

Sir David Walker
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Dear Sir David

A REVIEW OF CORPORATE GOVERNANCE IN UK BANKS AND OTHER FINANCIAL INDUSTRY ENTITIES

Introduction

Mazars, the leading integrated international accountancy organisation with 10,500 professional staff in 50 countries is pleased to submit its views on the above consultation.

Effective corporate governance essential for a healthy banking sector

We welcome the work undertaken by your Review as we believe that ensuring that the right boards are in place and that they are achieving their full potential is vital for the future success of the banking sector. Successful long term wealth-creation calls for the boards of banks to strike a careful balance between entrepreneurship and robust risk management. A strengthened system of regulation should complement and is not a substitute for effective governance.

Strongly support the recommendations for leading banks

Subject to our comment below on the annual re-election of the chairman, we strongly support the recommendations in the report with regard to their application to leading banks with their primary listing in the UK and to large UK subsidiaries of global banks. In doing so, we note that a number of the recommendations are in effect recommendations relating to good practice concerning matters already dealt with in the Combined Code and so would not necessarily call for changes in its principles or provisions.

Care needed in applying to other financial industry entities

We believe care is needed in applying the recommendations in the report to other financial institutions, especially to those outside banking where the systemic risk may be far less, eg insurance brokers, and to smaller institutions generally where the cost/benefit test needs to be carefully applied. For example, Recommendations 3 and 7 which set out specific amounts of time to be devoted to their duties by

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NEDs and the chairman respectively may not be appropriate for smaller financial institutions and, in particular, those outside the banking sector though we wholeheartedly support the principle of the board making sure all directors have the necessary time available to perform their duties effectively. A case can also be made for smaller institutions to have the flexibility to combine the work of the audit and the proposed risk committee within that of the audit committee

Case not proven for need for substantial change for listed companies generally

The main evidence of weaknesses in the application of effective governance practices has occurred primarily in the banking sector and, as discussed above, that sector has unique features concerning the extent to which it can lead to systemic risk in the economy as a whole. Accordingly, we are not persuaded that the case has been made for significant changes to the Combined Code for the generality of listed companies. Care should especially be taken not to unnecessarily increase the burden on smaller listed companies in the current economic climate.

Institutional shareholders' communication and engagement

We fully support the recommendations in this area, including, in particular, the development of the proposed 'Principles for Stewardship'. More effective engagement by institutional shareholders is an essential element of the corporate governance reforms needed in the banking sector.

The annual election of the chairman

Whilst we can understand how the proposal for the annual election of the chairman has arisen in terms of enhancing the shareholders' ability to express their concerns in certain circumstances, we are on balance not persuaded of the merits of this proposal. There is a risk that the chairman's re-election will become the lightning conductor for the expression of unhappiness on too wide a range of issues if he or she is the only person subject to annual re-election and the recommendation could lead to undue uncertainty of the security of tenure of this vitally important role on bank boards. Moreover, we believe that with proper engagement institutional investors already have sufficient means at their disposal to ensure their views are heard and responded to in an appropriate manner.

Risk a key boardroom issue

Whilst we support the establishment of risk committees for large banks, we believe it is very important to clearly set out the context in which they are to operate. There must be no doubt that the board as a whole retains the overall responsibility for determining the bank's risk appetite and for ensuring that risk is managed effectively in accordance with it.

Further discussion

If you would like to discuss further, any of the points raised in our response, please do not hesitate to contact Anthony Carey on 020 7063 4411 or David Herbinet on 020 7063 4419.

Yours faithfully



Mazars LLP