

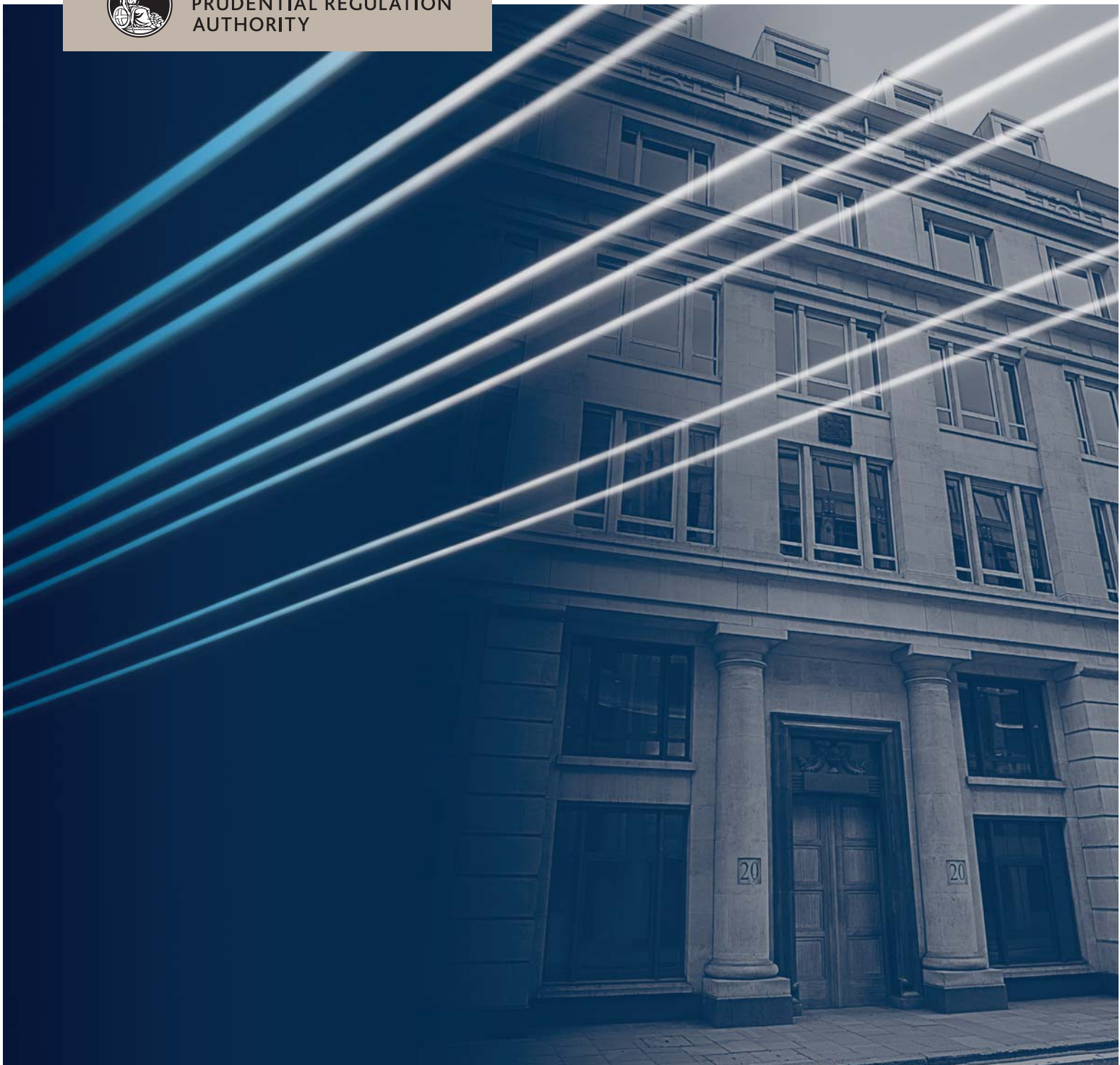
Supervisory Statement | LSS8/13

Remuneration standards: the application of proportionality

April 2013



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY





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From its commencement on 1 April 2013, the Prudential Regulation Authority (PRA) has adopted a number of legacy FSA policy publications relevant to the advancement of its objectives. This document, initially issued by the FSA, has been adopted by the PRA as a Supervisory Statement as part of this process. The PRA may choose to review this legacy publication at a later stage.

