S.G. Warburg: Crown's banker in trouble?

by William Engdahl

Shortly before Christmas, one of the elite City of London investment banks, S.G. Warburg and Co., made a surprising announcement that it was in negotiations with the Wall Street investment house Morgan Stanley on a proposed merger of the two firms to form a global financial entity. Immediately stories were planted in London and New York financial media touting the merger as a marriage of two giants which would create a formidable international financial power on both sides of the Atlantic. Stock prices of Warburg shot up in speculation over the outcome.

Now details are emerging which offer a far different picture than the "conderella" version issued by Warburg senior management in early December.

Just days before Christmas, Morgan Stanley issued a terse statement that the talks had broken down over the refusal of Warburg's lucrative fund management subsidiary, Mercury Asset Management, to accept the overall merger with the American firm. A spokesman for Morgan Stanley in New York confirmed that the firm had little interest in a merger, other than to gain access to the multibillion-dollar asset base of Warburg's 75% owned Mercury Asset Management. But the actual reasons for the merger talks in the first place were obscured by a loyal British press.

City of London sources have told *EIR* that the merger talks had little to do with creation of a new financial giant, but rather with the fact that Warburg, a central part of City of London financial power, was in deep financial crisis. "These were not merger talks," a senior member of another London merchant bank told *EIR*. "Both parties agreed to term it merger, rather than takeover of Warburg by Morgan Stanley, in order not to damage Warburg's reputation."

City of London sources report that the Bank of England had secretly sought out Morgan Stanley as a suitable partner in order to bail out one of the premier merchant banks of London. The head of Morgan Stanley European operations in London, David Walker, had previously served as a senior official of the Bank of England. Also not incidentally, Warburg chairman Sir David Scholey sits on the Court of Directors (board of governors) of the Bank of England. A failure of Warburg's would not only "embarrass" the Bank of England, it would deal a devastating blow to London's bid to become the dominant world banking and finance center.

Reliable sources among City of London bond dealers say that Warburg has sustained devastating losses over the past 12 months on its bond portfolio trades. Last Sept. 30, the bank announced losses for the half-year of several hundred million dollars, down 43% over a year earlier, but in itself hardly grounds for filing for bankruptcy.

In reality, however, according to these reports, Warburg hid the scale of its true losses, in desperate hopes that a resounding recovery in world bond and financial markets would occur before the end of the Warburg fiscal accounting year on March 31, 1995. When bond markets continued to fall into the early days of December and book losses on Warburg's accounts brought the bank to what some believe is a state of de facto insolvency, the Bank of England was forced to take emergency actions and to find an appropriate partner, while allowing Warburg's to portray it as a merger of strength to quiet rumors of Warburg problems.

Those problems are slowly coming to light. Within days of the breakdown of the talks, Warburg announced the firing of a director responsible for group-wide bond trading, Peter Twachtmann. The dramatic move was attributed to the breakdown of the merger negotiations, a hardly plausible cover story. The market in British government bonds in 1994 underwent its most severe losses since 1955.

Broker to the queen

But there is more at stake with the future of Warburg, because it is no ordinary British merchant bank. It is one of the institutions at the very core of what has been termed the "Club of the Isles," an ultra-secretive informal group of the leading royal families of Europe and their financial assets around the House of Windsor.

Warburg indeed is no ordinary securities firm. It is the official stockbroker to the queen through its stockbroker subsidiary, Rowe and Pitman. Rowe and Pitman is also stockbroker to the world's most influential oil company, Royal Dutch Shell, in which Queen Elizabeth is reported to have a major private shareholding. But these are not the only ties to the House of Windsor's "Club of the Isles." The chairman of Warburg, Rt. Hon. The Earl Cairns, also serves as the personal financial investment adviser to Prince Charles, among whose titles, in addition to being Prince of Wales, is the title Lord of the Isles. The "Isles" is a historical reference to Britain's northern islands near Norway, including the Shetlands, Orkney, and such. The name "Club of the Isles" is said to refer to a broader grouping of old secretive families of the northern European "black oligarchy" whose wealth and power is tied to firms like Warburgs and N.M. Rothschilds in London.

In any case, on approximately March 31, the world will likely have a clearer idea. All indications are that the results will be grim unless the powers of the Bank of England are able to quickly find another solution to their financial problem.