

To Northern Rock Shareholders

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Northern Rock Shareholders Action Group – Update No. 50

Judicial Review Decision Imminent

We understand the judgment on the Judicial Review of the Northern Rock compensation terms is due to be delivered by the Court on Friday at 9.45am (13th Feb). It will no doubt get wide national press coverage and we will advise all our contacts later on the implications of the judgement, whatever it is.

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 The run of depositors caused more than £10bn to be withdrawn in a few weeks and destroyed the credit-worthiness of the business.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.

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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 (a transcript is also available).

Directors’ and Other Staff Pay

The pay of board directors and senior managers in the financial sector, and the incentives it gave for risky behaviour, has been much in the news of late. UKSA has issued a press release on this subject which can be read at: www.uksa.org.uk/UKSA_Press077_Pay.pdf . We would of course argue that the limitations we advocate be applied to newly nationalised companies such as Bradford & Bingley and Northern Rock where the Government has direct control.

In the case of Northern Rock, we also received a lot of adverse comment from former shareholders about the recent bonus awarded to all staff of 10%, and I also heard reports of large salary increases (over 50%) being awarded to some managers. As one contact said: *“Having had what amounts to £5000 of my loyalty shares confiscated I am totally stunned to hear the staff will get a bonus while we can starve”*. Several radio interviews were done on this subject and in essence I suggested that such large awards were unnecessary to retain or motivate staff and were typical examples of what happens when a business is nationalised – the bottomless pockets of the Government are used to cushion the staff against the circumstances of the business environment.

UKSA Annual Conference

This year UKSA’s annual conference for investors is being held in Bournemouth from May 7th to 9th. There will be a session on Saturday the 9th 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 for more information.

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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