



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

John Leech MP
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Your ref: RE/Mart036/220409

20 July 2009

Dear Mr Leech

Thank you for your letter of 22 April to Alistair Darling about Kaupthing Singer & Friedlander (Isle of Man) (KSF IoM). I am replying as Minister responsible for this policy area and I am sorry for the delay.

KSF IoM is not a subsidiary of KSF in the UK, but of an Icelandic company in the Kaupthing group. It was the responsibility of the Isle of Man's regulator to assess how the failure of the parent company in Iceland or the failure of any other company in the group would impact on the Isle of Man subsidiary and take the appropriate action. Ultimately this was a failure that started in Iceland and responsibility for banks in Iceland rests with the Icelandic authorities.

The Treasury is in regular contact with the Government of the Isle of Man. The action which should be taken in relation to KSF IoM in the future is a matter for the Isle of Man Authorities.

Having said that, we are aware that following the meetings of creditors on 19 May 2009, the Scheme of Arrangement proposed by the Company and the Treasury of the Isle of Man was not approved by creditors. At a hearing in the Isle of Man High Court on 27 May 2009, a winding up order was passed in respect of KSF IoM and KSF IoM has been placed into liquidation.

Arrangements for depositors in banks in the Isle of Man are a matter for the Government of the Isle of Man. As KSF IoM has been put into liquidation the Depositors Compensation Scheme (DCS) has been triggered. Deposits with KSF IoM may be eligible for the DCS. The Joint Provisional Liquidators have noted that they are working with the manager of the DCS to ensure that payments are made to creditors as soon as practically possible. Furthermore the IoM Government has stated that it will work to support the liquidation and DCS process with a view to expediting the repayment of depositors.

We are also aware that since the beginning of the year, the IoM Government introduced and funded Early Payment Schemes to provide advance payment of up to £10,000 for depositors. The IoM Authorities have noted that more than £60 million has already been paid out under these schemes, with a further £10 million about to be paid. Further information is available on the Isle of Man Government's website: www.gov.im/cso/faq_gfs.xml and on the KSF IoM website: www.kaupthingsingers.co.uk/Pages/4102.



Further information about the DCS, and eligibility for the scheme, is available on the Isle of Man Government's website at: www.gov.im/fsc/investor/dep_comp.xml

On 8 October the Financial Services Authority (FSA) determined that KSF UK no longer met its threshold conditions for the purposes of its authorisation to accept deposits, and was unlikely to be able to continue to meet its obligations to depositors. The FSA, in the exercise of its regulatory functions, concluded that KSF UK was in default for the purposes of the Financial Services Compensation Scheme. Following due legal process, KSF UK was put into administration. Ernst & Young LLP has been appointed as the Administrator for KSF UK. As part of the administration process, as is usual, a moratorium is in place on the enforcement by creditors of claims against KSF UK.

KSF IoM had deposits in the region of £532m with its sister company KSF UK at the time of KSF UK entering into administration. Under UK insolvency law, KSF IoM ranks like any other creditor in the administration - money that a customer has placed with a bank on deposit (including with a sister company) is a liability of the bank in which it has been placed. The customer only has a debt claim against the bank. If the bank chooses to place the money it has received on deposit from a customer with a second bank, the first bank is placing its own money with the second bank and the customers of the first bank do not have any direct legal claim to the deposit with the second bank. KSF IoM will have been fully aware of this. It could have chosen to put its money elsewhere and to have diversified the deposits it made rather than making a single large deposit, which concentrated the credit risk to which it was exposed. As it is, this sum is now subject to UK insolvency procedure and forms part of the administration estate of KSF UK.

The first UK creditors' meeting for KSF (UK) was held on 1 December 2008. At this meeting, representation for the Creditors' Committee was determined by the creditors. Although the KSF IoM Joint Provisional Liquidator is not a member of this Committee, the administrators of KSF UK are in ongoing, constructive and cooperative discussions with the Joint Provisional Liquidator for KSF IoM. They also publish information on the administration on the KSF website: www.kaupthingsingers.co.uk/Pages/4035. HM Treasury has been in regular contact with the Government of the Isle of Man.

The Government, the Bank of England and the FSA are continuing to work together to maintain the stability of the financial system in the UK. The Government remains committed to doing what is necessary to achieve this.

Thank you for taking the trouble to make me aware of these concerns.

Yours sincerely
Paul Myners

PAUL MYNERS