

Date: 1 December 2009

FINAL REPORT FROM THE WALKER REVIEW

The final report from the Walker Review has been published (a link to the full report is included below).

The final version largely reiterates the recommendations set out in the July draft in the following areas:

Terms of Reference for Remuneration Committees

- A recommendation that all Remuneration Committees should broaden their terms of reference to setting the over-arching principles and parameters of remuneration policy on an all-employee basis (recommendation 28). The Review states that this is not intended to limit the role of executives in setting individual packages.
- Similarly, terms of reference should be extended to "high end employees" (recommendation 29). The definition of high end has been amended (from those expected to earn total pay at least equal to the median pay of executive directors) to those who exercise a "significant influence function" for a bank or other financial institution (BOFI)* or whose activities could have "a material impact on the risk profile of the entity". This clearly requires a greater degree of judgment but is felt to tie in with the FSA's approach in its Remuneration Code. It should also be noted that it may include a rather broader population than the previous recommendations or the disclosure at recommendation 31.
- For those individuals, the Directors' Remuneration Report should confirm that the Remuneration Committee is satisfied with the way in which performance objectives and risk assessments are reflected in the pay structures and explain their underlying principles if the structures differ from those for the executive directors (recommendation 30).

** Please note that the Review does not specify a particular type of BOFI in terms of, for example, size or complexity. However, it does say that the principal focus of the Review is on banks and other **major** financial institutions, which suggests that the recommendations primarily concern BOFI in the FTSE 100 and FTSE 250.*

Disclosure

- Disclosure of high end individuals' pay tracks the amended definition with a recommendation for banded disclosure (but without naming individuals) of those whose total pay exceeds £1m pa (recommendation 31). This should enable investors to form a view on levels of high end remuneration and, by analogy, assess risk (as the disclosure should indicate the business units in which these levels of pay are offered).
- Recognising implementation issues, this need only apply for 2010 (ie accounts to be published in early 2011). The Review recognises the risk of country first mover competitor disadvantage and encourages greater convergence over this period.

Structure of Pay

- The Review reiterates the detailed proposals on the structure of pay for high end employees, including bonus deferral (no more than 1/3 upfront), for 1/2 of LTIP vesting to be deferred to 5 years and regarding clawbacks (recommendation 33). However, rather than being prescriptive, this is now proposed as best practice and for Remuneration Committees on a 'comply or explain' basis. It recommends that the FSA Remuneration Code is adjusted next year to reflect this.

Share Ownership Guidelines

- It reiterates that both executive directors and high end employees should be subject to share ownership guidelines linked to total pay (rather than just base salaries) but is no longer prescriptive on the quantum itself (recommendation 34).

Performance Metrics

- It endorses the FSA's position on use of risk adjusted performance metrics and recommends Remuneration Committees to seek advice from the new Risk Committee (recommendation 35).

Role of Chairmen and NEDs

- It retains the recommendation that, if a company's DRR fails to attract 75% support, the committee chairman should be required to seek re-election the following year (recommendation 36). It is stated this should aid greater engagement with investors. It also recognises that this may become redundant as there are other proposals to move all directors to annual re-election in any event.
- While not a specific recommendation, it reiterates the need for enhanced time commitment of chairmen and NEDs and recognises the need for enhanced fee levels (but states that chairmen should receive a fixed fee rather than performance related pay). However the requirement for chairmen to commit two-thirds of their time has been scaled back to applying to 'major banks'.

Pensions

- The previous recommendation for disclosure in Directors' Remuneration Report of details around pension enhancements has been extended to all policies affecting high end employees which may lead to enhanced benefits after concern that the current regulations do not require disclosure of all policies which may be in place (recommendation 37).

Remuneration Consultants Group

- Finally, it re-endorses the establishment of the Remuneration Consultants Group which is the newly formed professional grouping which will maintain the Code of Conduct for remuneration consultants. The grouping has established a more formal governance structure and is looking to appoint an independent chairman and other independent committee members alongside professional representatives.
- The Code, which it encourages Remuneration Committees to use as the basis for agreeing contractual terms with advisers, is available at www.remunerationconsultantsgroup.com and will be reviewed again in late 2010.

While the detailed comments on high end employees may be limited to banks (or at least BOFIs), it is thought that much of the Review will have an impact on other listed companies. In particular, we envisage that most Remuneration Committees will wish to have a greater role in the general over-sight of pay across the company although not necessarily in the detail. We do not think other organisations which currently cap annual bonus levels at normal market levels will necessarily implement the full level of deferral proposed for banks (the recommendations being set in the context of bonus payout being 5-10 times or higher the equivalent multiples found in other listed companies).