

Supervisory Statement | LSS8/13

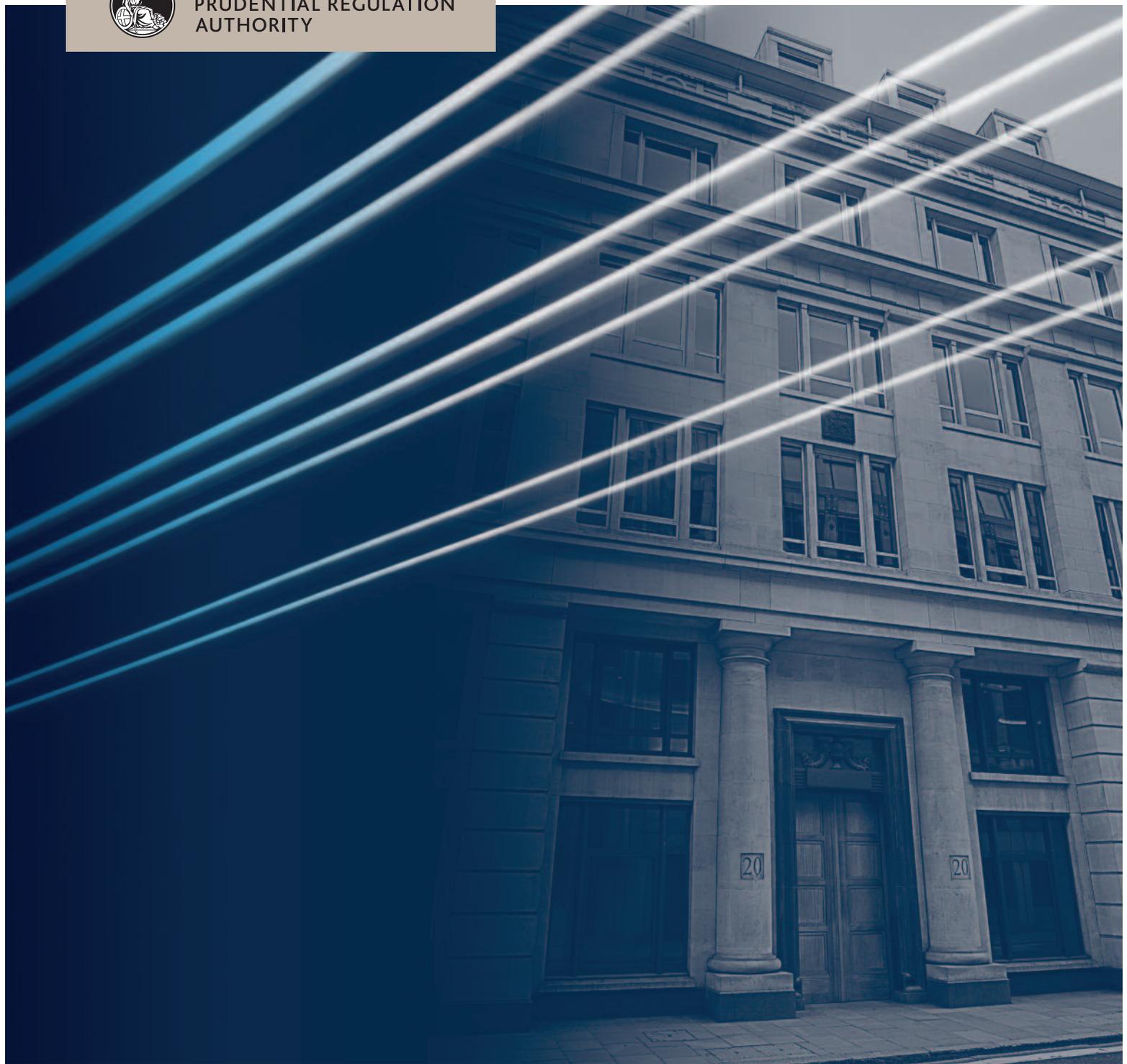
# Remuneration standards: the application of proportionality

April 2013

(Updated June 2015)



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY



12 April 2017 - this document has been superseded, see  
<http://www.bankofengland.co.uk/pr/Pages/publications/ss/2017/ss217.aspx>

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April 2013 (Updated June 2015)

From its commencement on 1 April 2013, the Prudential Regulation Authority (PRA) has adopted a number of legacy Financial Services Authority (FSA) policy publications relevant to the advancement of its objectives. This document, initially issued by the FSA, has been adopted by the PRA as a Supervisory Statement as part of this process. It has been updated in June 2015 upon the publication of the Remuneration Part in the PRA Rulebook. The PRA may choose to review this legacy publication at a later stage.

