PRA Chief comments on EBA's report on role-based allowances

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PRA Chief comments on EBA's report on role-based allowances

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Andrew Bailey, Chief Executive of the Prudential Regulation Authority, has recommended that firms amend staff contracts so

as to ensure compliance with the European Banking Authority's report on the use of role-based allowances to contravene the EU bonus cap.

In October 2014, the EBA stated in its report that payments which are in fact discretionary bonuses are being miscategorised as role-based allowances in order to circumvent the EU bonus cap, which stands at 100% of salary (or 200% with shareholder approval). The PRA has stated that the opinion will be applied to the 2015 pay and bonus round.

Mr Bailey advised firms to review staff contracts and ensure that role-based allowances are correctly categorised. Mr Bailey suggested that, in order to conform with the EBA's requirements, firms must make all such payments more fixed in amount and limit the discretion to withhold them.

Mr Bailey also commented on the EBA's draft guidelines on sound remuneration policies. Some have understood the draft guidelines as seeking to limit the proportionality with which regulators can currently apply regulatory requirements on remuneration. Mr Bailey stated that the PRA applies such requirements less strictly in relation to smaller firms and does not wish to change this approach.

In the light of the PRA's statement, firms should begin to review staff remuneration policies sooner rather than later to ensure that they fully comply with the EBA's requirements in time for the next round of bonuses. Despite Mr Bailey's statement as to the PRA's proportionate application of the rules, smaller firms should not assume that the PRA will be able to maintain this stance in the medium to long term under such strong pressure from the EBA.

http://uk.reuters.com/article/2015/05/15/us-regulation-summit-banks-pay-idUKKBN0O00KB20150515

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