

**UK Financial Investments Ltd**

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**UKFI FRAMEWORK DOCUMENT**  
**APRIL 2016**

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UK FINANCIAL INVESTMENTS LIMITED:  
SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

REVISED VERSION 5 May 2016

**1. INTRODUCTION**

- 1.1 This framework document (the “**Framework Document**”) has been drawn up by UK Financial Investments Limited (the “**Company**”), with its shareholder UK Government Investments Limited (“**UKGI**”), and HM Treasury as shareholder of the UKGI Group. It sets out the objectives for the Company and the framework within which the Company will pursue them.
- 1.2 HM Treasury will place copies of this document in the Libraries of both Houses of Parliament and the Company will make it available to members of the public on its website.

**2. BACKGROUND**

- 2.1 On 1 April 2016, HM Treasury’s entire shareholding of the Company was transferred to UKGI. The Company is now a wholly-owned subsidiary of UKGI. By virtue of UKGI being wholly owned by HM Treasury, the ultimate shareholder is still HM Treasury.
- 2.2 UKGI together with the Company (and any other subsidiaries as may exist) form the UKGI Group (“the **Group**”) wholly-owned by HM Treasury. UKGI operates under a framework document agreed with HM Treasury. This document should be read in the context of the wider framework.
- 2.3 While this Framework Document remains in place, matters described in this Framework Document will remain the responsibility of the Board of directors of the Company (“the **Board**”) and will not be subject to further amendment or veto from the UKGI Board.
- 2.4 This Framework Document refers only to the Company and does not, unless explicitly stated otherwise, include UKGI or the Group.

**3. ACTIVITIES OF THE COMPANY**

- 3.1 The Company will manage HM Treasury’s shareholdings in The Royal Bank of Scotland Group plc (“**RBS**”), Lloyds Banking Group plc (“**Lloyds**”), and UK Asset Resolution Ltd (“**UKAR**”) which wholly owns Bradford & Bingley plc (“**B&B**”) and “**NRAM**” (which means (1) NRAM plc, prior to its sale and (2) the company incorporated as NRAM (No. 1) Limited which is taking over certain assets and liabilities from NRAM plc at the time of its sale) on behalf of HM Treasury.
- 3.2 The shareholdings of HM Treasury in RBS, Lloyds and UKAR are held by the Treasury Solicitor as nominee for HM Treasury.
- 3.3 The Company will, on behalf of HM Treasury, manage certain aspects of: (i) the loan arrangements between HM Treasury and B&B and HM Treasury and NRAM; and (ii) the guarantee arrangements put in place by HM Treasury in respect of B&B and NRAM.
- 3.4 If HM Treasury (whether directly, through the Treasury Solicitor as nominee for HM Treasury or otherwise) acquires further holdings of securities (or acquires assets) of the above financial institutions, or other

financial institutions, the Company will, following their acquisition by HM Treasury and if so requested by HM Treasury, manage those holdings or assets.

3.5 In this Framework Document:

- (A) the shares and other securities managed by the Company (including, where the context requires, the indirect investment in the shares and securities of NRAM and B&B) are referred to as the **"Investments"**;
- (B) the loan arrangements managed by the Company and made between HM Treasury and B&B and HM Treasury and NRAM are referred to as the **"Loan Arrangements"**;
- (C) the guarantee arrangements managed by the Company and put in place by HM Treasury in respect of B&B and NRAM are referred to as the **"Guarantee Arrangements"**;
- (D) the financial institutions in which the Investments are held (together with B&B and NRAM) are referred to as the **"Investee Companies"**;
- (E) the Investments in financial institutions the shares of which remain admitted to the Official List and admitted to trading on a recognised investment exchange are referred to as the **"Listed Investee Companies"**; and
- (F) the Investments which constitute wholly-owned subsidiaries of HM Treasury (including the indirect wholly-owned subsidiaries, B&B and NRAM) are referred to as the **"UKAR Companies"**.

3.6 The Company will not, without the consent of HM Treasury, undertake any activity other than the activities envisaged by this Framework Document, activities incidental to them and the activities of UKGI. As such, HM Treasury (and, where relevant, the Bank of England **"BoE"**, Prudential Regulatory Authority **"PRA"** and Financial Conduct Authority **"FCA"**) shall remain responsible for all other issues which are not, by virtue of this Framework Document, the responsibility of the Company, whether in relation to the Investee Companies, the Investments, the Loan Arrangements, the Guarantee Arrangements, or otherwise.

