Response by TISA to FCA Consultation Paper – Remuneration: Solo-regulated firms' rules reform (CP26/27)

Steve Latto, Policy Executive

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About TISA

Supporting the financial journey through life

The Investing and Saving Alliance (TISA) is committed to improving the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

We care about the entire financial life of consumers: from their first savings account opened to ensuring people can age and retire with dignity. TISA believes that savings and investments play a significant role in the lives of people and small businesses. Consumers benefit when they put aside money for their future. Saving and investing can provide a buffer for emergencies; help people achieve big and small goals throughout their lifetime; and give people quality of life in later years.

TISA is a not-for-profit membership organisation and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. We have over 260 member firms involved in the supply and distribution of savings and investment products and associated services.

Our work, your influence

Our policy work reflects TISA's broad scope of interests and aims on meeting the needs of UK consumers, members and our industry. From improving financial education, inclusion and accessibility, right through to savings, investments and retirement planning, the work we do with our members to **influence policy** is crucial in enhancing the industry we operate in and driving positive change.

As part of our commitment to delivering focused and impactful consumer outcomes, TISA's policy working groups have been structured into three distinct workstreams:

1. **Consumer Protection -** *Protecting the best interests of UK consumers in their financial journeys.*
2. **Consumer Access -** *Considering issues that could directly impact access to financial products.*
3. **Effective Products -** *Examining key considerations and legislation relating to products across the investing and saving landscape.*

All groups focus on both strategic and technical elements of policy/regulation. We provide a channel for firms to have their say on the policy we develop and present, contribute to our technical and regulatory interpretation work and, importantly, gain insights from other TISA members, policy makers, government and regulators.

Find out more about TISA here: **www.tisa.uk.com/about-tisa**

Introduction and Summary of Recommendations

TISA welcomes the proposed replacement of three existing remuneration codes with a single consolidated new code for in-scope solo-regulated firms. In particular we support the FCA's plans to:

- move away from detailed, prescriptive rules towards a more flexible outcomes focused approach;
- focus the scope of the remuneration regime on firms that pose greater potential risks to consumers and markets, and
- revoke existing non-Handbook guidance and incorporate all ongoing requirements into a single consolidated new code (SYSC 19AA)

These plans fully align with the FCA's objective to facilitate international competitiveness and growth of the UK economy. The outcomes focused approach will ensure there is an appropriate degree of protection for consumers.

We recognise the significance of the move to outcomes focused rules and the responsibility that will place on solo-regulated investment firms to ensure their governance and oversight arrangements are robust. However, given that firms must already comply with one or more of the existing remuneration regimes, the move to a single remuneration code will not require significant change for most firms. In addition, firms already have experience of outcomes focused rules (e.g. Consumer Duty) and, accordingly, we expect that experience to ease the transition.

Although we are supportive of the FCA's overall plans, as part of the implementation of these changes, we would encourage the FCA to focus on the following key elements:

External Communication

With a broader focus on encouraging private individuals to invest for the future, trust in financial services must be maintained. Accordingly, when the Policy Statement containing the final rules is published, we would encourage the FCA to include wider communications around the changes, to emphasise that alignment with clients' interests and delivering good outcomes for investors will remain at the core of the revised code.

Centralisation of FCA Requirements

We believe all FCA requirements and expectations should be documented centrally within the FCA Handbook. We do not believe there is a need for additional non-Handbook guidance, as greater prescription would dilute the benefits of the move to outcomes focused rules. Having a central location for all related guidance and requirements helps firms of all sizes, and particularly new market entrants, understand and comply with the regulatory framework.

As a membership body, there will be a complementary role for TISA to play to help ensure requirements are fully understood by our members from a practical perspective. For example, we will work with our members to create a remuneration best practice guide and ensure this guide is kept-up-date (e.g. following the publication of good and poor practice papers). Our experience is that such guidance works well and will help to support firms that are assessing potential changes to their remuneration arrangements.

Confidence and Supervisory Alignment

For firms to make changes, they will need to have confidence in regulatory expectations and FCA supervisory practice. We would therefore encourage the FCA to ensure that its supervisory approach is consistent with the policy intent. This will mean recognising the importance of healthy remuneration practices, whilst also acknowledging the need for proportionate application to ensure that the projected benefits from this simplification are achieved.