12 April 2017 - this document has been superseded, see  
<http://www.bankofengland.co.uk/prs/Pages/publications/ss/2017/ss217.aspx>

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12 April 2017 - this document has been superseded, see  
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## Part A: Introduction and interpretation

### Introduction

#### Status of guidance statement

1. This statement is general *guidance*. It relates both to:
  - (1) the Remuneration Part of the PRA Rulebook ('the Remuneration Part'); and
  - (2) the requirement to make disclosures in relation to *remuneration* (in accordance with Article 450 of the Capital Requirements Regulation (CRR)).
2. Paragraphs 14 and 15 make provision about the interpretation of this *guidance* statement. Expressions in italics bear either the meaning they are given in the table in paragraph 15 below, or the meaning they would have if they appeared in italics in the Remuneration Part.
3. This *guidance* statement has effect from 25 September 2012. The update to this guidance has effect from 23 June 2015.

#### Remuneration Part proportionality rule

4. The Remuneration Part proportionality rule is set out in Remuneration 5.1.
5. The Remuneration Part requires (among other things) a relevant firm to apply requirements in the Remuneration Part to *material risk-takers*. Remuneration 5.1 requires a relevant firm, when establishing and applying the total remuneration policies for *material risk-takers*, to comply with the Remuneration Part in a way and to the extent that is appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities.

#### Guidance on Remuneration Part proportionality rule

6. General *guidance* is given in relation to specific aspects of the rule in Remuneration 5.1 itself.<sup>(1)</sup>
7. Part D of this *guidance* statement provides additional general *guidance* in relation to the application of the Remuneration 5.1 to different types of *firm*.
8. Part E of this *guidance* statement provides additional general *guidance* in relation to the application of the Remuneration 5.1 to a *material risk-taker* who has, in relation to a given performance year, been a *material risk-taker* for only part of the year.
9. This guidance statement represents our guidance in a field where new requirements relating to remuneration are being implemented within the European Economic Area (EEA). We recognise this will be an evolving process, and intend to keep the guidance set out here under review.

#### Guidance on proportionality in relation to remuneration committees and remuneration disclosures

10. Remuneration 5.1 does not apply to the requirement to establish a *remuneration* committee or to make disclosures in relation to *remuneration* under *CRR*. But these requirements are governed by similar proportionality tests, on which *guidance* is given in Parts F and G of this guidance statement.

#### Individual guidance

11. We may give *guidance* to a *firm* in relation to Remuneration 5.1. Such *guidance* may relate to the application of Remuneration 5.1 by the firm generally or in specific areas.

#### Arrangement of guidance statement

12. This general guidance statement is divided into seven Parts:
  - (1) This Part, Part A: Introduction and interpretation.
  - (2) Part B: Proportionality levels.
  - (3) Part C: Division of firms into proportionality levels.
  - (4) Part D: Guidance to firms in particular proportionality levels.
  - (5) Part E: Guidance about part-year *material risk-takers*.
  - (6) Part F: Remuneration committees.
  - (7) Part G: Remuneration disclosures (under Article 450 of the *CRR*).
13. It is supplemented by two Appendices:
  - (1) Appendix 1: Supplemental guidance on dividing firms into proportionality levels.
  - (2) Appendix 2: disclosure requirements by proportionality level.

