The Remuneration Code (SYSC 19A)

1 The Code

The Remuneration Code applies to all BIPRU firms. The code applies to all remuneration payments made after 1 January 2011, even when the payments relate to work done in 2010.

The Firm must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. The focus is very much on risk versus remuneration.

The 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 Code staff

The Remuneration Code applies to staff including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile. It is therefor not only deal-makers that are impacted. Some traditional control functions such as compliance also come within scope. FSA guidance to Code Staff is:

A) Heads of significant business lines (including regional heads) and any individuals or groups within their control who have a material impact on the Firm's risk profile, in business lines such as:

- Fixed income
- Foreign exchange
- Commodities
- Securitisation
- Sales areas
- Investment banking (including mergers and acquisitions advisory)
- Commercial banking
- Equities
- Structured finance
- Lending quality
- Trading areas
- Research

B) Heads of support and control functions and other individuals within their control who have a material impact on the Firm's risk profile:

- Credit / market / operational risk

- Legal
- Treasury controls
- Human resources
- Compliance
- Internal audit

3 Remuneration principles

The rules require the Firm to observe a set of twelve principals. These are summarised below.

1 Risk management and risk tolerance

The Firm's remuneration policy must promote sound and effective risk management and not encourage risk-taking that exceeds the level of tolerated risk of the Firm.

2 Supporting business strategy, objectives, values and long-term interests of the firm

The policy needs to be in line with the business strategy, objectives, values and long-term interests of the firm.

3 Avoiding conflicts of interest

The policy needs to include measures to avoid conflicts of interest.

4 Governance

The Policy needs to be adopted by the Firm's governing body and be reviewed centrally and independently at least once a year. Subject to size, nature and complexity of the business it may be appropriate to establish a Remuneration Committee.

5 Control functions

Employees in Control Functions need to be independent, have authority and be paid enough to attract properly qualified and experienced staff, with their remuneration set by the remuneration committee, or if there is not one, the supervisory governing body. Risk management and compliance functions need to have input into setting the remuneration policy.

6 Remuneration and capital

Total variable remuneration must not limit the Firm's ability to strengthen its capital base

7 Exceptional government intervention

Were the Firm to receive "exceptional government intervention" – i.e. bailout with government funds – special rules limit fixed remuneration and bonuses for senior personnel.

8 Profit-based measurement and risk adjustment

Bonuses should be calculated having regard to all types of current and future risks and the cost and quality of capital and liquidity. They should be consistent withthe timing and likelihood of anticipated revenues. Bonuses should be assessed principally on the basis of profits.

Bonuses, including those previously earned, should be considerably reduced, often to zero, where subdued or negative financial performance occurs.

9 Pension policy

The Firm's pension policy must reflect its business strategy, objectives, values and long-term interests.

When an employee leaves or retires, there are restrictions for five years on the types of instrument held in the plan or paid to the retiree. Generally these must consist of equity shares or capital instruments in the Firm and related non-cash equity linked instruments. The restriction applies both to deferred and non-deferred bonus components.

10 Personal investment strategies

The Firm's employees must undertake not to use personal hedging strategies or insurance contracts that would undermine the risk alignment effects embedded in their remuneration arrangements. The Firm must ensure that employees comply with their undertaking.

11 Avoidance of the Remuneration Code

The Firm must ensure that variable remuneration is not paid through vehicles or methods that facilitate the avoidance of the Remuneration Code.

12 Remuneration structures (8 subcategories):

a) <u>General</u> The structure of an employee's remuneration must be consistent with and promote effective risk management.

b) Performance assessment Performance-related remuneration must be assessed based on the performance of:

- the individual;
- the business unit concerned; and
- overall results of the Firm

Assessments need also to take account of non-financial factors such as adherence to effective risk management and compliance with the regulatory system and with relevant overseas regulatory requirements.

c) Guaranteed bonuses The Firm may only pay guaranteed bonuses if it:

- is exceptional;
- occurs in the context of hiring new Code staff; and
- is limited to the first year of service

Guaranteed bonuses should not be more generous than then the bonuses awarded by the employee's previous employer and should be subject to the same deferral criteria as other forms of variable remuneration awarded by the Firm.

d) Ratio – fixed v variable The ratio between fixed and variable remuneration should be balanced and the fixed component should represent a sufficiently high proportion of the total to allow flexibility, including the possibility of no bonus.

e) Early termination Early termination payments must reflect performance achieved over time and be designed in a way that does not reward failure.

f) Equity and capital instruments A substantial proportion (at least 50%) of variable remuneration must consist of equity shares or capital instruments in the Firm and related non-cash equity linked instruments which are subject to an appropriate retention policy designed to align incentives with the longer-term interests of the Firm. The restriction applies both to deferred and non-deferred bonus components.

g) Deferral At least 40% of bonuses must be deferred for at least three years. Where a bonus exceeds £500,000 or is otherwise a significant amount in relation to the nature, scope and complexity of the Firm's activities and payable to a director, at least 60% of the amount must be deferred. Deferred bonuses should also be subject to performance criteria.

h) Performance adjustment Bonuses (including where deferred) may only be paid where they are sustainable financially and justified according to the performance of the Firm, the business unit and the individuals concerned.

4 Records

Firms are required to keep a record of the Firm's remuneration policies, practices and procedures. Such policies, practices and procedures should include performance appraisal processes and decisions. Records should be retained for at least 5 years after the date of the processes and decisions.