

Chapter 19D

Dual-regulated firms Remuneration Code

19D.2 General requirement

Remuneration policies must promote effective risk management

19D.2.1

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A *firm* must establish, implement and maintain *remuneration* policies, procedures and practices that are consistent with, and promote, sound and effective risk management.

[Note: article 74(1) of CRD]

19D.2.2

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- (1) The *dual-regulated firms Remuneration Code* covers all aspects of *remuneration* that could have a bearing on effective risk management, including salaries, bonuses, long-term incentive plans, options, hiring bonuses, severance packages and pension arrangements.
- (2) As with other aspects of a *firm's* systems and controls, in accordance with **SYSC 4.1.2R** (general organisational requirements) *remuneration* policies, procedures and practices must be comprehensive and proportionate to the nature, scale and complexity of the *common platform firm's* activities. What a *firm* must do in order to comply with the *dual-regulated firms Remuneration Code* will therefore vary. For example, while the *dual-regulated firms Remuneration Code* refers to a *firm's remuneration committee* and risk management function, it may be appropriate for the *governing body* of a smaller *firm* to act as the *remuneration committee* and for the *firm* not to have a separate risk management function.
- (3) The *FCA* may also ask *remuneration committees* to provide it with evidence of how well the *firm's* remuneration policies meet the *dual-regulated firms Remuneration Code's* principles, together with plans for improvement where there is a shortfall. The *FCA* also expects relevant *firms* to use the principles in assessing their exposure to risks arising from their *remuneration* policies as part of the *internal capital adequacy assessment process (ICAAP)*.
- (4) The *FCA* would also expect *firms* to apply, on a *firm-wide* basis, at least the following principles relating to:
 - (a) risk management and risk tolerance (Remuneration Principle 1);
 - (b) supporting business strategy, objectives, values and long-term interests of the firm (Remuneration Principle 2);
 - (c) avoiding conflicts of interest (Remuneration Principle 3);
 - (d) governance (Remuneration Principle 4);

- (e) risk adjustment (Remuneration Principle 8);
- (f) pension policy (Remuneration Principle 9);
- (g) personal investment strategies (Remuneration Principle 10);
- (h) payments related to early termination (Remuneration Principle 12(e)); and
- (i) deferral (Remuneration Principle 12(g)).

Record keeping

19D.2.3 **R** In line with the record-keeping requirements in ■ SYSC 9, a *firm* must ensure that its *remuneration* policies, practices and procedures, including performance appraisals processes and decisions, are clear and documented.

Interpretation of references to remuneration

19D.2.4 **R**

- (1) In this chapter, references to *remuneration* include *remuneration* paid, provided or awarded by any *person* to the extent that it is paid, provided or awarded in connection with *employment* by a *firm*.
- (2) Paragraph (1) is without prejudice to the meaning of *remuneration* elsewhere in the *Handbook*.

19D.2.5 **G** For example, *remuneration* includes payments made by a seconding organisation which is not subject to the *dual-regulated firms Remuneration Code* to a secondee in respect of their *employment* by a *firm* which is subject to the *dual-regulated firms Remuneration Code*.