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COMMENT & ANALYSIS

Letters

RBS needs debate, not clubby decision-making

Sir, You rightly point out in your editorial “Corporate bonds; UK companies must renew their links with investors” (Friday January 30) that major institutional investors did indeed take steps to make their views about the need for management change at Royal Bank of Scotland known to the board: the problem is that the board ignored those views. But, worthy as they are, your proposed solutions to resolving this problem – “sounding out” major institutional investors on candidates for the board, better training of board members and a beefed-up role for the

senior independent director in transmitting the views of big shareholders to the rest of the board – do not get to the heart of the issue.

It is difficult to believe that had institutional shareholders been sounded out about RBS board members that they would have blackballed many (or indeed any) of its members. It is difficult to believe that these board members were unaware that some major institutional investors wanted management change – this was widely known in the market. Equally, it was also widely known that one big institution did not want management change.

No matter why the board rejected the views of those who wanted change, it is difficult to see how training board members would have made much difference to the decision they took in the end.

What is needed is not more clubby decision-making between the board and major institutional investors (which in essence is what you are suggesting) but a more open debate between the board and all stakeholders, including bank depositors (who are the main creditors of banks), the government (which provides implicit and explicit guarantees that reduce the cost of debt) as well as small and

large shareholders who provide regulatory capital.

Regulators cannot be expected to micro-manage the banks but they can insist that boards give answers to stakeholders who raise legitimate concerns and insist, in the interests of good regulation, that these answers be given in public. Would the board of RBS have been so resistant to changing management if it had had to explain its reasons in public?

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