FINANCIAL TIMES

FRIDAY 19 MAY 2023 NATIONAL NEWSPAPER OF THE YEAR UK £3.50; Republic of Ireland €3.90

The content moderators taking on Facebook
BIG READ, PAGE 21

All that glitters for investors is gold
GILLIAN TETT, PAGE 23

Flower power
China hosts local summit

Florence Lo/AFP

Performers take part in a welcome ceremony in Xi'an, China, yesterday where President Xi Jinping is hosting his first in-person central Asian summit.

With Russia distracted by its war in Ukraine, Beijing is pushing for closer ties with five strategically important former Soviet republics: Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan.

China has played up the symbolism of the summit, at which Xi is showcasing his skills as a statesman as Japan's premier Fumio Kishida prepares to host the G7 in Hiroshima this weekend.

Proposals at the meeting in Xi'an, the Chinese city from where the Silk Road trade route once snaked through central Asia to Europe, include a plan for China, Kyrgyzstan and Uzbekistan to build a $4.1bn rail link to Europe that avoids going via Russia.

Xi courts former Soviet states page 6

BT plans to cull 55,000 jobs this decade in most radical cuts since privatisation

- 42% of workforce targeted
- AI to take some roles
- Full-fibre rollout to end
- Mixed annual results

ANNA GROSS — TMT CORRESPONDENT

BT is planning to slash up to 42 per cent of its workforce, or 55,000 roles, by the end of the decade as the telecoms group uses advances in AI technology to replace some customer services staff with automation.

In its most radical cost-cutting drive since being privatised in the 1980s, chief executive Philip Jansen said AI would bring about sweeping changes with roles lost to digitisation. "For a company like BT there is a huge opportunity to use AI to be more efficient," he said, adding that generative AI would bring significant advances.

Jansen pointed out that many of the job cuts would come from the end of the full-fibre rollout that the group was "spending a fortune on now", adding that it would become "a leaner business with a brighter future".

BT said it would cut between 40,000 and 55,000 jobs, including third-party contractors, by 2030. The group's workforce totals 130,000, including around 30,000 mostly full-time contractors.

The move comes two days after rival Vodafone unveiled plans to axe 11,000 jobs over the next three years to boost its flagging performance.

> The job cuts will be made in an 'organised and thoughtful' manner
> Philip Jansen, chief executive

Faced with rising costs and a series of underperforming businesses, BT is already in the middle of a cost-cutting programme that has saved it £2.1bn out of a £3bn target. The latest cuts will include 15,000 fibre engineers, 10,000 maintenance workers and 10,000 eliminated by increasing automation, Jansen said.

"This is an existing plan, we're just announcing it and giving people a flavour of the landing zone in five to seven years' time," he added.

The Communication Workers Union, the biggest union representing BT workers, said the job cuts did not come as a big surprise.

"The introduction of new technologies across the company, along with the completion of the fibre infrastructure build replacing the copper network, was always going to result in less labour costs for the company in the coming years."

The union added that it had told BT "that any reduction should come from subcontractors in the first instance and natural attrition".

However, John Ferrett, a negotiator at Prospect, said the union was "deeply concerned by the scale of these cuts" and had demanded an urgent meeting with Jansen. "Announcing such a huge reduction in this way will be very unsettling for workers who did so much to keep the country connected during the pandemic," it said.

Jansen told the FT the job cuts would be made in an "organised and thoughtful" manner. He added: "If we get this done well, there doesn't need to be a load of attrition."

BT's move to deepen its cost-cutting drive came as the former monopoly reported a mixed set of annual results. While revenues and profits surpassed expectations, its free cash flow — a metric closely watched by investors — disappointed.

Full-year revenues at the group dipped 1 per cent to £20.7bn compared with a forecast of £20.5bn. Its adjusted earnings before interest, tax, depreciation and amortisation climbed 5 per cent to £7.9bn, bolstered by above-inflation price increases for most consumer contracts.

Shares in BT closed 5 per cent lower yesterday.

