

What to expect in 2026

At a glance: **EMPLOYMENT & INCENTIVES**

Welcome to our look at key developments and issues to watch out for in Employment and Incentives during 2026.

Click on each of the circles on the left to see more details on:

- > **Directors' pay:** What's in store for executive and non-executive pay, and potential reforms of the reporting regime;
- > **Financial sector pay:** Bankers' pay rule changes, reforms of the IFPR, AIFM and UCITS pay regimes, and potential changes to the EU investment firms' regime;
- > **Share plans:** Making the most of tax-qualified plans, share offers and incentive arrangements, and trading shares in private companies: PISCES;
- > **The Employment Rights Act 2025:** What is changing and when;
- > **Equality:** Equality (Race and Disability) Bill awaited, changes to gender pay gap reporting, and managing expression of beliefs;
- > **Non-financial misconduct:** Final handbook guidance on COCON and FIT, and new rules for non-banks;
- > **Future world of work:** Worker status reform, changes to umbrella company market, and the growing impact of AI;
- > **Business protection:** Tightening restrictions around NDAs, reform of non-compete clauses, and strengthened protection against sexual harassment; and
- > **Whistleblowing and workplace investigations:** Potential reform to whistleblowing framework, and shift in approach to incentivisation of whistleblowers.



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The Employment Rights Act 2025

The Employment Rights Act 2025 received Royal Assent on 18 December 2025.

The ERA 2025 represents a significant milestone for the government's programme of workplace reforms and marks the most substantial shift in employment rights for decades.

The most eye-catching change is to unfair dismissal, where the two-year qualifying period will be reduced to six months, and compensation will be uncapped (whereas, at the moment, compensation is capped at the lower of 52 weeks' pay or approximately £120,000). However, these changes are not expected to come into force until early 2027.

The first significant wave of reforms include introducing sexual harassment as a new category of protected disclosure (see our blog [here](#)), day one rights to paternity and parental leave, and doubling of the protective award for failing to collectively consult to 180 actual days' pay. The Fair Work Agency will also be established, although it will likely take some years before it is fully operational.

These measures are set to come into force in April 2026, as set out in the government's July 2025 [roadmap](#). Amid concerns about possible delays, the government [confirmed](#) that it remains committed to the timelines in the roadmap and that, for most reforms, common commencement dates will be used (i.e. 6 April and 1 October).

Further changes will come into force in October 2026, including:

- > An increase in time limits for bringing claims to the tribunal from three to six months;
- > A duty on employers to take *all* reasonable steps to prevent sexual harassment of staff;
- > Protection against third-party harassment; and
- > Restrictions around contractual variations.

The government is also expected to publish consultations on key areas of the ERA 2025 in 2026, including a new trigger for collective redundancy consultation, fire and rehire and flexible working.

In line with the government's broader crackdown on the use of NDAs (see [Business protection](#)), the ERA 2025 also introduces restrictions around the use of confidentiality clauses in relation to harassment and discrimination. This will be subject to consultation but it is not yet clear when this will be launched or when the changes will take effect.

A further wave of changes will come into effect in 2027, including a new threshold for collective redundancy consultation and mandatory gender pay gap and menopause action plans.

For more information and resources, visit our tracker [here](#) and listen to our [podcasts](#).

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Equality

Equality (Race and Disability) Bill

The government's draft Equality (Race and Disability) Bill is awaited, which will, amongst other measures: (i) introduce mandatory ethnicity and disability pay gap reporting for employers with 250 or more employees; (ii) extend the right to bring an equal pay claim on grounds of race and disability; and (iii) allow outsourced workers to bring equal pay claims comparing their terms with directly hired employees.

A draft of the Bill was promised before the end of 2025 but is now expected in early 2026. There are also a number of other responses awaited from the government following consultations and calls for evidence which were designed to inform the process of developing and drafting legislation which would be included in the Bill.

In particular:

- > A **Call for Evidence** closed in June 2025, seeking views on the government's proposals to extend equal pay to disabled and ethnic minority workers, along with proposals introducing measures to improve pay transparency and the effectiveness of equal pay audits for the UK in a similar style to the EU Pay Transparency Directive. Given the numerous complexities with these proposals, we expect further consultations on these proposals in 2026 and beyond before such changes would take effect.
- > A **consultation** on the government's proposals to mandate ethnicity and disability pay gap reporting which closed in June 2025. Whilst a consultation response is awaited, the premise of the consultation was that both forms of pay gap reporting would be introduced, and the purpose of the consultation was to seek input on the proposed methodology.



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Equality

Gender pay gap reporting and menopause action plans

The ERA 2025 amends the Equality Act 2010 to create a power to require companies caught by the gender pay gap reporting regime to: (i) publish information about service providers they contract with for outsourced services and; (ii) publish an 'Equality Action Plan' setting out the steps they are taking to address the gender pay gap.

