



House of Commons
Treasury Committee

Banking Crisis: The impact of the failure of the Icelandic banks

Fifth Report of Session 2008–09

Report, together with formal minutes

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Summary

The failure of the Icelandic banks in October 2008 had potentially severe consequences for depositors. In this report, we consider three sets of such depositors: local authorities, charities and UK citizens who deposited in the Isle of Man and Guernsey subsidiaries of the Icelandic banks. We consider the case for the provision of assistance by the UK Government to these depositors. We do not accept that there is a need to provide assistance to the local authorities. We recommend that, on this occasion only, all charities should be compensated for losses incurred as a consequence of the failures of the Icelandic banks. Finally, we agree that the overarching principle should be that the UK Government cannot provide cover for deposits held by British citizens in jurisdictions outside the direct control of the United Kingdom. As such, while we acknowledge the severe distress of those UK citizens suffering due to the Icelandic banking failure, we can only recommend that the UK authorities work with the Isle of Man and Guernsey authorities to resolve these issues.

1 Introduction

Iceland, the UK and its Crown Dependencies

1. Iceland has suffered a major economic crisis in recent times triggered by the failure of its over-extended banking system. Prior to the collapse of Iceland's three largest banks, Glitnir, Landsbanki and Kaupthing, their combined debt exceeded six times the nation's GDP of €14 billion.¹ The banks had branches and subsidiaries in the UK, the Isle of Man and Guernsey, as well as across Europe. This report considers the circumstances that led to the failure of these banks, the actions taken by the UK Government to safeguard British citizens' savings, and those whose funds have not been safeguarded.

2. Whilst this Report discusses the arrangements undertaken by the Icelandic authorities and the Crown Dependencies to provide compensation to savers within their jurisdictions, it is important to note that the recommendations here are made solely to the UK Government. The very distinctive nature of the impact of the failure of the Icelandic banks seemed to us to justify a separate report on this issue.

3. Our report is based on evidence submitted to our wider inquiry into the banking crisis. Our terms of reference for that inquiry included: "evaluating the impact of European Union directives on financial stability, including 'passporting'" and "the protection of UK citizens investing funds in non-UK jurisdictions".

4. We took evidence from Mr Ziggy Siczko, Spokesman, Kaupthing Singer Friedlander Isle of Man Action Group, Councillor Richard Kemp, Local Government Association, Mr Neil Dickens, Landsbanki Guernsey Depositors Action Group, Mr Chris Cummings, Director General, Ms Amanda Davidson, Deputy Chair, Association of Independent Financial Advisers (AIFA), and Dr John Low, Chief Executive, Charities Aid Foundation (CAF), Tony Shearer, former Chief Executive of Singer & Friedlander, Hon James Anthony (Tony) Brown MHK, Chief Minister, Isle of Man, Mr Mark Shimmin, Chief Financial Officer, Treasury, Isle of Man, Mr John R Aspden, Chief Executive of the Financial Supervision Commission, Isle of Man, Deputy Lyndon Trott, Chief Minister of Guernsey, and Mr Peter Neville, Director General, Guernsey Financial Services Commission. We also put questions to the Rt. Hon Alistair Darling MP, Chancellor of the Exchequer, Mervyn King, Governor of the Bank of England and Lord Turner, the Chairman of the Financial Services Authority (FSA). We are grateful to all our witnesses and also to those submitting written evidence and questions. We should also like to thank our specialist adviser, Professor Geoffrey Wood of Cass Business School, City University London, for his invaluable advice.

5. Iceland has a population of 319,756 people which places it in size of population somewhere between Coventry and Wakefield. This volcanic island is not especially abundant in natural resources and historically has ranked amongst the poorest countries in

¹ BBC News, *Waking up to reality in Iceland*, 27 January 2009.

Western Europe. Its economy has traditionally depended heavily on the fishing industry. Iceland joined the European Economic Area in 1992 which enabled its economy to diversify. It was only at the beginning of this decade that Iceland began to transform itself into a global financial force. In 2007, Iceland was ranked as the most developed country in the world according to the United Nations' Human Development Index. However, this development was disproportionately dependant on Iceland's financial services.²

6. The demise of Iceland's economy has been sudden and dramatic. In 2008 its over-extended banking system collapsed. The nation's currency was strongly devalued (see Chart 2) and the national debt soared. The fall of the Icelandic banking system sent shock waves through the world's financial community. The fact that the fate of Icelandic banks had an impact on millions of savers in the UK, as well as on numerous local authorities, wholesale depositors and charities testifies to the trans-national basis of the modern banking system. It also points to the complexity of the regulatory framework.

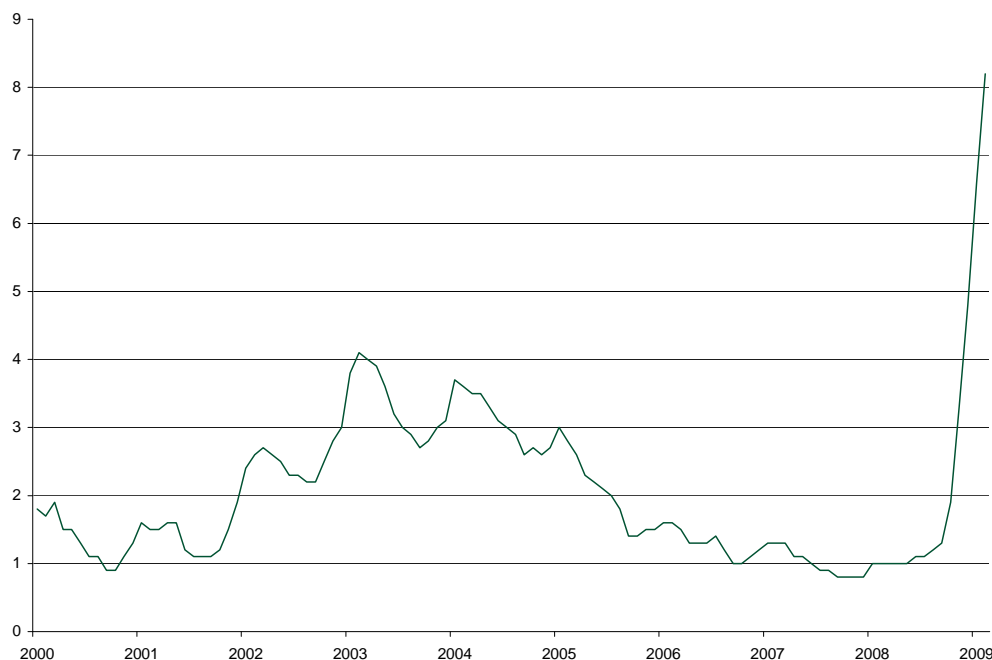
2 http://hdr.undp.org/en/media/hdr_20072008_en_indicator_tables.pdf

2 A crisis in Iceland

The economy of Iceland

7. In June 2007, an International Monetary Fund (IMF) report concluded that “The medium-term prospects for the Icelandic economy remain enviable”.³ However, the same report sounded a cautionary note, highlighting “Iceland’s large current account deficits, the rapid growth in indebtedness, and persistently high consumer price inflation”.⁴ Other economic indicators also suggested Iceland’s economy was doing well around this time. Iceland’s 2007 GDP per capita was US\$ 37,700, which compared favourably with other European countries and was above the OECD average; as Chart 1 shows, unemployment was also low.⁵

Chart 1: Registered unemployment rate in Iceland



Source: Statistics Iceland

Crisis and the need for IMF support

8. From the spring of 2008 the British authorities were aware of Iceland’s deteriorating position. It was reported that at the April meeting of the IMF in Washington the Bank of England was approached by the Central Bank of Iceland for assistance.⁶ Throughout the summer articles in the financial press drew attention to concerns about the Icelandic banks

3 International Monetary Fund, Iceland-2007 Article IV Consultation Concluding Statement, June 11, 2007, para 1

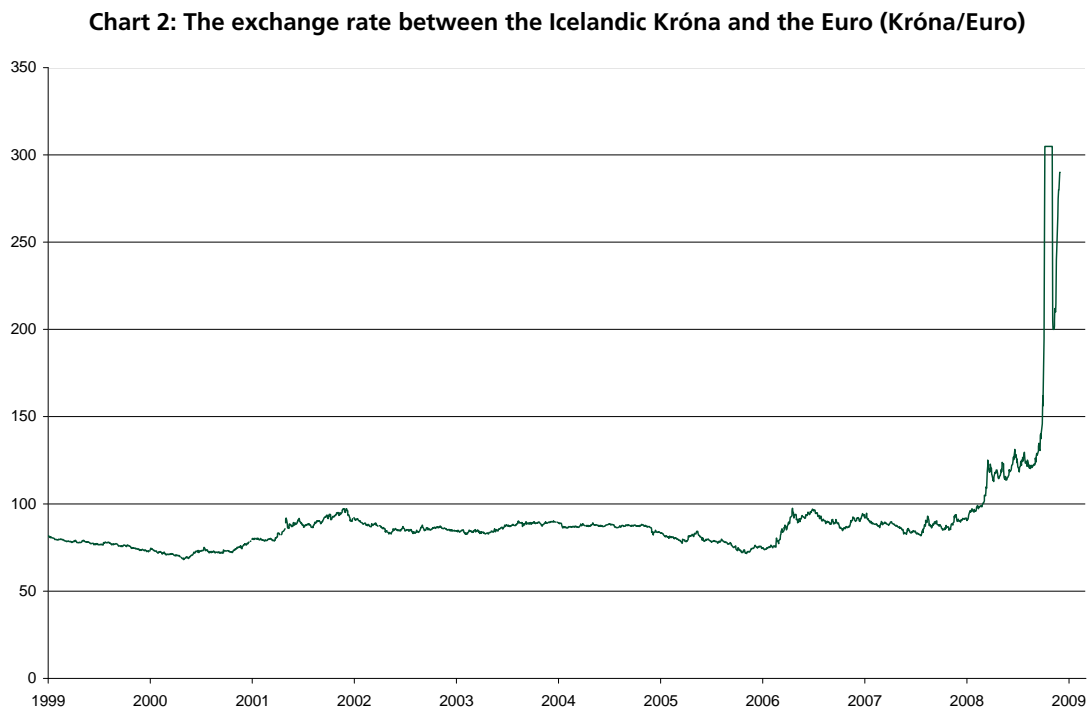
4 *Ibid*, para 2

5 Using current purchasing power parity; OECD, *OECD in Figures 2008*, pages 12-13

6 Central bank of Iceland press release, Currency swap agreements and attempts to reinforce the foreign exchange reserves, 9 October 2008

and highlighted the inadequacy of the potential compensation arrangements. On 22nd July we specifically asked the then Economic Secretary to the Treasury whether British depositors in Iceland banks were guaranteed to get their money bank: she replied “I am satisfied that the law exists to guarantee them, yes.”⁷

9. By the end of 2008, the economic position of Iceland had considerably deteriorated. Chart 1 shows how unemployment rose markedly towards the end of 2008 and into 2009. In February 2009, registered unemployment in Iceland was 8.2%. This compares with August 2007, where registered unemployment was 0.9%.⁸ Chart 2 highlights another sign of this new weakness in the economy, as the Icelandic Króna suffered a significant fall in value against the Euro. This weakness started in early 2008 but increased in severity as the year progressed.



Source: European Central Bank

10. With the economy in such a vulnerable state and with the potential for an even more damaging run on the currency, the Icelandic Government requested assistance from the IMF.⁹ On 24 October 2008, the IMF announced that it had “reached a referendum agreement on an economic program supported by an SDR 1.4 billion (about US\$2.1 billion) loan under a two-year Stand-By Arrangement” with Iceland.¹⁰ On 19 November

7 Treasury Committee, Seventeenth Report of Session 2007-08, *Banking Reform*, HC 1008, Ev 34

8 Icelandic Directorate of Labour, *The Labour Market in February 2009*, 11 March 2009; Icelandic Directorate of Labour, *The Labour Market in August 2008*, 10 September 2008

9 www.iceland.org/info/iceland-imf-program

10 IMF press release, IMF Announces Staff Level Agreement with Iceland on US\$2.1 Billion Loan, Press Release No. 08/256, 24 October 2008

2008, the IMF executive board approved this arrangement.¹¹ In an update completed on 24 December 2008, but published on 11 February 2009, the IMF stated that “The crisis is producing the expected sharp economic contraction, but despite the liberalization of all current account transactions, pressures towards currency depreciation appear to have abated somewhat”.¹² But what vulnerability in the Icelandic economy had caused this transformation for its near-term outlook?

