



In the City

Bloom and bust

THE more things change in the City and the world of regulation, the more they depressingly stay the same.

A backroom battle between lawyers and regulators has so far prevented the publication of even a neutered version of the Fundamentally Supine Authority's report into the collapse of the taxpayer-rescued Royal Bank of Scotland – which resulted in no action being taken against any RBS directors.

Publication is being resisted by lawyers for RBS and former directors such as Johnny Cameron, among others. This published version was ordered after the FSA tried to get away with a 300-word press release last December clearing the RBS directors of anything more than "bad decisions".

The FSA tried to insist the full report could not be published, which understandably provoked outrage from taxpayers and politicians but relief from directors and their advisers. The sanitised version of the report is not now due for months, but the full report by accountants PricewaterhouseCoopers into the impact of the ABN-Amro takeover on wrecking RBS is not intended to be made public.

Back in 1970 a similar battle to save City red faces after a major scandal resulted in an equally remarkable decision against the public interest which was not reversed. The scandal was the 1964 collapse of the Rolls Razor washing machine business created by John Bloom. The Conservative government ordered an official investigation into the collapse. It rocked the City, which had treated Bloom as a superstar, and cost shareholders and creditors millions (at a time when a million was real money).

After Bloom cut a 1969 deal with prosecutors to plead guilty in return for a fine and no time and the separate 1970 trial of his chairman, former Tory MP Richard Reader Harris, resulted in acquittal, first the Labour government and then the Tory government decided that the Rolls Razor report would never be published, thereby avoiding embarrassment over the robust criticisms of Bloom and his City advisers.

The 431-page, 1965 report was to be kept secret for 80 years! However, after repeated requests from *Private Eye* since 2008, a redacted version of the report has now been made available at the National Archives. The full version, including the most critical comments about Bloom and others, still remains closed until 2046.

The Rolls Razor report remains probably the only report of this nature – involving the appointment of outside inspectors under the Companies Act – never to have been published, despite the acceptance by politicians and civil servants at the time that publication was in the public interest.

However, despite the refusal of the National Archives to publish the full version, the *Eye* has obtained access to the unexpurgated conclusions of the report's highly regarded authors, the leading QC and later knighted judge Morris Finer and prominent accountant Sir (later Lord) Henry Benson, from Coopers & Lybrand. Previously unpublished Whitehall internal documents from the time reveal why their criticisms of Bloom and his City helpers were too hot to handle.

Benson sledges

The inspectors were in no doubt about the need for their findings to be made known because of the serious failings of Bloom's Establishment advisers – merchant bankers Kleinwort Benson, accountants Price Waterhouse (an auditor admitted altering evidence presented to the inspectors), lawyers Norton Rose and stockbrokers Fenn & Crosthwaite.

Benson warned the Board of Trade (now Business, Innovation and Skills) it would be "alarmed" at the inspectors' criticism of "a number of accountants". "The inspectors think that their report will have a profound effect on the City," wrote a senior BoT official. According to a BoT official after the report was received in December 1965, Benson believed it "revealed such slackness in the City that it ought to be published immediately".

In April 1970, after the Bloom plea bargain, Finer and Benson wrote to the BoT again, urging publication: "We felt the report would be salutary in demonstrating to the legal, accountancy and banking professions, and to the City as a whole, the necessity of maintaining strict standards in dealing with and advising on the affairs of public companies; in pinpointing particular dangers; and in demonstrating specific areas where professional procedures needed to be strengthened."

But the lawyers won. Allowing public criticism of those who had either escaped justice or had never been exposed to it was considered unfair! But unfair to whom? The same arguments are now being heard about RBS behind closed doors.

A one-time clerk with a history of failed companies, Bloom was worth the equivalent today of approaching £100m before he was 32, thanks to Rolls Razor introducing the first cheap washing machines sold directly to consumers, as well being a pioneer of package holidays –

Bulgaria. He was a seminal Sixties figure, living the life with expensive cars, yachts and planes.

