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Sir David Walker,
c/o **The Walker Review Secretariat,**
25 The North Colonnade,
Canary Wharf,
London E14 5HS

30th September 2009

Dear Sir,

THE WALKER REVIEW

The ea Consulting Group is delighted to be given the opportunity to respond to the Walker Review on corporate governance in UK banks and other financial entities.

Corporate governance is an area in which we have much hands on experience as we count all the major high street banks and insurers amongst our client base. Inevitably, the nature of our work surrounding major change programmes brings us in to contact with board members and senior executives. In light of the recent banking crisis the impact of risk is rightly recognized as central to this review. In the cold light of day, many board members will acknowledge that the pace of change allied to the complexity of a modern bank often operating in numerous markets and in a variety of guises has far outstripped their financial knowledge and experience. In their defence, the sub-prime debt disaster that stemmed from the USA and the systemic failure that followed was as much a failure of UK banking supervision as no one recognized the threat to the world's financial markets until it was far too late.

Ensuring that a BOFI board is 'fit for purpose' is essentially the desired outcome of this review and the responses given in appendix 1 to each of the 39 recommendations are designed to meet this end. Such was the scale of the global banking crisis of 2008 that we do not favour voluntary codes for policing corporate governance. Wherever possible, the responsibilities and duties of board members, and the remuneration guidelines for senior bank personnel should be formalised. A proportionate regime should also have bite to encourage compliance with penalties for not reaching acceptable standards. The FSA must have a major and active role in ensuring that a BOFI board has the appropriate personnel with the necessary range of skills and experience.

Following the recent G20 meeting in Pittsburgh and the earlier work undertaken by the FSA on remuneration, we believe that appropriate steps have now been taken to ensure

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that any executive bonus structure is linked to longer term objectives. It is very unfortunate that such measures were not in place prior to the recent banking crash.

If further clarification is required on any point please contact me.

Yours faithfully,

Roger Davies

ROGER DAVIES, BA ACIB APMP

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APPENDIX 1

WALKER REVIEW: RECOMMENDATIONS & eaCG COMMENTARY

Board size, composition and qualification

Recommendation 1
To ensure that NEDs have the knowledge and understanding of the business to enable them to contribute effectively, a BOFI board should provide thematic business awareness sessions on a regular basis and each NED should be provided with a substantive personalised approach to induction, training and development to be reviewed annually with the chairman.

Vital – if debate is to be of any value although we doubt if the measure suggested can be effective in the shorter term. Thematic issues for a global bank are extensive and time consuming if to gain a true operational understanding. Ideally, NEDs should have a financial background to ensure any personal development plan can focus on individual rather than a range of needs.

Recommendation 2
A BOFI board should provide for dedicated support for NEDs on any matter relevant to the business on which they require advice separate from or additional to that available in the normal board process.

Again, vital but we would be surprised if this is not already available on request.

Recommendation 3
NEDs on BOFI boards should be expected to give greater time commitment than has been normal in the past. A minimum expected time commitment of 30 to 36 days in a major bank board should be clearly indicated in letters of appointment and will in some cases limit the capacity of the NED to retain or assume board responsibilities elsewhere.

It must be stressed that 30/36 days is a MINIMUM for a NED especially if major training needs.

Recommendation 4
The FSA's ongoing supervisory process should give closer attention to both the overall balance of the board in relation to the risk strategy of the business and take into account not only the relevant experience and other qualities of individual directors but also their access to an induction and development programme to provide an appropriate level of knowledge and understanding as required to equip them to engage proactively in board deliberation, above all on risk strategy.

A balanced board must be our goal. The FSA should vet board composition for the BOFI identified by the report and be able to demand changes and/or appropriate training for individuals.

Recommendation 5
The FSA's interview process for NEDs proposed for major BOFI boards should involve questioning and assessment by one or more senior advisers with relevant industry experience at or close to board level of a similarly large and complex entity who might be engaged by the FSA for the purpose, possibly on a part-time panel basis.

Whilst much is hearsay, too often selection appears to have been at the whim of the chairman or CEO with a view to installing "their people" on a particular board. Whilst all should bring their own skills and experience few may understand the complexity posed by a global bank operating in numerous markets especially with regard to its overall and specific risk strategies. NED selection should be a rigorous process ensuring that appropriate candidates are identified and their suitability be confirmed by objective assessment. Professional qualifications (or an equivalent) in an appropriate discipline should always be sought and if necessary be used as a deciding factor.

