



UK Shareholders Association

Chislehurst Business Centre
1 Bromley Lane,
Chislehurst
BR7 6LH

By e-mail feedback@walkerreview.org

18th September 2009

Phone: 020-8468-1027;

Email uksa@uksa.org.uk

Web: www.uksa.org.uk

PERSONAL

Sir David Walker
c/o FSA
25 The North Colonnade
Canary Wharf

Dear Sir David,

As you will know, we are the leading independent organisation which represents the interests of private shareholders in the United Kingdom. I write to ask that you allow us to meet you, personally, to explain why we strongly believe that your aspirations for better bank governance, which we applaud, need an additional ingredient that you have so far not embraced. The contribution to be made by those who have a personal stake in the preservation and proper use of bank capital should not be overlooked.

In our pre-submission to your review dated 3 June 2009, we drew attention to the critical issue of ownerless corporations and the fundamental causes of the resulting breakdown in governance. So we were pleased to see in Sections 5.16-20 of the Review a comprehensive summary of the many obstacles to effective shareholder governance inherent in the current system. But then most of these obstacles are not addressed (or even acknowledged) elsewhere; and where they are addressed it is by means of introducing or expanding voluntary codes, or exhorting the participants to try harder. However, since the fundamental governance chain is broken, it is inevitable that such expedients will be ineffective.

We respectfully submit that the failure to acknowledge this breakdown in conventional shareholder governance undermines your recommendations in other sections that rely on shareholder supervision for their effectiveness. In particular, the 'comply or explain' principle that underpins the Combined Code and receives your general support will be ineffective if the shareholders simply don't care.

We note further that you do not mention the obvious conflict of interest between a financial institution's obligations for good governance on the one hand and the commercial requirements of its trading, broking, funding, consulting and investment banking activities on the other (as we detailed in our previous letter). We believe that the absence of even a hint of the possibility (however remote some may call it) of such a conflict, can only give ammunition to those who have criticised the Review as serving the narrow purposes of the institutions, instead of addressing the wider issues of its brief.

UKSA ®—The independent voice of the private shareholder

The United Kingdom Shareholders' Association Limited

Registered in England No. 4541415; Registered Office: Chislehurst Business Centre, 1 Bromley Lane, Chislehurst BR7 6LH

We note in your one reference to private shareholders (in S5.17) you mention 'insuperable barriers for individual shareholders in engagement activity', but we beg to disagree.

In France, a number of major companies have set up consultative committees composed solely of individual shareholders and they clearly value their contributions. We are aware of two BOFIs among them, namely AXA and Société Générale: there may be others. In Australia our opposite number, the Australian Shareholders Association, maintains regular dialogue with companies and is highly influential.

We believe that the private shareholder could and should be a key part of the solution. He has certain virtues not always present in other shareholders: he is the ultimate 'long-only' shareholder; he thinks like an owner and has an owner's loyalty; he may have long experience of a company; he often has valuable business and investing skills quite the equal of those at the disposal of institutional investors; he has no conflicts of interest; and without commercial pressures he is better able to take a moral position. These virtues, previously influential, have become submerged because private shareholders have been squeezed out of the picture and many of them disenfranchised.

We wish to see the role of the private shareholder given a proper voice. This is of course for the sake of his own interests as an individual investor, but we are confident it can serve the wider public purpose too. At a meeting with you, we could pursue these ideas and explain how they could be implemented, in a manner which would deal directly with any doubts you might have. I do hope you will agree.

I would very much like to meet you myself, but the demands of my employment might make that difficult for a daytime meeting, so if that is the case I ask that you meet instead my colleague, Eric Chalker, who is also a director of UKSA. He or I would be accompanied by one or both (depending on availability) of our expert advisers, Roy Colbran and John Hunter.

You will remember Roy from your time on the Whitgift Estate as a friend of John Woolhouse and next door neighbour to Ken and Doreen Merefield. John is a recently retired Company Secretary of a FTSE 100 company.

As I am currently on holiday, I should be grateful if your secretary or one of your officials would phone Eric Chalker on 020 7620 0907 to discuss arrangements to meet. I do believe that you would find this a worthwhile use of your time.

Yours sincerely,

Eric Chalker

pp Martin White, F.I.A.
Chairman