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Dear [Chair of the Remuneration Committee]

Change to supervising remuneration compliance for Level One firms

Ahead of our upcoming annual review of firms' remuneration policies and practices, we would like to inform you of an update to the way we supervise compliance within the requirements of the Remuneration Part of the PRA Rulebook. This update affects remuneration proportionality Level One¹ firms only.

With effect from the 2018/2019 remuneration review, we will no longer provide a 'non-objection' statement to the proposed communication or distribution of variable remuneration awards by Level One firms. This change reflects an evolution in our management of the annual remuneration round. Our oversight over Level One firms' remuneration practices – which continues to be an important part of the supervisory toolkit and a pivotal way of promoting the alignment of incentives, performance and risk-taking – will increasingly seek to draw upon the principles for governance as set out in the Senior Managers and Certification Regime (SM&CR).² For instance, there will be greater emphasis on how Remuneration Committees carry out their independent challenge and oversight role in accordance with our Remuneration Rules and how the chairs of those committees (or, where applicable, other Senior Management Functions (SMFs) discharge their responsibilities under the SM&CR. The change outlined in this letter is in line with the recent communication you will have received from the Financial Conduct Authority (FCA).

PRA supervisors will continue to engage with Level One firms throughout the year as part of our review into firms' remuneration policies, practices and processes. Where relevant, we will provide feedback to Level One firms following the remuneration round each year to highlight any areas of key engagement and to draw attention to issues which in our view should be addressed by the firm. We will also continue to coordinate our remuneration work with the FCA where appropriate. We continue to expect Level One firms to submit a remuneration policy statement and quantitative data tables three months ahead of the firm's preferred final feedback date (previously referred to as the 'non-objection date'), with an update of the figures required at least two weeks before the final feedback date.

If you wish to discuss the contents of this letter further, please get in touch with your usual supervisory contact.

[James Proudman]

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¹ Level One (total asset exceeding £50 billion) under PRA's [Supervisory Statement 2/17 'Remuneration'](#), which sets out the proportionality framework for firms.

² The SM&CR expects that the Senior Management Function (SMF) 12 (Chair of the Remuneration Committee) function-holder, where one exists, to be allocated the prescribed responsibility for ensuring oversight of their firm's remuneration policies and practices. The SMF12 does not apply to third-country firms (Senior Management Functions 4.1). Therefore, the PRA expects either the SMF19 (Head of Overseas Branch Function) or another relevant SMF at the branch to be responsible for the conduct of the branch's remuneration policies and practices (in particular, compliance with relevant UK regulatory obligations).