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Interview Summary Sheet

Title Page

Ref. No.:

Collection title: Secondary banking crisis 1973-75 (the 'Lifeboat')

Interviewee's surname: Rottenburg

Title: Mr

Interviewee's forenames: Alex

Sex: M

Occupation: Union Discount

Date of birth: 1947

Father's occupation: Academic

Mother's occupation: Academic

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Name of interviewer: John Thirlwell

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Effect of the crisis on the money market rates and the discount market	#00:13:31#

Interviewee: Alex Rottenburg

Date: 11 May 2017

Interviewer: John Thirlwell

[0'00 Biographical background and employment with Union Discount]

Q: Interview with Alex Rottenburg on the 11th May 2017. Alex, can I ask you a few quick questions? The year of your birth?

A: 1947.

Q: And your parents' occupation?

A: Academics.

Q: Interesting. And your own education?

A: I went to, I believe it was a comprehensive, to this day I'm not certain. I was in the grammar stream so I was educated by the State and then I took a year out before gap years were invented and went to the University of Kent, Canterbury. And my first year was the first time the University had three full years. My degree was eventually history and philosophy. And I got, from memory, a 2:2 [laughs].

Q: Well done [laughs].

A: [laughs] Didn't know what to do. Spent two years doing all sorts of things, hitchhiked down to Spain and various things, and eventually came back to the UK - oh, I ended up in Paris living on a barge.

Q: Delightful.

A: Came back to the UK, thought I'd better get a job, a proper job and there was something called GOD, Graduate Opportunities Directory--,

Q: Oh right.

A: So I flicked through GOD and I'd rather fancied merchant banking and there was an ad for this company called Union Discount. And I thought, that's a merchant bank so I applied, I was interviewed, offered a job, the first graduate certainly in Union Discount's history, possibly in the history of the entire discount market--,

Q: [laughs].

A: Hired as a graduate. 10th July 1972 I pitched up at Union, reported to the then Office Manager as he was called. He said, "Who the hell are you? No-one told me you were coming. What are we going to do with you? I know what, you'd better start on the discount department" which is where all the processing of all the bills of exchange were handled. Now a little bit about the discount market--,

Q: That would be very helpful Alex actually.

[2'40 The workings of the discount market]

A: It's function. There were--, the numbers fluctuated but there were eleven to twelve discount houses and they were the medium through which the Bank of England conducted its day to day operations in the banking sector in the UK managing the daily flows and it meant that--, I mean the houses had a unique privilege, they were the only institutions with Lender of Last Resort facilities at the Bank so if, at the end of the day we needed a bit of lolly, one would go the top hat, trot round to the Bank's Discount Office and, "Sorry old chap I need 100 million, 500 million, whatever it might be" [laughs].

Q: [laughs].

A: Conversely, if we ended up--, if any house ended up with a surplus of cash at the end of the day, then the Bank would issue what were known as Hots which were treasury bills printed on the day and the house would buy them and thus dispense with their surplus liquidity. The market as a whole revolved primarily around bills of exchange. In those days there was something called the Accepting Houses Committee and members of the Accepting Houses, who accepted bills of exchange which would be drawn by corporations X, Y and Z, the Bank would buy their bills so they were known as eligible bills. And the eligible bill market was a

very important component of the discount market so eligible bills, treasury bills, corporation bills-- , 'cause a lot of local authorities issued bills as well, basically promissory notes. Average tenure of any bill was usually three months. Most of the funding of all the houses was a mix of overnight and call money. Call money being just what it says, you could call it any time you wanted it. The main depositors with the houses were banks and it was a secured market so the bills that we held-- , and we were also very active in the gilt market I should add, so bills and gilts would be the primary security that would be launched with whoever was lending us money. And essentially, all banks in the UK were obliged to keep deposits with the discount market. They could not deal directly with the Bank of England; they had to go through the discount market. And there was one discount house, Secombe Marshall & Campion, which was the sort of Bank's broker in the market and every afternoon, I forget what time say 2:30 thereabouts, someone would come on the line from Secombe saying "What's your position?" and you'd say, "I'm short, I'm long," whatever it may be. They would then collate that-- , all that information and report back to the Bank. And either the Bank would issue Hots or more likely, we'd trot round with top hat on to borrow a bit from the Bank. It worked.

Q: Yes.

A: And it was interesting to speculate whether it would have-- , if it had still been around when the credit crunch began in 2008, would it have helped? I don't know.

Q: We will never know.

A: No we won't but the-- , I was going to make one other point... it'll come to me. Okay.