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Part A: Introduction and interpretation

Introduction

Status of guidance statement

1. This statement is general *guidance*. It relates both to:
 - (1) the *Remuneration Code* of SYSC 19A of the *Handbook*; and
 - (2) the requirement to make Pillar 3 disclosures in relation to *remuneration* (in accordance with BIPRU 11 of the *Handbook*).
2. Paragraphs 14 and 15 make provision about the interpretation of this *guidance* statement. Expressions in italics either bear the meaning given in the *Handbook Glossary*, or in the table in paragraph 15.
3. This *guidance* statement has effect from 25 September 2012.

Remuneration principles proportionality rule

4. The *remuneration principles proportionality rule* is set out in SYSC 19A.3.3R(2).
5. The *Remuneration Code* requires (amongst other things) a *firm* to apply requirements in SYSC 19A.3 to *Remuneration Code staff*. The *remuneration principles proportionality rule* requires a *firm*, when establishing and applying the total *remuneration* policies for *Remuneration Code staff*, to comply with SYSC 19A.3 in a way and to the extent that is appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities.

Guidance on the remuneration principles proportionality rule

6. General *guidance* is given in relation to specific aspects of the remuneration principles proportionality rule in SYSC 19A.3 itself.⁽¹⁾
7. Part D of this *guidance* statement provides additional general *guidance* in relation to the application of the *remuneration principles proportionality rule* to different types of *firm*.
8. Part E of this *guidance* statement provides additional general *guidance* in relation to the application of the *remuneration principles proportionality rule* to *Remuneration Code staff* who have, in relation to a given performance year, been *Remuneration Code staff* for only part of the year.
9. This *guidance* statement represents our *guidance* in a field where new requirements relating to *remuneration* are being implemented within the European Economic Area

(EEA). We recognise this will be an evolving process, and intend to keep the *guidance* set out here under review.

Guidance on proportionality in relation to remuneration committees and Pillar 3 remuneration disclosures

10. The *remuneration principles proportionality rule* does not apply to the requirement to establish a *remuneration* committee or to make disclosures in relation to *remuneration* under BIPRU 11 (as part of Pillar 3). But these requirements are governed by similar proportionality tests, on which *guidance* is given in Parts F and G of this *guidance* statement.

Individual guidance

11. We may give *guidance* to a *firm* in relation to the *remuneration principles proportionality rule* (SYSC 19A.3.3R). Such *guidance* may relate to the application of the *rule* by the firm generally, or in specific areas.

Arrangement of guidance statement

12. This general *guidance* statement is divided into seven Parts:
 - (1) This Part, Part A: Introduction and interpretation.
 - (2) Part B: Proportionality levels.
 - (3) Part C: Division of firms into proportionality levels.
 - (4) Part D: Guidance to firms in particular proportionality levels.
 - (5) Part E: Guidance about part-year Remuneration Code staff.
 - (6) Part F: Remuneration committees.
 - (7) Part G: Pillar 3 remuneration disclosures (BIPRU 11).
13. It is supplemented by two Appendices:
 - (1) Appendix 1: Supplemental guidance on dividing firms into proportionality levels.
 - (2) Appendix 2: Pillar 3 disclosure requirements by proportionality level.

Interpretation

14. This *guidance* statement is to be interpreted as if it was an Annex to SYSC 19A.3 (other than Part G and Appendix 2, which are to be interpreted as if they were an Annex to BIPRU 11). In consequence, *GEN 2* (interpreting the *Handbook*) applies to the interpretation of this *guidance* statement.
15. In particular, an expression in italics which is defined in the *Glossary* has the meaning given there (*GEN 2.2.7R*).

⁽¹⁾ The main provisions of guidance which specifically refer to the *remuneration principles proportionality rule* are SYSC 19A.3.34G (giving guidance in relation to *Remuneration Code staff* and certain rules on *remuneration* structures).