#### Interpretation

14. This *guidance* statement is to be interpreted as if it was an Annex to the Remuneration Part (other than Part G and Appendix 2, which are to be interpreted in accordance with the *CRR*). The Interpretation Part of the *PRA* Rulebook applies to the interpretation of this *guidance* statement.
15. In particular, an expression in italics has the meaning that expression would have if it appeared in the Remuneration Part. Save as otherwise indicated, this means it will have the meaning given in the part-specific glossary of the Remuneration Part, or the *PRA* Rulebook Glossary (Interpretation 2.2(1)). Where an expression in italics is not defined in the Glossary, nor in the part-specific

<sup>(1)</sup> The main *guidance* provision of relevance to the Remuneration Part proportionality rule is paragraph 4.1 in supervisory statement SS27/15, 'Remuneration'.

definitions in the Remuneration Part, it has the meaning given by the following table:

**Table A** Glossary of terms defined in this guidance statement

Defined expression	Definition
<i>group</i>	has the meaning given in the part-specific glossary of the Internal Capital Adequacy Assessment Part of the <i>PRA Rulebook</i> .
<i>proportionality level</i>	has the meaning given in paragraph 17, and references to <i>proportionality level one</i> etc are to be construed accordingly.
<i>relevant total assets</i>	has the meanings given in paragraph 24(3)(a).
<i>relevant date</i>	has the meanings given in paragraph 24(3)(b) below.
<i>Remuneration Part solo firm</i>	a <i>CRR firm</i> which is not part of a <i>group</i> containing one or more further <i>firms</i> subject to the Remuneration Part or to a remuneration code in the <i>FCA Handbook</i> .

## Part B: Proportionality levels

16. Remuneration 1 provides that the Remuneration Part applies to a *CRR firm* and a *third country CRR firm* (in the case of a third country CRR firm, in relation to the activities carried on from an establishment in the *United Kingdom*). This *guidance* applies to those firms.
17. This *guidance* statement provides for the division of *firms* to which the Remuneration Part applies into three categories:
- (1) *proportionality level one*;
  - (2) *proportionality level two*; and
  - (3) *proportionality level three*.
18. The process by which firms are divided into *proportionality levels* is provided in Part C (as supplemented by Appendix 1), and may also depend on individual *guidance*.
19. The *proportionality levels* provide a framework for the operation of Remuneration 5.1. Guidance is given to *firms* in different *proportionality levels* in Part D.
20. The *proportionality levels* are also used as the basis for *guidance* on separate proportionality tests which apply in relation to *remuneration* committees (Part F) and remuneration disclosures (Part G and Appendix 2).

## Part C: Process for dividing firms into proportionality levels

### Overview

21. This Part provides the process by which a *firm* to which the Remuneration Part applies should ascertain the *proportionality level* into which it falls. Appendix 1 provides supplementary *guidance* (including examples).

22. A *firm* to which the Remuneration Part applies, in order to ascertain its *proportionality level*, must first establish whether it is part of a *group* which contains one or more other *firms* subject to either the Remuneration Part of the *PRA Rulebook* or SYSC 19A of the *FCA Handbook*:

- (1) If the *firm* is not part of such a *group* (a *Remuneration Part solo firm*), its *proportionality level* will depend on its individual characteristics (as determined in accordance with paragraph 24).
- (2) If the *firm* is part of such a *group*, its *proportionality level* will depend on a two-stage process (as provided in paragraphs 25 and 26).

(This requires all *firms* to which the Remuneration Part applies that are part of the *group* to fall into the highest *proportionality level* that any individual *firm* in the group would fall into on the assumption that it was a *Remuneration Part solo firm*.)

23. Individual *guidance* may vary the *proportionality level* into which a *firm* would otherwise fall under paragraphs 24 to 26.

### Remuneration Part solo firms CRR firms and third country CRR firms

24. The following table shows the *proportionality level* into which a *Remuneration Part solo firm* that is a *CRR firm* or a *third-country CRR firm* falls:
- (1) A *firm* of the description given in the second column falls into the *proportionality level* listed in the first column.
  - (2) Where applicable, the *firm's proportionality level* will further depend on whether it held *relevant total assets* on the *relevant date* of the amount listed in the third column of the table.
  - (3) In (2) —
    - (a) 'relevant total assets' means:
      - (i) for *CRR firms*, the average of the *firm's* total assets on the *firm's* last three *relevant dates*; and
      - (ii) for *third-country CRR firms*, the average of the *firm's* total assets that covered the activities of the branch operation in the *United Kingdom* on the *firm's* last three relevant dates.
    - (b) 'relevant date' means:
      - (i) for *CRR firms*, an accounting reference date; and
      - (ii) for *third-country CRR firms*, 31 December.

