

FSA Provides Guidance on the Remuneration Code for Financial Institutions

August 8, 2011 | Client Update | 2-minute read

On August 5, 2011, the UK Financial Services Authority (FSA) proposed two draft “Dear CEO” letters providing guidance on issues relating to the revised Remuneration Code, which came into force on January 1, 2011. The Remuneration Code covers a relatively wide-range of financial institutions in the UK (both UK firms and non-UK firms with branches in the UK) including banks, building societies and broker-dealers (over 2,500 institutions in all). The letters, one of which is for firms in proportionality tier 1 and the other for firms in proportionality tiers 2, 3 and 4, detail how the FSA plans to monitor implementation of the Remuneration Code and provide guidance on FSA policy with regard to the Code. Each letter contains annexes that provide specific guidance on the following topics: the definition of “Code staff”, expectations regarding qualifying long-term incentive plans and how firms may interpret the share-equivalent payment instrument alternatives.

The tier 1 letter and the letter for tiers 2, 3 and 4 differ with respect to how the FSA will assess a firm’s compliance with the Remuneration Code. Each tier 1 firm will be subject to an annual compliance review, which will include, among other elements, meetings between the FSA and the firm. Further, while all firms are required to prepare a Remuneration Policy Statement (RPS) within a given timeframe, only tier 1 firms must automatically submit their policies to the FSA (non-tier 1 firms need only submit an RPS if specifically requested by the FSA). A RPS template for tier 1 firms was published by the FSA along with the “Dear CEO” letters. The RPS templates for tier 2, 3 and 4 firms were published on April 19, 2011.

The FSA notice announcing the proposed guidance, including links to the draft “Dear CEO” letters and annexes, can be found [here](#).

The FSA is inviting comments to the proposed letters until September 2, 2011.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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