A COURT OF DIRECTORS AT THE BANK

THURSDAY 3 JANUARY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
John Stanton Flemming, Esq
Lord Haslam of Bolton
Professor Mervyn Allister King
Sir David Gerald Scholey, CBE
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

On behalf of Members of Court, the Governor congratulated Sir David Walker on the knighthood conferred on him in the New Year's Honours and, in his absence, Sir Hector Laing on his elevation to the peerage which had been announced in Mrs Thatcher's Resignation Honours.

The Minutes of the Court of 20 December were confirmed and those of last week's Meeting, having been circulated, were approved.

Mr Coleby commented on the weekly figures and Mr Plenderleith spoke about the foreign exchanges including the Official Reserves figures for December, and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

At the Governor's invitation:-

1 Mr Flemming presented a paper on the Bank's forecasting record, which summarised the performance of the Bank's biannual macroeconomic forecasts since detailed records of Bank forecasts began in 1976, before introducing the latest Bank Forecast on the Economic Outlook to 1995. A discussion ensued.

2 Mr Flemming spoke about the Overseas Trade Figures for November, which had been published on 21 December, and went on to comment on the Economic and Financial Report for December.

3 In introducing the regular monthly discussion of monetary policy, Mr Coleby said that the November data incorporated the annual update of seasonal adjustments. The growth in M0 and currency in circulation had continued to slow sharply within the month to record year-on-year increases of 3.1% and 3.5% respectively. The same trend was evident early in December but appeared later to reverse, implying that the seasonal increase in spending occurred rather later than usual this year.
M4 and M4 lending on the other hand had grown quite strongly by 1.5% and 1.25% in November, recording their strongest monthly growth since December 1989 and February 1990 respectively, and halting the decline in year-on-year growth that had been apparent throughout the previous year. The reasons for this reversal were not entirely clear; the privatisation of the Electricity Supply Industry in early December would have had some effect. Financial stringency in the corporate sector would also have played a part with some companies engaging in distress borrowing.
The exchange rate had declined noticeably during November and through December to a low point on Christmas Eve, but had recovered subsequently and was currently back at the end November level. It was difficult to find a complete explanation for the decline, but an expectation of a cut

in interest rates undoubtedly played a part, and its disappearance had contributed to the recovery.

Mr Coleby went on to say that the current combination of a weakening real economy and incipient signs of a slowing in inflation would almost certainly have led, in the past, to earlier and faster interest rate reductions than we had yet seen. The performance of the exchange rate had, in the new context of ERM membership, prevented that. But ERM membership had been undertaken in order to emphasise the intention of applying new thinking to the balancing of risks in policy decisions, giving greater emphasis to the objective of overcoming inflation. The first task was to impress on financial markets the seriousness of that commitment, and - helped by the Chancellor's New Year message - there were some early promising signs that that might be beginning to happen. It was a necessary condition for the real economy to respond in a way that would minimise the costs of adjustment. A reduction in the risk premium that the markets placed against sterling would enable the adverse interest rate differential against other ERM currencies to decline. We might have to absorb some increase in DM interest rates, so it would be right to bide our time in undertaking reductions in sterling interest rates.
In subsequent discussion, emphasis was laid on the desirability of maintaining a level of industrial investment comparable with that of our main competitors. It would be particularly helpful if means could be found to lessen the competition for savings that businesses had to undergo from households.

E.A.J. George
10th January 1991

G. A. Crayton
Secretary

A COURT OF DIRECTORS AT THE BANK

THURSDAY 10 JANUARY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
John Stanton Flemming, Esq
Lord Haslam of Bolton
Professor Mervyn Allister King
Sir Hector Laing
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

A letter from Messrs Freshfields was submitted together with a document to be sealed, namely a Deed of Adherence to the Central Gilts Office Assured Payment Agreement, admitting Coutts & Co to the group of Settlement Banks.
Court approved thereof and ORDERED that the document in question be sealed with the Common Seal of the Bank.

Court gave their approval to Lord Haslam joining the Boards of Wasserstein Perella & Co Ltd and Bechtel Ltd.

At the Governor's invitation, Mr Crockett presented the International Economic Developments paper for December. A discussion ensued.

E.A.J. George
24th January 1991

G. A. Croughton.
Secretary. 24 Jany 1991

A MEETING OF DIRECTORS AT THE BANK

THURSDAY 17 JANUARY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Andrew Duncan Crockett, Esq
John Stanton Flemming, Esq
Sir Hector Laing
Brian Quinn, Esq

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business subject to ratification by the next Court.

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report Sir Hector Laing asked if it were known what the expense of the Gulf war would be on a daily/weekly basis. Mr Coleby said that the costs were not known. They would depend on the extent - and timing - of replacement of the materials consumed and equipment used up in the fighting. But it was expected to have some effect on UK public expenditure in the current fiscal year. The amounts spent by the US would be much larger, making it the more difficult for them to achieve the Budget savings recently agreed with Congress; there would be some reimbursement from Saudi Arabia.

E.A.J. George
24th January 1991

G. A. Croughton.
Secretary. 24 January 1991.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 24 JANUARY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
The Hon Sir John Francis Harcourt Baring, KCVO
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
John Stanton Flemming, Esq
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Professor Mervyn Allister King
Sir Hector Laing
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the Court of 10 January were confirmed and those of last week's Meeting, having been circulated, were approved.

The Governor informed Court that it would be announced later that day that Her Majesty The Queen had approved the appointment of Mr David Lees and Mr Colin Southgate as Directors of the Bank for a period of four years from 1 March 1991 in place of Sir Hector Laing and Sir John Baring who were retiring; and the appointment of Professor Roland Smith as a Director of the Bank for a period of one year from 1 March 1991 in place of Mr Flemming who had resigned. At the same time, the re-appointment of Sir Martin

Jacomb and Sir Colin Corness for a further period of four years from 1 March 1991 would also be announced.
The Governor also mentioned that although Sir Hector Laing would no longer be a Director of the Bank he had accepted the Governor's invitation to remain as Chairman of the Debden Committee and of BE Services Ltd, the Bank's catering subsidiary.

Mr Quinn drew attention to the revised explanatory notes on the weekly figures and Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

Court gave their approval to Sir Colin Corness joining the Board of Union Camp Corporation, a company registered in Virginia, USA.

At the Governor's invitation, Dr Atterton introduced a Report of the Charitable Appeals Committee which covered appeals considered in the latest review period.
Court noted that in addition to the Charitable Appeals Committee's annual budget of £152,500, further donations totalling £20,000 had been agreed in response to appeals for the Campaign for Oxford, the Cambridge Foundation and St Paul's Cathedral, as well as a donation of £25,500 to match the contribution of staff and pensioners through the Give As You Earn Scheme. Court agreed the recommendation that the Bank should match the funds, totalling £6,500, which had been raised by members of the staff towards The Save the Children Fund's City-wide "Children in Cities" campaign. Sir David Scholey, in his capacity as a member of the Industry and Commerce Committee of the Fund, expressed his thanks to the staff for their fundraising efforts and to Court for agreeing to match their contribution.

G. A. Croughton.
Secretary. 31st Jany 1991

E. A. J. George
31st January 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 31 JANUARY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
The Hon Sir John Francis Harcourt Baring, KCVO
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
John Stanton Flemming, Esq
Professor Mervyn Allister King
Sir Hector Laing
Gavin Harry Laird, Esq, CBE
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 With reference to a Minute of 1 March 1990 and earlier, the Deputy Governor said that the recent ruling of the

House of Lords that all interest rate swap deals entered into by Local Authorities were ultra vires meant that all payments made under contract going back to the early 1980's would have to be reversed. This process would bring a new layer of damage to the City's reputation as a financial centre and be unfair both as between banks and Local Authorities. The Bank had continued to make representations to Government to consider introducing retrospective legislation to validate contracts entered into for purposes of debt management, but there were difficulties of definition here. There had been some softening of the Government's position in that they had now asked the Bank what form such legislation might take. The Bank had subsequently produced draft proposals for discussion with the British Bankers' Association but it would not be easy to reach agreement with them as the position of their individual member banks would diverge whatever the outcome.

2 The Deputy Governor went on to explain that the problems surrounding Local Authority swaps had arisen because the legal framework had not kept pace with market practice. Other instances of this had also recently come to light.
Accordingly, it was being proposed that a Review Committee on Legal Risk should be established. The suggestion was that the Committee should be a City body bringing together bankers and City lawyers. The proposed terms of reference were that the Review Committee should:-

(i) review existing legislation to identify areas of obscurity, examine the options and propose legislative solutions;

(ii) consider means whereby legal certainty can be effectively established; and

(iii) consider on an ongoing basis future changes in financial market practice and in legislation to ensure that prospective problems were identified and appropriate amending legislation proposed.

The Committee of London and Scottish Clearing Bankers had supported the proposal in principle but discussions would continue and Court would be informed of progress.

In response to questions on the swaps issue, the Deputy Governor said that the damage that had been done to the City's reputation was very considerable. However, it was being seen not just as a failure of the City but also of the Government which was ultimately responsible for the obscurity of the legislation and which alone could put things right.
The Deputy Governor said that he did not underestimate the task of the proposed Review Committee or its remit. However, with the right legal and market practitioners on the Committee they should be able to focus on the more immediate, practical issues.
The Governor congratulated the Deputy Governor and his team for taking the initiative in drawing up a plan to restore some logic to the legal position by attempting to define what contracts were for debt management and what were purely speculative, and welcomed the move to establish the Review Committee to explore the wider legal problems. Members endorsed the Governor's remarks.

At the Governor's invitation:-

1 In introducing the "City EC Committee Background Note - December 1990", Mr Crockett explained that the Committee had been established by the Bank in 1973 to bring together the main City representative associations and others to share information on EC developments that were of interest to the City. The Committee met twice a year but the Background Note was produced by the Bank every two months to provide updates on the progress of relevant Directives as well

as giving a brief summary of developments of more general interest.

Mr Laird had earlier suggested that the note might be of interest to Members of Court and Mr Crockett explained that he would be very happy to make it available to Members on a regular basis. It had also been suggested that the Note might be given wider circulation than at present. While Members were free to distribute it to organisations and companies with which they were concerned, Mr Crockett said that he would not wish recipients to rely on this document as the only source they needed to consult.

Court welcomed the opportunity to receive this Note on a regular basis and agreed that any decision about wider circulation should be left to the Bank.

2 Mr Flemming spoke about the Overseas Trade Figures for December, which had been published the previous week, before presenting the Economic and Financial Report for January.

3 In introducing the regular monthly discussion of monetary policy, Mr Coleby said that M0 and currency in circulation had grown by 0.5% and 0.4% respectively during December, recording the largest single monthly increase since April 1990. The rates of growth year-on-year nevertheless continued to decline, in each case by 0.4%, to 2.7% and 3.1% respectively. The figures for currency circulation in January suggested growth in the month similar to that in December; if so, the year-on-year rate would be little changed. M0's twelve-month growth rate would rise sharply, because of the behaviour of bankers' operational balances. The path of the currency circulation suggested that Christmas spending had taken place later than in previous years, and that more had spilled over into January, but by the end of the month growth in the currency circulation had fallen back to the levels seen towards the end of 1990.

The figures for M4 and lending showed a sharp reversal of the November outturn, with the M4 aggregate recording its first monthly decline in the eight years of the present series of statistics. As we had not been able to explain November's strong growth - apart from suspecting that it was influenced by the imminent electricity privatisation - it was best to consider the months of November and December together. They tended to confirm the declining trend seen in preceding months, though the rate of decline - particularly in lending - had slowed down. The net recourse of industrial and commercial companies to the banking system was higher in 1990 Q4 than in any previous quarter except 1989 Q3, but gross borrowing was now supplemented by substantial drawing on deposit balances. This confirmed the continuing financial pressure which the commercial sector was under. Lending to persons for house purchase had been unexpectedly modest, but that for consumption had been quite buoyant, perhaps indicating growing financial pressure there as well.

On the foreign exchange markets, sterling had continued to strengthen modestly throughout the month, as measured by the index. But the weakening of the US dollar after the start of hostilities in the Gulf had pulled sterling down from its earlier levels against ERM currencies.