Lex page 24

Briefing

- **No 10 berates water groups over sewage costs**
Downing Street has hit out at the industry after the companies admitted that households would be asked to pay for a £10bn investment to cut spills.— PAGE 2

- **Royal Mail hits £1bn loss**
The mail group has said it does not expect a profit until 2025 as it races to recover from a dispute with postal workers that has hurt its delivery times.— PAGE 12

- **Sunak rules out DUP deal**
The prime minister has ruled out coalition with Northern Ireland's Democratic Unionists after the next election, closing a potential route to retaining power.— PAGE 3

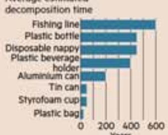
- **PwC parachutes in bosses**
The accounting firm has sent top global executives into its business in Australia, where they will seize oversight, after the local team's role in a tax leak scandal.— PAGE 10

- **Credit Suisse investor win**
Bondholders have forced a Swiss regulator to divulge the decree that wiped out their investments, in an early victory in the bid to overturn the writedown.— PAGE 9

- **Turkey poll hits reserves**
Currency and gold reserves fell $17bn ahead of last Sunday's vote as the Erdoğan government sought to prop up the economy, FT analysis has shown.— PAGE 6

Datawatch

Marine debris
Average estimated decomposition time



Sources: Our World in Data; NOAA

Oceans are littered with everyday items discarded by fishing vessels, oil and gas platforms and cargo ships. Some of these, such as plastic bags, take 20 years to decompose, while others, such as fishing line, can take six centuries

Diamonds are latest facet of west's bid to curb Putin

Leaders of the G7 nations are aiming to step up pressure on Russia's war machine with proposals for new sanctions covering ships, aircraft, individuals and diamonds. Diamonds are one of Russia's few remaining export industries still relatively unscathed by western sanctions. The 'traceability initiative' is intended to stop Moscow bypassing sanctions by using India, which operates the world's largest diamond polishing industry.

G7 eyes sanctions » PAGE 4

Icahn admits mistake after massive bet on market crash costs him $9bn

ANTOINE GARA AND ORTENCA ALIAJ — NEW YORK

Carl Icahn has admitted he was wrong to make a huge bet that the market would crash after the ill-fated trade cost his firm nearly $9bn over six years.

According to Financial Times analysis, the prominent activist investor lost about $1.8bn in 2017 on hedging positions that would have paid out if asset prices had tumbled, before losing a further $7bn between 2018 and the first quarter of this year.

"I've always told people there is nobody who can really pick the market on a short-term or an intermediate-term basis," Icahn told the FT in an interview. "Maybe I made the mistake of not adhering to my own advice in recent years."

Icahn Enterprises started aggressively betting on a market collapse in the aftermath of the 2008 financial crisis and became increasingly bold in subsequent years, deploying a complex strategy that involved shorting broad market indices, companies, commercial mortgages and debt securities.

At times, Icahn's notional exposure, the underlying value of the securities he bet against, exceeded $15bn, regulatory filings show. "You never get the perfect hedge, but if I kept the parameters I always believed in . . . I would have been fine," he said. "But I didn't."

Icahn Enterprises, the listed vehicle majority owned by the activist that allows retail investors to join his wagers, reported a total of $4.3bn in short losses in 2020 and 2021 as markets rebounded from the pandemic after the Federal Reserve's stimulus. "I believed the market was in for great trouble," said Icahn.

"[But] the Fed injected trillions of dollars to fight Covid and the old saying is true: 'Don't fight the Fed'."

The trades threaten to undermine Icahn's status as one of the most feared activist investors. This month, short seller Hindenburg Research released a report saying it believed the value of Icahn Enterprises was inflated and its dividend unsustainable. Shares of the company have fallen more than 30 per cent since the report was published.

Icahn exposed himself to another risk by taking out a margin loan that was first disclosed in early 2022. Hindenburg's report drew attention to the loan. Addressing Hindenburg's allegations this month, Icahn Enterprises said Icahn was in "full compliance" with regard to personal loans and announced a $500mn stock buyback authorisation in a bid to bolster its stock.

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No: 41,327 ★

Printed in London, Liverpool, Glasgow, Dublin, Frankfurt, Milan, Madrid, New York, Chicago, San Francisco, Tokyo, Hong Kong, Singapore, Seoul, Dubai

