

Chapter 7

Governance and risk management



7.3 Risk, remuneration and nomination committees

Risk committee

7.3.1

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- (1) Subject to (2), a *non-SNI MIFIDPRU investment firm* to which this rule applies must establish a risk committee.
- (2) Subject to (3), a *firm* must ensure that:
 - (a) at least 50% of the members of the risk committee are members of the *management body* who do not perform any executive function in the *firm*; and
 - (b) the chair of the risk committee is a member of the *management body* who does not perform any executive function in the *firm*.
- (3) The requirements in (2) do not apply to a *firm* that, solely because of its legal structure, cannot have members of the *management body* who do not perform any executive function in the *firm*.
- (4) Members of the risk committee must have the appropriate knowledge, skills and expertise to fully understand, manage and monitor the risk strategy and the risk appetite of the *firm*.
- (5) The risk committee must advise the *management body* on the *firm's* overall current and future risk appetite and strategy and assist the *management body* in overseeing the implementation of that strategy by *senior management*.
- (5A) In order to assist in the establishment of sound remuneration policies and practices, the risk committee must, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.
- (6) Notwithstanding the role of the risk committee, the *management body* of a *firm* has overall responsibility for the *firm's* risk strategies and policies.

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- (1) ■ MIFIDPRU 7.3.1R(2) only applies to *firms* that are required to establish a risk committee under ■ MIFIDPRU 7.3.1R(1).
- (2) The chair may be included for the purposes of calculating the 50% referred to in ■ MIFIDPRU 7.3.1R(2)(a).

- (3) Where a *firm* has established a risk committee, its responsibilities should typically include:
 - (a) providing advice to the *firm's management body* on risk strategy, including the oversight of current risk exposures of the *firm*, with particular, but not exclusive, emphasis on prudential risks;
developing proposals for consideration by the *management body* in respect of overall risk appetite and tolerance, as well as the metrics to be used to monitor the *firm's* risk management performance;
 - (c) overseeing and challenging the design and execution of stress and scenario testing;
 - (d) overseeing and challenging the day-to-day risk management and the executive's oversight arrangements;
 - (e) overseeing and challenging due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the *management body*;
 - (f) providing advice to the *firm's remuneration* committee, as appropriate, in relation to the development, implementation and review of remuneration policies and practices that are consistent with, and promote, effective risk management;
 - (g) providing advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the *firm*.

Remuneration committee

7.3.3

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- (1) Subject to (2), a *non-SNI MIFIDPRU investment firm* to which this rule applies must establish a remuneration committee.
- (2) The obligation in (1) will be deemed to be satisfied where:
 - (a) the *non-SNI MIFIDPRU investment firm* is part of an *investment firm group* that is subject to prudential consolidation in accordance with ■ MIFIDPRU 2.5; and
 - (b) the *UK parent entity* has established a *remuneration* committee that:
 - (i) meets the requirements of ■ MIFIDPRU 7.3.3R(3) (read in conjunction with ■ MIFIDPRU 7.3.3R(4));
 - (ii) has the power to comply with those obligations on behalf of the *non-SNI MIFIDPRU investment firm*; and
 - (iii) has members with the appropriate knowledge, skills and expertise in relation to the *non-SNI MIFIDPRU investment firm*.
- (3) Subject to (4), a *firm* must ensure that:
 - (a) at least 50% of the members of the *remuneration* committee are members of the *management body* who do not perform any executive function in the *firm*; and
 - (b) the chair of the *remuneration* committee is a member of the *management body* who does not perform any executive function in the *firm*.

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- (4) The requirements in (3) do not apply to a *firm* that, solely because of its legal structure, cannot have members of the *management body* who do not perform any executive function in the *firm*.
- (5) A *firm* must ensure that the *remuneration* committee is constituted in a way that enables it to exercise competent and independent judgment on *remuneration* policies and practices and the incentives created for managing risk, capital and liquidity.
- (6) The *remuneration* committee must be responsible for preparing decisions regarding *remuneration*, including decisions which have implications for the risk and risk management of the *firm* and which are to be taken by the *management body*.
- (7) When preparing the decisions, the *remuneration* committee must take into account the public interest and the long-term interests of shareholders, investors and other stakeholders in the *firm*.

- (1) ■ MIFIDPRU 7.3.3R(3) only applies to *firms* that are required to establish a *remuneration* committee under ■ MIFIDPRU 7.3.3R(1).
- (2) The chair may be included for the purposes of calculating the 50% referred to in ■ MIFIDPRU 7.3.3R(3)(a).

Nomination committee

7.3.5

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- (1) A *non-SNI MIFIDPRU investment firm* to which this *rule* applies must establish a nomination committee.
- (2) Subject to (3), a *firm* must ensure that:
 - (a) at least 50% of the members of the nomination committee are members of the *management body* who do not perform any executive function in the *firm*; and
 - (b) the chair of the nomination committee is a member of the *management body* who does not perform any executive function in the *firm*.
- (3) The requirements in (2) do not apply to a *firm* that, solely because of its legal structure, cannot have members of the *management body* who do not perform any executive function in the *firm*.
- (4) A *firm* must ensure that the nomination committee:
 - is able to use any forms of resources the nomination committee deems appropriate, including external advice; and
 - receives appropriate funding.

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- (1) ■ MIFIDPRU 7.3.5R(2) only applies to *firms* that are required to establish a nomination committee under ■ MIFIDPRU 7.3.5R(1).
- (2) The chair may be included for the purposes of calculating the 50% referred to in ■ MIFIDPRU 7.3.5R(2)(a).

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Establishing committees at group level

- (1) A *firm* may apply to the *FCA* for a modification under section 138A of the *Act* to permit the *firm* to establish a risk committee, *remuneration* committee, or nomination committee at *group* level instead of complying with the requirement on an individual basis.
- (2) The *FCA* may grant a modification under section 138A of the *Act* if:
 - (a) compliance by the *firm* with the requirement to establish a committee on an individual basis would be unduly burdensome or would not achieve the purpose for which the *rules* were made; and
 - (b) granting the modification would not adversely affect the advancement of any of the *FCA*'s objectives.
- (3) To be satisfied that granting the modification would not affect the advancement of any of the *FCA*'s objectives under (2)(b), the *FCA* would normally expect the *firm* to demonstrate that the committee established at *group* level:
 - (a) meets the composition requirements in ■ MIFIDPRU 7.3.1R(2), ■ MIFIDPRU 7.3.3R(3) or ■ MIFIDPRU 7.3.5R(2), as applicable; and
 - (b) has members with the appropriate knowledge, skills and expertise in relation to the *firm* subject to the requirement to establish a committee.