

Chair, Remuneration Committee

19 August 2019

Dear Chair of the Remuneration Committee

I am writing to set out the FCA's findings and observations from the 2018/19 Remuneration Round and how we plan to assess your firm throughout 2019/20.

Firms' culture and governance is a key cross-sector priority for the FCA. As set out in our 2019/20 Business Plan, we will review firms' remuneration and recognition practices to ensure that approaches to rewarding and incentivising all staff reinforce healthy cultures and do not drive behaviours that would lead to harm to consumers or markets.

### **Our findings and approach for 2019/20**

During the 2018/19 remuneration round, the FCA, jointly with the PRA, reviewed the remuneration policies and practices of level 1 firms against the requirements of the dual-regulated firms Remuneration Code (SYSC 19D) and applicable European regulations. We also assessed the effectiveness of firms' incentives arrangements at driving behaviours that reduce harm to markets and consumers. In line with previous years, we observed that firms continue to embed conduct in their remuneration policies and practices.

#### *Accountability*

In your role as SMF12, holding the prescribed responsibility for remuneration, you are responsible for overseeing the development, and implementation of your firm's remuneration policies and practices. We expect you to consider how these will contribute to a healthy culture and drive the right behaviour. Similarly to last year, our supervisors will engage with you on how you have satisfied yourself that your firm's remuneration policies reinforce your firm's values, ethics, culture and promote the right behaviour.

#### *Ex-post risk adjustments*

In the last remuneration round, we observed that firms continue to adjust awards to reflect material poor performance and misconduct at both firm and individual levels. However, some firms continue to find it challenging to provide appropriate justifications for how the level of adjustments have been determined.

During 2019/20, we will continue to focus on firms' approach to ex-post risk adjustment. As set out in our guidance on the application of ex-post risk adjustment to variable remuneration,<sup>1</sup> we expect you to oversee how your firm makes consistent judgments on the level of adjustments made and why any differences exist between incidents or the individuals concerned. Where the

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<sup>1</sup> [www.fca.org.uk/publication/finalised-guidance/guidance-on-ex-post-risk-adjustment-variable-remuneration.pdf](http://www.fca.org.uk/publication/finalised-guidance/guidance-on-ex-post-risk-adjustment-variable-remuneration.pdf)

behaviour of any employee falls below the expected standards, you are also expected to have appropriate oversight to ensure that appropriate adjustments are made in a timely manner.

### *Diversity and Inclusion*

Our approach to diversity and inclusion is a key consideration when we look at culture in firms. Diversity and inclusion help mitigate the risk of groupthink by helping firms make better decisions in the long-term. Also, fostering an inclusive and diverse culture can contribute to changing the behaviour of firms for the better.

Last year, we engaged with firms on the results of their gender pay gap analysis, plans for addressing inequalities and any other potential drivers of poor culture arising from that analysis. We found that firms need to make improvements by focusing on 'diversity in its broadest form'. For example, on issues such as ethnicity, disability, social mobility and diversity of thought.

This year, we will continue to engage with you on how your firm's remuneration policies positively influence your approach to diversity and inclusion through embracing the benefits of a diverse workforce.

### *Remuneration Policy Statement*

We will continue to coordinate our annual review with the PRA. This year, in addition to submitting your Remuneration Policy Statement (RPS), we ask that you also submit:

- a short summary of the key points in the RPS with cross-references to the full RPS, including the key changes made last year; and
- an explanation of how you have assured yourself that your firm's overall remuneration policies drive behaviour that reduces potential harm. For example, how your firm's approach to remuneration is linked to behaviours that lead to good consumer outcomes.

The summary of the RPS should be a true and fair reflection of the contents of the RPS.

## **Transforming Culture in Financial Services**

Over the last two years, we've been exploring the transformation of culture in financial services. Following the publication of our Discussion Paper on Transforming Culture in Financial Services<sup>2</sup> and our Transforming Culture Conference<sup>3</sup> in March 2018, we have been exploring some key themes in greater detail. One of these is incentives and recognition.

There has been much discussion around the role of financial incentives as a key driver of behaviour, and there is no doubt that the way an organisation incentivises its staff will drive its culture. We are currently exploring other aspects of incentives – the non-financial drivers, the increasingly important role of recognition and what really motivates individuals working in financial services. We will be focusing on:

- what motivates individuals in the financial services sector including the role of non-financial incentives and recognition;
- the role of financial incentives in developing a successful business model; and
- how the interests of different stakeholders are viewed as competing and require a trade-off (e.g. consumers vs shareholders).

Your views on these issues are valuable and welcome, if you would like to provide any views, please email [transformingculture@fca.org.uk](mailto:transformingculture@fca.org.uk).

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<sup>2</sup> <https://www.fca.org.uk/publications/discussion-papers/dp18-2-transforming-culture-financial-services>

<sup>3</sup> <https://www.fca.org.uk/publication/documents/fca-transforming-culture-conference-event-summary.pdf>

Yours sincerely

**Executive Director of Supervision**

Retail and Authorisations Division

Investment, Wholesale & Specialists Division

Cc: