Chapter 2

Conduct of business standards: general

2.11 Remuneration and performance management policies, procedures and practices

Application

2.11.1 R This section applies to a *firm* with respect to:

(1) *credit-related regulated activity*; and

(2) *unregulated activity* that is financed by a *credit agreement* in respect of which the *firm* is carrying on *consumer credit lending* or *credit broking*.

2.11.2 R This section does not apply to a *firm* subject to:

(1) any of the remuneration provisions in ■ SYSC 19B (AIFM Remuneration Code) to ■ SYSC 19G (MIFIDPRU Remuneration Code); or

(2) remuneration provisions made by an *EEA regulator* pursuant to any of the following:

(a) *CRD*; or

(b) *AIFMD*; or

(c) the *UCITS Directive*; or

(d) *MiFID*.

Purpose

2.11.3 G (1) The purpose of this section is to amplify the requirements in *Principle* 3 and ■ SYSC 4.1.1R to ensure *firms* identify and effectively manage the risks to *customers* that may arise out of *firms'* policies, procedures and practices for the *remuneration* or performance management of their *employees*, *appointed representatives* and such of their individual agents within the meaning of ■ CONC 14 who interact with *customers*.

(2) This section does not apply to the commercial *remuneration* or commission arrangements between two or more separate *firms*.

(3) The risks this section addresses may arise out of a *firm's* policies for remunerating its *employees*, *appointed representatives* or individual agents for performance in carrying on *credit-related regulated activities*. Such risks may arise, for instance, where staff *remuneration*

(for example, a bonus or commission) is determined in whole or in part by the volume or value of *credit* provided or debt collected. These risks may, in addition, arise where an individual's formal (for example, annual appraisals) or informal (for example, day-to-day interactions with their line manager) performance management focuses on targets or measures of the volume or value of *credit* provided or debt collected.

(4) These risks may also arise out of a *firm's* policies for remunerating such individuals for performance in carrying on *unregulated activities* that are financed by *credit agreements* in respect of which the *firm* is carrying on *consumer credit lending* or *credit broking*. An example is where a *firm* incentivises an individual to sell or supply *goods* or services the purchase of which may be financed (in whole or in part) by a *credit agreement* in respect of which the *firm* is carrying on *credit broking* or *consumer credit lending*. The use of incentives in these circumstances creates the risk that the individual may, for example, provide or arrange *credit* to fund purchases when it is not appropriate to do so.

(5) Nothing in this section requires a *firm* to act in a way that would be inconsistent with its obligations under employment or contract law.

Requirements

2.11.4 R

(1) A *firm* must in relation to any risk of failure by the *firm* to comply with its obligations under the *regulatory system* arising from its *remuneration* or performance management policies, procedures and practices:

(a) establish, implement and maintain adequate policies and procedures designed to detect this risk; and

(b) put in place adequate measures and procedures designed to manage this risk.

(2) A *firm* must, when deciding how to comply with (1), take into account the nature, scale and complexity of its business, and the nature and range of financial services and activities undertaken in the course of that business.

Examples of measures and procedures to manage risks

2.11.5 G

Examples of measures and procedures which *firms* might introduce, where appropriate, to manage the risks to which this section applies, include:

(1) undertaking monitoring of the nature of sales activities and *debt collecting*;

(2) collecting management information to enable the *firm* to monitor and identify trends or patterns in *employee*, *appointed representative* or individual agent behaviour that could be used to detect these risks;

(3) establishing procedures to ensure appropriate actions are taken if an *employee*, *appointed representative* or individual agent is found to have behaved inappropriately; and

(4) maintaining arrangements to ensure the approval, oversight and regular review of *remuneration* and performance management arrangements by an appropriate governance committee or senior management.

2.11.6 G In relation to ■ CONC 2.11.5G(1), where the activities of an *employee*, *appointed representative* or individual agent are monitored by that *person's* manager, any potential conflicts of interest that arise should be adequately managed (for example, if the manager's *remuneration* is affected by the volume or value of sales or of debt collected by that team member).

Non-Handbook guidance

2.11.7 G A *firm* should also be aware of the finalised guidance entitled Staff Incentives, Remuneration and Performance Management in Consumer Credit.

[**Note:** see https://www.fca.org.uk/publications/guidance-consultations/gc17-6-proposals-staff-incentives-and-performance-management]