The expansion of the Icelandic banks

Structure of the Icelandic regulatory system

11. The central Icelandic financial regulator is the Financial Supervisory Authority (known by the initials FME¹³). The IMF described the FME as “an integrated supervisory authority responsible for the supervision of credit institutions, insurance companies, securities markets, and pension funds”.¹⁴ The FME, according to its annual report, had at “mid-year 2007 ... a staff of 54 (45 full-time employees), including temporary and summer employees”.¹⁵ The Central Bank of Iceland produced a Financial Stability Report.¹⁶

12. Close cooperation between the FME and the Central Bank of Iceland was the subject of a Cooperation Agreement signed on 28 March 2003.¹⁷ Cooperation was also governed by a Memorandum of Understanding between the Office of the Prime Minister, Ministry of Finance, Ministry of Commerce, Financial Supervisory Authority and Central Bank of Iceland.¹⁸ Its objective was defined as follows:

Since its establishment in the beginning of 1999, the Financial Supervisory Authority (Fjármálaeftirlitið, FME) has cooperated closely with the Central Bank on tasks related to financial stability, including contingency plans for meeting conceivable financial shocks. Over the past two years, the Office of the Prime Minister, Ministry of Finance, Ministry of Commerce, FME and Central Bank have also been engaged in informal consultation on the same issues. The purpose of this Memorandum of Understanding (MoU) is the formal confirmation of their consultation in this area, in an effort to sharpen their division of tasks, prevent duplication and enhance transparency. This MoU does not override the respective signatories’ scope for independently deciding measures on the basis of their roles and responsibilities.¹⁹

11 IMF press release, IMF Executive Board Approves US\$2.1 Billion Stand-By Arrangement for Iceland, Press Release No.08/296, 19 November 2008

12 IMF, *Iceland: Stand-By Arrangement - Interim Review Under the Emergency Financing Mechanism*, 11 February 2009

13 From the Icelandic, Fjármálaeftirlitið

14 IMF, *Iceland, Financial System Stability Assessment Update*, 19 August 2008, para 49

15 Financial Supervisor Authority, *The Icelandic Financial Market*, Annual Report 2007, page 9

16 Central Bank of Iceland, *Decision by the Board of Governors*, 27 November 2006

17 Central Bank of Iceland, *Cooperation Agreement between the Financial Supervisory Authority and Central Bank of Iceland*, 28 March 2003

18 Central Bank of Iceland, *Financial Stability 2006*, page 93

19 *Ibid.*

The Memorandum of Understanding also created an advisory group on financial sector conditions and contingency plans, which was to meet at least twice a year, comprising representatives from the Office of the Prime Minister, Ministry of Finance, Ministry of Commerce, FME and Central Bank.²⁰

Structure of the Icelandic banks

13. In its annual report for 2007, the FME states that there were five commercial banks operating in Iceland.²¹ Of these, the three largest were Glitnir, Landsbanki and Kaupthing,²² which held about 85% of total banking assets just before the collapse.²³ The IMF stated in a report completed in August 2008 that these three banks “dominate the [Icelandic] banking system, with total consolidated assets exceeding 900 percent of GDP”.²⁴ It provided further detail, noting a potential for further weakness in the banks:

Consolidated assets of the three main Icelandic banks (Glitnir, Kaupthing, and Landsbanki) increased from 100 percent of GDP in 2004 to 923 percent at end 2007, reflecting expansion overseas. By end-2007, almost 50 percent of the three banks’ assets were held abroad, with 75 percent of their borrowing dependent on wholesale markets. The consolidated financial reports show their capitalization and liquidity ratios above regulatory requirements. However, the quality of bank capital is uncertain and a large share of the banks’ liquidity is held in assets that under current conditions, are primarily used for repos with central banks.²⁵

Expansion of the financial sector outside Iceland

14. As Chart 3 shows, Iceland’s external debt position has climbed to over 800% of its GDP. The majority of this is related to the liabilities of the Icelandic banking system. In the view of Jónas Fr. Jónsson, former director of the Financial Supervisory Authority (FME), “the expansion by Icelandic banks abroad commenced for real in mid 2004 when Kaupthing acquired FIH in Denmark”.²⁶ FIH was a major Danish commercial bank which became Kaupthing’s largest subsidiary. Before then, he described there being only “some minor foreign ventures” by Icelandic banks.²⁷

20 Central Bank of Iceland, *Financial Stability 2006*, page 94

21 Financial Supervisory Authority, *The Icelandic Financial Market, Annual Report 2007*, page 45

22 In Iceland, its official name is Kaupþing Banki hf.

23 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

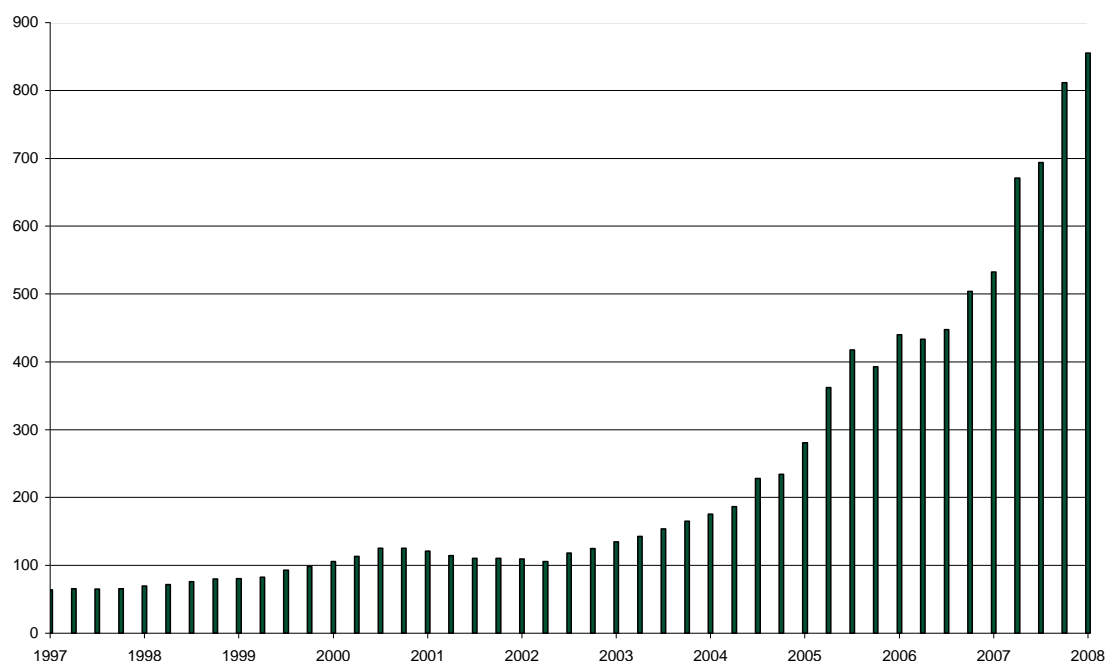
24 IMF, *Iceland, Financial System Stability Assessment Update*, 19 August 2008, para 7

25 *Ibid.*, para 9

26 Financial Supervisory Authority, Expansion of Icelandic financial companies abroad and the effects on FME’s operations, Speech by Jónas Fr. Jónsson, 11 June 2007; www.kaupthing.com

27 Financial Supervisory Authority, Expansion of Icelandic financial companies abroad and the effects on FME’s operations, Speech by Jónas Fr. Jónsson, 11 June 2007

Chart 3: External debt position of Iceland (percentage of GDP)



Source: Central bank of Iceland

15. In 2007, as Chart 4 shows, there was a marked increase in deposits from overseas customers held by the Icelandic Deposit Money Banks.²⁸ Ingimundur Fridriksson, Governor of the Central Bank of Iceland until February 2009, provided some explanation. Late into 2005 and in early 2006, the Icelandic banks began to come under criticism for their “growth pace, risk appetite, low deposit ratios and high dependence on borrowed funds, as well as cross ownership, lack of transparency, and so on”.²⁹ In response, the Icelandic banks:

greatly enhanced their information disclosure to the global marketplace, thus improving transparency in their operations. They sought to reduce cross-ownership, improve their liquidity position and capital ratios, and took the first steps toward increasing the share of deposits on the liabilities side of their balance sheets. They were strongly encouraged to do so by rating agencies and numerous foreign financial analysts, among others. Landsbanki launched its Icesave deposit accounts in the United Kingdom toward the end of 2006. The banks also sought out new credit markets for example in the US which was wide open at the time for issuers with favourable credit ratings.³⁰

16. The amount of deposits taken abroad increased as the disruption to global credit and interbank lending markets continued. Ingimundur Fridriksson, explained that “retail deposits in branches and subsidiaries abroad grew quickly and soon became an important

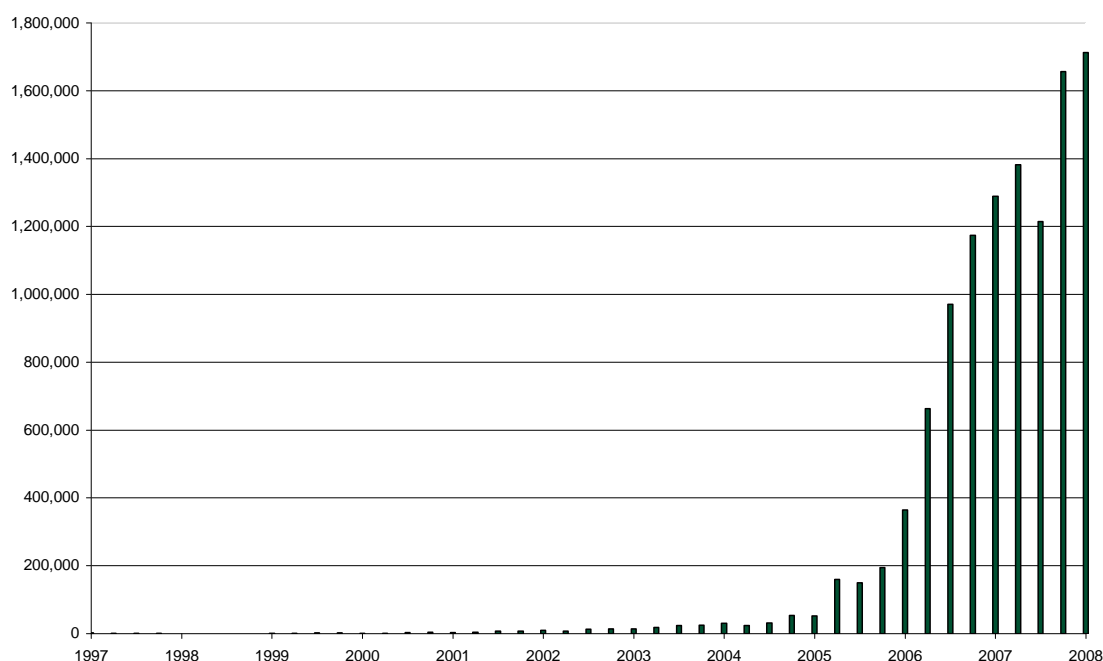
28 The deposit money banks include commercial banks, savings banks, postal giro and the saving departments of co-operatives; OECD, *Main economic indicators, sources and definitions*

29 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

30 *Ibid.*

source of funding for two of the banks, particularly in 2007 and early 2008. But the bond markets remained virtually closed to them as the year 2008 progressed.”³¹ Despite the closure of the bond markets to the Icelandic banks, their management remained confident of the supply of funding via deposits. Ingimundur Fridriksson reported that the Icelandic banks “were so confident about their success that, at meetings held over the course of 2008, some of their leaders voiced the expectation that it should be easy for them to fund all of their outstanding bonds and other debt for the coming years through deposit business in Europe”.³² Dr Jon Daniellson of the LSE told us that “the reason why these [Icelandic] banks came to this country [the UK] was because they could not borrow elsewhere, they could not borrow from other banks”.³³

Chart 4: Foreign deposits at Deposit money banks (Millions Króna)



Source: Central Bank of Iceland

The impact of membership of the European Economic Area

17. The increased presence of Icelandic banks abroad was aided by European level agreements. Since 1994 Iceland has been a part of the European Economic Area (EEA). Under this arrangement, Iceland gained access to the European Internal Market, allowing Icelandic banks to conduct business across the EEA (“Passporting”). The FME then acted as the ‘home’ regulator, while, in the case of an Icelandic bank operating in the UK, the Financial Services Authority would act as the ‘host’ regulator. However, the legal status of

31 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

32 *Ibid.*

33 Treasury Committee, *Banking Crisis: Oral Evidence*, Session 2008-09, HC 144-I, Q 716. All references to oral evidence in this Report (in the form Q ... or Qq ...) refer to evidence published in that Volume unless otherwise stated.

the Icelandic entity in the UK changes the level of supervision undertaken by the home and host regulators. As the FME explains:

- “A branch, is supervised by the home authority, i.e. a UK branch of an Icelandic bank is supervised by the FME. The responsibility of the FME is similar as the operation would take place domestically.
- A subsidiary, is supervised by the host authority, i.e. a UK subsidiary of an Icelandic bank is supervised by the FSA. However, the consolidated operation is supervised by the FME.
- A representative office is of promotional nature and used to introduce the company to the respective market and establish a connection between the bank and prospective clients. It does not provide direct financial services and is generally under the supervision of the home authority whereas the host authority monitors its conduct”.³⁴

18. This access to the internal market encouraged the growth of the Icelandic banks into other European countries’ financial services markets. Ingimundur Fridriksson explained how membership of the EEA had aided the Icelandic banks:

This rapid growth [in Icelandic banks] was facilitated by Iceland’s membership in the European Economic Area (EEA) through which the country had created for its financial system a regulatory framework that was rooted in the directives adopted by the European Union. Among other things, this meant that operating licences granted to Icelandic financial companies extended not only to Iceland but to all other EEA states. For example, they were permitted to operate branches anywhere in the EEA. The European regulatory framework gave the Icelandic banks the same operational flexibility all over the EEA as they enjoyed in Iceland.³⁵

Expansion into the UK

19. The United Kingdom was one of the areas where the Icelandic banks expanded their operations. Different banks used different methods to enter, leading to a complex, sometimes confusing, set of ownership structures which we outline below. Landsbanki Islands hf UK retail banking operations were conducted under the trading name “Icesave”.³⁶ Landsbanki Islands hf operations in the UK were branches and therefore their organization was regulated by the FME, rather than the UK’s Financial Services Authority. Landsbanki Islands hf also operated a subsidiary in the UK, Heritable Bank, which was regulated by the FSA.³⁷

34 Financial Supervisory Authority, Expansion of Icelandic financial companies abroad and the effects on FME’s operations, Speech by Jónas Fr. Jónsson, 11 June 2007

