Banks

Banks face global action on Madoff

Attempt to set up international team

Spanish firm acts for 600 investors

By Victor Mallet in Madrid

A Spanish law firm working with hundreds of investors who lost money to Bernard Madoff's alleged $50bn Ponzi scheme is trying to put together a multinational group of lawyers to seek compensation from banks that sold Madoff-related funds in at least 17 countries.

"We believe this is the first global fraud affecting confidence between clients and financial institutions, the banks," Javier Cremades of Cremades & Calvo-Sotelo told the Financial Times. "We are selecting law firms in every jurisdiction so that we can provide a global answer to this global fraud."

Santander of Spain, the largest bank in the eurozone, announced potential client losses of €2.33bn ($3bn) from the Madoff affair, prompting many customers from Spain, Latin America and elsewhere to seek redress in Madrid. Only US money managers Fairfield Greenwich and Tremont Group, have disclosed larger losses.

Mr Cremades said his firm was representing about 600 clients – 400 individuals and 200 institutions such as hedge funds and university foundations – from Spain, Switzerland, Israel and Latin America. Most were clients of Santander or its affiliate Banesto, but other banks involved included Fortis, UBS, Caja Madrid and Banco Espirito Santo.

The litigation being prepared by Mr Cremades and his colleagues, including a proposed class-action lawsuit in Florida, will argue that banks misrepresented the products as low-risk investments and failed to perform sufficient due diligence.

"They want their money back," Mr Cremades said of his clients. "They don't want litigation... [But] if we don't reach a settlement, we will litigate in every jurisdiction, including in the US."

He has proposed a meeting of about 50 lawyers in Madrid on February 5, the same day Santander is due to announce net profit for 2008 of about €9bn.

Lawyers from Mr Cremades's firm are expected to meet Santander executives in the near future to discuss the Madoff losses. At Santander's extraordinary meeting yesterday, there were heated exchanges between shareholders – many of whom are also clients – and executives over Santander's treatment of its customers in connection with Mr Madoff. However, the meeting achieved its unrelated purpose of approving a capital increase for the purchase of Sovereign Bancorp in the US.

"Bastards! Look at them applauding him," one executive said to his colleagues on the podium in a comment picked up by a microphone after the bank had been criticised by a speaker from the floor. Later, Emilio Botín, chairman, ordered a vociferous critic silenced and removed from the hall.

Santander has not said whether it plans to compensate private banking clients who lost money by buying its Optimal products linked to Mr Madoff, but Mr Botín said that the bank was itself looking at legal action to try to recover its clients' funds.

See Analysis

Financial regulators to receive €36.2m

By Nikki Tait in Brussels and Jennifer Hughes in London

Brussels is to pump tens of millions of euros into key cross-border regulatory and accounting groups, as the European Union tries to beef up its creaking system for supervising large banks and other financial institutions.

The European Commission announced yesterday that it would allocate €36.2m ($47.8m) over a three-year period to the three committees – known as CEBS, CEIOPS and CESR – that are made up of national banking, insurance and securities industry supervisors from across the EU.

These organisations have operated for about five years, but because EU member states are generally reluctant to cede authority in the area of financial supervision, have only had an advisory or co-ordinating role. To date, their funding has come only from their members. But the recent financial turmoil – and the regulators' response to it – has pushed these committees into the limelight.

Meanwhile, a "high-level" group, headed by former Banque de France governor Jacques de Larosière, is trying to devise new proposals to improve Europe's financial supervisory system. Significantly increasing the committees' powers would be one leading option when the group reports in just over a month's time – although such a suggestion could be controversial.

Yesterday, Brussels signalled that it saw a need to "further strengthen" the committees so that they could "achieve their objectives as rapidly and efficiently as possible".

"Additional reforms may be needed... in particular in the light of the forthcoming recommendations of the high-level expert group chaired by Jacques de Larosière," added Charlie

Knock-on effect of success in online banking hits ING

News analysis

Government comes to the rescue, but group fails to rule out further aid, says **Michael Steen**

A year ago, few would have singled out ING, the Dutch banking and insurance group, as a likely recipient of two doses of state aid within three months.

Michel Tilmant, the chief executive who stepped down yesterday due to the "personal toll" on him in recent months, had avoided the siren-call of large takeovers and always stressed the group's conservative business model and its roots in good, old-fashioned retail banking.

Yesterday's revelation of an underlying net loss of €3.3bn ($4.33bn) in the fourth quarter and 7,000 jobs cuts came after growing concern about the bank's exposure to mortgage-backed securities.

The government, which injected €10bn into ING in October, has now agreed to guarantee most of those securities.

Fittingly, the source of its latest woes came not from an adventurous trading floor, but as a knock-on effect of building the world's largest online bank, ING Direct.

ING embarked on a gradual expansion of direct banking a decade ago, seeking to capitalise on its experience in retail savings operations, which was built up through running Postbank at home, the post office savings bank.

In the US, where it launched ING Direct in 2000, the bank chose to become a "thrift" or savings association that was required to put at least 55 per cent of its assets into mortgages.

Since ING could attract online savers with eye-catching interest rates much quicker than it could write its own mortgages, the bank started buying mortgage-backed securities.

"Originating mortgages takes time," said Koos Timmermans, chief risk officer. "So the first thing we did was invest in Fannie Maes and Freddie Macs. We built a portfolio, but after reaching a level of $9bn-$10bn we said it's prudent to also look at other originators."

That led to the €27.7bn Alt A portfolio, a group of securities that lie between subprime and prime and which in recent months had dragged ING's share price ever lower.

Yesterday's early announcement of the fourth-quarter losses included €2bn in impairments on Alt A, subprime and other assets.

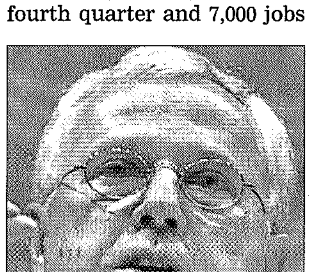
The Dutch government has agreed to transfer 80 per cent of the Alt A portfolio at 90 per cent of par value to itself, removing the main source of investor anxiety about ING.

"We selected relatively high quality mortgages," Mr Timmermans said yesterday, in defence of the decision to invest in mortgages rated less than prime. "But we are in a very severe and stressed market right now."

ING was also well-known as a significant investor in European asset-backed debt, especially mortgage-backed deals in the UK, Spain and Netherlands, where it also runs ING Direct businesses.

ING, which has total assets of €1,400bn or about twice the size of Dutch gross domestic product, declined to rule out any more state aid.

"For the time being we're



Steady hand in turbulent times

Jan Hommen, who was yesterday appointed as chief executive of ING after Michel Tilmant stood down, has a track record as a steady hand in turbulent times, **writes Michael Steen**.

Mr Hommen, 65, has served as supervisory board chairman at ING since 2005 and will not formally take up the new role until after a shareholders' meeting at the end of April. Eric Boyer, a board member, is to be officer at Philips until 2005, helping to guide the electronics group through the bursting of the dotcom bubble.

Ahold, the supermarket group, is among a series of top Dutch companies where he has held a supervisory board position. He was credited with overseeing the overhaul in financial controlling and reporting at the group after an accounting scandal in 2003.

While he has been near