



With Andrew Heathcock,  
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## In and out of the Shadows

According to the papers the Government has set up a separate corporation to look after taxpayers' interests in the equity stakes that have been taken in our banks. I mentioned in this column a few weeks ago that the Government was following the venture capital model in providing the equity and it has been interesting to see, since then, how far they have wanted to try and influence the banks in terms of new lending, repossession policy and so on.

It is one thing to provide advice and to try and influence a company's actions (under English law) and quite another to provide instructions for the directors of a company to follow. If that line is crossed individuals who are providing the instructions can find themselves as shadow directors.

I am sure members of the Government have been made very aware of this additional layer of potential responsibility and that this is one of the reasons why they have stopped short (at least so far as public statements are concerned) in directing, for example, improvement in inter-bank lending - which is the most pressing priority in today's market. A cynic would say that, being politicians, they will - by definition - want to take the plaudits from any successes whilst, at the same time, distancing themselves from any failures - but the cautious approach has a legal angle to it as well as a political one.

The drawback in treading this fine line is plain for all to see; the banks will resist for as long as they possibly can in passing on interest rate reductions in order to rebuild their balance sheets and their margins at the expense of borrowers and savers alike. You can't blame them for doing that in order to put their business on a stable footing irrespective of the sins of failure of the past but I really cannot understand why there is such apparent lack of trust within the banking community to lend to each other at rates which reflect the reduced risk resulting from Government guarantees and injections of capital (here and abroad). Only when the LIBOR rate once again falls much closer to ordinary base rate will things have any chance of getting back to normal in terms of the availability of credit.

The Government must hope that its policy of 'influence' will be enough, failing which direction (shadowy or not) will need to take place.

# We mean business

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