

New remuneration Guidelines for sales staff in financial institutions

03 October 2016

In brief

The EBA (European Banking Authority) published the final Guidelines on “remuneration policies and practices related to the sale and provision of retail banking products and services” on 28 September. These Guidelines will be applicable to financial institutions such as credit institutions, creditors etc. in respect with their credit and payment product distribution.

These Guidelines represents a major change, as they extend the number of staff under the scope of prudential remuneration regulations (i.e. consumer facing/sales staff rather than only Material Risk Takers).

In detail

While monitoring the implementation of the regulation on remuneration in Europe, the EBA noticed a growing number and significant misconducts and mis-selling cases. The aim of its Guidelines is to **regulate the remuneration paid to sales staff providing retail credit financial services products to customers.**

The implementation date of the Guidelines has been postponed to **13 January 2018**, instead of 3 January 2017. This is very convenient, given the particularly intense period of regulatory activity on remuneration. Indeed firms are currently implementing the requirements of EBA Remuneration Guidelines, although it's still unclear for which performance period they would apply. The next step of the process is the translation of EBA Guidelines into the official European languages. The local regulators will then have a **two month period in which they must confirm whether they'll comply** with the Guidelines, partially or totally. In Luxembourg, we still don't know how the CSSF will implement the new requirements.

Here are the key points:

Remuneration design:

- The concerned staff should **not be linked solely to quantitative targets.**
- As already stated in the CRD IV, firms should be able to operate a fully flexible policy on variable remuneration.

Governance:

- The management body will be ultimately responsible for the firm's remuneration policies and practices, which should **take into account the interests of consumers** and prevent potential conflicts of interest.

- The design of remuneration policies and processes must be based on **independent input**. If the review reveals that an institution's remuneration policies and practices do not operate as intended, then the policies and practices should be amended.
- Firms will be required to **document their remuneration policies and processes** and to keep the documents for audit purposes **for a period of at least five years**. These requirements are not prevalent in prudential regulations such as CRD IV. Nevertheless, it's not required to submit this documentation to the local regulator, unless it is requested.
- The "relevant person" is **any person working for an institution and directly offering banking products or services to consumers or who directly manages these staff**. The requirements to identify the staff actually add more categories of staff to the ones that firms had to identify and formally monitor for regulatory purposes.

In conclusion

The Guidelines are in general high level principles, but they represent another layer of remuneration regulations to be implemented by a number of financial sectors firms operating in Luxembourg and in the EU.

Should you have any questions or queries on any of the above, feel free to contact our dedicated Reward team.

Let's talk

Christian Scharff	Partner	+352 49 48 48 2051	christian.scharff@lu.pwc.com
Aude Guinet	Manager	+352 49 48 48 4272	aude.guinet@lu.pwc.com

PwC Luxembourg (www.pwc.lu) is the largest professional services firm in Luxembourg with 2,600 people employed from 58 different countries. PwC Luxembourg provides audit, tax and advisory services including management consulting, transaction, financing and regulatory advice. The firm provides advice to a wide variety of clients from local and middle market entrepreneurs to large multinational companies operating from Luxembourg and the Greater Region. The firm helps its clients create the value they are looking for by contributing to the smooth operation of the capital markets and providing advice through an industry-focused approach.

The PwC global network is the largest provider of professional services in the audit, tax and management consultancy sectors. We are a network of independent firms based in 157 countries and employing over 208,000 people. Talk to us about your concerns and find out more by visiting us at www.pwc.com and www.pwc.lu.

© 2016 PricewaterhouseCoopers, Société coopérative. All rights reserved. In this document, "PwC" or "PwC Luxembourg" refers to PricewaterhouseCoopers, Société coopérative which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity. PwC IL cannot be held liable in any way for the acts or omissions of its member firms.