ShareSoc
UK Individual Shareholders Society

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Press Release

RBS Public Offer to be a CFD?

We note the Prime Minister's keenness to privatise the Royal Bank of Scotland (RBS) and transfer the ownership of the Government's stake in the company to the general public (see Note 1 below). Media comment suggests the Treasury is considering a scheme which might be implemented next year whereby the public would be given shares. They would not pay for them but would only be able to sell them, and hence benefit, if the share price rose above a "base price". If they then sold them, they would pocket the difference between the base price and the then market price, with the Government retaining the base price. Presumably the base price would be set somewhere near what the Government originally paid on average for the shares, which is of course some way above the current market price (see Note 2).

This scheme would in reality be a "Contract for Difference", i.e. a CFD. Investors would only benefit if the price rose, but unlike a normal CFD this would be a one-way bet with no cost to the speculator. For the first time the general public will be introduced to the world of financial derivatives as this arrangement will probably not actually offer ownership of the underlying shares.

ShareSoc has the following comments on this idea:

1) As such an arrangement would probably be implemented via a corporate nominee account, which we generally oppose, we would like to see specific guarantees offered to ensure that such "shareholders" (i.e. beneficial owners) were given voting and other shareholder rights in the shares concerned. Without this feature, taxpayer shareholders will not be able hold RBS management to account by voting and attendance at AGMs.

2) That owners of the beneficial rights had the option of acquiring full title (i.e. ownership) by paying the base price at any time, at which point they would be transferred into their own name on the register of the company (and out of a nominee account).

3) That those RBS shareholders who held shares at the time the company was bailed out by the Government, or who subscribed for the rights issue in 2008, were given preferential treatment in the allocation of shares in recognition of their support of the company then, and subsequently, on which they have received no return in the form of dividends, and the massive dilution they suffered as a result of the Government bail-out.

ShareSoc Chairman Roger Lawson had this to say on the subject: "*It might be a good way to reduce the involvement of the Government in the company and might be seen as attractive to give taxpayers what they effectively paid for via their taxes, i.e. a stake in RBS. But from my experience, people who get given something for nothing do not necessarily appreciate the gift. The chance of it introducing a new culture of share ownership by individuals along the lines of Mrs Thatcher's privatisations is surely low, and that policy never really worked for that very reason. Education and involving individuals in the companies in which they own stakes is also needed. The complexities and size of this scheme also raises doubts about its merits. But it is worthy of more consideration and may be better than some other options*".

Notes

1) Mr David Cameron said in a speech in New York that "In terms of returning RBS to the private sector involving people in owning this bank in a genuine way, I'm open to all ideas and proposals"

2) RBS shares currently trade at about 300p when the average price the taxpayer (i.e. the Government) paid for them was about 500p.

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About the UK Individual Shareholders Society (ShareSoc)

ShareSoc represents and supports individual investors who invest in the UK stock market (and who own as much as 30% of the shares in UK public companies in aggregate). We are a mutual association controlled by our members with "not-for-profit" articles and incorporated as a company limited by guarantee. The organisation is financed by member subscriptions, donations from supporters and by the services it provides to members. More information on ShareSoc can be obtained from our web site at www.sharesoc.org .