That provided a difficult context for policy decisions. The domestic case for some relaxation was growing ever stronger. The question was what scope existed without undermining the anti-inflationary credentials of policy. Some might seek to judge policy by the extent to which its ultimate objective of reducing inflation was being achieved. Tangible evidence was still hard to find, despite the growing conviction that it would come. Mr Banham's comments on declining pay settlements were probably premature, but not by much. A more immediate test of policy would be provided by the foreign exchange market. In present circumstances, the maintenance of a DM rate between 2.92 and 2.93 might indicate a readiness to tolerate some narrowing of interest rate differentials with other ERM currencies. But the announcement a few minutes ago of increases in the Bundesbank's Discount and Lombard rates had pre-empted any move by ourselves.

G. A. Craythe.
Secretary. 7 Feby 1991.

E. A. J. George
7th February 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 7 FEBRUARY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
The Hon Sir John Francis Harcourt Baring, KCVO
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Professor Mervyn Allister King
Sir Hector Laing
Brian Quinn, Esq
Sir David Gerald Scholey, CBE

Hugh Christopher Emlyn Harris, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges including the Official Reserves figures for January, and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

At the Governor's invitation:-

1 Sir David Scholey introduced a Report of the Audit Committee which incorporated the Audit Division's proposed programme of internal audits for the year beginning 1 March 1991; endorsed the Bank's current

accounting policies and proposed a change in policy in respect of the Bank's holding of British Government Securities, in line with the Statement of Recommended Practice issued recently by the British Bankers' Association.

The Report also expressed the Committee's concern about the circumstances surrounding the payment of a sight draft [redacted], and the time it was taking to pursue the case. The Committee had met earlier that morning and been made aware of progress. They were content that the circumstances and systems which gave rise to the error were being corrected.

Mr Quinn, in his capacity as the Executive Director responsible for the Banking Department, expressed his great concern at the incident which could involve both monetary loss and potentially adverse publicity and said that he was determined to ensure that a review of the systems and the culpability of the individuals concerned should be pursued, and the appropriate remedial measures taken.

The Report was approved.

2 In the absence of Mr Flemming, Mr Reid presented the international environment and the domestic economy sections from the February edition of the Quarterly Bulletin.

E.A.J. George
14th February 1991

G. A. Croughton.
Secretary.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 14 FEBRUARY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
John Stanton Flemming, Esq
Lord Haslam of Bolton
Professor Mervyn Allister King
Lord Laing of Dunphail
Gavin Harry Laird, Esq, CBE
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report and with reference to a Minute of 20 December 1990, the Governor informed Court that he would be appearing before the Trade and Industry Select Committee on 19 February to respond to questions on the Bank's responsibility under the Banking Act 1987 and in particular to answer questions on the Bank's handling of the case of Harrods

Bank. After discussions within the Bank and with HM Treasury he had formed the view that he should speak only in general terms about the Bank's responsibilities under the Banking Act and, in accordance with the requirements of that Act, refuse to discuss any specific case. In so doing, he was confident that he had the support of the Chancellor of the Exchequer and HM Treasury.

At the Governor's invitation, Mr Flemming spoke about the February edition of the Quarterly Bulletin and the latest edition of the Bank Briefing, both of which were due to be published later that day.

G. A. Cragg. Secretary. 21. February 1991

E. A. J. George

21st February 1991.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 21 FEBRUARY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
The Hon Sir John Francis Harcourt Baring, KCVO
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
John Stanton Flemming, Esq
Sir Martin Wakefield Jacomb
Lord Laing of Dunphail
Gavin Harry Laird, Esq, CBE
Sir David Gerald Scholey, CBE
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report and with reference to a Minute of the previous week the Governor, in speaking about his appearance before the Trade and Industry Select Committee earlier that week, said that the principle of confidentiality required under the Banking Act had been maintained.

Two letters from Messrs Freshfields were submitted together with documents to be sealed, namely:-

(i) a Deed of Transfer and plan in respect of the sale of a parcel of land by a member of staff to East Sussex County Council for the purposes of highway works; and

(ii) a Trust Deed establishing the Bank of England Developing Countries Educational Trust.

Court approved thereof and ORDERED that the documents in question be sealed with the Common Seal of the Bank.

At the Governor's invitation:-

1 The Deputy Governor spoke about a Governor's Recommendation arising out of the recent Annual Review of Senior Officials. It was agreed that the following Senior Officials be advanced in salary with effect from 1 March 1991:-

(a) From Point D to Point C

[redacted]

(b) From Point E to Point D

[redacted]

[redacted]

(c) From Point F to Point E

[redacted]

2 In the absence of Mr Crockett, Mr Latter presented the International Economic Developments paper for January. During the discussion which followed, attention focussed in particular on the need for reconstruction that would arise following the cessation of hostilities in the Gulf and the capacity of western economies to respond. It was agreed that a paper examining the relevant issues would be prepared for Court in due course.

B.A. Hoffman
Assistant Secretary
28th February 1991

E.A.J. George
28th February 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 28 FEBRUARY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
The Hon Sir John Francis Harcourt Baring, KCVO
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
John Stanton Flemming, Esq
Professor Mervyn Allister King
Lord Laing of Dunphail
Gavin Harry Laird, Esq, CBE
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report the Governor said that he was pleased to report that the relevant architects had agreed to issue Certificates of Practical Completion in respect of the Registrar's building in Gloucester and the refurbishment of New Change.

At the Governor's invitation:-

1 Mr Flemming spoke about the Overseas Trade Figures for January, which had been published the previous Monday, before presenting the Economic and Financial Report for February.

2 In introducing the regular monthly discussion of monetary policy, Mr Coleby said that the currency circulation had grown in January by 0.4% and its year-on-year rate had fallen slightly to 3%, right in the middle of the target range for M0. December and January had proved the fastest months for growth since April 1990. February, by contrast, looked likely to produce little change over the month, reducing the year-on-year figure to around 2 1/2%. Even so, the last three months taken together showed rather greater growth than the previous six, which might support the conclusion that the slow down in consumer spending had become less sharp.
Broad money and lending had shown a modest growth of 0.5%. On a year-on-year basis, growth in M4 was down to 11.2% and lending to 13.2%. The weakness in lending was spread among sectors. There were enough signs of a steadying in mortgage lending to indicate there might be some growth soon, following higher levels of commitments by Building Societies. We continue to look hard to see if the low levels of lending result from a constraint in the supply of funds. Tangible evidence is hard to find, and much of the decline in borrowing is clearly attributable either to lower demand or to lack of creditworthiness. But there may nevertheless be some signs of supply constraint, perhaps reflected in banks widening the interest rate margins at which they lend.

Such a higher price for liquidity might help to explain companies drawing down their balances instead of borrowing. This would represent a reversal of the experience of the 1980's, when the building up of both sides of corporate balance sheets had inflated bank lending and the money stock, without corresponding implications for economic activity. Slowing down now, attributable to such a reversal, would likewise be of limited significance. That said, the general message from the money and lending figures was that the economy was slowing down.

The Exchange Rate, as measured by the index, had varied little despite the fluctuations against the US dollar and ERM currencies. At the moment markets appeared to accept the ERM framework for sterling.

Policy in the recent past has been very much the tactical exercise described in the paper provided for the informal discussion on the implications of ERM. There was no threat of excessive demand in the real economy, so interest rate reduction depended simply on its acceptability in the market.

Tangible evidence of progress in reducing underlying inflation would provide the most favourable context, and that remained modest; so we had to be extremely careful not to run ahead of the markets, in case they should come to doubt the strength of the commitment both to the underlying inflation objective, or to the ERM parity as the principle means of achieving it.

The Governor mentioned that Sir Cyril Hawker, who was an Executive Director of the Bank from 1954 to 1962, had died the previous Friday at the age of 90.

The Governor asked that Court's gratitude be recorded to three Directors on their last appearance. In Mr Flemming, the Bank had enjoyed the advice of one of the most distinguished economists of the age who had added greatly to the Bank's prestige in economic affairs. Sir John Baring had provided the traditional expertise of a prominent City Banker and had been a very wise and valuable colleague and during Lord Laing's 18 years on Court the Bank had been able to enjoy the support, encouragement and guidance of one of the leading figures in British Industry.

E.A.J. George
7th March 1991

R. A. Coughton
7th March 1991

COURT OF DIRECTORS

For the year ended 29 February 1992

Declaration Made Before	Date	
		The Rt Hon Robert Leigh-Pemberton, Governor
		Edward Alan John George, Esq, Deputy Governor
		Sir George Adrian Hayhurst Cadbury
		Sir David Gerald Scholey, CBE
		Dr David Valentine Atterton
		Sir David Alan Walker
		Sir Frederick Brian Corby
		Lord Haslam of Bolton
		Gavin Harry Laird Esq, CBE
The Governor	7.3.91	#Sir Martin Wakefield Jacomb
The Governor	7.3.91	#Sir Colin Ross Corness
		Brian Quinn Esq
		Andrew Duncan Crockett Esq
		Anthony Laurie Coleby Esq
		Mervyn Allister King Esq
The Governor	7.3.91	*Sir David Bryan Lees
The Governor	7.3.91	*Professor Sir Roland Smith
The Governor	7.3.91	*Colin Grieve Southgate Esq

Reappointed 1 March 1991
* Appointed 1 March 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 7 MARCH 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
David Bryan Lees, Esq
Professor Roland Smith
Colin Grieve Southgate, Esq

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Governor extended a welcome to Mr Lees, Professor Smith and Mr Southgate who were attending Court for the first time following their appointments as Non-Executive Directors and welcomed Mr King in his new role as an Executive Director.

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges, including the Official

Reserves figures for February, and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

A letter from Messrs Freshfields was submitted together with a document to be sealed, namely a Deed of Release and Substitution in respect of the extension of the lease of a property which was subject to a housing loan to a member of staff.
Court approved thereof and ORDERED that the document in question be sealed with the Common Seal of the Bank.

At the Governor's invitation the Deputy Governor introduced a Recommendation of the Governors relating to the composition of the Standing Committees of Court for 1991/92 which was approved.

The Governor said that arising from the recent discussion on the Bank's purposes, responsibilities and philosophy and the budget framework he had asked the Deputy Governor to chair a Working Party to review the role, functions and procedures of Court and its Committees. Sir Adrian Cadbury, Sir Colin Corness, Mr Quinn and Mr Harris had been asked to join the Working Party with the following terms of reference:-

(i) To review the role and functions of Court and its Committees.

(ii) To review whether Court's current procedures enable it effectively to fulfil that role and those functions.

(iii) To review the allocation of business between formal Court meetings and the informal discussions that have recently been introduced.

(iv) To review Court's role in the development and implementation of the Bank's new administrative and budget frameworks,

and to make recommendations on each of the above and any other matters which seem relevant to the working party.

The Deputy Governor then introduced a further Recommendation of the Governors relating to the programme of Directors' visits to Branches, Agencies and Offices during the year 1991/92 which was approved. The programme of visits by Senior Officials introduced the previous year had proved valuable: it would be continued.

The Governor introduced two matters arising from the recent retirement of Mr Flemming from the Bank:-

1 It was agreed that Mr M A King be appointed a Director and Chairman of Houblon Nominees and his appointment to the Board of BE Museum Ltd was endorsed.

2 It was further agreed that pursuant to Section 375 of the Companies Act 1985, as amended and extended by the Companies Act 1989, and until otherwise resolved by the Court of Directors:-

(i) Mr M A King, or failing him Mr H C E Harris be authorised to act as representative of the Governor and Company of the Bank of England at any meeting of Houblon Nominees.

(ii) Mr M A King, or failing him, Mr H C E Harris, or failing him, Mr J P Charkham, or failing him, Mr J R E Footman, or failing him, Mr G A Croughton, be authorised to act as representative of the Governor and Company of the Bank of England at any meeting of BE Museum Ltd.

Secretary 14th March 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 14 MARCH 1991

Present

Edward Alan John George, Esq, Deputy Governor
Sir David Alan Walker
Dr David Valentine Atterton, CBE
Anthony Laurie Coleby, Esq
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
David Bryan Lees, Esq
Brian Quinn, Esq

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Coleby spoke about the foreign exchanges, and the state of the domestic markets.

