



Ruth Thomas supplies a guide to the new FSA regulations and how they may affect remuneration.

After much media and market speculation, the FSA has just published its Policy Statement 10/19. Most reward professionals were familiar with the potential changes due to the huge coverage it has received fuelled to some degree by political and media pressure but the main changes to the previous proposals which the FSA consulted on are:

- Proportion in shares: CEBS guidelines state that at least 50% of variable remuneration should consist of shares (or other specified instruments) and that this should be applied equally to both the deferred and undeferred portions.
- Retention Period: CEBS guidelines state that variable remuneration paid in shares (or other specified instruments) should be subject to an appropriate retention period.
- Guaranteed bonuses: Provisions on guaranteed bonuses should be applied on a firm-wide basis and not just to 'Code staff', in line with both CEBS guidelines and the FSB standards.

In terms of the timing for compliance with the new code, organisations that were already within the scope of the FSA's Remuneration Code are required to comply in full from 1 January 2011. Other organisations that are coming within scope for the first time must comply as soon as reasonably possible; and by 31 July 2011 at the latest.

Broader principals continue to apply with the requirements pertaining to transparency on how bonus pools are calculated to account for current and future risk continuing and organisations will have to demonstrate that their total variable remuneration does not limit their ability to strengthen its capital base.

Stepping back from the detail, reward leaders are recommended to consider the broader requirements and how to adapt to the evolving landscape for remuneration strategy that the Policy Statement brings. For instance:

Matching performance to reward: When aligning pay to performance at a company and business unit level, measures now need to demonstrate a longer term focus. For individual performance, the use of non financial measures such as behaviours comes to the fore; particularly rewarding behaviours such as compliance with regulatory and risk management requirements.

Flexibility in the compensation cycle: The delivery of variable compensation needs to be awarded according to the risks taken in achieving profit targets, and not just the absolute level of profits achieved, whilst being adjusted to ensure a closer link to performance goals over the longer term.

Compliance versus market competitiveness: The 2009 FSA Remuneration code prescribes this should be done through the use of effective deferral and claw back mechanisms. However, there is a delicate balance between achieving compliance whilst ensuring you are still able to maintain market competitive packages.

HR Enabling the business: As the structures to manage performance and derive compensation become more complex, so the requirement to empower line managers with intelligent tools that allow them to make highly informed, consistent payment decisions will increase.

Transparency and audit: You should also be prepared for more rigorous reporting which will include tracking and systematic auditing of pay allocation decisions versus business metrics.



Taking care of compensation

How effective solutions can help: Compensation professionals should consider what tools and systems they have in place to achieve these challenging requirements. Are they sufficient and can they be implemented and adapted quickly in the context of a difficult economic environment with limited resources?

Ruth Thomas is COO of Curo www.curocomp.com

Curo/Parkshot House/5 Kew Road/Richmond/Surrey/TW9 2PR/United Kingdom

T: +44 (0)20 8334 4786/F: +44 (0)20 8334 7287/E: info@curocomp.com/I: www.curocomp.com