Where an expression in italics is not defined in the *Glossary*, it has the meaning given by the following table:

Table A Glossary of terms defined in this guidance statement

Defined expression	Definition
<i>CEBS guidelines</i>	Guidelines on Remuneration Policies and Practices of 10 December 2010 of the Committee of European Banking Supervisors.
<i>group</i>	has the meaning given in paragraph 3 of the <i>Glossary</i> .
<i>proportionality level</i>	has the meaning given in paragraph 17, and references to <i>proportionality level one</i> , etc are to be construed accordingly.
<i>Remuneration Code firm</i>	a <i>BIPRU firm</i> or <i>third country BIPRU firm</i> to which the Remuneration Code applies (in accordance with SYSC 19A.11R).
<i>relevant total assets</i>	has the meanings given in paragraph 24(3).
<i>relevant date</i>	has the meanings given in paragraph 24(3).
<i>solo Remuneration Code firm</i>	a <i>Remuneration Code firm</i> which is not part of a <i>group</i> containing one or more further <i>Remuneration Code firms</i> .

Part B: Proportionality levels

16. SYSC 19A.11R provides that the *Remuneration Code* applies to a *BIPRU firm* and a *third country BIPRU firm* (in the case of a *third country BIPRU firm*, in relation to the activities carried on from an establishment in the *United Kingdom*). In this *guidance* statement, such *firms* are referred to as *Remuneration Code firms*.
17. This *guidance* statement provides for the division of *Remuneration Code firms* into three categories:
- (1) *proportionality level one*;
 - (2) *proportionality level two*; and
 - (3) *proportionality level three*.
18. The process by which firms are divided into *proportionality levels* is provided in Part C (as supplemented by Appendix 1), and may also depend on individual *guidance*.
19. The *proportionality levels* provide a framework for the operation of the *remuneration principles proportionality rule*. *Guidance* is given to *firms* in different *proportionality levels* in Part D.
20. The *proportionality levels* are also used as the basis for *guidance* on separate proportionality tests which apply in relation to *remuneration* committees (Part F) and Pillar 3 remuneration disclosures (Part G and Appendix 2).

Part C: Process for dividing firms into proportionality levels

Overview

21. This Part provides the process by which a *Remuneration Code firm* should ascertain the *proportionality level* into which it falls. Appendix 1 provides supplementary *guidance* (including examples).
22. A *Remuneration Code firm*, in order to ascertain its *proportionality level*, must first establish whether it is part of a *group* which contains one or more other *Remuneration Code firms*:
- (1) If the *firm* is not part of such a *group* (a *solo Remuneration Code firm*), its *proportionality level* will depend on its individual characteristics (as determined in accordance with paragraph 24).
 - (2) If the *firm* is part of such a *group*, its *proportionality level* will depend on a two-stage process (as provided in paragraphs 25 and 26).

(This requires all *Remuneration Code firms* that are part of the *group* to fall into the highest *proportionality level* that any individual *Remuneration Code firm* in the *group* would fall into on the assumption that it was a *solo Remuneration Code firm*.)

23. Individual *guidance* may vary the *proportionality level* into which a *firm* would otherwise fall under paragraphs 24 to 26.

Solo Remuneration Code firms BIPRU firms and third-country BIPRU firms

24. The following table shows the *proportionality level* into which a *solo Remuneration Code firm* that is a *BIPRU firm* or a *third-country BIPRU firm* falls:
- (1) A *firm* of the description given in the second column falls into the *proportionality level* listed in the first column.
 - (2) Where applicable, the *firm's proportionality level* will further depend on whether it held *relevant total assets* on the *relevant date* of the amount listed in the third column of the table.
 - (3) In (2) —
 - (a) 'relevant total assets' means:
 - (i) for *BIPRU firms*, the average of the firm's total assets on the firm's last three *relevant dates*; and
 - (ii) for *third-country BIPRU firms*, the average of the firm's total assets that covered the activities of the branch operation in the

United Kingdom on the firm's last three relevant dates.

- (b) 'relevant date' means:
- (i) for BIPRU firms, an accounting reference date; and
 - (ii) for third-country BIPRU firms 'relevant date' means 31 December.

The limit confining relevant total assets to those that cover the activities of the branch operation in the United Kingdom is taken from SUP 16.12.3R(1)(a)(iv), which relates to a reporting requirement in relation to non-EEA banks (among others). We consider that a firm which needs to ascertain its relevant total assets should apply the general policy on valuation set out in GENPRU 1.3.

