

**To:** Jeffrey Epstein[jeevacation@gmail.com]  
**From:** james staley  
**Sent:** Sun 8/12/2012 1:50:01 PM  
**Subject:** Re:

This is the note Peter sent to me.

On Aug 12, 2012, at 9:43 AM, Jeffrey Epstein wrote:

]this was sent by Peter to another person taking over a financial institution

It hardly needs saying that you are taking over the chairmanship of CityUK at a difficult but crucial time for the sector given the huge political and public pressures, the new regulatory demands and the changes in governance and business models required to recover from the mistakes of the past. You suggested we might offer some preliminary thoughts on the nature of the challenge and we are happy to do so as we all realise the vital need to secure the UK financial sector and London's pre-eminence.

The basic problem is self-evident. The LIBOR-rigging scandal has set back whatever incremental gains the banking sector had made over the last three years in re-establishing public trust and political patronage. It has cemented a perception of investment banking, and securities trading in particular, as inherently risky and culturally unacceptable. The PPI and interest rate swap mis-selling problems compound the perception of an industry whose view of its customers and clients needs fundamental reshaping. Although these are not new problems in financial services, in the public mind they are indelibly associated with 2008 and the banking sector's culpability for the current economic crisis. If anything, European continental feelings are even stronger and this will be reflected in fresh regulatory pressures from Brussels, whatever the conflicting interests apparent in Paris and Berlin.

For understandable reasons the sector has had difficulty since 2008 with the notion of collective responsibility for conduct before the banking crisis. There is a palpable impatience at all levels of the industry with continued public antagonism and criticism. Yet the political and public desire for accountability is instinctive and strong, and is being actively reinforced by competing electoral trends and strategies. This is of course why the subject of pay is so combustible.

Sectoral leaders who are not sensitive to this, or who try to suggest that problems are isolated to a few unethical individuals or failed institutions, are likely to trip up, not least because the steady flow of the Tyrie Commission's work and LIBOR-related sanctions and prosecutions will send the opposite signal. It will fall in part to CityUK to bring home this reality to its members and to lead with a strategy that balances a clear defence of the sector's value with a realistic understanding of just how far its credibility has been damaged. This is a difficult path to tread.

Nonetheless, if CityUK does not navigate this course and insist on the positive value of the sector to the UK economy, few others will. One of the problems is finding articulate and courageous exponents from amongst banking's leaders who are

prepared to speak up in a balanced and persuasive way. The traditional trade association approach of pointing to jobs created and taxes paid risks looking irrelevant if it does not register a debate that is shifting onto the ground of culture and ethics. The questions put implicitly to the sector will increasingly focus on *what* these jobs involve, *how* their profits are made and in what spirit the taxes are paid.

One of the temptations of banks is likely to be to throw money at high profile CSR work, which risks being singularly counterproductive in dealing with a critique of their business models. For managers accustomed to being measured by returns on equity, these more qualitative benchmarks may be difficult. It seems to us that part of CityUK's work is in challenging the way its members approach this changed landscape.

One of the marked tendencies of CityUK's membership has always been to try to outsource the sector's image to the organisation. Although visible CityUK leaders are vital, CityUK should chiefly be a facilitator for bringing stakeholders and City practitioners together and encouraging a common cause to emerge. Indeed, one of CityUK's key roles should be identifying and cultivating a new generation of sectoral leaders comfortable and credible on this ground and encouraging them as spokespeople for the sector. The sector's past narrative became all together too self-satisfied. It should start with a sense of humility, acknowledging its massive responsibility for economic growth and stewardship of our assets and savings. These things are genuine and durable comparative advantages but only with the highest ethical standards and quality of governance.

Aside from these questions of culture change, it seems to us that the European issues loom very large for Britain. Financial regulation has already been moved to the European level, with bodies like the PRA and the FCA largely supervising the application of European rules. The coming year will see the outlines of a banking union negotiated for the Eurozone. If the UK is to remain outside this union then it needs to do so with a clear understanding of the consequences. The City's often aggressive posture on regulation 'from Brussels' has sometimes seemed indistinguishable from euroscepticism and has often been interpreted as such by politicians and by Brussels. In reality the City's interests in a single market for financial services in which Britain exercises genuine influence are much more complex than this and have not been well communicated to politicians. This needs to be a priority.

Finally, as you noted, we have to be pragmatic about the diversity of interests represented by CityUK. The insurance and fund management industries rightly resent the fact that they are often bracketed with the banks. Moreover, the 'independent' global banks resent being bracketed with the banks that required direct support from the UK taxpayer. Even, the investment banking divisions of global banks resent the image created by the supposed values of their institutional trading floors. Speaking for this group of sub-sectors is not easy, especially as members are instinctively distrustful of each other and competitive as a matter of course.

It is not realistic to expect the insurance or accounting industries to sign up to a narrative of culture change to the same degree as the banks, but this should not become an argument for trying to circumvent the tough questions concerning behaviour. 'The City' is a single ecosystem and this is how the general public instinctively

understand it. Trust matters profoundly to every part of the system, even if they have forfeited it in radically different degrees.

At the end of the day, politicians are looking for a vision of a financial sector and banking system that fits with their instinctive desire for an economy that is more sustainable, less short-termist, less leveraged and more focused on productive investment. CityUK's challenge is addressing this appetite for change and renewal without accepting the simplistic view of finance held by some in politics and the media. This is actually a fascinating challenge, probably the most important facing the UK and our future economic strength.

I look forward to continuing this conversation with you and your colleagues after the holiday period.

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