

PRA RULEBOOK: CRR FIRMS: REMUNERATION INSTRUMENT 2023**Powers exercised**

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules);
 - (2) section 137H (General rules about remuneration);
 - (3) section 137T (General supplementary powers); and
 - (4) section 192XA (Rules applying to holding companies).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

PRA Rulebook: CRR Firms: Remuneration Instrument 2023

- C. The PRA makes the rules in the Annexes to this instrument.

Part	Annex
Glossary	A
Remuneration	B

Commencement

- D. This instrument comes into force on 8 December 2023.

Citation

- E. This instrument may be cited as the PRA Rulebook: CRR Firms: Remuneration Instrument 2023.

By order of the Prudential Regulation Committee

28 November 2023

Annex A

Amendments to the Glossary Part

In this Annex, new text is underlined and deleted text is struck through.

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CSD

has the meaning given in Article 2(1)(1) of CSDR.

CSDR

means Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

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non-UK credit institution

means a *credit institution* whose registered office or, if it does not have a registered office, whose head office, is outside the *UK*.

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operator

in relation to a *payment system* has the same meaning as in Part 5 of the Banking Act 2009 (see section 183 of that Act).

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payment system

has the meaning given in section 182 of the Banking Act 2009.

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SSS

has the meaning given in Article 2(1)(10A) of CSDR.

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third-country CSD

has the meaning given in Article 2(1)(2) of CSDR.

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Annex B**Amendments to the Remuneration Part**

In this Annex, new text is underlined and deleted text is struck through.

Part

REMUNERATION

Chapter content

1. APPLICATION AND DEFINITIONS
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4. GROUPS
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1 APPLICATION AND DEFINITIONS

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1.3

- (1) In this Part, the following definitions shall apply:

~~Article 273a(3) method~~

~~means the method for calculating the size of a firm's on- and off-balance-sheet derivative business set out in Article 273(a)(3) of CRR amended by point (73) of CRR2.~~

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~~average total assets~~

~~means the arithmetic mean of the firm's total assets over its last four accounting reference dates. the recent average of the firm's total assets calculated as follows:~~

- ~~(1) for a CRR firm:~~

- ~~(a) identify the occasions (due dates) in the preceding 36 months by which the firm was required to report its total assets; and~~
- ~~(b) calculate the arithmetic mean of the total assets that the firm was required to report on those occasions; or~~

- ~~(2) for a third country CRR firm, calculate the arithmetic mean of the firm's total assets on each of the last three accounting reference dates.~~

...

~~small CRR firm~~

~~means a CRR firm that satisfies both Condition 1 and, where the firm is part of a group containing any other firm subject to this Part on an individual basis, Condition 2, where:~~

- ~~(1) Condition 1 is that the firm is not a large institution and either:~~

- ~~(a) has average total assets not exceeding £4 billion; or~~
- ~~(b) the firm satisfies the conditions in 2A.1 and has average total assets exceeding £4 billion but not exceeding £4320 billion;~~

~~and where (in the case of Condition 1(b)):~~

- ~~(i) it is appropriate for the firm not to be required to comply with the rules specified in 5.3, taking into account the nature, scope, and complexity of its activities, its internal organisation and, if applicable, the characteristics of the group to which it belongs;~~
- ~~(ii) the firm has a small trading book;~~
- ~~(iii) the total value of the firm's derivative positions held with trading intent does not exceed 2% of its total on- and off-balance-sheet assets and the total value of its overall derivative positions does not exceed 5%, both calculated in accordance with the Article 273a(3) method; and~~
- ~~(iv) the firm is not subject to any obligations, or is subject to simplified obligations, in relation to recovery and resolution planning;~~