Whilst implementation of the outsourcing measure will be dealt with in the draft Bill, the proposal to introduce action plans is expected to come into effect much sooner, with employers encouraged to voluntarily publish gender pay gap and menopause action plans in April 2026, before such measures become mandatory for in-scope employers in 2027.

Managing expression of beliefs and guidance following *For Women Scotland*

This topic continues to be a challenging area for many employers as they, and the courts, seek to navigate the complex balance between employees' rights to expression and hold philosophical beliefs and employers' interests. There are several anticipated developments to watch out for in 2026:

- > The EAT in *Miller v University of Bristol* will consider whether anti-Zionist beliefs are protected philosophical beliefs and whether the University's dismissal of Miller disproportionately interfered with his rights to manifest those beliefs.
- > Following the 2025 Supreme Court ruling in *For Women Scotland* regarding the meaning of 'sex' in the Equality Act 2010, the EHRC's updated Statutory Code of Practice for Services, Public Functions and Associations is expected. The EHRC's updated Code was submitted to the Minister for Women and Equalities in September 2025. Following ministerial approval, the draft code must be laid before Parliament for 40 days before coming into force, expected in 2026.

The Court of Appeal's decision in *Bailey v Stonewall Equality Ltd* was handed down on 18 December 2025. Finding that Stonewall was not liable for causing or inducing discrimination by Garden Court Chambers against Ms Bailey because of her gender-critical beliefs, the decision serves as one of the highest authorities on the interpretation of **s.111 of the Equality Act 2010**.



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Non-financial misconduct

In March 2025, the FCA and PRA issued a joint announcement confirming they would not be taking their diversity and inclusion proposals any further, but they would continue their work to tackle non-financial misconduct in financial services firms.

A further **consultation** was issued in July 2025 (the **outcome** of which was published on 12 December 2025) along with guidance for firms and a policy statement introducing a new conduct rule intended to expand the scope of COCON for non-banks to match that for banks in the context of non-financial misconduct perpetrated against colleagues in a work-associated environment.

The latest **policy statement** by the FCA published on 12 December 2025 brings the FCA's policy work on non-financial misconduct to a close, as the FCA now focuses on how firms are tackling it in practice.

Finalised rules in relation to non-financial misconduct will take effect from 1 September 2026.



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Future world of work

Worker status

One of the government's flagship policies was to create a single status of worker, applying to all save the genuinely self-employed, **citing** the complexity of the current three-tier system of employee, worker and self-employed.

While reform was not included in the ERA 2025, ministers have indicated it remains on the agenda. A consultation was promised by the **end of 2025** but this is still awaited.

Legislative reform in this area, which is also likely to require a review of employment status for tax purposes, is likely to be a long-term project.

Umbrella companies

New rules under the Finance Bill 2025-2026 will alter liability to account for PAYE and Class 1 National Insurance contributions (NICs) for labour supply chains using umbrella companies from 6 April 2026 making recruitment agencies, or the end client if no agency is involved, jointly and severally liable with the umbrella company that employs the worker.

Umbrella companies will also become subject to further regulation under the ERA 2025, with a consultation (originally timetabled for autumn 2025) awaited.

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Future world of work

Artificial intelligence

Artificial intelligence will continue to disrupt the world of work in 2026.

Employers are navigating the tension between adopting AI and managing the associated legal and regulatory risks. Cases involving ‘hallucinating’ AI have shown the consequences of individuals relying on incorrect, machine-generated outputs. Employers are now increasingly implementing clear usage policies and targeted training to ensure appropriate and responsible use.

A consultation on AI and new technologies is awaited following a **commitment** made by the government in July 2025. This will include looking at:

- > Their impact on work, jobs and skills;
- > How best to safeguard privacy in relation to surveillance technology, spyware and discriminatory algorithmic decision-making; and
- > Consultation rights for trade unions or employee representatives in relation to surveillance technology in the workplace.

However, no date for the consultation has yet been announced, with the government indicating that it will be launched in “due course”.

The EU has already established a comprehensive legal framework governing the development and use of AI. The AI Act came into force on 1 August 2024 with provisions scheduled to be phased in over a three-year period. From 2 August 2026, its rules on high-risk uses of AI (such as employment) are set to apply. However, this deadline may now be postponed by the **European Commission’s new Digital Omnibus** package.

For more information on AI in 2026, see our **Tech Legal Outlook 2026**.

