

# The FSA Remuneration Code

## Deferring remuneration

### Introduction

The Financial Services Authority's (the "FSA") revised Remuneration Code (the "Code"), which affects approximately 2,700 banks, building societies and other investment firms, was revised to implement the requirements of the third Capital Requirements Directive (CRD 3) and came into force on 1 January 2011.

The Code requires firms to apply "remuneration policies, practices and procedures that are consistent with and promote effective risk management" in particular, in certain circumstances, it requires that a proportion of any bonus payable to significant employees (known as "Code Staff") is deferred in shares (or similar).

Whilst, strictly speaking, the deferral element of the Code is limited to Tier 1 and Tier 2 firms, it is also considered, as a matter of good governance, by firms within Tier 3 and Tier 4 as well as firms outside the scope of the Code. Firms in Tier 3 and Tier 4 were expected to be fully compliant with the Code by 1 July 2011, and to have completed and submitted a Remuneration Policy Statement to the FSA by 1 September 2011.

The Code splits financial services companies into four tiers, as follows:

### Company profile

### Effect on companies in each tier

	Company profile	Effect on companies in each tier
<b>Tier 1</b>	<ul style="list-style-type: none"> <li>▪ Credit institutions, broker dealers, large banks and building societies that engage in significant proprietary trading/ investment banking activities</li> <li>▪ Capital resources &gt;£1bn</li> <li>▪ BIPRU €730k firms that are full scope BIPRU investment firms with capital resources &gt;£750m and all third country BIPRU firms with total assets (for the branch) &gt;£25bn</li> <li>▪ c.26 firms are expected to be included in this tier</li> </ul>	<p><b>Deferral:</b></p> <ul style="list-style-type: none"> <li>▪ At least 40% of variable remuneration must be deferred for at least 3 years, rising to 60% where total remuneration exceeds £500,000</li> </ul> <p><b>Payment in shares:</b></p> <ul style="list-style-type: none"> <li>▪ At least 50% of variable remuneration should be paid in shares (or other equivalent non cash instruments)</li> </ul> <p>NB: the 50% split applies equally to the deferred and non deferred portion</p>
<b>Tier 2</b>	<ul style="list-style-type: none"> <li>▪ Credit institutions, broker dealers, large banks and building societies that engage in significant proprietary trading/ investment banking activities</li> <li>▪ Capital resources £50m- £1bn</li> <li>▪ BIPRU €730k firms that are full scope BIPRU investment firms with capital resources £100m-£750m and all third country BIPRU firms with total assets (for the branch) £2bn-£25bn</li> <li>▪ c.200 firms are expected to be included in this tier</li> </ul>	<p><b>Deferral:</b></p> <ul style="list-style-type: none"> <li>▪ At least 40% of variable remuneration must be deferred for at least 3 years, rising to 60% where total remuneration exceeds £500,000</li> </ul> <p><b>Payment in shares:</b></p> <ul style="list-style-type: none"> <li>▪ At least 50% of variable remuneration should be paid in shares (or other equivalent non cash instruments)</li> <li>▪ Unlisted firms and building societies may be able to disapply. However, individual guidance should be sought</li> </ul> <p>NB: the 50% split applies equally to the deferred and non deferred portion</p>
<b>Tier 3</b>	<ul style="list-style-type: none"> <li>▪ Any bank and building society and full scope BIPRU investment firms that do not fall within Tier 1 or Tier 2</li> <li>▪ All third country BIPRU firms not included in Tiers 1, 2 or 4</li> <li>▪ Primarily small banks, building societies and firms that may occasionally take overnight/short term risk with their balance sheet</li> <li>▪ c.300 firms are expected to be included in this tier</li> </ul>	<p><b>Deferral:</b></p> <ul style="list-style-type: none"> <li>▪ Deferral requirement is not compulsory</li> </ul> <p><b>Payment in shares:</b></p> <ul style="list-style-type: none"> <li>▪ No obligation to pay at least 50% of variable remuneration in the form of shares (or other equivalent non cash instruments)</li> </ul>
<b>Tier 4</b>	<ul style="list-style-type: none"> <li>▪ All limited licence and limited activity firms (firms that generate income from agency business without putting their balance sheet at risk)</li> <li>▪ c.2,000 firms are expected to be included in this tier</li> </ul>	<p><b>Deferral:</b></p> <ul style="list-style-type: none"> <li>▪ Deferral requirement is not compulsory</li> </ul> <p><b>Payment in shares:</b></p> <ul style="list-style-type: none"> <li>▪ No obligation to pay at least 50% of variable remuneration in the form of shares (or other equivalent non cash instruments)</li> </ul>

## How can RBC cees help?

If you are considering the establishment of an arrangement to meet or mirror deferral requirements under the Code, then RBC cees can assist.

We are a leading global employee benefit administration specialist and we have a long heritage in dealing with deferral arrangements involving cash, investment in funds and/or shares.

We can provide administration, plan management and recordkeeping in conjunction with our trustee service, or as a standalone service or working with an external trustee.

In addition, we can also tap into RBC's wider services including investment services, credit, tax consultancy and private banking expertise, if required.

## Our services

No matter which tier your company falls under, RBC cees can help:

<b>Tier 1</b>	<ul style="list-style-type: none"> <li>✓ Share plan services, for share deferral</li> <li>✓ Deferred compensation plan services                             <ul style="list-style-type: none"> <li>▪ Full plan management</li> <li>▪ Investment selection &amp; monitoring</li> <li>▪ Access to RBC cees Online</li> </ul> </li> </ul>
<b>Tier 2</b>	<ul style="list-style-type: none"> <li>✓ Share plan services, for share deferral</li> <li>✓ Deferred compensation plan services                             <ul style="list-style-type: none"> <li>▪ Full plan management</li> <li>▪ Investment selection &amp; monitoring</li> <li>▪ Access to RBC cees Online</li> </ul> </li> </ul>
<b>Tier 3</b>	<ul style="list-style-type: none"> <li>✓ Deferred compensation plan services, if required</li> <li>✓ Share plan services may be relevant, if share deferral adopted</li> </ul>
<b>Tier 4</b>	<ul style="list-style-type: none"> <li>✓ Deferred compensation plan services, if required</li> <li>✓ Share plan services may be relevant, if share deferral adopted</li> </ul>

## Experience. Flexibility. RBC cees.

RBC cees is already helping companies with their bonus deferral programmes. The design of these plans varies by jurisdiction and can be either funded or unfunded by the client company.

Here is an example of one of these plans in action:

<b>Client Profile</b>	A European bank with a global bonus deferral programme
<b>The Population</b>	More than 3,000 senior employees
<b>The Plan</b>	<ul style="list-style-type: none"> <li>a. A mandatory bonus deferral notionally invested in client company shares and funds. The funds are managed by the asset management arm of the company, plus other external options</li> <li>b. 50% of the bonus is a compulsory investment into the company shares, the employee chooses how the remaining 50% is invested. The payout value is linked to the performance of all the investments</li> <li>c. RBC cees manages the participant data, investments and any hedging requirements</li> <li>d. Plan assets amount to more than EUR1 billion. Employee payouts span more than 50 countries</li> </ul>

We would be delighted to talk to you in detail about how we could help you meet your specific needs. Please feel free to contact us at any time:

→ **Call** +44 (0) 8000 566 550

→ **Email** [cees@rbc.com](mailto:cees@rbc.com)

→ **Or visit** [www.rbcees.com](http://www.rbcees.com)

