14 April 2021

Dr Andrew Bailey
Governor
Bank of England
Threadneedle St,
London, EC2R 8AH.

By email (uksa@uksa.org.uk)

Archegos Capital Management concerns

Dear Dr Bailey,

We write for the UK Shareholders' Association (UKSA) and the UK Individual Shareholders Society (ShareSoc). UKSA and ShareSoc are membership organisations representing and supporting individual shareholders who are investing their own money in the stock markets.

The situation which has unfolded at Archegos Capital Management recently raises serious concerns not only for private investors, many of whom own bank shares, but for any member of the public with a bank account and particularly those with savings in excess of the FSCS £85,000 threshold. We have learnt that Credit Suisse, one of six banks acting as counterparties to Archegos, may have lost \$4.7 billion from the collapse.

We are aware that regulators in Europe and America are looking closely at discussions between the six banks linked to Archegos to decide whether any acted inappropriately during the recent fire sale of shares that exceeded \$20 billion. We understand that the shares in question are not UK stocks, and that none of the banks involved are UK banks. However, we have two specific concerns related to the possibility of a similar event happening in the UK, involving UK stocks and / or UK banks. We would be grateful if you would comment and provide reassurance about these concerns.

Firstly, we believe that there is a serious lack of transparency surrounding large share transactions by private offices and hedge funds executed through their prime brokers in derivative form. This is of particular concern where leveraged trading imparts volatility to the assets. There appears currently to be no means for private shareholders, or any other saver or bank-account holder, to know whether a particular share is the subject of the type and size of trade seen in the Archegos case mentioned above. We understand that only the Bank (or the Prudential Regulation Authority) would be aware of such leverage, and not the Financial Conduct Authority. We would like to know whether the relevant regulator is addressing this disclosure issue and the associated lack of market transparency.

Secondly, we are concerned about the size of the reported losses suffered by the banks in this instance and the apparent concentration of lending risk to a small number of stocks and to a single counterparty. The reported loss to Credit Suisse is estimated to be in the region of 12% of total capital. It is of concern that the capital of such a large bank was so exposed to the price movements of a single stock.[1] This suggests a major weakness in the models used to calculate the risk and associated capital adequacy.

The risk of unexpected losses is a major concern for our members who have holdings of banking stocks. We therefore seek your assurance that no similar weaknesses exist in the capital models applied to UK banks and to activities undertaken by foreign banks within the UK, and that your own supervisory processes effectively prevent similar risk concentrations.

We look forward to your reply.

Yours,

Malcolm Hurlston, Chair, UK Shareholders' Association
Mark Northway, Chair, Sharesoc

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[1] We understand Viacom.