He took control at Rolls Razor in 1960 and became the major shareholder in 1961 by injecting his Electromatic business. In 1962 Rolls Razor shares were sold to the public. The price almost doubled; the company was worth over £200m. But in 1964 it ran out of cash and crashed, leaving debts of £40m in today's terms.

The inspectors were withering in their findings. "The business was never the outstanding success... the press portrayed it and many of the public believed it to be." They said Rolls' profits and net assets were "seriously overstated". There was "a mistaken general acceptance that he [Bloom] was a man of considerable wealth".

"Bloom's word was the law in Rolls. [His] energies, coupled with the material signs of growing success, were used to win to his support persons and institutions of influence whose assistance he needed and to convince them, sometimes against their own reminder to themselves to proceed with caution, that they were dealing with a business prodigy."

Bloom, they declared, lacked "an instinct of commercial morality". He was "the primary source" of most of the "gross irregularities" identified in the report. These included "transactions involving corruption, misfeasance or fraud on the part of some of the executive directors and others".

"Responsibility... rests on many shoulders, but the primary responsibility falls on Bloom and Reader Harris, neither of whom had any innate concern for the introduction and enforcement of proper standards... but [were] reckless or indifferent over what was taking place... The



John Bloom



Richard Reader Harris

incompetence and dishonesty of the management were at the roots of the failure."

Bloom, they said, "looked upon Rolls as his own company without proper regard to the interests of outside shareholders or creditors". He took undisclosed, interest-free loans and was engaged in extensive insider dealing – not then a crime – which made an estimated net profit of £30m in today's terms.

Taking aim at Bloom's City advisers, the inspectors stated: "One of the most remarkable and depressing facts to emerge from our investigation is that some third parties who stood in an independent relationship with the Rolls group, and who had, from their various standpoints, some legal or at least moral duty towards the group, failed to discern what was taking place until it was too late; or did not have the determination to intervene... Greater wisdom [on their part]... might have prevented a disaster of the proportions that ultimately occurred."

Audit oddities

Finer and Benson blamed Kleinworts, Price Waterhouse and the smaller audit firm Gerald Edelman for not spotting flaws in the Bloom accounts which would have stopped the sale of shares to the public in 1962. The accounts were "incorrect by very substantial amounts".

Of PW, the Rolls auditors, they said: "We think that their audit tests and enquiries should have been of a more thorough and penetrating character, in which event many of the unsatisfactory features in the accounts would have come to light." Had problems in Electromatic been spotted by PW in 1961, "the whole catastrophe of the Rolls failure would not have occurred".

But the most serious criticism made of PW is that "many alterations, of varying degrees of importance" had been made in its working papers, particularly relating to the Rolls accounts for 1963 before it collapsed. "We have been much troubled by this episode," the inspectors wrote. Had they not been spotted, "we would have been misled".

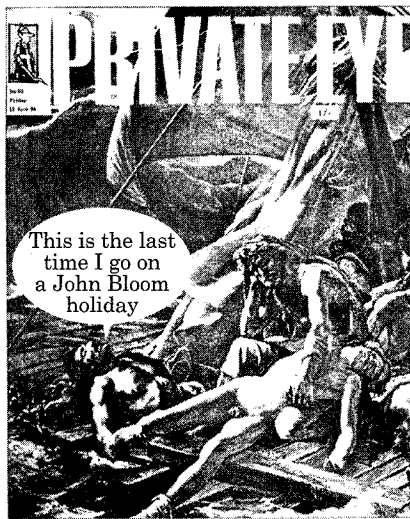
"If Kleinworts had acted with the degree of care which the facts known to them required them to exercise, they would never have associated themselves" with the corruption-tainted 1963 acquisition of the company Bylock which helped cause the Rolls collapse and was "a fraud on the minority shareholders". The bankers should have known enough about Reader Harris "to have had misgivings about his suitability to be chairman of a public company".

Bloom "mesmerised" his brokers, the blue-blooded Fenn & Crosthwaite, who pumped out "buy" circulars that contained "many errors of fact". "Much unfounded, untested and misleading information" was accepted from Bloom "without question". As a result he was able to engage in insider dealing and market manipulation.