Table B Proportionality levels: solo Remuneration Code firms which are BIPRU firms or third-country BIPRU firms

Proportionality level	Type of firm	Relevant total assets on relevant date of firm (where applicable)
Proportionality level one	UK Bank.	Exceeding £50 billion
	Building society. BIPRU 730,000 firm that is a full scope BIPRU investment firm.	Exceeding £50 billion
Proportionality level two	UK Bank.	Exceeding £15 billion but not exceeding £50 billion
	Building society.	Exceeding £15 billion, but not exceeding £50 billion
	BIPRU 730,000 firm that is a full scope BIPRU investment firm.	Exceeding £15 billion, but not exceeding £50 billion
Proportionality level three	UK Bank.	Not exceeding £15 billion
	Building society.	Not exceeding £15 billion
	Any full scope BIPRU investment firm that does not fall within proportionality level one or proportionality level two (in accordance with this Table).	Not applicable
	BIPRU limited licence firm. BIPRU limited activity firm.	

Groups with more than one Remuneration Code firm

25. This paragraph applies where a Remuneration Code firm is part of a group containing one or more other Remuneration Code firms:

- (1) Each Remuneration Code firm in the group must determine the proportionality level into which it would fall on the assumption it was a solo Remuneration Code firm.
- (2) Where each Remuneration Code firm falls into the same proportionality level on the assumption that it was a solo Remuneration Code firm, each firm falls into that proportionality level.

- (3) Where the Remuneration Code firms fall into different proportionality levels on the assumption that they were solo Remuneration Code firms, each firm falls into the highest proportionality level.
- (4) For the purposes of (3), proportionality level one is the highest and proportionality level three is the lowest.

26. Appendix 1 provides examples of this approach. A firm which has a higher proportionality level as a result of the guidance in paragraph 25 than would have been the case had the firm been a solo Remuneration Code firm should note the scope to apply for individual guidance to vary its proportionality level (as discussed in paragraphs 5 and 6 of Appendix 1).

Part D: Guidance to firms in particular proportionality levels

Purpose of proportionality levels

27. In relation to the remuneration principles proportionality rule, the proportionality levels provide the following:

- (1) A framework for our supervisory approach, and a broad indication of our likely expectations.
- (2) Guidance on which remuneration principles may normally be disapplied under the remuneration principles proportionality rule.

28. The proportionality levels also provide guidance on the separate but similar proportionality rules that apply in relation to:

- (1) remuneration committees (Part F); and
- (2) Pillar 3 disclosures in relation to remuneration (Part G and Appendix 2).

Firms to continue to consider proportionality in their individual circumstances, etc

29. It follows from the nature of the remuneration principles proportionality rule, and the limited purposes noted in paragraph 27, that the proportionality levels do not provide comprehensive guidance on how the remuneration principles proportionality rule will apply to a particular firm. A firm will still need to consider the application of the remuneration principles proportionality rule to its individual circumstances.

30. A firm should bear in mind that the Remuneration Code may require different responses from firms that fall into the same proportionality level. This is illustrated by the following example:

- (1) Firm A is a global bank with relevant total assets of £800 billion, with substantial investment banking

business, foreign exchange exposures and a complex business model seeking aggressive growth. It falls into *proportionality level one*.

- (2) Firm B is a large mortgage and savings bank with *relevant total assets* of £100 billion and a comparatively simple, conservative business model. It falls into *proportionality level one*.
- (3) Firm C is a large building society, with *relevant total assets* of £25 billion and a comparatively simple, conservative business model. It falls into *proportionality level two*.
- (4) Remuneration Principle 8 requires, amongst other things, a *firm* to risk-adjust performance measures to take account of all types of current and future risks (SYSC 19A.3.22R(1)(a)).
- (5) Clearly the processes necessary to identify such risks will need to be more sophisticated for Firm A than for Firm B, despite the fact that they fall into the same *proportionality level*. Indeed, the difference in the necessary sophistication is likely to be greater as between Firm A and Firm B than as between Firm B and Firm C.

Disapplication of certain remuneration principles for firms in particular proportionality levels

31. The *Banking Consolidation Directive* can be interpreted such that it may not be necessary for certain *firms* to apply certain *remuneration* principles at all.⁽¹⁾ This has been endorsed and elaborated in the *CEBS Guidelines*.⁽²⁾
32. In our view, it will normally be appropriate for a *firm* in *proportionality level three* to disapply under the *remuneration principles proportionality rule* the following rules —

- (1) retained *shares* or other instruments (SYSC 19A.3.47R),
- (2) deferral (SYSC 19A.3.49R),
- (3) performance adjustment (SYSC 19A.3.51R), and

It may also be appropriate for *BIPRU limited licence firms* and *BIPRU limited activity firms* to disapply under the *remuneration principles proportionality rule* the ratios between fixed and variable components of total *remuneration* (SYSC 19A.3.44R).