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World Markets

STOCK MARKETS

	May 18	Prev	%chg
S&P 500	4176.63	4158.77	0.43
Nasdaq Composite	12637.09	12500.57	1.09
Dow Jones Ind	33344.87	33420.77	-0.23
FTSEurofirst 300	1844.71	1836.64	0.44
Euro Stoxx 50	4368.94	4323.23	1.06
FTSE 100	7742.30	7723.23	0.25
FTSE All-Share	4221.45	4210.17	0.27
CAC 40	7446.89	7399.44	0.64
Xetra Dax	16163.36	15951.30	1.33
Nikkei	30573.93	30093.59	1.60
Hang Seng	19727.25	19560.57	0.85
MSCI World $	2820.92	2802.39	0.66
MSCI EM $	975.83	979.24	-0.35
MSCI ACWI $	651.81	648.23	0.55
FT Wilshire 2500	5372.45	5304.46	1.28
FT Wilshire 5000	41883.15	41346.30	1.30

CURRENCIES

Pair	May 18	Prev	Pair	May 18	Prev
$/€	1.077	1.082	€/$	0.929	0.924
$/£	1.241	1.247	£/$	0.806	0.802
£/€	0.868	0.868	€/£	1.152	1.152
¥/$	138.615	137.425	¥/€	149.281	148.701
¥/£	171.987	171.321	£ index	80.175	80.127
SFr/€	0.975	0.973	SFr/£	1.124	1.121

CRYPTO

	May 18	Prev	%chg
Bitcoin ($)	27040.40	27402.90	-1.32
Ethereum	1808.20	1822.14	-0.77

COMMODITIES

	May 18	Prev	%chg
Oil WTI $	71.82	72.89	-1.47
Oil Brent $	75.75	76.96	-1.57
Gold $	1974.40	2007.45	-1.65

GOVERNMENT BONDS

Yield (%)	May 18	Prev	Chg
US 2 yr	4.21	4.14	0.08
US 10 yr	3.63	3.57	0.07
US 30 yr	3.90	3.87	0.04
UK 2 yr	3.95	3.85	0.10
UK 10 yr	4.09	3.98	0.12
UK 30 yr	4.34	4.23	0.11
JPN 2 yr	-0.06	-0.06	0.00
JPN 10 yr	0.38	0.36	0.02
JPN 30 yr	1.22	1.20	0.02
GER 2 yr	2.75	2.69	0.05
GER 10 yr	2.44	2.33	0.11
GER 30 yr	2.63	2.51	0.12

Prices are latest for edition
Data provided by Morningstar

A Nikkei Company

Up for auction Oversupply of oilfield equipment is a stark sign that drilling in US shale energy regions is levelling off ● PAGE 10

Companies & Markets

Credit Suisse bondholders study Finma's wipeout order

- Judge grants access in AT1 lawsuit
- Ruling piles pressure on watchdog

ROBERT SMITH, STEPHEN MORRIS AND OWEN WALKER

Credit Suisse bondholders have forced the Swiss financial regulator to divulge the decree that wiped out their investments, handing them an early victory in the legal battle against the writedown.

Investors representing at least $4.5bn of wiped-out additional tier 1 bonds filed a lawsuit against Finma last month. The suit accuses the banking regulator of having acted unconstitutionally when it ordered the bank to cancel the $17bn of AT1 bonds as part of its shotgun marriage to UBS two months ago.

The investors and Quinn Emanuel, their law firm, launched their challenge largely in the dark as Finma had kept secret the wording of its decree ordering the writedown of their investments.

> 'Before, it seemed like [investors] were fighting a law . . . now it's back in the realm of contracts'

But the judge overseeing the case, filed in St Gallen, ordered Finma to hand over the decree last week, giving the AT1 bondholders a firmer foothold to contest the writedown. In addition to the decree, the government issued two emergency ordinances expanding Finma's powers to do so.

The first ordinance on March 16 did not mention the AT1 bonds. But on March 19, a Sunday, officials added the line: "Finma may order the borrower and the financial group to write down additional tier one capital". The government said this gave Finma a "clearer legal basis" to wipe out the bonds.

Finma has publicly said the contractual conditions were met to write down the bonds because Credit Suisse drew on government-backed liquidity facilities in the days before its rescue by UBS.

This provoked an outcry from investors because the AT1 bonds could be written down only if government assistance also bolstered the bank's capital ratios, which they argued was not the case given the authorities intervened only to aid Credit Suisse's liquidity.

A copy of Finma's decree says the government-backed facilities had a "direct positive effect on the liquidity and capital situation". Finma said this satisfied the so-called viability event clause in the bond's documents and meant the bank "was therefore able to write off the AT1 instruments on its own initiative".

One bondholder said the fact that the decree explicitly sets out Finma's interpretation of the contracts governing the AT1 bonds would help the challenge.

