

## Press Release

For immediate release

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## Northern Rock Compensation Campaign – Government Rebuffs Claim So Legal Action Will Proceed

On the 19<sup>th</sup> March solicitors acting for various plaintiffs put forward by the UK Shareholders Association (UKSA) wrote to the Treasury outlining the basis of our complaint about the terms of the Compensation Order on Northern Rock. The Compensation Order sets the terms of reference for the compensation payable to former shareholders in the company following nationalisation.

Similar letters were submitted by SRM Global and RAB Capital, the two largest institutional shareholders. All the letters indicated that the writers considered the terms of the Compensation Order to be contrary to established law and that fair compensation should be payable when assets are confiscated by Governments.

A response has now been received from the Government's solicitors rejecting the complaint and therefore our solicitors will be proceeding with an application for a Judicial Review of this matter.

### Why the Compensation Terms are Unfair and Inequitable

In our view the Government has deliberately rigged the terms laid down in the Compensation Order to ensure that they pay little or nothing in compensation. They have set the terms of reference for the independent valuation by specifying that the following assumptions (amongst others) should apply:

- a) that the company is unable to continue as a going concern; and
- b) that the company is in administration.

These "assumptions" clearly did not apply when the nationalisation took place. The company was not in administration, and was trading normally and as a going concern.

### The Government's Case

The Government's case is that as the company was reliant on Government support (funding from the Bank of England), that the company should be valued on the basis that such support was withdrawn. They claim that "*A state is not obliged to take account of any value attributable to financial assistance provided by the public sector.... in assessing the appropriate compensation payable....*"

Let us consider an analogy to see if this makes any sense. Let us take any large public company most of which are dependent on bank debt in some form to finance their operations. Would it be reasonable to consider when valuing such companies that the fact that they were reliant on such debt means that when valuing them it should be on the basis that such debt is instantly withdrawn? That would clearly be nonsense and is obviously not how the market values such companies.

Or take another more specific example. Say a public company got into cash flow difficulties and had to obtain funding via bank debt to tide them over for a limited period. If a third party then made an offer for the company based on that debt remaining in place, would it be right for the bank supplying that debt to claim almost all the value of the offer that would otherwise be paid to the ordinary shareholders? It would clearly be seen as outrageous if they did so, and particularly so if the debt had been provided on normal commercial terms with no preconditions that affected ordinary shareholders.

But that is exactly what the Government has done. In addition, many of the problems faced by Northern Rock were compounded by the actions and inactions of the Government and it is totally inequitable for them to benefit as a result. As it is they intend to acquire a very substantial asset at well below fair value and they may be able to sell it off in a couple of years time at enormous profit - this is eminently clear from Mr Sandler's recently announced business plan for the company.

### **UKSA Will Continue to Pursue This Case**

Former shareholders in Northern Rock can be assured that the UK Shareholders Association will continue to pursue the case for fair compensation, and they are urged to contact UKSA by phone (0870-70-60-600) or email ([uksa@uksa.org.uk](mailto:uksa@uksa.org.uk)) to register their interest and to support our legal action fund.

### **For further information, please contact:**

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More information on the history of events at Northern Rock and our comments on them is available on this page of our web site: [www.uksa.org.uk/NorthernRock.htm](http://www.uksa.org.uk/NorthernRock.htm)

**If you include a report on this event in your publication please give our phone number and email address so that shareholders can contact us for more information: 0870-70-60-600 and [uksa@uksa.org.uk](mailto:uksa@uksa.org.uk)**

### **About the UK Shareholders Association (UKSA)**

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is a "not for profit" organisation which is financially supported primarily by its individual members.