



Financial Services Reward – August 2021

We have summarised below key reward regulatory developments impacting firms in the financial services sector over the past quarter.

Key reward regulatory developments in the UK

FCA letter to Remuneration Committee Chairs of Level 1 banks

Overview: On 3 August 2021, the Financial Conduct Authority (FCA) issued its annual letter to the Remuneration Committee Chairs of Level 1 banks.

Firms in scope: UK regulated Level 1 banks, but the letter is helpful for other firms to note as it sets out the FCA's current expectations and areas of focus in relation to remuneration.

Further details: The FCA highlights the key areas that it expects the Remuneration Committee Chairs to consider:

- **Remuneration policies** – The FCA notes that the role of the Remuneration Committee Chair remains critical to ensuring that the firm's remuneration policies and approach to paying variable remuneration adapt and evolve in the continuing context of the pandemic. Remuneration Committee Chairs should remain satisfied that the firm's remuneration policies are aligned with its purpose, business strategy and values

and incentivise the right behaviours.

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

- Non-financial measures** – The FCA notes that Remuneration Committee Chairs have a crucial role in ensuring that the firm’s remuneration policy supports and connects remuneration outcomes to its strategic priorities, purpose and values. The FCA notes that it has observed firms redefining their purpose to support the issues that are important to them and in the context of Environmental, Social and Governance (ESG) issues, particularly the ‘social’ element. The FCA highlights that it expects to see more firms using non-financial measures in scorecards to support ESG factors.
- Diversity and inclusion** – The FCA considers that increasing workforce diversity and fostering an inclusive environment, where every member of staff is valued for their contributions, are key elements of a healthy culture within a firm. The FCA recognises the steps that firms have already taken to embed diversity and inclusion but emphasises that there is much more that needs to be done, noting the publication of the recent Discussion Paper on this subject (see the update below). The FCA urges Remuneration Committee Chairs to review pay data across all protected characteristics and to act swiftly to address any disparities.
- International work** – The FCA flags that it will 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. The FCA notes that, in April 2021, the FSB published a Peer Review which assessed the steps taken to implement the FSB Principles and Implementation Standards on remuneration in the UK. The FCA notes that firms may find it useful to consider whether there are any points from this Report that could be incorporated into their remuneration policies and practices.
- RPS Submission** - In line with last year, the FCA expects Level 1 firms to submit with their Remuneration Policy Statement an explanation of how the Remuneration Committee Chairs have assured themselves that their firm’s

overall remuneration policies support the firm’s purposes and strategy and incentivise the right behaviours, and how the firm will consider the continuing impact of COVID-19 when making variable remuneration decisions.



The FCA letter to Remuneration Committee Chairs of Level 1 banks can be found [here](#).

FCA proposals to amend the UK Listing Rules to incorporate new diversity disclosure requirements

Overview: On 28 July 2021, the FCA published new proposals in its Consultation Paper (CP21/24) to require UK listed companies to disclose annually, on a comply or explain basis, whether they meet specific board diversity targets and to publish diversity data on their boards and executive management.

This is a further example of the FCA’s on-going focus on diversity, as evidenced in the letter to Remuneration Committee Chairs of Level 1 banks and the recent Discussion Paper which explores how to promote diversity and inclusion across financial services as a sector (see further update below).

Firms in scope: UK and overseas companies that have equity securities admitted to listing or trading on a regulated market in the UK.

Timing: Responses to the Consultation are requested by 20 October 2021.

Further details: The FCA is proposing to amend the Listing Rules to require, as an on-going listing obligation, listed companies to disclose publicly in their annual financial report on a ‘comply or explain’ basis whether they meet the following board diversity targets:

- At least 40% of the board should be women (including those self-identifying as women).
- At least one of the senior board positions (Chair, Chief Executive Officer, Senior Independent Director or Chief Financial Officer) should be a woman (including those self-identifying as a woman).
- At least one member of the board should be from a non-White ethnic

minority background (as referenced in categories recommended by the Office for National Statistics).

