

**London Stock Exchange Group plc**  
**Response to Walker Review “A Review of Corporate Governance in UK  
banks and other financial industry entities”**

**Introduction**

1. London Stock Exchange Group plc (“LSEG”) welcomes the Review and supports a number of the Review’s recommendations, which could be applied to all sectors via amendments to the Combined Code. In particular, we would support the emphasis on board awareness training, the benefits of a diverse range of experience and the promotion of robust challenge and debate in the board room. LSEG also welcomes the Review’s support for the UK’s “comply or explain” model of governance.
2. Nevertheless we believe there is a risk that implementation of the Review’s proposals could see the introduction of a new governance regime which seeks to address specific issues in banks but which has the effect of imposing inappropriate governance on a wider group of financial services companies or “financial institutions” (whilst also potentially failing to cover some companies which should properly be included, given the FTSE 100 cut off).

**Scope**

3. The Review and its recommendations are based on the bank (and to a lesser extent insurance company) business model/experience. They do not adequately recognise that not all financial institutions operate the same business model with the same consequent approach to risk and remuneration. The Review is clear that it has not adopted any legal definition of BOFI but invites stakeholders (at Annex 4) to consider a list of potential companies which could fall within scope. This is defined by reference to FTSE 100 companies in the banking, insurance and financial sectors (including LSEG).
4. This paper identifies those issues which we consider are specific to banks and why the wider application to other financial institutions (such as LSEG) of measures designed to address such issues, would be inappropriate. We do not believe that organisations such as LSEG, which do not have the relevant characteristics of balance sheet risk taking or remuneration arrangements, should be included in the list of financial institutions subject to the operation of the Review’s recommendations.
5. We believe, therefore, that more consideration is needed to determine which financial institutions properly fall within scope and why. We note that this may be something which the Review cannot fully address and may need to be considered by the FRC in its review of the Combined Code, but the outcome will be critical to the effectiveness of the implementation of the Review and to London’s competitiveness as a financial centre.

## **The Board**

6. The Review recognises that bank businesses are large-scale, with products, services and processes which may involve considerable complexity. The Review also sees the need for a more explicitly focussed risk function at board level to address these complexities. The Review recommends that a NED of a BOFI should spend 30 to 36 days per year and that the Chairman spends 2/3 of his time devoted to the BOFI are premised on the relevant businesses having this size and complexity.
7. We agree that Boards and NEDs should ensure that sufficient time is devoted to the role. However we would suggest that the time spent should reflect the scale, nature and complexity of each entity on a case by case basis, rather than prescribing a specific period of time. In the case of LSEG, for example, compared with typical banks and other financial services providers, it is not a substantial or complex company (less than 1000 employees and a market capitalisation c£2 billion) and it does not engage in complex activities involving balance sheet risk-taking.

## **Risk**

8. The Review recommends the appointment of a Chief Risk Officer (“CRO”) and a Risk Committee together with a number of ancillary recommendations. This appears to be based on the premise that the business model of banks relies on putting their balance sheet at risk on a scale which creates moral hazard and systemic risk. Again, the same cannot be said to be true of all “financial institutions”.
9. As an arbitrageur of risk, a bank’s risk principally relates to the strength of its balance sheet and leveraging the balance sheet for itself and for clients. However, LSEG is an infrastructure provider and any risks it takes relate substantially only to its ability to maintain market stability, orderliness and continuity; the primary element of risk in this regard relates to the availability of our technology.
10. Whilst we recognise that this is an important role, the risks around this are already closely monitored via close supervision by the FSA under the particular regulatory regime for Recognised Bodies under FSA’s REC requirements. It is difficult to see what the role of the CRO and Risk Committee would be in an organisation like LSEG, over and above our existing governance systems which already include detailed risk management.

## **Remuneration**

11. In its discussion on remuneration, the Review states that the taxpayer has provided UK banks with nearly £1.3 trillion in support. It goes on to say that:

*“Political, taxpayer and social tolerance of practices, including unsafe remuneration policies which lead to this calamitous state is understandably low. If banks are to be able to contribute to the nation’s economic recovery and wellbeing, it is of critical importance that remuneration practices be reconstructed to provide incentives around sustainable performance.”*

12. Again, remuneration is an area where not all financial institutions adopt the same approach as banks and so the recommendations risk imposing an inappropriate and unnecessary governance regime on a wider group of companies in the finance sector. Furthermore, particular care needs to be taken to ensure that proposals on remuneration are developed in an internationally consistent manner to avoid harming the UK’s competitiveness in Financial Services.
13. In the case of LSEG, its remuneration arrangements are not structured in the same way or at the same levels as those of banks. In particular, LSEG does not sell products direct to investors and so does not have the same issues or concerns regarding remuneration and incentives.
14. It is also worth noting that the Review builds on the FSA’s Remuneration Code of Practice, to which LSEG is not subject.
15. Moreover, in the last 3 financial years, there were no LSEG individuals who would have been “high end” individuals within the terms of the Review, so LSEG would not in any event have had any disclosures to make had the Review Recommendations been in place. This is another example of how LSEG’s business differs from the bank model that we suggest should be the proper focus of the Review.

## **Conclusions**

- (1) More careful consideration and analysis must be given as to which organisations should be within scope, to avoid the risk of imposing an inappropriate governance regime on companies that do not pose the same risks as those within the banking sector;
- (2) LSEG should not be included in the list of financial institutions which should be subject to the operation of the Review’s recommendations – it does not have the relevant characteristics of balance sheet risk taking or remuneration arrangements; and
- (3) A number of the proposals could probably be applied to all companies by amendments to the Combined Code. However, this may be something for the FRC to consider as part of its Review of the Combined Code.

**London Stock Exchange Group plc**  
**30 September 2009**