

# Standard Life Investments

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Dear Mr Taylor

## Disposals by Lloyds Banking Group

We write in connection with the proposals contained in the interim report of the Independent Banking Commission (ICB) which were published in April 2011. These concerned an enhancement to the EU mandated sales of assets by the Lloyds Banking Group pursuant to their merger with HBOS. Standard Life Investments has over £157bn under management, the majority of which is invested in UK listed securities. It holds, on behalf of clients, just over 1% of the equity of Lloyds Banking Group and 1.9% once adjusted for the stake held by UK Financial Investments. It thus has a strong incentive, which we hope is shared by HMG, to ensure that Lloyds Banking Group has a successful role to play in the markets for financial services and that value is thereby created for all its stakeholders.

We very much doubt that the proposal contained in the ICB interim report will further this objective, and we share the concerns that were outlined to you by representatives of Fidelity International in the meeting that took place with you and your colleague Simon Girdlestone on 25<sup>th</sup> May 2011. In addition, we believe that the uncertainty created by these proposals has reduced the value of Lloyds Banking Group and will inevitably delay the sale of the stake by UK Financial Investments.

It is also unclear how the sale of assets beyond those mandated by the EU will increase competitive tension in the markets in which Lloyds Banking Group operates. It is neither self evident that there is a strong commercial appetite for those additional assets nor clear that such a disposal would bring value to an existing competitor or new entrant. If the aim is to increase competitive tension, an alternative approach would be to mandate an improvement in the transparency of bank charges and to minimise the cost of switching between account providers.

The clients of Standard Life Investments who had exposure to the equity of Lloyds Banking Group before the merger with HBOS have suffered a significant degradation of value. Lloyds Banking Group was encouraged by HMG to complete that transaction in the interest of maintaining financial stability in those markets in which each bank competed. The ICB proposals, if sustained, will therefore amount to a damaging post facto change to the arrangements that Lloyds Banking Group undertook in good faith at that time. They are also inconsistent with the stated desire of HMG that Lloyds delivers lending growth, as they will force it to divest assets as well as increasing residual capital ratios. In short, the ICB proposals make little sense to us.

In our January 2011 submission to the Secretary of State for Business, Innovation and Skills, we pointed out the significant scope for government to influence the attractiveness of equity as an investment class. It is important that government policy remains fair, transparent and consistent if

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an environment of long term investment in corporate Britain is to be encouraged. We very much doubt that the IBC proposals, as presently crafted, will further this objective.

Yours sincerely

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