

16 September 2026

By email: cp26-27@fca.org.uk

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

Re: CP26/27: Remuneration: Solo-regulated firms' rules reform

Dear Sir/Madam

Managed Funds Association (“**MFA**”)¹ appreciates the opportunity to represent the views of the global alternative asset management industry in this written response to the Financial Conduct Authority’s (“**FCA**”) consultation paper CP26/27 on Remuneration: Solo-regulated firms' rules reform (the “**Consultation Paper**”).

The Annex sets out our responses to the relevant questions of the Consultation Paper and our suggestions for further changes. In particular, the key themes of our response, and areas where we would encourage further attention, are as follows:

- **Consideration of whether a remuneration code is necessary for solo-regulated wholesale asset managers and investment firms.** The UK is unusual among major international financial centres (excluding the EU) in maintaining a prescriptive remuneration regime for non-bank asset managers managing capital only for professional clients and investors. MFA therefore encourages the FCA to consider whether a remuneration code is necessary, given there are other aspects of the broader FCA rulebook that address the underlying aims of the remuneration code (to promote good conduct and effective risk management that is aligned with the interests of a firm's clients and investors). If a remuneration code is maintained however, MFA supports the consolidation of the current AIFM, UCITS and MIFIDPRU remuneration codes into a single code.
- **Support for a genuinely outcomes-focused framework.** MFA welcomes the FCA's proposed move away from detailed, prescriptive requirements towards a more

¹ Managed Funds Association (“**MFA**”), based in Washington, D.C., New York City, Brussels, and London, represents the global alternative asset management industry. MFA's mission is to advance the ability of alternative asset managers to raise capital, invest it, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 fund manager members, including traditional hedge funds, private credit funds, and hybrid funds, that employ a diverse set of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors diversify their investments, manage risk, and generate attractive returns throughout the economic cycle.

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outcomes-focused regime. We support firms being given flexibility to determine how best to achieve these principles in a manner appropriate to their business and, for firms that form part of international groups, with regard to existing global remuneration arrangements. Extensive guidance supplementing the principles can undermine that flexibility as it could have the effect of preserving the prescriptive nature of the current regime, should firms feel constrained to adhere to such guidance in interpreting the principles.

- **Avoiding unnecessary extraterritorial application of the new code.** The code should apply to employees at group affiliates outside the UK firm only where there is a clear and material nexus to the firm's UK regulated activities and the UK firm has sufficient influence over the relevant remuneration arrangements. This is particularly important for those of our members operating in the UK as MiFID sub-advisers to a non-UK (typically, US) parent, where remuneration of employees outside the UK is typically determined at group level by the US parent and outside the purview of the UK firm. The point is discussed in the response to Q3.
- **Support for a flexible and orderly implementation timetable.** MFA recommends that firms ready to comply should be permitted to apply the new code to in-flight performance periods on the date of publication of the final rules, to allow firms flexibility to start benefitting from the simplified regime sooner if they wish to do so.

MFA appreciates the opportunity to provide these comments to the FCA in response to the Consultation Paper. If you have any questions about these comments, or if we can provide further information, please contact the undersigned on rhailey@mfaalts.org or 0203 008 4377.

Yours faithfully

/s/

Rob Hailey
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Head of EMEA Government Affairs

CHAPTER 2. CHANGES TO THE FCA REMUNERATION REGIME: OUR PROPOSALS

2.1 A single remuneration code for FCA solo-regulated firms

Q1: Do you agree with our proposal to replace the existing remuneration codes with a single new code for in-scope FCA solo-regulated firms? If not, what alternative approach would better meet our objectives?

MFA response

MFA welcomes the FCA's recognition that the current remuneration framework, which is derived from banking regulation, is unusual internationally when applied to non-bank firms.

Currently, the UK remains an outlier among major asset management centres (including the US and United Arab Emirates) in applying a comparatively onerous and prescriptive remuneration regime to solo-regulated investment firms and asset managers, rather than relying on cross-cutting principles and rules (such as rules relating to fiduciary duties to investors, product design/disclosures, and investment processes). Outside of the EU, other jurisdictions have proved that the absence of remuneration codes for non-banks (which remain accountable to investors through fiduciary principles) has not caused systemic moral hazard or retail investor harm. This also suggests that a UK remuneration code is disproportionate for solo-regulated firms whose client base consists of professional investors.