The limit confining *relevant total assets* to those that cover the activities of the branch operation in the *United Kingdom* is taken from the

Supervision sourcebook of the *PRA Handbook*, SUP 16.12.3R(1)(a)(iv), which relates to a reporting requirement in relation to *non-EEA banks* (among others). We consider that a *firm* which needs to ascertain its *relevant total assets* should comply with the requirements of the CRR in respect of valuation of those assets.

*proportionality level* (as discussed in paragraphs 5 and 6 of Appendix 1).

## Part D: Guidance to firms in particular proportionality levels

### Purpose of proportionality levels

27. In relation to Remuneration 5.1, the *proportionality levels* provide the following:

- (1) A framework for our supervisory approach, and a broad indication of our likely expectations.
- (2) *Guidance* on which remuneration rules may normally be disapplied under Remuneration 5.1.

28. The *proportionality levels* also provide *guidance* on the separate but similar *proportionality rules* that apply in relation to:

- (1) *remuneration* committees (Part F); and
- (2) CRR disclosures in relation to remuneration (Part G and Appendix 2).

### Firms to continue to consider proportionality in their individual circumstances, etc

29. It follows from the nature of Remuneration 5.1, and the limited purposes noted in paragraph 27, that the *proportionality levels* do not provide comprehensive *guidance* on how Remuneration 5.1 will apply to a particular *firm*. A *firm* will still need to consider the application of the Remuneration 5.1 to its individual circumstances.

30. A *firm* should bear in mind that the Remuneration Part may require different responses from *firms* that fall into the same *proportionality level*. This is illustrated by the following example:

- (1) Firm A is a global bank with *relevant total assets* of £800 billion, with substantial investment banking business, foreign exchange exposures and a complex business model seeking aggressive growth. It falls into *proportionality level one*.
- (2) Firm B is a large mortgage and savings bank with *relevant total assets* of £100 billion and a comparatively simple, conservative business model. It falls into *proportionality level one*.
- (3) Firm C is a large building society, with *relevant total assets* of £25 billion and a comparatively simple, conservative business model. It falls into *proportionality level two*.
- (4) Remuneration 11.1(1)(a) requires, among other things, a *firm* to risk-adjust performance measures to take account of all types of current and future risks.

**Table B** Proportionality levels: *Remuneration Part solo firms* which are *CRR firms* or *third-country CRR firms*

Proportionality level	Type of firm <sup>(a)</sup>	Relevant total assets on relevant date of firm (where applicable)
<i>Proportionality level one</i>	Bank, building society or full scope investment firm.	Exceeding £50 billion
<i>Proportionality level two</i>	Bank, building society or full scope investment firm.	Exceeding £15 billion but not exceeding £50 billion
<i>Proportionality level three</i>	Bank or building society.	Not exceeding £15 billion
	Full scope investment firm.	Not exceeding £15 billion
	Limited licence investment firm or limited activity investment firm.	Not applicable

(a) The 'types of firm' used in this table are standard descriptors of the firms that fall into each proportionality level, and are not intended to set the scope of this guidance.

### Groups with more than one firm subject to the Remuneration Part

25. This paragraph applies where a *firm* subject to the Remuneration Part is part of a *group* containing one or more other *firms* also subject to the Remuneration Part (or to a remuneration code in the *FCA Handbook*):

- (1) A *firm* must determine in respect of each *firm* in its *group* that is subject to the Remuneration Part or to a remuneration code in the *FCA Handbook*, the *proportionality level* into which that *firm* would fall on the assumption it was a *Remuneration Part solo firm*.
- (2) Where each *firm* subject to the Remuneration Part, or to a remuneration code in the *FCA Handbook*, falls into the same *proportionality level* on the assumption that it was a *Remuneration Part solo firm*, each *firm* falls into that *proportionality level*.
- (3) Where the determination in (1) shows *firms* falling into different *proportionality levels* on the assumption that they were *Remuneration Part solo firms*, each *firm* falls into the highest *proportionality level*.
- (4) For the purposes of (3), *proportionality level one* is the highest and *proportionality level three* is the lowest.

26. Appendix 1 provides examples of this approach. A *firm* which has a higher *proportionality level* as a result of the *guidance* in paragraph 25 than would have been the case had the *firm* been a *Remuneration Part solo firm* should note the scope to apply for individual *guidance* to vary its

- (5) Clearly the processes necessary to identify such risks will need to be more sophisticated for Firm A than for Firm B, despite the fact that they fall into the same *proportionality level*. Indeed, the difference in the necessary sophistication is likely to be greater as between Firm A and Firm B than as between Firm B and Firm C.