Under the weekly executive report and with reference to a Minute of 31 January, the Deputy Governor drew attention to the text of written evidence on Local Authority Swaps which the Bank had submitted to the Treasury and Civil Service Select Committee at their request, in advance of the Governor's appearance before that Committee on 26 March. The Bank had felt it important to express its opinions and those of the City quite clearly. These had been discussed with HM Treasury, who were understanding of our position, but the text nevertheless would probably be unwelcome to Government.

At the Deputy Governor's invitation:-

1 Mr Crockett presented the International Economic Developments paper for February. A discussion ensued.

2 In introducing the February edition of the City EC Committee Background Note, Mr Crockett explained that he would be happy to widen the circulation of this paper at Members' request. During a brief discussion which followed, attention focussed particularly on the Investment Services Directive.

[illegible]
Secretary.

E.A.J. George
21st March 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 21 MARCH 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

The Governor mentioned with sadness, the sudden death the previous weekend of Lord Cromer who had been Governor of the Bank from 1961 to 1966.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges, and the state of the domestic markets: a discussion ensued.

There were no items for discussion under the weekly executive report.

At the Governor's invitation:-

1 Mr Harris informed Court that the Bank had been a supporter of [redacted] and had been a guarantor of [redacted]. During 1990, partly as a result of a significant reduction in Government funding, the Group had found itself severely stretched financially. A new business plan had been devised which was dependent upon sufficient pledges of financial support being available to satisfy the Board of Directors that the medium-term future was secure. This support was sought by means of loans and guarantees.

The Bank had been asked to support [redacted] in the form of a guarantor. Sufficient pledges of financial support having now been received, the Bank was being asked to give a formal guarantee.

Messrs Freshfields having confirmed that the guarantee was in a form fit for execution by the Bank, Court agreed that the Bank should enter into a guarantee in [redacted]

2 Mr King presented a paper summarising the main proposals contained in the Chancellor's Budget Statement the previous Tuesday and commented on the subsequent press reaction.

During the discussion which followed attention focussed on the effect that the Budget provisions, and in particular the impact of the increase in Value Added Tax, would have on the Retail Prices Index and the implications this had for wage negotiations.

G. A. Croughton.
Secretary.
28th March 1991

E.A.J. George
28th March 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 28 MARCH 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
David Bryan Lees, Esq
Brian Quinn, Esq
Professor Roland Smith
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn and Mr Coleby commented on the weekly figures and Mr Plenderleith spoke about the foreign exchanges, and the state of the domestic markets.

Under the weekly executive report:-

1 The Deputy Governor informed Court that the annual pay settlement for those members of the Registrar's Department who had been recruited in Gloucester had been agreed at 7% plus £300, effective from 1 March 1991. This settlement which consolidated an earlier one-off bonus payment of £200 per person represented an

effective increase of 8 1/2% on the overall pay bill. The level of the settlement reflected Management's concern that the Gloucester salary structure at recruiting levels had been pitched too low. Although there had been no difficulty in recruiting staff initially, a number had left subsequently because of the low salary level.

2 The Governor spoke to Court about his appearance before the Treasury and Civil Service Committee earlier that week when he had responded to questions on the economy, Central Bank independence, Local Authority swaps, and the Budget.

Two letters from Messrs Freshfields were submitted together with documents to be sealed, namely an Underlease granted to Arthur Andersen & Co Nominees in respect of the first floor of Bank House, Manchester, and a Deed of Variation granting Lloyds Bank PLC permission to retain the automatic barrier that they have erected across the access ramp at Bank House, Bristol.
Court approved thereof and ORDERED that the documents in question be sealed with the Common Seal of the Bank.

At the Governor's invitation:-

1 Mr King spoke about the Overseas Trade Figures for February, which had been published the previous Monday, before presenting the Economic and Financial Report for March.

2 In introducing the regular monthly discussion of monetary policy, Mr Coleby said that after two months of relatively strong growth M0 and currency in circulation had been little changed during February. The year-on-year increase for both M0 and currency in circulation had fallen slightly to 2 1/2%, a little above the mid-point of the new target range of 0-4% announced in the recent Budget. The forecast for

March remained fairly flat which could bring the year-on-year figure down slightly. Mr Coleby reminded Court that April 1990 had seen a particularly strong growth in M0. Faulty seasonal adjustment might be a partial explanation; if the same behaviour is not seen this year, there will be a sharp decline in the twelve-month rate of growth. The recent figures for M0 were consistent with a continuing decline in consumption although at a slower pace.

Broad money and lending had both shown growth of 1% on the month with year-on-year increases of 10.9% and 12.5% respectively: again the pace of decline had slowed. Lending to the corporate sector had been stronger than that to persons, some of it to finance takeover activities. Takeovers were likely to be stimulated by the strength of the stock market, but that also created the conditions in which sound companies could raise fresh capital and so repay outstanding bank borrowings. New capital was now being raised on a large scale, which reinforced the view that banks should not have difficulty in meeting demands for borrowing.

Recent exchange rate movements, dominated by the surging dollar, have seen sterling strengthen within the ERM while losing significant ground on the effective index. Interest rate policy is no longer closely constrained by the ERM, but sterling's effective depreciation is providing an external stimulus to demand which makes it less necessary to stimulate domestic demand through lower interest rates. Moreover, the resulting higher import prices have adverse implications for inflation. Policy must therefore seek to strike a balance between domestic objectives, the control of inflation on the one hand and stimulating economic activity on the other. There was little firm evidence of a fall in the underlying level of inflation. The levels of recorded wage settlements and of economic activity did not suggest that a decisive turning point for either had yet been reached, but there were long time lags. In the absence of clear evidence therefore, we must be cautious in managing interest rates. There might be scope for, at most, a further reduction of 1/2%, which would be sufficient to generate a fall in mortgage interest rates, the third since October. In turn, this would stimulate activity in the housing market and consumption generally and we should pause for some time so as to be able to judge the strength of the resulting demand. If in those circumstances, sterling continued to strengthen against ERM currencies, we should not be afraid to take advantage of our current position within the wide band.

A discussion ensued.

[illegible signature]   E. A. J. George
4th April 1991

Secretary

4th April 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 4 APRIL 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Mervyn Allister King, Esq
David Bryan Lees, Esq
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Roland Smith
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Coleby spoke about the foreign exchanges including the Official Reserves figures for March, and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

At the Governor's invitation, the Deputy Governor introduced a report on the Bank's current financial position. Referring to the forecast of the Banking Department's Profit and Loss for the year ended 28 February 1991, the Deputy Governor said that there had been strong growth in total income of some 20%

to £284 mn. This reflected an increase in income on bankers' balances, which had risen substantially during the year and had made it possible for the Bank to reduce the cash ratio deposit from 0.45% to 0.4% in January of this year. To protect against a fall in interest rates, the Bank had also continued to increase its fixed income by building up its portfolio of gilt-edged securities.
Total current expenditure for the year was forecast at £186.3 mn, some £8 mn above budget. Personnel costs in respect of mortgage subsidies, severance scheme expenses and pay were expected to exceed budget by £3.4 mn, while the remaining excess over budget was attributable very largely to the New Change modernisation project. After allowing for recovery of costs from HM Treasury, profit before provisions was estimated at £152 mn compared with £111 mn the previous year. Provisions in respect of [redacted] and adjustments brought about by the change of accounting policy in respect of the Bank's holding of British Government Securities, produced a forecast operating profit of £155.6 mn. Taking into account the exceptional dividend of £12 mn from Minories Finance Ltd, the operating profit before taxation totalled £167.6 mn resulting in a dividend, after tax, of £68.6 mn.
However, as a result of the change in the accounting procedures for gilts it was necessary to make a prior year adjustment which would add £30 mn before tax to the reserves. It was appropriate to pay a share of these additional reserves to HM Treasury and it was proposed to apportion this sum on the 50% basis agreed with HM Treasury for the payment of the dividend. The total dividend after tax for the current year would therefore amount to £80.3 mn.
Accordingly, Court agreed that, pursuant to Section 1(4) of the Bank of England Act 1946, an interim payment of £40.15 mn be paid to HM Treasury in lieu of dividend on 5 April.
Looking at the forecast for the current financial year, 1991/92, the Deputy Governor said that the forecast for total income depended largely on assumptions made about the level of bankers' balances and interest rates. Current expenditure was budgeted at below last year's outturn though at some 2%

above the budgeted figure for 1990/91. However, this forecast was based on realising staff savings which had been identified in the budget: it was hoped to achieve these savings on a voluntary basis although some compulsory redundancy could not be ruled out.

The Capital Expenditure outturn for 1990/91 would be close to the forecast on account of the effective completion of the New Change and Gloucester projects. However, major new expenditure was envisaged at the Printing Works: the replacement of machinery was already in hand and a major refurbishment of the factory was currently under consideration.

G. A. Croughton
Secretary. 11 April 1991

Adrian Cadbury
11th April 1991.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 11 APRIL 1991

Present

Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 The Deputy Governor drew Members' attention to the paper "Role and Scope of Mortgage Limits" which had been submitted to the Treasury and Civil Service

Committee following the Governor's appearance before that Committee on 26 March.

2 Mr Quinn informed Court that it would be announced in the press the following week that the new £20 note, the second of the Series E notes, would be issued on 5 June. The £5 note had been issued on 7 June 1990 and the new £10 and £50 notes would be issued in the course of the next three years.

At the Deputy Governor's invitation, Sir Brian Corby, the Chairman of the Staff Committee at the time of the preparation of the Report on Staff Pension Benefits, introduced that Committee's Report which focused on a number of recommendations which had been made by the Standing Committee on Pensions for the improvement of certain benefits in the light of the Actuary's valuation of the Fund as at 28 February 1990, and an identified surplus of £209 mn. Staff Committee had commented on the recommendations, in particular equal treatment for men and women and improved benefits for surviving spouses, but had concluded that such improved benefits should be considered in the wider context of terms of employment. As such it was for the Bank's management to determine the desirability of these improvements.
Although Staff Committee were able to support the recommendations, they felt that the availability of a surplus was not justification in itself to improve benefits: this had perhaps been the basis for previous benefit improvements but the Bank should now adopt a more commercial approach. The Committee felt that the benefits of the surplus should accrue to the Bank with the Bank benefitting possibly from a reduced contribution rate. In addition, Staff Committee agreed that any steps towards equality of treatment of men and women should await clarification of the legal position following the case of Barber v GRE, and questioned the role of the Standing Committee on Pensions as currently constituted.
Mr Harris said that the Reports of both the Staff Committee and the Standing Committee on Pensions had been discussed by the Bank's Executive. They accepted that improved pension

benefits were an employment rather than solely a pension issue. Specifically, management had considered that the abolition of abatement, as recommended by SCOP as a first step towards equality of treatment, should await the outcome of the case of Barber v GRE. It would then be appropriate for the Bank to respond immediately to this and other equality issues rather than to wait for the next triennial review. So far as surviving spouses' allowances were concerned, the Bank's analogues, particularly the Clearing Banks, all provided a benefit of 50% of the members' base pension rather than 2/3 as recommended by SCOP. From a competitive point of view, therefore, there was no pressure to improve this benefit. Although it might be desirable to improve this benefit in line with some non-analagous employers, the Executive considered this not to be attractive if it were at the price of reducing the amount of money available for pay increases. Other minor improvements relating to lump sum payments on the death of a deferred pensioner within the deferred period, and the payment of more than one allowance to a spouse who had been married to more than one member or pensioner, were acceptable and the Bank would be content to implement those recommendations. A minor rule change relating to pensionable contract staff was also acceptable.

Mr Harris reminded Members that Court had agreed the previous year that the Bank's contribution to the Pension Fund be reduced from 22.4% to 15% until the next triennial valuation in 1993. This had been in the context of the possible improvement in benefits which were now not being recommended. Court was faced with conflicting considerations; it was prudent and appropriate to keep the Pension Fund as fully funded as possible within the limits of the Finance Act 1986 by maintaining a high contribution rate but, in the context of cash limits, it was equally important to maintain a relatively smooth contribution rate over a period of time. It was now proposed, therefore, that the contribution rate should be reduced from 15% to 10% for 1991 and 1992 and that it should be reconsidered again in 1993. Management had also noted the Staff Committee's comments on the Standing Committee on Pensions and were still considering the matter.

