European Securities and Markets Authority

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PRESS RELEASE

ESMA clarifies pay rules applicable to investment firms

The European Securities and Markets Authority (ESMA) has published *Guidelines on remuneration policies and practices* which apply to relevant staff of investment firms, credit institutions and fund management companies when providing investment services, and to national securities regulators enforcing those rules.

The Guidelines strengthen investor protection by improving the implementation of the conflicts of interest and conduct of business provisions set out in the Markets in Financial Instruments Directive (MiFID) in the area of remuneration. Improving remuneration arrangements will help to create the right incentives and to prevent mis-selling.

Firms must ensure that they have appropriate remuneration policies and practices in place, bearing in mind the obligation to act honestly, fairly and professionally in the best interests of their clients. Remuneration practices that are not compatible with these obligations are not MiFID compliant, and supervisors need to intervene accordingly when carrying out their supervisory duties.

Steven Maijoor, ESMA Chair, said:

> "A root problem behind the selling of unsuitable financial products is the presence of financial incentive schemes, including target setting or performance management, that do not take into account the clients' best interests. ESMA's remuneration guidelines reinforce the MiFID provisions in this regard, and if correctly put in place by investment firms, avoid misleading incentives from the start.
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> "Firms should therefore make sure that their remuneration practices take into account conflicts of interest that arise when providing investment services to their clients. Remuneration schemes that encourage bias towards products that are easier, quicker or

more profitable to sell, but which are not suitable for the client's needs, should be eradicated."

Guidelines cover all staff with material impact on services provided

The key obligations of the Guidelines centre on the governance and design of remuneration practices, and controlling the risks that such practices create.

The Guidelines define remuneration as all forms of payments or benefits provided directly or indirectly by firms to relevant staff involved in the provision of investment and/or ancillary services to clients. Relevant staff are those who can have a material impact on the service provided, and include:

- client-facing staff;
- sales force staff; and/or
- other staff indirectly involved in providing investment services whose remuneration may create inappropriate incentives to act against the best interests of clients (this includes persons who oversee the sales force, such as line managers).

Guidelines aimed also at national securities regulators

The Guidelines are also addressed to national securities regulators that supervise and enforce the MiFID requirements. They are expected to comply with these Guidelines and will have two months from date of publication of the translations of the Guidelines to inform ESMA whether they intend to do so or give their reason otherwise. The Guidelines will become applicable to market participants 60 days after the deadline for the *comply or explain* obligation of national securities regulators.

Notes for editors

1. Guidelines are available here: http://bit.ly/19kQhKT

2. ESMA is an independent EU Authority that was established on 1 January 2011 and works closely with the other European Supervisory Authorities responsible for banking (EBA), and insurance and occupational pensions (EIOPA), and the European Systemic Risk Board (ESRB).

1. ESMA's mission is to enhance the protection of investors and promote stable and well-functioning financial markets in the European Union (EU). As an independent institution, ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

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