

Chair, Remuneration Committee

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Dear [Chair of the Remuneration Committee]

I am writing to set out our remuneration approach this year and to highlight some areas for you to consider as Remuneration Committee Chair.

#### *Remuneration Policies*

Your role as Remuneration Committee Chair remains critical to ensuring that your firm's remuneration policies and approach to paying variable remuneration adapt and evolve in the continuing context of the pandemic. You should remain satisfied that your firm's remuneration policies are aligned with your firm's purpose, business strategy and values and incentivise the right behaviours.

#### *Accountability*

The Senior Managers and Certification Regime (SM&CR) is a key tool to ensure high standards of conduct and culture within your firm and can provide a clear and evidenced link between behaviours and remuneration outcomes. For instances of poor behaviour or misconduct, ex-post risk adjustments should be made which are appropriate and timely. The reasons for adjustments should be transparent to the individuals concerned.

#### *Non-financial measures*

You have a crucial role in ensuring that your firm's remuneration policy supports and connects remuneration outcomes to your firm's strategic priorities, purpose and values.

During these challenging times, we have observed firms redefining their purpose to support the issues that really matter to them and in the context of Environmental, Social and Governance (ESG) issues, particularly the 'social' element. We expect to see more firms using non-financial measures in scorecards to support ESG factors.

#### *Diversity and inclusion*

Increasing the diversity of your workforce and fostering an inclusive environment, where every member of staff is valued for their contributions, is a key element of a healthy culture. We recognise the steps firms have already taken to embed diversity and inclusion but there is

much more that needs to be done. We urge you to review pay data across all protected characteristics and to act swiftly to address any disparities.

On 7 July 2021, along with the PRA and the Bank of England, we published a discussion paper (DP) on *Diversity and inclusion in the financial sector – working together to drive change*<sup>1</sup>, which is intended to begin a discussion on the ways we can clarify our expectations and set higher standards on diversity and inclusion for the financial services industry. To progress and drive accountability in firms, the DP asks for views on linking remuneration to diversity and inclusion metrics as part of non-financial performance assessment. We encourage you to consider this and the other questions posed in the DP and to provide your views by 30 September 2021 to [dp2\\_21@bankofengland.co.uk](mailto:dp2_21@bankofengland.co.uk).

### *Our international work*

We continue to engage internationally on remuneration, in particular as a member and as chair of the Financial Stability Board's (FSB) Compensation Monitoring and Contact Group (CMCG). The CMCG has global representatives from financial services regulators who meet regularly to share information on developments in remuneration at financial institutions.

In April 2021, the FSB published a Peer Review of the United Kingdom<sup>2</sup> which assessed the steps taken by UK authorities<sup>3</sup> to implement the FSB Principles and Implementation Standards and to assess the effectiveness of financial sector compensation reforms in the UK. While the report is primarily addressed to the UK authorities, firms may find it useful to consider whether there are any points that they could incorporate into their remuneration policies and practices.

### *Remuneration Approach for 2021/22*

In line with the statement made by the PRA on 25 May 2021<sup>4</sup>, firms with a fiscal year-end of 31 December<sup>5</sup> should submit their Remuneration Policy Statement (RPS), Annex 1: malus and RPS tables 1a, 2 and 8 by 30 September 2021 along with:

- 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 have assured yourself that your firm's overall remuneration policies support your firm's purpose, business strategy and values and incentivise the right behaviours; and how your firm's approach to paying variable remuneration will be considered in the continuing context of the pandemic.

Our Supervisors will coordinate our approach with the PRA and engage with your firm as required, including providing any feedback at the most appropriate time during our engagement.

Yours sincerely

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<sup>1</sup> <https://www.fca.org.uk/publications/discussion-papers/dp-21-2-diversity-and-inclusion-financial-sector-working-together-drive-change>

<sup>2</sup> <https://www.fsb.org/wp-content/uploads/P140421.pdf>

<sup>3</sup> the FCA, PRA and HM Treasury

<sup>4</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/may/updating-requirements-on-the-identification-of-material-risk-takers>

<sup>5</sup> Firms with a fiscal year end after 31 December 2021, should submit this information in line with the timetable in the RPS template.

**Executive Director of Supervision**

Policy & Competition - Consumers & Competition

Policy & Competition - Markets