The FCA considers that its proposed approach would allow companies the flexibility to provide relevant context on their approach to board diversity, whether or not these targets are met.

Alongside the ‘narrative’ comply or explain disclosure, the FCA is also proposing to require such companies to publish data in their annual financial report on the composition of their board and the most senior level of executive management by gender and ethnicity, as of a specified date during their accounting year. This would be produced in a standardised table format, as set out in the Consultation Paper.

The FCA is also seeking views on whether, in the future, it should require data on representation by sexual orientation at these levels, and/or whether to extend the diversity data reporting to capture one level below executive-level management.

To encourage a broader consideration of diversity at board level, the FCA is also proposing to amend the current DTR requirement for in-scope companies to disclose in their corporate governance statement the diversity policy applied to their board (where such a policy is applied), or to explain where no such diversity policy is applied. Under the proposed change, this requirement would be amended to indicate that this disclosure should also include how any diversity policies apply to the key committees of the board, specifically the committees on remuneration, audit and nominations, and to clarify that the aspects of diversity to which the diversity policy may relate could include, for example, ethnicity, sexual orientation, disability and socio-economic background (in addition to the aspects of diversity already referred to in the current rule).

The FCA is also proposing a separate guidance provision to encourage companies, where appropriate, to add numerical data on the diversity of board members and the committees referred to above in their description of the results in the reporting period, although the FCA is not, for now, proposing board-level targets or specific data disclosures on other aspects of diversity.



A link to the FCA's Consultation Paper can be found [here](#).

FCA Policy Statement – Implementation of the UK Investment Firms Prudential Regime

Overview: On 26 July 2021, the FCA published its Policy Statement (PS21/9) relating to the implementation of the Investment Firms Prudential Regime (IFPR), which sets out its near-final remuneration rules for investment firms.

Firms in scope: Any MIFID investment firm authorised and regulated by the FCA that is currently subject to any part of the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), including BIPRU and IFPRU firms, specialist commodities dealers, oil and energy market participants. These rules will also affect Collective Portfolio Management Investment Firms (CPMIs) and regulated and unregulated holding companies of groups that contain an investment firm authorised and regulated by the FCA and that is currently authorised under MiFID and/or a CPMI.

Timing: The new remuneration rules will come into effect for remuneration awarded in relation to performance years starting on or after 1 January 2022.



A link to our summary on the IFPR remuneration rules can be found [here](#).



A link to the FCA's Policy Statement can be found [here](#).



On 6 August 2021, the FCA published its third Consultation Paper on the IFPR, setting out its proposals relating to public remuneration disclosures (see our separate alert and a link to the Consultation Paper [here](#)).

Confirmation on the PRA's approach to Material Risk Taker identification and exclusions, and publication of updated Remuneration Policy Statement templates

Overview: Through a number of recent publications, the Prudential Regulation Authority (PRA) has provided confirmation on the following:

- Its expectations in relation to the identification of Material Risk Takers (MRTs), with reference to both the Regulatory Technical Standards (RTS) on MRT identification under CRD IV and the new draft RTS on MRT identification under CRD V, in a statement published on 25 May 2021.
- The approach that firms should take in relation to MRT exclusions in light of the above, as set out in guidance published on 23 July 2021.
- The new Remuneration Policy Statements (RPS) templates and tables for firms to use to record their remuneration policies, practices and procedures for performance years starting on or after 29 December 2020, as published on 26 July 2021.

Firms in scope: UK regulated banks, building societies and PRA-designated investment firms subject to the CRD.

Timing: For the 2021 performance year only, the PRA has granted an extension to firms with a fiscal year-end of 31 December, allowing these firms to submit their RPS questionnaire and other Stage 1 and Stage 2 submissions by 30 September 2021.

