

Press Release: Embargoed until 00:01 am on Thursday 26th November 2009

26 November 2009

Walker Review recommends extensive reforms to strengthen bank governance and increased disclosure on pay

Sir David Walker has recommended overhauling the boards of banks and other big financial institutions by strengthening the role of non-executives and giving them new responsibilities to monitor risk and remuneration. He also recommends a stewardship duty on institutional shareholders to play a more active role as owners of businesses.

The recommendations are contained in the final report of the Walker Review of Corporate Governance of UK banks and other financial institutions which was commissioned last February and delivered to the Government this week.

Sir David Walker said:

“The fundamental change needed is to make the boardroom a more challenging environment than it has often been in the past.

“This requires non-executives able to devote sufficient time to the role in order to assess risk and ask tough questions about strategy.

“Institutional investors should be less passive and prepared to engage earlier if they suspect weaknesses in governance. They enjoy the privilege of limited liability whereas taxpayers have ended up assuming unlimited liability in respect of the big banks. Early preventive medicine through shareholder engagement can save everyone substantial time and money later on.”

On pay the Walker Review recommends extending the role of the remuneration committee to cover firm-wide remuneration policy as well as giving the committee direct responsibility for the pay of all highly-paid employees. At least half of variable pay or bonuses should be paid in the form of a long-term incentive scheme with half vesting after three years and the rest after five years. Two-thirds of cash bonuses should also be deferred.

In addition the report recommends greater pay transparency in the big banks by requiring public disclosure of the number of employees earning more than £1m, broken down by bands of pay.

Press Release: Embargoed until 00:01 am on Thursday 26th November 2009

Other specific recommendations in the report include:

- Active investors to sign up to a new independently-monitored Stewardship Code
- Financial Reporting Council to sponsor Stewardship Code
- FSA to monitor investor conformity with Code
- Chairman of board to face annual re-election
- Chairman of remuneration committee to face re-election if report gets less than 75% approval
- Most non-executives to spend substantially more time on the job
- Induction process for all non-executives and regular training
- Non-executives to face tougher scrutiny under FSA authorisation process
- Banks should have board level risk committees chaired by non-executive
- Risk committees to scrutinise and if necessary block big transactions
- Chief Risk Officer to have reporting line to risk committee
- Chief Risk Officer can only be sacked with agreement of board
- Remuneration committees should disclose right of high-paid employees to receive enhanced benefits

Sir David said:

“We need to get governance back to centre stage. Of course major regulatory issues need to be addressed to assure the soundness of the financial system but there will be significant downside if the regulatory pendulum swings too far. It could harm the ability of banks to provide customers with the financial services they need and lead to substantial increases in fees and charges.

“Improved governance can play an important complementary role by instilling greater confidence in the way banks are being run by their boards and overseen by their owners. This should help regulators to strike the right balance.”

The Walker Review proposes that most of the recommendations are enforced through inclusion in the Combined Code on Corporate Governance or a separate Stewardship Code for institutional investors, both operating on a ‘comply or explain’ basis. It would be for the Financial Reporting Council, which has been closely consulted and is currently reviewing the Combined Code, to decide exactly how this would be done. The FSA will consider how to take forward the recommendations applying principally to financial institutions. It is proposed that the recommendations on pay disclosure should be enforced through legislation in the forthcoming Financial Services Bill.

*This Press Release and the Consultation Paper are available on the Walker Review web pages:

http://www.hm-treasury.gov.uk/walker_review_information.htm .

– ENDS –

Press Release: Embargoed until 00:01 am on Thursday 26th November 2009

Media enquiries:

Peter Wilson-Smith and Kate Law +44 20 7233 9444

Walker Review office:

phone: +44 20 7066 0032

fax: +44 20 7066 7075

Email: feedback@walkerreview.org.

Notes for Editors:

1. The Walker Review of Corporate Governance of UK Banking Industry was announced on 9 February 2009¹ by the Chancellor of the Exchequer, the Secretary of State for Secretary of State for Business, Innovation & Skills, and the Financial Services Secretary to the Treasury.

2. The original Terms of Reference for the Walker Review on Corporate Governance of UK Banking Industry were to examine corporate governance in the UK banking industry and make recommendations, including in the following areas:

- the effectiveness of risk management at board level, including the incentives in remuneration policy to manage risk effectively;
- the balance of skills, experience and independence required on the boards of UK banking institutions;
- the effectiveness of board practices and the performance of audit, risk, remuneration and nomination committees;
- the role of institutional shareholders in engaging effectively with companies and monitoring of boards; and
- whether the UK approach is consistent with international practice and how national and international best practice can be promulgated.

On 21 April 2009, the Terms of Reference were extended to cover other financial institutions.

3. The review started in February 2009 and a consultation document was published on 16 July 2009. Since then more than 180 submissions have been received. Unless otherwise requested, all submissions are available on the Walker Review website.

5. The Financial Reporting Council is currently reviewing the Combined Code and is due to publish a final report in December. The FRC has advised that

there will be separate consultation on proposals to amend the Combined Code or related guidance.

6. Sir David Walker is a Senior Adviser to US bank Morgan Stanley. He is a former Executive Director of the Bank of England, former Chairman of the Securities and Investments Board and a former Chairman of Morgan Stanley International. In 2008 he chaired an independent industry working group which drew up a voluntary code to improve levels of disclosure in the private equity industry and its communication with stakeholders.