35 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

36 FSA Register, www.fsa.gov.uk/register

37 Landsbanki, *Annual Report 2007*, page 67

20. Meanwhile, one of the other Icelandic banks, Kaupthing Bank hf, took over Singer and Friedlander, a UK-listed investment bank in July 2005, forming Kaupthing Singer and Friedlander.³⁸ Kaupthing Singer and Friedlander was a subsidiary of Kaupthing Bank hf, and was therefore regulated by the FSA, and covered by the UK depositor protection scheme, the Financial Services Compensation Scheme (FSCS). Then, in January 2008, Kaupthing launched its own UK retail savings market presence “Kaupthing Edge”, via Kaupthing Singer and Friedlander.³⁹

21. Both the Icesave and Kaupthing Edge brands were competitive in attracting deposits in the UK retail savings market. For instance, on 9 July 2008, a Kaupthing news release stated that “Kaupthing Edge continues to lead savings market with fixed-term accounts”.⁴⁰ It went on to say that “Kaupthing Edge, which launched into the UK savings market in February this year, is committed to offering savers competitive returns on their money and has consistently offered great rates across its suite of products”.⁴¹ Newspapers and price-comparison websites also carried stories which mentioned the rates offered by both Kaupthing and Landsbanki.⁴²

Icelandic parent bank	UK operations	Trading or brand name for UK retail depositors	Status in UK	Lead Regulator
Kaupthing Bank hf	Kaupthing Singer and Friedlander	Kaupthing Edge	UK Subsidiary	FSA
Landsbanki Islands hf	Landsbanki Islands hf	Icesave, Landsbanki	Branch	FME
	Heritable Bank		UK Subsidiary	FSA

The offshore entities

22. The Icelandic banks also maintained subsidiaries in offshore financial centres. This Report is particularly concerned with those subsidiaries of the Icelandic banks that operated in Guernsey and the Isle of Man. On its takeover of Singer and Friedlander in the UK, Kaupthing also took over Singer and Friedlander’s Isle of Man operations. Kaupthing in its 2007 Annual Report described its Isle of Man operations as offering “a comprehensive range of private banking services tailored principally for overseas residents,

38 Kaupthing Bank, *Kaupthing Bank 2007 Annual Report*, page 90

39 *Ibid.*, page 6

40 Kaupthing Singer and Friedlander, News Release, Kaupthing Edge continues to lead savings market with fixed-term accounts, 9 July 2008

41 *Ibid.*

42 *Financial Mail on Sunday*, Lock up your cash before rates drop, 24 August 2008; *Independent on Sunday*, Are houses all he needs to be set up for life?, 17 August 2008; *Express on Sunday*, Keep on top of easy access rates, 31 August 2008; *Birmingham Post*, Good deal on account, 9 August 2008

expatriates and internationally mobile clients”.⁴³ Originally, KSF(IOM) was a subsidiary of KSF(UK) until January 2007 when, as stated by the Isle of Man Financial Services Commission “ownership of KSF(IOM) changed from it being a subsidiary of KSF(UK) to a sister of KSF(UK) and owned directly by Kaupthing Bank hf”.⁴⁴

23. Both Kaupthing and Landsbanki increased their presence in offshore jurisdictions to increase their deposit bases. The Isle of Man operations of the Derbyshire Building Society were transferred to Kaupthing Singer and Friedlander (Isle of Man) Limited on 17 January 2008.⁴⁵ Kaupthing stated that the takeover “was in line with the Bank’s strategy to increase deposits within the Bank”.⁴⁶ Landsbanki Islands hf acquired the Guernsey subsidiary of the Cheshire Building Society in September 2006, renaming it Landsbanki Guernsey Ltd in the same month.⁴⁷ Landsbanki Islands hf stated that its Guernsey subsidiary’s role was to provide “retail savings products for the UK offshore savings market”.⁴⁸

24. An important element of reassuring customers affected by these takeovers was the provision of parental guarantees, provided by the parent companies of these offshore subsidiaries, should those subsidiaries fail. In the case of the Guernsey takeover, the Guernsey Financial Services Commission “obtained a letter of comfort from the parent company Landsbanki Islands hf in support of the liabilities of [Landsbanki Guernsey Ltd]”.⁴⁹ At the time of the takeover by Kaupthing Singer and Friedlander (IOM) of the Derbyshire Building Society’s Isle of Man operations, a similar parental guarantee was given.⁵⁰

The takeover of Singer and Friedlander

25. The takeover of Singer and Friedlander was undertaken when Mr Tony Shearer was Chief Executive. He provided both written and oral evidence to us on the takeover, in which he described his disquiet with the takeover at the time, and how he had alerted the authorities to those misgivings. His concerns had surfaced when Kaupthing had become a major shareholder in Singer and Friedlander, and yet had refused the opportunity to meet the Singer and Friedlander board. He noted that “[Kaupthing] ran their business in a very strange way, and certainly when I went to Reykjavik and spent a couple of days in Reykjavik in 2004 I realised it was a very different operation”.⁵¹ He outlined his concerns to us:

43 Kaupthing Bank, *Kaupthing Bank 2007 Annual Report*, page 97

44 Treasury Committee, *Banking Crisis: Written Evidence*, Session 2008-09, HC 144-II, Ev 303. All references to written evidence in this Report (in the form Ev ...) are to such evidence published in HC (2008-09) 144-II or HC (2008-09) 144-III unless otherwise stated.

45 Isle of Man Government, PUBLIC NOTICE - BANKING ACT 1998—The Derbyshire (Isle of Man) Limited, trading as Derbyshire Offshore, 17 January 2008

46 Kaupthing Bank, *Kaupthing Bank 2007 Annual Report*, page 97

47 Ev 369

48 Landsbanki, *Annual Report 2007*, page 67

49 Ev 369

50 Q 1345

51 Q 1376

The first reason was just an inspection of [Kaupthing's] public accounts. Just looking at the accounts, particularly the accounts for December 2004, revealed a number of things in those published accounts which caused me concern and those were things that I passed on to the FSA. The second thing was meeting the people themselves. I had met them both in London and in Reykjavik and meeting with the people themselves caused me to form a judgment that these were not people that I wanted to work with.⁵²

Mr Shearer went on to explain that what had worried him was the inexperience of the management team at Kaupthing, as well its lack of diversity.⁵³

26. Despite his reservations about the deal, the guidance Mr Shearer received from his advisors was that his duty was to support the takeover:⁵⁴

The advice that I was given from my recollection was that I had to put the interests of the shareholders over my own, so this was not an opportunity for me or any of the other executives to negotiate new packages or new anything. Given that this was a cash offer that should clearly be recommended to shareholders at the level it was, we had to do everything we could to facilitate that and make it go through.⁵⁵

However, despite this, he felt it necessary to tell the FSA of his concerns for two reasons. First, he felt he had a duty to do so.⁵⁶ Secondly, should the deal have been rejected by the FSA because the incoming personnel were not “fit and proper”, Mr Shearer’s fear was that “we would all have looked incredibly stupid”.⁵⁷ In all, Mr Shearer believed that “the FSA had sufficient information about Kaupthing that they should never have approved the change of control, and if they were to do so they should have made extensive further enquiries”.⁵⁸ According to Mr Shearer, he was not alone in voicing his concerns. He told us that the Chairman of the Audit Committee, the Finance Director and the Head of the Bank had all had a meeting with the FSA when he was present.⁵⁹

27. When asked about the evidence of Mr Shearer, Mr Hector Sants, Chief Executive Officer for the FSA, replied that he looked over the files the FSA had on this episode, and that the FSA’s notes of the meeting “did not make any comments about the fitness and propriety of senior management” of Kaupthing.⁶⁰ Turning to the concerns raised by Mr Shearer over the public accounts of Kaupthing, Mr Sants felt that Mr Shearer’s conduct, in bringing these matters to the FSA’s attention had been an entirely appropriate course of

52 Q 1368

53 Q 1378

54 Advisors to Singer and Friedlander were Slaughter and May, and Kazenove, the investment bank (Q 1414)

55 Q 1416

56 Qq 1368, 1390

57 Q 1390

58 Ev 299

59 Q 1398

60 Q 2293

action. But he suggested the response of the FSA was bound by the European system of regulation:

He and his colleagues were highlighting a number of issues which were in the public domain which absolutely are appropriate issues to highlight in the context of a change of control, certainly very appropriate in the context of the way that we would be looking at these issues going forward. Having said that, even at that time in 2005 each one of these issues was then brought up with the lead regulator. I have to say the reality of the situation here, to be quite clear, is the lead regulator in this case was the FME, it is the Icelandic bank, and we are obliged to take their word as to what is the situation; it is not for us to question another EEA regulator. They addressed those points and, indeed, in the case of cross-holdings had made a capital assessment mitigation for it. The issues were addressed and we had proper responses from the lead regulator, which we are obliged to take at face value.⁶¹

28. We think it laudable that Mr Shearer brought to the attention of the Financial Services Authority his concerns around the takeover of Singer and Friedlander by Kaupthing. While the Financial Services Authority appears to have investigated these concerns, this episode shows the paramount need for the Financial Services Authority to be open to those that may wish to contact it to register their disquiet over problems they encounter in financial markets. We also note with great concern the impotence of the FSA to tackle directly the concerns brought to its attention as a consequence of its lack of any jurisdiction, which we discuss below.

61 *Ibid.*

3 What happened in October 2008?

Iceland's liquidity crisis

29. In October 2008, three major Icelandic banks collapsed over three days triggering a systemic crisis, the first in any advanced economy since the end of the Second World War.⁶² Iceland's economic difficulties had become evident from spring 2008 from evidence such as the Fitch Special Report on Iceland published on 22 May 2008 which showed that conditions had tightened in the global credit market.⁶³ The extent of the deterioration became clear on 29 September 2008 when the Icelandic Government was forced to take a 75% stake in the country's third-largest bank, Glitnir, after it experienced short-term funding problems. At that time the Icelandic banks were reportedly exposed to loans totalling six times the country's total GDP.⁶⁴ The shock of the collapse of the American investment bank Lehman Brothers had resulted in a lack of liquidity in the world's credit markets which had left the Icelandic banks unable to refinance loans.

The collapse of Glitnir and Landsbanki banks

30. The Central Bank of Iceland had been monitoring the liquidity of the Icelandic banks throughout 2008, tracking this “virtually on a daily basis” and keeping abreast of their refinancing and asset sales. It was well known that Glitnir had to meet a large foreign loan payment in mid-October. Glitnir planned to bolster its liquidity by selling assets. The Central Bank reviewed Glitnir's position in mid-September and concluded that Glitnir would be able to cover that payment with an asset sale that was virtually complete.⁶⁵

31. On 15 September, Lehman Brothers filed for Chapter 11 bankruptcy protection.⁶⁶ This was the largest bankruptcy in US history⁶⁷ and started a tremor that would shake financial markets all over the globe.⁶⁸ As investors were forced to write off their Lehman-related investments, counterparty concerns caused large-scale redemption-driven asset sales. Banks and other financial firms were faced with frozen credit and money markets and falling equity prices, eroding their access to funds and shrinking their capital base.⁶⁹ The Lehman bankruptcy had triggered a widespread crisis of confidence. One of the consequences of Lehman's failure was that the sale of Glitnir assets, which had seemed

62 A systemic banking crisis has been defined by the IMF as one where all or almost all of the banking capital in a country is wiped out. See International Monetary Fund, *Systemic banking crises: a new database*, IMF WP/08/224, 29 September 2008.

63 www.fitchratings.com

64 BBC News, Waking up to reality in Iceland, 27 January 2009

65 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

66 BIS Quarterly Review, page 6, December 2008

67 Marketwatch, Lehman folds with record \$613 billion debt, 15 September 2008

68 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

69 BIS Quarterly Review, Overview: global financial crisis spurs unprecedented policy actions, December 2008

close to completion, did not materialise. The bank was also unable to renew a bank loan that it had expected to extend without any difficulty and the bank therefore collapsed.⁷⁰

32. Landsbanki Bank suffered difficulties a few weeks later. Landsbanki operated in the UK as a branch of the Icelandic bank which raised retail internet deposits under the Icesave brand.⁷¹ Ingimundur Fridriksson, the then Governor of the Central Bank of Iceland later recorded concern that there was at this time substantial pressure on Landsbanki's deposit accounts in the UK and in response to this "the British Financial Services Authority (FSA) steadily tightened the demands it made on the bank".⁷² In a meeting between the Icelandic Financial Supervisory Authority [FME] and the Directors of Landsbanki Islands hf on 6 October 2008, it became clear that the bank's situation "was serious"⁷³ and that it considered itself to fall under legislation passed by the Icelandic parliament that same day. The legislation stated that "should the FME evaluate the situation as extremely pressing, it can, inter alia, assume the powers of a shareholders' meeting, dismiss the Board of Directors and appoint a Receivership Committee".⁷⁴ Ingimundur Fridriksson judged that intervention from the Central Bank of Iceland to save Landsbanki would not have represented prudent use of its foreign exchange reserves as the amounts involved were "simply too large".⁷⁵

33. On 6 October 2008, Iceland suspended trading in Iceland's six biggest financial shares on the OMX Nordic Exchange Iceland. At that time Geir H. Haarde, then Prime Minister of Iceland, offered an unlimited guarantee for all savers:

I would like to diffuse all doubt that deposits by Icelanders and private pensions savings in all Icelandic banks are secure and the exchequer will ensure that such deposits are reimbursed to savers in full. No one need be in any doubt on this. The authorities will also ensure that the country's businesses have access to capital and banking services to the maximum extent possible.⁷⁶

34. The Icelandic parliament, the Althing, passed emergency legislation which enabled the Government to intervene extensively in Iceland's financial system. The next day the Icelandic Government took control of the country's second and third largest banks, Landsbanki and Glitnir and reportedly sought to secure a €4bn loan from Russia as it attempted to avert a financial meltdown.⁷⁷

35. On 7 October 2008, the FME took control of Landsbanki. A press release by the FME stated that all of Landsbanki's domestic branches and internet operations would be open

70 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

71 FSA, *The Turner Review, A regulatory response to the global banking crisis*, March 2009, page 38, Box 1.C

72 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

73 <http://www.fme.is/lisalib/getfile.aspx?itemid=5670>

74 Article 100 of the Act on Financial Undertakings, as amended by Law no. 125/2008.

75 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

76 Address by H.E. Geir H. Haarde, Prime Minister of Iceland, 6 October 2008 (See <http://e24.no/spesial/finanskrisen/article2696518.ece>)

77 *The Daily Telegraph*, Financial Crisis: Iceland gets €4bn Russian loan as banks collapse, 7 Oct 2008

for business as usual, and that all domestic deposits were fully guaranteed.⁷⁸ The next day the Chancellor announced that the UK Government would protect all deposits in the Landsbanki UK Branch. The Landsbanki Freezing Order 2008, passed on 8 October 2008, froze the assets of Landsbanki in the UK, and assets belonging to the Central Bank of Iceland, and the Government of Iceland relating to Landsbanki. Landsbanki had around £4.5 billion of retail deposits outstanding in its UK branch at the time of failure. These deposits were legally covered by the Icelandic deposit insurance scheme up to a value of €20,887.⁷⁹ In addition, they were covered on a top-up basis by the UK Financial Services Compensation Scheme (FSCS), to which Landsbanki had chosen to opt in.