During the discussion which followed there was divided opinion on the question of whether improved pension benefits should be part of a negotiated pay award and the extent to which the surplus was the property of the Bank or of the beneficiaries of the Pension Fund. Mr Laird and Sir David Walker supported the views of Staff Committee and the Executive, noting that this would provide greater flexibility for pay increases. Lord Haslam and Professor Smith argued that Pension Fund matters should be kept apart from employment issues: pay and pensions were not related. In particular, if it was difficult to increase pay because of external pressures, staff should benefit from better pensions. Mr Southgate said that before any decision was taken on the disposal of the surplus or on contribution rates it was important to assess the likely cost to the Bank of the most pessimistic interpretation of the outcome of Barber v GRE. He also suggested that the regulations relating to abatement should be amended immediately for all new entrants. Sir Adrian Cadbury wondered whether it was practicable to await the final resolution of the Barber v GRE case before addressing the equality issue.

The Deputy Governor noted the dissenting views but suggested that the majority of Members were agreed that the Bank should proceed on the basis set out by Mr Harris, but that early consideration should be given to amending the rules in respect of abatement for new entrants and to the wider issue of equality for existing staff, including, if that seemed appropriate, adjustment in the context of pay negotiations. Court agreed thereto.

In conclusion, the Deputy Governor thanked Sir Brian Corby and the members of Staff Committee for their guidance in these matters and Sir Brian personally for his chairmanship of that Committee during his period in office.

Court gave their approval to Mr Lees joining the Board of Courtaulds as a Non-Executive Director.

Mr Harper, Chairman of Minories Finance Ltd, was invited to attend Court and commented on the Report and Financial Statements of Minories Finance Ltd as at 31 December 1990.

E.A.J. George

18th April 1991

Secretary. 18 April 1991.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 18 APRIL 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
David Bryan Lees, Esq
Sir David Gerald Scholey, CBE
Professor Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report, Mr Kent advised Court that in preparation for an article in the May edition of the Quarterly Bulletin, the Bank proposed to use its Agents and

industrial contacts to carry out a survey to try and assess whether there was evidence of a "credit crunch". The survey would focus particularly on changes in the availability of bank credit to companies and any changes in the terms under which such credit was available. The Agents would be contacting companies within their parish covering the retail, manufacturing, services and construction sectors and a number of larger national companies would be approached from Head Office. Overall it was hoped to involve some 100 companies of different size, sector and geographic location. Mr Kent emphasised that this exercise did not in any way imply criticism of the banks.
During the discussion which followed, attention focused on the likely reaction of the banking sector to this survey which could be adverse however carefully presented; and whether companies were able to find other sources of credit.

Two letters from Messrs Freshfields were submitted together with documents to be sealed, namely a Deed of change of Trustee in respect of the Staff Pension Fund, appointing Sir Brian Corby a Trustee in place of Sir John Baring, and a Deed of Transfer arising from the transfer of a property from joint names into the sole name of a member of staff.
Court approved thereof and ORDERED that the documents in question be Sealed with the Common Seal of the Bank.

At the Governor's invitation:-

1 Dr Atterton introduced a Report of the Charitable Appeals Committee which covered appeals considered in the latest review period.
Court approved the Committee's Recommendation that the number of meeting's they are required to hold each year be reduced from four to three.

2 Mr Crockett presented the International Economic Developments paper for March which had been deferred from the previous week. A discussion ensued.

3 The Deputy Governor introduced a report of the 1994 Committee which set out the broad strategy for celebrating the Bank's Tercentenary. There was general agreement with the approach that had been adopted and with the broad direction and scale of the proposals. Although the lack of any particular European emphasis was raised, it was noted that there would be a European focus to events taking place in February 1994 at around the time of the Overseas Bankers' Dinner with meetings of the European Bankers' Federation and the ECU Bankers' Association hopefully being held in London at that time.

A number of specific issues were also raised:-

(a) the possibility of extending the Series E issue of banknotes to introduce a £100 note bearing the portrait of Houblon;

(b) the redesign/rebuild of part of the Head Office building, perhaps the main entrance hall;

(c) the Financial Times Supplement focussing solely on the Bank rather than more widely on central banking;

(d) the need to ensure that any newly commissioned piece of music was entirely acceptable and of lasting value; and

(e) the need to ensure that events such as the fireworks display were of a suitably high standard.

A question of Members of Court making a presentation to the Bank to mark the Tercentenary was also raised again. The Governor reminded Court that in 1944 their predecessors had presented the inkstand to the Bank to mark the 250th anniversary. The Governor invited Members of Court to put forward their ideas for a suitable presentation to mark the 300th anniversary.

E.A.J. George
25th April 1991

G. A. Croughton.
Secretary.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 25 APRIL 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Brian Quinn, Esq
Sir David Gerald Scholey, CBE

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 The Deputy Governor conveyed to Court the appreciation of the members of the Sports Club for the Bank's continued support of the Club, which had been expressed at their Annual General Meeting the previous evening.

2 The Governor referred to his appearance before the Treasury and Civil Service Committee on 26 March and said that the Report of that meeting had been published that morning.

At the Governor's invitation:-

1 Mr King spoke about the Overseas Trade Figures for March, which had been published the previous Tuesday, and presented the Economic and Financial Report for April.

2 In introducing the regular monthly discussion of monetary policy, Mr Coleby said that all the monetary indicators had been weak in March, with no growth at all in M4 and only 0.1% in M0, currency circulation and M4 lending. Year-on-year growth in M0 and currency was little changed at a little over 2 1/2%. It would fall in April, though it was difficult to say by how much because the seasonal adjustments were due to be revised: M0 might be close to the middle of its new target range, at around 2%. M4 and M4 lending in March both showed year-on-year figures at their lowest level since the present series began, with M4's growth now below 10%. These figures provoked the question whether the monetary data gave additional evidence of decline in the economy to that already described in Mr King's presentation of the Economic Report. Mr Coleby suggested they did not. The latest money numbers remained higher than would have been expected on the Bank's equations, given the past behaviour of the economic and financial variables used to explain them. Moreover, the recent rates of growth of M4 and lending - around 7% at an annual rate for both the 3- and 6-month periods, were no lower than was consistent with the growth of nominal income projected in the MTFS. In detail, the decline in M4 growth was wholly attributable to the sharp fall in the growth of company deposits: personal deposits had continued to grow at a

very steady rate ever since last summer. There was a modest increase in lending to persons in March, perhaps associated with the increase in retail sales in advance of the increase in Value Added Tax. Mortgage lending remained very subdued.

Over the past month sterling had been very steady until the past two days. Following its fall it was rather over 3% below the effective rate at the time of entry to the ERM last October. That represented a not insignificant easing of monetary conditions, over and above that brought about by reductions in interest rates: it would be particularly helpful in stimulating demand for the output of companies competing with dollar source suppliers.

The ERM was not an immediate constraint on interest rate decisions, though sterling's recent decline showed how necessary it was not to ignore it completely. Policy therefore had once again to strike a balance between domestic considerations, maintaining the objective of reducing inflation but without unnecessarily depressing output. Both inflation and output responded to policy measures only after long lags. There was no hard evidence from backward-looking indicators to suggest that we were yet at the turning point of the output cycle, though the pace of decline had almost certainly slowed. With the effects of the last 2% of interest rate cuts still to come through, it was reasonable to expect an upturn within the next few months, and caution suggested that further relaxation should await more information on developments. The disappointing lack of progress so far in reducing underlying inflation argued in the same sense. A lot still hung on wage settlements yet to be concluded, and from that point of view it might be as well for the lifting of gloom not to take place too quickly.

In the discussion which followed, attention was concentrated on methods of measuring inflation, and on the risks of shifting public attention away from the current headline measure to something else giving a less favourable reading. Wage bargainers would be certain to follow suit. A request was made, and accepted, for the preparation of a paper examining the merits of different possible 'lead indicators' of turning points in the economy.

[illegible]
Assistant Secretary
2nd May 1991

E.A.J. George
2nd May 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 2 MAY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
David Bryan Lees, Esq
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Roland Smith
Sir David Alan Walker

Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There were no comments on the weekly figures.

The Governor spoke about the G7 Interim and Development Committee meetings that he had attended the previous weekend in Washington.

Mr Coleby then spoke about the foreign exchanges, including the Official Reserves figures for April, and the state of the domestic markets.

Under the weekly executive report:-

1 The Governor mentioned that Members had been provided with a copy of a press notice, issued on 29 April, concerning the establishment of the Legal Risk Review Committee. This matter had been mentioned at Court earlier in the year.

2 Mr Quinn informed Members about recent developments concerning Wallace Smith Trust, supervised under the Banking Act.

On the previous Monday the activities of all companies in the group had been suspended. On the Tuesday, WST had been placed in liquidation by the Bank and Duncan Smith, the joint Managing Director, charged with false accounting over a period dating back to January 1985 and remanded in custody until 7 May.

WST is a wholesale market trader in bank bills and CDs and off balance sheet instruments and active in corporate finance, money management and management consultancy. The company had been set up in 1974 by Duncan Smith. The Bank had received information during the previous week that WST had failed to settle certain money market transactions. At a meeting in the Bank on Sunday it emerged that WST would be unable to meet its obligations; and that fraud was suspected. Initial investigations had been carried out by the City Fraud Squad and the Bank with IMRO and SFA being advised of events. As there were links with a Canadian company the Canadian supervisors and the Royal Canadian Mounted Police had also been informed. The Serious Fraud Squad had subsequently taken over responsibility from the City Fraud Squad and the provisional liquidators KPMG Peat Marwick McLintock were also carrying forward investigations.

Court gave their approval to Professor Smith joining the Board of Manchester United plc as Non-Executive Chairman.

Turning to the Bank's Accounts for the year ended 28 February 1991, the Governor advised Court that the Audit Committee would meet that afternoon to examine the Accounts. At the Governor's invitation the Deputy Governor spoke about the draft Report and Accounts for the year ended 28 February 1991. He explained that the Report was in the same form as in previous years and covered those activities of the Bank not covered on a regular basis in the Quarterly Bulletin and the Annual report under the Banking Act.

The Deputy Governor went on to talk in detail about the Bank's Accounts. He compared the final outturn on the Bank's Profit and Loss account to the forecast that had been presented to Court on 4 April. This showed modestly lower operating profits at £161.8 mn, due to provision for the cost of severance. This had arisen as a result of some 200 surplus staff being identified through the budgetary process.

The published accounts were again in the same format as the previous year with a few minor changes. The dividend for the current year had been set at £69.9 mn to which had been added an exceptional dividend of £11.6 mn, as a result of a prior year adjustment arising from a change in treatment of the Bank's BGS portfolio, giving a total dividend of £81.5 mn. This left retentions for the year of £62 mn after a tax charge of £18 mn.

Having mentioned the points of interest arising from the notes to the Accounts, the Deputy Governor reminded the Directors that they would be required to agree to the valuation of unlisted investments in Note 12 of the Accounts. In that connection the Audit Committee would be asked to opine on what valuation should be placed on the Bank's shareholding in the 3i Group. The Directors would also be asked to agree that the accounts of Minories Finance Ltd and the Bank's other subsidiaries should not be consolidated on the basis that, in their opinion, they were immaterial.

The Deputy Governor then enquired, in view of the diminishing practice generally, whether or not the Bank's accounts should continue to be prepared on a current cost basis. It was agreed that this practice should cease with effect from the current year.

In conclusion, the Governor mentioned that the Report and Accounts would lie before Court until the next week when they would be asked, formally, to approve them, the amount of payment to the Treasury in lieu of dividend, and for the Accounts to be printed. It was intended to publish the Accounts on Wednesday 22 May.

G. A. Croughton.
Secretary. 9th May 1991

E.A.J. George
9th May 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 9 MAY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 Mr Coleby told Court that the Government had decided, and Mr Heseltine had announced on Tuesday, that no legislation would be introduced to change the legal position created by the House of Lords ruling in the Hammersmith and Fulham case. All swaps and similar transactions undertaken by local authorities therefore remained void. Legislation

to validate some or all of them had been seriously considered, but the Government had regretfully concluded that it would create as many problems as it resolved. Banks (and local authorities) who had made net payments under invalid transactions would now sue for their recovery - or restitution. Some banks were so angry that they might bring claims for damages against the Audit Commission, or even the Bank. Legal advice was that there was little prospect of such suits being successful. It had to be acknowledged that there was no wholly satisfactory solution to the problem once it had arisen. It was a prime purpose of the new Legal Risk Committee to identify such difficulties before they became serious problems, but it was not possible to be confident that this particular problem would have been avoided entirely had the Committee been in existence at the time.

