

Chapter 12 Regulating the governance, structures, and incentives at banks

12.4.3 Malus and clawback

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Insert the following after s.12.4.3:

'12.4.3A Proportional Application to Banks in the UK

The PRA has at the end of 2020 introduced proportional application of remuneration regulation to UK banks¹ so that only banks with an average total asset value of £50 billion for the relevant time period would be subject to the full regulatory requirements.

There are three tiers of banks classified by asset values for the proportional application of remuneration regulation. Tier one comprises banks with an average total asset value of £50 billion and above, to which full remuneration regulation would apply. Tier two banks are those with average asset values between £13 and £50 billion and would enjoy an extent of relaxation from the application of the most prescriptive requirements such as: the composition of instruments in variable remuneration and proportion of deferred variable remuneration. Tier two banks are however expected to institute a remuneration committee on the Board for general oversight.

Tier three banks are those with less than £13 billion in average asset values and would be allowed flexibility in determining their remuneration policies broadly in line with the principles for sound remuneration. They are not held to specific requirements on the ratio between fixed and variable remuneration, the structures of variable remuneration, and the specification of remuneration design policies and performance criteria. Further, proportional application also means that the periods of time for the application of malus and clawback for lower tier banks are proportionally reduced. Proportional application may be helpful for smaller banks to avoid compliance cost, and also allows them to design remuneration policies to attract talent. This may be useful for challenger banks in the UK.'

12.4.4 Reporting requirements

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In the paragraph beginning 'Box 12.12... end of sentence', insert the following at end of sentence:

¹ PRA, *Remuneration* (Dec 2020), <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2020/ss217-update-dec-2020.pdf?la=en&hash=599ABA518184E3F842275E766FD69969FD419C68>.

'The PRA has however introduced proportional application of remuneration regulation to UK banks as discussed above. Hence, reporting requirements are also proportionally applied to the banks classified in different tiers as discussed.'