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BANKERS' BONUSES - THE FINAL RULES

FINAL RULES ON UK BANKERS' REMUNERATION: DEFERRAL PERIODS FOR BONUSES TO BE FURTHER SHORTENED AND OTHER CHANGES

The Prudential Regulation Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**") have now published their final rules shortening the deferral periods that apply to risk-takers' variable remuneration in large banks in the UK as well as making further changes.

However, in a surprise announcement, the changes will take place much quicker than expected. Not only will all remuneration for 2025 and later years be able to benefit from the more generous regime, but all currently deferred remuneration will generally be able to benefit from the relaxations with immediate effect if a relevant bank chooses.

Banks will therefore now quickly have to consider whether to take advantage of this for currently unvested or deferred remuneration. Accelerating receipt of bonuses could lead to some very large releases for some UK employees over the next few months.

BACKGROUND

In response to arguments that excessive risk-taking was a key contributor to the 2008 banking crisis, the UK along with other countries introduced remuneration rules designed to curb

short-term incentives rewarding risky behaviour amongst risk-takers working in banks.

A key part of the overall remuneration framework is that a percentage of variable remuneration for certain risk-takers in larger banks is required to be deferred both in shares (or other instruments) and cash. These rules have since evolved under both UK and EU legislation, but in its development of deferral rules the UK regime has gone further than EU rules or international norms. This has led to criticism that the rules are clipping UK competitiveness and make working for a large UK bank in the UK or overseas unappealing.

As a reminder, the rules apply to material risk takers ("**MRTs**") in banks, but do not apply to an MRT's variable remuneration – principally bonuses, although share options and LTIPs are also included in this category of pay – if one of 2 proportionality tests is met:

- + The employee works for a smaller bank. The vast majority of banks or bank branches operating in the UK have been in this category, but even more were moved to be treated as small banks by reforms introduced in 2023 – see the second part of our client alert under "[PRA Proposal](#)". [PRA proposes smaller banks will no longer have to operate clawback on key staff bonuses](#); or
- + The employee works for a larger bank as a MRT, but their remuneration is below certain limits (the "**proportionality exclusion**").



DEFERRAL/RETENTION PERIODS

Old deferral rules

The level of responsibility of MRTs in large banks broadly used determine the deferral rules as follows:

Category of MRT	Minimum Deferral Period	When could vesting of deferred remuneration start?
Those holding Senior Management Functions (" SMFs "), who are responsible for implementing the overall business strategy and risk management of the bank.	7 Years	3 years after the year in which remuneration is earned
MRTs who take on a risk-managing element	5 Years	1 year after remuneration is earned
Other MRTs	4 Years	As above

Receipt of shares etc. was further delayed by the operation of retention periods (see below) and no dividends or interest could be paid on shares or instruments during the deferral period.

There was also a requirement that at least 50% of the variable remuneration was paid in shares, and cash could not vest any faster than shares.

New deferral rules

In a much simpler framework, all MRTs are now be treated the same (the PRA proposal last year had proposed a two-tier framework but that has been further simplified in the final rules).

Category of MRT	Minimum Deferral Period	When could vesting of deferred remuneration start?
All MRTs	4 Years	1 year after the year in which remuneration is earned

This will align the UK with other regimes. For example, in the EU, bankers' bonuses are typically deferred for three to five years, which caused the UK's previous seven year period to be a significant outlier.



Removing the need for Retention Periods

Subsequent retention periods (see below) will also no longer be required, which will mean that remuneration can be received even quicker.

When deferred shares (or other instruments) vest, there was previously a requirement that MRTs subject to the remuneration rules retain those shares for up to a further 12 months, in effect prolonging the effect of the deferral even longer.

Now banks will be free not to set a retention period at all. This will mean that shares can be sold as soon as they vest. (The exception is for shares which are awarded upfront on non-deferred terms, where there will still need to be a 12 month retention period.)

Allowing Dividends and Interest to be paid in the Deferral Period

In addition, MRTs can now receive dividends or interest on shares or other instruments in the deferral period as and when they would normally be paid. This is common practice among listed companies generally but was previously prohibited for relevant MRT remuneration.

Split of Cash and Shares

In a further change made after the consultation, the PRA have now said that banks do not now have to pay cash and shares in equal ratios whenever a payment is made. While there is still a requirement to award at least 50 per cent of variable remuneration in shares or other instruments overall, more cash can now be paid upfront with shares forming a greater proportion of the deferred component.

Malus and Clawback

While deferral periods have been reduced to 4 years across the board, the recovery period remains 5 years or 7 years for senior managers or those with large bonuses. There have also been some changes to:

- + introduce a rule for firms to consider adjusting remuneration of accountable individuals up the management chain in the event of failures in risk management;
- + introduce a requirement to ensure that senior management are accountable for their performance against PRA supervisory priorities; and

- + clarify expectations for remuneration committees for determining accountability for adverse risk events.

Retention awards

Retention awards no longer need specifically to be approved by the PRA in advance.

