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News release

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Bank of England proposes tougher rules on bonus buy-outs

The Bank of England is today proposing to strengthen the remuneration requirements on buy-outs of variable remuneration. These proposals represent an important addition to the current remuneration rules which seek to ensure greater alignment between risk and reward, discourage excessive risk-taking and short-termism and encourage more effective risk management.

The Bank of England has previously sought views on a number of options for addressing the issue of buy-outs, in which a firm compensates a new employee for any unpaid remuneration that is cancelled when they leave their previous firm. The practice of buy-outs has the potential to undermine the effectiveness of the current remuneration rules. When a new employer buys-out an employee's cancelled bonus, the individual becomes insulated against the possibility of their awards being subject to ex-post risk adjustments through the application of either malus (the withholding or reduction of unpaid awards) or clawback (the recouping of paid awards). Through the practice of buy-outs, individuals can therefore effectively evade accountability for their actions.

Today's proposals intend to ensure the practice of buy-outs does not undermine the intention of the current rules on clawback and malus or allow employees to avoid the proper consequences of their actions.

The Bank of England proposes that buy-outs should be managed through the contract between the new employer and employee. The employment contract would allow for malus or clawback to be applied should the old employer determine that the employee was guilty of misconduct or risk management failings. The proposed rules would also allow new employers to apply for a waiver if they believe the determination was manifestly unfair or unreasonable.

Andrew Bailey, Deputy Governor for Prudential Regulation and CEO of the Prudential Regulation Authority said:

"Having the right incentives is a crucial part of an effective accountability regime. Remuneration policies which lead to risk-reward imbalances, short termism and excessive risk taking undermine confidence in the financial sector. Individuals should be held accountable for their actions and not be able to actively evade the consequences of their actions. Today's proposals seek to ensure that individuals are not rewarded for bad practice or wrong-doing and should help to encourage a culture within firms where reward better reflects the risks being taken."

ENDS

Notes to Editors

1) CP2/16: Buy-outs of variable remuneration
2) PS12/15 - Strengthening the alignment of risk and reward: new remuneration rules
3) CP15/14: Strengthening the alignment of risk and reward: new remuneration rules