Further details: Identification of MRTs

In its statement on 25 May 2021, the PRA notes that it intends to consult on updating the UK rules and guidance to reflect its position on MRT identification later this year. Until the UK remuneration rules and guidance are updated, the PRA has

confirmed to UK firms that:

- The previous CRD IV RTS on MRT identification continues to apply (together with the technical changes made to it as part of the Brexit onshoring process) and is binding in its entirety. As such, the PRA expects UK firms to continue to comply with it.
- The PRA also expects firms to apply the revised draft CRD V RTS on MRT identification (as published by the European Banking Authority (EBA) in June 2020) for the purposes of identifying MRTs.
- The PRA notes that, where an individual would be identified under the CRD IV RTS but not under the draft CRD V RTS, it may be possible to exclude this individual as an MRT if the firm is comfortable that the individual does not undertake activities that may impact the risk profile of the firm, taking into account the additional internal identification criteria applied by the firm.



Please see our separate alert [here](#) containing further detail on this statement.



A link to the PRA's statement can be found [here](#).

Approach to MRT exclusions

The PRA has published new guidance on the process for excluding as MRTs individuals who meet the relevant quantitative criteria under the EBA's draft RTS on MRT identification under CRD V. This is applicable where the individual has been awarded in or for the preceding financial year total remuneration that is equal to or greater than EUR 750,000, or (where the firm has over 1,000 members of staff) the individual was within the 0.3% highest earners, but in either case is deemed not to have a material impact on the firm's risk profile.

The exclusion of such employees requires PRA approval in the form of a rule waiver or modification under Section 138A of the Financial Services and Markets Act 2000 (FSMA 2000). The PRA has published a draft direction and firms that wish to

apply for this modification are advised to read the direction, guidelines, and contact their supervisory contacts and the PRA's Authorisations Division with their request.

The PRA notes that such a request should be supported by sufficient evidence that the employees' circumstances meet the conditions set out in Article 7 and highlights that firms may use the updated RPS template Table 8 (see below) to do so. If the employee's total remuneration is above €1 million, the firm should provide adequate information that describes how the employee's circumstances are appropriately exceptional so as not to constitute an MRT.

The PRA notes that it will review such requests on a case-by-case basis and will confirm in writing whether the request has been granted. The PRA also notes that the approved modification direction will also be published on the Financial Services Register, though will not include personal details of the employees in respect of whom the modification applies.

The PRA's guidance confirms that, where granted, the modification has effect in respect of the relevant performance year. A new application is required for each performance year.



The PRA's updated webpage on waivers and modifications can be found [here](#).



The PRA's draft direction and further guidance for firms on the information to be provided to the PRA when applying for this modification can be found [here](#) and [here](#) respectively.

As set out in the updated RPS templates (see further below), firms will still be required to notify the PRA of their intention to exclude as MRTs individuals who received in the previous financial year remuneration equal to or greater than EUR500,000, as was required under the RTS on MRT identification under CRD IV (but is not required under the new RTS on MRT identification under CRD V). As such, firms will still be required to submit Table 8b to the PRA albeit a 'slimmed down'

version with only high-level information required (see below for further details).

Publication of updated RPS templates and tables

The latest RPS tables have been updated to reflect changes made to the Remuneration Part of the PRA Rulebook following the introduction of CRD V and are relevant for performance years starting on or after 29 December 2020.



The updated RPS templates include the Stage 1 submissions (namely, the RPS questionnaire and tables on MRT Identification and Exclusions (Tables 1a, 2, 8a and 8b)) and can be found [here](#).

The PRA notes that the remaining RPS templates will be published in November 2021.

PRA correction to the definition of 'higher paid Material Risk Taker'

Overview: On 21 July 2021, the PRA published a Policy Statement (PS18/21) setting out its final policy for the correction of an error in the definition of 'higher paid Material Risk Taker' in the Remuneration Part of the PRA Rulebook. This followed the Consultation Paper published in April 2021, and the Policy Statement also includes feedback on the responses received.

Firms in scope: UK regulated banks, building societies and PRA-designated investment firms subject to the CRD.

Timing: The amended rules and guidance took effect on 23 July 2021. As proposed in the Consultation Paper, in order to avoid retroactive application of the amended definition, the PRA has confirmed that firms will not be required to apply the corrected definition in relation to remuneration payable in respect of the first performance year beginning on or after 29 December 2020 that has been paid, vested, or is subject to an obligation to pay or vest created, before 23 July 2021.