Against that background and consistent with the FCA's secondary international competitiveness and growth objective, MFA considers that there is a legitimate case for questioning whether a standalone remuneration code remains necessary at all for solo-regulated wholesale asset managers and investment firms. In retaining a solo-regulated firms remuneration code of any kind, the UK would remain a significant outlier against its key international competitors.

Many MFA members operate UK MiFID investment firms as sub-advisers within global asset management groups and compete for talent against firms in the major international financial centres without remuneration codes. Accordingly, removing the current codes would increase firms' ability to retain and attract staff in the UK. MFA therefore encourages the FCA, in considering the appropriate end-state for the regime, to assess whether the relevant regulatory outcomes could instead be achieved through existing cross-cutting requirements without maintaining a distinct remuneration code. In doing so, the FCA should seek to ensure that the overall framework is internationally credible and capable of delivering outcomes consistent with the core governance, prudent risk management and conflicts management themes reflected in internationally recognised standards to the extent applicable, without the need for a standalone remuneration code.

Should the FCA nevertheless decide to retain a remuneration code for solo-regulated firms, MFA broadly supports replacing the three existing fragmented

codes with a single, coherent code. This is consistent with MFA's previous support for harmonising common requirements across the AIFMD and MiFID regimes.

If the FCA is not minded to remove the regime altogether, the final reforms should represent a genuine reduction in UK-specific regulatory constraints and should go no further than is necessary to address clearly identified risks.

In the new single code, the FCA should seek an outcome that a firm with multiple permissions, or a UK entity operating within a global asset management group, can work from one outcomes-focused framework rather than reconcile overlapping sectoral rules.

MFA supports the FCA's statement that firms whose existing UK, or equivalent EU, arrangements already deliver the required outcomes should not need to redesign those arrangements solely because of these reforms. In particular, a firm should be able to retain its global remuneration policy or other established group framework where it achieves the new code's outcomes, without creating a separate UK scheme or document merely because the FCA rules have been consolidated into a single framework. It may also be the case that UK firms, reliant on delegation arrangements with EU entities, seek to maintain remuneration arrangements that are consistent with EU requirements.

While any reduction in administrative burden is welcome in the long term, as further described in our response to A1.1, MFA recommends flexibility in the application date of any new code. For firms that are ready to comply, they should be permitted to apply the new code to remuneration relating to any in-flight performance period on the date of publication of the final rules, to allow firms flexibility to start benefitting from the simplified regime sooner if they wish to do so.

2.2 Outcomes-focused remuneration framework

Q2: Do you agree with our proposal to adopt a more outcomes-focused and less prescriptive remuneration framework for FCA solo-regulated firms? If not, which elements of the current framework do you think we should retain, and why?

MFA response

MFA strongly supports an outcomes-focused and less prescriptive framework. MFA has consistently recommended that the FCA set high-level standards and reserve granular rules for specific, clearly identified risks. That approach is particularly appropriate for wholesale asset managers and investment firms serving professional clients, whose business models, incentive structures and risks differ materially from those of banks and retail product manufacturers.

MFA notes that the final rules should make clear that the relevant outcomes should be considered in light of the characteristics of the relevant firm and its client base, rather than suggesting that outcomes be addressed uniformly across all solo-regulated firms. For example, the way the relevant outcomes should be addressed

for MiFID sub-advisors managing less liquid assets solely for an AIFM would differ significantly from what the approach for a UK AIFM managing a retail-only liquid equities fund.

The FCA should not use supervisory examples, thematic work or non-Handbook guidance to recreate the existing prescriptive rules in practice. Examples should be expressly non-exhaustive and should not establish a presumption that a particular structure – such as fixed deferral periods, payment in specified instruments or mandatory clawback – is required for any or all firms.

Firms should be permitted to demonstrate the required outcomes through existing global policies, governance committees, compensation processes and employment arrangements. For UK MiFID sub-advisers whose sole client is a parent or affiliated investment manager, proportionality should explicitly recognise the intragroup operating model, the professional nature of the client and the group's ability to oversee compensation centrally.

