



Kaupthing Singer & Friedlander Isle of Man  
**KSFIOM Depositors Action Group**

Hon Anne Craine MHK  
Treasury Minister  
Government Office  
Buckingham Road  
Douglas  
IM1 3PZ

7 April 2011

Dear Ms Craine

I am writing to you with regard to the creation of a UK and Isle of Man Government Sponsored Loan Trust, a proposal designed to address the predicament of the thousands of higher-value depositors of Kaupthing Singer & Friedlander (Isle of Man) Limited (KSFIOM) who, having suffered major financial distress caused by the failure of the bank in 2008 and the regulatory failures in the Isle of Man and United Kingdom, have yet to receive a significant part of their savings from the liquidation.

Our proposal offers a simple mechanism whereby these depositors, many of whom put substantial sums of pension money in KSFIOM and can ill afford to wait until 2017 to see the return of the major part of their savings, could immediately recover the full balance of their funds. It would enhance both the reputation of the Isle of Man as an offshore financial centre and the two respective governments at minimal cost (estimated, on current projections, to be around £20m over the term of the insolvency).

Many of these depositors are non-resident UK expatriates, whose deposits represented the bulk of their pension provision, having retired or worked overseas, and who had been unable to hold or open sterling bank accounts in the UK as a result of the anti-money laundering policies of UK banks.

Approximately half of KSFIOM's customers were long-standing customers of the Manx subsidiary of the Derbyshire Building Society, a UK financial institution which had directed non-resident UK citizens to their Isle of Man subsidiary to place their savings. The Manx subsidiary was acquired by Kaupthing hf of Iceland in late 2007 during its aggressive acquisition programme of UK assets.

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In October 2008, the Financial Services Authority and HM Treasury (the MT) effected the sale of most of the assets of Kaupthing Singer & Friedlander (UK) Limited (the SFUK) to ING Direct, to protect the retail customers of SFUK against perceived issues surrounding the Icelandic banking sector, in particular Kaupthing group.

A side effect of this transfer was that it rendered KSFIO, the Isle of Man sister company of SFUK, insolvent. A significant part of KSFIO's assets had been placed with SFUK, leaving it unviable in the absence of liquidity from SFUK or their parent company, Kaupthing hf in Iceland. Apparently there was no consultation between the UK authorities and their Manx equivalent at the time of this action by the UK authorities.

KSFIO was placed into provisional liquidation, where it remained for nearly a year until the liquidation process started in May 2009. Customers were provided with minimal information during that time about the status of their funds, many of which represented a lifetime's savings and pension provision.

Promotional literature on the Kaupthing operation on the Isle of Man referred to the parent bank as a Northern European bank, benefiting from a guarantee from its parent bank and with excellent credit ratings. Had the guarantee not been in place, the Derbyshire sale and purchase could not have occurred, since the Derbyshire itself had provided a binding guarantee to its Isle of Man subsidiary. The Kaupthing guarantee was promoted as having been lodged with the Manx regulator.

Despite being widely marketed in the UK, the Isle of Man and elsewhere, that guarantee has now been held by the Icelandic court of first instance to be invalid and in any event will not pay out in full due to the poor liquidation prospects for Kaupthing hf. Whilst that decision is subject to an appeal to the Icelandic Supreme Court, retail creditors of KSFIO appeal to the responsible authorities in the Isle of Man and the UK to work together to end the suffering of these British customers by facilitating the full return of their savings without delay.

Neither the Financial Supervision Commission (on the Isle of Man) nor the Financial Services Authority (in the UK) is willing to accept responsibility for what has happened to the customers of KSFIO. As the victims of serial regulatory failures in both the UK and the Isle of Man, they remain the only individual savers left to bear the cost of these actions and failures by the very authorities that exist to protect them. The relevant authorities in all other jurisdictions have ensured a 100% return to Kaupthing's retail customers.

The UK Treasury Select Committee's Report into the Banking Crisis recommended that the UK and Manx authorities work together to find a solution to resolve the position that the depositors of KSFION find themselves in<sup>1</sup>. So far, nothing has been done to achieve this.

The attached document lays out the structure of a proposed Government Sponsored Loan Trust, showing how it could provide KSFION's customers immediate access to the balance of their funds, with minimum exposure to the Isle of Man and UK Governments underwriting the scheme until those funds have been fully recouped by the liquidator, forecast to be by 2017.

Our proposed Government Sponsored Loan Trust delivers a simple, minimal cost and efficient solution to addressing this issue, without exposing either Treasury to onerous financial commitments. Over two years on from the bank's insolvency, returns from the liquidation of KSFION are expected to reach 73% in the near future, with a final out-turn of 91-98%, disregarding claims in connection with the on-going litigation surrounding the parental guarantee, and are predicted to be paid over seven years since the commencement of liquidation. This document has been developed with lawyers to ensure its deliverability and viability.

A member of our advisory team will be contacting you to discuss this proposal further. However, we trust that it will be given full and due consideration by both governments and that we can move forward on this initiative with minimal delay.

Yours sincerely,



**Richard Carter**

**For and on behalf of Kaupthing Singer and Friedlander (Isle of Man) Depositors' Action Group**

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<sup>1</sup> The House of Commons Treasury Report into the Banking Crisis . Conclusions and Recommendations . specifically no 16 ò .. *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.*

Copies to:

Mark Shimmin, Chief Executive

Clive McGreal, Financial Controller