Functioning of the board and evaluation of performance

Recommendation 6
As part of their role as members of the unitary board of a BOFI, NEDs should be ready, able and encouraged to challenge and test proposals on strategy put forward by the executive. They should satisfy themselves that board discussion and decision-taking on risk matters is based on accurate and appropriately comprehensive information and draws, as far as they believe it to be relevant or necessary, on external analysis and input.

The key words are 'ready, able and encouraged'. The quality of debate will always vary dependent upon the nature of the input to be discussed and the experience and understanding of the NED. Commonsense should dictate that NEDs only sanction strategic developments if supported by the accompanying facts and, if necessary, delay agreement until vital additional information can be provided. Boards should not be a 'rubber stamp' but a place of measured debate.

Recommendation 7
The chairman should be expected to commit a substantial proportion of his or her time, probably not less than two-thirds, to the business of the entity, with clear understanding from the outset that, in the event of need, the BOFI chairmanship role would have priority over any other business time commitment.

The chairman is obviously a very major role and should always take a clear and demonstrable priority over other business commitments. Any substantial demand on a chairman's time (>20%) should be declined during the period of the chairmanship. Whilst unpopular with existing appointment holders it is also considered inappropriate for a chairman to run concurrently with a significant number of outside directorships. If the goal is to improve substantially the quality of debate and interrogation of any proposals it is very important that the chairman is as knowledgeable as his CEO on the key issues. This will require the substantial time commitment recognized by Recommendation 7.

Recommendation 8
The chairman of a BOFI board should bring a combination of relevant financial industry experience and a track record of successful leadership capability in a significant board position. Where this desirable combination is only incompletely achievable, the board should give particular weight to convincing leadership experience since financial industry experience without established leadership skills is unlikely to suffice.

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Any chairman of a BOFI board by the very nature of the extensive business interests involved should be an individual with relevant experience and a successful track record at senior executive level. Major share holders should play an integral part in the appointment of a new chairman to ensure that the candidate possesses the appropriate background and is not a stooge of the CEO. Whilst commonsense is always the essential attribute with increasing complexity a feature of the financial services, academic rigour is a very valuable commodity in such roles.

Recommendation 9
The chairman is responsible for leadership of the board, ensuring its effectiveness in all aspects of its role and setting its agenda so that fully adequate time is available for substantive discussion on strategic issues. The chairman should facilitate, encourage and expect the informed and critical contribution of the directors in particular in discussion and decision-taking on matters of risk and strategy and should promote effective communication between executive and non-executive directors. The chairman is responsible for ensuring that the directors receive all information that is relevant to discharge of their obligations in accurate, timely and clear form.

This recommendation should be maintaining the status quo for any appointment holder effective in the role but if not it will clarify the duties of the chairman. The treatment of risk as a main board topic is, however, likely to be new and will require a far greater level of detailed understanding of ERM amongst board members than is likely to be the norm.

Recommendation 10
The chairman of a BOFI board should be proposed for election on an annual basis.

Agreed. Whilst 12 months is a relatively short period this is a sensible and appropriate recommendation as it will keep chairmen focused on their board duties.

Recommendation 11
The role of the senior independent director (SID) should be to provide a sounding board for the chairman, for the evaluation of the chairman and to serve as a trusted intermediary for the NEDs as and when necessary. The SID should be accessible to shareholders in the event that communication with the chairman becomes difficult or inappropriate.

The SID is seen as an important role in the effective functioning of the BOFI board. Apart from providing advice and guidance the SID can ensure that groundswell opinion from more junior board members/NEDs reaches the chairman. Principal shareholders should have direct access to chairman and CEO. A SID can be used as a conduit but only in truly exceptional circumstances.

Recommendation 12
The board should undertake a formal and rigorous evaluation of its performance with external facilitation of the process every second or third year. The statement on this evaluation should be a separate section of the annual report describing the work of the board, the nomination or corporate governance committee as appropriate. Where an external facilitator is used, this should be indicated in the statement, together with an indication whether there is any other business relationship with the company.

Whilst it is desirable that an assessment of BOFI performance should be undertaken every 2 or 3 years, to be of greatest value this should be independently conducted with results published in the annual report. A self-assessment even if using external facilitators is unlikely to be truly objective especially concerning overall progress and work-in-progress.

Recommendation 13
The evaluation statement should include such meaningful, high-level information as the

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board considers necessary to assist shareholders understanding of the main features of the evaluation process. The board should disclose that there is an ongoing process for identifying the skills and experience required to address and challenge adequately the key risks and decisions that confront the board, and for evaluating the contributions and commitment of individual directors. The statement should also provide an indication of the nature and extent of communication by the chairman with major shareholders.

