Letters

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Shareholders' claims are legitimate

David Cowling has certainly "missed something" ("CMAC fails test on Gwalia", Letters, January 30). His criticism of the Corporations and Markets Advisory Committee's report on Sons of Gwalia is misplaced and misses the point.

There may often be a class of creditors of a company who will achieve that "status" because they have made a successful claim against the company for some sort of corporate misconduct that results in an award of damages in their favour. It seems as if only one sub-class of that class would, other than for the Gwalia decision, be postponed in an insolvency to "ordinary" creditors, namely those who are also shareholders.

The High Court said that was not the law.

The committee wasn't persuaded that it should be. Neither am I. I don't see any logic in that position.

Nor do I think that the consequences foreshadowed by those parties who have an interest in the matter are likely to be as significant as they predict.

In any event, the proper party to change the law is, as Cowling recognises, the federal government.

I hope that when the government considers this issue it will be persuaded by the committee's clear and well-reasoned report.

Geoff Applegate
Birchgrove NSW

CAMAC has failed creditors

David Cowling's letter (January 30) is right when he comments that CAMAC has failed to answer the question asked of it by government – i.e. whether shareholders should be allowed to claim as creditors in a liquidation.

This failure is a great pity because it resolves nothing for either the shareholders or the creditors. Like Cowling, I was educated to the legal position that shareholders were the last to be paid – they took the initial risk and with that the gains that ensued, they hoped.

For better or worse, the world has moved on and everyone and his dog now wants a piece of the corporate shareholders' pie.

Corporations now indemnify their directors for a range of failures and/or omissions that once would have been borne by those directors personally.

Today it is not a big jump to shortcut a claim against members of a board of directors personally to becoming a claim against the corporation under its indemnity with the result that what was initially a claim by a shareholder is now a creditor's claim.

The failure of CAMAC has not assisted those now responsible for administering liquidations. Badly needed funds are held in suspense rather than being made available for the benefit of other than those who are entitled to the funds, whether shareholders or creditors.

Whatever the government's decision, let's all hope it makes one where CAMAC didn't.

Brian Bolton
St Ives NSW

Bank website to fix risk holes

It's refreshing to see a sensible argument in favour of short selling ("Short selling is the oxygen that markets need", Opinion, January 28). In short, more realistic valuations mean less unwanted risk.

However, research fellow Sam Wylie's argument for exempting financial firms from the same pricing rigour falls short. More leverage demands more pricing rigour, not less. The peril of mispricing bank risk is obvious now.

The downward spiral of Goldman Sachs and Morgan Stanley after a ban on short selling was lifted in August is not an argument against short selling. The reputations of Wall Street investment banks have been crushed and for good reason. Why stop the market telling the truth?

Short selling will not destroy a good bank with transparent risk. Malicious rumours wither with nothing to feed them.

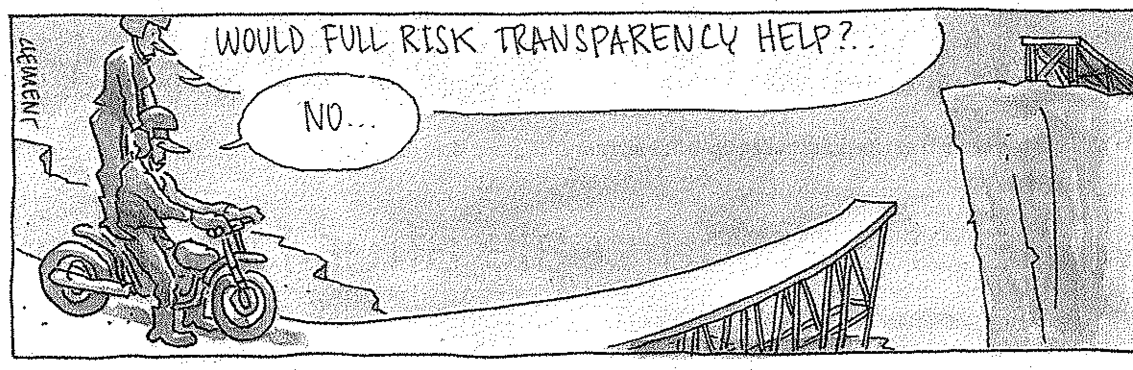
The single, most important financial regulation missing in the world's financial system right now is compulsory risk transparency. However, the security of risk transparency is threatened when the share price may not reflect the risk, as when one side of the market is shackled.

Security for the world's economies is tied to bank risk transparency – immediately accessible to all, nothing less than a permanent bank watch website, a virtual place where all banks in the world must report daily their exposure to wide-ranging movements in all the economic variables to which they are exposed. And a share price that tracks risks like a wind sock.

The risk transparency idea will need strong political leadership. Yet it's a difficult concept for most lawmakers to embrace because their own house is opaque. Hansard is not transparency. Transparency must flow from the seat of power.

In a transparent parliament the opinions of all MPs on the big issues, including on bank transparency, are ranked live online for all to see. This will happen when politicians vote in their dome of conscience, launched in parliament in 2002.

Ralph McKay
Neutral Bay NSW



Economist out of touch with households

In "Reality check behind rate cuts", (Market Wrap, January 29) ICAP senior economist Adam Carr says: "Let's face facts. If consumers and business aren't going to respond to a 4.25 per cent cash rate (the equal lowest in decades), they are not going to respond to 2.5 per cent."