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Business protection

NDA

The use and legal framework around NDAs continues to evolve. In October 2025, section 17 of the Victims and Prisoners Act (VPA) 2024 came into force, rendering void any NDA preventing disclosure of criminal conduct to certain groups and for prescribed purposes. The government has since announced further proposals to widen this protection through an amendment to the Victims and Courts Bill, which will repeal section 17 of the VPA 2024 and replace it with stronger restrictions on NDAs, allowing victims and witnesses of crime to disclose information about criminal conduct to anyone for any purpose. The government confirmed, however, that there will be powers for the Secretary of State to:

- > set criteria for “excepted NDAs” – where the ban won’t apply – in specific situations; and
- > specify situations where disclosures will always be allowed, even if an “excepted NDA” exists.

The changes form part of a wider drive to empower individuals to speak out and report wrongdoing, and align with proposals under the ERA 2025 which ban NDAs and confidentiality clauses in respect of harassment and discrimination in the workplace. Under those proposals, there will also be a concept of an “excepted agreement”, but it is not yet clear exactly what conditions would have to be met for an agreement to fall within it.

We expect a government consultation on this in 2026.

Reform to non-competes

The government has published a [working paper](#) considering options to reform non-competes in employment contracts in the UK. Options to reform range from an outright ban on non-competes, to introducing a salary threshold and/or a maximum time-limit on their duration. The consultation process closes in February 2026, following which, UK businesses will be eager to hear the government’s response.

Read more about this [here](#).

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Business protection

Ongoing duty to prevent workplace sexual harassment

The proactive duty on employers to take “reasonable steps” to prevent sexual harassment in the workplace is an ongoing duty. After being in place for over a year, UK employers continue to grapple with what ‘reasonable steps’ look like, including measures to prevent sexual harassment by third parties, and in anticipation of this duty being extended to “**all** reasonable steps” currently planned to come into force in October 2026.

Introducing employer liability for third party harassment – another measure designed to place greater responsibility on employers to proactively take action to prevent the behaviour from happening and set to come into effect in October 2026. This liability would be for harassment relating to all of the protected characteristics – not only sexual harassment.

Read more about this [here](#).

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Whistleblowing and workplace investigations

Reform of whistleblowing framework

In its *Anti-Corruption Strategy 2025*, the government announced that it would explore opportunities to reform the UK’s approach to whistleblowing in the employment context by 2027, recognising that the framework may not be operating ‘as effectively as it should be’. This also follows the *outcome* of the previous government’s 2023 review which identified key issues with the current framework and suggestions for change. Further details are awaited in 2026 of the scope of the potential reforms.

Dismissal detriment in whistleblowing

In November 2025, the Court of Appeal handed down judgment in the joined appeals of *Rice v Wicked Vision and Barton Turns Developments v Treadwell* [2025] EWCA Civ 1466.

Bound by the decision in *Timis v Osipov* [2018] EWCA Civ 2321, the Court found that an employee can still bring a whistleblowing detriment claim where the act of detriment relied upon was his dismissal. However, it made clear that it disagreed with the previous authority and would have departed from it if it could. In the Court’s view, the proper construction of s.47B(2) *Employment Rights Act 1996* was that if an employee’s complaint about a detriment is, in substance, a complaint about their dismissal, they cannot bring a complaint about that detriment under s.47B.

This point can now only be resolved by the Supreme Court or by amendment to the legislation, leaving a ‘plainly unsatisfactory’ position (in the words of the Court of Appeal). It remains to be seen if this will happen in 2026.

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Whistleblowing and workplace investigations

Incentivisation of whistleblowers

HMRC's new **Strengthened Reward Scheme**, set to target large-scale tax avoidance or evasion, was confirmed in the **Autumn Budget 2025**. For cases where tax over £1.5 million is recovered, informants are set to be rewarded with up to 30% of the additional tax taken as a result of their actions.

In 2026, employers can therefore expect increased scrutiny from their workforce with employees potentially becoming more motivated to blow the whistle directly to HMRC.

The introduction of the scheme marks a clear departure from the UK's traditional reluctance to pay whistleblowers. However, HMRC are not the only UK organisation looking at following the US' lead. **The SFO's 2025-26 business plan** confirms that they too will be progressing whistleblower incentivisation reform.

For more information, see our [blog](#).



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Share plans

Making the most of tax-qualified plans

The November Budget contained some good news for tax-qualified plans but only in relation to Enterprise Management Incentives (EMI), a generous arrangement for smaller independent companies. From 6 April 2026, these plans will apply to groups which have:

- > No more than 500 employees (up from 250); and
- > Gross assets of no more than £120 million (up from £30 million).

The limit on the market value of shares subject to all EMI options is also doubling from £3 million to £6 million.

This is to be welcomed but affects only smaller companies. (The gross assets test, even though it is quadrupling and is tested only at grant, is particularly difficult to meet because, as the name suggests, it ignores liabilities.)