Further Clarifications and Targeted Amendments

Within our detailed responses below, we have identified a number of other specific areas where further clarification or targeted amendments to the proposed rules would be beneficial. These include the potential for earlier relaxation of existing remuneration code rule requirements during the transition period. More information is contained within our responses to individual consultation questions.

Question Responses

Question 1: 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?

We welcome the introduction of a single, consolidated code. In particular, this will provide significant benefits for TISA members that are currently required to comply with multiple, often overlapping regulatory regimes.

This change, if implemented, will allow policies and practices to be streamlined and harmonised in a proportionate way, thereby reducing compliance costs whilst maintaining effective consumer protections and trust.

The consumer trust element is critical, as financial wellbeing is driven by participation in financial services. If consumers feel that financial services remuneration has become unfair and unequal, then they will not trust and participate in the financial system. This is particularly pertinent for TISA, given the current drive to encourage a healthy retail investment culture in the UK. Given this, it will be important for any wider communication around the implementation of these changes to resonate with consumers (e.g. focus on ensuring continued alignment with long-term clients' interests, thereby ensuring good consumer outcomes). We would encourage the FCA to consider how it can communicate these changes in a way that can enhance consumer trust in financial services and the underpinning regulatory framework.

We have noted that, under the proposed transitional arrangements, the change will only apply for performance periods beginning on or after the commencement date (expected to be Q1 2027). Accordingly, the remuneration codes currently in place would continue to apply to legacy remuneration rewards and any ongoing performance adjustment mechanisms from those legacy rewards. In light of this, we would encourage the FCA to consider providing firms with additional flexibility to reduce the period where they may still need to comply with the legacy regimes, in particular in relation to any legacy reporting requirements given the proposed revocation of reporting for MIFIDPRU firms. This would facilitate the more timely delivery of the intended benefits, while reducing the regulatory burden on firms.

Question 2: 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?

Yes, we agree with the shift towards a more outcomes focused and proportionate framework.

As noted within CP26/27, the existing governance arrangements firms have in place provide a bedrock for compliance with the new outcomes focused rules. Effective governance and oversight arrangements, with appropriate evidencing, will continue to be essential, especially for firms looking to take advantage of any proportionality opportunities.

There will be an important role for TISA, as a membership organisation, to support member firms with the transition, for example, by developing best practice guidance for members. Such guidance would recognise that outcomes can be delivered in varying ways, depending on a variety of factors and there would be strong emphasis on the need for fully effective governance, including the need to demonstrate why the approach adopted at an individual firm level is appropriate and in the best interests of clients. TISA guidance would be subject to regular review and updated to take account of member feedback or any FCA good/poor practice notes. Our experience to date is that our members value best TISA best practice guidance.

The move to an outcomes focused approach will also require the FCA to ensure that its supervisory teams are both consistent and proportionate in their approach. Paragraph 3.7 of CP26/27 acknowledges that compliance will predominantly be monitored through a supervisory-led approach. Firms will need to have confidence in consistent application of regulatory expectations via supervisory practice before they make thought-through proportionate simplification changes that align with their risk profiles, risk appetite and customer interests. Without that confidence, the projected benefits from this change will not be fully realised.

Question 3: 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?

Yes, we agree with the approach, as outlined. We believe this to be suitably proportionate.

Question 4: Do you agree with our proposed general requirements on firms' remuneration policies and practices and the guidance on remuneration tools?

Yes, we agree with the proposed approach.

Question 5: Do you agree with our proposed remuneration principles for material risk takers?

Yes, the proposed remuneration principles cover a broad range of economic arrangements and payment mechanisms.

Question 6: Which approach to deferral (principles-based or threshold based) do you consider most appropriate, and why?

Given the move to an outcomes focused framework, to ensure alignment with the FCA's broader policy objectives, we believe there should be a principles-based approach to deferral. This will ensure that each individual firm can build their remuneration policies around decisions appropriate to their own business in a flexible way. This, more flexible approach, would fully align with the FCA's objective to facilitate international competitiveness and growth of the UK economy. This approach would also allow the emphasis to be placed on each firm's governance arrangements to ensure good conduct and alignment with client interests.