The FCA should also confirm that an outcomes-based standard is not an invitation to apply the highest requirement found in any predecessor code. The relevant test should be whether the firm's arrangements achieve the stated conduct, risk management and governance outcomes.

2.3 Application to staff and material risk takers

Q3: Do you agree with our proposals to apply general requirements to all staff and targeted requirements to material risk takers? If not, what changes would you make and why?

MFA response

MFA supports applying high-level requirements to the UK firm's staff and reserving more targeted principles for MRTs. This is more proportionate than applying the full set of payout process rules to a broad population. That said, MFA has concerns regarding the broad definition of "staff" to which SYSC 19AA would apply.

Definition of staff: The proposed glossary definition of staff in its current draft form covers: all employees (or partners/members) of the UK firm, employees of other entities in the UK firm's group who provide services to the UK firm, and all secondees of the UK firm. We note that this definition carries over concepts from an existing guidance provision on the term "staff" as used in the MIFIDPRU Remuneration Code..

In MFA's view, the definition as currently proposed does not align with the outcomes the FCA is trying to achieve, nor with the FCA's secondary international competitiveness and growth objective. As currently defined, the limb "an employee of other entities in the group who provides services to... a solo-regulated firm" imposes an extra-territorial application of the general principles in the proposed code to (for example) unregulated group affiliates, where employees of those

unregulated affiliates provide services of any kind or extent to the UK regulated firm, even where there is no consolidated group.

The definition should cover group employees only if and to the extent that the relevant individual performs material services for the UK firm's regulated business. For example, the definition should be expressly limited to individuals at group affiliates that are directly responsible for portfolio management activities as delegates of the UK firm, or are directly involved in tasks that could materially affect the UK firm's compliance with its UK regulatory obligations, and only then solely in respect of remuneration for the services performed for the UK firm. The definition in its current form would arguably cover, for example, a human resources analyst at the US parent of a UK-regulated firm who might spend a small amount of time per year on back office services related to the UK firm, which we trust is not the intended effect.

This clarification is important for MFA members whose UK MiFID firm is a sub-adviser to a US investment manager and whose personnel, systems and governance are integrated across the group. An unqualified group services limb could bring a large part of a non-UK parent's workforce into a UK remuneration code, creating substantial extraterritorial and operational difficulties without improving UK outcomes.

We note that the guidance on the extended meaning of "staff" in SYSC 19G.1.24G poses a similar issue today for MIFIDPRU investment firms that are part of global groups (that are not consolidated groups). We also note that a similar rule for AIFMs in SYSC 19B.1.3R does not utilise such a broad definition (in SYSC 19B, staff comprises those "whose professional activities have a material impact on the risk profiles of the AIFMs or of the AIFs the AIFM manages"). Accordingly, if the FCA desires to implement a more proportionate code, MFA recommends that the FCA remove any extra-territorial application of the code. If it nevertheless desires to extend the code to group affiliates, this should be strictly limited to staff at affiliates that directly carry out investment management activities as delegates of the UK firm. This would avoid perpetuating the MIFIDPRU issue and avoid imposing a higher burden than current levels on UK AIFMs.

MRTs: The MRT layer should reflect the role of individuals who have a genuine material impact on the UK firm's conduct or compliance with the UK firm's obligations under the regulatory system. Individuals should not be designated solely because they are senior, highly paid, members of a global committee, or employed by an affiliate. The focus should be the substance of the person's activities for the UK firm and whether those activities or incentives can materially affect the relevant UK-regulated outcome.

2.4 General remuneration requirements and remuneration tools

Q4: Do you agree with our proposed general requirements on firms' remuneration policies and practices and the guidance on remuneration tools?

MFA response

MFA supports these high-level requirements and welcomes the express recognition that remuneration governance may operate in a way that is appropriate to a firm's business model, including group-level policies, provided that the UK management body has effective oversight and access to relevant information.

Client and investor alignment: It should be made clear that the requirement in SYSC 19AA.2.2 that a firm's policies be aligned to the interests of the firm's clients, funds and investors should be applied solely by reference to the firm's actual legal and regulatory relationships. A UK MiFID sub-adviser whose sole client is the AIFM of one or more AIFs (often its parent or an affiliated investment manager) should assess alignment by reference to the delegated mandate, i.e. only the interests of the AIFM, as the UK firm's professional client, and the outcomes the UK firm can influence. The rule should not be interpreted as imposing a new direct duty to investors in funds for which the UK entity has no contractual or fiduciary relationship.