3.7 The activities, roles and responsibilities of the Company as described in this Section 3 (Activities of the Company) and the remainder of this Framework Document shall be conducted with propriety and otherwise in compliance with the publication entitled **"Managing Public Money"** issued by HM Treasury in July 2013 (as amended, updated or replaced from time to time).

#### 4. OVERARCHING OBJECTIVE

4.1 The Company should, in compliance with the Investment Mandate described in Section 5 (The Investment Mandate), develop and execute an investment strategy for disposing of the Investments (or, in the case of UKAR, the underlying investments in NRAM and B&B) in an orderly and active way through sale, redemption, buy-back or other means within the context of protecting and creating value for the taxpayer as shareholder and, where applicable, as provider of financial support, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition. This overarching objective includes:

- (A) consistent with HM Treasury's stated aim that it should not be a permanent investor in UK financial institutions, maximising sustainable value for the taxpayer, taking account of risk;
- (B) maintaining financial stability by having due regard to the impact of value-realisation transactions (in respect of the Listed Investee Companies) and disposal or restructuring transactions (in respect of UKAR); and
- (C) promoting competition in a way that is consistent with a UK financial services industry that operates to the benefit of consumers and respects the commercial decisions of the financial institutions.

4.2 The overarching objective described in the foregoing paragraph of this Section 4 (Overarching Objective) is referred to in the remainder of this Framework Document as the "**Overarching Objective**".

4.3 In relation to UKAR, the Company should, in compliance with the Investment Mandate described in Section 5 (The Investment Mandate) and the Overarching Objective, develop and execute an investment strategy (in respect of the Investments, the Loan Arrangements and the Guarantee Arrangements) which shall be designed to:

- (A) ensure effective implementation of the business plans of UKAR (as such business plans may be amended, updated or replaced from time to time); and
- (B) deliver the objectives outlined in the relationship framework document relating to UKAR and the underlying investments in NRAM and B&B (as such framework document may be amended, updated or replaced from time to time).

## 5. THE INVESTMENT MANDATE

5.1 HM Treasury will prepare an investment mandate which the Company is to comply with in respect of the management of the Investments, the Loan Arrangements and the Guarantee Arrangements and otherwise in pursuing the objectives set out in this Framework Document. This document, as established and approved by HM Treasury, and as amended, updated or replaced from time to time, is referred to in this Framework Document as the "**Investment Mandate**".

5.2 The Board will review and comment on, and consult with HM Treasury as regards, the proposed Investment Mandate.

5.3 The implementation of value-realisation transactions (in respect of the Listed Investee Companies) and disposal or restructuring transactions (in respect of UKAR) (together with the other actions and decisions described in paragraph 10.36) shall be subject to the prior consent of HM Treasury, except that HM Treasury may, either in the Investment Mandate or separately, delegate authority to the Company to implement:

- (A) certain types of decisions (including decisions in respect of value-realisation transactions and disposal or restructuring transactions); and/or
- (B) value-realisation and/or disposal or restructuring decisions below a specified financial threshold or satisfying certain other specified criteria, without prior consent being obtained.

- 5.4 The Company will comply with the Investment Mandate and take account of:
- (A) the objectives set out in this Framework Document;
  - (B) the terms of the framework document drawn up by UKAR and the Company (as it may be amended, updated or replaced from time to time, the **"UKAR Framework Document"**);
  - (C) the need to ensure that, in order to meet the Overarching Objective, decisions in respect of the Investments will be taken in respect of each Listed Investee Company individually rather than in respect of the portfolio of Investments which the Company is managing from time to time and, in relation to the UKAR, without having regard to the Listed Investee Companies;
  - (D) the terms of the agreements and commitments entered into by HM Treasury with the Investee Companies and others relating to the Investments, the Loan Arrangements and the Guarantee Arrangements, as notified by HM Treasury to the Company;
  - (E) the conditions attaching to any decisions of the European Commission or national regulatory authorities in relation to state aid or merger control and any commitments given by HM Treasury in that context, as notified by HM Treasury to the Company; and
  - (F) the requirements as set out in Sections 7 (Board and Management of the Investee Companies), 8 (Preservation of the Independence of the Investee Companies) and 9 (Monitoring Compliance of Investee Companies).
- 5.5 HM Treasury will authorise the Treasury Solicitor to take instructions from the Company in relation to proxy forms, authorisations and other documents which need to be signed in order to give effect to the decisions made by the Company in compliance with this Framework Document and the Investment Mandate in relation to the Investments, including decisions as to voting.
- 5.6 The Company will be free to manage the Investments, the Loan Arrangements and the Guarantee Arrangements, and effect the investment strategies referred to in Section 4 (Overarching Objective), in each case at its discretion but in accordance with the Investment Mandate, this Framework Document and the Investee Company Framework Documents.
- 5.7 HM Treasury will ensure that the Investment Mandate is consistent with this Framework Document, including Section 4 (Overarching Objective) and paragraph 8.1.

