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## Consultation Response

### PRA CP18/21 Remuneration: Identification of material risk takers

8 November 2021

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The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on **CP18/21 REMUNERATION: IDENTIFICATION OF MATERIAL RISK TAKERS**. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

#### Summary

We are supportive of the proposals set out in the consultation. We set out below some brief comments on the application of the 0.3% threshold, the application of the currency threshold, and the supervisory statement.

#### Application of the 0.3% threshold

Rule 3.3A states that

"In addition to employees identified under the criteria set out in 3.1(1)(a) and (b), a firm must deem an employee to have a material impact on a firm's risk profile where either of the following quantitative criteria are met:

... (2) where the firm has over 1,000 employees, the employee is within the 0.3% of employees within the firm (rounded to the next higher integral figure) who have been awarded the highest total remuneration in or for the preceding performance year on an individual basis." (referred to as the '0.3% criterion')

We note that the RTS 2021/923 Article 2(4) states that Article 6(1)(b) (which is the 0.3% criterion) "shall only apply on an individual basis". Article 2 has more details on application of the MRT identification criteria which implies that "individual basis" means at the individual entity level, i.e. not at the consolidated level. We understand that the PRA's intention is also for the 0.3% criteria to only apply on an individual entity basis and not at a consolidated level. We would welcome confirmation from the PRA that this is also how Rule 3.3A(2) should be interpreted.

#### Application of the currency threshold

We are not entirely clear on the intention behind the PRA's proposal to redenominate currency references from EUR to GBP by using the average of daily GBP/EUR spot exchange rates over a 12-month period for the relevant performance year, prior to Friday 10 July 2020: £1 = €1.14, rounded to the nearest integer.

We would like to understand the reference to 'the relevant performance year'. Does this mean that there is an intention to translate the thresholds on an annual basis? If so, the change might particularly affect international firms with headquarters outside of the UK (in Europe, USA or Asia, with EMEA HQs in London) which have non GBP dominated variable compensation and for the purposes of compliance with relevant remuneration requirements use various FX rates.

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[For reference: in the EU, firms will be following paragraph 102 of the EBA Guidelines on Sound Remuneration Policies, which states that “When applying quantitative criteria that are defined in EUR, institutions which award remuneration in a currency other than EUR should convert the applicable thresholds using either the internal exchange rate used for the consolidation of the accounts or the exchange rate used by the Commission for financial programming and the budget for the month where the remuneration was awarded or the exchange rate for the last month of the institution’s financial year. The institution should document the applicable method to determine the exchange rate in its remuneration policy.”]

### **Supervisory statement**

We note that paragraph 102 of the EBA Guidelines on Sound Remuneration Policies states that (*with our emphasis added*)

“The self-assessment should be clear, consistent, properly documented and periodically updated during the year at least with regard to qualitative criteria under Article 92(3) of Directive 2013/36/EU, the RTS on identified staff and, where appropriate, in addition based on institutions’ criteria. Institutions should ensure that staff that fall or are likely to fall under Article 92(3), points (a), (b) and (c) of Directive 2013/36/EU or under the criteria of Article 5 of the RTS on identified staff for a period of at least three months in a financial year are treated as identified staff.”

Although the present PRA consultation does not cover this issue, we think it would be helpful if the PRA restored the language from 3.17 of SS2/17 Remuneration (April 2017) – superseded. This would support the PRA objective set out in the consultation to reduce the burden of firms complying with two sets of requirements.

We trust these comments are helpful and would be pleased to engage further as the regulatory process continues.

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