### Disapplication of certain remuneration rules for firms in particular proportionality levels

31. The *CRD* can be interpreted such that it may not be necessary for certain firms to apply certain *remuneration rules* at all.<sup>(1)</sup>
32. In our view, it will normally be appropriate for a firm in *proportionality level three* to disapply under Remuneration 5.1 the following rules:
- (1) retained *shares* or other instruments (Remuneration 15.15),
  - (2) deferral (Remuneration 15.17), and
  - (3) performance adjustment (Remuneration 15.20).
33. However, *firms* should also note that some rules in the Remuneration Part set specific numerical criteria (such as on the minimum period of deferral, the minimum portion to be deferred and the minimum portion to be issued in *shares*). The following *guidance* applies where such rules apply to *material risk-takers* and are not capable of disapplication under the approach set out above. In such circumstances, we do not consider that Remuneration 5.1 permits a *firm* to apply lower numerical criteria. (For the avoidance of doubt, this *guidance* does not apply where a *firm* chooses to use deferral or issuance in *shares* more widely than required by the Remuneration Part.)

## Part E: Guidance about part-year material risk-takers

### Introduction

34. Paragraph 4.1 in supervisory statement SS27/15, 'Remuneration' provides information on when we do not generally consider it necessary for a *firm* to apply to certain *material risk-takers* certain *rules* relating to *remuneration* structures. This Part provides supplementary guidance on how certain *rules* on *remuneration* structures might normally be applied to a *material risk-taker* who has, in relation to a given performance year, been a *material risk-taker* for only part of the year.
35. In giving this guidance, we have taken account of Remuneration 5.1.

### Part-year material risk-takers for more than three months

36. This paragraph applies where an individual (A) has, in relation to a given performance year, been a *material risk-taker* for a period more than three months, but less than twelve months:
- (1) Sub-paragraphs (3) and (4) explain how Paragraph 4.1 in SS27/15 (as mentioned in the introduction to this Part) is to be applied in relation to A. Sub-paragraphs (5) and (6) provide that in certain circumstances it may be appropriate to apply certain *rules* to only a proportion of A's variable *remuneration*. Sub-paragraphs (7) to (9) provide examples.
  - (2) In this paragraph:
    - (a) 'relevant fraction' means the fraction derived by dividing the number of days in the given performance year for which A has been a *material risk-taker* by the number of days in the year;
    - (b) 'qualifying fixed *remuneration*' means A's annual fixed remuneration in A's capacity as a *material risk-taker* multiplied by the relevant fraction;
    - (c) 'qualifying variable *remuneration*' means:
      - (i) in the case where A was an *employee* of the *firm* for the whole of the given performance year, A's variable *remuneration* in relation to the performance year multiplied by the relevant fraction;
      - (ii) in the case where A was only ever employed in the given performance year as a *material risk-taker*, A's actual variable *remuneration*;
    - (d) 'total qualifying *remuneration*' means qualifying fixed *remuneration* added to qualifying variable *remuneration*; and
    - (e) 'threshold amount' means £500,000 multiplied by the relevant fraction.
  - (3) We do not generally consider it necessary for a *firm* to apply the rules referred to in (4) where, in relation to A, the following conditions are satisfied:
    - (a) Condition 1 is that A's qualifying variable *remuneration* is no more than 33% of total qualifying remuneration; and
    - (b) Condition 2 is that A's total qualifying remuneration is no more than the threshold amount.
  - (4) The rules referred to in (3) are those relating to:
    - (a) guaranteed variable *remuneration* (Remuneration 15.7);
    - (b) retained *shares* or other instruments (Remuneration 15.15);
    - (c) deferral (Remuneration 15.17); and

(1) Article 92(2) of the *CRD* provides that the principles should be applied 'in a manner and to the extent that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities'.

