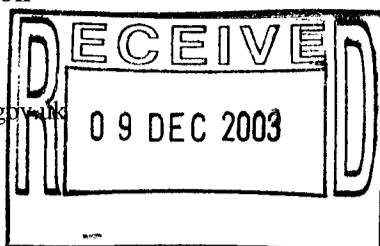


Financial Services Authority
David Strachan, Director
Insurance Firms Division

Direct line: 020 7066 0900
Local fax: 020 7066 9769
Email: david.strachan@fsa.gov.uk



FSA®

4 December 2003

Mr Paul Braithwaite
42 Bartholomew Villas
Kentish Town
London
NW5 2LL

Dear Mr Braithwaite

Thank you for your letter to John Tiner dated 14 November 2003. John has asked me to respond to you on his behalf.

You have again raised the question of whether the FSA appears to be acting as a shadow director. This was a point that you made previously at the FSA's Annual Meeting in July 2003 and I have nothing to add to our previous response (a copy of which is enclosed).

You ask about progress on the Society's outstanding reviews. As we have previously explained, the Society has had to prioritise its efforts, for example to deliver the Compromise scheme, and this has had an impact on the progress in other areas. However, it is now making progress on other outstanding matters. For example, it has just written to individual policyholders providing details of its revised GAR Rectification scheme including a timetable for completion. The Society has indicated that it expects to make offers to those affected by December 2004 and has given an indication of when different categories of policyholder could expect to receive their offers. You will also be aware that the Society has given a commitment to complete the Managed Pension Review by December 2004. Both of the reviews are complex and time consuming. But the timetable is both realistic and achievable. We will do what we can to ensure the timetables are met.

You also raise matters concerning the Society's interim accounts and say that they fail to disclose key information. The Society is not required to prepare interim accounts and although these accounts have been reviewed by PwC they are not audited accounts. The FSA does not prescribe the content of the Report and Accounts but they are prepared in a format that complies with relevant accounting standards.

The Financial Services Authority
25 The North Colonnade Canary Wharf London E14 5HS United Kingdom
Telephone +44 (0)20 7066 1000 Fax +44 (0)20 7066 1099
<http://www.fsa.gov.uk>

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Against that background, the accounts nevertheless provide important information about the Society's financial position. In particular on page 4, the Fund for Future Appropriations (FFA) is identified as 'the most important measure of the Society's financial position as it represents the Society's net resources available to meet non-guaranteed bonuses, any unforeseen liabilities and liabilities in excess of those provided for at the balance sheet date'. This part of the accounts explains that, at 30 June 2003, the FFA amounted to £453m, and goes on to demonstrate how the FFA has changed over the last 18 months.

You say that the 'value of the WP Fund' is not shown. The assets and liabilities of the Fund are shown in the Balance Sheet on pp. 10 & 11. Whilst these do not show the with-profits business separately, there is no requirement to do so when the with-profits and non-profit business reside in the same fund. If you require this information may I suggest that you contact the Society.

You also say that nowhere is information given about the total provisions (by this we presume you are referring to those in respect of the various review programmes). These are set out in paragraph 6.2 (iv) of the Notes to the Accounts on page 15.

You say that there is no information about the percentage return on the WP Fund during the first half of 2003. Page 6 of the Accounts includes a commentary on 'Investment performance and capacity to pay bonuses'. This provides a description of the position of the fund and, against this background, it is debatable what would have been gained by stating the rate of return achieved by the fund over the period. If you require this information, may I again suggest that you contact the Society.

You also refer to the treatment of the Society's subordinated debt, indicating that this loan is repayable in 2007. Our understanding of this debt is different. It is, in fact, undated but the Society has the first option to repurchase in 2007. The credit taken by the Society in respect of this debt in its FSA Returns reflects the subordination of this form of capital to the interests of policyholders, and the terms under which payments of interest and principal on the debt may be made.

We cannot comment on your speculative remarks about whether a future profits waiver may be given next year. Applications for such waivers are considered on an individual basis and have regard to information available at the time.

Yours sincerely
Neil Sturt

reinvestigated. We therefore continue to place all letters on file without acknowledgement where we are of the view that they relate to the matters that have previously been concluded.

Paul Braithwaite (Equitable Members' Action Group)

As a long-standing Equitable Life policyholder activist with the Equitable Members' Action Group (EMAG), I am concerned that the apparent level of involvement of the FSA into strategic decisions, seeming to exceed what is reasonable for a regulator.

By way of examples I would cite:

- **the counsel's opinion of Glick and Snowden Sept 2001 - which must have been commissioned weeks before members were given Nicholas Warren's opinion that it addresses**
- **The FSA received the so-called independent actuarial review by Bacon and Woodrow months before the Moss and Carr opinion on what would be fair to late-joiners who left 3. The FSA has permitted Equitable to freeze unilaterally the GAR rectification scheme required by the House of Lords. Is this even legal?**
- **The FSA has granted a waiver to Equitable to delay addressing the 50,000 cases of possible drawdown mis-selling until the end of next year.**
- **For more than two years the administrative service standards of the Equitable Life have fell far below acceptable standards and the FSA did nothing.**

In summary, EMAG suggests that the FSA may be acting as a shadow director of Equitable Life, well beyond its formal remit.

Section 741(2) of the Companies Act 1985 defines a shadow director as "a person in accordance with whose directions or instructions the directors of the company are accustomed to act". The examples cited in the question (which we do not necessarily accept to be true) do not appear to suggest the behaviour of a person who is acting as a shadow director. In any event, the FSA denies that it or any of its employees have given any such directions or instructions.

Ann Berry

I am a WP annuitant of Equitable Life. There are around 50,000 of us in the UK. Since once an annuity has been purchased it is irreversible, all of us are trapped in Equitable Life. I purchased my annuity in the spring of 1998, after the FSA became responsible for regulation of Equitable. At that time I understood the risks inherent in a With Profits policy and took responsibility for those risks, but there was no way I or any other ordinary member of the public could know of the 1.2 billion pounds black hole in Equitable's Finances. I refer to the gap by that time existing between their assets and their liabilities. It is my contention that in view of this black hole, I was mis-sold a With Profits annuity, as indeed were many thousands of other people. When the House of Lords ruling went against Equitable Life, resulting in the closing of doors to further business and the subsequent Compromise Agreement, Equitable policy holders were told by the FSA in their Assessment of the Compromise Scheme - and I quote - "we ((FSA) firmly believe that a successful compromise would, in principle, offer the