The Maxwell report: a revealing picture of life in the City of London

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Ten years ago Robert Maxwell, the Labour Party's biggest backer, died after apparently falling from his yacht off the Canary Isles. His companies—Maxwell Communications (MCC) and Mirror Group Newspapers (MGN)—collapsed under a tidal wave of debts. Maxwell had systematically looted their pension funds and pillaged their assets, switching funds between businesses to expand his empire and rig the market for his companies' shares, which he had used as collateral for bank loans several times over. In all, he had spent £344 million on his illegal share ramp and £450 million had gone missing from the pension funds. Thousands of pensioners lost their savings.

Not a single person has ever been punished for the scandal that rocked the City of London at the end of 1991. In 1996, Maxwell's co-directors, his sons Kevin and Ian, were exonerated in a trial whose outcome was entirely predictable. And all the city institutions involved in the Maxwell's' transactions have managed to avoid any responsibility for their part in the chicanery. Now after nearly a decade, the Department of Trade and Industry has published a report of its investigation into the affairs of MGN, which had floated on the Stock Exchange only six months before its collapse.

The report was held up in part because of the trial in 1996 of Kevin and Ian Maxwell, but also because of Kevin Maxwell's refusal to testify until last summer. For all the politicians, City figures and the Great and the Good who had benefited from their association with him, however, the longer the report took, the better.

The two volume, 700-page report cost nearly £10 million to prepare. It is long on description of what went wrong, but short on substantive recommendations.

It charts in great detail Maxwell's methods. Maxwell "personally controlled through a central treasury the movement of cash within and between his companies (including having sole signatory authority for an unlimited amount over bank accounts, including those of his main listed company MCC", it states. "Maxwell had always regarded the pension funds as his own and ran his companies and the pension funds as if they were one."

Maxwell took cash from the pension fund on a regular and unsecured basis from 1985. His organisation of some 400 companies, many with similar names, was so complex that people dealing with Maxwell would not know who owned the shares. He disclosed minimal information about the financial position of his companies and pension funds.

MGN should never have been allowed to float as the prospectus was materially inaccurate and misleading, the report states. Although MGN was meant to be a stand-alone company, because Maxwell owned or controlled 51 percent of the shares, its fortunes were inextricably linked to his other companies. But the prospectus, prepared by Coopers & Lybrand Deloitte gave no indication of the position of the other companies.

The investigators attributed most of the blame to Maxwell himself, but Kevin Maxwell was severely criticised. He bore "heavy responsibility" for making sure that MGN was run as Maxwell's private fiefdom. His conduct was "inexcusable" throughout, the report states. Ian Maxwell was also given a rap across the knuckles, as were several other members of the board of directors, including the Labour peer, Lord Donoghue. The Chairman, Sir Robert Clark, was nothing more than a cipher who rubber-stamped Maxwell's every whim.

More importantly, as well as showing how the Maxwell companies and their directors operated, it also shows how some of London's major financial institutions took Maxwell's shilling and turned a blind eye to his criminal dealings.

Coopers & Lybrand Deloitte, Maxwell's longstanding auditors, whose function is supposedly to act as watchdogs on behalf of the shareholders, failed to report the abuse of the pension funds. They explained to the DTI investigators what they were expected to do and they never demurred, "The first requirement is to continue to be at the beck and call of RM [Robert Maxwell], his sons and staff, appear when wanted and provide what ever is required". Why? The annual audit was the loss leader to sell their more profitable consultancy services.

Goldman Sachs, Wall Street's top investment banker, organised Maxwell's manipulation of his companies' share prices by buying up the shares until he controlled 78 percent of the shares. It tried to maintain that Maxwell lied to them, but the DTI inspectors clearly thought the bank was lying. They were "satisfied that the deals were in reality done between RM and Mr Sheinberg [an ex-Goldman Sachs partner]". He was "motivated by the very large profits that he perceived would be made... the resulting trading relationship was very profitable for Goldman Sachs [£8m from MCC shares and £15m from other deals]." Senior management must have known that Maxwell was behind the overseas buying by Liechtenstein [where Maxwell's private companies were registered] trusts, but did not tell the regulator, the report said.