- (d) performance adjustment (Remuneration 15.20).
- (5) Sub-paragraph (6) applies where the conditions in (3) are not satisfied and the *firm* should apply the rules referred to in (6).
- (6) Where this sub-paragraph applies, we generally consider that it would be appropriate to apply the following rules to qualifying variable *remuneration* only:
- retained *shares* or other instruments (Remuneration 15.15);
  - deferral (Remuneration 15.17); and
  - performance adjustment (Remuneration 15.20).
- (7) The examples in (8) and (9) illustrate this *guidance*. The performance year in each case is 1 January to 31 December.
- (8) Example 1:
- A1 is an *employee* of the *firm* through the performance year and is promoted to a *material risk-taker* role with effect from 1 September. A1's previous fixed *remuneration* was £150,000. In his role as a *material risk-taker*, A1's fixed remuneration increases to £250,000. For the performance year, A1 is awarded variable *remuneration* of £130,000.
  - The relevant fraction is 122/365. A1's qualifying fixed *remuneration* is £83,560 (£250,000 multiplied by 122/365). A1's qualifying variable *remuneration* is £43,452 (£130,000 multiplied by 122/365). A1's total qualifying *remuneration* is £127,012. The threshold amount is £167,120 (£500,000 multiplied by 122/365).
  - A1's total qualifying *remuneration* is below the threshold amount, so condition 2 of (3) is satisfied. But A1's qualifying variable *remuneration* is more than 33% of A1's total qualifying *remuneration*, and condition 1 of (3) is not satisfied.
  - The *rule* on guaranteed variable *remuneration* applies to A1. In addition, the *rules* on retained shares and other instruments, deferral and performance adjustment must be applied to A1's qualifying variable *remuneration* of £43,452.
- (9) Example 2:
- A2 joins the *firm* as a *material risk-taker* with effect from 1 July. A2's annual fixed *remuneration* is £450,000. For period of 1 June to 31 December, A2 is awarded variable *remuneration* of £50,000.
  - The relevant fraction is 184/365. A2's qualifying fixed *remuneration* is £226,850 (£450,000 multiplied by 184/365). A2's qualifying variable *remuneration* is £50,000 (the actual amount). A2's total qualifying *remuneration* is £276,850. The threshold amount is £252,050 (£500,000 multiplied by 184/365).
- (c) A2's qualifying variable *remuneration* is not more than 33% of A2's total qualifying *remuneration*, and condition 1 of (3) is satisfied. But A2's total qualifying *remuneration* is more than the threshold amount, so condition 2 of (3) is not satisfied.
- (d) The *rule* on guaranteed variable *remuneration* applies to A2. In addition, the rules on retained shares and other instruments, deferral and performance adjustment must be applied to A2's qualifying variable *remuneration* of £50,000.

### Certain part-year material risk-takers for three months or less

37. Paragraphs 38 and 39 apply where:

- an individual (B) has, in relation to a given performance year, been a *material risk-taker* for a period of three months or less; and
- an exceptional or irregular payment (such as a sign-on award) has not been or is not to be made in relation to B's appointment as a *material risk-taker*.

38. Where this paragraph applies, we do not generally consider it necessary to apply the following rules in relation to B for the performance year in question:

- retained shares or other instruments (Remuneration 15.15);
- deferral (Remuneration 15.17); and
- performance adjustment (Remuneration 15.20).

39. Where this paragraph applies, the *guidance* in paragraph 36(2), (3) and (4)(a) should be applied for the purposes of determining whether or not it will generally be necessary to apply the rule on guaranteed variable *remuneration* to B (substituting in that paragraph, for references to 'A', references to 'B').

### Part-year material risk-takers for three months or less, but where exceptional etc payments made

40. Paragraph 41 applies where an individual (C) has, in relation to a given performance year, been a *material risk-taker* for a period of three months or less, but where an exceptional or irregular payment (such as a sign-on award) has or is to be made in relation to C's appointment.

41. The *guidance* in paragraph 36 applies in relation to C (substituting in that paragraph, for references to 'A', references to 'C'). The amount of exceptional or irregular payment is to be added to C's qualifying variable remuneration without pro-rating.