Remuneration tools: MFA recommends that the guidance on remuneration tools be broad and non-exhaustive. Given the variety of firms subject to the new code, the guidance should recognise that a wider set of tools may be appropriate for a given firm's business model, including arrangements used by global asset managers.

2.5 Remuneration principles for material risk takers

Q5: Do you agree with our proposed remuneration principles for material risk takers?

MFA response

MFA supports a concise set of MRT principles, provided they all remain outcomes-focused and proportionate to different ownership and compensation models.

In MFA's view, it should be clear that the proportionality rule in SYSC 19AA.2.3 applies to all Remuneration Principles applicable to MRTs (e.g. deferral and performance adjustments), and appropriate proportionality may warrant disapplication of the relevant rule for a particular firm (as is the case now, for example in respect of payout process rules in SYSC 19B).

MFA also supports the deletion of the current requirement in SYSC 19G.4.6R for a non-SNI MIFIDPRU investment firm to set an "appropriate ratio" between fixed and variable remuneration and considers that proposed SYSC 19AA.4.2R, which requires the fixed component to be sufficiently high to permit variable remuneration to be reduced or not paid, is sufficient to achieve the FCA's stated outcome without a separate ratio requirement.

The final rules regarding the requirement for an appropriate balance between fixed and variable remuneration must not recreate a bonus cap or encourage firms to increase fixed pay, nor should the balance be subject to regulatory reporting or a prescribed annual calibration exercise. Asset managers often use variable remuneration to align staff with investment performance, conduct and the long term interests of clients. The appropriate balance should remain a matter to be

determined by the firm, taking account of the individual's role, the firm's business model, its global remuneration arrangements (including the reversibility of variable remuneration where appropriate) and its commercial need to attract and retain staff.

The fixed versus variable distinction should also accommodate remuneration models that do not map neatly onto salary and bonus concepts and should be assessed by substance and risk, rather than forced into a banking model.

MFA supports the use of financial and non-financial criteria, including conduct and risk management. Severance rules should not treat statutory or contractual notice pay, garden leave payments, redundancy, settlements of bona fide disputes or replacement awards as rewards for failure. The firm should retain discretion to distinguish misconduct from ordinary commercial underperformance.

2.6 Deferral of variable remuneration

Q6: Which approach to deferral (principles-based or threshold-based) do you consider most appropriate, and why?

MFA response

MFA strongly prefers the principles-based approach. It is consistent with MFA's prior recommendation that deferral, malus and clawback should be treated as potential remuneration tools where they are proportionate to the firm's business model and risks, rather than mandatory features of remuneration arrangements. It also avoids the cliff-edge and competitive distortions created by quantitative thresholds.

The management body should be free to determine whether deferral is useful for a particular population or award and to recognise existing global arrangements. Where a firm elects to use deferral, it should be able to determine independently the relevant population, awards, proportions, duration, form, vesting and other terms according to its business needs and the risks it has identified, against the principles-based approach in the code. For example, the FCA should not require a duplicative UK deferral schedule where a global plan already addresses the relevant risk and code outcomes.

MFA also supports removal of mandatory retention periods and restrictions on paying ordinary dividends or interest on deferred instruments. Those requirements reduce the perceived value of awards and are unnecessary where deferral already provides the relevant time horizon. Firms should remain free to impose retention or equivalent features where they are useful, but they should not be required as a separate UK overlay.

MFA considers that proposed SYSC 19AA.8.4G(3), which identifies "managing money or assets for AIFs, UCITS schemes and their investors" as an activity for which deferral may be appropriate, should be revised. As currently written, this guidance could be interpreted as creating a presumption that deferral is expected merely because an MRT carries out trading activities or manages money or assets. Those descriptions encompass the core activities of a substantial proportion of the firms

within scope. The final guidance should make clear that such activities do not, without a specific material risk or timing mismatch identified by the firm, create an expectation that the firm must use deferral.

This is especially important for MiFID sub-advisers. A UK entity may provide research, portfolio management or order placement services to a professional affiliate under a group remuneration framework. The fact that the wider group manages funds should not automatically require the UK firm to impose a separate deferral mechanism.