2 Mr Coleby also referred to recent press comment about the large losses on foreign exchange transactions by Allied Lyons, disclosed earlier in the year and accompanied by the resignation of the finance director. The latest development was the early retirement of the Chairman, Sir Derrick Holden-Brown, and the Chief Executive, amid reports that the Bank had given the company warnings about its potential exposure to exchange risk. The reports were substantially accurate. In June 1990 the Bank received reports from the foreign exchange market indicating heavy turnover and possible risk positions held by the company. Mr Charkham, during one of his periodic meetings with the Chairman, enquired if the Chairman was aware of the operations and satisfied with the company's systems for monitoring and controlling the risk. He was given assurances on both counts. Subsequently, a meeting took place between the head of the Bank's Foreign Exchange Division and the company's finance director, in which the former indicated various ways in which risk could arise through foreign exchange transactions. With hindsight, it is clear that the Company's perception of risk, and its systems for controlling it, were inadequate.

The Governor reminded Members that the Annual Report and Accounts for the year ended 28 February 1991 had been laid before Court the previous week and that the Accounts had subsequently been considered by the Audit Committee.
At the Governor's invitation Sir David Scholey, the Chairman of the Audit Committee, in recommending the Accounts to Court for approval drew Court's attention to the following:-

1 the Committee had reviewed the Accounts and discussed them with the external Auditors. The Coopers & Lybrand Deloitte partner had confirmed that the audit had gone smoothly.

2 the Committee noted that bad and doubtful debts included an item in respect of the Central Bank of Iraq payment.

3 the sentence refering to the dividend reflecting a share of the increase in opening reserves following a change of accounting policy in respect of the valuation of gilt-edged holdings had been deleted.

4 the Committee had discussed with the Auditors the basis of valuation of unlisted miscellaneous securities and had concluded that they were appropriate, justifiable and consistent with previous years. In the case of the Bank's investment in 3i Group plc, the Committee had considered the Bank's possible position if the Company were to be floated resulting in a realisation or valuation substantially higher than the proposed valuations. The Committee had agreed that it would be inappropriate to change the basis to increase the present valuation.

5 the Committee had also discussed whether there should be any disclosure in respect of [redacted] The Committee assessed the position with the external auditor and, in view of the advice that the chances of the claim proving successful were remote, had concluded that it would be inappropriate to make such a disclosure.

6 the Committee had questioned the adequacy of the provision of £11 mn made for severance payments. The external Auditors had confirmed that they were entirely satisfied with the basis of the calculations.

7 the Committee endorsed Court's decision to dispense with Current Cost Accounts.

8 It was noted that whilst the format of the accounts remained substantially the same as in previous years, it would be reviewed during the coming year with the release of the provisions of the new EC Banking Directive: the external Auditors would make recommendations.

9 the Committee noted that the external Auditors' management letter would draw attention to certain weaknesses in the Bank's computer systems relating to the Deposit Protection Board and the Central Money Markets Office.

The Governor then obtained the agreement of Court:-

(i) to the valuation of unlisted investments set out in Note 12 to the Accounts;

(ii) that the Agricultural Mortgage Corporation should not be treated as an associated company;

(iii) that the accounts of Minories Finance Ltd and the other subsidiaries should not be consolidated into the Bank's Accounts; and

(iv) that Note 15 to the Accounts was a true statement in respect of Members of Court.

Court also approved the sending of a Letter of Representation to the Bank's Auditors stating that the Directors confirmed that the Accounts gave a true and fair view and those of the Issue Department presented fairly the outcome of the transactions.

The Governor then reported that a further payment in lieu of dividend of £41,385,000 would fall due to HM Treasury on 5 October next, bringing the total payment in lieu of dividend for the year ended 28 February 1991 to £81,535,000. Court approved thereto.
Court also gave their approval for the Accounts to be signed, and for the Annual Report and Accounts of the Bank for the year ended 28 February 1991 to be printed and issued.

At the Governor's invitation:-

1 Mr Quinn spoke about the Banking Act Report for 1990/91 which was due for publication on 22 May.
With reference to a Minute of 13 July 1989, Court noted the names of those to whom the Bank's powers to prosecute under the Banking Act 1987 had been delegated and the occasions on which those powers had been exercised.

2 Mr Quinn introduced the Report and Accounts of the Deposit Protection Board for the year ended 28 February 1991, which were laid before Court.

3 Mr King presented the international environment and the domestic economy sections from the May edition of the Quarterly Bulletin.

Adrian Cadbury
23/5/91

Secretary. 23 May 1991

A MEETING OF DIRECTORS AT THE BANK

THURSDAY 16 MAY 1991

Present

Edward Alan John George, Esq, Deputy Governor
Brian Quinn, Esq
Andrew Duncan Crockett, Esq
Mervyn Allister King, Esq

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business subject to ratification by the next Court.

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Adrian Cadbury
23/5/91

G. A. Croughton
Secretary 23 May 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 23 MAY 1991

Present

Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Dr David Valentine Atterton, CBE
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Gavin Harry Laird, Esq, CBE
David Bryan Lees, Esq
Brian Quinn, Esq
Professor Roland Smith
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the Court of 9 May were confirmed, and those of the previous week's Meeting, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets. During the discussion which followed attention focused on whether current policy was unnecessarily severe and on the priority that needed to be given to counter inflation. Although it was acknowledged that a number of inflationary pressures arose from changes in Government policy and from price rises in the public sector and utilities, the Bank's monetary policy stance could only be directed at reducing inflation overall.

Under the weekly executive report:-

1 The Deputy Governor drew Members' attention to the Governor's speeches given earlier in the month at Exeter University and in Frankfurt, both of which had attracted considerable publicity.

The speech delivered in Exeter to an academic audience raised the question of how we should measure inflation. The speech reviewed a number of possible measures and concluded that we should not focus on any one measure alone but base our judgement on a range of measures. The Governor had in that context warned against placing undue emphasis on headline inflation because of concern that the latest RPI figure might create expectations of an unjustifiably sharp easing of policy. This speech had been interpreted by the press as indicative of a difference of opinion between the Bank and Government.

The Governor's speech in Frankfurt which had been delivered to a German audience and as a direct response to the US position taken at the recent G7 meetings, had also stressed the importance of directing monetary policy to counter inflation. This too had been misinterpreted as further evidence of a difference of opinion between the Bank and Government.

The Deputy Governor said that in practice there was no disagreement with Government on the need for a cautious approach on interest rates, and the Assessment which appeared in the Quarterly Bulletin the previous week had again emphasised this stance.

The Deputy Governor went on to mention that the Governor was addressing the Building Societies Association Annual Conference in Glasgow later that day. The speech was unlikely to be controversial - it contained no explicit reference to mortgage restrictions, which had attracted attention earlier in the year. However, the Governor's salary, which had been published in the Annual Report and Accounts the previous day, had attracted considerable attention in the press that day and it was suggested that requests by the media for comments from Members of Court should for the time being be declined.

2 In commenting on the Treasury and Civil Service Committee Report on The System of Notes and Coins, Mr Quinn said that among the recommendations in the Report, the Committee had suggested that the next banknote series be issued in ascending order of value; that a cost appraisal, which should be made available publicly, should be undertaken prior to recommending changes in banknotes and coin and as part of an improved presentation of the case for a change; and that there should be a period of stability in the design of notes and coin beyond the changes currently envisaged. The Report had concluded that most of the recent and projected changes in banknotes and coins to prevent counterfeiting, reduce the weight and save unnecessary public expenditure, were both necessary and desirable.

The Deputy Governor then invited Mr Laird, the Chairman of the Staff Committee, to present a Report of the Staff Committee on the increases to be awarded in pensions and allowances from the Staff Pension Fund with effect from 1 July 1991. The Recommendations contained in the Report were approved.

The Deputy Governor, having declared his potential interest in the Court Pension Scheme, and that of Sir David Walker and Messrs Quinn and Crockett, invited Sir Adrian Cadbury, the Chairman of the Trustees of the Court Pension Scheme, to introduce certain Recommendations from the Trustees of the Court Pension Scheme concerning increases in the pensions and allowances in payment to former Governors and Executive Directors and to the widows of former Governors and former Executive Directors, with effect from 1 July 1991. The Recommendations were approved by Court.

Court gave their approval for Sir Brian Corby, currently Chairman of the Trustees of the charity Education 2000, to become Chairman of the board of Education 2000 when the charity acquired company status.

Two letters from Messrs Freshfields were submitted together with documents to be sealed, namely an Underlease granted to Charterhouse Bank Ltd in respect of space on the ground and fourth floors of New Change, and two Deeds of Variation granting Arthur Andersen and Co Nominees extensions on the terms of their leases on the fifth and sixth floors and the seventh to twelfth floors of Bank House, Manchester.
Court approved thereof and ORDERED that the documents in question be Sealed with the Common Seal of the Bank.

At the Deputy Governor's invitation and in the absence of Mr King, Mr Reid spoke about the May edition of the Quarterly Bulletin which had been published the previous week.

G. A. Croughton.

Secretary. 30 May 1991

E. A. J. George
30th May 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 30 MAY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
David Bryan Lees, Esq
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Roland Smith
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

At the Governor's invitation:-

1 Sir David Scholey introduced a Report of the Audit Committee which was laid before Court.

2 Mr King spoke about the Overseas Trade Figures for April, which had been published the previous Thursday, and presented the Economic and Financial Report for May.

3 In introducing the regular monthly discussion of monetary policy, Mr Coleby said that the monetary aggregates for April incorporated an updating of the seasonal adjustment which was now undertaken on a six-monthly basis. The latest up-dating also corrected some deficiencies in the treatment of holidays with variable dates. The April figures indicated an increase of 0.5% in M0 with no growth in currency in circulation. The figures for both M0 and currency in circulation had fallen sharply year-on-year by some 1% to record an increase of 1.6%, reflecting the disappearance of the exceptionally strong growth recorded in April 1990. The increase in M0 of 1.6% had all taken place in the first four months of 1991 and was to some extent attributable to erratic movements in bankers' balances over that period. During the same period currency in circulation had grown by over 1%. M0 was therefore currently running at somewhat above the middle of the target range. M4 remained surprisingly strong with an increase of 1.3% in April, the highest monthly growth for more than a year; the year-on-year growth was now back to 10% from 9.9% the previous month. This had been attributable to some special factors and was likely to fall back again in May. M4 lending was again rather flat with a monthly increase of 0.6% giving a year-on-year increase of 10.7%. Corporate borrowing was depressed by receipts from capital issues and higher VAT accruals while personal borrowing was slightly

higher than the previous month, although still at historically low levels. There was little evidence from the broad money and building society figures of any revival in activity in the housing market. During the past month sterling had again remained steady at some 2-2 1/2% below the effective rate at the time of entry to the ERM last October. As Mr King had noted earlier, there was evidence from the real economy that the pace of decline was slowing. However there was, as yet, little evidence of an upturn although this could begin to show in the second half of the year when the earlier interest rate cuts could be expected to generate some recovery. The latest cuts in interest rates, however, were unlikely to affect demand until much later this year or early next year. In underlying terms, inflation was improving, but very slowly. There was little risk that further interest rate cuts would directly damage the prospect for inflation in the short term but it would be a different story if they caused disturbances in the financial markets. So there was a need for continued caution. During the discussion which followed attention focused on recent press reports that banks were withholding from smaller companies the effect of the recent falls in interest rates by increasing their margins. Some Members were able to confirm that there was evidence to suggest that following their experience of the past year, banks were adopting a more cautious approach to less creditworthy customers.

Adrian Cadbury
6th June 1991.

G. A. Coghlan
Secretary.
6 June 1991.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 6 JUNE 1991

Present

Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Mervyn Allister King, Esq
David Bryan Lees, Esq
Brian Quinn, Esq
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges, including the Official Reserves figures for May, and the state of the domestic markets.