There were no direct changes to the other tax-qualified plans in the Budget, but they continue to be buffeted by changes in the wider tax environment:

Savings and dividends

Dividend and savings tax rates are increasing by 2%. This may make:

- > Dividend shares a more attractive option for shares in a Share Incentive Plan (SIP) than receiving a cash dividend (dividend shares can be released tax-free after three years); and
- > The tax-free savings under a Sharesave plan more attractive.

Capital Gains Tax (CGT)

The slashing of the CGT personal allowance in recent years (from £12,300 in 2023 to £3,000) and the increase in rates (from 10% and 20% until late 2024 to 18% and 24%) have made tax-qualified plans potentially less beneficial. The main tax benefit of those plans is to shift the tax from income tax on exercise to CGT on sale and, in many cases, because of the personal allowance, CGT was zero.

Now, many more participants in tax-qualified option plans may have to pay CGT, which, apart from reducing the net benefit of the plans, would require them to complete a self-assessment tax return for the first time.

One way to mitigate this is to allow participants to transfer shares received under a Sharesave or SIP into an ISA (subject to their personal limits). If they are transferred within 90 days of receipt of the shares, there is:

- > No CGT when the shares are transferred to the ISA;
- > No tax on dividends received on the shares in the ISA; and
- > No CGT when the ISA manager sells the shares on behalf of the participant.

A participant can avoid a CGT liability by transferring shares to an ISA for a short period and then asking the ISA manager to sell them.

It has been possible to do this for a while, but this has not been as popular as might be expected. However, higher CGT and dividend tax rates and lower allowances may encourage more companies to offer (or informed employees to demand) this facility.



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The cash ISA limit is reducing (for those under 65) to £12,000 from April 2027, but shares may still be invested in ISAs up to the overall annual limit of £20,000.

Company Share Option Plans (CSOP)

The individual limit on shares subject to market value CSOP options was increased from £30,000 to £60,000 in 2023. Although subsequent changes to CGT (as above) have made CSOPs somewhat less attractive, the increased limit does provide a valuable benefit. The legislation allows companies to choose who is granted CSOP options (unlike Sharesave and SIP which require all-employee participation) and places few restrictions on their terms. Companies may use the CSOP's flexibility, for example:

- > As an all-employee (or broad-based) arrangement which is much more flexible, simpler and cheaper to operate than a Sharesave or SIP (there is no need for external trustees or savings provider); and/or
- > To provide the growth under a long term incentive plan on a tax-free basis.

If the options are exercised when they are more than three years old (and in some other circumstances), there is no income tax and also no employer (or employee) national insurance contributions (NIC). The employer NIC savings can mean that establishing a CSOP may be self-funding, especially with the recent increase in employer NICs to 15% (from 13.8%).

Future changes to Sharesave and SIP?

As part of the Budget, the government published a [summary of responses to its Call for Evidence](#) on Sharesave and SIP. The government will next consider whether changes are needed in view of the responses, and any such changes will be part of future budgets. In the meantime HMRC will review and amend its guidance on those plans where necessary in view of the suggestions made and continue to work with stakeholders on administration issues through the existing channels, both of which are to be welcomed.



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Share offers and incentive arrangements

The rules governing public offers of securities and admissions to trading in the UK are changing on 19 January 2026. The new rules **prohibit share offers** entirely unless there is an exemption. See [this briefing](#) for general details of the new regimes.

Exemption for offers to employees

Companies can still offer shares to existing or former employees or directors of the group, but it is now clear that:

- > Offers may also be made by trustees under an existing or proposed employee share scheme (such as SIP trustees); and
- > “Group” includes companies in which the listed company has only a 20% holding, clarifying that offers can be made to employees of many joint venture companies.

As with the previous regime, it will be necessary to include information on the reasons for and details of the offer (for example, in scheme rules or explanatory material), and the number and nature of the securities being offered.

Other exemptions

In practice, the expanded employee exemption should cover almost every kind of share plan. But if it doesn’t, other exemptions or exclusions (also similar to those under the previous regime) may apply, with the following likely to be helpful:

- > Offers to fewer than 150 people in the UK (this excludes qualified investors for whom there is a separate exemption);

- > Offers where the total consideration for the relevant securities being offered in the UK is less than £5 million (down from £8 million) when taken together with offers made in the last 12 months under this exemption; and
- > Offers of non-transferable awards and options still seem to fall outside the regime so it is not even necessary to find an exemption.

It will still be possible to use a combination of exemptions to make offers to, for example, employees and non-employees at the same time.

There is also a new exemption for offers of shares of a listed company, which could be used for listed company employee share purchase plans instead of the exemptions mentioned above. However, this new exemption does not seem to apply to offers of rights to shares such as options and RSUs.

When will a prospectus be needed?

Previously, if there was no exemption for a share plan offer, a prospectus was required. Now, the offer is simply unlawful, meaning it will never be necessary (or even possible) to file a prospectus for a share plan offer. This should not be a problem in practice since the exemptions are now very wide (and even under the narrower exemptions in the old regime, very few prospectuses were filed for share plans).