2.7 Threshold-based deferral: fallback considerations

Q7: If you prefer threshold-based deferral, do you have a view on which thresholds and other deferral features (including deferral periods) we should use?

MFA response

MFA does not prefer a threshold-based approach. Quantitative thresholds create cliff-edge effects and can capture firms whose business models do not present the risks the deferral rules are intended to address. This is particularly evident in MIFIDPRU, where AUM or client orders handled metrics can make a relatively small, low risk sub-adviser a non-SNI MIFIDPRU investment firm.

If the FCA nevertheless adopts mandatory thresholds, they should be set at a high level and be aligned, so far as reasonably possible, with the more proportionate treatment of dual-regulated firms. Furthermore, the final rules should confirm that the consequence of crossing a threshold is narrowly confined to the deferral requirement and should not bring a firm within any other requirements analogous to the current extended remuneration requirements (e.g. triggering mandatory payment in instruments, retention or holding periods, prescribed vesting schedules, a remuneration committee, public remuneration disclosure or any other enhanced remuneration requirement).

Any threshold should be measured over a sustained period and include a reasonable transition and cure period. Temporary movements in AUM, revenue or client orders handled should not trigger immediate redesign of compensation arrangements, given the costs involved and consequences in attracting and retaining talent in growing firms.

MFA also cautions against importing the PRA's £4 billion total assets threshold into the solo-regulated asset management sector or treating that figure as an AUM threshold. AUM is not, by itself, an appropriate proxy for remuneration-related risk in asset managers. For example, a UK MiFID sub-adviser may advise in relation to substantial AUM while taking no principal investment risk, holding no client assets and providing services principally or exclusively to an affiliated overseas investment manager. The use of AUM would also be inconsistent with the FCA's broader direction of travel on proportionality. In CP26/28, the FCA proposes to move from AUM to NAV as the metric for determining an AIFM's size, reflecting the view that NAV provides a simpler and more appropriate basis for calibrating requirements to

firm size. This is also consistent with MFA's prior support for NAV rather than AUM as the relevant threshold metric.

While MFA advocates for removing all threshold-based approaches, if the FCA chooses to retain an individual de minimis threshold as part of a fallback model for solo-regulated firms, MFA considers that it should be no lower than the corresponding dual-regulated threshold and should be reviewed periodically to avoid erosion through inflation. The FCA should not prescribe a uniform minimum deferral period or mandatory instrument split.

2.8 Performance adjustment mechanisms

Q8: Do you agree with our proposal to require firms to consider performance adjustment mechanisms (such as malus and clawback) without mandating them? If not, what should be required and why?

MFA response

MFA strongly supports requiring firms to take a proportionate approach to performance adjustment without mandating specific adjustment mechanisms, such as malus or clawback. This directly addresses MFA's concern in the March 2025 Response that mandatory malus and clawback can be disproportionate for smaller and lower-risk solo-regulated firms and can place MIFIDPRU investment firms at a competitive disadvantage.

The final rule should make clear that a documented decision not to adopt malus or clawback can be appropriate for the particular firm, and the FCA should not treat application of these mechanisms as the default position, merely because they are named in the guidance. Firms should be able to use the mechanism that best fits the award, activity and jurisdiction of the MRT, including use of group-wide mechanisms where they cover the relevant individual and outcomes.

The framework should recognise legal and practical limits on recovery, including employment law, tax, insolvency and cross-border enforceability. It should also distinguish misconduct, compliance failures and material risk management failures from ordinary investment underperformance or losses that are consistent with an approved strategy.

2.9 Guaranteed variable remuneration

Q9: Do you agree with our proposals on guaranteed variable remuneration? If not, what changes should we make and why?

MFA response

MFA supports the proposed simplification. MFA previously explained in the March 2025 Response that the existing requirement limiting guaranteed variable remuneration to the first year of service can significantly constrain firms' hiring capabilities because it prevents sign-on bonuses and other recruitment awards

from being deferred for more than one year, notwithstanding that longer deferral periods are common market practice among firms not subject to those restrictions.

Guidance should therefore confirm that “time limited” does not mean limited to the first year of service, provided that such guarantees reflect remuneration forfeited at a previous employer or are reasonably necessary to recruit or retain specialised staff.

