

To Northern Rock Shareholders

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UK Shareholders Association
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Northern Rock Shareholders Action Group – Update No. 63

Supreme Court Appeal

As mentioned in our last newsletter, an appeal of the Judicial Review judgement has been submitted to the Supreme Court. It may be the end of November, or later, before we hear whether they will accept the case.

Valuation Status

There is no news from the independent valuer as to when he will report on the valuation.

The Split of Northern Rock

As you may have seen reported in the press, the Government plan is to split Northern Rock into a “good bank” and a “bad bank”. The “good bank” will hold the better quality assets such as lower risk mortgages and all the retail deposits, and would be capable of being sold off to the private sector – possibly to a new banking sector entrant as the Government seems keen to establish more competition in this sector. Tesco and Virgin were mentioned as two possible bidders, and it would no doubt be somewhat galling if Virgin were to pick it up when many shareholders were originally opposed to their involvement in the company. This proposal now seems to have got the blessing of the European Commission but the timescale for implementation and sale of the good bank may not be very rushed.

It is important to emphasise that this split will have no impact on the compensation for the former ordinary shareholders in Northern Rock as the valuation is based on the nationalisation date so any subsequent events are not relevant.

However, those holding bonds in the company may be less than pleased as they are likely to be left in the bad bank and paid out of its assets in due course as it is wound-up by the Government. This of course prejudices the “security” attached to the bonds which is often a big factor in the valuation of bonds. Likewise mortgage holding customers of the bank may be negatively impacted if they are placed into the bad bank as they may not find rates are kept competitive (the company will not be issuing new mortgages from the bad bank).

Foreign Investors Advantaged

The journal of International and Comparative Law recently published an interesting article by Jansen Calamita, Professor in Public International Law at the University of Birmingham. He studied the issue of what shareholders might expect as compensation if they invoked the bi-lateral treaties that the UK has regarding confiscation of property.

The UK has numerous such treaties in place, such as with China, India, Singapore, United Arab Emirates, etc, and these were often originally aimed at ensuring assets owned by British companies and individuals were not confiscated without appropriate compensation by foreign Governments. But they are normally bilateral so apply in the reverse direction also.

The terms of such compensation are based on the wording, but often refer to “adequate” compensation or “market value” and Mr Calamita’s examination of European and International Law that has been developed in this area suggests that this would certainly be more generous than the compensation that the independent valuer is likely to award as it stands (which of course we have been saying is likely to be zero or near zero). It suggests it is difficult to see how the UK Government could avoid an obligation to pay out under these treaties so we could face the peculiar situation where foreign nationals will get reasonable compensation while UK nationals get nothing.

We have quite a few foreign residents who receive these newsletters (the original shareholders were widely spread internationally) so this is an issue that may be of interest to you. But you would need to check for yourselves whether you are covered by such treaties and how you might submit a claim under them.

Please Advise Address Changes

Please advise any postal or email address changes to UKSA2@btconnect.com (telephone 0208-468-1027). It is particularly important to do so for email address changes otherwise we may lose touch with you altogether. And please include some other identification such as your postal post code and your name so we can identify you in our database when sending us such communications.

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Note that all previous “Update” notes on Northern Rock that we have issued are present on the following web site page: www.uksa.org.uk/NorthernRock.htm