36. Faced with the unprecedented collapse of two of the major Icelandic banks, the Icelandic Government took action to ensure that the third major bank, Kaupthing, was able to meet its commitments; that bank was deemed likely to survive the storm. On the basis of this assumption, the Central Bank provided the troubled bank with a collateralized four-day loan which was expected to meet any demands made on it. However, shortly after the loan was agreed, action was taken by the Chancellor of the Exchequer and the FSA which would call into question the Icelandic Government's assessment of the bank.⁸⁰

UK action against Landsbanki

37. Icesave, the online British arm of Iceland's second biggest bank Landsbanki, announced on 7 October 2008 that its customers could no longer withdraw or deposit money, as Landsbanki had been taken into receivership.⁸¹ On that day, the FSA decided that Heritable, a subsidiary of Landsbanki, was not able to meet its obligations.

38. On the morning of 8 October, following a conversation with the Icelandic finance minister, the Chancellor told BBC Radio that "The Icelandic Government have told me, believe it or not, have told me yesterday they have no intention of honouring their obligations there".⁸² The Chancellor was concerned that the Icelandic authorities had reneged on their obligations to ensure compensation could be paid.

39. Later that day the Chancellor told the House of Commons that he was expecting the Icelandic authorities to put Landsbanki into insolvency.⁸³ He also said that under such "exceptional circumstances" he would guarantee that "no depositor loses any money as a result of the closure of Icesave". He had therefore taken steps to "freeze assets of Landsbanki in the UK until the position becomes clearer".⁸⁴ These steps used powers

78 FME, Based on New Legislation, the Icelandic Financial Supervisory Authority (FME) Proceeds to take Control of Landsbanki to ensure Continued Commercial Bank Operations in Iceland, 7 October 2008

79 FSA, *The Turner Review, A regulatory response to the global banking crisis*, March 2009, page 38, Box 1.C

80 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

81 Receivership is a type of corporate bankruptcy in which a receiver is appointed by bankruptcy courts or creditors to run the company.

82 BBC News, Extra help for Icesave customers, 8 October 2008

83 Insolvency can be defined as where an organization can no longer meet its financial obligations with its lender or lenders as debts become due.

84 HC Deb, 8 October 2008, col 279

conferred by sections 4 and 14 of Schedule 3 to the Anti-Terrorism, Crime and Security Act 2001, which requires that “the Treasury believe that action to the detriment of the United Kingdom’s economy (or part of it) has been or is likely to be taken by certain persons who are the government of or resident of a country or territory outside the United Kingdom”.⁸⁵

Kaupthing’s demise

40. In his statement on 8 October the Chancellor also announced that the FSA had determined that Kaupthing Singer & Friedlander [KSF] (a UK based subsidiary of the Icelandic Kaupthing Bank) did not “meet its threshold conditions, and was likely to be unable to continue to meet its obligations to depositors. The FSA had therefore concluded that KSF was in default for the purposes of the Financial Services Compensation Scheme”.⁸⁶ The Chancellor announced that he had used powers under the Banking (Special Provisions) Act 2008 to transfer most of KSF’s retail deposits to the Dutch bank, ING.⁸⁷ The rest of the business had been put into administration.⁸⁸ The transfer of the retail deposit books was supported by cash from HM Treasury and the Financial Services Compensation Scheme. A Treasury press release concluded that this was “the right course of action to protect savers, ensure financial stability, and safeguard the interests of the taxpayer”.⁸⁹ Later that day, the Icelandic Government nationalised Iceland’s biggest bank, Kaupthing.

Was the Chancellor to blame for the collapse of Kaupthing?

41. Press reports in October suggested that the then Icelandic Prime Minister Geir Haarde was “upset and shocked” that the UK Government had invoked “hostile” anti-terrorism legislation to freeze Icelandic banks’ assets in the UK. Haarde argued that the Chancellor’s statement on the BBC induced panic in the UK.⁹⁰ The Icelandic Government was widely reported in December to be preparing to take legal action against the UK over the collapse of Kaupthing.⁹¹

42. The Government of the Isle of Man’s evidence to us highlighted that the UK freezing Order⁹² made by HM Treasury against Landsbanki assets was “publicly construed by many as a freeze of Icelandic assets generally” and such a perception, “exacerbated an already tight liquidity position for Kaupthing Bank hf Group as a whole”.⁹³ Mr Ziggy Siczko for

85 Landsbanki Freezing Order 2008 (SI 2008/2668)

86 HM Treasury press release, Kaupthing Singer & Friedlander, 8 October 2008

87 KSF’s Kaupthing Edge deposit business has been transferred to ING Direct, a wholly-owned subsidiary of ING Group, which operates through its branch in the UK.

88 HC Deb, 8 October 2008, col 279

89 HM Treasury press release, Kaupthing Singer & Friedlander, 08 October 2008

90 BBC News, Iceland scowls at UK after crisis, 16 December 2008

91 *Ibid.*

92 Landsbanki Freezing Order 2008 (SI 2008/2668)

93 Ev 304

KSFIOM Action Group, also questioned whether Kaupthing's demise had been caused by "defamatory comments from the Treasury and from the Chancellor himself".⁹⁴

43. Press reports indicated that the Chairman of Kaupthing, Sigurdur Einarsson, also attributed the collapse of his bank to the actions undertaken by the Chancellor. Mr Einarsson said the Chancellor's transfer of deposits from the bank's subsidiary Kaupthing Singer & Friedlander had triggered a technical default on the parent bank. He also blamed the UK authorities for a run on the Icelandic banks' internet operations in this country after rival Landsbanki was frozen.⁹⁵

44. When we asked the Chancellor what led him to tell BBC Radio that the Icelandic Government had no intention of honouring their obligations, he explained that his conversation with the Icelandic Finance Minister had led him to believe that the Icelandic legislation passed over the previous weekend had the effect of "looking after Icelandic depositors but cutting off non-Icelandic depositors, including those in the United Kingdom". The Chancellor defended the steps he had taken to "safeguard the interests of the taxpayer" pointing out that "even if I was wrong on that, which I was not, five weeks later they are still not treating non-Icelandic depositors and creditors in the same way as they are Icelandic ones".⁹⁶

45. Further controversy arose when a transcript of a conversation between the Chancellor and his Icelandic counterpart was published in the *Financial Times*. This appeared to challenge the Chancellor's claim that Iceland had refused to compensate UK savers. The transcript was of the telephone conversation with Árni Mathiesen, the Icelandic finance minister, at the height of the crisis on 7 October 2008, referred to by Mr Darling in the BBC Radio interview. In it they discussed whether or not the Icelandic Government was in a position to compensate up to 300,000 British depositors in Icesave, the online arm of Landsbanki. In the published transcript Mr Mathiesen did not state that Iceland would not honour its obligations. Rather, he explicitly indicated that Iceland planned to use its compensation scheme to try to meet obligations to British depositors. Such a move would have committed Iceland to paying €20,887 (£16,462) to each depositor under directives agreed as part of its membership of the European Economic Area.⁹⁷

46. In January 2009, the then Icelandic Prime Minister and the Minister of Foreign Affairs met representatives of Kaupthing Bank's Resolution Committee and Landsbanki's Resolution Committee and agreed to support any suit which they chose to bring against the UK authorities.⁹⁸ On 6 January, the Althing passed an Act authorising "financial support from the National Treasury in connection with legal proceedings in foreign courts

94 Q 1292

95 *Daily Mail*, Kaupthing chairman blames Darling for predicament as Iceland's bank troubles spiral, 09 October 2008

96 Q 116

97 *Financial Times*, Transcript challenges Darling's claim over Iceland compensation, 24 October 2008

98 Government Support for Legal Action against UK Authorities, 5 January 2009

of law concerning onerous administrative measures applied by foreign authorities during the period 1 October to 1 December 2008”.⁹⁹

47. When we questioned the Chancellor as to his view of whether the actions of the UK Government had increased pressure on the remaining Icelandic bank, Kaupthing, he told us that “anyone looking objectively at the Icelandic banks would find it difficult to come to that conclusion”. He noted that the new Icelandic Government had taken a “slightly different view” from the previous Icelandic Government. In the Chancellor’s view the banking failure was triggered by the conclusion drawn by the FSA that the banks “did not meet the threshold conditions and, as you know, this is a responsibility of the FSA, it has to decide whether or not an institution can carry on trading”.¹⁰⁰

48. The Government’s use of the Anti-Terrorism, Crime and Security Act 2001, on 8 October, to freeze the assets of Landsbanki UK has provoked concern.¹⁰¹ It also caused significant problems for the Icelandic authorities. Ingimundur Fridriksson, Governor of the Central Bank of Iceland until February 2009, stated that:

priority was given to the maintenance of smooth payment intermediation and uninterrupted banking operations, and that efforts in that regard were successful in spite of measures such as the “freezing order” imposed on Landsbanki by the British authorities under the Anti-Terrorism, Crime and Security Act—a freezing order that originally extended as well to the Icelandic Government,¹⁰²

However, the Chancellor robustly defended the use of the powers granted under the Act:

actually the legislation we used, although it does cover terrorism also covers the powers that we have to protect the country’s general economic interest. Interestingly, when you look back at what happened when the legislation went through Parliament, there was an amendment laid in the House of Lords to try and confine these powers to be used in the case of terrorism and that amendment was voted down. I think it was contemplated at the time that those powers might be used more widely.¹⁰³

The legislation was designed to deal with a situation where there would be an economic harm done to the country. The Chancellor said that he believed that had he not taken action to freeze the assets of Landsbanki UK, he would have been asked “How come you allowed all this money to be taken out?”¹⁰⁴

49. During the collapse of the Landsbanki bank in October 2008, the Chancellor of the Exchequer took steps to safeguard the deposits of UK investors. We note that his

99 The Icelandic Government Information Centre, *Parliament approves financial support for legal proceedings*, 6 January 2009

100 Q 2947

101 Ev 206

102 Ingimundur Fridriksson, Central Bank of Iceland, *The banking crisis in Iceland in 2008*, 6 February 2009

103 Q 47

104 Q 2947

comments regarding the intentions of the Icelandic authorities had a serious impact on the confidence held in the remaining solvent Icelandic bank, Kaupthing, and it has been suggested that this may have contributed to its collapse. We note that the published transcript of the Chancellor’s conversation with the Icelandic Finance Minister does not confirm that the Icelandic Government had stated that it would not honour its obligations but we have seen no evidence to contradict the Chancellor’s view that UK depositors and creditors were unlikely to be protected to the same extent as Icelandic ones. We also have seen no evidence that Kaupthing would have survived if the Chancellor had not expressed his views.

50. Although the Icelandic banking system was vulnerable to the crisis that has affected the international financial system since 2007, the actions of the UK Government in making statements on the capacity and willingness of the Icelandic Government to provide assistance to non-Icelandic citizens, whether or not such statements were accurate, turned the UK Government from being a seemingly passive observer of events, to an active participant in the market. Given the volatility of the situation, and the vulnerability of Icelandic banks at the time, it appears that the Icelandic Authorities found the UK Government’s approach ultimately unhelpful.

51. The use of the Anti-Terrorism, Crime and Security Act 2001 had considerable implications for the Icelandic authorities in maintaining a functioning financial system. We call on the Treasury to consider how appropriate the use of this legislation would be in any similar circumstances in the future. The use of this Act inevitably stigmatises those subject to it and a less blunt instrument would be more appropriate. We are concerned that no appropriate legislation is available and call on the Treasury to address this matter.

The impact of the Icelandic banks’ collapse on the Crown dependencies

52. In October 2008, with a view to identifying some of the popular anxiety about the banking crisis, we invited members of the public to suggest questions they would like to see put to the Tripartite authorities on the banking crisis. We were grateful to receive almost 5,000 individual questions. The vast majority came from people affected by the collapse of the Icelandic banks. These questions came from British citizens and expatriates, many of whom had lost their life’s savings when Kaupthing Singer & Friedlander (Isle of Man) was placed into provisional liquidation and Landsbanki Guernsey Limited was placed into administration. We consider their losses in Chapter 4. Here we outline the actions of the authorities surrounding the problems at these banks.

