

March 2009



This newsletter provides a summary of CP09/10. Please see the section 'Who should read this paper?' to see if CP09/10 is relevant to you.

Financial Services Authority

Reforming remuneration practices in financial services

Why are we issuing the Consultation Paper?

We published a draft Code of Practice on remuneration policies on 26 February. This Consultation Paper (CP) puts forward a revised Code and formally consults on applying it to a group of large banks and broker dealers and incorporating it into the Handbook. We are also inviting general discussion and feedback on whether the Code should be extended to other FSA-authorized firms. We are not consulting on this question at this stage.

We report here on the findings of our review of remuneration practices in a group of major UK-incorporated banks and building societies, which we undertook between November 2008 and January 2009.

Who should read this paper?

This paper should be read by all FSA-authorized firms since, besides consulting on proposals affecting large banks and broker dealers, we are inviting discussion on the idea that the Code might be extended to all authorized firms.

This paper will also be of interest to trade bodies and consumer groups.

What is the background to this?

We began to consider the extent to which remuneration practices may have contributed to the current crisis during the summer of 2008. In October 2008 we issued a 'Dear CEO' letter asking firms to review their remuneration policies against a set of criteria of good and poor practice. Further information was obtained from the UK-based banks via a questionnaire and a series of bilateral meetings, with the aim of putting together a review of remuneration practices in the London markets.

We decided to upgrade the criteria to a Code of Practice and that we needed to consult on the proposal that we should give effect to the Code by incorporating it into our Handbook. The Code was first published in draft form on 26 February, alongside the government's publication of the details of the Asset Protection Scheme (APS).

We encourage firms to benchmark their remuneration practices against the Code. However, we are proposing in this CP that the Code should be incorporated into our Handbook in a way that would enable us to enforce the Code directly. If we decide to go ahead with the new Handbook rules we may need to make some further changes to the Code in taking account of responses to the consultation.

What happens next?

This paper specifies a two-month consultation period on implementing the Code for the larger banks and broker dealers, and a three-month period for feedback on the issues raised in Chapter 6 on the possibility of extending the Code to other firms regulated by the FSA.

We are consulting for two months as we want to bring the Code into effect in time for firms' 2009 remuneration reviews. To do this and give firms adequate time to prepare, we propose to provide feedback and publish the new rules, if we decide to go ahead, by early August 2009. We think that a two-month consultation period will be sufficient to enable potential respondents to provide feedback.

The Financial Services Authority invites comments on this Consultation Paper. Comments should reach us by 18 May 2009 for the consultation questions and by 18 June 2009 for the questions for discussion.

Comments may be sent by electronic submission using the form on the FSA's website at (www.fsa.gov.uk/Pages/Library/Policy/CP/2009/cp09_10_response.shtml).

Alternatively, please send comments in writing to:

Sophia Bantanidis
Banking Sector Division
Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Telephone: 020 7066 5542
Fax: 020 7066 5543
E-mail: cp09_10@fsa.gov.uk

It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure.

A confidential response may be requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.

How can I get the full paper?

You can download the full Consultation Paper from:

www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_10.shtml

Or you can order hard copies of the paper:

Phone our helpline on **0845 608 2372**, quoting reference **CP09/10**

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The Financial Services Authority 25 The North Colonnade Canary Wharf London E14 5HS
Main switchboard: 020 7066 1000 Fax: 020 7066 1099