



**Consultation Paper CP23/11**

**Remuneration: Enhancing proportionality for dual-regulated firms**

Governance & Cross-Cutting Standards team  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

Friday, 9 June 2023

VIA EMAIL

Dear Sir, Madam,

FIA EPTA members welcome the opportunity to respond to the FCA's Consultation Paper CP23/11 on Remuneration: Enhancing proportionality for dual-regulated firms.

This letter briefly summarises our members' views. While FIA EPTA does not represent dual regulated firms, we are fully supportive of FCA work to enhance proportionality and tailor rules to the size, scope and risks posed by UK regulated firms and to enhance competition by encouraging growth in the market and the overall competitiveness of the UK economy.

We note the changes are designed to align remuneration requirements for dual regulated firms more closely to the prior rules that applied under CRD IV (albeit with different financial metrics), rather than the current requirements of CRD V and note that under the proposal, all dual regulated firms, including dual regulated investment firms below £4 billion (and certain firms below £20 billion that meet additional criteria) would be exempt from the requirement to apply malus and claw back.

We also see that under 2.28 the FCA notes that it intends to keep under review other remuneration regimes and consider whether further changes are needed to them, as appropriate.

We are strongly supportive of the FCA implementing similar changes under SYSC 19G for the following reasons:

- a) Prior to the introduction of MiFID Pru and SYSC 19G, UK solo regulated investment firms were also subject to the remuneration proportionality provisions applicable under CRD IV.

- b) Since the introduction of MiFIDPru and SYSC 19G all investment firms that do not meet the criteria of small and non-interconnectedness are required to apply malus and clawback. As a result, if the FCA adopts the changes to SYSC 19D included in CP 23/11 without making corresponding changes to SYSC 19G, it would be imposing a significantly heavier burden and far greater constraints on the competitiveness of solo regulated firms (and the UK market) than on certain smaller dual regulated firms, notwithstanding that solo regulated firms are unlikely to pose greater risks to consumers or market integrity than dual regulated firms.
- c) Were the FCA to implement consistent changes to SYSC 19G to align it to the proposed changes to SYSC 19D, this would not impair the FCA's other objectives of ensuring consumer protection and market integrity, for the reasons the FCA itself identifies in the CP, as the removal of the requirement to apply malus and clawback is but one aspect of the remuneration requirements applicable to investment firms under SYSC 19G. However, failure to harmonize the rules applicable under SYSC 19G with those proposed under SYSC 19D would impose a disproportionate burden on smaller firms and would impair competitiveness in the sector generally and the attractiveness of the UK market for smaller investment firms.

We also note that the FCA has proposed more nuanced proportionality thresholds for dual regulated firms with assets between £4 and £20 billion. To the extent the FCA is of the view that the risks of investment firms above £300 million are sufficiently different from those of dual regulated firms below £4 billion, we would nonetheless encourage the FCA to consider proposing similar proportionality factors for investment firms that are currently in scope for the application of deferral, malus, and clawback, particularly potentially related to the time horizons of the risk taken by material risk takers, among other factors.

FIA EPTA members appreciate the FCA's consideration of our comments herein and welcome the opportunity to discuss further and provide additional input as required.

Kind regards,

**/s/ Piebe Teeboom**

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The European Principal Traders Association (FIA EPTA) represents Europe's leading Principal Trading Firms. Our members are independent market makers and providers of liquidity and risk-transfer for markets and end-investors across Europe. FIA EPTA works constructively with policy-makers, regulators and other market stakeholders to ensure efficient, resilient and trusted financial markets in Europe.

FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands, and the UK (~two-thirds of our members have been licensed by the FCA).

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