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# News release

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## **Prudential Regulation Authority and Financial Conduct Authority consult on proposals to improve responsibility and accountability in the banking sector**

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have today published two joint consultation papers aimed at improving individual responsibility and accountability in the banking sector.

These changes include:

- A new approval regime for the most senior individuals whose behaviour and decisions have the potential to bring a bank to failure, or to cause serious harm to customers; and
- Introducing new rules on remuneration to strengthen the alignment between long-term risk and reward in the banking sector.

In June 2013, the Parliamentary Commission for Banking Standards (PCBS) published its report “Changing Banking for Good” setting out recommendations for legislative and other action to improve professional standards and culture in the UK banking industry. This was followed by legislation in the Banking Reform Act 2013. The PRA and FCA are now consulting on proposals that incorporate and build on the Banking Reform Act and the recommendations made by the PCBS.

The proposals announced today are significant and will make it easier for firms and regulators to hold individuals to account.

### **Accountability**

In the joint consultation paper, Strengthening accountability in banks: a new regulatory framework for individuals, the PRA and FCA proposals include introducing:

- A new Senior Managers Regime which will clarify the lines of responsibility at the top of banks, enhance the regulators’ ability to hold senior individuals in banks to account and require banks to regularly vet their senior managers for fitness and propriety;
- A Certification Regime requiring firms to assess fitness and propriety of staff in positions where the decisions they make could pose significant harm to the bank or any of its customers; and
- A new set of Conduct Rules, which take the form of brief statements of high level principle, setting out the standards of behaviour for bank employees.

### **Remuneration**

In the accompanying joint consultation paper ‘Strengthening the Alignment of Risk and Reward: New Remuneration Rules’, the PRA and FCA proposals include:

- Increasing the alignment between risk and reward over the longer term, by requiring firms to defer payment of variable remuneration (e.g. bonuses) for a minimum of five or seven years depending on seniority, with a phased approach to vesting;

- Further enhancing the ability of firms to recover variable remuneration, even if paid out or vested, from senior management if risk management or conduct failings come to light at a later date;
- Options to address the problem that employees can sometimes evade the application of malus – reductions in unvested awards – by changing firms; and
- Strengthening the existing presumption against discretionary payments where banks have been bailed out.
- The PRA has also today published final rules on clawback which introduce a seven-year minimum period for clawback from the date of award. These rules will come into force on 1 January 2015.

Andrew Bailey, Deputy Governor, Prudential Regulation and Chief Executive Officer of the PRA said:

“Holding individuals to account is a key component of our job as regulators of banks. The combination of clearer individual responsibilities and enhanced risk management incentives will encourage individuals in banks to take greater responsibility for their actions. We believe that enhancing individual accountability and improving the alignment of risk and reward should have a positive impact on behaviour and culture within banks and will help to ensure that they are managed in a way that promotes the safety and soundness of individual institutions.”

Martin Wheatley, Chief Executive of the FCA said:

“How a firm conducts its business and treats its customers must be at the heart of how it operates. This has to start at the top. Today’s consultations mark a fundamental change in the regulators’ ability to hold individuals to account, which is what the public expects of us. It will also build on the cultural change we are beginning to see in the boardrooms of firms across the country.”

#### **Notes to Editors**

[Consultation Paper – Strengthening accountability in banks: a new regulatory framework for individuals](#)

[Consultation Paper – Strengthening the Alignment of Risk and Reward: New Remuneration Rules](#)

[Policy Statement – Clawback](#)

[Bank of England response to PCBS report](#)

[FCA response to PCBS report](#)

[Parliamentary Commission on Banking Standards report: Changing Banking for Good](#)