Further details: The definition of 'higher paid Material Risk Taker' is relevant to determining the minimum deferral and clawback periods applicable to MRTs under the amended CRD V remuneration rules in the UK.

The Policy Statement confirms the PRA's intentions for a 'higher paid Material Risk Taker' to be defined as either an individual (a) whose annual variable remuneration exceeds 33% of their total remuneration, or (b) whose total remuneration exceeds £500,000. This had previously been an 'and' test in the PRA's rules.



A link to the full Policy Statement can be found [here](#).

PRA Policy Statement – Implementation of Basel standards

Overview: On 9 July 2021, the PRA published a Policy Statement (PS17/21) setting out its near-final policy, guidance and rules on the UK implementation of elements of the Basel III rules. The Policy Statement, along with the Disclosure Part of the PRA Rulebook and the supporting reporting templates and instructions, contains the PRA's prescribed approach for the disclosure of remuneration policy, corresponding with Article 450 of the Capital Requirements Regulation (CRR II), including both qualitative and quantitative disclosure aspects.

Firms in scope: UK banks, building societies, and PRA-designated investment firms, as well as UK financial holding companies (FHCs) and UK mixed financial holding companies (MFHCs) of certain PRA-authorized firms.

Timing: The material in the Policy Statement is published as near-final, with no further changes or significant alterations expected. The PRA expects to publish the final rules in a subsequent Policy Statement, after HM Treasury has laid the Statutory Instrument to delete the relevant parts of the CRR that these near-final rules will replace, with the result that these rules will take effect at the same time as HM Treasury's revocation of the relevant parts of the CRR on 1 January 2022.

Further details: The PRA is introducing disclosure rules through a new Disclosure Part of the PRA Rulebook, as well as supporting amendments to supervisory guidance, in order to align UK Pillar 3 disclosure requirements with Basel III disclosure standards, as well as enhance market transparency in additional areas, including in relation to remuneration policy. This follows the PRA's Consultation Paper published in February 2021 in which the PRA noted its view that it is important for the UK to be aligned to international standards on disclosure, in the form prescribed by the Basel disclosure framework.

Links to the remuneration-related aspects of the disclosure framework can be found at the links below:

- PRA Rulebook (CRR) Instrument 2021, including rules for the disclosure of remuneration policy in accordance with Article 450 of CRR II – [here](#).
- Annex XXXIII containing templates for the disclosure of remuneration policy – [here](#).
- Annex XXXIV setting out instructions for the disclosure of remuneration policy templates – [here](#).

In relation to remuneration policy disclosures, the PRA's prescribed approach is aligned with the Pillar 3 disclosure framework set out in the EBA's Implementing Technical Standards on institutions' public disclosures under CRR II, which reflect the Basel Committee on Banking Supervision (BCBS) revised Pillar 3 disclosure framework and cover the wide range of Pillar 3 disclosure obligations, including in relation to remuneration (see Article 17 and Annexes XXXIII and XXXIV).

The ITS as published in the EU's Official Journal can be found [here](#).

PRA, FCA and Bank of England set out plan to improve diversity and inclusion in the financial services sector

Overview: On 7 July 2021, the PRA, FCA and Bank of England published a Discussion Paper (DP21/2) on their plans to improve diversity and inclusion in the financial services sector as a whole.

Firms in scope: The regulators' work and ambitions on diversity and inclusion apply to all firms across the whole financial services sector. This includes dual-regulated banks, building societies, designated investment firms, credit unions and insurance firms or those firms regulated solely by the FCA, including payment services and e money firms, credit rating agencies and recognised investment exchanges regulated by the FCA. It also includes financial market infrastructure firms (FMIs) regulated by the Bank of England.

The Paper notes the regulators' belief that the issues covered are also relevant to small firms (e.g. credit unions, small intermediaries, small payments firms, small insurers and other small firms) and overseas firms operating in the UK (e.g. through branches), and that any future policy development will consider the nature of these firms' business models.