We have noted, within paragraph 2.20, the potential for this to be supported by non-Handbook guidance setting out supervisory expectations. If any additional guidance is deemed necessary, our strong preference would be for this to be added in a limited and proportionate way to SYSC. This would allow all requirements and additional guidance to be recorded in a single location. Given the move to an outcomes focused framework and the very limited need for changes to be made by firms compliant with existing UK or EU codes, we believe the need for any additional guidance should be limited.

Question 7: If you prefer threshold-based deferral, do you have a view on which thresholds and other deferral features (including deferral periods) we should use?

Not applicable (given answer to Question 6).

Question 8: 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?

Yes, we agree with the proposal. The FCA's proposed approach places the emphasis on each firm's governance arrangements and is therefore consistent with the general approach the FCA is proposing to take.

Where applicable, firms will need to ensure that any relaxation of performance adjustment mechanisms aligns with clients' best interests. We would recommend adding explicit reference to ensuring alignment with clients' best interests to SYSC 19AA.9.

Question 9: Do you agree with our proposals on guaranteed variable remuneration? If not, what changes should we make and why?

We agree with the proposals as the permitted specific circumstances allow for flexibility within recruitment processes.

Question 10: 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?

We agree with the proposed simplified governance requirements as the changes allow for greater flexibility, whilst still maintaining a need for effective governance. Aligned with our response to a number of other questions, TISA will support its members and create best practice guidance to complement the FCA's changes and assist members with the practical implementation of the changes.

Question 11: Do you agree with our proposal to include medium and large UK AIFMs (once AIFM reforms are implemented) and UK UCITS management companies within scope of the new code? If not, how should the scope be adjusted?

Yes.

Question 12: 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?

Yes, we believe this to be a proportionate approach.

Question 13: 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?

Yes, this would simplify and streamline requirements and would align with the broader move to a single, outcomes focused framework.

Question 14: Do you agree with our proposal to narrow and refocus the definition of a material risk taker? If not, what changes would you propose, and why?

We agree with the proposal for a refocused material risk taker (MRT) definition. We also recognise the importance, as part of the transition, for firms to focus their energies to identify the individuals whose roles and incentives have a material impact on the firms' conduct, the interests of investors or compliance.

Given the move to an outcomes focused approach, we do not believe there is a need for further detailed definitions within the FCA rules as greater prescription could lead to a 'one size fits all' approach by firms and would not deliver the proportionality the FCA is looking to achieve. Further prescription could result in a number of firms adopting an overly conservative approach to MRT definition, leading to a dilution of the benefits that this proposed change aims to deliver.

Accordingly, as part of TISA's plans to develop a best practice guide to support our members with the practical implementation of these changes, we will ensure that MRT definition and the associated governance aspects form a central element of the member guide.

Question 15: Do you agree with our proposal to revoke the relevant non Handbook remuneration guidance? If not, what should be retained, and for what purpose?

Yes.

Question 16: 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?

We do not believe separate non-Handbook guidance is required. Given the broader objective of simplifying and condensing the regulatory regime, we believe any additional specific guidance can be included within the Handbook. This would mean all requirements and additional guidance would be recorded in a single location. In addition, given the need for proportionality, there is a danger that significant non-Handbook guidance could lead to overly prescriptive requirements and a 'one size fits all' approach. Having a central location for all relevant requirements and guidance is useful for firms of all sizes but is particularly useful for smaller firms and new entrants. Providing a central source would consequently help the FCA reduce compliance costs and burdens for firms.

Given the current need for firms to have in place processes and governance arrangements to meet existing UK or EU codes, the change to an outcomes focused regime is an opportunity for firms to simplify and streamline their processes and governance arrangements in a proportionate way. Given the need to comply with current codes, the need for additional guidance would be limited and, accordingly, firms should be able to assess these opportunities by reference to the Handbook only.

As a membership body, there will be a complementary role for TISA to play to help ensure Handbook requirements are fully understood by our members from a practical perspective. For example, we will work with our members to create a remuneration best practice guide and ensure this guide is kept-up-date (e.g. following the publication of good and poor practice papers). The TISA guidance will cross refer to the Handbook requirements. Our experience is that such guidance works well and will help to support firms that are assessing potential changes to their remuneration arrangements.

Question 17: 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.

As noted within an earlier response, the expected reduction in compliance costs will only be achieved if the FCA supervisory approach is consistent with the policy intent. Given the materiality of this assumption, we would encourage the FCA to ensure it takes all reasonable steps to align the FCA supervisory approach with the policy intent.