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Lord Myners
Financial Services Secretary to the Treasury
HM Treasury
1 Horse Guards Road
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5th February 2010

Dear Paul,

I am writing in response to your letter of the 28th January requesting details of any actions Royal London Asset Management (RLAM) might have taken either individually or collectively to engage with the banks in relation to their bonus decisions. You also asked us to comment on how we intend to appraise the decisions that remuneration committees ultimately make when voting on firms' remuneration reports.

We at RLAM have made our views clear that restraint is appropriate with respect to bank bonuses. We have publicly supported the FSA code with its requirement to ensure that the risk adjusted cost of capital is factored into the calculation of bonuses as well as the use of claw back and payment in shares. As members of the ABI and very active participants in its investment committee we have a forum for advancing these views in a more collective way. That said, we acknowledge that institutional shareholders as a whole must bear some responsibility for a collective lack of engagement with Boards to challenge remuneration structures. The old style approach of simply selling shares in companies they disagreed with is no longer appropriate and fund managers must be prepared to use their shareholder status to influence change at the Board level.

It seems clear that, were it not for the intervention of the government, the entire UK banking system would have collapsed. Therefore we believe that the distinction between those banks which needed direct state aid and those which didn't is largely artificial. We firmly believe that, for the sake of ongoing financial stability, the practices which led to the crisis should not be allowed to continue. At the same time the notion of a banking landscape where banks are too big to fail seems out of tune with the regulator's desire to promote adequate risk monitoring and corporate accountability.

We agree with the observation that, for many years the employees of these organisations have consistently fared better than their shareholders, taking a disproportionate amount of the rewards without commensurately taking the risk. Boards and remuneration committees have consistently failed to reflect risk in their remuneration frameworks, leaving bankers with a one way bet using the banks' capital. We would hope that the FSA is directly addressing this with the Boards of each significant entity. Clearly there are certain very talented individuals operating within the global banking market who merit significant rewards. However, boards should expect to be challenged on how these rewards encourage real value creation while promoting sustainable business models in the long term interests of shareholders.

I would also note that an element of oligopoly is indicated by the discrepancy in relative bargaining power between the banks, their customers and the markets. We would suggest the government encourages the appropriate bodies to initiate a full review of competition in the market for investment banking services. This would help to address the issue of appropriate remuneration as well as promoting economic efficiency.

The debate about remuneration is complicated by the global nature of banking and the potential for regulatory arbitrage. There is little sense in any individual country trying to deal with this in isolation as this would simply result in companies or individuals relocating to other, less tightly regulated jurisdictions. The situation demands a joined up, global response and we would urge the authorities to act together to find a lasting solution.

The present benign environment for banking profitability is there purely because of the banking bailout which has been paid for by the taxpayer. The fact that the system itself remains intact does not reflect any innate skills or virtues which should be disproportionately rewarded. This is a point we are making and will continue to make to the banks. We are also asking for justifications and explanations for the results which Boards ultimately reach with respect to remuneration and how these decisions will contribute both to long term business success and to the appropriate alignment of risk and reward.

I trust these remarks are of some use to you and would be happy to discuss our views with you in more detail should you wish.

With best regards,

Andy. Carter

Andy Carter
Chief Executive Officer
Royal London Asset Management