## 6. UKFI BUDGET

- 6.1 The Board will continue to develop and update a budget (the **"UKFI Budget"**) to support the objectives of the Company and control arrangements for the Company, which is appropriate to ensure the fulfilment by the Company of its role in relation to the Investments, and compliance with the associated obligations, as described in this Framework Document.
- 6.2 The Board will normally inform the UKGI Board of any budget agreements before submission of official budget requests to HM Treasury.
- 6.3 The UKFI Budget and the investment strategies referred to in Section 4 (Overarching Objective) shall pertain to the activities of the Company, and not to the business plans or budgets of the Investee

Companies. The UKFI Budget may include a periodical payment from HM Treasury as consideration for the performance of its ongoing obligations under this Framework Document, with such payment being representative of the anticipated costs and expenses to be incurred by the Company in effecting its investment strategies and otherwise fulfilling its responsibilities under this Framework Document.

- 6.4 The UKFI Budget will not allow the Company to incur any borrowings or enter into any similar financial transactions.
- 6.5 The UKFI Budget will cover a period of at least 12 months and will be reviewed by the Board on an annual basis and otherwise as necessary to take account of any additional or amended obligations or responsibilities assumed by the Company. The UKFI Budget will be subject to review by, and the approval of, HM Treasury on an annual basis.
- 6.6 The Company will inform HM Treasury of, and consult them on, potential changes to the UKFI Budget that it considers are or may become necessary from time to time. Any proposed updates or amendments to the UKFI Budget, whether arising out of the annual review process or otherwise, will be subject to discussion with, and approval by, HM Treasury.

## **7. BOARD AND MANAGEMENT OF THE INVESTEE COMPANIES**

- 7.1 In relation to UKAR, the Company will, on behalf of HM Treasury, exercise the rights in relation to the boards of those financial institutions conferred on HM Treasury by its Investments in UKAR, in accordance with the UKAR Company Framework Documents which apply to them, subject to the provisions of this Framework Document.
- 7.2 The Company will also engage with each Investee Company with respect to board composition generally, consistent with the principles outlined in Section 8 (Preservation of the Independence of the Investee Companies).

## **8. PRESERVATION OF THE INDEPENDENCE OF THE INVESTEE COMPANIES**

- 8.1 The Company will manage the Investments on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (including with respect to individual lending or remuneration decisions save, in the case of the UKAR, to the extent provided in the applicable Investee Company Framework Document).
- 8.2 The nature of the Company's engagement with the Investee Companies will be proportionate to HM Treasury's ownership interest:
  - (A) UKAR: For these financial institutions, the board of the Investee Company will report to the Company (including, in the case of UKAR, with respect to the underlying investments in B&B and NRAM), which will actively engage with UKAR in a manner similar to that in which a financial sponsor would engage with a wholly-owned portfolio company. The Company will, in addition to the rights attaching to the Investments in these companies but subject to the other provisions of this Framework Document, exercise all rights and discretions conferred on the Company under the applicable Investee Company Framework Document.
  - (B) Listed Investee Companies: For these financial institutions, the Company will engage actively with the Investee Company in accordance with best institutional shareholder practice. The

Company will (subject to the other provisions of this Framework Document) exercise the rights attaching to HM Treasury's Investments in these companies, including voting rights. Except as otherwise provided in the Investment Mandate, the Listed Investee Companies will continue to be separate economic units with independent powers of decision and, in particular, will continue to have their own independent boards and management teams, determining their own strategies and commercial policies (including business plans and budgets).