## Part F: Remuneration committees

### General

42. Remuneration 7 (Governance) provides that a firm that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities must establish a *remuneration* committee.
43. The following table provides *guidance* on when we consider it would be appropriate for a *remuneration* committee to be established under Remuneration 7.4, based on the *proportionality level* into which the *firm* falls (as determined in accordance with Part C of this *guidance* statement (as supplemented by Appendix 1)):

**Table C** Guidance on whether a remuneration committee is required

Proportionality level	Remuneration 7.4 remuneration committee?
Proportionality level one	A <i>remuneration</i> committee should be established.
Proportionality level two	A <i>remuneration</i> committee should be established.
Proportionality level three	It would be desirable for such a <i>remuneration</i> committee to be established, and we would normally expect larger <i>proportionality level three</i> firms to do so.  But we accept that it may be appropriate for the <i>governing body</i> of the <i>firm</i> to act as the <i>remuneration</i> committee.

### Subsidiaries of overseas groups/*third country* *CRR firms*

44. This *guidance* relates, broadly speaking, to a firm which is subject to the *Remuneration Part* and which is a *third country CRR firm*, or a *CRR firm* that is part of a *group* not subject to consolidated supervision by the *PRA*.
45. We accept that it may be possible for certain such *firms* to justify on the ground of proportionality not establishing under Remuneration 7.4 at solo level a *remuneration* committee of the *firm* subject to the *Remuneration Part*. However, in such circumstances it would be necessary to show how the functions which would otherwise have been performed by such a *remuneration* committee would be discharged with sufficient authority and with sufficient independence from those performing executive functions within the *firm*. Where, for example, members of the *governing body* of the *firm* acted together with a *group remuneration* committee to discharge these functions, we would expect as a minimum to be satisfied that the operational arrangements ensured sufficient independence from those performing executive functions at the level of the *firm* subject to the *Remuneration Part* or at *group* level, and allowed the *governing body* of the *firm* to exercise sufficient authority in relation to the *firm* subject to the *Remuneration Part*.

## Part G: Remuneration disclosures (under Article 450 of the *CRR*)

### Requirement to make remuneration disclosures

46. Article 450 of the *CRR* requires certain *firms* that are subject to the *Remuneration Part* to disclose a series of qualitative and quantitative information relating to *remuneration*.
47. Article 450 of the *CRR* only applies to *CRR firms* directly.

### Remuneration disclosures and proportionality

48. Two proportionality tests apply in relation to the requirement to make disclosures under Article 450 of the *CRR* in relation to *remuneration*:
- (1) Under Article 450(2) of the *CRR*, *CRR firms* subject to the *Remuneration Part* that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities must also disclose the quantitative information referred to in Article 450(1) of the *CRR* at the level of their management body.
  - (2) Under Article 450(2) of the *CRR*, *CRR firms* subject to the *Remuneration Part* must comply with the requirements set out in Article 450(1) of the *CRR* in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities.

49. We consider that it is appropriate to give *guidance* on these proportionality tests by reference to the *proportionality levels* determined in accordance with Part C of, and Appendix 1 to, this *guidance* statement. However, as the disclosure requirement applies only to *CRR firms*, when applying the guidance in paragraph 25, only firms that are subject to the *Remuneration Part* and which are *CRR firms* should be taken into account.
50. In relation to the proportionality test referred to in paragraph 48(1) the *PRA* considers that a firm should be regarded as 'significant' if it falls into *proportionality level one*.
51. In relation to the proportionality test set referred to in paragraph 48(2) the table in Appendix 2 sets out the categories of information that we consider firms in different *proportionality levels* should disclose.

## Appendix 1: Supplemental guidance on dividing firms into proportionality levels

### Groups with more than one firm subject to the Remuneration Part or an FCA Handbook remuneration code

1. The following non-exhaustive examples illustrate the operation of the *guidance* provided in paragraph 25 of Part C. (It should be borne in mind that in each case individual *guidance* could vary the outcome provided by the operation of the *guidance* provided in that paragraph.)

#### 2. Example 1:

- (1) Firm A is the parent undertaking of Firm B.
- (2) Firm A is a UK bank that had *relevant total assets* of £800 billion on its last *accounting reference date*. Firm B is a *limited activity firm*.
- (3) On the assumption that they were *Remuneration Part solo firms*, Firm A falls into *proportionality level one* and Firm B falls into *proportionality level three*.
- (4) As a result of the guidance at paragraph 25 of Part C, both Firms A and B fall into *proportionality level one*.