I am bewildered by this statement, it underlines how out of touch Carr is with Australian households.

During the lower interest rate period many households took on mortgages that were way too big. As interest rates headed up in 2008 many of these households begged, borrowed and stole money from other sources to plug the gap. Households are now breathing a sigh of relief over interest rate cuts, but won't head back to normal spending patterns until they feel financially secure again.

This is shown in the increase of household savings as many seek to pay off out of control credit cards and personal loans, to allow them to get back to previous financial positions.

Lowering interest rates to 2 per cent will allow households to see their disposable income increase even after paying back additional credit sources.

This is an essential step for a bounce in consumer spending.

Rebecca Lee
Seaford Vic

Ruehl world: trash or treasure?

Hear! Hear! Don Clayton in your criticism of columnist Peter Ruehl ("For me, Pete does not Ruehl", Letters, January 29). Long ago Ruehl produced a good column – I have in mind his work on the 1985 America's Cup campaign. Alas, how times change.

How many of your readers are interested in, or now even bother seriously to read (other than for the purposes of recording criticism) Ruehl's increasingly irrelevant material? His interminable and inapposite references to North American culture – beers and other alcoholic beverages, sporting codes, muscle cars, movie stars, 1970s popular musicians . . . ad nauseam, belong there and not in a quality Australian newspaper. It's inconceivable to imagine a comparable journal in Ruehl's native country tolerating an Australian journalist churning out jingoistic Antipodean drivel. Yes, it's time to give Ruehl the flick!

Apropos Clayton's comment about excellent Australian writing, how about (another) bouquet for your Terry Ingram, whose January 29 article is a splendid example of the style – pithy, topical, well researched, informative and presented with droll wit. What a treasure he is.

Ian Hennessy
Mosman WA

❑ Contrary to the views expressed by Don Clayton (Letters, January 29), I find Peter Ruehl's columns entertaining, insightful on many topics, and a highlight of any subscription to the *AFR*. On my understanding he fully qualifies as one of the "excellent writers in Australia", and his North American background provides a broader perspective to his articles. The *AFR* would be a lesser publication without his contributions.

John McCaffrey
Noosaville Qld

❑ Don Clayton (and many of his friends and colleagues, apparently) is obviously not a big fan of Peter Ruehl (Letters January 29). I am. For an American, Ruehl is an excellent possum stirrer in the best tradition of Australian stirrers.

The last thing we need is to replace him with some of "the excellent writers in Australia" who will trot out anodyne commonplaces to make Aussies feel comfortable and superior.

Bob Muirhead
Port Melbourne Vic

Stronger maths picks up modelling errors

Peter Haggstrom's "Experts' errors put new spin on causes of crisis" (Opinion, January 23) about the failure of rationality in the global financial crisis and the inability of gut feel to make sense of risk provokes questions not just about finance and banks, but also about governments.

Treasurer Wayne Swan, for example, may have great political instincts, but you wouldn't necessarily expect him to have a profound intuitive feel for probabilities.

To prevent future financial disasters, our governments should be investing substantially in school mathematics education.

For decades, the proportion of teachers with university training in mathematics has been declining in the United States and Australia.

This doesn't affect only our aspiring financial engineers. It also makes ordinary citizens – and politicians – vulnerable to spurious claims. I'd love to know how Swan determines whether the complex modelling and mathematical advice he receives from Treasury is free from error.

Nalini Joshi
Lewisham NSW

A super return for economy, workers

The Hawke Labor government introduced the prices and income Accord and compulsory employer-funded superannuation to boost saving and to curb inflation in the 1980s.

It is now time to give back to workers some of that superannuation to stop deflation and boost employment.

If the Rudd government allowed workers to take part or all of the 9 per cent superannuation levy as part of their weekly wage for the next 12 to 24 months, it would immediately boost our economy. It would not be a burden on employers and would save jobs. It would give an average cash injection of $70 a week to those workers who need the money now, and would also increase the government taxation take and stave off a budget deficit.

The only loser would be the super funds, but this idea could make them become more competitive anyway. Workers who have secure employment are unlikely to want to vary their present contributions, but there are many workers who would jump at the chance to access their contributions for spending now.

Such a short-term winning solution, like Bob Hawke's Accord, could also help to moderate wage increases.

John McElvaney
Lecturer
Business and law faculty
Deakin University
Melbourne Vic

Balance lacking

As the founder and chairman of an Australian software company, I thought coverage of our guidance statement was too selective ("Crisis, costs and caution trigger downgrades", January 29).

Our statement did provide a first-half earnings before interest, tax, depreciation and amortisation forecast of "above $4.5 million" which is as much as 65 per cent lower than the same half in 2007, as you breathlessly reported in two articles, but you omitted to include that our statement clearly explained the reduction in EBITDA was due to "costs associated with migrating infrastructure to lower cost locations".

Since starting the company in 1991, we have lived through three economic downturns and learnt that they present an opportunity to improve the long-term competitive position of the business. Now, we are accelerating our program to reduce costs by relocating staff positions from Europe to our operations in Romania and India. The resulting severance costs will be fully recovered in our 2009 fiscal year and will produce a saving of more than $10 million in 2010.

Ian Buddery
Executive chairman
eServGlobal Ltd
Sydney NSW

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