

Chair, Remuneration Committee

22 July 2020

Dear [Chair of the Remuneration Committee]

I am writing to set out our findings and observations from the 2019/20 remuneration round and how we plan to assess your firm's remuneration policies and practices throughout 2020/21.

Culture in financial services remains a key area of focus for the FCA across all sectors. The coronavirus (Covid-19) pandemic has changed our world and the way that we work in an extraordinarily short time and will continue to do so. These changes bring with them great challenges and risks for firms as they adapt to the circumstances that customers find themselves in. Risks can also manifest themselves through changes to people's behaviour as we adapt to different ways of working. You, as chair of the remuneration committee, have a crucial role and responsibility in addressing those challenges.

We see a risk that firms may deprioritise their focus on culture as they redirect resources in response to the immediate risks presented by current events and on a longer-term basis as a result of the crisis. But a continued focus on maintaining healthy cultures and driving the right behaviours during times of uncertainty can reduce the potential for harm, as well as make firms more resilient and contribute to long-term success. So it is important that firms and their leaders continue to focus on their organisational culture.

As important drivers of culture, firms' remuneration and recognition practices remain areas of key importance to us as we continue to assess the extent to which firms' approaches to rewarding and incentivising all staff promote healthy cultures and minimise harm.

Your firm's approach to diversity and inclusion is also an important part of a healthy culture and you should both assess the extent to which your firm's remuneration policies positively promote diversity and inclusion across all protected characteristics and also take appropriate steps to address areas of weakness or concern.

Our findings for 2019/20 and future approach

During 2019/20, we continued to coordinate the annual remuneration review with the PRA. We focused on assessing the effectiveness of firms' incentives arrangements at driving the right behaviours, including those that lead to good market and customer outcomes. In line with previous years, we saw firms continuing to embed conduct in their remuneration policies and practices through performance assessment measures. These include conduct objectives

and responding to misconduct by adjusting variable remuneration. Our Supervisors will continue to assess how your firm's remuneration policies drive good conduct outcomes and your role, as chair of the remuneration committee, in delivering those outcomes.

In 2019/20 we also engaged with firms on how remuneration policies can positively influence approaches to diversity and inclusion. We found that firms understand the benefits of a diverse workforce and are moving towards long term goals. We expect firms to make material progress in achieving those goals to tackle inequalities and create an inclusive environment, including through your actions as chair of the remuneration committee.

Accountability

During this time of uncertainty and change, we expect you to ensure that your remuneration policies and practices remain aligned with your firm's long-term business plans, especially if these are under review or undergoing change, and continue to support and reinforce healthy cultures at your firm. Our supervisors will continue to assess how your policies may have evolved in response to the impact of Covid-19 including the impact on bonus pools and individual remuneration outcomes.

We will continue to ask you how you have satisfied yourself that your firm's remuneration policies reinforce healthy cultures at your firm and promote the right behaviours including in the context of the current environment. We expect you also to consider how your firm's remuneration policies promote equality of opportunity and to ensure that diversity and inclusion is embedded within your firm's approach to rewarding individuals, avoiding unconscious bias.

Ex-post risk adjustments

During the 2019/20 annual remuneration review, supervisors continued to focus on how firms had responded to major risk and performance issues including adjustments made to bonus pools and individual remuneration outcomes. We found in some cases that firms were slow in concluding their investigations and failed to demonstrate how they aligned levels of adjustment with what they knew about individuals' conduct.

We continue to expect you to oversee how your firm makes consistent and timely judgements on the level of adjustments made. Our supervisors will continue to engage with you as appropriate on your firm's response to any risk and performance issues.

Diversity and inclusion

As most businesses face uncertain times and different ways of working due to the current environment, firms should be aware of the risks that may have a negative impact on diverse and inclusive cultures. Your firm can make a positive difference by proactively recognising particular issues that some of your people may face and aim to take action where possible. This is the time to push forward with your diversity agenda, and build on the opportunities that a truly inclusive group of people brings.

Gender and BAME pay gaps provide a quantitative window into inequalities and we expect firms to consider the analysis from those reports and use them to address any inequalities. Your firm's approach to diversity and inclusion should seek to advance equality of opportunity between those people who share a protected characteristic under the Equality Act and those who do not.

Remuneration Policy Statement

In line with last year, please submit the following in addition to your Remuneration Policy Statement (RPS):

- 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.
- And an explanation of how you have assured yourself that your firm's overall remuneration policies drive behaviour that reduces potential harm. For example, how your firm's approach to remuneration is linked to behaviours that lead to good consumer and customer outcomes, how your firm will manage any impact on bonus pools and individual remuneration outcomes due to Covid-19 and how your firm's remuneration policies promote equality of opportunity, ensuring that diversity and inclusion is embedded within your firm's approach to rewarding individuals.

We will continue to coordinate our approach with the PRA. Our supervisors will continue to give you feedback at the most appropriate time during our engagement.

Yours sincerely

Executive Director of Supervision

Retail and Authorisations Division
Investment, Wholesale & Specialists Division

Cc: