

From Hector Sants
Chief Executive

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Dear CEO

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Remuneration Code of practice

You are, I know, aware of our determination to align remuneration policies, procedures and practices to ensure they are consistent with and promote effective risk management. The Consultation Paper that we published in March set out our proposal to incorporate this fundamental requirement into a general rule with a set of evidential provisions that outline how banks and broker-dealers could meet the general rule. Our proposals are consistent with the recommendations of the Financial Stability Board and with measures being considered by others such as Switzerland, the EU and the United States.

The consultation period for this paper has now closed, and we will shortly be putting our proposals to the FSA Board for adoption. Although our Board still needs to make a final determination, we envisage that the FSA may well adopt a rule along the lines originally proposed, together with updated supporting principles that take account of consultation responses and that this will be effective from 1 January 2010.

In particular, I would draw your attention to the fact that guaranteed bonuses which run for a period of more than one year may be inconsistent with effective risk management. Moreover, we are not proposing to extend grandfathering arrangements to obligations entered into after publication of our consultation paper on 18 March 2009. It is essential that the market should not revert to remuneration practices that would be incompatible with our intended outcomes if the rule and code become effective next year.

We anticipate that your banking and/or broker dealer operations will fall within the scope of our Code. The purpose of this letter is therefore also to give you notice that we will want you to let us have a remuneration policy statement by the end of October providing us with the information necessary for us to verify that your remuneration policies and practices will be compliant with the proposed rule and code from 1 January 2010. We will be writing shortly to you and to the Chairman of your Group's Remuneration Committee to set out the information that we will require in the remuneration policy statement.

If this raises any particular issues you wish to discuss please raise these directly with your supervision relationship team.

Yours sincerely

Hector Sants