Under the weekly executive report:-

1 Mr Quinn referred to the announcement made earlier that week by Harrods Bank that under a Trust Agreement signed the previous week, control of Harrods Bank had passed to Law Debenture Trust Corporation who now held the voting shares as trustees. The House of Fraser would have no control or influence over the voting rights but would retain an economic interest in Harrods

Bank through non-voting shares. The Law Debenture Trust Corporation had also signed a side letter to the Bank confirming, inter alia, that their prime responsibility will be the appointment and monitoring of directors and that they will give the Bank advance notice of any proposed change to the Trust Deed, or any breach thereof.

Law Debenture Trust Corporation proposed to make copies of the Trust Deed and side letter available on request and were aware that the Governor might wish to show copies of these documents to the Trade and Industry Select Committee in due course.

Mr Quinn explained the reasons for the time taken by the Bank to bring about the solution.

Lord Haslam said that the Bank were to be congratulated on the successful outcome of this case.

2 Mr Coleby referred to recent media comment that banks were not passing on the recent cuts in interest rates to smaller businesses. The Governor had raised that question with the Chairmen of the Clearing Banks at a meeting the previous week and obtained responses that were reassuring, but the available information was somewhat fragmentary. It had been agreed to assemble further information. That intention had been overtaken by the announcement of a Government investigation, but it was now proposed that the matter would be pursued jointly by the Bank and HM Treasury. The Deputy Governor had called a meeting tomorrow of the Chief Executive Officers of the Clearing Banks. The main focus of the meeting would be on the response of bank lending rates to the lowering of base rates in recent months, and it would not address all of the more diverse issues into which the media had more recently taken the debate. One such was the suggestion of collusion between the banks on interest rates and charges, for which no evidence existed at all. It had nevertheless drawn a response from Sir Leon Brittan, the European Community Commissioner, who had reminded

the banks of their obligation to disclose any such inter-bank agreements.

At the Deputy Governor's invitation:-

1 Sir Adrian Cadbury introduced a Report of the Committee on Bank Premises. The Report commented on the completion of both the refurbishment of the New Change building and the Gloucester Building project and, in accordance with a Minute of 18 January 1990, proposed that in the absence of any other major projects, the Premises Committee be stood down. Court agreed. The Deputy Governor thanked Sir Adrian Cadbury and the members of the Committee for their contribution over the years which had been of great value.

2 Mr Crockett presented the International Economic Developments paper for April, which had been deferred from 23 May, and the World Economic Forecast for Spring 1991.

E.A.J. George
20th June 1991

G.A. Croughton
Secretary

A MEETING OF DIRECTORS AT THE BANK

THURSDAY 13 JUNE 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Sir George Adrian Hayhurst Cadbury
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Sir Martin Wakefield Jacomb
Brian Quinn, Esq
Professor Roland Smith

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business subject to ratification by the next Court.

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

At the Governor's invitation:-

1 Mr Harris introduced a paper advising Members of the details of the pay claim received from the Bank of England Section of BIFU and outlining the Bank's proposals for the 1991 pay award. He drew attention to

recent settlements that had been achieved in the clearing banks, the Bank's main analogues, and some of the factors affecting this year's negotiation. Of those Members of Court absent that day, Sir Brian Corby and Mr Laird had signified their support for the Bank's proposed stance.

After some discussion it was agreed that it was in the common interest to achieve early agreement and the Bank should aim to settle with an across-the-board increase consistent with the Retail Prices Index. An additional sum representing 1/2% of the pay bill might also be included in the settlement to enhance the level of performance awards. After further discussion, it was considered that the abolition of abatement of pensions was not an issue that should be pursued at this time. It was agreed that Mr Harris should enter into negotiations with the Union on this basis.

2 Mr Crockett gave a brief round-up of the most recent developments contained in the May edition of the International Economic Developments paper before going on to present a paper entitled 'Post-War Reconstruction in the Gulf and its UK Implications'. The paper highlighted the scale and costs of reconstruction following the Gulf War, examined the implications for UK companies and considered how the reconstruction effort might be financed. A discussion ensued.

At the Governor's suggestion it was agreed that the paper entitled 'Leading Indicators' be deferred for informal discussion in the wider context of monetary policy and forecasting.

E.A.J. George
20th June 1991

G. A. Croughton
Secretary.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 20 JUNE 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Mervyn Allister King, Esq
Sir David Bryan Lees
Brian Quinn, Esq
Professor Sir Roland Smith
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

On behalf of Members of Court, the Governor congratulated Sir David Lees and Professor Sir Roland Smith on the knighthoods conferred on them in the Queen's Birthday Honours List.

The Minutes of the Court of 6 June were confirmed and those of the previous week's Meeting, having been circulated, were approved.

In commenting of the weekly figures, Mr Quinn drew attention to the Banking Department's foreign currency deposits which had increased by some £800 mn over the previous year and explained the reasons for the growth in this business which the Bank carried out for its central bank customers.

Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

A letter from Messrs Freshfields was submitted, together with a document to be sealed, namely a Licence and Deed of Variation granting permission to Next Plc to assign the Underlease of 40/41 Cheapside, EC2 to Ouiset (UK) Ltd. Court approved thereof and ORDERED that the document in question be sealed with the Common Seal of the Bank.

At the Governor's invitation, Dr Atterton introduced a Report of the Charitable Appeals Committee. Court approved the recommendations contained therein, namely, that the Bank's annual contribution to the National Council for Voluntary Organisations be increased from £6,000 to £7,000, and a donation of £2,000 a year for three years be made to Youth Clubs UK.

Mr Harris then referred to Appendix II of the Report which summarised the Bank's overall charitable giving. This indicated that the Bank's contribution to community activities had amounted to 0.62% of pre-tax profit before dividend for the year end 28 February 1991.

E.A.J. George
27th June 1991

Governor's Private Secretary

27 June 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 27 JUNE 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Sir David Bryan Lees
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Sir Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report, the Governor summarised the previous Sunday's G7 meeting and his appearance on Tuesday 25 June before the House of Commons Trade and Industry Select Committee. On the G7 meeting, the Governor reported that there had been greater optimism about recovery in the US and Canadian economies and the Bundesbank had not been expecting to increase interest rates, although the current President could obviously not bind his successor. As there was no predilection amongst any of the countries fundamentally to adjust their domestic policies, any plans to cap the dollar by intervention would have lacked secure foundation, and it was left that in the usual way central banks would intervene only if market conditions became disorderly.

The Governor said that his appearance before the Trade and Industry Select Committee had been uncomfortable. Moments before the session began, he had been given a Counsel's opinion and extracts from a piece of 19th century legislation and it had then been suggested that these demonstrated conclusively that he could freely answer questions on the Harrods case and, indeed, was required to do so. The session had been in camera and the acting Chairman, Mr Robin Maxwell-Hyslop MP, had stressed that the very fact of the hearing was to remain confidential. Only hours afterwards, however, lobby correspondents had been in touch with the Bank with information about the proceedings, and stories had appeared the following day in the Financial Times and Guardian. The motive of the Committee in seeing him again had been unclear, except to discover what had happened to the Al Fayeds. The Governor said he had tried to answer questions put to him in general and indirect terms so as to maintain his and the Bank's position on Banking Act secrecy. In response to a question from Sir David Scholey, the Governor said that if asked to go before the Committee again for a hearing in camera, he would treat the occasion as though it were in public. The Governor indicated that he was considering writing to Kenneth Warren, the Chairman of the Committee, who had been unable to attend Tuesday's session on account of illness, and that he might also at some point take up the issues with the Leader of the

House and the Speaker. Members of Court expressed support for this line of action and Professor Sir Roland Smith and Lord Haslam both stressed the potentially severe problems which could arise if a Select Committee compelled a witness to disclose commercially sensitive information which was not available to shareholders or employees; the leakiness of camera sessions was a major worry in this respect, and the time was approaching when guidelines might need to be drawn up concerning the conduct of Select Committees.

At the Governor's invitation:-

1 Mr King spoke about the Overseas Trade Figures for May, which had been published earlier that week, and presented the Economic and Financial Report for June, before introducing the latest Bank Forecast on the Economic Outlook to 1993. Further to a Minute of 23 May 1991, Mr King then presented a paper discussing the current stance of monetary policy. Mr King said there had been relatively little news over the last month which had affected our view of the path of the economy. Domestic output had fallen again in the second quarter but the rate of decline had moderated and our view remained that the economy would probably start to pick up during the third quarter. The precise timing of the turning point was less important, however, than that the recovery should be steady. The outcome would depend heavily on the strength of any revival in consumption, which had unexpectedly fallen following the sharp increase in the savings rate last year. Mr King stressed the lags in the operation of monetary policy on the path of nominal GDP; we were yet to see the implications of the relaxation that had already taken place. Mr King noted that pre- and post-tax real interest rates were not unduly high for this point of the cycle in either historical terms

or compared with our major trading partners. But it was noteworthy that while the differential between German and UK short-term interest rates had narrowed over recent months, the differential between longer-term rates had widened slightly. All of these factors pointed to caution over the future course of policy.

2 In introducing the regular monthly discussion of monetary policy, Mr Coleby said that the monetary data were consistent with the picture that Mr King had presented. Growth in M0, M4 and M4 lending had all been reducing rapidly on a year-on-year basis, and some had concluded from this that the economy was set to decline further. That was a misreading because it was based on changes that happened a year or more ago. Narrow money, as measured by currency circulation, had fallen to 1.6% in the year to April and 1.8% in May, in the lower half of the 0 - 4% target range for M0 in the current year. But most of that growth had taken place in the present calendar year, and when June's likely growth of over 1/2% was added in 1991 would show an annualised growth rate of nearly 4%. A similar picture, although to a less marked degree, emerged for M4, with the 9.5% year-on-year growth recorded in May having occurred very evenly over the past year, belying the impression of decline within the period given by the sharply declining twelve-month figure. An important factor in the decline in the growth of M4 lending - with year-on-year growth having reduced 9.8% - had been the increase in the extent to which companies were raising money from the capital markets. Lending to persons was modest, in line with recent months, although there were signs of faint stirrings in the mortgage market. Turning to the financial markets, Mr Coleby said that sterling's potential vulnerability to adverse

developments, including domestic politics, had recently been seen; the ERI had now declined by nearly 5% over the past nine months. Turning to the policy implications, Mr Coleby agreed with Mr King that considerable weight had to be given to the lags in the operation of policy. If rates were reduced too much now, we might find ourselves needing to raise them again and, more fundamentally, we were probably now quite close to the point where further easing could begin to do damage to the ultimate objective of subduing inflation. The principal argument for further easing now was that it might be necessary to trigger the improvement in confidence that would start the upturn in demand. But there was no certainty what the effect on confidence would be; an attempt to boost it by cutting interest rates could have a perverse effect if that unsettled the foreign exchanges.

In discussion, Sir Martin Jacomb stressed that it would be a mistake to look to increasing consumption as the way out of the recession if this meant falling savings. Mr Southgate and Sir David Lees counselled caution over further interest rate cuts and the importance of the recovery being steady, and expressed concern about the low levels of investment forecast by the Bank. Sir David Scholey noted that the forecast of recovery would have greater credibility when the turning point was finally identified, as until then confidence would probably remain weak.

There was also a new cause for anxiety in the fragility which was emerging in the capital markets, which combined with subdued bank lending and weak confidence could produce a much more difficult economic situation than was currently expected. Sir David Walker suggested that the authorities should not be passive in accepting the lags in the operation of policy but should rather investigate whether the lags could be reduced without damaging the effectiveness of policy. Lord Haslam believed that policy was on the wrong track and, noting that interest rates had been reduced very quickly during the early 1980s' recession, suggested that there should be greater cuts now and also that in the longer run sterling's ERM parity could prove unsustainable. Lord Haslam shared the concern of other Members of Court over the lags in the operation of policy and observed that they were not so great in the United States.

E. A. J. George
4th July 1991

G. A. Croughton.
Secretary.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 4 JULY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Lord Haslam of Bolton
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Brian Quinn, Esq
Professor Sir Roland Smith
Sir David Alan Walker

Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges, including the Official Reserves figures for June, and the state of the domestic markets.