Landsbanki Guernsey Limited

53. Landsbanki Guernsey Limited (LGL) was placed in administration on 7 October 2008 leaving 2,033 people unable to access their money. LGL had a number of assets, including a deposit with its Icelandic parent Landsbanki Islands hf, a deposit with Heritable Bank in the UK (a sister company of LGL), a loan book secured on UK property and a letter of comfort from the parent company. In addition, the parent company made public

statements guaranteeing deposits with LGL.¹⁰⁵ Unlike the UK, Guernsey had no savers' compensation scheme at that time, and its Chief Minister, Lyndon Trott, quickly clarified that Guernsey did not propose the use of taxpayers' money to support any pay-out.¹⁰⁶

Kaupthing Singer & Friedlander (Isle of Man) Limited

54. On 9 October 2008, the Isle of Man Court made a Provisional Liquidation Order in relation to Kaupthing Singer & Friedlander (Isle of Man) Limited [KSF(IOM)].¹⁰⁷ The liquidation of this bank was particularly controversial as it was caused, in part, by steps taken by the UK Government to transfer deposits from the KSF UK branch to ING. KSF(IOM) had previously transferred £555m of unsecured funds into KSF(UK) following consultation with the FSA. Many KSF(IOM) depositors were UK expatriates or people living in the UK who were retail depositors and for legitimate reasons found themselves banking in the Isle of Man with what had until recently been the offshore arm of the UK banking group, Singer & Friedlander.¹⁰⁸

55. It is the contention of the Isle of Man Government that there were considerable shortcomings in the communication between the regulatory authorities in respect of the action which the UK was planning to take in relation to KSF(UK), a UK incorporated company authorised by the FSA to take deposits.¹⁰⁹ This contrasted with the prompt and reliable exchange of information that had been in place previously, up to and including the handling of Bradford & Bingley just a few days earlier.

56. The Isle of Man Government told us that KSF(IOM) was a solvent bank that had been rendered insolvent by the actions of the UK authorities, when the UK was attempting to protect its own position against Iceland. Had the existing regimes and protocols been adhered to then the situation could have been managed with significantly less impact on the Isle of Man even if it could not have been avoided altogether.¹¹⁰

57. In submitting questions to us, members of the public time and again demanded that the UK Government should accept responsibility and return the £555m lost by Isle of Man savers. When we put this issue to the Chancellor at the beginning of our inquiry, he replied that the £555m did “not belong to the UK Government”.¹¹¹ In evidence to us, Lord Turner indicated that KSF(IOM) was in the same position as any other creditor¹¹² although in a later session Hector Sants acknowledged that this was not correct given the special powers

105 Ev 148, para 3.7

106 *Financial Times*, Guernsey rules out state funding to help savers, Page 2, 24 October 2008

107 Statement from the Liquidator Provisionally of Kaupthing Singer & Friedlander (Isle of Man) Limited, 13 October 2008

108 Ev 302, para 1.8.3

109 *Ibid.*, para 1.8.2

110 Ev 304, para 1.8.30

111 Qq 131-132

112 Ev 19, Q 130

that had been taken by the Treasury in relation to any payments to be made to the Isle of Man.¹¹³

Compensation schemes available to depositors

58. None of the UK's Financial Services Compensation Scheme (FSCS), Iceland's protection scheme, and Guernsey's Deposit Protection scheme extended cover to depositors in Landsbanki, Guernsey. Subsequent to the crisis a scheme was established in Guernsey on 26 November 2008. It was not retrospective and did not cover the losses of savers in Landsbanki.¹¹⁴

59. However, the Administrators for Landsbanki Guernsey paid compensation equal to 30% of depositors' funds in October 2008. The Landsbanki Depositors' Action Group was concerned that depositors stood to lose 70% of their savings together with the interest accrued prior to the bank's collapse.¹¹⁵ However, Guernsey's Royal Court had concluded that significant cash balances would remain in the Bank after allowing for this proposed partial payment.¹¹⁶

60. The Isle of Man Government advanced funds to depositors of KSF(IOM) under the Early Payment Schemes approved by the Tynwald in January and February 2009 providing for a total of £105m in early payments.¹¹⁷

61. At the time of going to press the Isle of Man's parliament, the Tynwald, had been asked to authorise the transfer of £180m from Government reserves to put funding in place for the proposed 'Scheme of Arrangement' for depositors with Kaupthing Singer & Friedlander Isle of Man.¹¹⁸ The sum included an advance on contributions that would be required to be levied from the banking sector. Total direct provision from the Manx Government is expected to be £150m. Government funds advanced to depositors under the Early Payment Schemes would be deducted from any subsequent payments made under the Scheme of Arrangement.¹¹⁹

62. The 'Scheme of Arrangement' was designed by the Isle of Man Treasury as "a tailored alternative to conventional liquidation of the bank, which would trigger the Depositors Compensation Scheme (DCS)". The Scheme, if approved, would make guaranteed scheduled payments underpinned by Manx Government funds. It is subject to approval by

113 HC 98-i, Q 123

114 Ev 136, para 2.5

115 *Ibid.*, para 2.4

116 Deloitte Press Release, Joint Administrators secure part-payment to depositors of Landsbanki Guernsey Limited (in Administration), 16 October 2008

117 Isle of Man Government Circular Nos. 01/09 and 04/09, The Kaupthing Singer and Friedlander (Isle Of Man) Limited Early Payment Scheme and The Kaupthing Singer and Friedlander (Isle Of Man) Limited Early Payment (No. 2) Scheme

118 Isle of Man Government Press Release, Tynwald to be asked to authorise £180 million for KSF IOM Scheme of Arrangement, 17 March 2009

119 *Ibid.*

the High Court and by the bank's creditors. The matter is due to be heard in the Isle of Man's High Court on 9 April.^{120 121}

Crown dependencies and a guarantor of last resort

63. In evidence to us, the Chancellor described the Isle of Man as “a tax haven sitting in the Irish Sea”.¹²² In his Pre-Budget Report statement to the House of Commons, the Chancellor argued that the recent financial turbulence had highlighted “potential problems with overseas territories and crown dependencies, such as the Isle of Man and Channel Islands”. He cautioned that the offshore banks had attracted banking customers with lower taxes and these customers had avoided “contributing to the UK Exchequer”. In these situations he cautioned that “the British taxpayer, cannot be expected to be the guarantor of last resort”.¹²³ We further consider this issue in Chapter 5.

120 Isle of Man Government Press Release, Tynwald to be asked to authorise £180 million for KSF IOM Scheme of Arrangement, 17 March 2009

121 *Ibid.*

122 Qq 131-132

123 HC Deb (2007-08), 24 November 2008, col 490

4 Charities and local authorities

The local authorities

64. In the week beginning 6 October 2008, a number of Icelandic banks went into administration. As we have discussed, the Government took action to safeguard the interests of UK retail creditors of these banks. As the crisis unfolded a number of organisations not covered by the Government's guarantee began to identify how much money they had lost. It quickly became clear that a large number of local authorities had invested money with the Icelandic banks.¹²⁴

Advised to invest?

65. On 17 October, the Local Government Association (LGA) reported that 123 authorities had deposited an estimated £919.6m in Icelandic banks and their UK licensed subsidiaries.¹²⁵ Deposits were held by councils, fire and rescue, and passenger transport, national parks, pensions and waste authorities. The Audit Commission put the value of deposits as high as £953.53m, a figure which represented a little over 3 per cent of the local authorities' deposits.¹²⁶ According to the Audit Commission, 30 organisations had sums at risk that exceeded five % of gross revenue expenditure.¹²⁷ Kent County Council had the highest amount deposited with £48.9m held in Icelandic banks.¹²⁸ When asked if local authorities were advised to invest public money offshore, Councillor Richard Kemp, Deputy Chairman, LGA, told us that "there was no advice not to".¹²⁹

66. Under the Local Government Act 2003, each local authority must take its own decisions on how and where to invest its funds and must have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. CIPFA also publishes a Treasury Management Code, which sets out the procedures and policies that each authority should follow.¹³⁰ The LGA informed us that local authorities should spread their investment risks with 5% or at the very maximum 10% of total investments invested in one institution or sovereign.

67. Many local authorities employ private sector advisors, who have specialised knowledge and skills in understanding money markets. The main private-sector advisors to local authorities in the United Kingdom (Arlingclose, Butlers and Sector) have recently given evidence to the Communities and Local Government (CLG) Committee. Their evidence offered several accounts of what happened in relation to the advice given on Icelandic

124 HC (2007-08) Deb 24 Oct 2008

125 LGA Press Release, Update on Icelandic banks and their UK licensed subsidiaries, 17 October 2008

126 Audit Commission, *Risk and return, English local authorities and Icelandic Banks, Cross-cutting National report*, March 2009, p 18

127 *Ibid.*, p 19

128 *Ibid.*, p 53

129 Q 1293

130 Chartered Institute of Public Finance and Accountancy, Codes of Practice

banks and we look forward to the CLG Committee’s forthcoming report on local authority investments.¹³¹

Reliance on credit rating agencies

68. When we asked who was to blame for the loss of local taxpayers’ money, Councillor Kemp told us that he believed that there had been “a series of failures within the system”. We were told that the LGA had sought investment advice from “ministers, from Parliament, from regulators, from the credit reference agencies, a whole variety of people”.¹³²

69. Some local authorities apparently continued to invest in the Icelandic banks and their UK subsidiaries as they continued to receive “relatively high ratings” from the credit ratings agencies¹³³ up until the afternoon of 30 September.¹³⁴ Councillor Merrick Cockell, Chairman, London Councils, told the CLG Committee that local councils “have to rely on credit rating agencies”. He argued that the purpose of credit rating agencies was to “provide the sort of advice which non-experts, and indeed experts, require, looking ... at the detail of financial institutions and working out whether they are safe or less safe bets.”¹³⁵ The Building Societies Association agreed that ratings were a “useful tool”, but cautioned that their track record in enabling investors to avoid credit losses in the banking crisis had been unimpressive.¹³⁶ What is very surprising is that after April 2008 the credit rating agencies began downgrading the ratings of Glitnir and Kaupthing and the Fitch ratings agency produced a damning special report on Iceland on 22 May 2008, yet some local authorities persisted in placing new investments in these institutions. Even after a very significant downgrade in September 2008 which extended to Landsbanki, seven local authorities persisted in depositing sums amounting to £32.8m over the next few days, in breach of treasury management policies.¹³⁷

70. We will consider the wider issues of the extent to which the credit rating agencies were implicated in the banking crisis in a future report.

Plea for assistance

71. Councillor Kemp told us that the Government had helped local authorities in the short term “by allowing us to withdraw concerns about Iceland from the equivalent of our

131 HC 164-ii, Qq 99-100

132 Ev 174, Q 1300

133 Credit rating agencies formulate and issue credit ratings of both institutions and individual debt instruments. Investors rely on these ratings as indicators of the credit risk of investment.

134 Financial Times, Councils step up fight against agencies, FT.com, 15 October 2008

135 HC 164-ii, Q 229

136 Ev 276, para 10

137 Audit Commission, *Risk and return, English local authorities and Icelandic Banks, Cross-cutting National report*, March 2009, pp 28-29

balance sheet for this financial year so we do not have to take it into account”.¹³⁸ The LGA was asking for “capitalization of the money because some councils would find it very difficult to pay their sums back in one year, if the crunch came to it”. The Government had refused to allow councils to spread the capitalization of their lost assets across a period of years.¹³⁹ Councillor Kemp concluded that local authorities had “invested properly on the advice of all those people, including the Chancellor and we should have our money back”.¹⁴⁰

72. We acknowledge that some local authorities will feel hard done by as a consequence of the limitations of Government support for them. Local authorities are required to take their own decisions on the level of prudent, affordable capital investment. They have a duty to the taxpayer diligently to protect the money they are investing on their behalf. Some authorities have shown themselves to be better than others in this regard. Under these circumstances it would seem perverse to reward those authorities who failed to protect their investment with yet more money from the taxpayer.

Charities

Charitable deposits

73. The collapse of Icelandic banks has also placed charitable funds in jeopardy. The Charities Aid Foundation (CAF), told us that they had been asked by the Financial Services Secretary, Lord Myners, together with the National Council for Voluntary Organisations, the Charity Finance Directors Group and the Association of Chief Executives of Voluntary Organisations to collect data about the extent of charities’ exposure to Icelandic Banks. Their findings suggested that 48 charities had lost a combined total of £86.6m deposited funds.¹⁴¹ The Audit Commission has estimated that charities held around £120m in Icelandic banks.¹⁴²

74. Dr John Low, Chief Executive for the Charities Aid Foundation (CAF), told us that charities had been seriously affected by the failure of the Icelandic banks. He pointed out that it was difficult to estimate fully the extent of the problem as a number of charities had chosen not to make public their losses.

Guidance to charities

75. When we asked Dr Low what financial guidance was available to charities, he told us that the Trustee Act 2000 was the only statutory measure that governed the behaviour and

¹³⁸ Q 1300; A statutory override which amended the 2003 Capital Finance regulations will come into effect on 31 March 2009 which will allow local authorities to defer recognition of any potential losses until 2010-11 - Audit Commission, *Risk and return, English local authorities and Icelandic Banks, Cross-cutting National report*, March 2009, p 19

¹³⁹ Q 1300

¹⁴⁰ Q 1301

¹⁴¹ Ev 475, para 1.2

¹⁴² Audit Commission, *Risk and return, English local authorities and Icelandic Banks, Cross-cutting National report*, March 2009, p 17

duties of a charity’s trustees. The Charity Commission had issued guidance on how investments should be handled but this was non-statutory. Such advice focused on “diversification, taking appropriate advice, review and so on, but there is nothing statutory beyond the Trustee Act 2000.”¹⁴³

76. The Charity Commission issued a statement on 24 November 2008 to clarify the nature of advice they provided to charities, in which they indicated that the role of the Commission was to offer general advice to trustees on their duty to control and manage a charity’s finances and investments. The Commission was not able to recommend specific financial services or banks. They did not “promote, endorse or approve any banks or financial services”, but rather offered “advice, guidance and support” and were able to act in the administration of a charity, only in certain circumstances involving misconduct or mismanagement”.¹⁴⁴

77. Dr Low told us that the Charity Commission did not have a view on offshore investments and did not provide guidance on the issue. Trustees had an obligation to obtain the best possible return for their investments and were obliged to take into account the risks associated with those investments. Dr Low’s biggest concern was the lack of information available to trustees about offshore bank accounts. He said that charities had “poor information on credit rating and we have no sense, other than league tables of interest rates, about the sustainability and the risk associated with each of these regulated bank accounts”.¹⁴⁵ It was Dr Low’s view that protection available under the Financial Services Compensation Scheme was “extremely vague and uncertain”. He argued that charities had “no easy way of understanding whether they would be receiving any protection or not”.¹⁴⁶

78. We recommend that the Government consider the case for providing charities with further statutory guidance relating to the management of a charity’s finances and investments. We further recommend that the Government take steps to clarify what protection is available to charities under the Financial Services Compensation Scheme.