8.3 HM Treasury is determined to ensure that: (i) the Investments, and the management of the Investments by the Company, do not lead to a prevention, restriction, distortion or significant lessening or impediment of effective competition in contravention of merger control or competition law restrictions; and (ii) the Company adopts appropriate procedures for managing conflicts and inside information. In order to achieve this objective, the Company will, in particular:

- (A) ensure that there are no cross-directorships between:
  - (i) the Listed Investee Companies in relation to the appointments in which it has a specified role;
  - (ii) the Listed Investee Companies (in relation to the appointments in which it has a specified role) and UKAR; or
  - (iii) the Company and the Listed Investee Companies;
- (B) put in place robust barriers which are monitored and adhered to by Company personnel and enforced by the Board at all levels to ensure that commercial information relating to:
  - (i) a Listed Investee Company does not leak to, and is not exchanged with, another Listed Investee Company or UKAR ; or
  - (ii) UKAR does not leak to, and is not exchanged with, a Listed Investee Company;
- (C) develop and maintain procedures to ensure that:
  - (i) it exercises its rights in relation to each Investee Company individually if and to the extent required to comply with merger control and competition law restrictions; and
  - (ii) it does not exercise its rights in relation to Investee Companies, or otherwise manage the Investments, in a manner which may result in a prevention, restriction, distortion or significant lessening or impediment of effective competition; and
- (D) develop, establish and apply policies and procedures to ensure that the Company (and its directors, officers and employees) abides by the Code of Market Conduct, and other rules and guidance laid down by the Financial Conduct Authority and recognised investment exchanges to which securities of the Listed Investee Companies are admitted to trading (such policies and procedures to cover, in particular, insider dealing and market abuse) (the "**Compliance Policies**"). In this context, it is envisaged that the Company will normally act as other institutional shareholders would act, using published information in a structured dialogue with key members of the Listed Investee Company's board. In considering whether it is necessary or appropriate for the Company (or any of its directors, officers or employees) to become an

“insider” in relation to a Listed Investee Company (for example where it is necessary for the Company to receive price-sensitive information to enable it to perform its responsibilities under this Framework Document), the Company will pay due regard to the objective of implementing the Investment Mandate and manage the situation in accordance with the relevant elements of its Compliance Policies.

## 9. MONITORING COMPLIANCE OF THE INVESTEE COMPANIES

- 9.1 The Company will (on behalf of HM Treasury) monitor, report on and work to secure compliance with:
- (A) the business plans of UKAR Companies ( each a “**Business Plan**”) and any conditions attaching to any decisions of the European Commission or national regulatory authorities in relation to the Business Plans; and
  - (B) the non-lending conditions attached to the accessing by RBS and Lloyds of the Government’s bank recapitalisation fund and any other financial institutions accessing the fund.
- 9.2 The Company will (on behalf of, but only where requested by, HM Treasury) monitor and report on any conditions attaching to any decisions of the European Commission or national regulatory authorities in relation to state aid or merger control with respect to any of the Investee Companies and any commitments given by HM Treasury in that context, as notified by HM Treasury to the Company (the “**Investee Company Conditions**”).
- 9.3 The Company will, to the extent necessary to fulfil its responsibilities under paragraphs 9.1 and 9.2, develop a robust assurance regime for monitoring, reporting on and securing compliance with the Business Plans and the Investee Company Conditions and will regularly discuss its approach with HM Treasury and report on compliance to HM Treasury.
- 9.4 The determination and establishment of conditions attaching to the access by any Investee Company of any financial support from the Government shall remain the responsibility of Government.

## 10. SHAREHOLDER AND HM TREASURY RELATIONSHIPS

### *General*

- 10.1 The basic relationship between UKGI and the Company delegates the relationship between the Company and HM Treasury to the Company with a limited role for UKGI as shareholder. The Company remains directly accountable to HM Treasury for the achievement of its objectives.
- 10.2 Within this context, interactions between HM Treasury, UKGI (as shareholder) and the Company need to be underpinned by resolve on all sides to conduct affairs on the basis of a professional, efficient, trust-based dialogue:
- (A) professional: professional people engaged in dialogue relevant to delivering the Company’s objectives, with commitments delivered on time and to specification;
  - (B) efficient: all parties ensuring a joined-up and efficient approach amongst their constituent elements; and



- (C) trust-based: open dialogue, based on a shared commitment to providing the Company with the ability to pursue its objectives effectively.