Bloom had made Rolls Razor shares available to four senior executives from the *Daily Mirror* and *News of the World* to obtain prime positions for Rolls advertisements.

Similar failings by City advisers have been regularly repeated in almost every scandal since Rolls Razor, up to and beyond RBS.

But the inspectors' main target was Bloom. He had acquired control of Rolls Razor in return for Electromatic, whose "assets did not in fact exist". Thereafter the price of his Rolls Razor shares was maintained by the offer for sale that "Bloom knew was misleading"; by circulars to shareholders containing statements "he knew were untrue or



How Eye 65 saw the package holiday pioneer in 1964

misleading"; by publishing accounts "which to his knowledge were false or misleading"; by declaring unjustified high dividends; "by share manipulation and by encouraging the company's stockbrokers to publish inaccurate information about the company's fortunes".

Bloom, Reader Harris and four other directors were charged in February 1968 with offences including conspiracy and fraudulent trading. There were to be two trials, the first focusing on the Electromatic deal and the second on the Rolls Razor collapse. Bloom was a defendant in both; his trial was set for late 1969.

Master of Rolls

However, to public uproar and without any notice to the other defendants such as Reader Harris or the Scotland Yard Fraud Squad investigators, who expressed disgust when told, Bloom appeared at the Old Bailey in October 1969 to plead guilty to two lesser charges on the second indictment and was fined £30,000, or about £375,000 in today's terms. Bloom pleaded guilty to making a false statement regarding the 1963 Rolls accounts and reckless statements in the 1963 Bylock circular. The prosecution accepted he was not guilty of the more serious fraud charges.

There had been a fix behind the scenes (officially denied). The key to the climb-down was the adverse ruling in a civil case brought by the Rolls Razor liquidator against Bloom over warranties given on the Electromatic deal. Mr Justice Fisher, in July 1969, had thrown out four of five claims against Bloom and implicitly rejected the views of the inspectors that there had been fraud. This "torpedoed the case below the waterline", recalls a member of the prosecution team. Rather than face defeat on the first Bloom trial, which was expected to last five months and be very costly, a deal was cut with Bloom's lawyers, which ensured he did not go to jail and enabled him to deny any fraudulent trading at Rolls Razor.

Reader Harris's QC, Jeremy Hutchinson, wrote to the then attorney-general, Sir Elwyn Jones, stating: "The Crown as a matter of bargaining and not upon the merits of the case had accepted a plea of not guilty from the principal offender... We feel personally that there is something most unfortunate and indeed wrong in the procedure which has been followed." Many agreed.

Hutchinson wanted the charges against Reader Harris dropped. This was refused, but the MP was acquitted anyway in May 1970. Three lesser directors were convicted.

The Finer/Benson report now created a major embarrassment for the government when compared with what one official described as "the conclusions of the courts". Then there was the problem of Bloom's accepted not guilty plea and the individuals, such as two PW accountants and one from Edelmans, who had not been charged.

Elwyn Jones asked Michael Corkery QC, part of the prosecution team, whether the Rolls Razor report could be published. His May 1970 opinion was unequivocal. To publish would be "unfair" to those not charged and, given the Fisher and criminal court results, "I do not see how the report can possibly be published and in my view to do so would be wrong."

This view was accepted by Elwyn Jones and his Tory successor as attorney-general, Sir Peter Rawlinson. For the Tories there were added potential embarrassments. Home secretary Reginald Maudling had been a Kleinworts director, and Fenn & Crosthwaite partner Sir Malby Crofton was a prominent Conservative politician in London. In November 1970 the government of Edward Heath, who as president of the Board of Trade had appointed the inspectors in 1964, announced the Rolls Razor report would never be made public.

Bloom left Britain for the US and later Majorca. Reader Harris was sacked as an MP before the 1970 general election. He died in 2009.

