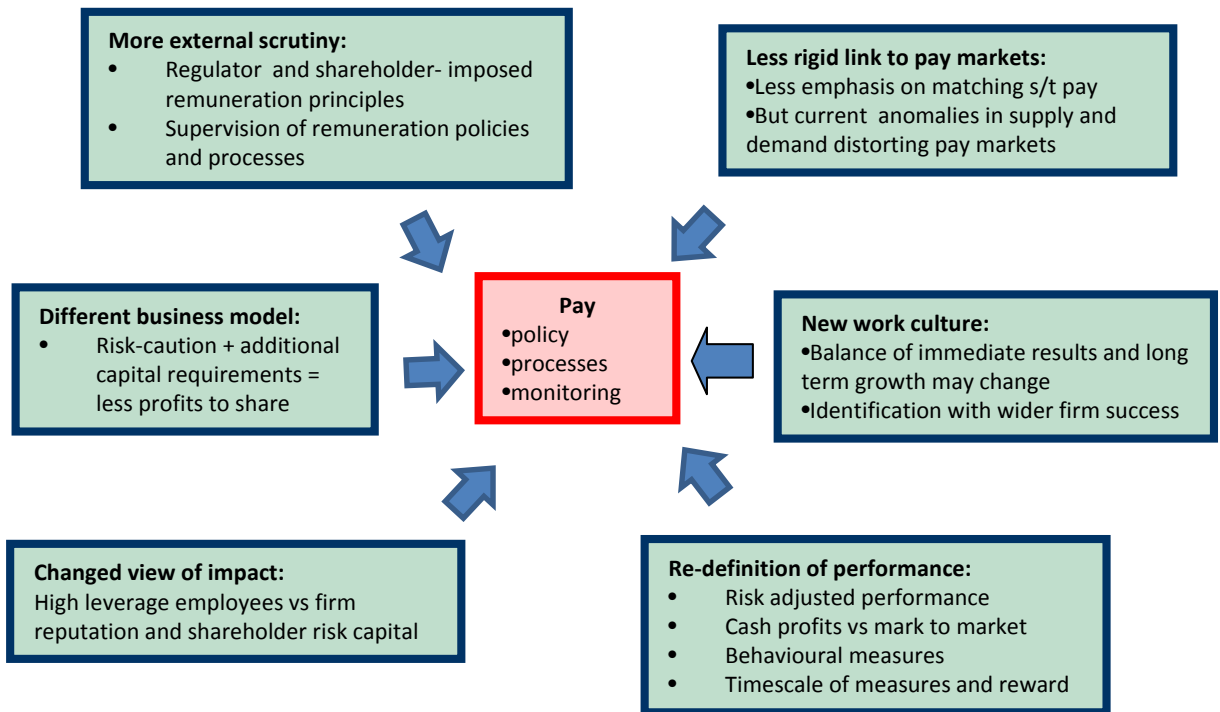


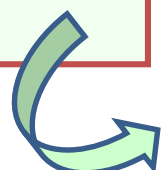
Risk-aligned remuneration: support for financial services firms

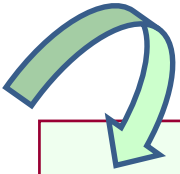
The banking crisis has changed the world for financial services firms' pay



The new FSA code, the Walker review and international institutional measures have introduced many new responsibilities for financial services firms and their remuneration committees, including:

- Accounting to the FSA for remuneration policy
- Risk alignment of reward
- 'Whole firm' responsibility for policy
- Setting package of 'higher end' executives besides directors
- Fuller reporting to shareholders.





Actions required:

1. Set new objectives for remuneration policy and management and new terms of reference for all involved
2. Set timetable for action and identify resources needed
3. Establish the right dialogue and operating framework between Rem Co, CEO, HR, Risk, Compliance
4. Lay down principles and framework for risk-aligned compensation and plan design across the firm
5. Identify the positions for which the Rem Co will approve directly the remuneration package and the performance targets and results
6. Review current incentive plans against principles and framework, and agree proposals for change
7. Determine objectives and processes for future monitoring and policy change approval
8. Set goals, responsibilities and timetable for communicating new principles and progress to the FSA and major shareholders
9. Plan the form and content of the new remuneration report.

The right consulting support is needed

- All codes identify the need for independent and objective advice and information
- Risk and Compliance functions are unlikely to have understanding of remuneration policy and design
- HR function may need support in understanding the risk implications of remuneration plans.

External advisors must provide

- Sufficient independence of executive management
- Range of capabilities, including risk management and advanced performance metrics in remuneration design
- Insights into FSA thinking and shareholder expectations
- Insights into developments in other firms.

MM & K has a dedicated service in risk aligned remuneration specifically set up to provide this capability. We would be pleased to discuss ways in which we might help.

Call Cliff Weight or Damien Knight on 020 7283 7200