Bank of England
Report and accounts
1988

Bank of England

Report and accounts for the year ended 29 February 1988

Issued by Order of the Court of Directors 12 May 1988

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Court of Directors

29 February 1988

The Rt Hon Robert Leigh-Pemberton *Governor*
Sir George Blunden *Deputy Governor*

Dr David Valentine Atterton CBE
The Hon Sir John Francis Harcourt Baring CVO
Sir George Adrian Hayhurst Cadbury
Frederick Brian Corby
Sir Colin Ross Corness
Rodney Desmond Galpin*
Edward Alan John George*
Sir Robert Haslam
Sir Martin Wakefield Jacomb
Sir Hector Laing
Gavin Harry Laird
Anthony David Loehnis*
Sir David Gerald Scholey CBE
David Alan Walker*
Deryk Vander Weyer CBE
Sir Leslie Clarence Young CBE

It was announced in January that The Rt Hon Robert Leigh-Pemberton had been appointed Governor for a further term of five years from 1 July 1988.

The terms of office of Dr Atterton, Mr Galpin, Mr Vander Weyer and Sir Leslie Young expired on 29 February; they were reappointed for a period of four years.

Mr Galpin resigned on 31 March 1988: Mr Brian Quinn was appointed in his place and for the remainder of Mr Galpin's term of office.

Mr Walker relinquished his executive responsibilities on 30 April 1988.