Simon Montagu, MGN's merchant bank that prepared the

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flotation, did not warn investors that the media tycoon ran the company as if it were his own piggy bank. As such, it was totally unsuitable for listing on the London Stock Exchange. They did not ask the right questions. If they had, the floatation would have had to be abandoned.

Neither did the bank consider Maxwell's previous history. In 1971, a previous DTI investigation into Maxwell's business affairs had famously criticised him saying, "We have to conclude that not withstanding Mr Maxwell's acknowledged abilities and energies, he is not in our opinion a person who can be relied on to exercise proper stewardship of a publicly quoted company".

The list goes on. Clifford Chance, the largest firm of corporate lawyers in Britain, did not bother to read board minutes. The brokers Saloman Brothers and Smith New Court—now part of Merrill Lynch— did not carry out the proper checks.

Despite its restrained language, the report shines a fascinating light on the venal workings of the Square Mile. Yet the response of the Financial Services Authority, the city's regulator, has been to say that it can take no action against any of these financial institutions for their negligence.

The report will do nothing to change the situation. Its authors must have used every possible variation on the theme of "while we recognise the problems, we do not feel that legislation is the answer". After all, nothing will deter a determined man like Maxwell, they say.

Its recommendations are truly banal: train pension trustees, impose severe sanctions for companies who do not report fraud, provide more guidance on the audit of business' empires, discourage auditors from cross selling their other services to their auditees, make non-executive directors more accountable and finally, disabuse the public of any notion that fraud, malpractice and market manipulation can be eliminated.

The contrast with the government's approach to so-called welfare benefit fraud could not be greater. So company law will continue to shield corporate swindlers and their legal and financial advisors. Since companies are limited liability entities, their directors can escape personal liability for most corporate crimes and wrongdoings.

The Maxwell's follow a long line of city swindlers who enjoyed the protection of the law: The top brass at British & Commonwealth, Blue Arrow, Polly Peck, Barings and a host of others all escaped justice. And they were only the most visible of the recent corporate criminals. There are many others who encounter few legal difficulties as they engage in crimes that include the production of dangerous and harmful goods, breach of health and safety rules, and pollution of the air, soil and water.

The press and the DTI report have vilified Maxwell and portrayed him as some kind of monster, consumed with excessive "greed". But Maxwell was part of the financial and political establishment. Senior financial figures were happy to sit in his boards and hob nob with him. He was a major backer of the Labour Party. Geoffrey Robinson, a former minister in Blair's government was a director of one of Maxwell's companies. Peter Jay, a former ambassador to the US and economics editor at the BBC, was his chief of staff from 1986 to 1989. Helen Liddell, Scottish Secretary and former BBC journalist, was personnel and public affairs director of Maxwell's Scottish *Daily Record* from 1988 to 1992. Maxwell once described her as his "eyes and ears in Scotland". He had links with *Mossad*, the Israeli secret service, and Moscow's KGB.

When he died, heads of state and leading government figures from all over the world attended his funeral in Israel.

The demonisation of Maxwell serves to divert attention away from the fact that the capital markets are uncontrollable. As the report acknowledges, "...it is impossible to regulate investment activity on a nation state basis, but progress [on the international arena] in solving the difficulties created is clearly very difficult".

The solution? Avoid an "expectations gap". Educate the public to realise that regulation cannot eliminate fraud, malpractice or manipulation of the markets. "It is obvious from the above that protection by national regulators of the public in their dealings on markets is less effective than it was before the advent of global markets and the transnational firms that deal across those markets. *It is therefore very important that the public appreciate this fact and that as globalisation increases, so the level of protection afforded any national regulation of markets gets less".* [Emphasis added]

As these gentlemen understand all too well, the conditions that produced this venal layer have not gone away. On the contrary, as share prices tumble after years of frenzied speculation on Internet, telecoms, media and other technology-related shares, many more Maxwell's will emerge.

The long awaited report was a one-day wonder. The business magazine, the *Economist*, did not even cover it. There was a palpable sense of unease about its lack of recommendations and the picture it portrayed of the City unwilling to put its own house in order. But the press are well trained: after all, the next day the government launched its stakeholder pension scheme—an attempt to get low wage earners without occupational pensions to buy a private pension plan. They know they must not frighten the horses, with tales of what City folk get up to.

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