

GUERNSEY
FINANCIAL
SERVICES
COMMISSION

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I refer to your letter of 19 August 2010, copied to the Chief Minister, to which was attached Mr Dorman's report arguing for a 'fully independent' public inquiry into the 'placing into administration' of Landsbanki Guernsey Limited ('LG').

The Commission's oft repeated position in this matter needs no rehearsal in this letter. The Chief Minister's position is in the public domain, including recently a statement to the effect that, if the States were to approve a requete bespeaking a public inquiry, so be it. Whilst the Commission can play no part in such political processes, the Commission believes that any inquiry into its regulation of LG would confirm the findings of the Promontory Report. However, the Commission has to question the scope proposed by Mr Dorman, involving (as it does) the actions of governments, regulators and businesses elsewhere than in Guernsey, particularly Iceland and the United Kingdom, all of whom are without the reach of the jurisdiction of any inquiry which the States could establish, voluntary participation excepting.

Finally if it be imagined that the Commission was inactive during the Landsbanki saga, I remind you of what the Commission did during the period leading up to LG's administration, and suggest that, had the Commission done nothing, the position facing LG's depositors would have been greatly inferior. In the result, there can be no doubt but that the action taken by the Commission was, and will prove eventually to be beneficial to the interests of LG's depositors

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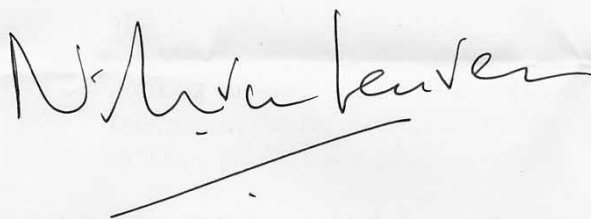
These can be summarised as follows.

- The Commission required LG to reduce substantially its direct exposure to Iceland.
- The Commission required LG to replace assets previously upstreamed to its parent in Iceland with third party bank placements, and placements with Heritable Bank in London.
- The Commission further required LG to acquire a portfolio of third party loans assets, which resulted in LG acquiring a credit portfolio of property loans.
- As a result of these actions, the Joint Administrators were able to recover and commence to liquidate assets successfully, and so to achieve an early partial repayment to depositors whose funds had been temporarily frozen as a result of the administration process.
- Following successful recoveries of assets, the Joint Administrators have made a series of stage payments, so that depositors have already had 67.5p in the pound returned to them. So as things stand, no LG depositor could claim to have lost all of his life savings.
- Looking forward, the outlook is encouraging, and if the recovery of assets goes as anticipated, the Joint Administrators have estimated their ability to recover up to 91p in the pound for LG's depositors.

It is my view that, in all the debate over States' support for depositors, and the exchange of words over the need for a public inquiry, these facts are being avoided or elided.

Lest it be thought that the Commission is indifferent to the plight of LG's depositors, I should say that I have carefully reread Mr Dorman's report, and its appendices, and nothing there has caused me to recommend that the Commission should move from the position which it has previously adopted.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nick Clegg', with a horizontal line underneath it.

cc Chief Minister