and

- (2) Condition 2 is that ~~the firm is not part of a group containing another firm which:~~ where the firm is a member of a group, the criteria in (a) or (b) are satisfied in respect of any other firm in the group which is subject to this Part on an individual basis:
- (a) ~~is subject to this Part on an individual basis; and~~
- (i) the average total assets of each CRR firm in the group do not exceed £4 billion on an individual basis;
- (ii) the average total assets relating to the activities of the branch operation in the UK of each third country CRR firm in the group do not exceed £4 billion on an individual basis; and
- (iii) where any CRR firm or third country CRR firm in the group is a member of a consolidation group, the consolidation group has average total assets not exceeding £4 billion on a consolidated basis; or
- (b) ~~has average total assets exceeding £13 billion either on an individual basis, consolidated basis or sub-consolidated basis.~~
- (i) the average total assets of each CRR firm in the group do not exceed £20 billion on an individual basis;
- (ii) the average total assets relating to the activities of the branch operation in the UK of each third country CRR firm in the group do not exceed £20 billion on an individual basis;
- (iii) where any CRR firm or third country CRR firm in the group is a member of a consolidation group, the consolidation group has average total assets not exceeding £20 billion on a consolidated basis;
- (iv) for each CRR firm in the group each of the conditions in 2A.1 are satisfied on an individual basis;
- (v) for each third country CRR firm in the group each of the conditions in 2B.1 are satisfied on an individual basis; and
- (vi) where any CRR firm or third country CRR firm in the group is a member of a consolidation group, each of the conditions (1), (2) and (3) in 2A.1 are satisfied in respect of the consolidation group on a consolidated basis,

provided that, if a firm has not yet been required to report its total assets, the calculations in respect of average total assets in Conditions 1 and 2 shall instead be done on the basis of the firm's reasonable forecast of its total assets as at the first occasion on which it will be required to report them.

[Note: Art. 94(3) and (4) of the CRD]

small third country CRR firm

means a third country CRR firm that satisfies ~~both~~ Condition 1 and, where the firm is part of a group containing any other firm subject to this Part on an individual basis, Condition 2, where

- (1) Condition 1 is that the ~~firm~~ average total assets that relate to the activities of the branch operation of the third country CRR firm in the UK either:
- (a) ~~do not exceed~~ has average total assets that relate to the activities of the branch operation of the firm in the UK not exceeding £4 billion; or

- (b) ~~exceeds~~satisfies the conditions in 2B.1 and has average total assets that relate to the activities of the branch operation of the firm in the UK exceeding £4 billion but do not exceeding £1320 billion;

and where (in the case of Condition 1(b)):

- (i) ~~it is appropriate for the third country CRR firm not to be required to comply with the rules specified in 5.3, taking into account the nature, scope, and complexity of the activities and internal organisation of its branch operation in the UK and, if applicable, the characteristics of the group to which it belongs;~~
- (ii) ~~the firm's branch operation in the UK has a small trading book; and~~
- (iii) ~~the total value of the derivative positions held with trading intent relating to its branch operation in the UK does not exceed 2% of its total on- and off-balance-sheet assets and the total value of its overall derivative positions does not exceed 5%, both calculated in accordance with the Article 273a(3) method.~~

and

- (2) Condition 2 is that ~~the third country CRR firm is not part of a group containing another firm which;~~where the firm is a member of a group, the criteria in (a) or (b) are satisfied in respect of any other firm in the group which is subject to this Part on an individual basis:

- (a) ~~is subject to this Part on an individual basis; and~~

(i) the average total assets of each CRR firm in the group do not exceed £4 billion on an individual basis;

(ii) the average total assets relating to the activities of the branch operation in the UK of each third country CRR firm in the group do not exceed £4 billion on an individual basis; and

(iii) where any CRR firm or third country CRR firm in the group is a member of a consolidation group, the consolidation group has average total assets not exceeding £4 billion on a consolidated basis; or

- (b) ~~has average total assets exceeding £13 billion either on an individual basis, consolidated basis or sub-consolidated basis.~~

(i) the average total assets of each CRR firm in the group do not exceed £20 billion on an individual basis;

