

FSA Finally Admits Mistakes

Bhavin Dhanani

The Financial Services Authority (FSA), the regulator of the banking industry, last week published a report of its dealings with Northern Rock for the two and a half years prior to the bank receiving emergency funding. It was not good reading for the regulators as the number of errors left experts astounded.

Of the failings the ones that stand out the most are; Northern Rock was being supervised for 12 months by experts in the field of insurance not banking. There was no input into the FSA's database about the risks that the bank

was faced. Records of meetings about Northern Rock between supervisors were not kept. Over the period of review three supervisors had responsibility for the bank at separate times whereas most other banks had less than this. Northern Rock was not issued with a risk mitigation programme which would have instructed the bank to deal with its risks. All other monitored banks received a risk mitigation plan.

The chief executive of the FSA, Hector Sants, said that the supervision of the bank was "not carried out to a

standard that is acceptable". He and Sir Callum McCarthy, the FSA chairman, will now have to answer to the Treasury Select Committee in May.

Despite admitting to its mistakes the report also stated that the board of Northern Rock should be blamed. However, leader of the Conservative party, David Cameron, called for the FSA to be abandoned and for regulation to be made the responsibility of the Bank of England.



Hector Sants took over as chairman of the FSA just one month before the run on Northern Rock

Quintupled Bid for battered Bear

Phillip Butler

After the dramatic scenes last week when JP Morgan Chase bailed out near bankrupt Bear Stearns for a bargain price of \$2 a share, it upped its offer to \$10 a share at the early stages of this week.

There are several reasons as to why JP Morgan increased the offer. Firstly, it was needed to reduce unrest that had been forming from the Bear Stearns shareholders. Other important reasons involve the sloppy contract that was drawn up in a hurry when the initial deal was announced. A new offer was needed to close loopholes such as one where JP Morgan was required to guarantee all of Bears

trades even if Bears shareholders rejected the offer. The other problem in the initial offer was that some of Bear's assets are hard to value as they are illiquid with volatile prices. This justified why a higher price could be paid when these assets were examined more closely.

A rift has broken out between some analysts in the market who are accusing the Federal Reserve of bailing out the stricken bank. The Fed are responsible for some of Bears least liquid assets and is helping JP Morgan finance the deal. The Fed argues that it may be a messy situation but it is better than if Bear had been allowed to fail.

Markets

Winners, Losers

- The FTSE 100 fell to 5692.90 this week, a drop of 0.43%. The Dow Jones followed suit with a drop of 1.63% to 12216.40.
- America's economy received more woe when its index of consumer confidence fell to a five year low. The home price index also fell at its largest rate since inception, down 11.4%.
- Goldman Sachs received £4million for its part in the non-sale of Northern Rock earlier this year.
- The FSA will be increasing its workforce by 100 this year to correct problems highlighted by the Rock inquiry.

Company	Price	Change
HBOS (banking)	540.00p	13.98%
Anglo American (mining)	3020p	12.98%
Vedanta (resources)	2133p	12.15%
LSE (trading)	1259p	11.81%
Reckitt (goods)	2733p	-1.83%
A & L (banking)	523.50p	2.70%
National Grid (energy)	694.50p	3.41%
Shire (medicine)	987.50p	-5.05%

Company Profile

Name: UBS

Share price: 28.98 CHF

Business sectors:

Wealth Management, consists of wealth management worldwide and in Switzerland and USA. Wealth management also includes Business banking in Switzerland

Global Asset Management, is involved in providing investment products and services to wholesale and institutional clients

Investment Banking, offers corporate finance including mergers and acquisition and trading

Industrial Holdings, controls all industrial operations UBS is involved in

Employees: 78,200

Sales Revenue: Investment banking 44%, Wealth Management 35%, Business Banking Switzerland 11%, Global Asset Management 7%, Holdings 3%

Total Revenue: Total pre tax profit for year ending 2007 £3,845 million

Deleveraging

A recent trend in the markets is Deleveraging. Investors are selling their highly leveraged positions in order to meet their debt obligations.

When the Federal Reserve announced its latest interest rate cut last week the markets reacted by selling their commodity positions. This flooding of the market pushed prices down after months of growth. The growth was exhibited since commodities are seen as a hedge against the decreasing value of the American dollar. Markets perceived The Fed to be looking only at short term consequences when they repeatedly cut the interest rates. Severe cutting can lead to inflation which is why the ECB and Bank of England have been less extravagant in their approach. Now The Fed has acknowledged that inflation will be a problem but it will be addressed after the current crisis is averted. This means commodities, not dollars, will be the riskiest parts of a portfolio, hence their fire sale earlier this week.

Deleveraging occurs when the debt borrowed to invest in the rising commodities is then sold since investors believe growth to be slowing. The rate received on commodity growth will no longer be sufficient to settle the debt and profit. This is accentuated as debt is becoming harder to come by in current conditions.

Increasing quick sales means others perceive low creditworthiness of the individual, fund or firm. This would decrease lending in the markets and even more rapid sales as investors worry about larger losses.

Any queries, comments or requests?
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The Bosses Make Money

Bhavin Dhanani

After rogue traders spread rumours that Halifax Bank of Scotland (HBOS) was in trouble its share price fell by a massive 19%. Then, however, senior management and executives used their annual bonuses to purchase shares to the value of £6million. The result? A total profit of £1.25 million after the share price rallied and rose by 14.5%.

The bank described the purchase of shares as a

“demonstration of very high confidence in HBOS”. The Financial Services Authority (FSA) began an investigation into how the rumours spread and whether they were deliberate.

There are suspicions that the intention of the rogue traders was to sell short Halifax's shares. In other words they borrowed the shares and spread the rumours to depress the share price. Then they would buy the shares at the lower price and make a quick and easy profit.

Strictly Bites

Barclays Capital's head, Bob Diamond, received a total pay packet of **£21mn** despite the bank's share price falling **31%**.

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Citigroup has agreed to pay **\$1.66 bn** to settle allegations that it schemed with managers to influence finances at **Enron**.

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Deutsche Bank warned investors that it may miss 2008's profit targets due to possible future writedowns. The news sent the bank's share price down **2%**.

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The world's biggest insurer, **AIG**, is **suing** former employees, including former **CEO Maurice Greenberg**, for misappropriation of shares in the company.

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RBS revealed it is in talks with **Renaissance Capital** over a joint venture in **Russia**.

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The **US economy** grew at **0.6%** in the last quarter.

Research has shown that only **one in ten** consumers with an **ISA** account make full use of their tax free allowance.

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Despite a recent cash injection from **sovereign wealth funds** from **Singapore** and the **Middle East** there is increasing pressure from investors for **UBS** to launch a rights issue of around **£5 billion**.

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Goldman Sachs is ready to buy a stake in one of London's biggest hedge funds **Trafalgar Asset Managers**.

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The **Federal Reserve** will continue its trend and inject **\$100billion** into the money markets in April. This comes after **LIBOR** reached the same highs as at the beginning of the credit crunch.

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According to a report by **Lehman Brothers** there is a **one in three** possibility that the UK will fall into **recession** within the next two years.