

Lord Myners
Financial Services Secretary
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

8th February 2010

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Dear Paul,

Thank you for your letter of 28 January. We are following the debate on remuneration and incentivisation at banks and other financial institutions closely. We have also participated in Sir David Walker's review and are broadly supportive of the recommendations in his final report.

As you know, executive remuneration is a matter of balancing the interests of shareholders and executives, taking into account the wider ramifications for the company. We recognise that the competitive market for certain skills and expertise in the banking sector can result in remuneration packages that may be significant, but our fiduciary duty to clients is to ensure that the companies in which we invest are in a position to employ people with the requisite skills to enhance the long-term economic returns to shareholders. It is difficult to see how a change to the bonus culture in banks can be brought about on a unilateral basis. Clearly, the guidance issued by the Financial Services Authority is helpful in this regard in relation to the UK.

At present we are not in a position to take a view on the bonuses to be paid this year by UK banks because there is little factual information in the public domain. As banks publish their end of year results and annual reports, the picture will become clearer. In the meantime, we are meeting with the chairmen of the remuneration committees to explain our general stance on executive remuneration, our support for the FSA remuneration code, and our expectation that bank boards will take into consideration the reputational impact of any bonus payments. We wish to understand the approach taken by each bank and the role the board played in overseeing remuneration. We will expect the board to be able to demonstrate that there is a robust process behind the calculation of bonuses. We will also expect the board to explain how it believes the remuneration paid serves the interests of shareholders and whether it is comfortable that the payments in aggregate are reasonable in the context of the market. We welcome the early indications from some banks that they intend to require deferral of a significant portion of any bonus paid.

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Our position on executive remuneration in the UK is that companies should pay the minimum necessary to attract and retain the people who will drive the success of the business. In our experience, this is more of an art than a science. Our focus tends to be on the structure of remuneration packages, such as the balance between fixed and variable components, the correlation with long-term returns to shareholders and the mechanisms for adjusting for risk. For the more senior employees we would expect a greater component of the remuneration package to be linked to performance. These should be assessed against targets that are consistent with the stated strategy of the company. We would also expect a significant portion of employees' compensation to be deferred for a number of years, generally in shares.

In our view, the responsibility for getting executive remuneration right rests with remuneration committees. We expect them to represent shareholders' interests in negotiating executive pay and we will work closely with them as required. The board should set the philosophy in relation to remuneration for the company as a whole, just as it sets the values and standards in relation to other aspects of the business. While we believe the board should take overall responsibility for the remuneration framework, it is extremely difficult for non-executive directors to be involved in the detail of the remuneration of individuals much below board level. Equally, it is nearly impossible for shareholders to judge whether the amount paid in remuneration at this level is appropriate given that information on individual performance, risk parameters and competitive pressures in each business area is not public. These issues remain the responsibility of senior management augmented by the board's oversight.

Finally, in your letter, you asked about our voting process on remuneration. As you will be aware, the vote on the remuneration report of the directors relates to the remuneration of executive directors. Generally, only the remuneration policies and related payments for executive directors are disclosed in any detail. The executive directors are not always the highest paid employees in banks, and indeed often they do not participate in the same bonus arrangements as other employees. Thus, it is not necessarily appropriate to take the broader issue of bankers' bonuses into account when determining how to vote on remuneration reports. If we believe that the board has failed in its oversight of management in relation to bonus payments then we will consider voting against the re-election of board members.

Yours sincerely
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Quintin Price