The permitted circumstances should also accommodate role transitions and intragroup transfers where an individual gives up compensation or assumes a materially different role, as well as scenarios where a retention award is issued to an employee in response to an offer they receive from an alternative employer. The rule should focus on whether the award creates an inappropriate ongoing guarantee, rather than prescribing a closed list of hiring scenarios.

2.10 Governance, review, disclosure and reporting requirements

Q10: Do you agree with our proposals to simplify governance requirements for remuneration by removing prescriptive requirements (including mandatory remuneration committees, remuneration disclosures, annual independent reviews, and reporting requirements)? If not, which elements should we retain, and why?

MFA response

MFA strongly supports removing mandatory remuneration committees, formal annual independent reviews, MIF008 and MIFIDPRU 8.6 disclosures. These changes are consistent with the March 2025 Response, which explained that mandatory remuneration disclosures provide limited market discipline benefits for unlisted investment firms and can require firms to publish commercially sensitive information from which competitors may infer compensation levels, thereby placing UK MIFIDPRU investment firms at an unreasonable competitive disadvantage.

MIF008: In particular, the MIF008 return currently imposes a significant operational burden, including the extraction and reconciliation of data held across payroll, human resources, finance, compliance and group systems. In MFA members’ experience, that burden is disproportionate to the limited supervisory utility of the information reported.

Accordingly, the benefit of revoking MIF008 should not be delayed by the transitional provisions in SYSC TP 15.5R. MIF008 should cease to apply to financial years beginning on or after 1 January 2027. For a firm with a calendar financial year, the final submission should be the return filed during 2027 in respect of the 2026 financial year; no return should be required during 2028 in respect of 2027.

If the FCA considers that compulsory application to a financial year that began before publication of the final rules would be inappropriate, firms should at minimum be permitted to make an irrevocable election to apply the new code, including the removal of MIF008, from the beginning of any performance period during 2027.

Governance generally: MFA agrees that remuneration governance should be proportionate and can operate through the UK management body, an existing board committee, a group compensation committee or another appropriate arrangement, depending on the business model and characteristics of the firm.

AIF annual reports and non-UK AIFMs: MFA notes that these proposals do not remove the remuneration disclosures that are included in an AIF's annual report under the UK AIFM Regulations (and those that will remain in CP26/28). MFA will be responding separately to CP26/28, but we note that, in respect of any remaining obligations relating to remuneration disclosures under the AIFM regime, these disclosures should remain aggregate and principles-based, and it should be clear that a third country AIFM marketing under the NPPR should remain outside SYSC 19AA.

2.11 Scope: UK AIFMs, UK UCITS management companies and third country AIFMs

Q11: Do you agree with our proposal to include medium and large UK AIFMs (once the AIFM reforms are implemented) and UK UCITS management companies within the scope of the new code? If not, how should the scope be adjusted?

MFA response

MFA agrees with the application of the new high-level, outcomes-focused remuneration code to medium and large UK AIFMs, provided that the code is genuinely proportionate and guidance does not suggest that large AIFMs should implement more detailed remuneration policies and procedures merely because the AIFM's aggregate NAV crosses a threshold. As MFA stated in its June 2025 response on the FCA's Call for Input on future regulation of alternative investment fund managers (the "June 2025 Response"), additional prescription should be tied to a specific activity or risk rather than pure size.

MFA supports excluding small UK AIFMs from the revised code. The transition from full scope status to the proposed medium and large categories should be automatic, clearly sequenced with CP26/28 and accompanied by sufficient implementation time. Subject to the implementation approach advocated in our responses to Q10 and Q17 (particularly regarding MIF008), the wider set of rules under the code should apply consistently to performance years beginning during 2027, with awards relating to earlier performance years and existing contractual rights appropriately grandfathered.

As noted in our response to Q10 above, MFA supports the confirmation that non-UK AIFMs are not subject to SYSC 19AA. The FCA should state this prominently and clarify that the retained NPPR annual report disclosure does not extend the full set of rules in SYSC 19AA to employees of third-country AIFMs, unless they are included in the definition of staff, as discussed in Q3 above.

2.12 Removal of SNI MIFIDPRU firms from scope

Q12: Do you agree with removing small and non-interconnected (SNI) MIFIDPRU investment firms from remuneration requirements so that the new code would only apply to non-SNI MIFIDPRU investment firms?