"Before, it seemed like you were fighting a law, or an ordinance, which made it a constitutional fight" in which investors were less likely to prevail, he said. "Now it's back in the realm of contracts."

The investor said Finma's reasoning that drawing on liquidity facilities also bolstered Credit Suisse's capital was "absurd" and could have set a worrying precedent. "If every time a bank draws on central bank money it triggers their AT1s then we'd be in a real mess."

Finma declined to comment.

The decree sheds further light on the scale of the run in the days before the takeover was agreed. Finma noted that after a run on the back of a crisis in US regional lenders, Credit Suisse "reached its internal cash limit with the Swiss National Bank" in mid-March and that a fall below this value presented a risk the bank would "no longer be able to execute its payment transactions properly".

Credit Suisse applied to the SNB for SFr39bn ($43bn) in liquidity assistance on March 15. It was granted the next day. After outflows of SFr14bn on March 16, it applied for a further SFr20bn.

Tax break Tourists spending more across the Channel after loss of VAT perk, says Burberry

Burberry says that Paris, Milan and Barcelona have been benefiting at the UK's expense – Filippo Fior/Burberry

LAURA ONITA

A lack of tax-free shopping for overseas tourists is making the UK "less competitive" and benefiting continental Europe, Burberry's chief executive has warned.

Visitors had been returning to mainland Europe, mainly Paris, Milan and Barcelona, in "bigger and greater" numbers than London, putting the UK at a "competitive disadvantage", said Jonathan Akeroyd.

"We've seen a big surge in British tourists spending in mainland Europe as well, which is obviously quite telling," he said yesterday as the UK luxury brand reported an acceleration of fourth-quarter revenue growth in China.

A scheme that allowed visitors from outside the EU to claim a VAT refund on most shopping receipts was scrapped after Brexit. Akeroyd's remarks mirror calls on the government from other UK luxury goods retailers and lobby groups to reinstate the tax break for overseas tourists, who have been flocking to continental Europe where the perk is still offered.

Sales to tourists were up 19 per cent in London in the last quarter of Burberry's financial year, which runs to April 1 and compared with pre-pandemic levels, but rose by "triple digits" in Paris and 43 per cent in Milan.

Preliminary results showed Burberry's revenue in the year to April 1 rose to £3bn from £2.8bn the previous year, while adjusted operating profit rose 21 per cent to £634mn — ahead of analysts' estimates.

Burberry's results follow a mixed picture for rivals in the first quarter. Gucci owner Kering underwhelmed, while Christian Dior owner LVMH last month became the first European company to hit $500bn market value thanks to a strong performance.

Akeroyd vowed to return to the "Britishness" of the 167-year-old brand when he took over in March last year, targeting annual sales of £5bn over the long-term.

In China, growth rebounded to 13 per cent in the fourth quarter but in the US sales fell 7 per cent as more customers were going abroad, as well as buying fewer less expensive items.

Despite the lift in sales and profits, the shares fell almost 7 per cent to £23.51.

"The fact Burberry hasn't lifted its guidance for the new financial year after reporting such a strong set of results and the reference to it being 'mindful of the macroeconomic and geopolitical environment', appear to have been the trigger for some investors to take profits in the stock," said Russ Mould of AJ Bell.

"Investors want companies to consistently beat expectations and if they can't do that, they will look elsewhere in the current market," he added.

Aston Martin shares climb 12% after Geely doubles stake

PETER CAMPBELL

Geely has doubled its stake in Aston Martin to 17 per cent and will supply technology and components under a new "long-term partnership", expanding its influence over the luxury-car maker it has long desired to own.

The Chinese carmaker spent £234mn increasing its holding, becoming the third-largest shareholder after the consortium of investors led by Aston Martin chair Lawrence Stroll, and Saudi Arabia's Public Investment Fund, and placing it ahead of Mercedes-Benz.

Geely bought 42mn shares from Stroll's consortium, and was issued with 28mn new shares at 335p each, a substantial premium over Wednesday's closing share price of 231p. The deal raises £95mn for Aston Martin.

Aston Martin shares closed up 12.46 per cent at 260p yesterday.

Geely has reached a new agreement with the UK-listed company that will mean it gets a board seat, and it agreed not to increase its holding above 22 per cent until August 2024.

The carmaker has tried to buy Aston Martin several times, launching a rival bid to Stroll in 2020, and more recently last summer. It eventually bought a 7.6 per cent stake last September.