We also endorse the *CEBS Guidelines* where they state that such firms may 'take into account the specific features of their types of activities' in applying the 'requirement on the multi-year framework..., in particular the accrual and *ex-ante* risk adjustment aspects of it' as discussed further in section 4.2.2.a of the *Guidelines*.⁽³⁾

33. However, *firms* should also note that some *remuneration* principles set specific numerical criteria (such as on the

minimum period of deferral, the minimum portion to be deferred and the minimum portion to be issued in *shares*). The following *guidance* applies where such principles apply to *Remuneration Code staff* and are not capable of disapplication under the approach set out above. In such circumstances, in line with the *CEBS Guidelines*, we do not consider that the *remuneration principles proportionality rule* permits a *firm* to apply lower numerical criteria.⁽⁴⁾ (For the avoidance of doubt, this *guidance* does not apply where a *firm* chooses to use deferral or issuance in *shares* more widely than required by SYSC 19A.3, for example in order to comply with the *Remuneration Code general requirement*.)

Part E: Guidance about part-year Remuneration Code staff

Introduction

34. SYSC 19A.3.34G provides *guidance* on when we do not generally consider it necessary for a *firm* to apply to certain *Remuneration Code staff* certain *rules* relating to *remuneration* structures. This Part provides supplementary *guidance* on how certain *rules* on *remuneration* structures might normally be applied to *Remuneration Code staff* who have, in relation to a given performance year, been *Remuneration Code staff* for only part of the year.

35. In giving this *guidance*, we have taken account of the *remuneration principles proportionality rule*.

Part-year Remuneration Code staff for more than three months

36. This paragraph applies where an individual (A) has, in relation to a given performance year, been *Remuneration Code staff* for a period more than three months, but less than twelve months:
 - (1) Sub-paragraphs (3) and (4) explain how the *guidance* in SYSC 19A.3.34G (as mentioned in the introduction to this Part) is to be applied in relation to A. Sub-paragraphs (5) and (6) provide that in certain circumstances it may be appropriate to apply certain *rules* to only a proportion of A's variable *remuneration*. Sub-paragraphs (7) to (9) provide examples.
 - (2) In this paragraph:
 - (a) 'relevant fraction' means the fraction derived by dividing the number of days in the given performance year for which A has been

(1) *Banking Consolidation Directive*, Annex V, paragraph 23 provides that the principles should be applied 'in a way and to the extent that is appropriate to their size, internal organisation and the nature, the scope and complexity of their activities' (emphasis added).

(2) *CEBS Guidelines*, paragraphs 19 to 23.

(3) *CEBS Guidelines*, paragraph 20.

(4) *CEBS Guidelines*, paragraph 19.

Remuneration Code staff by the number of days in the year;

- (b) 'qualifying fixed remuneration' means A's annual fixed remuneration in A's capacity as *Remuneration Code staff* multiplied by the relevant fraction;
 - (c) 'qualifying variable remuneration' means:
 - (i) in the case where A was an *employee* of the *firm* for the whole of the given performance year, A's variable remuneration in relation to the performance year multiplied by the relevant fraction;
 - (ii) in the case where A was only ever employed in the given performance year as *Remuneration Code staff*, A's actual variable remuneration;
 - (d) 'total qualifying remuneration' means qualifying fixed remuneration added to qualifying variable remuneration; and
 - (e) 'threshold amount' means £500,000 multiplied by the relevant fraction.
- (3) We do not generally consider it necessary for a *firm* to apply the rules referred to in (4) where, in relation to A, the following conditions are satisfied:
- (a) Condition 1 is that A's qualifying variable remuneration is no more than 33% of total qualifying remuneration; and
 - (b) Condition 2 is that A's total qualifying remuneration is no more than the threshold amount.
- (4) The rules referred to in (3) are those relating to:
- (a) guaranteed variable remuneration (SYSC 19A.3.40R);
 - (b) retained shares or other instruments (SYSC 19A.3.47R);
 - (c) deferral (SYSC 19A.3.49R); and
 - (d) performance adjustment (SYSC 19A.3.51R).
- (5) Sub-paragraph (6) applies where the conditions in (3) are not satisfied and the *firm* should apply the rules referred to in (6).
- (6) Where this sub-paragraph applies, we generally consider that it would be appropriate to apply the following rules to qualifying variable remuneration only:
- (a) retained shares or other instruments (SYSC 19A.3.47R);
 - (b) deferral (SYSC 19A.3.49R); and
 - (c) performance adjustment (SYSC 19A.3.51R).
- (7) The examples in (8) and (9) illustrate this guidance. The performance year in each case is 1 January to 31 December.
- (8) Example 1:
- (a) A1 is an *employee* of the *firm* through the performance year and is promoted to a *Remuneration Code staff* role with effect from