#### 3. Example 2:

- (1) Firm C is the parent undertaking of Firm D.
- (2) Firm C is a limited activity FCA-regulated IFPRU investment *firm* and Firm D is a UK bank that had *relevant total assets* of £100 billion on its last *accounting reference date*.
- (3) On the assumption that they were *Remuneration Part solo firms*, Firm C falls into *proportionality level three* and Firm D falls into *proportionality level one*.
- (4) As a result of the guidance at paragraph 25 of Part C, both Firms C and D fall into *proportionality level one*.

#### 4. Example 3:

- (1) Company E is the parent undertaking of Firms F and G and Company H. Company H is the parent undertaking of Firm I. Firm J is a member of the group because of an *Article 12(1) consolidation relationship*.
- (2) The firms and companies have the following characteristics:
  - (a) Neither Companies E nor H are *firms* subject to the *Remuneration Part*.
  - (b) Firm F is a *designated investment firm* that had *relevant total assets* of £40 billion on its last *accounting reference date*.
  - (c) Firms G and J are limited activity FCA-regulated IFPRU investment firms.
  - (d) Firm I is a UK bank that had *relevant total assets* of £10 billion on its last *accounting reference date*.

- (3) On the assumption that they were *Remuneration Part solo firms* —
  - (a) Firm F falls into *proportionality level two*;
  - (b) Firms G and J fall into *proportionality level three*; and
  - (c) Firm I falls into *proportionality level three*.
- (4) As a result of the guidance at paragraph 25 of Part C, Firms F, G, I and J all fall into *proportionality level two*.

### Role of individual guidance

5. Individual guidance may vary the *proportionality level* into which a *firm* would fall under the general *guidance* set out in Part C and supplemented by this Appendix. In consequence, the definitions and thresholds provided in Part C do not provide an immutable classification.
6. The following provide non-exhaustive high level examples of where we might consider providing individual guidance to vary a *proportionality level*:
  - (1) Where a *firm* was just below the threshold for a particular *proportionality level* (as determined in accordance with Part C), but where features of its business model or growth strategy suggest that it should fall within the higher *proportionality level*.
  - (2) Where a *group of firms* contained several *firms* falling into a common *proportionality level*, but where the aggregate prudential risk posed by the group suggested that a higher *proportionality level* was more appropriate.
  - (3) Where a *firm* falls into a higher *proportionality level* as a result of the guidance at paragraph 25 of Part C than would be the case on the assumption that it was a *Remuneration Part solo firm*, depending on the particular circumstances of the case.

## Appendix 2: Disclosure requirements by proportionality level

### Article 450 CRR disclosure requirement

	Relevant proportionality level		
	Proportionality level one	Proportionality level two	Proportionality level three
Art 450 (1)(a) CRR ('information concerning the decision-making process used for determining the remuneration policy, including if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders')	✓	✓	✓
Art 450 (1)(b) CRR ('information on link between pay and performance')	✓	✓	✓
Art 450 (1)(c) CRR ('the most important design characteristics of the remuneration system, including, information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria')	✓	✓	
Art 450 (1)(d) CRR ('the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU')	✓	✓	
Art 450 (1)(e) CRR ('information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based')	✓		
Art 450 (1)(f) CRR ('the main parameters and rationale for any variable component scheme and any other non-cash benefits')	✓		
Art 450 (1)(g) CRR ('aggregate quantitative information on remuneration, broken down by business area')	✓	✓	✓
Art 450 (1)(h) CRR ('aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm...')	✓	✓	✓
...indicating the following:			
Art 450 (1)(h)(i) CRR ('amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries')	✓	✓	
Art 450 (1)(h)(ii) CRR ('amounts and forms of variable remuneration, split into cash, shares and share-linked instruments and other')	✓		
Art 450 (1)(h)(iii) CRR ('amounts of outstanding deferred remuneration, split into vested and unvested portions')	✓		
Art 450 (1)(h)(iv) CRR ('the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments')	✓		
Art 450 (1)(h)(v) CRR ('new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments')	✓		
Art 450 (1)(h)(vi) CRR ('the amounts of severance payments awarded during the financial year, number of beneficiaries, and highest such award to a single person')	✓		
Art 450 (1)(i) CRR ('the number of individuals being remunerated €1 million or more per financial year, for remuneration between €1 million and €5 million broken down into pay bands of €500 000 and for remuneration of €5 million and above broken down into pay bands of €1 million')	✓		