These are all sensible requirements for the evaluation statement. Ultimately, sufficient information must be provided to shareholders to satisfy them that the board is a dynamic entity that is adapting to change and planning for the future.

The role of institutional shareholders: communication and engagement

Recommendation 14
Boards should ensure that they are made aware of any material changes in the share register, understand as far as possible the reasons for changes to the register and satisfy themselves that they have taken steps, if any are required, to respond.

This is a sensible requirement for any bank particularly in light of hedge fund activity and 'shorting'.

Recommendation 15
In the event of substantial change over a short period in a BOFI share register, the FSA should be ready to contact major selling shareholders to understand their motivation and to seek from the BOFI board an indication of whether and how it proposes to respond.

For the benefit of financial stability in the economy this is a key role for the FSA. Close monitoring of BOFI share registers should readily identify 'movers and shakers'. The FSA must satisfy itself that any major changes in share ownership are appropriate when viewed in the totality of the marketplace. FSA judgement will have to be carefully considered regarding appropriate motive and the purpose of any speculation.

Recommendation 16
The remit of the FRC should be explicitly extended to cover the development and encouragement of adherence to principles of best practice in stewardship by institutional investors and fund managers. This new role should be clarified by separating the content of the present Combined Code, which might be described as the Corporate Governance Code, from what might most appropriately be described as Principles for Stewardship.

Identifying specific 'Principles for Stewardship' is a sound recommendation that can provide clear guidance for institutional investors and, most importantly, for fund managers.
However, a voluntary code inevitably lacks bite and offers no inducements to encourage 'compliance'. Ideally, as a bare minimum, institutional investors and fund managers must adhere to the best practice principles. Hopefully, the new AIFD (Alternative Investment Fund Managers Directive) will formalise appropriate behaviour by fund managers in a more regulated environment (eg hedge funds).

Recommendation 17
The present best practice "Statement of Principles – the Responsibilities of Institutional Shareholders and Agents" should be ratified by the FRC and become the core of the Principles for Stewardship. By virtue of the independence and authority of

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the FRC, this transition to sponsorship by the FRC should give materially greater weight to the Principles.

Agreed.

Recommendation 18
The ISC, in close consultation with the FRC as sponsor of the Principles, should review on an annual basis their continuing aptness in the light of experience and make proposals for any appropriate adaptation.

Agreed. The principles must keep pace with market developments.

Recommendation 19
Fund managers and other institutions authorised by the FSA to undertake investment business should signify on their websites their commitment to the Principles of Stewardship. Such reporting should confirm that their mandates from life assurance, pension fund and other major clients normally include provisions in support of engagement activity and should describe their policies on engagement and how they seek to discharge the responsibilities that commitment to the Principles entails. Where a fund manager or institutional investor is not ready to commit and to report in this sense, it should provide, similarly on the website, a clear explanation of the reasons for the position it is taking.

Recommendations 16-18, if to have any impact, will require a very public commitment from fund managers et al that they will comply with the principles. A suitable kitemark should appear on websites and on business correspondence. Permitted exceptions should be few and far between but as suggested reasons for non-commitment should be similarly highlighted although experience indicates that few are ever likely to read such statements.

Recommendation 20
The FSA should encourage commitment to the Principles of Stewardship as a matter of best practice on the part of all institutions that are authorised to manage assets for others and, as part of the authorisation process, and in the context of feasibility of effective monitoring to require clear disclosure of such commitment on a “comply or explain” basis.

Agreed. It is also appropriate to adopt a ‘comply or explain’ approach to the Principles.

Recommendation 21
To facilitate effective collective engagement, a Memorandum of Understanding should be prepared, initially among major long-only investors, to establish a flexible and informal but agreed approach to issues such as arrangements for leadership of a specific initiative, confidentiality and any conflicts of interest that might arise. Initiative should be taken by the FRC and major UK fund managers and institutional investors to invite potentially interested major foreign institutional investors, such as sovereign wealth funds and public sector pension funds, to commit to the Principles of Stewardship and, as appropriate to the Memorandum of Understanding on collective engagement.

The benefits can be seen of R21 but the MoU approach is likely to be easier said than done in gaining general consensus and commitment on a range of topics from bodies with potentially diverse interests.

Recommendation 22
Voting powers should be exercised, fund managers and other institutional investors should disclose their voting record, and their policies in respect of voting should be

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described in statements on their websites or in other publicly accessible form.