1 September. A1's previous fixed remuneration was £150,000. In his *Remuneration Code staff* role A1's fixed remuneration increases to £250,000. For the performance year, A1 is awarded variable remuneration of £130,000.

- (b) The relevant fraction is 122/365. A1's qualifying fixed remuneration is £83,560 (£250,000 multiplied by 122/365). A1's qualifying variable remuneration is £43,452 (£130,000 multiplied by 122/365). A1's total qualifying remuneration is £127,012. The threshold amount is £167,120 (£500,000 multiplied by 122/365).
 - (c) A1's total qualifying remuneration is below the threshold amount, so condition 2 of (3) is satisfied. But A1's qualifying variable remuneration is more than 33% of A1's total qualifying remuneration, and condition 1 of (3) is not satisfied.
 - (d) The rule on guaranteed variable remuneration applies to A1. In addition, the rules on retained shares and other instruments, deferral and performance adjustment must be applied to A1's qualifying variable remuneration of £43,452.
- (9) Example 2:
- (a) A2 joins the firm as a *Remuneration Code staff* member with effect from 1 July. A2's annual fixed remuneration is £450,000. For period of 1 June to 31 December, A2 is awarded variable remuneration of £50,000.
 - (b) The relevant fraction is 184/365. A2's qualifying fixed remuneration is £226,850 (£450,000 multiplied by 184/365). A2's qualifying variable remuneration is £50,000 (the actual amount). A2's total qualifying remuneration is £276,850. The threshold amount is £252,050 (£500,000 multiplied by 184/365).
 - (c) A2's qualifying variable remuneration is not more than 33% of A2's total qualifying remuneration, and condition 1 of (3) is satisfied. But A2's total qualifying remuneration is more than the threshold amount, so condition 2 of (3) is not satisfied.
 - (d) The rule on guaranteed variable remuneration applies to A2. In addition, the rules on retained shares and other instruments, deferral and performance adjustment must be applied to A2's qualifying variable remuneration of £50,000.

Certain part-year Remuneration Code staff for three months or less

37. Paragraphs 38 and 39 apply where:

- (1) an individual (B) has, in relation to a given performance year, been *Remuneration Code staff* for a period of three months or less; and

- (2) an exceptional or irregular payment (such as a sign-on award) has not been or is not to be made in relation to B's appointment as *Remuneration Code staff*.

38. Where this paragraph applies, we do not generally consider it necessary to apply the following rules in relation to B for the performance year in question:
- (1) retained *shares* or other instruments (SYSC 19A.3.47R);
 - (2) deferral (SYSC 19A.3.49R); and
 - (3) performance adjustment (SYSC 19A.3.51R).
39. Where this paragraph applies, the *guidance* in paragraph 36(2), (3) and (4)(a) should be applied for the purposes of determining whether or not it will generally be necessary to apply the rule on guaranteed variable *remuneration* to B (substituting in that paragraph, for references to 'A', references to 'B').

Part-year Remuneration Code staff for three months or less, but where exceptional etc payments made

40. Paragraph 41 applies where an individual (C) has, in relation to a given performance year, been *Remuneration Code staff* for a period of three months or less, but where an exceptional or irregular payment (such as a sign-on award) has or is to be made in relation to C's appointment.
41. The *guidance* in paragraph 36 applies in relation to C (substituting in that paragraph, for references to 'A', references to 'C'). The amount of exceptional or irregular payment is to be added to C's qualifying variable *remuneration* without pro-rating.

