NOMINATION and REMUNERATION COMMITTEE

TERMS OF REFERENCE

1. Constitution

1.1. The Nomination and Remuneration Committee is constituted as a Committee of the Board of the Financial Ombudsman Service Limited.

1.2. The Committee's terms of reference may be amended at any time by the Board.

2. Authority

2.1. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

2.2. The Committee is authorised by the Board to obtain external legal or other professional advice and to secure the attendance of anyone it considers has relevant experience, expertise or knowledge.

3. Membership

3.1. The Committee shall be appointed by the Board from amongst its members and shall consist of not less than three members.

3.2. The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.

3.3. Appointments to the Committee shall be for a period of one year and reviewed at the Board meeting in March each year.

3.4. The Company Secretary shall act as Secretary to the Committee.

4. Meetings

4.1. The Committee shall meet at least once a year and at such other times as members of the Committee shall require.
4.2. The quorum necessary for the transaction of the business of the Committee shall be at least two Committee members.
4.3. At the request of the Committee any other Board members or senior management staff shall attend meetings.
4.4. Meetings of the Committee shall be arranged by the Secretary at the request of the Chairman.
4.5. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to

attend and all other directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and other attendees as appropriate, at the same time.

5. Minutes of Meetings

5.1 The Secretary shall minute the proceedings and decisions of all Committee meetings, including the names of those present and in attendance.

6. Responsibilities

6.1 The Committee shall:

6.1.1 consider and agree proposals from the Chief Ombudsman about the remuneration of senior executive staff and ombudsmen. No director or executive shall be involved in any decision about their own remuneration;

6.1.2 in making these recommendations, take into account all factors which it deems necessary. These may include the review of data and information supplied by external parties and of internal and external comparative information;

6.1.3 give advice about the policy for, and scope of, pension arrangements for all staff;

6.1.4 review and note annually the remuneration trends across the Service;

6.1.5 advise on any proposals for major changes to employee benefit structures;

6.1.6 regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board and make recommendations to the Board with regard to any changes;

6.1.7 give full consideration to succession planning for board members and the chief ombudsman, taking into account the challenges and opportunities facing the Service, together with the skills and experience needed in the future;

6.1.8 ensure that the chief ombudsman has succession planning arrangements in place for members of the executive team;

6.1.9 be responsible for identifying and nominating candidates to fill board vacancies as and when they arise (see 6.3);

6.1.10 before any appointment is made, evaluate the balance of skill, knowledge and experience on the Board, then prepare a description of the role and capabilities required. In identifying suitable candidates, the Committee shall:

- consider candidates from a wide range of backgrounds;
- consider candidates on merit and against objective criteria;

6.1.11 keep the leadership needs of the Service under review to ensure its continued effectiveness;

6.2 The Committee shall make recommendations to the Board about:

6.2.1 formulating plans for succession and in particular for the key roles of Chairman and Chief Ombudsman; and

6.2.2 membership of the Audit, IT Strategy, Nomination & Remuneration and Quality Committees, in consultation with the Chairmen of those committees.

6.3 The chairman and other members of the board are appointed by the Financial Services Authority (Schedule 17, Part II, s 3(2) of the Financial Services & Markets Act 2000).

The Committee shall make recommendations to the FSA for its approval about:

6.3.1 the appointment of potential board members to fill board vacancies as they arise; and

6.3.2 the re-appointment of board members at the conclusion of their term of office having given due regard to their performance and ability to continue to contribute to the board in the light of the knowledge, skills and experience required.

7. Reporting Responsibilities

7.1 The minutes of the Committee shall normally be considered at the Board meeting following the Committee meeting.

7.2 Where the Chairman of the Board considers this to be impractical the minutes shall be circulated to all members of the Board as soon as possible.

8. Other

8.1 The Committee shall, at least once a year, review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

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