

To Bank Shareholders

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**UK Shareholders Association**  
BM UKSA  
London  
WC1N 3XX

Phone: 0870-70-60-600  
Email: [uksa@uksa.org.uk](mailto:uksa@uksa.org.uk)  
Web: [www.uksa.org.uk](http://www.uksa.org.uk)

## **Bank Investors Campaign – Update No. 7**

### **Directors' Remuneration**

The Guardian newspaper recently ran a series of articles on the remuneration of company directors with a particularly focus on the banking sector. One I contributed can be read at: [www.guardian.co.uk/commentisfree/2009/feb/01/company-directors-shareholders](http://www.guardian.co.uk/commentisfree/2009/feb/01/company-directors-shareholders)

It mentioned a new initiative by Bill Cash, M.P. who is proposing a “shareholder committee” to form an advisory board for companies and represent the interest of the smaller shareholders. The intention would be to try and prevent the recent reckless behaviour of bank directors and limit the excessive remuneration and wrongly incentivised bonus schemes that have been prevalent in this sector. You are likely to hear more on this from UKSA in due course.

It also contained some other suggestions about how the pay of bank managements might be constrained, which seems to have got totally divorced from the fundamental worth of these people in recent years.

UKSA also issued a press release on this subject which can be read at: [www.uksa.org.uk/UKSA\\_Press077\\_Pay.pdf](http://www.uksa.org.uk/UKSA_Press077_Pay.pdf)

### **The Press Grilled**

Several leading members of the press, including Robert Peston of the BBC, were recently interviewed by MPs on the Treasury Select Committee looking into the banking crisis. If you recall, Mr Peston precipitated the run on Northern Rock by leaking news of the Bank of England funding in a melodramatic way, had a hand in the problems of Bradford & Bingley by predicting nationalisation, and was involved in other similar stories that had significant influence on events. Other media representatives present were Jeff Randall of the Daily Telegraph, Lionel Barber of the Financial Times, Alex Brummer of the Daily Mail, and Simon Jenkins of the Guardian. All of them seemed to get off relatively lightly from this grilling, mainly because MPs are always respectful of the press and didn't really ask very tough questions.

UKSA has criticised the media coverage in the past of the various crises in different banks, with the headlines and front page stories often being grossly misleading, particularly in respect of Northern Rock. They have exacerbated the crises, rather than calmed affairs down.

The key issue about Mr Peston's activities is that he clearly disclosed confidential and "price sensitive" information in advance of when it was due to be published. By doing so a few hours before Northern Rock was likely to do so, he gained a scoop and national fame. But in the process disrupted the market in the company's shares, caused a panic among depositors, and caused the company to rush out an announcement that was poorly prepared. This irresponsibility was a point on which he was barely challenged.

Instead he, and others, basically gave a justification that the outcome of events would not have changed if he had acted differently. But this is nonsense. The run of depositors caused more than £10bn to be withdrawn in a few weeks and destroyed the credit-worthiness of the business. Instead of it being a minor and temporary liquidity problem, which the Bank of England could have covered by LOLR facilities without any public fuss, it ended up requiring over £25bn of funding and associated guarantees from the Government to enable the business to survive. No other lender would lend to them. It also ended up with the Government nationalising Northern Rock to preserve "financial stability", and precipitated similar problems at Bradford & Bingley and other banks when public attention became focused on the banking sector in general after being spooked by what happened with Northern Rock.

The Chairman of the Committee, John McFall, did at least report the comments of the BBA Chief Executive who said of Mr Peston: *"He is of course perfectly entitled under market abuse rules to use this information but it is also quite clear that the market turbulence caused was extraordinarily substantial and has been particularly damaging both for the institutions involved, the sector, its customers and the UK economy"*.

An interesting discussion did arise though about whether the Government had manipulated the share prices of banks in expectation of providing equity funding. Presumably Royal Bank of Scotland and HBOS/LloydsTSB are being referred to here, where it would have been advantageous to drive down the share price, or even Bradford & Bingley in the expectation of nationalisation and having to pay some compensation. Simon Jenkins said *"you do not have to put two and two together and make too much to realise what could have been happening and what does normally happen anyway when people are manipulating bear markets"*. He suggested some journalists might have been "used in that way", perhaps unconsciously. Other speakers thought this was unlikely however.

You can watch a video of the Treasury committee meeting on this web page: [www.parliamentlive.tv/Main/VideoPlayer.aspx?meetingId=3369&rel=ok](http://www.parliamentlive.tv/Main/VideoPlayer.aspx?meetingId=3369&rel=ok) (a transcript is also available).

## **Royal Bank of Scotland**

We mentioned in our last newsletter that possible legal action over the rights issue at RBoS was being considered. However it seems such action has already been initiated in Scotland according to one of the Scottish newspapers. The Press & Journal reported that Ian Hamilton, an 83 year-old QC, was planning to file a suit in the Oban Sherriff's Court claiming that RBoS induced him to invest money *"by concealing the true state of their finances"*, or alternatively, that the bank was *"negligent in representing themselves as solvent at all material times when in fact they were insolvent"*. Mr Hamilton has a blog at <http://www.ianhamiltonqc.com/wordpress/> if you want to keep an eye on this action, but he probably needs more support if it is to go far.

## **Committee Volunteers**

A committee is being formed to progress this bank investors campaign and we already have several volunteers who have offered to assist. However, we do need more people who are willing to contribute some effort on this matter. If you are able to help, please call me on 020-8467-2686 when I can answer questions on what might be involved.

## **UKSA Annual Conference**

This year UKSA's annual conference for investors is being held in Bournemouth from May 7<sup>th</sup> to 9<sup>th</sup>. There will be a session on Saturday the 9<sup>th</sup> on our campaigns on various banks. If you are an active stock market investor then this would be a good opportunity to learn what UKSA does more generally as opposed to our activities on specific campaigns, and the event is open to non-members of course. It aims to be a truly educational experience where you can learn from the speakers and fellow investors. See [www.uksa.org.uk/InvestFest.htm](http://www.uksa.org.uk/InvestFest.htm) for more information.

Roger Lawson

Communications Director, UK Shareholders Association

Email: [uksa@uksa.org.uk](mailto:uksa@uksa.org.uk), Web: [www.uksa.org.uk](http://www.uksa.org.uk), Direct telephone: 020-8467-2686

*Note that all previous information issued by UKSA in respect of our campaign on banks is present on the following web site page: [www.uksa.org.uk/Bank\\_Investors\\_Campaign.htm](http://www.uksa.org.uk/Bank_Investors_Campaign.htm)*