Under the weekly executive report the Governor informed Court that following discussions with the Board of Banking Supervision and members of the College of Regulators, including the banking regulators in Luxembourg and the Caymen Islands, co-ordinated action would be taken over the coming weekend to close down the Bank of Credit and Commerce International.
The Bank had been concerned for a long while about BCCI which was registered in Luxembourg and the Caymen Islands and operating in a number of other countries worldwide, including

the UK where there were 25 branches, 20 of which were in London. The Bank's role therefore was restricted to that of Branch Supervisor only and one of our major concerns had been the lack of a lead regulator.

Following the receipt of certain information in January of this year, the Bank had appointed Price Waterhouse to carry out an investigation under the Banking Act into the affairs of BCCI. The report had been received recently. It identified a complicated system of fraud which basically had been perpetrated against the shareholders of BCCI, principally the Royal Family of Abu Dhabi and the Abu Dhabi authorities. The fraud had been carefully concealed from both the Auditors and the Regulators by effectively establishing a bank within a bank.

It had become clear that urgent co-ordinated action was necessary to close down the activities of BCCI: this would have implications worldwide and would involve a major international operation based here in the Bank. Following a meeting with the Prime Minister, the Chancellor of the Exchequer and the Foreign Secretary earlier that day, and because of the likely impact of the proposed action on banking in the Gulf, British Ambassadors were being asked to brief the Governments of the Gulf States.

It was not known whether the Royal Family of Abu Dhabi would stand behind the bank to minimise the loss to depositors. In the UK, deposits were of the order of £250 mn mostly in the names of small Indian and Pakistani traders. Depositors would of course be advised of their rights under the deposit protection scheme, but inevitably it would take time before any compensation could be paid.

The Governor informed Court that it would be announced in Basle the following week that Mr Malcolm Gill, the Chief Cashier, would be joining the staff of the Bank for International Settlements as Deputy Head of the Banking Department later in the year. It was the intention that in due course Mr Gill, who was leaving with the Bank's blessing, would become Head of the Banking Department.

As a consequence of Mr Gill's retirement from the Bank the Governor recommended that with effect from 25 November 1991:-

G E A KENTFIELD (51) A Senior Official [redacted] previously the Head of Banking Division and a Deputy Chief Cashier	be appointed the Chief of the Banking Department and the Chief Cashier, and be promoted to Senior Official [redacted]
MRS M V LOWTHER (37) An Official, previously a Senior Manager in the Gilt-Edged and Money Markets Division	be appointed the Head of Banking Division and a Deputy Chief Cashier, and be promoted to Senior Official [redacted]

Court agreed thereto.

At the Governor's invitation, Mr King introduced a paper analysing recent trends in wage settlements, together with developments in some of the underlying economic factors which were believed to influence wage determination in both the public and private sectors.
In response to the questions posed by Mr King there was general agreement that the forecasts for the rise in earnings for the economy as a whole (down to 6% by the beginning of 1992 and 5% by the end of that year), were broadly appropriate, and that with reduced levels of overtime and short time working there was evidence that earnings were still falling. The headline rate of inflation and employment prospects generally still remained the most important factors in wage negotiations and there was no evidence at the present time to suggest that entry to the ERM had yet had any significant impact on wages.

Court noted that Sir Martin Jacomb would be joining the board of the British Council and that a press announcement would be made during the course of the coming week.

E. A. J. George
11th July 1991

G. A. Croughton.
Secretary. 11 July 1991

[redacted]

A COURT OF DIRECTORS AT THE BANK

THURSDAY 11 JULY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

In commenting on the weekly figures, Mr Quinn mentioned that [redacted] Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report and with reference to a Minute of 13 June, Mr Harris said that BIFU had rejected the Bank's offer of a pay settlement of 6% - increased the previous week from 5.8% in the hope of achieving a speedy settlement - plus an additional 1/2% of the pay bill to enhance the level of performance awards. Second Disagreement had been recorded and as a consequence the matter would now be referred to ACAS for conciliation.
The Union negotiators had been disappointed at the level of the Bank's final offer: in seeking an improved settlement they had cited the loyalty of the staff, in particular their readiness to respond in emergencies such as the Gulf crisis and currently the winding up of Bank of Credit and Commerce International, and the increased productivity which had arisen from budget pressures. In addition, the Union had drawn attention to the Bank's ability to fund a more generous award because of the significant reduction in the Bank's contribution to the Pension Fund. The Union had also emphasised that they had modified their position significantly reducing their across-the-board claim to 6.6%, in their view the underlying rate of inflation, but they continued to express their objection to the inclusion of performance related money as part of a general settlement.
Management's view continued to be that the present offer remained entirely appropriate. Court supported that view and agreed that the matter be taken to ACAS at the present level.

With reference to a Minute of the previous week, the Governor explained that there were a number of on-going issues that arose from the action taken against the Bank of Credit and Commerce International. The date for the Court hearing of the application for a winding-up order against BCCI had been brought forward to 22 July and once this had been achieved, compensation from the Deposit Protection Fund could be triggered. However, it would still take some weeks before payment could be made. There had already been considerable criticism of the maximum level of £15,000 compensation: this was provided for in the Banking Act and any increase would require a change in legislation. A number of moves had also been made to help those businesses who had banked with BCCI. In particular, the clearing banks had been encouraged to accommodate former BCCI customers and Touche Ross, the liquidators, had established an advisory service at Partner level.

As there was no systemic risk attaching to the collapse of BCCI the question of a rescue did not arise but the injection of funds by the shareholders, in particular the Royal Family of Abu Dhabi, remained a possibility. The Governor explained that discussions with their representatives had taken place earlier that week and the Bank, at whatever level was deemed appropriate, stood ready to visit Abu Dhabi for further discussions. He awaited advice from the British Ambassador there.

One of the more difficult issues that remained outstanding was the position of those local authorities who had placed funds with BCCI, some of whom had been "advised" by City moneybrokers, largely on the strength of BCCI's name appearing on an approved list of some 550 banking institutions. A related issue was that some local authorities had placed funds with other small banks and any large scale withdrawal could pose problems.

In responding to questions the Governor explained that the liquidators had been very effective in closing down BCCI's operations. Although there may have been some leakage, for example in Pakistan, his central bank colleagues at Basle had considered that the operation had been well co-ordinated, and timely. The Governor went on to explain that the Bank had taken steps to present its case publicly and by and large the press had responded responsibly. A press conference had been held within three hours of taking action against BCCI and subsequently he had received a group of businessmen led by Mr Vaz, a Member of Parliament. Earlier that day, with the Deputy Governor, he had also received a group of Asian businessmen and during the following week he would be talking to an all-party group of MPs at the House of Commons.

Arising from the discussion, it was agreed that it was important to get across to depositors the need for them to act responsibly. This was particularly so in the case of local authorities where it raised the question of whether they should place their funds in the private sector. This was a matter of concern to the Bank.

At the Governor's invitation:-

1 Mr Crockett presented the International Economic Developments paper for June.

2 Mr Charkham introduced two papers entitled "Corporate Governance in the USA - Developments 1990-91" and "An Outline of Corporate Governance in France". The first paper updated his report of April 1990 which had been presented to Court on 12 July 1990. The second paper described the principles of corporate governance in France and the way they are applied in practice. As there was insufficient time to discuss these papers it was agreed that they be brought back to Court at a later date. In the meantime, Court agreed that the papers be made available to the Department of Trade and Industry and to H M Treasury, and that additionally the French paper be circulated to the Foreign and Commonwealth Office and the Embassy in Paris. The question of the publication of these papers together with earlier papers covering corporate governance in Germany and Japan would be addressed in due course.

[illegible]
Assistant Secretary
18th July 1991

E.A.J. George
18th July 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 18 JULY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Brian Quinn, Esq

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 With reference to a Minute of 23 May, Mr Harris said he had been asked, specifically, to pass on to Court a number of expressions of appreciation he had received from pensioners and from the widows of former Governors and Executive Directors as a result of the increases

that had been agreed in their pensions and allowances paid under the Court Pension Scheme.

2 With reference to a Minute of the previous week and earlier, Mr Harris reported to Court that representatives of the Bank and BIFU had met all day the previous Tuesday with ACAS to seek conciliation over the pay settlement. Neither party had changed its position and the talks had been adjourned until Friday. In the meantime the BIFU Section Council had met but nothing had emerged. Mr Harris asked for Court to confirm that the offer should not be improved, and that the Bank should decline any request for the matter to go to binding arbitration; also, if BIFU did not accept the offer before the deadline for the August pay day, the 6% across-the-board offer on the table should be imposed. It was considered that BIFU were unlikely to put the offer to a ballot as it was not thought they had the necessary level of support. Court agreed with the proposed course of action and that no increase should be made to the final offer. In response to a proposal from Mr Laird it was agreed that if a settlement were imposed a notice should be sent to each member of the staff individually explaining the position.

3 With reference to the Minutes of the previous two weeks, the Governor spoke about the latest position with regard to the Bank of Credit and Commerce International. He said he was due to attend an all-party meeting of backbench Members of Parliament that evening in response to a request from Mr Vaz, who had a number of constituents affected by the closure of the Bank. Also, he had been invited to attend a Select Committee meeting of Members of Parliament the next Tuesday. These would be important occasions to put across the Bank's case, the main plank of which would be that BCCI underwent a sea change earlier this year. The Bank had commissioned an investigation under

Section 41 of the Banking Act during the course of which 6000 files were unearthed showing details of unrecorded transactions. It was this apparent bank within a bank that had caused the Bank to move against BCCI. There was criticism that we should have acted earlier and thus caused less pain but this would have happened whenever the Bank had acted.

The Bank were clear in their minds that, while the earlier reports they had received from Auditors showed sloppy banking practices that needed to be rectified, they did not provide evidence of the widespread fraud that was the justification for subsequent stronger action. These unsatisfactory practices were taken up with the regulators as well as the proposals that the group as a whole be restructured and a ring fence put round the 24 branches in this country. It was very important to distinguish between the two periods.

The Governor went on to say he had just returned from Abu Dhabi where he had been on a fence-mending mission. This had been necessary as a number of prominent Abu Dhabians have been named in the Price Waterhouse report. For this reason it had not been possible to notify the Abu Dhabi authorities in advance. The Governor had explained the position to the Abu Dhabi Finance Minister and had left two copies of the report with the names deleted. However, it had been necessary to provide unexpurgated copies of the report for BCCI's legal advisers. If, as a result, these names did become known it would be evident why the Bank had acted in such a discrete manner.

Once the Bank had obtained a winding-up order against BCCI the provisions of the Deposit Protection Fund would come into operation and forms were ready to be despatched to depositors immediately. Nevertheless, it would be a matter of some weeks or months before any payments could be made. In the meantime the clearing banks had been asked to be sympathetic to former BCCI customers who had been adversely affected.

In responding to a comment that the validity of the Bank's position had not been made sufficiently clear, the Governor said that he was content that the two opportunities afforded by his meeting with Members of Parliament would rectify the position. Answering a further point the Governor reiterated that the two reports made by Price Waterhouse in April and October of the previous year - which had been just two in a continuous stream - were carefully considered but their findings were not of the gravity of their most recent report and they had still held out the possibility that BCCI could be restructured. As to the question of whether or not the Bank would have been able to respond more effectively prior to the introduction of the Banking Act, and the sufficiency of that Act, the Governor said he felt the Act was adequate. There had been many unpublicised cases that had been successfully resolved under that legislation. The area where a strengthening did need to take place was in the European supervisory arrangements.

At the Governor's invitation, Lord Laing spoke about the Report and Accounts of BE Services Ltd for the year ended 28 February 1991 which were laid before Court.

[illegible]
Assistant Secretary
25th July 1991

E.A.J. George
25th July 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 25 JULY 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Andrew Duncan Crockett, Esq
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Sir Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 With reference to a Minute of the previous week and earlier, concerning the Bank of Credit and Commerce International, the Governor said he had attended the Select Committee the previous Tuesday to present the Bank's case. This had been the first major occasion on

which he had had an opportunity to do so. He had told the Committee that the Bank had been aware of BCCI's laundering of drug money in the United States. As a result the floorboards had been taken up in the United Kingdom branches but no evidence of any similar operation had been found. The branches had been very closely supervised and the Bank had required BCCI to provide a daily balance sheet although later this had been reduced to a weekly one. There had been reports of terrorist funds placed with BCCI and details had been passed on to Special Branch but the reports could not be substantiated. The two Price Waterhouse reports of April and October 1990 had not revealed evidence of widespread fraud and certainly not sufficient to close the bank down by revoking its licence.