Charities as “wholesale depositors”

79. The Chancellor’s statement on 8 October guaranteed that all retail depositors in Landsbanki, Heritable and Kaupthing Singer & Friedlander would receive their money in full.¹⁴⁷ A large number of charities were not classified as retail depositors and have therefore been faced with trying to recover their funds from the Administrators. The Charity Commission issued guidance to charities explaining that retail depositors included those charities who were body corporate which had two or more of the following characteristics:

143 Q 1296

144 Charity Commission statement, *Charities who have invested in Icelandic banks*, 24 November 2008

145 Q 1297

146 Q 1298

147 For further details, see Chapter 4 of the FSA’s Compensation Sourcebook

- a turnover of £6.5m or less;
- £3.26m or less balance sheet total;
- 50 or fewer employees;
- they were an unincorporated association with assets of £1.4m or less.

Charities who have invested in Icelandic banks, and who do not fall into the description of retail depositors, are to be classified as wholesale depositors for the purposes of the FSCS.¹⁴⁸

80. Save our Savings, a group of creditors in the administration of Kaupthing Singer & Friedlander Limited (KSF) comprising some 30 charities with a combined liability in the administration of approximately £50m, suggested that the distinction between wholesale and retail depositors appeared to be “based largely upon an assumption that wholesale depositors are better placed to make informed decisions.” This meant that they were therefore less in need of the FSCS’s protection than the “less sophisticated” retail depositors.¹⁴⁹ Protection under the FSCS therefore extended to individuals and smaller companies only.¹⁵⁰ In the view of Save our Savings, it was difficult to see why wholesale depositors, and charities in particular, were better placed than retail depositors to anticipate and respond to the current banking crisis.¹⁵¹

Government assistance

81. Save our Savings put it to us that charities qualified for certain statutory exemptions from taxation on the basis that they provided public benefit in the form of support and services to many of the most vulnerable elements of society. They therefore relieved cost to the Exchequer and, consequently, the taxpayer by providing such services.¹⁵²

82. Dr Low told us that the Government had provided “very little support, frankly”. He had asked Lord Myners for an interest free relief scheme “but that was not forthcoming”. He noted that the Government was “simply was not willing to treat charities any differently to any other wholesale investor”.¹⁵³ Dr Low pointed out the apparent unfairness of the decision where the Government had chosen to “bail out high net worth individuals to the full amount” but not protected money that was held in trust for public benefit.¹⁵⁴

83. We recognise that the important work undertaken by the charitable sector often provides the most vulnerable elements of society with invaluable support. At a time when more people than ever may be faced with difficult circumstances, we believe that

148 Charity Commission statement, *Charities who have invested in Icelandic banks*, 24 November 2008

149 Ev 205

150 *Ibid.*

151 *Ibid.*

152 Ev 205

153 Q 1299

154 *Ibid.*

it is imperative that charities have access to the funds that were provided to them by the public. We are concerned that one of the tests a charity must pass to be protected under the FSCS definition of a retail depositor is inappropriate for those charities using fixed assets in the course of their work. We recommend that, on this occasion only, all charities should be compensated for losses incurred as a consequence of the failure of the Icelandic banks. Furthermore, to avoid such problems arising in the future, we recommend that the FSCS re-examine the criteria for the classification of charities as retail or wholesale depositors in the light of this recommendation.

5 Protecting British citizens

Individuals who lost

84. As we have seen, on 9 October 2008 HM Treasury announced that “The Chancellor has put in place arrangements to ensure that all retail depositors in the Icelandic banks of Landsbanki (including their “Icesave” products), Heritable, and Kaupthing Singer and Friedlander (including their “Edge products”) will receive their money in full”.¹⁵⁵ Most of these onshore UK customers saw their accounts moved to ING direct.¹⁵⁶ These measures protected all individuals who held accounts onshore in the United Kingdom with the branches and subsidiaries of the Icelandic banks. These announcements did not, however, cover those individuals who had money at risk in the subsidiaries of the Icelandic banks in the Isle of Man and Guernsey.

85. Information provided by the depositors’ groups provides some evidence on the make-up of these individuals. Mr Siczko, the London coordinator for the Kaupthing Singer & Friedlander Isle of Man Action Group, suggested that “between 55% and 60%” of KSF (IOM) depositors were British expatriates.¹⁵⁷ A straw poll conducted by the Landsbanki Guernsey Depositors’ Action Group, suggested that 35% of depositors were British citizens from Guernsey or Jersey. Another 49% were British expatriates living elsewhere and a further 12% were British expatriates [now] living in the UK.¹⁵⁸ Some 60% of those savers polled had savings between £10,000 and £100,000.¹⁵⁹

The provision of assistance

86. Many of those who have lost out in the failure of the offshore subsidiaries of the Icelandic banks were British citizens, and many have requested the assistance of the UK Government in seeking the return of their deposits. We have heard several arguments both for and against the provision of assistance to these depositors by the UK Government, and we consider them in turn, before providing an overall conclusion on the appropriateness of the provision of assistance by the UK Government to those depositors.

An overarching principle

87. The UK Government has been acting on the principle that it cannot be responsible for the losses of UK citizens where they invest money in jurisdictions outside the control of the United Kingdom. The Chancellor explained that:

155 HM Treasury, Press release 103/08, Landsbanki, Heritable, and Kaupthing Singer and Friedlander, 9 October 2008,

156 *Ibid.*

157 Q 1320

158 Ev 422-423

159 Ev 423

My obligation as the Chancellor of the Exchequer is to people who put their money into this particular UK branch. ... that legally, strictly, what we have said to people is, “You have got to look for your first £16,000 or so to the Icelandic authorities” because that is what the EEA agreement is, and they are disputing that at the moment, as I understand, and we would have stood in the place between £16,000 and £50,000 under the British Financial Services Compensation Scheme. I have gone further than that. I have said I will look after the interests of all retail depositors in a branch in London that I think we are responsible for. If you go to the next stage and say, “Look, you should take over responsibility for something that is done in the Isle of Man or Guernsey or, indeed, by extension, other countries”, that is quite a significant step to take.¹⁶⁰

Mr Tony Brown MHK, Chief Minister, Isle of Man, also accepted this position, telling us that “As far as the situation for the Isle of Man is concerned, we are accepting our responsibilities and endeavouring to rectify the situation”.¹⁶¹ When pushed on whether the UK Government should seek to provide redress to savers in the Isle of Man, Mr Brown replied “I do not think the UK Government is responsible for the financial affairs of the Isle of Man”.¹⁶²

88. We agree that the overarching principle should be that the UK Government cannot provide cover for deposits held by British citizens in jurisdictions outside the direct control of the United Kingdom.

The role of the UK Financial Services Authority

89. Questions have been raised with us in respect of the extent of the FSA’s involvement in the transfer of funds from the Icelandic parent company, Kaupthing, to its UK subsidiary, KSF(UK). By March 2008, the Financial Services Commission (FSC)¹⁶³ of the Isle of Man had become concerned by the Icelandic situation. As such, they approached the KSF IOM board, which in turn offered to reduce its exposure to Iceland, by replacing its deposits in Iceland, with ones in KSF(UK).¹⁶⁴ Before allowing this transaction, the Isle of Man FSC raised certain questions with the FSA about the UK’s liquidity regime for KSF (UK), which were responded to via an exchange of letters.¹⁶⁵ From this exchange, the FSC felt that it had satisfied itself that, should the transfer be made:

- the exposure to the parent bank would be eliminated (save for the fact that a line of liquidity was available to draw upon from the parent if needed, which netted off in the event of insolvency);

160 Q 121

161 Q 1449

162 Q 1450

163 The Isle of Man financial services regulator

164 Ev 304

165 Ev 663

- the 60% of total assets of KSF(IOM) that were represented by claims on Kaupthing Group in October 2008 (after netting off the liquidity exposure to Kaupthing Bank hf) were due from KSF(UK), a UK bank where all related party exposures were limited to 25% of Large Exposure Capital Base and where there was no net exposure to Kaupthing Bank hf; and,
- KSF (UK) would have liquid assets to meet all maturing liabilities out to eight days and were only permitted to have a maximum mismatch of 5% out to one month.¹⁶⁶

Mr John Aspden, Chief Executive of the Isle of Man Financial Supervision Commission (FSC), told us that if those understandings had been adhered to, he “would not have thought that the London bank [KSF(UK)] would be in quite the predicament that it appears to be”.¹⁶⁷

90. As was discussed in Chapter 3, when KSF (UK) went into insolvency, the deposit held on behalf of KSF(IOM) became part of the assets available to the Administrator, while KSF(IOM) became one of the many creditors. When it was suggested to Mr Sants that the FSA had put pressure on KSF(IOM) to invest in KSF(UK), he flatly rejected this suggestion.¹⁶⁸ Lord Turner in turn noted that the decisions made by the Isle of Man FSC were based on correct information provided by the FSA:

That was the liquidity regime that was in place, which I have to say was more onerous than our normal liquidity regime that we put in place in 2005 in response to some of our concerns earlier. We confirmed that regime was in place. Whether that provided sufficient assurance to the regulator on the Isle of Man was for them to decide. We are another, as it were, host regulator and our job under our [Memorandum of Understanding] with them is to provide them with information; it is not for us to make judgments on that information. We accurately answered their question and that regime was indeed in place with the bank.¹⁶⁹

91. The failure of Kaupthing Singer and Friedlander (UK), given the deposits held by it on behalf of Kaupthing Singer and Friedlander (IOM), was extremely detrimental to the ability of Kaupthing Singer and Friedlander (IOM) to maintain its operations. However, we can find no evidence that the FSA pressured the Isle of Man authorities to authorise or encourage the placement of such a significant deposit with Kaupthing Singer and Friedlander (UK).

92. Both the Guernsey and Isle of Man authorities also expressed concern over the level of the FSA’s communication with them during the crisis with the FSA. Mr Aspden told us that he felt “disappointed” and “severely let down” by the communication with the FSA as the Icelandic subsidiaries failed.¹⁷⁰ The Guernsey authorities had also been in close contact

166 Ev 304

167 Q 1454

168 Qq 2300-2301

169 Q 1

170 Q 1425

with the FSA over the crisis period, especially around the time of the crisis around Northern Rock.¹⁷¹ Mr Peter Neville, Director General of the Guernsey Financial Services Commission, had concerns that the FSA believed that “it could not and should not have passed us more information than it did in terms of the changed liquidity situation, the dependence on the parent and on the action it was planning to take”.¹⁷² The concern for Mr Neville was therefore that “there was limited information given to us ... and they did not tell us they were limiting information”.¹⁷³

93. It is of critical important that regulators in different jurisdictions can communicate effectively at times of financial crisis. We note with concern the suggestion that the paucity of information provided by the Financial Services Authority may have impeded the ability of the regulators in the Crown dependencies to safeguard their own financial systems. This is a particular concern given the close working relationship that appears to have existed between the Financial Services Authority and the Financial Services Commission of the Isle of Man in relation to previous situations such as that surrounding the failure of Bradford & Bingley just days earlier. We recommend that the Financial Services Authority review its existing powers and strategy for dealing with other jurisdictions, and reports on its efforts in this respect.

Tax havens

94. One of the reasons cited by the Chancellor in refusing assistance to the depositors in the offshore centres affected by the failure of the Icelandic banks was the low-tax environment in these jurisdictions. Using the example of the Isle of Man, he explained that:

I think, having looked at what has happened over the last few months, we really do need to have a long hard look at the relationship between this country and the Isle of Man, a tax haven sitting in the Irish Sea leading to perhaps people not being clear as to what the different rights and responsibilities are. We come to the situation where you have sitting there all sorts of tax advantages accruing from being in the Isle of Man and when things go wrong, people then say, “What about the British compensation scheme?” It is important that we take this opportunity, not rushing into it, not a knee-jerk reaction, to have a look at it ...¹⁷⁴

However, representatives of the depositor groups affected reacted strongly to this accusation. Mr Dickens stated that “We are not tax dodging millionaires”.¹⁷⁵ Mr Siczko pointed out that “If you are a UK resident you will pay standard rate withholding tax and [that] will be remitted back to the Treasury, the same Treasury that is now refusing to back us and refusing to help us out at all”.¹⁷⁶ He went on to say that “It is a diabolical accusation

171 Q 1426

172 *Ibid.*

173 Q 1426

174 Q 132

175 Q 1322

176 Q 1328

to accuse these people of being tax dodgers or going to the Isle of Man for a tax haven”.¹⁷⁷ Tony Brown MHK, Chief Minister, Isle of Man was also keen to defend the Isle of Man against the Chancellor’s accusation:

it is not a statement that carries any weight. If you look at the basis of how the Isle of Man is structured, the Isle of Man is a well-regulated country, it has a diverse economy. It applies international standards to the highest level and has a full system of direct and indirect taxation, including a full national insurance system. If you look at all the components of how the Isle of Man operates, it reflects very much how the United Kingdom operates, so that statement was unfortunate and does not reflect the status of the Isle of Man.¹⁷⁸

95. HMRC describes the EU Savings Tax Directive (came into effect on 1 July 2005) as being designed “to counter cross border tax evasion by collecting and exchanging information about foreign resident individuals receiving savings income outside their resident state”.¹⁷⁹ Until such a time as that exchange of information occurs between all the signatory nations, both the Isle of Man and Guernsey have decided to implement a withholding or retention tax, though the option of information exchange will be available for some customers.¹⁸⁰ Such taxes are levied on the savings held in these jurisdictions, and then 75% is remitted to the EU member state where the beneficial owner of the interest resides.¹⁸¹ Table 2 shows the receipts to HMRC from the withholding tax element of the EU Savings Tax Directive from Guernsey and the Isle of Man.

