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.

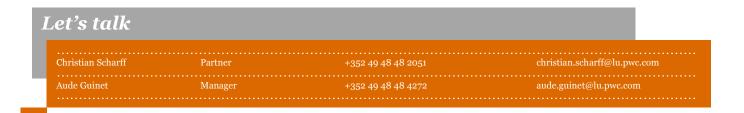


- The design of remuneration policies and processes must be based on **independent input**. If the review reveals that an institution's remuneration policies and practices do not operate as intended, then the policies and practices should be amended.
- Firms will be required to **document their remuneration 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.



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