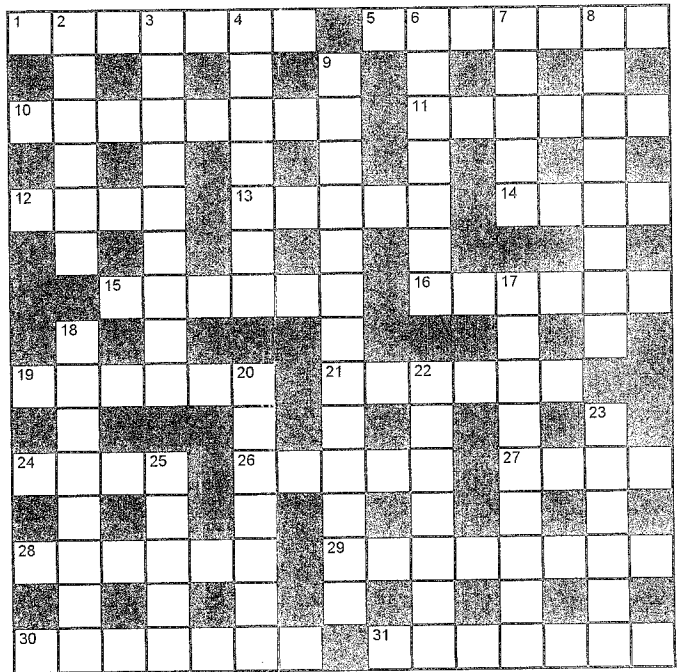
Any future obituary of Bloom, 80 this year, can now report the real Rolls Razor verdict. Meanwhile, the fate of the report supports Sir Henry Benson's view on the need for such reports, like that into RBS, to be published quickly and in full.

'Slicker'

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CROSSWORD
443
by Cyclops**

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ACROSS

- 1 Opening of Chancellor's jumper good for cleavage (7)
- 5 City trendy gets top grade? *Piss off!* (7)
- 10 Strip club possibly offering top shelf screwing (5,3)
- 11 Arse half let out - courage! (6)
- 12/13/14 Two Houses divided by Darling? There's nothing like it (4,5,4)
- 15 Stay in that position, as the male flasher might demand? (4,2)
- 16/25 Grabbing love handles, say, being partial? (6,5)
- 19 Baby-faced singer's craggy features? (6)
- 21 Features Vince finally getting out of the shit (about time) (6)
- 24 See 27ac.
- 26 House associated with stink - tell me something *I don't* know! (2-3)
- 27/24 One who has troubled vision of two months' worth of Cyclops, etc.? (4-4)
- 28 Toppled leader in need of a life gets nuts switched round (6)
- 29 Dense lot of stars exploit the backside off celebrity fashion (5,3)

- 30 Filthy cluer has nothing on Cyclops ultimately which is ultimately a relief (7)
- 31 Dish gets to arouse Stephen? (4-3)

DOWN

- 2 Depression makes you shout "Brenda's got to go - what a pain!" (6)
- 3 Wee Dicky, shafted by Rebekah, for one, is far from happy (6,3)
- 4 Once popped the question starkers? (7)
- 6 Store time: Al-Fayed's head's stuck into dress (7)
- 7 Cop starts to contract herpes after pussy (5)
- 8 Archer's goal tops Cyclops's as a source of profit (4,4)
- 9 The scandalous way in which we reveal press hypocrisy (6,2,5)
- 17 End of Nick: eerily involved with *FT*, tester of public opinion (4-5)
- 18 Shag and dance after pressure to join in (4,4)
- 20 Sex with age-battling singer entertaining Cyclops, intriguing type (7)
- 22 Musical reached climax by chance (7)
- 23 A bust with uranium implant is help with housework, etc. (2,4)
- 25 See 16ac.

Crossword 442 winner: T.D.L. SCREECH

ACROSS: 8 By-election 9/27 Clueless 11 Like a shot 12 Rowed 13 Trout 14/18/24 Walk down the aisle 17/25 Starbucks 22 Ordinary 28 Blue Peter 29 So-so 30 Working out.

DOWN: 1 Ability 2 Get knotted 3 Megastar 4 Itchy 5 Mortgagee 6/19A Blowpipe 7/26 Wedding bells 10 Trek 15 Opposition 16 Story-book 19 Play-pens 20 Bombast 21 Regrets 23 Nosh.



H U S B A N D