177 Q 1328

178 Q 1445

179 European Union Savings Directive (Countering cross-border tax evasion by individuals), HM Revenue and Customs, www.hmrc.gov.uk

180 Isle of Man Government, *Isle of Man: Guide To The European Savings Tax Directive*; Commerce and Employment, a States of Guernsey Government Department, *Guidance on the application of the agreements entered into between Guernsey and each EU Member State in support of the EU directive on the taxation of savings income*

181 Commerce and Employment, a States of Guernsey Government Department, *Guidance on the application of the agreements entered into between Guernsey and each EU Member State in support of the EU directive on the taxation of savings income*, para 24

Jurisdiction	Period (as at January 2009)	Amount of withholding tax			
		£	€	\$	Swiss Frs
Guernsey	UK tax year 2005-06	2,330,160	27,547	184,145	18,646
	UK tax year 2006-07	7,164,129	880,057	463,166	53,364
	UK tax year 2007-08	7,471,670	800,818	289,958	59,220
Isle of Man	UK tax year 2005-06	6,393,424	—	—	—
	UK tax year 2006-07	9,765,119	—	—	—
	UK tax year 2007-08	10,699,869	—	—	—

Data source: HC Deb, 12 February 2009, cols 2146-2148W

96. It should also be noted that “HM Treasury considers the standard of the money laundering systems in the Crown Dependencies and Gibraltar to be equivalent to European Union standards, as embodied in the Third Money Laundering Directive”.¹⁸²

97. **Whatever the potential limitations of Government support for these individuals, we think it is important to note that the majority of those affected are not sophisticated, investors of high net worth who are somehow insulated from the losses they have incurred.**

98. **While the Isle of Man and Guernsey obviously have different systems of tax to that in the UK, the EU Savings Directive ensures some tax in respect of UK residents banking offshore is recouped by HMRC, via the retention tax operating on the islands. If the Chancellor feels that there has been an element of tax evasion, then HMRC should investigate and prosecute those involved. Furthermore, whilst the Chancellor appears to deprecate the use of offshore banks by British citizens, we note that the FCO carries advice on its website for those retiring abroad that “you may want to ... consider the benefits of offshore banking before you retire abroad. An offshore bank account can play an important role in helping to minimise your tax liabilities”.**¹⁸³

Expatriates

99. Some of those depositors involved in the failure of KSF(IOM) and Landsbanki Guernsey complained to us that, as expatriate British citizens, they had limited access to the UK financial system. The Landsbanki Guernsey Depositors’ Action Group highlighted research undertaken in November 2008 that showed that out of 58 firms, only two small building societies would accept expatriate account holders, and that “Without exception, the reason given for refusal was the Anti-Money Laundering ‘Know Your Customer’ guidelines which, although expatriates are not barred by law from opening or maintaining an existing UK account, have effectively prohibited them from doing so in practice”.¹⁸⁴ Mr

182 HC Deb, 26 March 2009, col 630W

183 Ev 572

184 Ev 139

Dickens expressed the belief that “if you have a British passport—and, of course, that includes the people in Jersey and Guernsey and the Isle of Man—you should have the right to open a bank account in the United Kingdom because the only thing that is stopping one from having an account in the UK is an address”.¹⁸⁵ Given the lack of choice in the UK market, British expatriates had instead deposited their sterling reserves in bank accounts in either the Isle of Man or Guernsey.

100. Mr Ian Pearson MP, Economic Secretary to the Treasury, stated on 6 November 2008 that:

There is no legal bar under UK financial services regulation that would prevent a non-UK resident from opening a new bank account here. When an account is opened remotely, more onerous anti-money laundering checks are, quite properly, required because of the increased risks involved. This might well be a factor in the willingness of some UK banks to offer new accounts to non-residents. However, this would not be a burden for customers who move offshore but wish to retain existing accounts.¹⁸⁶

In its response, the FSA reiterated that neither the Treasury’s Money Laundering regulations, nor the FSA’s handbook, prohibited expatriates opening accounts in the United Kingdom:

The Treasury’s Money Laundering Regulations require firms to know their customer. ... Guidance sets out how firms should identify their customer and which aspects of their identity they should verify. There is a section in the Guidance on customers who are non-resident, not physically present in the UK, wishing to open a bank account. This section explains what firms should consider when dealing with such applications: for example, it states that a firm should apply enhanced due diligence where the customer is not met personally or where other high risk factors come into play. It does not, as noted above, suggest that firms should refrain from entering into a business relationship with a UK citizen not residing in the UK.¹⁸⁷

101. We accept that there is no specific regulation or law preventing the provision of bank accounts to expatriate British citizens, but in practice the supply appears to have been extremely limited. As such, many expatriates have been forced to deposit their money offshore, outside the protection of the Financial Services Authority, and the Financial Services Compensation Scheme, as a direct result of the way in which Financial Services Authority regulations were interpreted in the UK. We therefore recommend that the Financial Services Authority liaise with both the Building Societies Association and the British Bankers’ Association, to identify why provision is so poor, and report back to us on steps to be taken to ensure better provision in the future, whether by new products, or greater access to existing products.

185 Q 1362

186 HC Deb, 6 November 2008, col 470

187 Ev 572

The Isle of Man subsidiary of the Derbyshire Building Society

102. A very specific complaint was raised with us by depositors holding funds in the Isle of Man subsidiary of the Derbyshire Building Society, which had then been taken over by Kaupthing's Isle of Man subsidiary in 2008. These individuals had passed from having a parental guarantee from a British Building Society, to one from an Icelandic bank. Mr Siczko suggested that the information provided to the Derbyshire's customers was not completely transparent:

There is a four-page document that was put out just describing that they were being taken over. There was no mention of a change of risk profile and no mention of a change of ownership and structure. It starts off by saying that Kaupthing Bank is a Northern European bank. It does not even go as far as saying it is an Icelandic bank. It does go on to say it has got offshoots in other areas of Europe, including the Nordic countries. It is very non-specific.¹⁸⁸

103. The regulators, both in the Isle of Man, and in the UK, seemed relatively unconcerned about the takeover. Mr Aspden told us that, while not a regulatory requirement, the provision of the parental guarantee from Kaupthing Bank hf in Reykjavik in respect of the entire entity of KSF (IOM), not just Derbyshire had “offered an important overlay of comfort”.¹⁸⁹ Mr Sants first reiterated that the transfers were not a matter for the FSA, pointing out that “A transfer of ownership to a company in the Isle of Man which is owned by an Icelandic company is obviously a matter for those regulators to approve those transfers”.¹⁹⁰ However, he acknowledged that those with term deposits did not have the chance to opt out of the transfer should they have had concerns with the deal.¹⁹¹

104. In 2008, Kaupthing Singer and Friedlander (Isle of Man) took over the Isle of Man subsidiary of the Derbyshire Building Society. While those with non-term deposits could have moved their funds if not satisfied with the new parental guarantee offered by the Icelandic parent bank (rather than their old one from a UK building society), those with long-term bonds had no chance to remove their funds without penalty. Where a parental guarantee is given, the home regulator of the parent company should be aware of that guarantee, and when it is to be transferred, should work with all the host regulators to ensure that all depositors have a chance to switch their deposits if they are not satisfied with the new deal.

The overall case for assistance

105. We have received thousands of letters and emails from individuals and families who are suffering as a result of the collapse of Kaupthing Singer and Friedlander (Isle of Man) and Landsbanki Guernsey. **We acknowledge the severe distress shared by many individuals as a result of this banking failure.**

188 Q 1353

189 Q 1469

190 Q 2305

191 *Ibid.*

106. A difficult judgment though has to be made in assessing the overall case for assistance. Those involved in the failure of the offshore subsidiaries of the Icelandic banks have suffered losses to date, and many of those affected are British citizens. On the other hand, we acknowledge the clear validity of the overarching principle that the UK Government cannot cover deposits held in institutions outside its direct regulatory control. However, we believe that the UK authorities should work with the Isle of Man and Guernsey authorities to resolve these issues, especially given the complexities arising from the take over of the Derbyshire building society.

107. We further recommend that the UK authorities should seek to work closely with other interested parties such as the Financial Services Commission of the Isle of Man to maximise the transparency of the administration of KSF(UK) in order to facilitate the best outcome for all depositors including those with funds in KSF(IOM).

Lessons learnt

Advice to UK citizens investing offshore

108. During our inquiry, we also discussed the advice given to consumers about depositing offshore by Independent Financial Advisors (IFAs), as some of those who deposited their savings in the Crown dependencies did so after receiving advice from an IFA. Ms Davidson, Deputy Chair, Association of Independent Financial Advisers, noted that IFAs would not necessarily know what cash holdings a client may have:

In terms of their cash, some clients will seek advice from independent financial advisers but some will also manage their own cash. So it is not the case that every client of an independent financial adviser seeks advice on bank deposits because they are very fluid and rates are readily available in the press and also online. It is a bit of a mix. You should not make the assumption that all IFA clients seek advice on deposits.¹⁹²

Mr Cummings, Director General, Association of Independent Financial Advisers (AIFA), explained that for clients who wanted “very low risk”, offshore investment was not appropriate.¹⁹³ However, for those clients prepared for more risk, he explained that “One of [the reasons to go offshore] is in a straightforward bank account those institutions were paying slightly higher rates of interest than could be got onshore”.¹⁹⁴ He also stated that investing offshore could assist “tax management issues”.¹⁹⁵ Mr Cummings outlined what a good financial advisor should have explained to their client before they deposited money offshore:

192 Q 1340

193 Q 1336

194 *Ibid.*

195 *Ibid.*

We were absolutely aware of the notion of risk and we would have explained that to clients. We would have explained the protection that they get. We would also have explained the fact that if the client is unhappy with their independent financial advice, they are covered by the UK-based Financial Ombudsman Service, so they could have complained to the Ombudsman if they had not felt the advice was suitable. We would also have talked to them about the credit reference agency and the double or triple-A rating of the institutions.¹⁹⁶

He went on to say that AIFA was ensuring that the lessons had been learnt from the present crisis, explaining that “Certainly we have issued notes to members, we have addressed these issues in our newsletters and communications with members to make sure that we are reinforcing the good practice that we see already exists”.¹⁹⁷ **Bearing in mind the heavy coverage in the financial press of Iceland’s fragility we would have expected offshore savers using independent financial advisers to have been advised of the changing risk profile of their savings. We hope to explore further the role of advice to customers in our forthcoming inquiry into consumers and the banking crisis.**

109. **We draw attention to the information available to consumers on the FSA’s ‘money made clear’ website which details what compensation a consumer is entitled to if a UK financial services firm is unable, or likely to be unable, to pay claims against it. We recommend that the FSA publishes on this website a list of all bank and building society accounts available in the UK and regulated in part by the FSA which would be covered by the Financial Services Compensation Scheme.**

The wider issue of cross-border regulation and ‘passporting’

110. As we have seen with the case of Landsbanki and Icesave, the FSA has a limited ability to regulate those firms that ‘passport’ into the UK financial system, as branches of EEA banks are regulated by their ‘home’ supervisor, which in the case of the Icelandic banks was the FME. As a result, UK savers may have thought that their savings were in an institution regulated by the FSA, and fully protected by FSCS. The consumer group Which? expressed concern at this, and made the following request:

Host state regulators have little to no influence over the regulation of passporting firms. If home state regulators are not doing their job properly consumers are put at risk. We would like to see a change in EU legislation which shifts the responsibility for regulation of passporting firms from home to host state regulator and which also requires passporting firms to seek full membership of the host state depositor guarantee scheme. Consumers should not again be put into a position where a EEA-member state ignores its legal responsibilities to foreign depositors. We also believe that consumers should not be forced to claim from different compensation schemes but should be able to access their home state compensation scheme for all payouts.¹⁹⁸

196 Q 1342

197 Q 1343

198 Ev 238

Which? also believed that “collaboration between national regulators needs to be strengthened”.¹⁹⁹ A similar point was made by the Financial Services Consumer Panel, who agreed that passporting arrangements made unrealistic assumptions about the nature of regulatory practice in Member States and “encouraged regulatory arbitrage”. They noted the absence of a “consistent EU-wide infrastructure for the protection of consumers through access to ADR services and minimum levels of compensation.”²⁰⁰ In their view, the balance had turned too much in favour of companies rather than consumers, with EU initiatives concentrating on “a desire to make cross-border trade easier for firms with insufficient regard to the ‘demand’ side of the equation”.²⁰¹ The Building Societies Association was also keen to raise its objections to the passporting arrangements as currently operated in the EU:

The experience of the last three to four months has also placed a big question mark against ‘passporting’ by EEA banks into the UK—the activities and collapse of the Icelandic banks in particular left UK depositors troubled and panicky, and both the UK taxpayer, and all UK building societies and banks, severely out of pocket in paying for the depositor bailout. Wholesale depositors such as local authorities and charities, and some societies, have lost money. The whole episode has undermined financial stability.²⁰²

111. The FSA is already considering this issue. In its written evidence to us, it suggested that “Recent events, including the crisis in Icelandic retail bank branches, demonstrate that the EU single market rules need to be reconsidered”.²⁰³ They suggested two possible reforms. One was to restrict passporting, such as by enabling “Member States to require firms to undertake their retail operations in fully capitalised subsidiaries”.²⁰⁴ The other route was to encourage greater pan-European cooperation.²⁰⁵ Lord Turner was adamant there was a need for change:

We have tried to run a European single market in retail banking services as if retail banking is the same as retail or manufacturing, and that you can run a European single market without some category of European supervision of supervision or co-ordination of supervision which goes beyond what we do for retailers and manufacturers, but I do not think we can. I do not think we can run a European single market in retail banking without significant changes in the regime.²⁰⁶

112. Our Banking Crisis inquiry, and specifically the problem of the failure of the Icelandic banks, has raised issues surrounding the cross-border regulation of financial

199 Ev 238

200 Ev 267

201 *Ibid.*

202 Ev 275

203 Ev 459

204 *Ibid.*

205 Ev 459

206 Q 2309

institutions. Considerable taxpayer support has been required to provide rapid compensation to onshore UK depositors in Icelandic banks that ‘passport’ into the UK. This area of European law requires further consideration, and we will return to this topic in our future inquiry onto the banking crisis within its international context, with specific reference to the regulation of subsidiaries and branches of cross-border financial institutions.

