



Monday 30 May 2022

Modification by consent to exclude from identification as material risk takers those employees who do not have a material impact on the firm's risk profile but whose total remuneration exceeds the quantitative criteria set out in Remuneration 3.3A of the Remuneration Part of the PRA Rulebook.

Overview

The application of the Remuneration Part of the Prudential Regulation Authority (PRA) Rulebook is required in relation to (among others) employees identified as material risk takers (MRTs). However, as explained in paragraph 3.31 of the Supervisory Statement 2/17: Remuneration (SS 2/17), firms can apply to exclude employees who meet the pay based criteria set out in Remuneration 3.3A but are considered 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. The PRA is offering a modification by consent for CRR firms to exclude employees from identification as MRTs in these circumstances.

Scope and implementation

This statement is relevant to all CRR firms seeking to exclude from identification as MRTs employees who meet the pay based criteria set out in Remuneration 3.3A but are considered not to have a material impact on the firm's risk profile. Where granted, the modification has effect in respect of the relevant performance year. A new application is required for each performance year.

In assessing applications for this modification by consent, the PRA will take into account in particular whether the professional activities of an employee identified solely by the criteria laid down in Remuneration 3.3A do not have a material impact on the firm's risk profile on the basis that either:

- (a) the employee only carries out professional activities and has authorities in a business unit that is not a 'material business unit'; or
- (b) the professional activities of the employee have no significant impact on the risk profile of a 'material business unit'.

This modification is not being offered in respect of employees who do not meet one of the conditions set out above. The PRA will consider any applications for waivers or modifications in respect of such employees on a case-by-case basis. An application for such a waiver or modification must be submitted using the standard waiver/modification procedure.

The application for this rule modification by consent should be supported by sufficient evidence that the employees' circumstances meet the conditions set out above. To this end, firms may use the appropriate Remuneration Policy Statement template.¹ If the employee's total remuneration is above £880,000, the firm should provide additional explanatory reasoning. In such cases, the PRA will in

¹ (Table 8 underneath 'Self-assessment templates and tables), Available at: <https://www.bankofengland.co.uk/prudential-regulation/key-initiatives/strengthening-accountability>.



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particular expect firms to be able to justify why the roles and responsibilities that support this level of remuneration do not correspond to a material impact on the firm's risk profile.

A copy of the direction for the modification by consent is available on the PRA's website.² If a firm wishes to take up this modification by consent, it should read the direction and contact their Supervisory contacts and the PRA's Authorisations division with a request for the modification.³ The PRA will confirm in writing whether the request has been granted and will publish the approved modification direction on the Financial Services Register.

The publication on the Financial Services Register will not include personal details of the employees in respect of whom the modification applies.

² Available at: <https://www.bankofengland.co.uk/prudential-regulation/authorisations/waivers-and-modifications-of-rules>.

³ Please email PRA-Waivers@bankofengland.co.uk.