



Institute of
Business Ethics

Sir David Walker
Walker Review Team
H M Treasury
1 Horse Guards Road
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SENT BY EMAIL: feedback@walkerreview.org

7th June 2009

Dear Sir David

Independent Review of Corporate Governance of UK banking industry

We, at the Institute of Business Ethics, fully support your review of corporate governance of the UK banking industry. We are pleased to note that you are working with the FRC in their review as we believe it is important for UK plc that whilst recognising the needs of the banking industry, corporate governance is relevant across all corporate sectors.

In managing a bank today risk is probably the biggest factor to contend with and the most nebulous. It is also a difficult factor for non-executive directors, who necessarily are limited in their roles so as not to lose independence, to understand. Perhaps the Board Committee should be free to appoint their own 'risk advisors' to advise them and assist in their challenge of management. If not, then non-executives on the board will need to be divided into those who are independent with knowledge of other business sectors and those who are specialists with detailed understanding of banking products and salient risks.

Remuneration policies are often cited as a cause for driving individuals to take risks. This may have been the case but the weakness in the policies and practices themselves were probably more to blame. For instance performance measures set on product sales rather than contribution; set over short time frames rather than long term; paid in cash rather than shares or options; and set by 'management' without oversight of the independent directors on the remuneration committee. In the main the latter has looked at executive directors and perhaps the top 50-100 senior staff only, but not the 'star' traders where bonuses may be many multiples of basic salary.

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Remuneration committees need to appoint their own advisors, rather than use those appointed by management to maintain independent scrutiny over the policies they suggest.

Institutional shareholders mostly operate through 'agents' who engage, many actively, with boards. So a new mechanism of engagement needs to be looked for to link shareholders and boards directly. This has practical implications but the power held by the 'agents' often seems to be without recourse – pushing short-termism to their own benefit and remuneration.

Corporate governance in the UK as it evolves can not do so in an international vacuum otherwise UK plc and particularly the banking industry would lose competitiveness. Progress needs to be balanced but mindful of the public interest and ethical principles of openness, transparency, fairness and honesty.

The Institute of Business Ethics would be pleased to give further assistance.

Yours sincerely,

A handwritten signature in black ink that reads 'Philippa Foster Back'.

Philippa Foster Back OBE
Director