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Z/Let Lord Myners Feb  
10 February 2010

Dear Lord Myners

Thank you for your letter dated 28 January 2010 enquiring about our engagement with the banks in relation to their bonus decisions and how we appraise investee companies' remuneration reports.

At the end of 2009, Baillie Gifford & Co's total funds under management were £55.9bn of which £9.9bn or 18% were held in UK equities. We take all aspects of corporate governance extremely seriously, we focus our engagement efforts on companies where the size of our shareholding gives us most influence and is of greatest potential benefit to our clients and we vote on all issues as a matter of course. In the case of the UK banks our largest current investment is Standard Chartered where our clients hold 1.7% of the equity, with much smaller holdings (less than 0.25%) in HSBC and Lloyds Banking Group.

We are very sympathetic to the main point in your letter relating to asymmetrical remuneration policies and the need for banks to retain profits to support their customers and the economy. In recent meetings we have encouraged both Standard Chartered and RBS (where we do not currently have a shareholding) to behave responsibly but we also recognise that they need to strike an appropriate balance to remain competitive and build longer term shareholder value.

#### Standard Chartered

- In September 2009, we met with the HR Director and the Chairman of the Remuneration Committee to discuss the contractual arrangements and remuneration of their new Chairman, John Peace.
- We have recently engaged with the company's Head of Executive and Group Compensation on bonus arrangements for 2010. The Remuneration Committee will make its final decision in late February regarding the 2010 bonus pool and how it will be allocated. In July 2009 Standard Chartered introduced a new company-wide policy towards deferred bonuses. We believe that their approach to annual bonuses and deferrals should increase executives' focus on long-term sustainable returns but we will of course continue to monitor their bonus payments for 2010.

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## HSBC

- We last spoke directly to HSBC on remuneration a year ago, although this related to long-term incentives in general rather than bonuses specifically.
- In September 2009 we attended a Deloitte conference where the Remuneration Committee Chairman, Sir Mark Moody-Stuart, outlined his views on improving executive remuneration structures, including reduced emphasis on short-term performance. His comments were consistent with those of the HSBC Chairman, Stephen Green, who has also called for less short-term focus. As with Standard Chartered, we will continue to monitor the bonus payments for 2010 but believe that their approach is prudent and consistent with our expectations.

## Lloyds Banking Group

- We have yet to engage with Lloyds regarding bonuses but are attempting to do so. However, we confidently expect that UKFI will exert more influence than a shareholder of our size.

We shall only be in a position to properly appraise the Remuneration Committee proposals of the banks once they have been made public over the coming weeks. We shall review them according to our usual criteria including quantum and peer group data on salaries and total remuneration; the balance of short-term and long-term remuneration; whether performance targets are sufficiently challenging and appropriate; and how the remuneration structures align management and long-term shareholder interests. If we conclude that the remuneration proposals are not in our clients' best interests, then we shall not hesitate to vote against them as we have done recently in cases such as Cairn Energy, Diageo, BP, Royal Dutch Shell, Rio Tinto, Reed Elsevier, Johnson Matthey, Schroders and Serco amongst others.

If you require any further information, please do not hesitate to get in touch.

Yours Sincerely



Charles Plowden