10.3 The success of these relationships depends on the nature and quality of the relationships between the UKGI Board, the Company's Board and HM Treasury. The overall responsibility for ensuring that the intentions of this Framework Document are carried out in practice lies ultimately with the Chairman of the Board, the Chairman of UKGI and the Chancellor of the Exchequer. The Chairman of the Board will maintain regular contact with the Chairman of UKGI and the Chancellor of the Exchequer (or an official nominated by the Chancellor). Below them, senior individuals within UKGI, the Company and HM Treasury will be nominated who will have the responsibility to ensure that all contacts between UKGI, the Company and HM Treasury are conducted at the right level, with the right people and in the right spirit.

10.4 The Company may interact with other members of regulators, BoE, FCA, PRA and the Financial Services Compensation Scheme Limited as and when necessary or appropriate for the fulfilment of its obligations under this Framework Document and the Investment Mandate, but HM Treasury will remain primarily responsible for co-ordinating the actions of regulators in relation to the Investee Companies.

10.5 The relationship between the Company and HM Treasury operates according to principles under which HM Treasury:

- (A) may appoint the Chairman of the Board and two senior Government officials as directors of the Company;
- (B) has authorisation over the appointment of other members of the Board and has authorisation over the terms on which each director is appointed, remunerated and incentivised;
- (C) through the establishment of this Framework Document and the Investment Mandate, determines the high level objectives that the Company is designed to achieve;
- (D) has approval rights in respect of the UKFI Budget and any subsequent updates or amendments to it;
- (E) requires that the Board is accountable to it for adhering to the UKFI Budget, complying with the Investment Mandate and delivering the objectives set out in this Framework Document;
- (F) gives the Board the normal commercial freedom to take the action necessary to adhere to the UKFI Budget, comply with the Investment Mandate and fulfil and deliver the objectives set out in this Framework Document;
- (G) is able to monitor the Company's performance to satisfy itself that the UKFI Budget is being adhered to, the Investment Mandate is being complied with and the objectives set out in this Framework Document are being delivered and carried out; and
- (H) must give its consent prior to certain significant actions being taken (as described in paragraph 10.36).

10.6 In addition the UKGI Group Board may appoint a representative to attend the Board as an observer.

### **Board Structure and Governance**

- 10.7 The Company will operate a corporate governance structure that provides a framework for the relationship between the Board and HM Treasury which, so far as practicable and in the light of the other provisions of this Framework Document (and, in the case of each UKAR Company, the applicable Investee Company Framework Document) or as otherwise may be agreed with HM Treasury, takes appropriate account of best practice for a public sector company.
- 10.8 The Board will constitute the following committees of the Board:
- (A) Audit and Risk Committee;
  - (B) Remuneration Committee.
- 10.9 The Board will notify HM Treasury of the delegated authorities it has granted to the directors and senior management of the Company.

### **Board Appointments; Senior Management**

- 10.10 The composition of the Board is a critical factor for HM Treasury. The aim is to secure an environment in which HM Treasury and the Chairman share a common view about Board composition (including balance of experience and background) and succession. To achieve this, the following will apply:
- (A) the Board will consist of up to eight directors, comprising a private sector Chairman, the Chief Executive of the Company, up to five further non-executive private sector members, together with up to two senior Government officials nominated by HM Treasury (the “**Treasury Directors**”);
  - (B) appointments to the Board will be regulated by the Commissioner for Public Appointments;
  - (C) HM Treasury will appoint a director, either the Chief Executive or Chairman, as Accounting Officer for the Company;
  - (D) the Chairman will discuss and confirm with HM Treasury Board composition and succession initially, and regularly thereafter, in the light of performance and the requirements of the Investment Mandate, the UKFI Budget and this Framework Document;
  - (E) the Chairman will discuss with HM Treasury any impending changes to Board membership; and
  - (F) the Board will ensure that suitably rigorous appraisals are made of the effectiveness of the Chairman and Board.
- 10.11 The Board shall:
- (A) appoint to senior investment roles individuals with relevant financial experience, skills and appropriate qualifications, who shall (in addition to any other responsibilities determined by the Company) attend Board discussions relating to the Investments;

- (B) appoint a professionally qualified chief financial officer to manage the Company's accounts and the UKFI Budget, who shall (in addition to any other responsibilities determined by the Company) attend Board discussions relating to the UKFI Budget and the Company's financial statements and accounts; and
- (C) appoint a suitably qualified individual to develop, establish and monitor compliance with the Compliance Policies, who shall (in addition to any other responsibilities determined by the Company) attend Board discussions relating to the Compliance Policies.