MFA response

MFA strongly supports removing SNI MIFIDPRU firms from the remuneration code. This is a clear example of a proportionate approach to outcomes-focused regulation, i.e. that a dedicated remuneration regime is unnecessary for small firms.

The transition into and out of SNI status should be clear and workable. A firm that newly qualifies as SNI should leave scope without having to maintain legacy UK remuneration structures indefinitely, while a firm that becomes non-SNI should have a reasonable implementation period and should not need to amend awards relating to earlier performance periods.

The FCA should also ensure that the broad definition of staff and group-level governance provisions do not indirectly subject employees of an SNI group entity to SYSC 19AA merely because another group company is in scope.

2.13 Removal of MIFIDPRU remuneration tiers and thresholds

Q13: Do you agree that removing the existing tiered structure and thresholds under the existing MIFIDPRU Remuneration Code (SYSC 19G) and replacing them with a single, outcomes-focused framework in the new code would simplify the regime and improve clarity for these firms? If not, are there elements of the current tiered approach that you consider necessary to retain in the new code?

MFA response

MFA supports removing the basic, standard and extended tiers, provided that the single framework will not increase the substantive obligations of a non-SNI MIFIDPRU investment firm that is currently outside the extended remuneration requirements. Subject to the FCA adopting its preferred principles-based deferral option, MFA's assessment is that the proposed framework should result in a net reduction, rather than an increase, in the obligations of those firms.

MFA notes that non-SNI MIFIDPRU investment firm status can be triggered by AUM, client orders handled, revenue or balance sheet metrics that do not necessarily indicate material remuneration risk. As MFA explained in the March 2025 Response, the non-SNI thresholds can capture firms that are significantly smaller and lower risk than dual-regulated firms benefiting from remuneration exemptions.

The final rules should therefore retain a strong, operative proportionality standard. A UK MiFID sub-adviser with a professional affiliate client, no retail business, no custody of client assets and a limited local balance sheet should be able to satisfy the code through a concise local policy or a documented reliance on the group

framework. The FCA should not expect that firm to establish UK-specific deferral, instruments, malus, clawback or committee arrangements absent an identified risk, based on the management body's judgement under the outcomes-focused framework.

2.14 Definition of material risk taker

Q14: Do you agree with our proposal to narrow and refocus the definition of a material risk taker? If not, what changes would you suggest, and why?

MFA response

MFA supports removing the prescriptive and deemed MRT criteria currently contained in SYSC 19G.5.3R (in respect of non-SNI MIFIDPRU investment firms) and replacing them with a focused, materiality-based test.

That said, there is a risk that limb (3)(b) in the new MRT definition does not narrow the current equivalent definition in SYSC 19B.1.3R (in respect of AIFM Remuneration Code staff), which currently applies to individuals “whose professional activities have a material impact on the risk profiles of the AIFMs or of the AIFs the AIFM manages”.

MFA agrees that, as set out in the proposed guidance in SYSC 19AA.3.3G, the final test relevant to each category of solo-regulated firm should be based on materiality, the individual's actual authority and the UK-regulated outcomes the person can influence, not remuneration level, job title, seniority or membership of a global committee alone. That said, the non-exhaustive examples in the draft guidance should not become automatic categories. Authority over a significant amount of AUM, contribution to revenue, participation in a transaction, product design or strategic decision-making may be relevant, but only where the individual can materially affect the conduct or compliance outcomes identified in the definition.

For example, for a UK MiFID sub-adviser, research analysts, employees executing instructions without material discretion, technology or operations personnel, and shared service employees should not be treated as MRTs solely because their work supports a large global investment business.

In addition, the “remuneration incentives” reference in the definition and guidance should be clarified. It should require a material incentive risk connected to the UK firm's regulated activities. It should not capture an individual simply because total compensation is high or linked to group performance.

2.15 Revocation of existing non-Handbook remuneration guidance

Q15: Do you agree with our proposal to revoke the relevant non-Handbook remuneration guidance? If not, what should we retain, and why?

MFA response

MFA supports revoking the existing guidance. In particular, the March 2025 Response criticised the AUM-based presumptions in FG14/2 because they can deter AIFMs from applying proportionality even where the firm's activities and risks do not justify the payout process rules. Those presumptions should not be carried into the new framework.