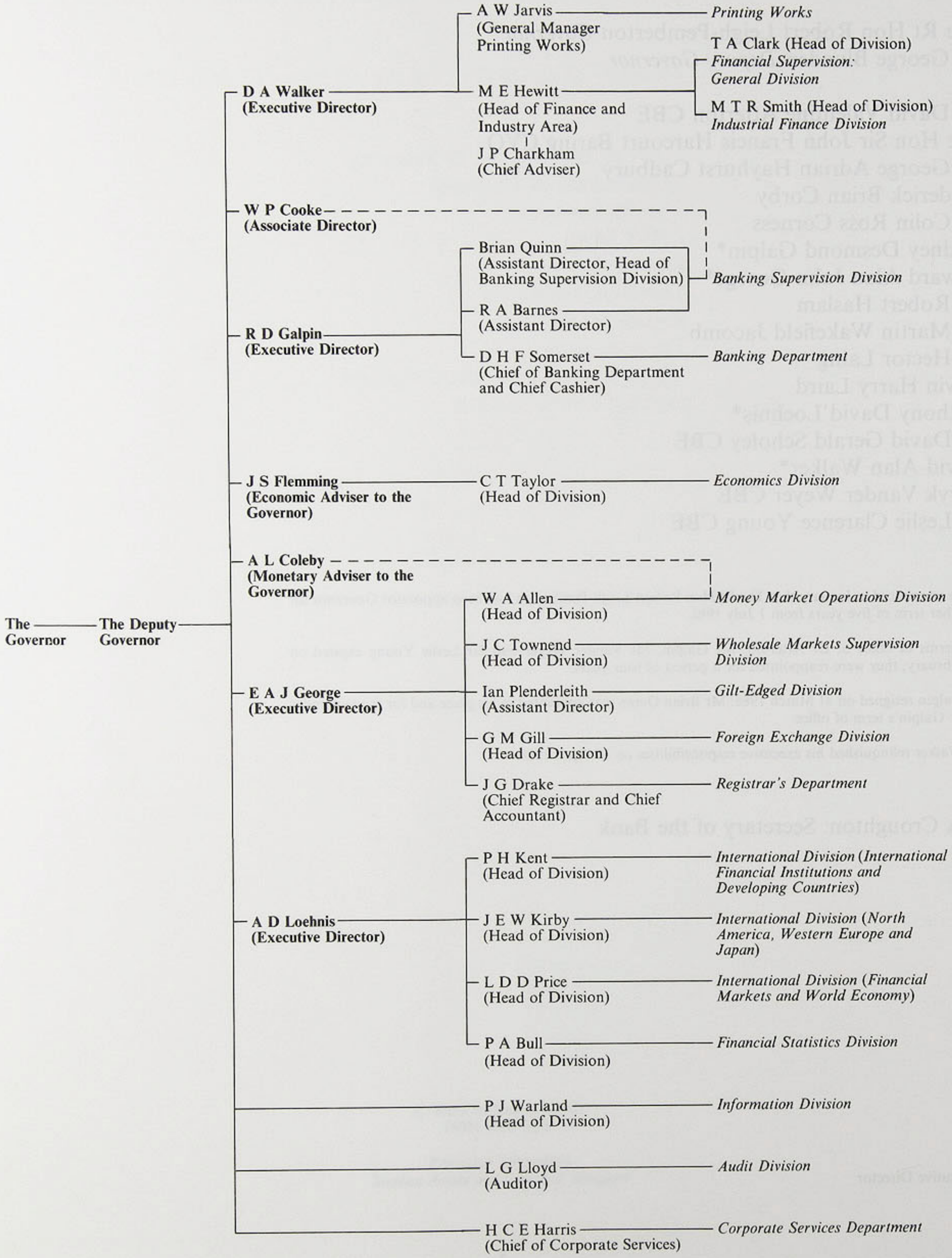
G A Croughton: Secretary of the Bank

*Executive Director

Organisation of the Bank

A number of changes at senior levels in the Bank were announced after the end of the Bank's accounting year. The two organograms show the organisation of the Bank in February and May 1988.

February 1988



Organisation of the Bank:

May 1988

- **The Governor** — **The Deputy Governor**
  - **P H Kent** (Associate Director)
    - A W Jarvis (General Manager Printing Works) — *Printing Works*
    - M E Hewitt (Head of Finance and Industry Area)
      - T A Clark (Head of Division) *Financial Supervision: General Division*
      - M T R Smith (Head of Division) *Industrial Finance Division*
  - **J P Charkham** (Adviser to the Governor)
  - **W P Cooke** (Associate Director) - - - *Banking Supervision Division*
  - **Brian Quinn** (Executive Director)
    - R A Barnes (Assistant Director, Head of Banking Supervision Division) — *Banking Supervision Division*
    - G M Gill (Chief of Banking Department and Chief Cashier) — *Banking Department*
  - **J S Flemming** (Associate Director and Chief Economist)
    - C T Taylor (Head of Division) — *Economics Division*
  - **A L Coleby** (Monetary Adviser to the Governor) - - - *Money Market Operations Division*
  - **E A J George** (Executive Director)
    - W A Allen (Head of Division) — *Money Market Operations Division*
    - J C Townend (Head of Division) — *Wholesale Markets Supervision Division*
    - Ian Plenderleith (Assistant Director) — *Gilt-Edged Division*
    - M D K W Foot (Head of Division) — *Foreign Exchange Division*
    - J G Drake (Chief Registrar and Chief Accountant) — *Registrar's Department*
  - **A D Loehnis** (Executive Director)
    - J E W Kirby (Head of Division) — *International Division (International Financial Institutions and Developing Countries)*
    - L D D Price (Head of Division) — *International Division (North America, Western Europe and Japan)*
    - A R Latter (Head of Division) — *International Division (Financial Markets, World Economy and Debt)*
    - P A Bull (Head of Division) — *Financial Statistics Division*
  - P J Warland (Head of Division) — *Information Division*
  - L G Lloyd (Auditor) — *Audit Division*
  - **H C E Harris** (Associate Director)
    - S R Chandler (Head of Division) — *Systems and Office Services Division, Corporate Services*
    - G A Croughton (Secretary of the Bank) — *Secretary's Division, Corporate Services*
    - G F J Everett (Head of Division) — *Premises Division, Corporate Services*
    - J S Rumins (Head of Division) — *Finance and Resource Planning Division, Corporate Services*
    - D A Sharp (Head of Division) — *Personnel Division, Corporate Services*
    - Mrs Anne Skinner (Head of Division) — *Administration Division, Corporate Services*

Foreword

1987 will long be remembered in financial circles for the sharp falls in equity prices in October. All the major world stock markets were affected, including of course our own, and this intertwining of international events and domestic concerns typified the year for the Bank.

The detail of economic and financial events last year, both internationally and domestically, in which the Bank has been involved has been set out in the Bank's own *Quarterly Bulletin* and I do not intend going over the same ground again but rather wish to cover some other aspects of our work.

First I wish to pay tribute to the work done in a number of the 'hidden' areas of the Bank. When I attend discussions on international or domestic monetary and financial affairs I do so after being briefed by the Bank's experts in our International and Economics Divisions. The Bank's influence in these meetings, and sometimes that of the Government too, depends greatly on the excellence of these briefings and I am pleased and grateful to have been so well served. Our statisticians also add greatly to our awareness and understanding of the financial world.

It is taken for granted that a policy once formulated will be swiftly and expertly implemented by the Bank. That easy assumption is a tribute to other areas of the Bank which are rarely in the public eye. For example, the Banking Department provides the essential settlement and accounting systems for our money and foreign exchange market operations; the Registrar's Department does the same for gilt-edged operations; and the general recognition that Bank of England notes continue to be of high quality is an implicit tribute to our Printing Works. That so many are prepared to work quietly but skilfully for the Bank is the essence of this institution.