10.12 The UKFI Accounting Officer will entrust responsibility to the UKFI Accounting Officer for all matters reserved for the Company in this Framework Document, and the UKFI Accounting Officer will report on these directly to the HM Treasury Principal Accounting Officer. However, as the Company will be consolidated into the UKFI Group accounts, the UKFI Accounting Officer will make arrangements to ensure they are satisfied that the Company has systems adequate to meet the standards of governance, decision-making and financial management set out in Managing Public Money.

10.13 As per the UKFI Framework Document, the Chair of the Company shall also serve as the non-executive deputy Chair of the UKFI Board.

#### **Responsibilities of the UKFI Accounting Officer**

##### *General*

10.14 The UKFI Accounting Officer is personally responsible for safeguarding the public funds for which he or she has charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds. The Chief Executive is responsible for the day-to-day operations and management of the Company. The UKFI Accounting Officer should ensure that the Company as a whole is run on the basis of the standards, in terms of governance, decision-making and financial management that are set out in Box 3.1 of Managing Public Money.

##### *Responsibilities for accounting to Parliament*

10.15 The UKFI Accounting Officer has specific responsibilities to account to Parliament as covered by the Accounting Officer's letter of appointment and as described in Managing Public Money. The accountabilities include:

- (A) signing the accounts and ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by HM Treasury;
- (B) preparing and signing a Governance Statement covering corporate governance, risk management and oversight of any local responsibilities, for inclusion in the annual report and accounts;
- (C) ensuring that effective procedures for handling complaints about the Company are established and made widely known within the Company; and

- (D) acting in accordance with the terms of this document, Managing Public Money, and other guidance relevant to the Company; giving evidence, normally with the PAO, when summoned before the PAC on the Company's stewardship of public funds.

*Responsibilities to HM Treasury*

10.16 Particular responsibilities to HM Treasury include:

- (A) establishing, in agreement with the department, the Company's corporate and business plans in the light of the department's wider strategic aims and agreed priorities; and
- (B) ensuring that timely forecasts and monitoring information on performance and finance are provided to the department; that the department is notified promptly if over or under spends are likely and that corrective action is taken; and that any significant problems whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the department in a timely fashion.

10.17 Unless agreed by HM Treasury, the Company will follow the principles, rules, guidance and advice in Managing Public Money to the extent applicable, referring any difficulties or potential bids for exceptions to the sponsor team in HM Treasury in the first instance.

*Responsibilities to the Board*

10.18 The UKFI Accounting Officer is responsible for:

- (A) advising the Board on the discharge of the Company's responsibilities as set out in this document;
- (B) advising the Board on the Company's performance compared with its objectives;
- (C) ensuring that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that financial appraisal techniques are followed; and
- (D) taking action as set out in paragraph 3.8.6 of Managing Public Money if the Board, or its Chairman, or Chief Executive is contemplating a course of action involving a transaction which the UKFI Accounting Officer considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration, efficiency or effectiveness, is of questionable feasibility, or is unethical.

10.19 The UKFI Accounting Officer, must take care that his or her personal legal responsibilities do not conflict with his or her duties as a Board member. In particular, the UKFI Accounting Officer should vote against any proposal which appears to cause such a conflict; it is not sufficient to abstain.

*Additional responsibilities*

10.20 The UKFI Accounting Officer will be authorised to act as the "qualified person" under section 36(5)(o) (iii) of the Freedom of Information Act 2000.

## **The Investment Mandate**

- 10.21 Representatives of HM Treasury and the Board or other Company representatives will meet from time to time, as agreed, to review the strategic options available in formulating and implementing the Investment Mandate, and in delivering the objectives set out in this Framework Document.
- 10.22 A process of effective dialogue will be established between representatives of HM Treasury and the Board and other Company representatives to ensure that the Company fully understands the objectives set out in the Investment Mandate and its associated responsibilities pursuant to it.

