5 Reports and accounts

…

Contents of the annual long report

4.5.7 R …

(7) An annual long report of a *UCITS scheme* must also include:

…

(b) the aggregate amount of *remuneration* broken down by categories of ~~*UCITS Remuneration Code staff*~~ <u>*material risk taker*</u>;

(c) a description of how the *remuneration* and the benefits have been calculated; <u>and</u>

(d) ~~the outcome of the reviews referred to in *SYSC* 10E.2.7(1) and *SYSC* 19E.2.8R, including any irregularities that have occurred; and~~ <u>[deleted]</u>

…

[**Note:** article 69(3) second paragraph of the *UCITS Directive*]

4.5.7A G (1) The *FCA* recognises that the annual long report, including the *remuneration* related disclosures in *COLL* 4.5.7R(7), may be required to be made available to *unitholders* before the completion of the *authorised fund manager's* first annual performance period in which it has to comply with the ~~*UCITS Remuneration Code*~~ <u>*solo-regulated firms Remuneration Code*</u>.

…

…

Annex G

Amendments to the Consumer Credit sourcebook (CONC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

2 Conduct of business standards: general

…

2.11 Remuneration and performance management policies, procedures and practices

Application

…

2.11.2 R This section does not apply to a *firm* subject to:

(1) any of the remuneration provisions in ~~*SYSC* 19B (AIFM Remuneration Code) to *SYSC* 19G (MIFIDPRU Remuneration Code)~~ <u>*SYSC* 19AA (Solo-regulated firms Remuneration Code), *SYSC* 19D (Dual-regulated firms Remuneration Code) and *SYSC* 19F (Remuneration and performance management)</u>; or

…

…

Annex H

Amendments to the Investment Funds sourcebook (FUND)

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Requirements for alternative investment fund managers

…

3.3 Annual report of an AIF

…

Contents of the annual report

…

3.3.5A G ~~The *FCA* has provided additional *guidance* on the disclosure requirements relating to *remuneration* paid by an *AIFM* to its staff. The *guidance* can be found at: [http://www.fca.org.uk/your-fca/documents/finalised-guidance/fg14-02]~~ [deleted]

…

10 Operating on a cross-border basis

…

10.5 National private placement

…

Marketing of AIFs managed by the other third-country AIFMs

…

10.5.11A G …

(2)

…

(b) For example:

…

(ii) The *AIFM* should include information in its annual report in relation to the *remuneration* paid by the *AIFM* to its staff as set out in *FUND* 3.3.5R(5) and

FUND 3.3.5R(6), but it does not need to do so in line with the requirements in ~~*SYSC* 19B~~ <u>*SYSC* 19AA</u>, because it is not subject to those provisions.

…

…

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