Under the **new regime**, prospectuses are only relevant where shares are admitted to trading and will only be required when a company lists for the first time or where, after listing, it issues shares in any 12-month



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period representing 75% or more of the shares already admitted to trading. This will almost always be sufficient to cover issues of shares under share plans (and there is still an exemption for employee share plans from the prospectus requirement in the unlikely event that it is not).

What about block listings?

Many listed companies apply for a block listing of shares which ensures that shares to be issued under their share plans can be listed and traded.

That procedure is somewhat simplified under the new regime because new shares of a class already listed (for example, those issued under a share plan) will automatically be treated as *listed* without requiring a further listing application to the FCA. But companies will still have to obtain *admission to trading* (i.e. on the London Stock Exchange) with a somewhat simpler procedure. In particular, the new announcement requirements should simplify share plan administration since there is no ongoing disclosure after the shares are listed. See [this briefing](#) for further details of the block listing process.

Trading shares in private companies: PISCES

And it's off...

The new type of trading platform for private company shares (the “Private Intermittent Securities and Capital Exchange System”, or PISCES), was finally established in 2025 and will operate for an initial trial period of five years. This will enable the FCA and the government to assess and, if necessary, amend the PISCES regulatory requirements. PISCES will allow existing unlisted shares to be traded in a controlled environment during “trading windows”.

The [FCA's new handbook text](#) sets out the rules for operation of the trading windows which market operators who facilitate the trading windows must follow in their own operating rules. So far, the London Stock Exchange is the only FCA-approved market operator and has published rules for its Private Securities Market.

Companies seeking to trade shares on PISCES must disclose “core information”. To identify rights, dilution and liability risks relating to employees’ share schemes (ESS), core information includes any commitments to:

- > Issue shares in the future to satisfy awards granted under ESS; and
- > Support ESS through funding employee benefit trusts (EBT).

Companies will also need to disclose all grants of rights to acquire shares made to directors, including aggregate number and value.



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Share plans

Where the core disclosures do not provide sufficient information to investors to enable them to trade, PISCES operators must also ensure companies provide any additional disclosures needed for PISCES to operate effectively.

The market abuse regime does not apply to PISCES and instead market operators must consider investor protection. The LSE's rules provide, for example, for monitoring, compliance requirements, decisions, sanctions and appeals.

Due to the higher risks of trading shares in private companies, shares may only be purchased by institutional and professional investors and certain retail investors. The latter include high-net-worth or sophisticated investors and the PISCES company's employees, directors and consultants who have each been approved for participation by the company.

PISCES's stated aims include helping private companies to access capital and scale-up and enabling investors (including employees) to take advantage of the growth in private markets.

Responding to feedback, HMRC reversed its former position, and announced that it will be possible to amend (with the optionholder's consent) tax-qualified EMI or CSOP options granted before 6 April 2028 so that they can be exercised on a PISCES trading event without losing their potential tax benefits. The exemption from stamp duty and SDRT for PISCES share trades is also intended to support the PISCES framework.

Implications for employees

Unlisted companies have generally had to create an internal market for their shares to enable employee shareholders and share plan participants to crystallise gains and thus benefit from the company's success. Often this involves operating EBTs. EBTs are flexible, but ultimately it is the company which funds EBT share purchases, and there could be complex tax rules to navigate (for example, disguised remuneration and inheritance tax).

Commercial and capital-raising considerations will undoubtedly be the deciding factors for companies opting to participate in PISCES. It is unlikely that any unlisted company will consider participating in PISCES solely for the benefit of its employee shareholders and share plan participants. However, where companies do decide to participate, PISCES will enable employees to crystallise gains. This in itself may present challenges, such as ensuring that employees who are key to a company's success do not leave once options are exercised and shares are sold on this private stock market.



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Financial sector pay

UK: Remuneration reforms

The strict pay regime to which banks, building societies and some investment firms have been subject for over a decade has, following Brexit, gradually been relaxed. First, the UK regulators removed the CRD V bonus cap on variable pay, and then disapplied the malus and clawback, deferral, discretionary pension benefits requirements and buy-out rules from proportionality level 3 'small firms', as well as easing their disclosure burdens. But the biggest shake up came for all CRD V firms in October 2025, with **substantial rule changes and relaxations**, many of which applied immediately and – should firms so wish – to existing in-flight awards. These include the following:

Changes applying for 2025 and future performance years

The same minimum four-year **deferral period** applies to all Material Risk Takers (MRTs), with pro-rata vesting from year one. This effectively halves deferral for Senior Manager MRTs and brings forward their first vesting instalment by two years.