## **Remuneration and Incentivisation**

- 10.23 HM Treasury expects remuneration arrangements, including any incentivisation packages, to be developed and recommended by the Board's Remuneration Committee for directors and senior management, and to be in line with the FCA's code. In the case of remuneration arrangements for directors, the specific proposals for each individual will require approval by HM Treasury.
- 10.24 HM Treasury's interest is primarily in ensuring that remuneration levels:
- (A) are sufficient to attract and motivate high calibre individuals to drive the delivery of the activities and objectives described or set out in this Framework Document;
  - (B) are tied closely to performance, as measured by compliance with the Investment Mandate (and implementation of the Company's investment strategy), adherence to the UKFI Budget and delivery of the objectives in this Framework Document;
  - (C) are aligned with the objectives set out in this Framework Document; and
  - (D) deliver value for money.
- 10.25 In addition, HM Treasury does not condone rewards for failure, and would expect the Board to support the removal of any director or member of senior management responsible for a failure to adhere to the UKFI Budget, comply with the Investment Mandate or for any other serious failure.

## **The Board's Freedom to Act**

- 10.26 HM Treasury is committed to giving the Board the commercial freedom to adhere to the UKFI Budget, comply with the Investment Mandate and fulfil and deliver the activities and objectives set out in this Framework Document. In that context, and save as provided in this Framework Document, HM Treasury will not interfere in day-to-day operational and commercial matters.
- 10.27 Subject to this Framework Document and the Company's memorandum and articles of association, decisions on the day-to-day running of the Company will rest with the Board in accordance with the directors' statutory, common law and fiduciary responsibilities.

## **Monitoring the Company's Performance**

- 10.28 HM Treasury will regularly monitor the Company's performance of the activities, and performance against the objectives, set out in this Framework Document, by means of the following mechanisms:

- (A) quarterly meetings as the centrepiece of the formal reporting relationship between the Company and HM Treasury. The purpose of these meetings between the Chairman of the Company and senior representatives of HM Treasury is to provide a forum to review performance to date of the activities, and against the objectives set out in this Framework Document. Each meeting is primarily intended to be weighted towards being a forward-looking and risk-based analysis of progress against the UKFI Budget and Investment Mandate, including the Company's investment strategy (where appropriate);
- (B) the Company will promptly and without delay disclose to HM Treasury any information regarding the Company that:
  - (i) would have required public disclosure if it were listed on the Official List; or
  - (ii) which otherwise may have a significant bearing on the delivery of, or may have a significant impact on the assumptions or objectives set out in, this Framework Document or the Investment Mandate;
- (C) in addition to the regular meetings, meetings between directors and representatives of HM Treasury to discuss the affairs of the Company at HM Treasury's request; and
- (D) in addition to the monitoring procedure described above, HM Treasury will be entitled on reasonable notice to such information in relation to the affairs of the Company as it may consider necessary or desirable from time to time.

10.29 The Company will produce quarterly reports to facilitate effective meetings as referred to above, together with an annual report. The annual report (together with the Company's audited accounts) will be laid before Parliament. The quarterly and annual reports will contain such information as HM Treasury, in consultation with the Company, requires.

10.30 The Chairman and the Chief Executive will, if required, attend meetings of relevant Parliamentary committees (including the Public Accounts Committee and the House of Commons Treasury Select Committee), for scrutiny and otherwise to answer questions about the Company.

10.31 The Company will:

- (A) appoint the Comptroller and Auditor General to audit its financial statements;
- (B) permit audit procedures to be carried out by the National Audit Office (with or without the involvement of external professional advisers); and
- (C) establish an internal audit function which shall be comprised of members of the Government Internal Audit team. The internal audit function will report to the Board's Audit and Risk Committee and will consider issues relating to the Company's adherence to the UKFI Budget, compliance with the Investment Mandate and delivery of the objectives set out in this Framework Document, covering (in particular) matters relating to strategy, performance and risk management.

10.32 The accounts to be produced by the Company will comply with any accounts direction issued by HM Treasury regarding the presentation or form of such accounts; and the timing for production of such

accounts shall accord with “best practice” applicable to Government Departments and be laid before Parliament.