Transparency is always a preferred strategy although some parties may be reluctant to publish their voting record for strategic/tactical reasons.

Governance of risk

Recommendation 23
The board of a BOFI should establish a board risk committee separately from the audit committee with responsibility for oversight and advice to the board on the current risk exposures of the entity and future risk strategy. In preparing advice to the board on its overall risk appetite and tolerance, the board risk committee should take account of the current and prospective macro-economic and financial environment drawing on financial stability assessments such as those published by the Bank of England and other authoritative sources that may be relevant for the risk policies of the firm.

Clearly, in light of the recent global banking crisis, the whole subject of risk management is an area requiring far greater consideration by the BOFI board. An effective BRC (board risk committee) is central to operational improvement although it may well replicate the activities of a Group Business Risk Committee (or similar) that currently tends to operate at sub-board level. Arming board risk committee members with the appropriate knowledge (including the regulatory umbrella and an acceptable understanding of all the activities of a global operation and especially the treasury function) will be difficult to achieve. To this end recommendation 24 is key in ensuring that the board has appropriate risk expertise.

Recommendation 24
In support of board-level risk governance, a BOFI board should be served by a CRO who should participate in the risk management and oversight process at the highest level on an enterprise-wide basis and have a status of total independence from individual business units. Alongside an internal reporting line to the CEO or FD, the CRO should report to the board risk committee, with direct access to the chairman of the committee in the event of need. The tenure and independence of the CRO should be underpinned by a provision that removal from office would require the prior agreement of the board. The remuneration of the CRO should be subject to approval by the chairman or chairman of the board remuneration committee.

An independent CRO is a key appointment although whether on the full BOFI board or with direct access to it, is likely to achieve the same ends. The caveats listed in recommendation 24 are sensible to ensure that the CRO can operate effectively in advising the board and be given due 'gravitas'.

Recommendation 25
The board risk committee should have access to and, in the normal course, expect to draw on external input to its work as a means of taking full account of relevant experience elsewhere and in challenging its analysis and assessment.

Vital if the BRC is to be effective.

Recommendation 26
In respect of a proposed strategic transaction involving acquisition or disposal, it should as a matter of good practice be for the board risk committee to oversee a due diligence appraisal of the proposition, drawing on external advice where appropriate and available, before the board takes a decision whether to proceed.

Due diligence should always include a full risk assessment and it is appropriate that the BRC "oversee" such a process for input to the full board. We should all be mindful of the LloydsTSB takeover of HBOS where lack of due diligence appears to have cost the Lloyds Banking Group, its chairman and shareholders dearly.

Recommendation 27
The board risk committee (or board) risk report should be included as a separate report within the annual report and accounts. The report should describe the strategy of the entity in a risk management context, including information on the key exposures inherent in the strategy and the associated risk tolerance of the entity and should provide at least high level information on the scope and outcome of the stress-testing programme. An indication should be given of the membership of the committee, of the frequency of its meetings, whether external advice was taken and, if so, its source.

It is a sensible requirement that the BRC risk report (as specified in recommendation 27) be included separately in the annual report and accounts. The report should be comprehensive and highlight to readers all areas of concern or uncertainty.

Remuneration

Recommendation 28
The remit of the remuneration committee should be extended where necessary to cover all aspects of remuneration policy on a firm-wide basis with particular emphasis on the risk dimension.

Agreed. Any bonus element for a senior executive dependent upon only short term performance is inappropriate as it will encourage higher risk strategies. Ideally, performance bonuses should be linked over a 3 and ideally a 5 year period.

Recommendation 29
The terms of reference of the remuneration committee should be extended to oversight of remuneration policy and remuneration packages in respect of all executives for whom total remuneration in the previous year or, given the incentive structure proposed, for the current year exceeds or might be expected to exceed the median compensation of executive board members on the same basis.

This recommendation might prove overly complex in operation. It is suggested that the remuneration committee should oversee the executive pay for the board and all those directly reporting to the COO/CEO plus any individual in a senior executive role who in the previous year earned income above the minimum for this latter group.

Recommendation 30
In relation to executives whose total remuneration is expected to exceed that of the median of executive board members, the remuneration committee report should confirm that the committee is satisfied with the way in which performance objectives are linked to the related compensation structures for this group and explain the principles underlying the performance objectives and the related compensation structure if not in line with those for executive board members.

Agreed accepting the variation suggested in Recommendation 29.

Recommendation 31
The remuneration committee report should disclose for “high end” executives whose total remuneration exceeds the executive board median total remuneration, in bands, indicating numbers of executives in each band and, within each band, the main elements of salary, bonus, long-term award and pension contribution.

