Building Societies Association

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BSA Response to the PRA and FCA's joint consultation CP16/24 on Remuneration Reform

About the Building Societies Association

The Building Societies Association (BSA) represents all 42 UK building societies, as well as 7 of the largest credit unions. Building societies have total assets of almost £525 billion and, together with their subsidiaries, hold residential mortgages of over £395 billion, 24% of the total outstanding in the UK. They also hold £399 billion of retail deposits, accounting for 19% of all such deposits in the UK. Building societies account for 40% of all cash ISA balances. With all their headquarters outside London, building societies employ around 52,300 full and part-time staff. In addition to digital services, they operate through approximately 1,300 branches, holding a 30% share of branches across the UK.

Executive summary

The BSA welcomes what appears to us to be a sensible, well thought through and practical proposal. We agree with the overall aims of:

- Reducing the number of Material Risk Takers (MRTs);
- Simplifying the approach for identifying MRTs, with more emphasis on firms owning and safeguarding the process;
- Bringing rules on bonus deferral more in line with international practice;
- Ensuring that variable remuneration better reflects risk taking outcomes and individual responsibilities; and
- Aligning the regulators' rules on buy-outs in relation to small firms.

We agree that it is unnecessary to overhaul the core regulatory approach to remuneration, while recognising that the current arrangements are complex and that complexity has brought with it increased costs of compliance for firms.

We are pleased to see the PRA and FCA consulting jointly on this cross-cutting area. We consider this to be a much more efficient use of time and resource for the regulators and the regulated alike.

We are encouraged by the fact that this approach is allowing the FCA to reduce volume in the FCA handbook rather than creating unnecessary duplication. We would caution, however, that if as envisaged in the CP the detailed rules for this area would mainly be in PRA rule book, the link between remuneration, conduct and culture and ensuring good customer outcomes must not be diluted and the FCA should maintain a strong focus on this.

The current intention is that the proposals would come into force on the next calendar day after publication of the final policy (currently anticipated for the second half of 2025) and would apply to firms' performance years starting after that date. While in general not uncomfortable with this, some members consider that a 6 month period to finalise, communicate and implement any chances to remuneration is necessary. Under the current plans, which would see final policy confirmed in H2 2025, and applied from 2026, this would be achievable. However, a shorter period or indeed implementation part way through a performance year could be challenging. We urge the regulators to publish their final policy in a timely manner.

FCA Proposals

In short, we agree that the proposed changes are appropriate, welcome and remove duplication. It is sensible to simplify the FCA's remuneration rules in SYSC 19D by cross referring to the relevant part of the PRA Rulebook. The changes to the structure of the FCA's related remuneration guidance are also appropriate, as is the proposal to exempt small dual regulated firms from the rule on buy-outs within SYSC 19D.

Paragraph 2.13 states that if the FCA takes a different policy approach to the PRA on the dual-regulated firms' remuneration rules in the future, it would remain open to the FCA to choose to consult on separate rules. We would urge the regulators to strive to be aligned on remuneration policy so as to avoid uncertainty for firms and unnecessarily burdening firms in the form of separate consultations on the same subject matter.

Identifying Material Risk Takers (MRTs)

The CP states that the regulators consider that the current quantitative criteria used in identification of MRTs are not fit for purpose and disproportionate, as they apply equally to all firms irrespective of business models or remuneration levels. The BSA agrees with this assessment, as it can lead to a large number of individuals being identified as MRTs when in practice they may not materially impact the firm's risk profile.

The BSA supports the PRA's proposals to:

- Create a single quantitative threshold to identify MRTs, and where firms are expected to consider identifying as MRTs individuals within their 0.3% of highest earners.
- Remove the need for firms to seek regulatory approval to exclude from MRT categorisation individuals solely identified by the quantitative threshold.
- Enhance governance arrangements around MRT identification by increasing the role of employees in the MRT identification process.

In relation to the 0.3%, however, some members have suggested that further guidance on handling the situation where that calculation does not result in a "round" number of employees. It is helpful that this is an "expectation", and some worked examples and/or guidance may assist firms in implementing the new requirements.

Proportionality and MRTs

We agree that the current tiered system in relation to deferral and clawback is overly complex and can be costly for firms to operate in practice.

The BSA agrees with the PRA's proposals to:

- Raise the threshold below which firms may disapply certain remuneration rules to individuals who meet certain specified conditions.
- Raise the variable remuneration threshold from £500,000 to £660,000.
- Update the voiding provision threshold in line with the proposed new threshold.

Remuneration and Individual Accountability

The BSA is largely supportive of the PRA's proposals to:

- Introduce a rule and expectation that firms should consider adjusting the remuneration of accountable individuals up the management chain if there are adverse outcomes.
- Introduce a rule and expectation to ensure that senior management are accountable for their performance against PRA supervisory priorities.
- Clarify the expectations of firms' Remuneration Committees in managing adverse risk events.

The BSA does, however have a number of concerns and comments regarding the proposals in this part of the CP.

Firstly, the CP states refers to "situations where it is reasonable that MRTs, by virtue of their role or seniority, could be held responsible for risk events or for failings or weaknesses in relation to risk events". The use of the word "reasonable" in this scenario causes us some concern given the range of interpretations and the legal implications of its use. Reasonable by whose standards? How does the PRA intend to interpret this in a proportionate manner in supervising firms? We think a somewhat tighter definition or guidance around what might be considered reasonable would be beneficial.

The PRA proposes that material or urgent actions requested in a PSM letter should be reflected in a Senior Manager's Statement of Responsibilities. While we understand the rationale for this, we are concerned that this could lead to increased costs for firms and/or excessive layers of governance implementing PSM actions.

Deferral and Retention Periods

The BSA supports the deferral proposals to:

- Reduce the 7 year minimum deferral period currently applicable to certain SMFs so that in the case of a non-SMF MRT, variable remuneration awarded should be deferred for 4 years minimum and in the case of a PRA SMF for 5 years.
- Change vesting requirements from the current approach where for certain SMFs vesting starts no earlier than 3 years from the time of the award to a regime where deferred awards vest no faster than on a pro rata basis for SMFs from the time of award.
- Make clear that firms are not expected to set a retention period for deferred instruments.
- Set out their expectation that firms may pay interest or dividends on deferred instrument.

Conclusion

The BSA welcomes this consultation and what it aims to achieve.