ANDREW TYRIE MP

HOUSE OF COMMONS
LONDON SW1A 0AA

Hector Sants Esq
Chief Executive
FSA
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Dear Hector,

In its September 2009 Report *FSB Principles for Sound Compensation Practices: Implementation Standards*, the Financial Stability Board stated that:

> Compensation at significant financial institutions is one factor among many that contributed to the financial crisis that began in 2007. Official action to address unsound compensation systems must therefore be embedded in the broader financial regulatory reform program, built around a substantially stronger and more resilient global capital and liquidity framework. Action in all major financial centres must be speedy, determined and coherent. Urgency is particularly important to prevent a return to the compensation practices that contributed to the crisis.

Sir David Walker noted in his November 2009 Review of corporate governance that "In the light of recent experience, [...] the most senior traders and others in positions of significant influence in some banks played a key role in what proved to be an unsustainable build-up in leverage and associated balance sheet exposures".[1] He highlighted that "In practice, there will be employees below board level in many [banks and other financial institutions] who are both highly paid, in some cases with total remuneration packages in excess of those of board members and, closely associated, are likely to be in positions with potentially material influence on the direction and risk profile of the entity."

[1] A review of corporate governance in UK banks and other financial industry entities, Final recommendations, 26 November 2009, page 109, para 7.8

In recent hearings of the Treasury Committee with bank chief executives, we have questioned witnesses about the remuneration of these highly-paid non-board members of their respective firms. This is in line with recommendation 31 of the Sir David Walker's review, which stated that:

> For FTSE 100-listed banks and comparable unlisted entities such as the largest building societies, the remuneration committee report for the 2010 year of account and thereafter should disclose in bands the number of "high end" employees, including executive board members, whose total expected remuneration in respect of the reported year is in a range of £1 million to £2.5 million, in a range of £2.5 million to £5 million and in £5 million bands thereafter and, within each band, the main elements of salary, cash bonus, deferred shares, performance-related long-term awards and pension contribution. Such disclosures should be accompanied by an indication to the extent possible of the areas of business activity to which these higher bands of remuneration relate.[2]

While remuneration information on board members is available in the accounts of financial firms, information on the remuneration of other highly paid members of such firms is unavailable.

Without international agreement for disclosure of such information, the banks are understandably reluctant to release information which they consider may place individual firms at a competitive disadvantage. In a letter to the Financial Times, Sir David noted that "it would be mistaken for the British government to act in the absence of closely aligned similar initiatives elsewhere in Europe and, above all, in the US."

As our questioning has indicated, we remain concerned to ensure that remuneration structures are aligned with the interests of shareholders.

Aggregation of the information should address the banks' concern about competitiveness. It can provide a measure of disclosure on the number of highly-incentivised employees in our largest and most systemically significant banks.

I am writing to you because as Chief Executive of the FSA you have access to, or can gain access to, the information required by the Committee. Before providing such information to us, you can aggregate the data to protect the competitive positions of individual organisations.

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[2] A review of corporate governance in UK banks and other financial industry entities, Final recommendations, 26 November 2009

The information we seek is as follows:

- That suggested by Sir David Walker in his recommendation as set out above but aggregated to avoid disclosure at firm level; and
- The number of people in the firms identified by Sir David Walker above whose remuneration is equal to, or more than, the remuneration of the least well-paid executive board member of their respective firm, similarly aggregated.

I look forward to your response.

Yours ever,

Andrew.

ANDREW TYRIE MP
CHAIRMAN OF THE TREASURY COMMITTEE