- 10.33 The Company’s accounts will be consolidated into the UKGI Group accounts. These will in turn be consolidated into the HM Treasury Group accounts.
- 10.34 The Company will report quarterly on its performance to the UKGI Board, the UKGI Board will receive such additional updates on performance as the Board determines to be appropriate, and minutes of meetings of the Board, subject to compliance with the Company’s confidentiality obligations. Where a UKGI Board member receives information in relation to the Company, and where that information is subject to a separate duty of confidentiality, that UKGI Board member is not obliged to disclose that information to the UKGI Board.
- 10.35 Furthermore, the Board will provide the UKGI Board with any documentation relating to the quarterly meetings between the Company and HM Treasury subject to compliance with the Company’s confidentiality obligations.

#### **Approval Rights**

- 10.36 HM Treasury will have approval rights over:
- (A) any variation or waiver of the terms of any agreement between HM Treasury and an Investee Company or the grant of any consent or approval under such an agreement;
  - (B) any variation or waiver of the terms of any Investee Company Framework Document;
  - (C) any disposals (including redemption prior to scheduled maturity) or acquisitions of Investments, or other strategic transactions, which are not in accordance with the objectives set out in this Framework Document or are not contemplated or permitted by the Investment Mandate;
  - (D) any action which may have a significant bearing on, or prejudice, HM Treasury’s position as a creditor or contingent creditor of an Investee Company; and
  - (E) (without prejudice to paragraph 8.1) any other actions that fall outside of the scope of the Investment Mandate and the discretions vested in the Company by virtue of this Framework Document or which may have a significant bearing on or prejudice the delivery of, or compliance with, the activities and objectives set out in this Framework Document.
- 10.37 Notwithstanding the foregoing, HM Treasury may, either in the Investment Mandate or separately, delegate authority to the Company to take certain decisions falling within one or more of the categories described above without obtaining prior HM Treasury consent.

#### **Power of Direction**

- 10.38 In view of HM Treasury’s broader functions, including its functions in relation to financial stability and financial and economic policy, it may be necessary for HM Treasury to give the Board directions of a general or specific nature from time to time. The Board will comply with such directions or resign. HM Treasury will, in making any such direction, have regard to the Overarching Objective and the

requirement to preserve Investee Company independence (as outlined in Section 8 (Preservation of the Independence of the Investee Company)).

- 10.39 Such directions will be given in writing and will be promptly published by HM Treasury unless financial stability requires that publication is delayed or withheld.

## **11. CONTINUATION OF THE COMPANY**

- 11.1 The Company will continue in existence in and for so long as is required to carry out the activities envisaged by this Framework Document. Upon completion of such activities, it is envisaged that the Company may be wound up. The Company may also be absorbed into UKGI if it is determined by HM Treasury, following consultation with the Company and UKGI Boards, that such a structure would be most effective for the Group.

## **12. REVISION OF FRAMEWORK DOCUMENT**

- 12.1 This Framework Document may be amended or supplemented from time to time where required by HM Treasury. In particular: (i) if the activities of the Company described in Section 3 (Activities of the Company) are extended to cover assets or liabilities in addition to the Investments, the Loan Arrangements and the Guarantee Arrangements; and (ii) to reflect the Business Plans.
- 12.2 Any amendments or supplements to this Framework Document resulting from the provisions of this Section 12 (Revision of Framework Document) will be made: (i) having due regard to the need to preserve Investee Company independence (as outlined in Section 8 (Preservation of the Independence of the Investee Companies)); and (ii) the Overarching Objective, save in each case to the extent that these considerations are inappropriate when reflecting, or need not be taken into account in order to reflect the Business Plans.

## **13. STATUS OF FRAMEWORK DOCUMENT**

- 13.1 This Framework Document should be interpreted in the light of the Company's memorandum and articles of association and English company law and is without prejudice to the statutory and other rights and obligations of HM Treasury or the Company.
- 13.2 This Framework Document should also be interpreted in light of the UKGI Framework Document. In the event of any conflict or inconsistency, this Framework Document takes precedence over the UKGI Framework Document in matters that have been delegated to the Company in this Framework Document.
- 13.3 In the event of any conflict or inconsistency, this Framework Document takes precedence over any Investee Company Framework Document.