60% deferral is only required for an MRT's variable pay above £660,000. A minimum 40% deferral applies to variable pay up to £660,000.

At least 50% of variable pay must still be paid in **shares or instruments**, but this need no longer be split evenly between the upfront and deferred portions of variable pay, so firms can comply by deferring 50% of variable pay into shares and pay all of the upfront variable remuneration in cash. A one-year **retention period** is required only for any shares or instruments paid upfront.

Dividends and interest may be paid on deferred awards, including existing awards. The 'when to pay' and 'how to calculate' are up to firms to decide.

Firms no longer have to notify **retention awards** to the regulators.

Some firms have been considering taking advantage of the shorter mandatory deferral periods by reducing the deferral periods for existing awards (or accelerating payouts where applicable). They need to consider whether the shortened deferral period gives time for issues to arise so malus can be applied. They should also look carefully at their trigger events for malus and clawback, pay packages and tax and accounting implications. New deferral schedules may be needed. Similar considerations will apply for the 2026 bonus round in respect of the 2025 performance year.

Changes applying for (broadly) 2026 performance years onwards

Whether or not a person is an MRT will now be based almost entirely on qualitative factors. There is only one **quantitative MRT identification** threshold and it is not mandatory. Instead, firms are *expected to consider* whether individuals in the 0.3% of the highest earners (and not within the *qualitative criteria*) should be MRTs. The regulators have also made enhancements to the governance of MRT identification.

The deferral and payment in instruments rules need not apply to anyone who has been an **MRT for up to three months** in a performance year, so long as they do not have a guaranteed variable remuneration award. But malus and clawback should be applied.

The deferral, instruments and some of the clawback rules will not apply to MRTs with total pay under £660,000 whose variable remuneration is below 33% of total pay. But this substantial increase to the **'de minimis' threshold** does not apply to the 2026 bonus round (for 2025 performance years).



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The regulators have clarified their expectations for remuneration committees **on managing adverse risk events**, to ensure that variable remuneration better reflects risk taking outcomes and individual responsibilities.

To reflect and implement these changes, firms should review and update their governance and pay processes: MRT frameworks, performance management frameworks, performance adjustment policies and award terms.

As with the earlier bonus cap removal and 'small firms' relaxations, the changes should reduce compliance costs for firms in the medium to long term and improve the UK's ability to attract and retain talent. But, in the short term, firms will need to work through the administrative, HR and risk mitigation issues of bedding the changes in.

Changes to come

In April 2025, the government and the FCA **published a consultation and call for input** respectively on the future regulation of AIFMs. When announcing the CRD V remuneration reforms, the regulators also said that the operation and effectiveness of the AIFM, UCITS and IFPR remuneration regimes is being reviewed. The FCA aims to balance risks to investors and markets against the impact on firms, while supporting growth and competitiveness. The FCA have since said that they will give a progress update on this review in April to June 2026, so it looks like those regimes will also be reformed, possibly during 2026.

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Financial sector pay

EU: Potential reform to the investment firms regulatory regime

The [Investment Firms Directive](#) and [Regulation](#) (IFD/IFR) mandate the European Commission to review the operation of the prudential regime they establish and propose appropriate changes. As part of this process, the EBA and ESMA, following consultation, published a comprehensive [technical report](#) on IFD/IFR in October 2025 with recommendations for reform, including on remuneration.

The aim is to achieve better alignment with the CRD, UCITS and AIFMD regimes to achieve a more level playing field and reduce administrative burdens on firms.

The EBA and ESMA considered the remuneration rules for investment firms, AIFMs and UCITS management companies, including the scope of application, remuneration policies, variable pay requirements, oversight, disclosure and transparency. Their recommendations include:

- > Amending the criterion for having risk and remuneration committees in consolidation groups;
- > Removing one of the quantitative criteria for identifying MRTs;
- > Removing some of the conditions for raising the thresholds for disapplying the deferral and pay-out process rules on a firm size basis;

- > Aligning the de-minimis threshold with the CRD regime's threshold;
- > Removing retention period requirements where there is deferral of three to five years; and
- > Simplifying the disclosure rules and aligning them with those under AIFMD and UCITS.

The next step is for the Commission to review the EBA/ESMA advice and produce proposals to amend IFD/IFR for the European Parliament and the Council (EU member states) to consider. Progress towards change may well be slow, though it will be interesting to see whether any proposed reforms for the EU and UK regimes will be similar or result in further divergence.

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A free for all?

Just over a year ago, the Investment Association heralded a more flexible approach for directors' pay, mostly followed by investors and proxy advisers. Instead of having to adhere to prescribed rules, companies were encouraged to adopt the pay structure most appropriate for their business, strategy and performance, even if that meant departing from the details of investor guidance. Investors stressed that they would analyse the suitability of remuneration proposals on a case-by-case basis and that, to enable them to do so, companies should explain how such proposals align with the long-term interests of the company and its shareholders and engage with them early and constructively.