Conclusions and recommendations

A crisis in Iceland

1. We think it laudable that Mr Shearer brought to the attention of the Financial Services Authority his concerns around the takeover of Singer and Friedlander by Kaupthing. While the Financial Services Authority appears to have investigated these concerns, this episode shows the paramount need for the Financial Services Authority to be open to those that may wish to contact it to register their disquiet over problems they encounter in financial markets. We also note with great concern the impotence of the FSA to tackle directly the concerns brought to its attention as a consequence of its lack of any jurisdiction, which we discuss below. (Paragraph 28)

What happened in October 2008?

2. During the collapse of the Landsbanki bank in October 2008, the Chancellor of the Exchequer took steps to safeguard the deposits of UK investors. We note that his comments regarding the intentions of the Icelandic Authorities had a serious impact on the confidence held in the remaining solvent Icelandic bank, Kaupthing and it has been suggested that this may have contributed to its collapse. We note that the published transcript of the Chancellor's conversation with the Icelandic Finance Minister does not confirm that the Icelandic government had stated that it would not honour its obligations but we have seen no evidence to contradict the Chancellor's view that UK depositors and creditors were unlikely to be protected to the same extent as Icelandic ones. We also have seen no evidence that Kaupthing would have survived if the Chancellor had not expressed his views. (Paragraph 49)
3. Although the Icelandic banking system was vulnerable to the crisis that has affected the international financial system since 2007, the actions of the UK Government in making statements on the capacity and willingness of the Icelandic Government to provide assistance to non-Icelandic citizens, whether or not such statements were accurate, turned the UK Government from being a seemingly passive observer of events, to an active participant in the market. Given the volatility of the situation, and the vulnerability of Icelandic banks at the time, it appears that the Icelandic Authorities found the UK Government's approach ultimately unhelpful. (Paragraph 50)
4. The use of the Anti-Terrorism, Crime and Security Act 2001 had considerable implications for the Icelandic authorities in maintaining a functioning financial system. We call on the Treasury to consider how appropriate the use of this legislation would be in any similar circumstances in the future. The use of this Act inevitably stigmatises those subject to it and a less blunt instrument would be more appropriate. We are concerned that no appropriate legislation is available and call on the Treasury to address this matter. (Paragraph 51)

Charities and Local Authorities

5. We acknowledge that some local authorities will feel hard done by as a consequence of the limitations of Government support for them. Local authorities are required to take their own decisions on the level of prudent, affordable capital investment. They have a duty to the taxpayer diligently to protect the money they are investing on their behalf. Some authorities have shown themselves to be better than others in this regard. Under these circumstances it would seem perverse to reward those authorities who failed to protect their investment with yet more money from the taxpayer. (Paragraph 72)
6. We recommend that the Government consider the case for providing charities with further statutory guidance relating to the management of a charity's finances and investments. We further recommend that the Government take steps to clarify what protection is available to charities under the Financial Services Compensation Scheme. (Paragraph 78)
7. We recognise that the important work undertaken by the charitable sector often provides the most vulnerable elements of society with invaluable support. At a time when more people than ever may be faced with difficult circumstances, we believe that it is imperative that charities have access to the funds that were provided to them by the public. We are concerned that one of the tests a charity must pass to be protected under the FSCS definition of a retail depositor is inappropriate for those charities using fixed assets in the course of their work. We recommend that, on this occasion only, all charities should be compensated for losses incurred as a consequence of the failure of the Icelandic banks. Furthermore, to avoid such problems arising in the future, we recommend that the FSCS re-examine the criteria for the classification of charities as retail or wholesale depositors in the light of this recommendation. (Paragraph 83)

Protecting British citizens

8. We agree that the overarching principle should be that the UK Government cannot provide cover for deposits held by British citizens in jurisdictions outside the direct control of the United Kingdom. (Paragraph 88)
9. The failure of Kaupthing Singer and Friedlander (UK), given the deposits held by it on behalf of Kaupthing Singer and Friedlander (IOM), was extremely detrimental to the ability of Kaupthing Singer and Friedlander (IOM) to maintain its operations. However, we can find no evidence that the FSA pressured the Isle of Man authorities to authorise or encourage the placement of such a significant deposit with Kaupthing Singer and Friedlander (UK). (Paragraph 91)
10. It is of critical important that regulators in different jurisdictions can communicate effectively at times of financial crisis. We note with concern the suggestion that the paucity of information provided by the Financial Services Authority may have impeded the ability of the regulators in the Crown dependencies to safeguard their own financial systems. This is a particular concern given the close working relationship that appears to have existed between the Financial Services Authority

and the Financial Services Commission of the Isle of Man in relation to previous situations such as that surrounding the failure of Bradford & Bingley just days earlier. We recommend that the Financial Services Authority review its existing powers and strategy for dealing with other jurisdictions, and reports on its efforts in this respect. (Paragraph 93)

11. Whatever the potential limitations of Government support for these individuals, we think it is important to note that the majority of those affected are not sophisticated, investors of high net worth who are somehow insulated from the losses they have incurred. (Paragraph 97)
12. While the Isle of Man and Guernsey obviously have different systems of tax to that in the UK, the EU savings directive ensures some tax in respect of UK residents banking offshore is recouped by HMRC, via the retention tax operating on the islands. If the Chancellor feels that there has been an element of tax evasion, then HMRC should investigate and prosecute those involved. Furthermore, whilst the Chancellor appears to deprecate the use of offshore banks by British citizens, we note that the FCO carries advice on its website for those retiring abroad that “you may want to....consider the benefits of offshore banking before you retire abroad. An offshore bank account can play an important role in helping to minimise your tax liabilities”. (Paragraph 98)
13. We accept that there is no specific regulation or law preventing the provision of bank accounts to expatriate British citizens, but in practice the supply appears to have been extremely limited. As such, many expatriates have been forced to deposit their money offshore, outside the protection of the Financial Services Authority, and the Financial Services Compensation Scheme, as a direct result of the way in which Financial Services Authority regulations were interpreted in the UK. We therefore recommend that the Financial Services Authority liaise with both the Building Societies Association and the British Bankers’ Association, to identify why provision is so poor, and report back to us on steps to be taken to ensure better provision in the future, whether by new products, or greater access to existing products. (Paragraph 101)
14. In 2008, Kaupthing Singer and Friedlander (Isle of Man) took over the Isle of Man subsidiary of the Derbyshire Building Society. While those with non-term deposits could have moved their funds if not satisfied with the new parental guarantee offered by the Icelandic parent bank (rather than their old one from a UK building society), those with long-term bonds had no chance to remove their funds without penalty. Where a parental guarantee is given, the home regulator of the parent company should be aware of that guarantee, and when it is to be transferred, should work with all the host regulators to ensure that all depositors have a chance to switch their deposits if they are not satisfied with the new deal. (Paragraph 104)
15. We acknowledge the severe distress shared by many individuals as a result of this banking failure. (Paragraph 105)
16. A difficult judgment though has to be made in assessing the overall case for assistance. Those involved in the failure of the offshore subsidiaries of the Icelandic

banks have suffered losses to date, and many of those affected are British citizens. On the other hand, we acknowledge the clear validity of the overarching principle that the UK Government cannot cover deposits held in institutions outside its direct regulatory control. However, we believe that the UK authorities should work with the Isle of Man and Guernsey authorities to resolve these issues, especially given the complexities arising from the take over of the Derbyshire building society. (Paragraph 106)

17. We further recommend that the UK authorities should seek to work closely with other interested parties such as the Financial Services Commission of the Isle of Man to maximise the transparency of the administration of KSF(UK) in order to facilitate the best outcome for all depositors including those with funds in KSF(IOM) (Paragraph 107)
18. Bearing in mind the heavy coverage in the financial press of Iceland's fragility we would have expected offshore savers using independent financial advisers to have been advised of the changing risk profile of their savings. We hope to explore further the role of advice to customers in our forthcoming inquiry into consumers and the banking crisis. (Paragraph 108)
19. We draw attention to the information available to consumers on the FSA's 'money made clear' website which details what compensation a consumer is entitled to if a UK financial services firm is unable, or likely to be unable, to pay claims against it. We recommend that the FSA publishes on this website a list of all bank and building society accounts available in the UK and regulated in part by the FSA which would be covered by the Financial Services Compensation Scheme. (Paragraph 109)
20. Our Banking Crisis inquiry, and specifically the problem of the failure of the Icelandic banks, has raised issues surrounding the cross-border regulation of financial institutions. Considerable taxpayer support has been required to provide rapid compensation to onshore UK depositors in Icelandic banks that 'passported' into the UK. This area of European law requires further consideration, and we will return to this topic in our future inquiry onto the banking crisis within its international context, with specific reference to the regulation of subsidiaries and branches of cross-border financial institutions. (Paragraph 112)

Formal minutes

Tuesday 31 March 2009

Members present:

John McFall, in the Chair

Nick Ainger

Mr Graham Brady

Mr Colin Breed

Mr Michael Fallon

Ms Sally Keeble

John Mann

Mr George Mudie

John Thurso

Mr Mark Todd

Sir Peter Viggers

Banking Crisis: The impact of the failure of the Icelandic banks

Draft Report (*Banking Crisis: The impact of the failure of the Icelandic banks*), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 112 read and agreed to.

Summary agreed to.

Resolved, That the Report, be the Fifth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 21 April at 9.30 am.]

Reports from the Treasury Committee during the current Parliament

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Fourth Report	Appointment of Paul Tucker as Deputy Governor of the Bank of England for Financial Stability	HC 34

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Fifth Report	The run on the Rock	HC 56
Sixth Report	Financial Stability and Transparency	HC 371
Seventh Report	Administration and expenditure of the Chancellor's departments, 2006–07	HC 57
Eighth Report	Re-appointment of Dr Andrew Sentance to the Monetary Policy Committee	HC 454
Ninth Report	The 2008 Budget	HC 430
Tenth Report	Re-appointment of Mervyn King as the Governor of the Bank of England	HC 524
Eleventh Report	Counting the population	HC 183

Twelfth Report	Inherited Estates	HC 496
Thirteenth Report	Budget Measures and Low Income Households	HC 326
Fourteenth Report	Appointment of Lord Turner of Ecchinswell as Chairman of the Financial Services Authority	HC 916
Fifteenth Report	Appointment of Charlie Bean as Deputy Governor of the Bank of England	HC 917
Sixteenth Report	Appointment of Spencer Dale to the Monetary Policy Committee of the Bank of England	HC 1009
Seventeenth Report	Banking Reform	HC 1008

Session 2006–07

First Report	Financial inclusion: the roles of the Government and the FSA, and financial capability	HC 53
Second Report	The 2006 Pre-Budget Report	HC 115
Third Report	Work of the Committee in 2005–06	HC 191
Fourth Report	Are you covered? Travel insurance and its regulation	HC 50
Fifth Report	The 2007 Budget	HC 389
Sixth Report	The 2007 Comprehensive Spending Review: prospects and processes	HC 279
Seventh Report	The Monetary Policy of the Bank of England: re-appointment hearing for Ms Kate Barker and Mr Charlie Bean	HC 569
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Ninth Report	Appointment of the Chair of the Statistics Board	HC 934
Tenth Report	Private equity	HC 567
Eleventh Report	Unclaimed assets within the financial system	HC 533
Twelfth Report	The Monetary Policy Committee of the Bank of England: ten years on	HC 299
Thirteenth Report	Financial inclusion follow-up: saving for all and shorter term saving products	HC 504

Fourteenth Report	Globalisation: prospects and policy responses	HC 90
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Session 2005–06

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Second Report	The 2005 Pre-Budget Report	HC 739
Third Report	The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve	HC 861
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Sixth Report	The administration of tax credits	HC 811
Seventh Report	European financial services regulation	HC 778
Eighth Report	Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower	HC 1121
Ninth Report	Globalisation: the role of the IMF	HC 875
Tenth Report	Independence for statistics	HC 1111
Eleventh Report	The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentance	HC 1595
Twelfth Report	Financial inclusion: credit, savings, advice and insurance	HC 848
Thirteenth Report	“Banking the unbanked”: banking services, the Post Office Card Account, and financial inclusion	HC 1717