(ii) the average total assets relating to the activities of the branch operation in the UK of each third country CRR firm in the group do not exceed £20 billion on an individual basis;

(iii) where any CRR firm or third country CRR firm in the group is a member of a consolidation group, the consolidation group has average total assets not exceeding £20 billion on a consolidated basis;

(iv) for each CRR firm in the group each of the conditions in 2A.1 are satisfied on an individual basis;

(v) for each third country CRR firm in the group each of the conditions in 2B.1 are satisfied on an individual basis; and

(vi) where any CRR firm or third country CRR firm in the group is a member of a consolidation group, each of the conditions (1), (2) and (3) in 2A.1 are satisfied in respect of the consolidation group on a consolidated basis,

provided that, if a firm has not yet been required to report its total assets, the calculations in respect of average total assets in Conditions 1 and 2 shall instead be done on the basis of the firm's reasonable forecast of its total assets as at the first occasion on which it will be required to report them.

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total assets

means:

- (1) in relation to a *CRR firm*, its total assets as set out in its balance sheet on the relevant *accounting reference date*; and
- (2) in relation to a *third country CRR firm*, the total assets of the *third country CRR firm* as set out in its balance sheet on the relevant *accounting reference date* that cover the activities of the *branch* operation in the *UK*;

except that, for the purpose of identifying whether a firm is a small CRR firm and calculating the average total assets for that purpose, it means:

- (3) for a firm that is required to submit data item template F 01.01 of Annex III Part 1 of Reporting (CRR) Part, the sum of the firm's assets as required to be recorded at row 380 of that data item; or
- (4) for a firm that is required to submit data item template F 01.01 of Annex IV Part 1 of Reporting (CRR) Part, the sum of the firm's assets as required to be recorded at row 380 of that data item.

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2 APPLICATION DATES AND TRANSITIONAL PROVISIONS

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2.9 A firm must apply this Part as it applied on 7 December 2023 to remuneration awarded in respect of a performance year starting before 8 December 2023.

2A SMALL CRR FIRM CONDITIONS

2A.1 The conditions referred to in (1)(b) and (2)(b) of the definition of small CRR firm and in (2)(b) of the definition of small third country CRR firm are the following:

- (1) Subject to 2A.2, the size of the firm's on- and off- balance-sheet trading book business was less than or equal to both £44 million and 5% of the firm's total assets, on the basis of the assessment set out in Article 94(3) of Chapter 3 of Trading Book (CRR) Part:
 - (a) on the last day of at least one of the preceding three months, and
 - (b) on the last day of at least six of the preceding twelve months;
- (2) The firm's overall net foreign-exchange position, calculated using the method set out in Article 352 of CRR, does not exceed 3.5% of its own funds and, subject to 2A.2, did not on average exceed 2% of its own funds:
 - (a) in one or more of the preceding three months, and

- (b) in six or more of the preceding twelve months,
as determined in accordance with 2A.3;
- (3) The firm does not hold positions in commodities or commodity derivatives;
- (4) The firm does not provide clearing, transaction settlement, custody or correspondent banking services to a UK bank, a building society, or a non-UK credit institution, including by acting as an intermediary for a UK bank, a building society, or a non-UK credit institution to access the facilities or services of:
- (a) a payment system, CSD, third-country CSD, SSS or central counterparty in which the firm is a direct or indirect participant or member, or
- (b) an exchange, other trading facility, clearing house or any other financial market utility or infrastructure, either directly or indirectly,
- except that the firm may provide clearing, transaction settlement, custody or correspondent banking services in sterling to a UK bank, building society or non-UK credit institution that is a member of the firm's immediate group; and
- (5) The firm is not an operator of a payment system.
- 2A.2 The criteria in 2A.1(1)(a) and 2A.1(2)(a) do not apply in respect of a CRR firm that was not a firm on the last day of the preceding month and the criteria in 2A.1(1)(b) and 2A.1(2)(b) do not apply in respect of a CRR firm that was not a firm on the last day of each of the preceding six months.
- 2A.3 For the purpose of 2A.1(2), a firm's overall net foreign-exchange position does not on average exceed 2% of its own funds in a given month if the arithmetic mean of the firm's daily overall net foreign-exchange positions over the course of the month is less than or equal to 2% of the firm's own funds on the last day of the month.