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This should be the minimum standard – ideally executives should be named within the bands suggested. Transparency should be our goal.

Recommendation 32
Major FSA-authorised BOFIs that are UK-domiciled subsidiaries of non-resident entities should include in their reporting arrangements with the FSA disclosure of the remuneration of "high end" executives broadly as recommended for UK-listed entities but with detail appropriate to their governance structure and circumstances agreed on a case by case basis with the FSA. Disclosure of "high end" remuneration on the agreed basis should be included in the annual report of the entity that is required to be filed at Companies House.

Although case-by-case handling is suggested to handle variations in corporate structure, if FSA-authorised and UK domiciled then executive pay disclosure should closely follow the requirements of recommendation 31. The FSA should aim for consistency in the production of this information.

Recommendation 33
Deferral of incentive payments should provide the primary risk adjustment mechanism to align rewards with sustainable performance for executive board members and executives whose remuneration exceeds the median for executive board members. Incentives should be balanced so that at least one-half of variable remuneration offered in respect of a financial year is in the form of a long-term incentive scheme with vesting subject to a performance condition with half of the award vesting after not less than three years and of the remainder after five years. Short-term bonus awards should be paid over a three year period with not more than one-third in the first year. Clawback should be used as the means to reclaim amounts in limited circumstances of misstatement and misconduct.

The principle of deferral of incentive payments for executives is accepted although all bonuses should relate to a 'balanced scorecard' approach to avoid focus on the delivery of one element to the potential detriment of other areas. The main incentive scheme should cover performance over a minimum period of 3 years and preferably 5 years to counter the considerable public anger at the scale of short term and guaranteed executive bonuses. Clawback is appropriate for misconduct.

Recommendation 34
Executive board members and executives whose total remuneration exceeds that of the median of executive board members should be expected to maintain a shareholding or retain a portion of vested awards in an amount at least equal to their total compensation on a historic or expected basis, to be built up over a period at the discretion of the remuneration committee. Vesting of stock for this group should not normally be accelerated on cessation of employment other than on compassionate grounds.

Agreed. Executive board members and top executives should be expected to maintain a substantial shareholding (or equivalent) in their company to ensure their longer term commitment to the business and alignment with the needs of shareholders and staff. BOFI members should share a close financial interest in the continuing success of their business.

Recommendation 35
The remuneration committee should seek advice from the board risk committee on an arm's-length basis on specific risk adjustments to be applied to performance objectives set in the context of incentive packages; in the event of any difference of view, appropriate risk adjustments should be decided by the chairman and NEDs on the board.

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A sensible requirement. Incentive packages must be designed to avoid the excesses of the past, avoiding short term focus but encouraging sound growth and improved shareholder value.

Recommendation 36
If the non-binding resolution on a remuneration committee report attracts less than 75 per cent of the total votes cast, the chairman of the committee should stand for re-election in the following year irrespective of his or her normal appointment term.

Agreed. Under 75% is a fair threshold in view of the importance of this role.

Recommendation 37
The remuneration committee report should state whether any executive board member or senior executive has the right or opportunity to receive enhanced pension benefits beyond those already disclosed and whether the committee has exercised its discretion during the year to enhance pension benefits either generally or for any member of this group.

Agreed. Transparency is key for all parties. With executive remuneration packages there should be no surprises.

Recommendation 38
The remuneration consultants involved in preparation of the draft code of conduct should form a professional body which would assume ownership of the definitive version of the code when consultation on the present draft is complete. The proposed professional body should provide access to the code through a website with an indication of the consulting firms committed to it; and provide for review and adaptation of the code as required in the light of experience.

This recommendation appears overly bureaucratic with the new category of 'remuneration consultant', a new code of conduct and the formation of a new professional body. Many outsiders would question the need for such consultants which do appear to have driven pay awards with excessive bonus arrangements. Remuneration issues normally fall to an in-house HR function and there is scope for the FSA to provide them at very little cost with guidelines specifically covering BOFI and executive pay.

If a code is required its development should fall to the FSA who must in turn monitor its implementation and revise the code as required. The FSA can add its weight to driving compliance whilst a new professional body is unlikely to achieve such importance.

Recommendation 39
The code and an indication of those committed to it should also be lodged on the FRC website. In making an advisory appointment, remuneration committees should employ a consultant who has committed to the code.

Professional and learned support should, of course, be available to a remuneration committee. Many will see this role as a specific HR related function.

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30th September 2009