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## **Strengthening the alignment between risk and reward: remuneration rules for the banking sector**

### **Financial Conduct Authority (FCA)**

**RPC rating: validated**

#### **Description of the measure**

The Parliamentary Commission on Banking Standards (PCBS) considers and reports on the professional standards and culture of the UK banking sector. Its remit covers reporting on corporate governance, remuneration and conflicts of interest within the sector. The PCBS has recommended changes to the Remuneration Code to address identified weaknesses in the alignment of risk and reward. Specifically, the Financial Conduct Authority (FCA) has made changes to three remuneration policies within the code relating to deferral periods, clawback and extending the terms of government intervention.

#### **Impacts of the measure**

The FCA states that the new rules on remuneration will impact on UK banks, building societies and dual-regulated investment firms. The assessment states that 285 firms (240 banks/investment firms and 45 building societies) will be affected by compliance costs which have been identified as being one off and ongoing costs of £29.13 million and £1.52 million respectively. These cost estimates have been derived by means of a series of structured interviews with a sample of firms and extrapolated to provide a total cost estimate for the industry as a whole. Costs have been split into groups of fixed and variable costs such as familiarisation and setting up data recording systems for the former, and training, monitoring and reporting within the latter group. The assessment then further discusses how the groups of cost apply to the three remuneration policies.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £4.7 million. This will be a qualifying regulatory provision that will score under the business impact target.

## Quality of submission

The FCA has consulted industry and the assessment provides a clear breakdown of the one off and ongoing costs of compliance from each of the three policies and how they affect both large and small firms within the sector. The FCA has supported the estimates by use of a series of interviews to clearly identify the types of compliance costs expected to impact on businesses. To further support its estimates, the FCA has provided a link to its full cost benefit analysis (CBA) for the measure. While this is welcome and provides sufficient detail to validate the costs, the assessment would have benefited from containing a more detailed summary of the CBA to ensure that readers have a more complete picture of the costs and estimates without the need to cross refer to other documents. In particular, it would have been helpful if the IA had included a brief summary of the intended benefits of the measure.

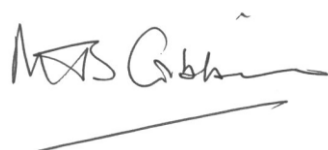
The summary for the economic rationale presented in this IA is especially well set out, giving both the political and the economic drivers for the problem briefly and clearly.

## Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£4.7 million
Business net present value	-£42.2 million

## RPC assessment

Classification	Qualifying regulatory provision (IN)
EANDCB – RPC validated <sup>1</sup>	£4.7 million
Business Impact Target (BIT) Score <sup>1</sup>	£23.5 million



<sup>1</sup> For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.

Opinion: EANDCB validation  
Origin: Domestic  
RPC reference number: RPC17-FCA-3602(1)  
Date of implementation: January 2016

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**Michael Gibbons CBE**, Chairman