2B SMALL THIRD COUNTRY CRR FIRM CONDITIONS

- 2B.1 The conditions referred to in (1)(b) and (2)(b) of the definition of small third country CRR firm and in (2)(b) of the definition of small CRR firm are the following:
- (1) Subject to 2B.2, the size of the on- and off- balance-sheet trading book business of the firm's branch operation in the UK was less than or equal to both £44 million and 5% of the total assets of the firm, on the basis of the assessment set out in Article 94(3) of Chapter 3 of Trading Book (CRR) Part:
- (a) on the last day of at least one of the preceding three months, and
- (b) on the last day of at least six of the preceding twelve months;
- (2) The overall net foreign-exchange position of the firm's branch operation in the UK, calculated using the method set out in Article 352 of CRR, does not exceed 3.5% of the firm's own funds and, subject to 2B.2, did not on average exceed 2% of the firm's own funds:
- (a) in one or more of the preceding three months, and
- (b) in six or more of the preceding twelve months,
- as determined in accordance with 2B.3;
- (3) The firm's branch operation in the UK does not hold positions in commodities or commodity derivatives;

(4) The firm's branch operation in the UK does not provide clearing, transaction settlement, custody or correspondent banking services to a UK bank, a building society, or a non-UK credit institution, including by acting as an intermediary for a UK bank, a building society, or a non-UK credit institution to access the facilities or services of:

(a) a payment system, CSD, third-country CSD, SSS or central counterparty in which the firm is a direct or indirect participant or member, or

(b) an exchange, other trading facility, clearing house or any other financial market utility or infrastructure, either directly or indirectly,

except that the firm's branch operation in the UK may provide clearing, transaction settlement, custody or correspondent banking services in sterling to a UK bank, building society or non-UK credit institution that is a member of the firm's immediate group; and

(5) The firm's branch operation in the UK is not an operator of a payment system.

2B.2 The criteria in 2B.1(1)(a) and 2B.1(2)(a) do not apply in respect of a third country CRR firm that was not a firm on the last day of the preceding month and the criteria in 2B.1(1)(b) and 2B.1(2)(b) do not apply in respect of a third country CRR firm that was not a firm on the last day of each of the preceding six months.

2B.3 For the purpose of 2B.1(2), the overall net foreign-exchange position of a firm's branch operation in the UK does not on average exceed 2% of the firm's own funds in a given month if the arithmetic mean of the daily overall net foreign-exchange positions of the firm's branch operation in the UK over the course of the month is less than or equal to 2% of the firm's own funds on the last day of the month.

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5 PROPORTIONALITY

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5.3 12.2 and, 15.15 to 15.19, 15.20(2) and (3A), 15.20A to 15.23 and 15A do not apply to a firm that is a small CRR firm or a small third country CRR firm.

[Note: Art 94(3) and (4) of the CRD.]

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15 REMUNERATION STRUCTURES

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15.A1 In this Chapter:

(1) All the requirements of this Chapter apply to a firm that is neither a small CRR firm nor a small third country CRR firm.

(2) 15.1 to 15.14, ~~and 15.20(1), (2) and 15.21 to 15.23~~ apply to a small CRR firm or a small third country CRR firm.

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15.20 A firm must ensure that:

(1) any variable remuneration, including a deferred portion, is paid or vests only if it is sustainable according to the financial situation of the firm as a whole, and justified on the basis of the performance of the firm, the business unit and the individual concerned; but in the case of a small CRR firm or a small third country CRR firm, this does not require a firm to impose malus or clawback;

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EXTERNALLY DEFINED TERM

Term	Definition source
immediate group	Section 421ZA <i>FSMA</i>