ECONOMIC SECRETARY TO THE TREASURY

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Lord Boswell of Aynho
Chair
European Union Committee
Committee Office
House of Lords
London
SW1A 0PW

23rd May 2019

Dear Tim,

14775/16: Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012

14776/16: Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures

14777/16: Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2014/59/EU on loss-absorbing and recapitalisation capacity of credit institutions and investment firms and amending Directive 98/26/EC, Directive 2002/47/EC, Directive 2012/30/EU, Directive 2011/35/EU, Directive 2005/56/EC, Directive 2004/25/EC and Directive 2007/36/EC

Thank you for your letter dated 8 May 2019 clearing the Banking Package proposals from scrutiny. This is an important step in the finalisation of the Package, where the UK has achieved its negotiating objectives.

You asked for further clarification regarding the changes to the remuneration policy, particularly with regards to the UK's competitiveness. The Capital Requirements Directive V (CRD V – amending Directive 2013/36/EU) builds on the remuneration policy included in previous Directives, further harmonising the EU's remuneration rules, including the application of the bonus cap to all EU firms.

HM Treasury engaged with both the financial regulators and industry as the remuneration proposals developed in CRD V and our conclusion was that these proposals would be manageable for UK industry.

Our analysis has confirmed that these proposals will mean that all UK banks would now be subject to the bonus cap. This would mean that the bonus cap would be extended to 200 firms for which the Prudential Regulation Authority currently waives remuneration requirements. However, not all of these firms will be subject to all the remuneration requirements included within CRD V – we expect around 19 more UK firms will be captured by the entirety of these requirements.

We engaged with smaller banks and building societies to ensure that they would not be disproportionately affected by these proposals. Our conclusion is that the impact on smaller firms is limited as bonuses paid to employees tend to fall below the cap. As an example, our understanding is that only one individual out of the UK's 43 building societies would be captured. In addition, as noted in my previous letter, investment firms who are currently subject to CRD rules will also benefit from more proportionate remuneration rules under the new prudential regime for investment firms, the Investment Firms Review. Under these rules, investment firms will not be subject to a bonus cap.

Furthermore, the UK still retains certain discretions to ensure the impact of these proposals are limited. We have the ability to raise the €5bn threshold for remuneration policy to a €15bn limit, which is much closer to the UK's current £15bn threshold. This will ensure we can protect most firms from having to introduce the full suite of requirements. In the longer term, the UK's exact implementation of these rules will depend on the nature of the UK's exit from the EU.

In summary, whilst the amendments to the remuneration text in CRD V would change the UK's approach, the impact on smaller firms is manageable. It is also important to note that the firms affected are predominantly those operating on a UK domestic-only scale. UK firms operating internationally are generally not expected to be affected by these proposals, meaning the impact on UK international competitiveness is likely to be limited.

I am copying this letter to Sir William Cash, the Chair of the House of Commons European Scrutiny Committee; Jessica Mulley, Clerk to the Commons European Scrutiny Committee; Les Saunders, Department for Exiting the EU; and Barbara Armstrong, Departmental Scrutiny Coordinator, HM Treasury.

With very best regards

John

JOHN GLEN
ECONOMIC SECRETARY TO THE TREASURY