2026 is a 'triennial year', being a multiple of three years since the 2014 AGMs when binding shareholder approval of policies was first required. There will therefore be more votes on remuneration policies than in the previous two years. (Some companies have departed from this cycle and IPOs may lead to different three-year cycles.)

Companies putting policies to the vote at their 2026 AGM will have had the opportunity last year not only to review and consider the suitability of their remuneration package, but also to gauge investor reaction to new remuneration structures presented for shareholder approval in 2025. There is no doubt, however, that market practice is still evolving and investors are clearly looking for enhanced transparency, both in comprehensive consultations and in remuneration report disclosures with company-specific rationales (avoiding boilerplate and generic language) for policy changes and payout decisions.

In line with the concept that their **Principles of Remuneration** are not "rules", the IA have instead set out updates on their practical implementation and emerging views on issues likely to be important to IA members in the 2026 AGM season in **a letter** to remuneration committee chairs. Clearly, there is no free-for-all despite the flexibility: for example, only companies with a significant US footprint and/or competing for global talent may look to implement hybrid plans (combining restricted shares and performance-based awards) and those companies should engage early and have proper justifications and rationales. Similarly, **Pensions UK** (formerly the PLSA) worry that US-style pay structures, higher variable pay opportunities and hybrid incentive plans carry reputational risks and say they will scrutinise pay increases more closely, particularly where there are no accompanying improvements in employee pay or performance justification.

Investors, it seems, are still cautious about using such plans to balance certainty and retention with performance alignment.

IA's letter also refers to current geopolitical and economic uncertainties. Remuneration committees therefore need to show how they are considering the wider stakeholder experience when making executive pay decisions and balancing consideration of outcomes for employees, customers and other stakeholders. Investors would like to understand how companies consider their wider stakeholders in the context of the unique circumstances of the business.

Glass Lewis's 2026 Benchmark Policy Guidelines has a shift in tone. The Guidelines are now expressed as reflecting investors' views and expectations and market best practice, rather than Glass Lewis's views, putting the focus on transparency and engagement.

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The Guidelines also include a description of Glass Lewis's proprietary pay-for-performance model, the primary quantitative analysis developed to better evaluate the link between pay and performance. However, Glass Lewis say that while the outcome of the model may impact the analysis of a company's executive remuneration practices, voting recommendations for the remuneration report and policy proposals will continue to result from a holistic assessment.

In the first update of their **UK Executive Remuneration Principles** since November 2023, L&G reflect the shift in tone. They have relaxed or introduced more flexibility into some of their requirements:

- > Previously bonus opportunities of 200% were "reserved for the largest global companies". This is now 250% "generally... reserved", so L&G acknowledge that other companies may have this limit;
- > Companies are now *encouraged* (instead of *required*) to defer at least one third of bonus and L&G no longer expect that where companies reduce bonus deferral they should also equally reduce bonus opportunity; and
- > A *majority of* (instead of *all*) vested share awards should be retained until shareholder guidelines are met.

On the other hand, they are looking more carefully at minimum vesting levels: variable pay should "incentivise and reward sustainable outperformance" so minimum vesting levels should not be below median relative performance against a chosen peer group or benchmark and should not result in significant pay awards (so may need to be reconsidered when award opportunities are increased).

L&G also say they will "closely review" cases where companies have breached the 5% in 10 years dilution limit for discretionary schemes, even though that limit was removed from the IA's Principles in 2024.

Enhanced malus and clawback disclosures

The **2024 Corporate Governance Code** (Code) applies to reporting on financial years starting from 1 January 2025. 2025 annual reports will therefore be the first to disclose against this Code, though no doubt companies have already been considering it.

The Code requires more detailed disclosure on pay withholding and recovery (malus and clawback) as follows:

- > Directors' contracts and any other relevant documents relating to their remuneration should include malus and clawback triggers, should allow companies to recover and/or withhold sums or share awards and specify the circumstances in which it would be appropriate to do so (provision 37); and
- > Implementation reports should disclose the minimum trigger events and periods for applying malus and clawback, and their use in the reporting year (provision 38).

The FRC's **Guidance on the 2024 Corporate Governance Code** (paragraph 333) suggests that triggers for malus and clawback should include payments based on erroneous or misleading data, misconduct, misstatement of accounts, serious reputational damage and corporate failure.



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In the review of [Corporate Governance Reporting 2025](#), the FRC report instances of companies reviewing and updating malus/clawback trigger events, and pre-compliance with the enhanced disclosures (the review covered reports against the 2018 Code). The FRC consider that the Code has prompted some companies to revisit and refine their current malus and clawback arrangements to ensure continued alignment with regulatory expectations and evolving best practice. But so far there is little evidence of clawback being applied. It remains to be seen to what extent the enhanced disclosures would change both the practical application of malus and clawback and related disclosures in remuneration reports.