Geely chief executive Daniel Li said last week that the company "loves the brand" and wanted to "generate synergies" with its current business that includes Lotus and Polestar.

Stroll said yesterday the relationship with Geely "offers us a deep understanding of the key strategic growth market that China represents, as well as the opportunity to access their range of technologies and components".

Helping Aston Martin with greater access to China, where it has traditionally been weaker, could see Geely open flagship stores for the brand in locations such as Shanghai and Beijing.

Geely chair Li Shufu, otherwise known as Eric Li, said: "Our decision to increase our shareholding in Aston Martin reflects our confidence in the company's growth prospects, its technologies and its management team.

"Since first acquiring our minority holding last September, we have worked collaboratively with executive chair Lawrence Stroll and his colleagues and now look forward to exploring joint technology synergies and new growth opportunities to help this iconic automotive brand achieve its full potential."

A form of direct regulation for AI models will become inevitable

INSIDE BUSINESS
TECHNOLOGY
Richard Waters

For regulators trying to get their heads around the new generation of artificial intelligence systems like ChatGPT, there are two very different problems to confront. One is when the technology does not work as intended. The other is when it does.

Generative AI, which produces text or images automatically, has become a potential menace because of both its awesome power and its uncontrollability — a noxious combination that presents unique problems for anyone hoping to limit their capacity for harm.

Before ChatGPT, a consensus had largely formed around the objectives of AI regulation. All the attention was on trying to control the applications of the technology, with a particular focus on its use in high-risk situations like healthcare. Now, an altogether different question has presented itself. When a smart, all-purpose chatbot has the ability to cause upheaval across a wide range of human activity, is it time to regulate the AI models themselves?

So-called general purpose technologies like AI, which can be used for many different things, present a particular problem for regulators. With AI, it is difficult to separate benign uses from the more sinister. And AI makers admit they can't explain exactly how the technology works, or predict when a particular input in the form of a prompt will lead to a particular output.

The encouraging news is that there is plenty of work going on to get to grips with the unique problems presented by the technology. For governments around the world, the question now is whether to step in and back these efforts with the force of formal regulation.

The so-called large language models that lie behind generative AI services like ChatGPT fail on the most basic measure of effectiveness for any piece of technology: being able to clearly specify what it is intended to do, and then measure whether it achieves is objectives.

There is little that is repeatable in their performance, and evaluations of their output are highly subjective.

In the US, the National Institute of Standards and Technology has been working with experts to try to come up with standards for how these systems should be designed, tested and deployed.

> OpenAI and Google face reputational risk from the fear caused by such a powerful and opaque technology

Another push has been for transparency, potentially making it easier to subject the models to a greater degree of outside scrutiny. Understanding what's happening inside a learning system like an LLM is not as straightforward as exposing the code in traditional software.

But makers of large models like OpenAI and Google face reputational risk from the fear caused by such a powerful and opaque technology, and are keen to find ways to satisfy the hunger for more openness. After the chief executives of four of the leading AI companies visited Washington earlier this month, the White House announced that they would submit their models for outside scrutiny at the annual Defcon cyber security conference this August.

Setting standards for safety processes, increasing transparency about the models' workings and giving outside experts a chance to kick the tyres are all ways to increase assurances about LLMs. The question is what formal regulation is needed — and what restrictions should be placed on models deemed a threat.

One possibility, suggested by Alexandr Wang, CEO of Scale AI, would be to treat AI the same as the GPS positioning system, limiting the most powerful versions of the technology for restricted uses. But it would be hard to impose limits like this in a competitive technology market. Another approach, recommended this week by OpenAI CEO Sam Altman, would be to subject LLMs to direct regulatory oversight. A licensing regime could be used to ensure they adhere to certain safety standards and have been appropriately vetted.

Despite the appeal, there are obvious drawbacks to this. It would risk carving out a separate market of large, regulated models under the control of a handful of companies with resources to operate in a highly regulated environment.

The current breakneck pace of development in AI would also cause problems. By definition, today's most advanced models quickly become tomorrow's routine pieces of software.

At the same time, some of the capabilities currently available only in large, all-purpose models like ChatGPT may soon also come from much smaller systems trained to handle narrower tasks.

None of this lends itself to easy answers. But with the technologists themselves calling for oversight of the smart bots, some form of direct regulation seems inevitable.

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