Timing: The Paper asks for views, including responses to questions, by 30 September 2021. Taking into account feedback to the Paper, the PRA and FCA intend to consult on more detailed proposals in Q1 2022, followed by a Policy Statement in Q3 2022.

Given the different legal and supervisory frameworks for FMIs, the Bank of England will separately consider how to develop proposals to promote diversity and inclusion for these firms.

Further details: The Paper outlines a number of policy initiatives that the regulators consider could be effective for driving and supporting change and encouraging firms to improve diversity and inclusion, including linking progress on diversity and inclusion to remuneration.

The Paper also sets out the regulators' thinking on the collection and reporting of diversity data, including plans for a one-off,

voluntary pilot data survey this autumn, which would enable firms, regulators and other stakeholders to get a better understanding of diversity and inclusion in the financial services sector.

Our more detailed alert in relation to the key proposals can be found [here](#).

A link to the full Discussion Paper can be found [here](#).

Key reward regulatory developments at an EU level

ESMA consults on draft MiFID II remuneration guidelines

Overview: On 19 July 2021, the European Securities and Markets Authority (ESMA) launched a consultation on draft guidelines on certain aspects of the MiFID II remuneration requirements. The purpose of the draft guidelines is to enhance clarity and foster convergence in the implementation of certain aspects of the MiFID II remuneration requirements, replacing the existing ESMA guidelines on the same topic issued in 2013.

Firms in scope: EU investment firms and credit institutions providing investment services/activities and selling structured deposits, as well as EU UCITS management companies and external Alternative Investment Fund Managers (AIFMs) when providing investment services and activities in accordance with the UCITS Directive and the AIFMD.

Timing: ESMA will consider all comments received by 19 October 2021. ESMA will consider the responses received and is expected to publish a final report, and final guidelines, by end of Q1 2022.

Further details: ESMA has built upon the text of the 2013 guidelines, which have been substantially maintained (albeit clarified, refined and supplemented where necessary).

The draft guidelines address the following areas: (i) Design of remuneration policies and practices; (ii) Governance; (iii) Controlling risks that remuneration policies and practices create.

A few key changes set out in the draft guidelines include:

- The new guidelines expressly introduce the principle of ex-post risk adjustment of variable remuneration, a principle which had previously been contained within the “good practices” identified in the 2013 guidelines. The draft guidelines state that firms should consider including ex-post adjustment criteria in their remuneration policies and practices, thereby further aligning the interests of the firm and of relevant persons with that of clients, by adjusting variable remuneration if there is poor staff performance (for instance, misconduct) after the remuneration has been awarded or paid-out.
- Further emphasis has also been placed on the remuneration policies and practices for control functions, including that “the variable part of the remuneration of staff in control functions, if any, should not be linked to quantitative commercial performance of relevant persons whose remuneration they are in charge of designing and/or controlling”.
- The draft Guidelines also highlight that the structure of the remuneration of members of the firm’s management body and senior management, as well as the criteria used to assess performance, should not create conflicts of interest or incentives that may lead members of the management body or senior management or relevant persons to favour their own interests or the firm’s interests to the potential detriment of any client.
- In relation to the periodic review of a firm’s remuneration policy, the guidelines have been further expanded to stress that the remuneration policy should be reviewed (and amended, if necessary) upon the occurrence of certain ad hoc events, including changes to the business activities or structure of the firm, if the remuneration policy does not operate as intended or if there is a residual risk of detriment to the firm’s clients.

ESMA expects these guidelines to promote greater convergence in the interpretation of, and supervisory approaches to, the remuneration requirements contained within MiFID II, as well as the MiFID II

conflicts of interest and conduct of business requirements in the area of remuneration.



A link to the full consultation paper can be found [here](#).

Updated EBA Guidelines on sound remuneration policies under CRD V

Overview: On 2 July 2021, the EBA published its updated Guidelines on sound remuneration policies under CRD V.

Firms in scope: Credit institutions and large investment firms which are subject to CRD V and CRR II in the EU.