Non-executive pay

More flexibility on payment in shares?

In keeping with the [Corporate Governance Code](#) (Code), non-executive directors' (NED) pay packages have generally been limited to cash fees. Where companies wish to encourage NEDs to build up a personal shareholding in the company, this is done by paying part of their net fees in shares. The FRC's [Guidance on the 2024 Corporate Governance Code](#) (paragraph 323) refers to this approach and suggests that companies outline the rationale and describe the process and any restrictions on the sale of the shares.

The drive to make the UK a more attractive place for businesses and enable companies to compete globally for talent (which has already led to more flexibility on executive pay) has now sparked a debate as to whether independent NEDs could be paid some form of equity compensation, along the lines of US practice. The FRC have amended the [Code Guidance](#) (paragraph 324) to suggest that independent NEDs might be offered options or similar rights to acquire shares but there must not be any performance-related elements (this includes a "meaningful exercise price") and these should not lead to short-termism, create conflicts of interest or affect independence. Therefore, it would seem that restricted share awards or nil-cost options may be acceptable for independent NEDs and, presumably also for other NEDs. Companies should explain what they are doing in the "annual report" (and/or, presumably, policy).



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The Code still prohibits paying NEDs with “*share options or other performance-related elements*”. Following the changes to the Code Guidance, the FRC have said that it is up to boards to be satisfied that NED independence is not being compromised when considering a share-based approach to NED pay. This includes considering whether service conditions are acceptable, as this would depend on a company’s specific circumstances. The FRC view payment in shares as positive, in aligning the long term interests of NEDs and shareholders. But it may be challenging to design an equity programme meeting the Code independence requirements.

Investors’ views

The Investment Association support alignment, and have said that part of NEDs’ fee can be paid in shares purchased at market rates. Proxy agencies Glass Lewis and ISS have different NED pay guidance for the US and UK. Their UK policies generally oppose NEDs participating in share option or performance-related schemes (though Glass Lewis may accept NEDs holding options for a year after a company has listed).

The ISS US policy states that NED pay may include “generally accepted best practices”. But concerns about particularly large quantum, performance awards, retirement benefits and similar, without adequate rationales, have led to a recent tightening of the guidance. For 2026 meetings, ISS may recommend a vote against directors who approve such NED pay, in wider circumstances. Glass Lewis’s US policy in principle accepts NED option grants or other equity-based awards that help to align their interests with those of

shareholders, but say that they should not be performance-based.

UK companies which consider that different NED arrangements would be more appropriate to their business strategy will clearly need to engage with shareholders as early as possible, since investor support will be important.

Other factors

The pace of change to NED pay is likely to be slow for other reasons too. Directors’ pay must be permitted by remuneration policies, which generally exclude share-based elements from NED pay. Such policies will have to be revised and obtain shareholder approval. In addition, as NEDs are not employees, they cannot simply participate in existing share plans, nor could they receive shares from employee benefit trusts, and there are some legal issues in the UK with offering NED arrangements that need to be carefully managed. It will be necessary to design new equity arrangements so as to ensure that they comply with all regulatory and legislative requirements for share offers.

See this [briefing](#) for more information.



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Reporting regime reforms

In 2025, the directors' remuneration reporting regime was amended to remove a set of largely duplicative EU-derived rules. Many of the changes were minor and technical, although a number are useful, such as enabling shareholders once again to approve payments outside policy without having to amend the policy and removing the requirement to compare the annual change of each director's pay to that of average employee pay over a rolling five-year period.

The changes apply to policies approved from 15 May 2025 onwards and to implementation reports for financial years starting on or after that date. So 2026 will be the first year for many companies when the amended rules will apply. See [this briefing](#) for more details.

2026 may also see the first steps towards more significant changes to the directors' pay reporting rules. The government has been conducting a pre-consultation to its non-financial reporting review, which led to a decision to expand the review to include financial, remuneration and governance reporting. The review will also consider modernising reporting in the digital age.

The government intends to consult during 2026 on the (renamed) review of "Modernisation of Corporate Reporting". This will be an opportunity for businesses to influence the debate and contribute towards simplifying the pay reporting regime, further removing duplication and unnecessary burdens. Much of the information currently in the remuneration report may be more appropriately posted on company websites, using digital tools and tagging to make information more easily retrievable.

There is no timetable for formulating or legislating for any changes.

Companies are likely to concur with the overall aims of the review. But Pensions UK sound a note of caution: reduced disclosure, they say in their [latest guidelines](#), may raise concerns about transparency and accountability and hinder effective scrutiny of executive pay practices.

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