

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

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2 August 2022

Dear [Chair of the Remuneration Committee]

We are writing to you with some points for you to consider in your capacity as Remuneration Committee Chair. Your role is key in ensuring that your firm's remuneration policies support the purpose, long-term strategy and values of your firm, while reflecting the current economic environment.

This letter sets out our expectations for you as you determine your firm's remuneration outcomes for the year. It highlights a number of focus areas we expect you to take into account, and which we may focus on in any firm-specific engagement with you through the course of this year.

Culture and accountability

A healthy culture is at the heart of driving operational performance which will meet the needs of customers and drive shareholder or owner value. We expect firms to continue to focus on driving positive cultural change.

Remuneration policies should be risk-focused, helping to identify and manage risks and promoting a strong risk culture in the firm. Through the Senior Managers and Certification Regime (SM&CR), individuals should be held accountable for their conduct and competence with a clear, strong, and evidenced link between behaviours and remuneration outcomes. Where there is evidence of regulatory failings, we expect you to oversee and challenge the process to ensure appropriate, timely and transparent adjustments to remuneration are made; where relevant, this should include individuals and Senior Managers. Where appropriate, we may follow up with you to see evidence of this.

We recently published our [Strategy 2022 to 2025](#) which sets out our focus and what we aim to achieve through our rules and guidance. We aim to create the conditions for financial services firms to deliver the outcomes we would like to see across the financial services industry. This includes embedding Environmental, Social and Governance (ESG), and Diversity and Inclusion (D&I) considerations

into firms' functions. Later this year, we will consult on a package of measures to promote D&I in the financial services sector. This will include proposals to make changes to the responsibilities of the Remuneration Committee. We envisage your role remaining as important as ever in establishing the right conditions for a healthy culture to thrive.

The new Consumer Duty

How your firm treats consumers, including those with characteristics of vulnerability, should already be at the forefront of your firm's business strategy. We recently published the final rules and guidance for a [new Consumer Duty](#) (NCD), which set higher and clearer expectations for the standard of care and customer service that firms give consumers at each stage of the product lifecycle. A healthy, consumer-centric culture will be essential to delivering outcomes.

You should align your approach to supporting consumers in the current economic environment with your firm's business strategy. Your firm's remuneration policies should be designed to support the expectations set by the NCD when it comes into effect.

The rising cost of living

As consumers are affected by the rising cost of living and many suffer financial difficulties, it is critical that lenders meet the standard we expect in supporting borrowers who get into financial difficulty. Lenders also need to make sure that their approach to taking on new borrowers takes account of the financial pressure they may be facing and its impact on their income and expenditure.

We are aware that many firms are working to ensure that colleagues on lower pay are supported through this period. In line with the [Corporate Governance Code](#), you as Chair "should review workforce remuneration and related policies and the alignment of incentives and rewards with culture."

You will be aware of the pressure on the UK and global economies with rising interest rates and inflation. The latest Bank of England forecast expects inflation in the UK to rise to around 11% this year. The current economic environment is both a current and future risk that we expect you to take into consideration when designing and reviewing the remuneration policies and practices and the incentives created.

Operational resilience

Operational resilience is the ability of firms, financial market infrastructures and the financial sector as a whole to prevent, adapt and respond to, recover and learn from operational disruption. Since these disruptions have the potential to cause wide-reaching harm, operational resilience is crucial to ensuring the stability of the UK financial system, and to minimise impact on consumers and markets. Indeed, it plays an important role in consumer access and confidence.

Continuing to strengthen firms' operational resilience and minimise the impact of operational disruptions is one of our key priorities. In the event of service disruptions, data breaches or other interruptions, we would expect firms to respond appropriately, such as making remuneration adjustments where appropriate, and to recover and learn from the experience.

Environmental, Social, Governance

Financial services firms are increasingly embedding wider ESG considerations into their strategies and activities. We are committed to consulting on a new regulatory framework for ESG. We are also committed to embedding ESG considerations across our own organisation. We want to embed positive change through our ESG priorities. In line with the Government's expectations, we will have regard to the Government's commitment to achieve net zero by 2050 when carrying out our duties.

As firms respond to evolving regulatory, societal and customer expectations in this area, firms may wish to review whether incentives for their senior leadership and other material risk takers are aligned to these wider ESG risk factors.

Financial markets have a critical role to play in helping to achieve a transition to a greener and more sustainable economy. Many firms have set net zero targets and joined associated industry [alliances](#). This often involves making commitments on how the firm will support the transition to a net zero economy through its core activities, for example, by setting emissions reduction targets for its investment portfolios or financed activity.

Firms may wish to use remuneration and incentive programmes as a lever to align incentives with these commitments. We believe that linking progress against these commitments to a measurable proportion of pay could be effective in encouraging individuals to take accountability for change. You may want to consider the short and long-term milestones towards achieving these goals. If asked, you should be able to explain the approach you have taken to assess the outcomes of these measures to your usual supervisory contact.

Diversity and Inclusion

While there are a number of positive industry initiatives underway, progress to increase diversity of representation remains relatively slow across the financial sector. We published a [discussion paper](#) on this topic in 2021 and are looking to consult on a new package of measures later this year. Pending that consultation and its outcomes, we believe that remuneration and incentives have a part to play in supporting diversity in your firm. We also discussed in our discussion paper how ensuring fair reward across an organisation could help to build and retain a pipeline of diverse talent to increase the pool of experienced individuals available for senior roles.

Better data is important in understanding representation and underlying issues. We understand that many firms face challenges in achieving sufficiently high declaration rates when trying to improve and broaden their diversity data, especially for some characteristics. We believe that, to increase declaration rates, it is important to build understanding and trust with employees about how their data will be used.

In your role as Chair, your oversight of the link between the performance management framework and incentives is critical and you may wish to review how remuneration policy takes into account some of the risks that an employee's working preferences negatively influence their remuneration.

Remuneration approach for 2022/23

In line with previous years, firms with an accounting reference date of 31 December should submit their Remuneration Policy Statement (RPS), Annex 1: malus and RPS tables 1a, 2 and 8 by 31 August 2022. Please also send:

- A short summary of the key points in the RPS with cross-references to the full RPS, including any key changes made in the last year.
- An explanation of how you remain assured that your firm's remuneration policies motivate and drive the purpose, long-term strategy and values of your individual firm, and how you will hold employees to account if these are not met. This includes how your firm will take into account the impact of the current economic environment on bonus pools and individual outcomes.
- Where these exist, please provide details of how your firm's ESG commitments are linked to your remuneration policy, including any metrics and targets.

Firms with an accounting reference date later than 31 December should submit their RPS to us no later than eight months after the end of the preceding financial year.

As we continue the delivery of the work and commitments set out in our Strategy 2022-2025 and [Business Plan](#), including our ESG priorities, our supervisors will engage with your firm as required as part of our approach to supervising firms.

Yours sincerely,

Executive Director

Markets, Supervision, Policy & Competition
Consumers & Competition, Supervision, Policy & Competition