For UK firms, the UK regulators have indicated that they will consider whether to amend current UK regulatory guidance in light of the updated EBA Guidelines. However, until such time as this guidance may be updated, UK firms should continue to comply with the current EBA Guidelines on sound remuneration policies.

Timing: The updated Guidelines will take effect on 31 December 2021, six months later than the originally anticipated date of 26 June 2021. The current EBA Guidelines will be repealed with effect from this date.

Further details: The key changes to the updated EBA Guidelines predominantly fall into two categories: (a) provisions in relation to which the EBA has taken the opportunity to develop and clarify its expectations; and (b) the changes being introduced as a result of the amendments under CRD V.



Our more detailed alert in relation to the updated Guidelines can be found [here](#).



A link to the amended Guidelines can be found [here](#).

EBA’s Report on the management and supervision of ESG risks

Overview: On 23 June 2021, the EBA published a Report (EBA/REP/2021/18) on the management and supervision of environmental, social and governance (ESG) risks for credit institutions and investment firms, with an accompanying factsheet. The Report provides a comprehensive proposal on how ESG factors and ESG risks should be included in the regulatory and supervisory framework for credit institutions and investment firms and follows the Discussion Paper published by the EBA on this topic in November 2020.

Firms in scope: Credit institutions and large investment firms which are subject to CRD V and CRR II in the EU.

Timing: The EBA was required to submit its report to the European Parliament, the European Council and the European Commission by 28 June 2021. The EBA will use the Report and recommendations to develop guidelines on the management of ESG risks by institutions and update the Supervisory Review and Evaluation Process (SREP) guidelines to include ESG risks in the supervision of credit institutions.

Further details: The EBA expects firms to evaluate how to account for ESG risks when setting their remuneration policies, particularly in relation to MRTs (although acknowledging the relevance of ESG risks in relation to all staff).

The EBA notes that aligning remuneration policy with a firm’s ESG objectives (for example, the long-term resilience of the firm’s business strategy under ESG considerations and risk appetite) is important for avoiding conflicts of interest when business decisions are taken. The EBA notes that remuneration policies that give the right incentives to staff members to favour decisions in line with the firm’s ESG risk-related strategy should facilitate the implementation of ESG risk-related objectives and/or limits, as the staff members would benefit from meeting these (long-term) targets (e.g. in the context of green credit granting or reducing exposures that are highly affected by transition risk).

The impact of remuneration policies on the achievement of ESG objectives may be especially relevant when it comes to the variable pay of staff who have responsibilities for defining and implementing ESG-related strategy, by linking their variable remuneration to the successful achievement of those ESG objectives.

The EBA notes that local supervisors should, on a proportionate basis, incorporate ESG risk-specific considerations into their assessment of firms' internal governance and controls, including monitoring how ESG factors and risks are incorporated into the firm's remuneration policies and practices, as well as the firm's overall internal governance framework, the functioning of the management body, the corporate and risk culture, risk management framework and information systems and internal control framework.

Annex 1 to the Report sets out a non-exhaustive list of ESG factors, indicators and metrics that firms can consider.



The full report can be found [here](#).
The factsheet can be found [here](#).

Final Regulatory Technical Standards on identifying Material Risk Takers under CRD V published in the EU's Official Journal

Overview: On 9 June 2021, the final RTS on the criteria to identify categories of staff whose professional activities have a material impact on a firm's risk profile under CRD V were published in the EU's Official Journal.

Firms in scope: Credit institutions and large investment firms which are subject to CRD V and the CRR II in the EU.

Timing: The final CRD V RTS took effect on 14 June 2021 (the fifth day following its publication in the EU's Official Journal).

Further details: The provisions in the final CRD V RTS are as approved by the European Commission in March 2021, and substantively reflect the provisions published by the EBA on 18 June 2020.



Our more detailed alerts on these developments can be found [here](#) and [here](#) respectively).

Other than for UK firms (see our update above), the previous CRD IV RTS was repealed when the new CRD V RTS took effect. For firms with operations in EU jurisdictions, there remains some uncertainty in some EU jurisdictions regarding the first performance year in relation to which firms will be expected to apply the new criteria.