Q: I mean the interesting thing is you arrived there for it at Union just before the lifeboat crisis of '73/'74. Do you have specific experiences if you like, of the crisis?

[6'56 Lifeboat crisis; Cornhill Consolidated; protesting a bill]

A: We, like a lot of the houses, got sucked into, for want of a better way of putting it, doing business with a number of the fringe banks. I remember Cornhill Consolidated-- ,

Q: Yes.

A: Oh God there's another one I can't--, basically all those guys were in property lending but they put their names to the bills. Now for the life of me I can't remember whether they were drawing bills on other institutions or they had other institutions drawing bills on them. Why we ever bought these things I still don't know because a fundamental principle behind a bill of exchange is that it should be a self-liquidating transaction. So you're funding a transaction which at the end of the day produces the funds for the acceptor of the bill to meet the bill upon maturity. Anyway, I do remember we had some Cornhill Consolidated bills when they went phut and I was hoicked aside by the then No 2 at Union who said, "You'd better come with me, I've got to protest these bills and I need a witness." And notaries are involved and I can't remember--, I think you get the bills notarised but you then go to the paying bank, not to be confused with the acceptor of the bill--,

Q: Right.

A: Clearly to get money you have to present the bills--,

Q: Yes.

A: At the right bank account. So we marched into whoever it was and I can still remember this chap Peter Lee saying, "I hereby protest the non-payment of these bills."

Q: Very dramatic.

A: Well it was a procedure we had to go through.

Q: Yes.

A: So we went through that procedure and I sat there just gawping really [laughs] but quite--, I think it's all clearly laid down in the Bills of Exchange Act of 1882 which is still the governing legislation for bills.

Q: It is indeed, yes.

A: One, you know, consequence--, you will remember the Heath Barber boom?

Q: Yes.

A: Which led to the fringe banking crisis.

Q: Yes.

[9'20 Effect of the crisis on money market rates and the discount market]

A: Inflation was rocketing and interest rates were rocketing. As I said earlier, most of our funding was overnight call money, the average maturity of our assets, three months. So our funding costs were zooming up far ahead of the return we were making on these assets because the speed of which rates were going up--, I remember the overnight, people paying 200%--,

Q: [sucking in noise]

A: For overnight money, and there are stories which I've never been able to authenticate of some having to pay vastly more for overnight money. Anyway my then boss a very good, straight-forward, dyed in the wool, old fashioned city gentleman, went round to the Bank of England to the discount office and said, "We have a cash flow problem," because when you repay the overnight money you repay plus interest so as short rates went shooting up, you know, our outgoings were exceeding our incomings. So he went round the Bank and said, "We've got a cash flow problem". So the Bank said, "What's cash flow?" [laughs].

Q: [laughs].

A: So Richard Petherbridge - oh "What's cash flow? Will you write a paper on it?" so Richard Petherbridge wrote a brief memo explaining the problem, sent it to the Bank who thereupon went to all the discount houses and said, "Please give us a cash flow analysis" so all the bosses of the other houses came trooping into Union saying, "Richard, what's this cash flow stuff?" [laughs].

Q: [laughs].

A: "We don't understand it" [laughs]. I think--, I can't remember how we really got through that crunch, I think basically because we were creatures of the Bank even though--, I mean we were publicly quoted, a number of the houses were publicly quoted, the Bank made absolutely sure we didn't get in too much trouble and I do remember we recorded a loss, for the life of me I can't remember what it was, certainly '73 and possibly '74 they were tough times and costs were cut. And we had window boxes outside 39 Cornhill--,

Q: Right, yes.

A: So part of the cost cutting, the window boxes were removed [laughs].

Q: [laughs].

A: Big mistake. "God. Union.... where have Union's window boxes gone? They must be in trouble" [laughs].

Q: That's--, well that's how banking works doesn't it?

A: Yes. So very interesting times but the discount market played--, its function was invaluable in the daily liquidity of the money markets.

Q: Yes, yes.

A: And now leaping ahead years, the discount market disappeared when the Bank of England changed the rules and started dealing direct with the major banks. You know, even up to that point it didn't matter if you were Barclays or whoever, however big your bill book was you had to do it through the discount houses and once that went it was a sort of *raison d'être* and the means of making money for the discount houses went away. They all disappeared 1990ish, early '90s, so...

Q: Well, that's a fascinating vignette on the whole of the crisis. Thank you so much Alex, that's really kind of you.

A: Not at all.

Q: Thank you.

[END OF RECORDING – 0:13:31]