

# Regulatory Update

## EBA Consults on Draft Remuneration Guidelines for Sales Staff

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14 January 2016

### Background

On December 22 2015, the European Banking Authority (EBA) published a consultation paper on its Draft Guidelines on remuneration policies and practices for staff offering and providing retail banking products and services (EBA/CP/2015/29)<sup>1</sup>.

The Draft Guidelines are intended to ensure that there is a better link between the fair treatment of consumers and remuneration, following cases of mis-selling in retail banking.

The deadline for comments on the Draft Guidelines is 22 March 2016. The EBA expects to publish the final guidelines in summer 2016. The guidelines will be effective from January 2017.

### Summary of Draft Guidelines

#### Overview

The draft text provides guidance to relevant firms for the design, documentation, approval and monitoring of remuneration policies and practices, which should include:

- Taking into account the rights and interests of consumers
- Preventing conflicts of interests
- Using both quantitative and qualitative criteria for determining the level of variable remuneration.

#### Who is impacted?

The Draft Guidelines cover the design of remuneration policies and practices for staff directly engaged with consumers. This includes individuals (and their managers) who are employed within institutions that provide mortgages, personal loans, deposit facilities, payment accounts, payment services and electronic money services.

#### How you can respond

For direct consultation on further implications, please contact us.

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<sup>1</sup> <https://www.eba.europa.eu/documents/10180/1317073/EBA-CP-2015-29+%28CP+on+the+GL+Remuneration+of+sales+staff%29.pdf>

## What does the document cover?

The focus of the Draft Guidelines is ensuring that regard for consumers' rights and interests is embedded in a firm's remuneration policy and practices.

Using quantitative performance criteria in isolation for determining the level of variable remuneration is explicitly prohibited. Criteria that promote one specific product or category of product which may be more profitable than others are also not permitted. In addition, incentive arrangements should not be unnecessarily complex and unclear.

Firms will be required to document the stated objectives of their remuneration policies, as well as the staff covered. This documentation should be retained for at least five years.

The 'Background and Rationale' section to Draft Guidelines also contains a number of features of remuneration policies and practices that would support consumer protection (paragraph 3.2.15).

## Considerations and Impact for Firms

We suggest that firms review their practices against the draft guidelines to provide an initial assessment of the implications.

Firms may wish to seek advice on the Draft Guidelines in order to determine whether or not they need to make changes to existing remuneration policies and practices. In some cases, changes may require significant employee communications and involvement with employee representative bodies in order to be effective by January 2017.

Firms may also decide to respond to the consultation.

The impact of the Draft Guidelines will vary by firm. However, we note that for many banks a substantial re-design of current arrangements may not be required. Evidence suggests that the use of variable pay plans that only feature a direct link to sales has been reduced:

- In the UK, for example, findings from the FCA's (UK's Financial Conduct Authority) thematic review into risks to customers showed that by October 2013, over 40% of firms across the financial services sector (including insurance and asset management) with sales staff did not have variable pay directly linked to sales.
- McLagan's Retail Banking Pay Practices study in 2015 also showed that 9 major UK banks did not have sales or products targets as direct determinants of variable remuneration.

## How can Aon Hewitt's Talent, Reward and Performance team help?

### Regulatory Alignment Review

We help firms review their compliance with remuneration regulations. Our proprietary tools help our industry experts assess clients' regulatory alignment, uncovering current gaps and future risks. Their keen insight helps clients to adapt to a changing landscape and keep on top of current and proposed regulations.

### Remuneration Architecture Review

We support companies design and implement reward structures that support their strategic goals whilst remaining compliant with regulatory requirements.

### Fact-Based Advice

Our business is built on data. Each of our regulatory assignments is underpinned by proprietary market data and trends, ensuring you have access to accurate, relevant and complete information.

### Industry Practice

We have long-term partnerships with virtually every leading global financial services firm enabling us to provide the breadth and depth of data and insight to build understanding.

### Multi-Disciplinary Approach

Our experienced staff include accountants, lawyers, talent, reward and performance experts. Our diverse teams ensure we consider your business issues holistically.

## About McLagan

McLagan is the leading Performance / Reward consulting and benchmarking firm for the financial services industry. For more information on McLagan, please visit [www.mclagan.com](http://www.mclagan.com).

## About New Bridge Street

New Bridge Street advises across all sectors and sizes of company, advising more UK Remuneration Committees than any other firm. We have experience in advising a large number of UK and European companies including those in the financial services sector. Please visit [www.newbridgestreet.com](http://www.newbridgestreet.com).

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