

**From:** iain.Richards@morleyfm.com  
**Sent:** 22 September 2008 16:14  
**To:** banking.reform  
**Subject:** Financial stability and depositor protection:  
Special Resolution Regime (SRR)  
F.A.O. The Banking Reform Team,

Firstly, our apologies for the late submission of this response. Following the exceptional events of last week we hope you will still accept and consider this response.

Morley Fund Management Ltd, a subsidiary of Aviva plc, is responsible for funds under management of £153.13 billion (as at 31 August 2008). As a leading institutional investor, we take a keen interest in the quality, regulation and frameworks surrounding the markets we invest in. In that regard, we have considered the proposed SRR arrangements with some concern and fully endorse the submission made by the Association of British Insurers in response to the consultation.

While it is not our intention to repeat many of the specific points raised in that submission, we do feel it is important to emphasise the real concerns that the current proposals create in terms of uncertainty and the potential impacts on the commitment and cost of capital. The proposed powers under the SRR are loosely cast, wide ranging and could have a significant detrimental impact on shareholders, creditors and counterparties. The complexity and potential implications that could arise in cases of partial transfers are a particularly acute.

The absence of clear safeguards, the experience of the approach used over the issue of shareholder compensation in the Northern Rock case and the resulting uncertainties as to whether or not how private law rights will be respected, create a real hazard for both investors and, potentially, the UK markets. Such uncertainty and the potential risks created may be expected to result in a high cost of capital for some firms, greater selectivity in the exposure we take and an accelerated flight from exposure to firms where concerns arise. In extremis, the resulting loss of shareholder, creditor and counterparty confidence may well exacerbate financial instability.

While we recognise the need to put effective arrangements in place to tackle failing financial institutions, we do not believe that the SRR proposals, as they stand, represent an effective or balanced model. We would urge you to undertake further work to refine the SRR proposals and to build a solid consensus of support from stakeholders before implementing any new arrangements.

Kind regards,  
Iain

**Iain Richards**  
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Please note that from 29 September 2008 my email address will change to: [iain.richards@avivainvestors.com](mailto:iain.richards@avivainvestors.com)

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