PART F: Remuneration committees

General

42. Remuneration Principle 4 (Governance) provides, in SYSC 19A.3.12R(1), that a firm that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities must establish a *remuneration committee*.
43. The following table provides *guidance* on when we consider it would be appropriate for a *remuneration committee* to be established under SYSC 19A.3.12R, based on the *proportionality level* into which the *firm* falls (as determined in accordance with Part C of this *guidance statement* (as supplemented by Appendix 1)):

Table C Guidance on whether remuneration committee required

Proportionality level	SYSC 19A.3.12R remuneration committee?
<i>Proportionality level one</i>	A <i>remuneration committee</i> should be established.
<i>Proportionality level two</i>	A <i>remuneration committee</i> should be established.
<i>Proportionality level three</i>	It would be desirable for such a <i>remuneration committee</i> to be established, and we would normally expect larger <i>proportionality level three</i> firms to do so. But we accept that it may be appropriate for the <i>governing body</i> of the <i>firm</i> to act as the <i>remuneration committee</i> .

Subsidiaries of overseas groups/third-country BIPRU firms

44. This *guidance* relates, broadly speaking, to a *Remuneration Code firm* which is a third-country *BIPRU firm*, or a *BIPRU firm* that is part of a *group* not subject to consolidated supervision by the *PRA*.
45. We accept that it may be possible for certain such *firms* to justify on the ground of proportionality not establishing under SYSC 19A.3.12R at solo level a *remuneration committee* of the *Remuneration Code firm*. However, in such circumstances it would be necessary to show how the functions which would otherwise have been performed by such a *remuneration committee* would be discharged with sufficient authority, and with sufficient independence from those performing executive functions within the *firm*. Where, for example, members of the *governing body* of the *firm* acted together with a *group remuneration committee* to discharge these functions, we would expect as a minimum to be satisfied that the operational arrangements ensured sufficient independence from those performing executive functions at *Remuneration Code firm* or *group* level, and allowed the *governing body* of the *firm* to exercise sufficient authority in relation to the *Remuneration Code firm*.

PART G: Pillar 3 remuneration disclosures (BIPRU 11)

Requirement to make Pillar 3 remuneration disclosures

46. *BIPRU 11* requires certain *Remuneration Code firms* to disclose a series of qualitative and quantitative information relating to remuneration (*BIPRU 11.3* and *BIPRU 11.5.18R*).
47. *BIPRU 11* applies only to *BIPRU firms*.

Pillar 3 remuneration disclosures and proportionality

48. Two proportionality tests apply in relation to the requirement to make Pillar 3 disclosures in relation to *remuneration*:

- (1) A *BIPRU firm* that is significant in terms of its size, internal organisation and the nature, scope and the complexity of its activities must also disclose the quantitative information referred to in *BIPRU 11.5.18R* at the level of *senior personnel* (*BIPRU 11.5.20R(1)*).
 - (2) *BIPRU firms* must comply with the requirements set out in *BIPRU 11.5.18R* in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities (*BIPRU 11.5.20R(2)*).
49. We consider that it is appropriate to give *guidance* on these proportionality tests by reference to the *proportionality levels* determined in accordance with Part C of, and Appendix 1 to, this *guidance* statement. However, as the disclosure requirement applies only to *BIPRU firms*, when applying the guidance in paragraph 25, only *Remuneration Code firms* which are *BIPRU firms* should be taken into account.
50. In relation to the proportionality test referred to in paragraph 48(1) the *PRA* considers that a firm should be regarded as 'significant' if it falls into *proportionality level one*.
51. In relation to the proportionality test set referred to in paragraph 48(2) the table in Appendix 2 sets out the categories of information that we consider *firms* in different *proportionality levels* should disclose.