MRTS AND PROPORTIONALITY

Deferral periods are required to be implemented for variable remuneration payable to relevant MRTs in larger banks unless the proportionality exclusion applies.

Old rules for the identification of MRTs and the proportionality exclusion

An MRT has long been an employee or director whose professional activities had a material impact on the firm's risk profile. These are the so-called "qualitative" factors. In addition, there have also been "quantitative" factors: an MRT has automatically been deemed a MRT if they earn £660,000 or more or were within the top 0.3% of the firm's highest earners, although banks could apply to the PRA for dispensations from the results produced by the quantitative factors.

However, just because an employee is an MRT does not mean that their bonuses have to be deferred, or other remuneration rules apply if they work for a larger bank (MRTs at smaller banks are not subject to these rules).

Under the so-called "proportionality exclusion", which was significantly reduced in scope in 2021, the remuneration deferral rules did not apply to an MRT in a larger bank if the MRT had variable pay of less than £44,000 and their variable remuneration was less than 33% of their fixed pay, which means that many MRTs were not able to take advantage of the proportionality exception.



New rules for the identification of MRTs and the proportionality exclusion

Changes are being made both to the identification of MRTs and the scope of the proportionality exclusion.

Changes to the identification of a MRT (which affect large and small banks) all but remove the quantitative elements of the categorisation so that MRTs will in practice not simply be caught as MRTs because of their pay. Under the new rules, the £660,000 automatic threshold will be removed, and firms will no longer have to include those in the top 0.3% as MRTs. While including the top 0.3% will still be an expectation, a bank will be able to form its own view on whether individuals in that group should be included as MRTs without specifically contacting the PRA for a dispensation. The specific rules that capture MRTs who are high earners in specific business units will also be removed. The PRA estimated that c. 20% of MRTs are currently identified as MRTs solely because of their pay and so the changes could lead to a sizeable fall in the number of MRTs.

However, at the same time the PRA has tightened up the processes which firms must follow to identify their MRTs, including providing non-exhaustive examples of roles that can materially affect the risk profile of a firm and specifically providing for greater involvement of specific individuals in the firm (eg chief risk officers). Firms should look closely at the new rules in this area which stand out in setting new requirements in what is generally a consultation reducing burdens on firms. The PRA has given further details on its expectations in the October 2025 document.

As to whether an MRT is able to take advantage of the proportionality exclusion, the variable pay limit of £44,000 has been changed to a total remuneration limit of £660,000 (to return to the pre-2021 position as adjusted for inflation). In addition, to take advantage of the proportionality exclusion, variable remuneration must remain not more than 33% of fixed pay as under the existing regime.

The old and new proportionality exclusions for deferral are set out next to each other below:

Old remuneration thresholds below which an MRT was not subject to deferral	New position
Variable remuneration of £44,000 or less and variable remuneration of 33% or less of total remuneration	Total remuneration of £660,000 or less and variable remuneration of 33% or less of total remuneration (same as previously)

On a related point, the level at which variable remuneration is required to be 60% deferred rather than subject to the standard 40% deferral is also rising to £660,000 (it had been set at £500,000). The PRA’s final position goes further though and (like modern stamp duty on residential property) now requires only 60% of the amount above £660,000 to be deferred with 40% deferral below that level, rather than 60% of the whole amount which had been the position until now.

Finally, the PRA has also reverted to its old position and said that an MRT who holds the position for less than 3 months in a performance year is not required to be subject to the deferral rules or have a requirement to be at least part paid in instruments.



Dual Rules

As part of the changes, there will also be greater alignment between PRA and FCA rules. Historically, the FCA and the PRA have each have a set of remuneration rules which dual-regulated firms must comply with. The FCA will simplify its rules by in large part simply cross-referring to the remuneration part of the PRA rules, removing the need for it to maintain its own set of parallel remuneration rules. This should remove duplicative and inconsistent rules, achieving a greater alignment between the regulators' rules.

Most changes take effect immediately

These changes complement the removal of the bankers' bonus cap in 2022 and the increase in 2023 in the number of banks able to be treated as smaller banks, which do not have to apply the pay-out rules at all.

They form part of the wider trend, which had already started with the previous Government, of loosening rules (eg the Listing Rules) which are now perceived to be losing the UK business, or are a reaction to issues which are no longer current problems, or which can be addressed in other ways

However, while it was always likely that these changes would be implemented, when the changes can take effect has come as a surprise.

Previous changes have only taken effect for remuneration in the year after implementation. However, the PRA have now said that these changes will mostly take effect immediately and so will affect not just 2026 but also 2025 remuneration, but more significantly may also (if banks choose) take effect retrospectively. If remuneration was awarded in the past with longer deferral periods, if banks, it can now be adjusted in line with the new deferral periods (without subsequent retention periods as well).

This leads banks with some significant choices to make – and possibly with little time to do it. The operational impact of changing several years remuneration in one go should not be underestimated and affected banks will no doubt be looking to what the market generally is doing as they consider their own reaction.

The final rules can be viewed here: [PS21/25 – Remuneration Reform | Bank of England](#)

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