FSB publishes peer review on the implementation of financial sector compensation reforms in the United Kingdom

The Financial Stability Board (FSB) today published its Peer Review of the United Kingdom (UK). The review focuses on the steps taken by the authorities to implement the FSB’s Principles and Implementation Standards (P&S) for Sound Compensation Practices and to assess the effectiveness of financial sector compensation reforms in the UK.

The review finds that the Prudential Regulation Authority and the Financial Conduct Authority (the Authorities) have implemented reforms that are consistent with the P&S. While the initial focus was on the banking sector, over time the Authorities have increasingly implemented the P&S in the insurance and asset management sectors. Some of their approaches can serve as examples of good practice for other jurisdictions to consider. These include adopting a risk-based and proportional regulatory and supervisory approach; setting expectations through public communication to Remuneration Committee Chairs of firms; a supervisory approach that focuses on close interaction between prudential and conduct rules and reinforces accountability with links to compensation outcomes; and evaluating the regime’s effectiveness.

Clear communication with the industry has helped firms understand and embed the requirements. In combination with the Senior Managers and Certification Regime (SM&CR), the remuneration regime has helped firms become more disciplined in mapping responsibilities and resulted in greater consistency and transparency on acceptable remuneration practices.

Notwithstanding this progress, the review concludes that steps can be taken to further strengthen the financial sector compensation framework in a few areas by:

■ reviewing the interaction between the UK’s remuneration framework and the SM&CR, including how their interplay rewards diligent and proactive risk management;

■ streamlining data collection for so-called ‘level one’ banks and investment firms and collecting remuneration data from a broader range of firms;

■ considering other supervisory approaches for assessing the effectiveness of the remuneration regime, such as additional thematic reviews and onsite visits; and

■ providing additional guidance on remuneration for the insurance sector to promote clarity and consistency of outcomes.

The peer review report includes recommendations to the UK Authorities on these issues.
Notes to editors

FSB member jurisdictions have committed to undergo periodic peer reviews to evaluate their adherence to international financial standards. To fulfil this responsibility, the FSB has established a regular programme of thematic and country reviews, based on the objectives and guidelines set out in the *Handbook for FSB Peer Reviews*. As part of this commitment, the United Kingdom volunteered to undergo a peer review in 2020. This review forms part of the second round of country peer reviews of FSB member jurisdictions, which examine the implementation of G20 financial regulatory reforms. All completed peer review reports are available on the FSB website.

The draft report was prepared by a team of experts from FSB member institutions and led by Unathi Kamlana, Head of the Policy, Statistics and Industry Support Department at the South African Reserve Bank. The review benefited from dialogue with the UK authorities and market participants as well as from discussion in the FSB Standing Committee on Standards Implementation.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Vice Chairman, US Federal Reserve; its Vice Chair is Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, [www.fsb.org](http://www.fsb.org).