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Lord Myners
HM Treasury
1 Horse Guards Road
London
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16 FEB 2010

11 February 2010

Dear Lord Myners,

Thank you for your letter of 28 January 2010 regarding bank bonuses. As you know, F&C Management Ltd. is a London-based asset management firm representing institutional and retail clients with over £153 billion of assets¹. F&C has long advocated the need for robust corporate governance standards at UK companies as well as at companies across all jurisdictions where F&C and its clients invest. To this end, we actively use our voting rights and engage with the companies in our portfolios to promote higher standards of governance.

We share your concerns regarding remuneration in the banking sector, particularly in the aftermath of the financial crisis and the costly government bailouts of a large number of banking institutions. Indeed, we believe that inappropriate and asymmetrical remuneration structures contributed to the failures of risk management that led to and exacerbated this crisis.

To address the queries in your letter, we should first point out that F&C votes the equity of 416 banking institutions globally. As active investors, we have a policy to vote on all shares at all shareholder meetings², and we also have actively engaged with banks around the world—before, during and after the financial crisis—on matters of remuneration and corporate governance more generally.

During 2009 F&C engaged with 148 banks globally, including all the major UK banks. Much of this engagement was conducted by F&C alone. However we have regularly joined forces with other investors and have also worked through representative bodies, including the Association of British Insurers, on whose Investment Committee we sit. We would underscore that in our engagement F&C has long advocated extended vesting and holding periods for both short-term and long-term awards, and our voting has not supported, and will not support, rewards for failure. We also note that since 2006 F&C has promoted clawback mechanisms in cases where incentive awards have been granted for fraudulent or negligent performance. While clawbacks were initially perceived as a somewhat radical concept, we are pleased to see that such mechanisms are becoming a more common and accepted feature of remuneration structures.

¹ As at 31 December 2009, F&C Management directly managed £97.8 billion in assets. In addition, F&C has been mandated to vote and/or address corporate governance, environmental and social issues in investment on behalf of over 20 investment institutions whose assets total £55.4 billion. These institutions are identified in our quarterly [reco® reports](http://www.fandc.com/reopublicreport): www.fandc.com/reopublicreport.

² Our published voting record demonstrates our track record in implementing this policy. See www.fandc.com/governance



In light of the catastrophic nature of the global financial crisis, F&C established a framework for voting at the 2009 AGMs of financial services companies that were materially affected. We enclose a copy of this policy document, "F&C's 2009 Financial Sector Voting Policy", to give you a sense of how we approached our voting at banks on a range of issues, including board appointments, shareholder rights, capital raisings and remuneration. This is not a public document, so it is our request that you respect its confidentiality.

Focusing in particular on the leading UK banks (Barclays, HSBC, Lloyds, RBS, Standard Chartered) we would point out that in our 2009 voting, F&C did not support any of their remuneration plans. We attach the document "F&C 2009 Voting Positions & Comments – UK Bank Remuneration Reports" which details our votes and the rationale for our decisions. These comments were also sent in follow-up letters to the chairmen of the banks to explain our lack of support for their remuneration plans. We also sent the enclosed document "F&C: Tackling Global Financial Sector Pay Reform", which outlines in greater detail F&C's expectations on remuneration reforms for banking institutions. We would request that the confidentiality of these documents also be maintained. In addition to this individual company outreach F&C also participated in public policy dialogue on a number of fronts relating to banks and corporate governance, and we refer you to our submission on the Walker Review on our website:

[http://www.fundnets.net/fn_filelibrary//file/F&C response to the Walker Review.pdf](http://www.fundnets.net/fn_filelibrary//file/F&C%20response%20to%20the%20Walker%20Review.pdf)

Looking to 2010, our voting and engagement activities with individual financial institutions will continue to be guided by our underlying policies for promoting good governance. We are currently reviewing and updating these policies and will apply them with the strategy and particular circumstances of individual banking institutions in mind. As was the case in 2009, F&C will continue to hold bank boards to account for the effectiveness of their remuneration plans and we are prepared to take a tough line where banks fall short of the expectations we have communicated. To cite just one example, F&C will make it clear that bank remuneration packages should not be grossed up to pass on the higher UK income tax burden of bank executives directly on to shareholders.

As you no doubt appreciate, the problems relating to bank remuneration are complex as well as systemic. They will not be resolved in the UK if they are not adequately addressed in other jurisdictions. While F&C will continue to engage with UK-domiciled banks as well as global banks, we also believe that there needs to be enhanced cross-border regulatory coordination to bring greater coherence at a macro level to complement our individual company engagement. In this context we encourage you and other colleagues in the UK government to build a robust collaboration with regulators in other jurisdictions to help facilitate a global approach to dealing with bank remuneration.

Again, we appreciate your letter to us, and believe that our response addresses the questions that you have put forward. Please feel free to contact us with any further comments or questions.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Fernando Ribeiro', written over a light blue horizontal line.

Fernando Ribeiro
Head of Advisory & Strategic Relationships

c.c. Alain Grisay - Chief Executive
Richard Wilson - Head of Equities