FG23/6 was designed around a more prescriptive regime in which malus and clawback were mandatory for many firms. If performance adjustment mechanisms become outcomes-focused, retaining detailed ex-post adjustment guidance could undermine that reform and create a supervisory expectation that the mechanisms remain mandatory in practice.

Any genuinely useful interpretive points should be restated concisely and consistently within SYSC 19AA, as noted in our response to Q16 below.

2.16 New non-Handbook implementation guidance

Q16: Do you consider that non-Handbook guidance is needed to help firms apply the remuneration proposals? If so, which areas or issues should it cover?

MFA response

MFA does not consider that extensive new non-Handbook guidance is necessary. Detailed guidance risks indirectly recreating the prescriptive regime that the FCA is seeking to remove and could cause firms to adopt conservative, standardised arrangements to reduce supervisory challenge. That said, given the significant changes under the new framework and the diverse range of firms subject to the single code, limited guidance (solely contained within SYSC 19AA) would make the regime more user-friendly and clarifies supervisory expectations – provided it operates as a non-exhaustive safe harbour, does not establish mandatory minimums or supervisory presumptions, and expressly recognises that firms may achieve the same outcomes through different arrangements.

MFA considers that priority guidance provisions to be contained within the new code are:

- Definition of “Staff”: non-binding guidance on the material UK nexus for group employees and secondees within “staff” and confirmation that shared ancillary services remain out of scope.
- Definition of “MRTs”: we agree that non-exhaustive examples proposed in SYSC 19AA.3.3.G are helpful.
- Group policies: confirmation that firms can rely on group governance and global remuneration policies where UK outcomes are achieved, and application of the code to intra-group MiFID sub-advisers.
- Variable remuneration – confirmation that no numerical fixed-to-variable ratio, cap or target is required; the management body may reasonably determine that deferral is not appropriate, or where deferral is used, its form and terms; trading or managing assets does not automatically create a

presumption in favour of deferral; and crossing any firm-level threshold does not trigger other extended remuneration requirements.

ANNEX 1. COST-BENEFIT ANALYSIS

A1.1 Assumed cost reductions and existing compliance costs

Q17: Do you agree with the assumptions set out in Tables 4 and 6 of our Cost Benefit Analysis regarding the expected reduction in and existing compliance costs under the proposed remuneration code? Do you have any other comments on our Cost Benefit Analysis? Please provide supporting evidence, including quantified estimates where possible.

MFA response

MFA agrees with the direction of the CBA but considers that it materially overstates some savings and omits important implementation costs revealed by the draft instrument.

The CBA does not incorporate legal and operational costs of interpreting any new group staff definition, remapping MRT and certification populations, analysing individual and consolidated application, reconciling group regimes, and updating employment, award and governance documents. For UK AIFMs, the staged AIFM implementation process may create two rounds of change unless coordinated.

Savings will vary sharply by business model. A firm that can retire a UK-specific framework and rely on a global policy may save more than the FCA assumes. A UK sub-adviser that must build a UK overlay to its global remuneration policy due to novel UK definitions and concepts may incur net costs. The FCA should model both cases.

MFA agrees that removing MIF008 should generate meaningful recurring savings, and considers that the CBA may understate the present cost of the return. The cost is not limited to completing and submitting the template. It includes identifying the relevant population, extracting data from multiple systems, reconciling UK and group remuneration records, applying currency and classification methodologies, obtaining internal approvals and involving legal, compliance, finance, payroll and human resources personnel.

The CBA should also recognise that the timing of the transitional provisions will determine whether the forecast savings are realized promptly. For example, if MIF008 remains applicable to a 2027 performance or financial period because that period began before formal commencement, firms may incur an additional full reporting cycle.

Accordingly, as noted in our response to Q1, MFA recommends that the new code (or at the very last, the removal of MIF008) be permitted to apply to remuneration relating to any in-flight performance period on publication of the final rules, if firms are ready to transition to the new code by that point.

If the FCA considers that application to a performance period that began before publication of the final rules would be inappropriate, firms should at minimum be

permitted to make an irrevocable election to apply the new code from the beginning of any performance period commencing during 2027.