The Big Bang of October 1986 was at the centre of my Foreword last year. The events of October 1987 tested severely the structure and functioning of London's markets and financial institutions. At the time our good working relationship already established with The Stock Exchange was built on, and day-to-day monitoring instituted for a time. It was gratifying to find that the new systems stood the test well. There are lessons to be learned and improvements to be made but the basis of operation seems satisfactory.

The Bank's role in the securities markets has been examined in the past few months, just as has the role of other central banks. It is clear that we must have an interest in the stability and integrity of all financial markets but that responsibility for all those markets, and their institutions, does not lie with the Bank. The advent of the Securities and Investments Board makes this point very clear and within the coming year it, and its satellite self-regulating organisations, will begin to supervise all aspects of the securities and investments markets. The Board has, thus far, built a solid foundation in difficult circumstances. This achievement is due in no small part to the work of Sir Kenneth Berrill himself.

Last year I noted the formation of the Wholesale Markets Supervision Division to fulfil our obligations flowing from the Financial Services Act. They have recently brought into force their complete system. Much of their day-to-day work will be carried out by others as lead regulators, in particular our own Banking Supervision Division. Nonetheless to have completed these arrangements so swiftly is an excellent performance.

The interaction between stock markets last October dramatised a point to which the Bank had become alert much earlier. These markets operate internationally, thus there must be an international dimension to their regulation. This is likely to prove even harder to achieve than it was in the banking sphere, and the Bank has been pleased to be able to play a leading part in early work in this direction both bilaterally and on a multilateral basis.

International banking supervision is close to grasping its first crown, an agreement on standards of capital adequacy. That there has been such a swift progress from the bilateral understanding between ourselves and the United States to agreement on multilateral proposals encompassing all the major banking nations, owes much to Peter Cooke's expertise and diplomatic skills. An agreement will prove a fitting climax to his distinguished career.

In the United Kingdom 1987 saw the introduction of a new Banking Act. The Bank's actions under that Act are the subject of a separate report. The new Act does not differ in essence from the old but it does offer the Bank enhanced powers over who may and may not own or manage a bank. These powers will not be used capriciously or to stifle competition but I have made it clear that we will pay particular attention to the nature of any bidders for certain core parts of the banking system.

We had been concerned for some time about banks' provisioning policy for troubled country debt, wishing to strike a balance between ensuring banks had sufficient provisions but eschewing policies which had more to do with short-term market perceptions than with the needs of prudent banking. During the year the Bank devised a formal 'matrix' for its own use, and made this available to banks also. Its purpose was to ensure that provisioning is done as objectively as possible across a bank's assets and by all British banks. The idea was widely welcomed.

Provisioning was an issue which much concerned the Board of Banking Supervision too. The advice of its independent members on this, and on many other matters, has been of great assistance to me and to my colleagues over the past year. Their own report, published as an annex to the Banking Act report, cannot of course adequately reflect their value.

Last year saw the end of the links between the Bank and the Accepting Houses Committee which have lasted seventy-three years. The winding up of the Committee is not, of itself, to be mourned since its substance continues and will be enhanced, as the houses become members of the British Merchant Banking and Securities Houses Association: indeed the change is to be welcomed.

The Bank has produced a lower profit than in the previous year. Many of the costs incurred by other City firms afflict us too: the demands of modern technology have required that our buildings be physically upgraded; and our current investment in information technology is necessarily heavy. Our staffing arrangements have undergone radical change in the past year as we have organised ourselves to cope with the demands of the late 1980s and 1990s. The considerations which have led us to plan to move our Registrar's Department to Gloucester will be familiar to many London-based firms. In this case much of the financial benefit will accrue to HM Treasury. Indeed our several contributions to the Exchequer continue. These accounts show a dividend from Banking Department profits to HM Treasury of £26 million, and from the Issue Department a payment of £1,391 million.

The Bank's staff have performed admirably in this turbulent year; it is good that they always respond to challenge since I do not see placid times ahead. Rodney Galpin and David Walker would not expect anything other than challenges in their new roles. Both have been outstanding colleagues but I have to acknowledge that their clear suitability for their new jobs made their departure inevitable. I am pleased we have been able to retain David Walker's advice in a non-executive role and that three non-executive Directors have been reappointed to Court; Dr David Atterton, Deryk Vander Weyer and Sir Leslie Young. During the year Douglas Dawkins and David Somerset retired and they too deserve praise for their service, of nearly forty years in each case. It is a tribute to the management strength which the Bank has built up over years past that worthy successors to these distinguished directors and officials are readily available in their respective roles.

R Leigh-Pemberton

Governor of the Bank of England