A link to the final CRD V RTS in the EU's Official Journal can be found [here](#).

Other developments to note

ECB publishes Recommendation to not extend the restrictions on dividends

Overview: On 23 July 2021, the European Central Bank (ECB) published a Recommendation (ECB/2021/31) that repeals its previous Recommendation (ECB/2020/35) restricting banks' dividend distribution during the COVID-19 pandemic. While the Recommendation focuses on dividends, the ECB makes clear that it expects firms' remuneration policies to continue to be prudent and take into account the soundness of the firm's capital base.

Firms in scope: Significant institutions supervised by the ECB under the CRD.

Timing: In March 2020, the ECB asked banks not to pay dividends with the aim of boosting their capacity to absorb losses and to support lending to households, small businesses and corporates during the COVID-19 pandemic. A similar recommendation was repeated in July of that year, while in December, the ECB recommended that banks limit their dividend payments. The same applied to share buy-backs.

The current Recommendation on dividends is due to expire on 30 September 2021 and the ECB has decided to not extend the restrictions beyond this date. Instead, supervisors will return to the pre-pandemic assessment of individual banks as part of the regular supervisory process.

Further details: This Recommendation follows a number of updates since the start of the global COVID-19 pandemic on the prohibition of dividends and share buy-backs, as well as the expectation that significant firms should adopt "extreme moderation" with regards to variable pay arrangements. While the latest statement removes the prohibitions that have been in place, the ECB still expects firms to remain prudent and not underestimate credit risk when determining dividend distributions and share buy-backs.

While the Recommendation focusses on dividends and share buy-backs, the accompanying press release makes clear that the ECB still expects banks to adopt a "prudent and forward-looking approach" when determining remuneration outcomes. Further, the ECB intends to continue to assess firms' remuneration policies and the impact that they may have on the bank's ability to maintain a sound capital base.



A link to the Recommendation can be found [here](#) and accompanying press release [here](#).

PRA publishes Recommendation to not extend the restrictions on dividends

Overview: The PRA published on 13 July 2021 a statement updating its previous position published on 10 December 2020 relating to capital distributions by large UK banks, by removing the "guard-rails" that it set in relation to distributions to ordinary shareholders.

Firms in scope: The largest UK deposit-takers (Barclays, HSBC, Lloyds Banking Group, NatWest, Santander UK and Standard Chartered).

Timing: The PRA's updated position had immediate effect from its publication on 13 July 2021.

Further details: The PRA has reviewed its approach to shareholder distributions, noting that it has paid particular attention to developments in, and uncertainty around, the economic outlook, including the evolution of the COVID-19 pandemic and policies to mitigate the health impact (most notably, vaccination programmes), as well as banks' capital positions and

trajectories, drawing on the interim results of the 2021 solvency stress test (SST).

Taking into account the interim results of the 2021 SST, the PRA judges that banks remain well capitalised and resilient to outcomes for the economy that are much more severe than the Monetary Policy Committee's central forecast, and that they should therefore be able to support households and businesses through the economic recovery. In addition, although considerable uncertainty remains, the level of uncertainty has decreased significantly since December 2020, in particular due to the progress of vaccination programmes.

The PRA has therefore concluded that the extraordinary guardrails within which it asked bank boards to determine the appropriate level of distributions in relation to full-year 2020 results are no longer necessary and have been removed with immediate effect.

This is consistent with the PRA's intention, as set out in its 10 December 2020 statement, to transition back to its standard approach to capital-setting and shareholder distributions through 2021. Under this framework, bank boards are responsible for making distribution decisions subject to the standard constraints of the regulatory framework, including the regular annual stress test. The full and final results of the 2021 SST, including bank-specific outcomes, will be published in 2021 Q4. In the meantime, the PRA considers it essential that banks continue to support households and businesses through the economic recovery and as the Government's support measures unwind over the coming months, including in the event that economic outcomes are more severe than currently expected. Bank boards should therefore continue to exercise an appropriate degree of caution around the level of any shareholder distributions.



A link to the PRA's statement can be found [here](#).

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