Appendix 1: Supplemental guidance on dividing firms into proportionality levels

Groups with more than one Remuneration Code firm: examples

1. The following non-exhaustive examples illustrate the operation of the guidance provided in paragraph 25 of Part C. (It should be borne in mind that in each case individual *guidance* could vary the outcome provided by the operation of the guidance provided in that paragraph.)
2. **Example 1:**
 - (1) Firm A is the *parent undertaking* of Firm B.
 - (2) Firm A is a *UK bank* that had *relevant total assets* of £800 billion on its last *accounting reference date*. Firm B is a *limited activity firm*.
 - (3) On the assumption that they were *solo Remuneration Code firms*, Firm A falls into *proportionality level one* and Firm B falls into *proportionality level three*.
 - (4) As a result of the guidance at paragraph 25 of Part C, both Firms A and B fall into *proportionality level one*.
3. **Example 2:**
 - (1) Firm C is the *parent undertaking* of Firm D.
 - (2) Firm C is a *limited activity firm* and Firm D is a *UK bank* that had *relevant total assets* of £100 billion on its last *accounting reference date*.
 - (3) On the assumption that they were *solo Remuneration Code firms*, Firm C falls into *proportionality level three* and Firm D falls into *proportionality level one*.
 - (4) As a result of the guidance at paragraph 25 of Part C, both Firms C and D fall into *proportionality level one*.
4. **Example 3:**
 - (1) Company E is the *parent undertaking* of Firms F and G and Company H. Company H is the *parent undertaking* of Firm I. Firm J is a member of the group because of an *Article 12(1) consolidation relationship*.
 - (2) The firms and companies have the following characteristics:
 - (a) Neither Companies E nor H are *Remuneration Code firms*.
 - (b) Firm F is a *BIPRU 730,000 firm* that is a *full scope BIPRU investment firm* and that had *relevant total assets* of £40 billion on its last *accounting reference date*.
 - (c) Firms G and J are *limited activity firms*.
 - (d) Firm I is a *UK bank* that had *relevant total assets* of £10 billion on its last *accounting reference date*.
 - (3) On the assumption that they were *solo Remuneration Code firms* —
 - (a) Firm F falls into *proportionality level two*;
 - (b) Firms G and J fall into *proportionality level three*; and
 - (c) Firm I falls into *proportionality level three*.
 - (4) As a result of the guidance at paragraph 25 of Part C, Firms F, G, I and J all fall into *proportionality level two*.

Role of individual guidance

5. Individual *guidance* may vary the *proportionality level* into which a *firm* would fall under the general *guidance* set out in Part C and supplemented by this Appendix. In consequence, the definitions and thresholds provided in Part C do not provide an immutable classification. The *CEBS Guidelines* also provide guidance on applying proportionality between different institutions.⁽¹⁾
6. The following provide non-exhaustive high level examples of where we might consider providing individual *guidance* to vary a *proportionality level*:
 - (1) Where a *firm* was just below the threshold for a particular *proportionality level* (as determined in accordance with Part C), but where features of its business model or growth strategy suggest that it should fall within the higher *proportionality level*.

(1) *CEBS Guidelines*, paragraphs 24 and 25.

- (2) Where a *group of firms* contained several *firms* falling into a common *proportionality level*, but where the aggregate prudential risk posed by the group suggested that a higher *proportionality level* was more appropriate.
- (3) Where a *firm* falls into a higher proportionality level as a result of the guidance at paragraph 25 of Part C than would be the case on the assumption that it was a *solo Remuneration Code firm*, depending on the particular circumstances of the case.

Appendix 2: Pillar 3 disclosure requirements by proportionality level

BIPRU 11.5.18R disclosure requirement	Relevant proportionality level		
	Proportionality level one	Proportionality level two	Proportionality level three
BIPRU 11.5.18R (1) ('information concerning the decision-making process used for determining the remuneration policy, including if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders')	✓	✓	✓
BIPRU 11.5.18R (2) ('information on link between pay and performance')	✓	✓	✓
BIPRU 11.5.18R (3) ('the most important design characteristics of the remuneration system, including, information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria')	✓	✓	
BIPRU 11.5.18R (4) ('information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based')	✓		
BIPRU 11.5.18R (5) ('the main parameters and rationale for any(...) variable component scheme and any other non-cash benefits')	✓		
BIPRU 11.5.18R (6) ('aggregate quantitative information on remuneration, broken down by business area')	✓	✓	✓
BIPRU 11.5.18R (7) ('aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm...')	✓	✓	✓
...indicating the following:			
BIPRU 11.5.18R (7)(a) ('amounts of remuneration for the financial year, split into fixed and variable remuneration, and number of beneficiaries')	✓	✓	
BIPRU 11.5.18R (7)(b) ('amounts and form of variable remuneration, split into cash, shares and share-linked instruments and other')	✓		
BIPRU 11.5.18R (7)(c) ('amounts of outstanding deferred remuneration, split into vested and unvested portions')	✓		
BIPRU 11.5.18R (7)(d) ('the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments')	✓		
BIPRU 11.5.18R (7)(e) ('new sign-on and severance payments made during the financial year, and number of beneficiaries of such payments')	✓		
BIPRU 11.5.18R (7)(f) ('the amounts of severance payments awarded during the financial year, number of beneficiaries, and highest such award to a single person')	✓		