A watershed in the bank's affairs had been reached at the beginning of the year as a result of evidence received from within the bank. Price Waterhouse had mounted a further investigation which had resulted in 6000 files being unearthed showing details of unrecorded transactions. The Governor said that the whole purpose of his comments was to describe the contrast between the lack of evidence found in the earlier investigations by Price Waterhouse and their latest. The Bank were confident in their judgement that they had not previously had sufficient evidence. Once the evidence had emerged then action had been taken. He added that he hoped that the Inquiry that had been convened would not second guess the Bank's judgement.

The Governor said that it was unfortunate the issue had been clouded by the clash between the Prime Minister and the Leader of the Opposition at the same time as his appearance before the Select Committee. He felt very indignant that something he had said to the all-party meeting of backbench Members of Parliament the previous week had been used to attack the Prime Minister - especially as his remarks had been relaid inaccurately.

The Governor went on to say that a tiresome development had taken place in connection with the affair. The lay members of the Board of Banking Supervision felt that the Governor's statement had been in breach of the confidentiality of the Banking Act. However, the Governor and Executive were of the opinion that what he had said had been covered by the appropriate sub-section giving leeway when a matter had become public knowledge. The Governor and Executive had concluded that it was better to be as forthcoming as possible to the Select Committee in order to forestall any criticism. The lay members of the Board had taken the view it was wrong to respond in this manner and the Governor had written to the Chancellor recording this disagreement. The Governor said he was disappointed by their reaction and the difference of opinion - the first time that such a difference had occurred amongst the Board. However, he felt he had no alternative but to pursue the course he had.
In commenting on this development, Mr Laird said that he hoped Court would be informed of details of the evidence the Bank intended to submit to the Inquiry so that they might have the opportunity of giving their public backing. The Governor said that, indeed, it would be helpful if he could say he had the support of Court. The Bank were considering how to react. We might be vulnerable when the Inquiry focused on how quickly we had reacted to certain information we received and how speedily this had been passed up the line. But we hoped there was no question of negligence or deficiency. The crux of the matter was when should the licence have been revoked and this was a step we could not take on our own.

2 The Deputy Governor said that in the wake of the closure of BCCI the Bank had been monitoring the position of the smaller banks, reviewing the affect on the availability and cost of their wholesale funding. The failures earlier in the year of Chancery and

Edington, both of whom had had local authority deposits, had added to the general nervousness. Before the closure of BCCI an adjustment had been proceeding. The subsequent closure and the possible loss of local authority deposits held at BCCI had given impetus to that development.

The Bank had been monitoring twenty four banks. Twenty two were very small but two were sizeable, one of which was National Home Loans. The wholesale markets had become nervous and it would have been risky to both the wholesale and retail markets to allow another institution to go into liquidation. The position had been discussed with the Treasury. It was evident the situation was not sufficiently critical to demand a general life boat operation, but rather a case by case resolution as the circumstances and characteristics of each institution varied. It was not appropriate in the modern world to look to the major retail banks to carry unrealistic risks. We hoped that the better risks would be borne by the private sector and, if necessary, the worst risks by the public sector. We were also anxious not to frustrate existing market processes, although we wanted to moderate the pace. If institutions were to be underwritten by public sector credit then it should be on very tough terms.

The first case, NHL, a public quoted company, had arisen very quickly. Directors were in danger of having to stop trading because of insufficient liquidity. The retail banks, including Abbey National, and Warburgs, had approached the problem in a constructive spirit. We had hoped to put together a package on this basis. However, as doubts began to arise over the package we had had to step in to provide a guarantee to the banks before they would provide a £200 million facility to NHL. We have given our assurance to the company that if this facility proves to be insufficient we will ask banks if they would provide further funding, but if this fails we would be prepared to pick up the deficient amount ourselves on the basis that we would receive at least part of any value remaining in the group and that the terms we would set would be structured to encourage a rapid sale or orderly run-down.

The Bank had not announced its provision of a guarantee as this could have made matters worse and raised questions as to why we had supported NHL but not BCCI. The risk had been taken on the books of the Bank without any comfort from Government. There was the possibility of one other risk, a small one of £7 million. If the Bank had to respond it would be reported to Court the next week. Should the Bank become involved in other cases it would have to seek comfort from the Government either for capital or an indemnity.

The Governor said it had been a difficult problem to overcome especially on top of BCCI and paid tribute to the Deputy Governor and the team that had put the arrangements together. It was pleasing the market had received the news in such a calm manner. He concluded by apologising to Court that he had had to tell them of the arrangements ex facto. The Deputy Governor added that we felt that the most helpful way for the situation to be resolved was for the Bank to be seen to be involved but for details of this involvement to be kept to a minimum.

At the Governor's invitation and with reference to the Minutes of the previous two weeks, the Deputy Governor introduced a Recommendation concerning increases in Senior Officials' salaries which were in line with the 6% across-the-board offer made to staff within BIFU's bargaining units and which would be imposed if not accepted before the August pay day.

It was agreed by Court that the salaries of Senior Officials be revised with effect from 1 July 1991 as follows:-

Point A to be increased from £80,100 to £84,900

Point B to be increased from £73,950 to £78,400

Point C to be increased from £67,800 to £71,900
Point D to be increased from £64,550 to £68,450
Point E to be increased from £61,300 to £65,000
Point F to be increased from £58,050 to £61,550

In addition it was proposed, since the main bargaining units have also been offered a half percentage point increase in the form of an increase in the size of pots available for performance awards, to introduce a small pot (equivalent to £13,000, representing 1/2% of the Senior Officials' pay bill) out of which non-pensionable bonuses could be paid to Senior Officials.

David Scholey

BA Hoffmann
Assistant Secretary
1st August 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 1 AUGUST 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Sir David Gerald Scholey, CBE
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Sir David Bryan Lees
Brian Quinn, Esq
Professor Sir Roland Smith
Sir David Alan Walker

Pendarell Hugh Kent, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report and with reference to a Minute of the previous week and earlier, the Governor commented on the hearing by the Vice-Chancellor of the winding-up order against BCCI that had taken place the previous Tuesday and which, subsequently, had been adjourned until 4 December. There had been suggestions that the adjournment was a set back for the Bank. This was not the case. The Bank had thought very carefully about which line to take and where its duty lay. It was very much a question, on one hand, of keeping BCCI as a whole alive against, on the other, bringing into operation the Deposit Protection Fund and thus protecting the United Kingdom depositors. It was the latter course which the

Bank favoured. In the Vice-Chancellor's eyes the arguement had been swayed by the protestation of the shareholders that if the bank were wound up that day it would be the end of world wide support - which he felt had put him on the spot. The Bank did not feel they should give way from the terms of their original application but, conversely, should not resist if the sentiments of the Court went against them. In the latter instance it would be a question of waiting to see what rescue plan the shareholders produced although the Bank were sceptical of the outcome. The Governor concluded by saying that he considered the continuing criticism in the press was unjustified. There had been no mismanagement on the Bank's part.

In the discussion that ensued, comment was made that there appeared no reason why the Bank should be on the defensive over its handling of the matter or make any apologies. In time it was felt that the Bank's actions would be shown to be correct. The Governor added that the impression he had gained from other banks and fellow supervisors was that they were very appreciative that the Bank had taken the action it had.

At the Governor's invitation, Lord Laing introduced a Report of the Debden Committee on the Annual Report and audited Accounts of the Printing Works for the year ended 28 February 1991 which incorporated a commentary and summary of the audited Accounts of both Debden Security Printing Limited and Thrissell Limited for the year ended 31 December 1990.

G. A. Croughton
Secretary.
8 August 1991

D. J. Warner

8 viii 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 8 AUGUST 1991

Present

Sir George Adrian Hayhurst Cadbury
Sir David Alan Walker
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Sir David Bryan Lees
Professor Sir Roland Smith

In the absence of the Governor and the Deputy Governor, Sir Adrian Cadbury was chosen Chairman pursuant to the provisions of Clause 6(2) of the Charter of 1 March 1946.

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges, including the Official Reserves figures for July, and the state of the domestic markets.

Under the weekly executive report:-

1 At the Chairman's invitation and with reference to a Minute of the previous week and earlier, Mr Barnes attended Court to bring Members up to date on recent developments in the case of the Bank of Credit and Commerce International.
There had been little obvious progress in the liquidation process in the UK but there had been some realisation of assets in third world countries. Although it was understood that the shareholders in Abu Dhabi were considering proposals for the reconstruction of BCCI, the

Bank were not aware of any detail. Nevertheless, efforts continued to be made to get to UK depositors' money that had been made available by the shareholders. To this end, Touche Ross, the liquidators, would be sending application forms to all depositors this weekend.

There was continuing political pressure on the Bank. Mr Vaz, MP, had called on the Bank the previous day with representatives of BCCI depositors and staff to urge the Bank to take an active role in the reconstruction of BCCI. Mr Crockett and Mr Barnes met the group and although sympathetic, had explained that it would not be right for the Bank of England to be pro-active in putting together a rescue plan. There was also continued political pressure to speed the processes to enable small businessmen with loan facilities with BCCI to seek banking facilities elsewhere.

Mr Barnes said that Lord Justice Bingham's plan for conducting the Inquiry was becoming clearer and he had indicated that his approach would be non-confrontational. He had now appointed a secretary and planned to appoint two assessors to help him, one a banker and the other an accountant. He had also identified the material he would like to see initially and this was being prepared both here in the Bank and in Whitehall. The Bank had established a separate unit, which included a member of Freshfields' staff, to co-ordinate its response and presentation.

Mr Barnes went on to speak about the negotiations that were currently taking place in the United States.

Earlier in the year, the Bank had made available to the Federal Reserve Bank of New York various papers relating to the ownership of First American Bank and other banks, which were the subject of an investigation by the Federal Reserve. These papers fell into four categories - transactional records, the property of BCCI which had been received from Abu Dhabi; copies of the reports prepared by Price Waterhouse; Minutes of the College of Regulators; and copies of various internal Bank of England memoranda. These documents were believed to be

relevant to the Federal Reserve's investigations and were for their information only, it being the Bank's understanding that they would not be accessible without our consent.
However, the Federal Reserve had subsequently been subpoenaed by the House Banking Committee of Congress for access to these documents, the subpoena being specific to all the documents from the Bank of England. The Bank had protested not so much on grounds of content but of principle, namely that:-

1 the documents had been provided to the Federal Reserve for supervisory reasons and should not be used for political purposes; and

2 if these papers were made available to the US Congress or Senate, they would be better informed than the British Government where, in the case of Harrods Bank, the Governor had recently strongly defended the confidentiality imposed by the Banking Act 1987.

The Deputy Governor and Mr Quinn were currently in Washington making this case and seeking a withdrawal of the subpoena or some other compromise situation. The lastest position was that a compromise was on the table for discussion later that day. This provided the House Banking Committee with access to the transactional documents; access to the Price Waterhouse reports but through a route other than from the Federal Reserve; but denied them access to the Minutes of the College of Regulators and the Bank's own memoranda. The House Banking Committee had agreed to extend the subpoena deadline until the close of business the following day, Friday, to provide time for further negotiations.

In enlarging on this situation, Sir David Walker explained that the Securities and Investments Board was currently in the process of agreeing a revised and stronger Memorandum of Understanding with the Securities Exchange Commission in the US but in the light of this current experience he was reluctant to do so because of the lack of assurance of confidentiality. He proposed therefore to discuss the issue further with his European counterparts seeking a convergence of views to bring pressure to bear on the US authorities.

2 With reference to a Minute of 25 July, Mr Barnes said that in the wake of BCCI the Bank continued to monitor closely the position of all banks. Currently there were only three banks that were a cause of concern. The first was National Home Loans which the Deputy Governor had referred to on 25 July. The £200 mn facility was now all but fully drawn but the position was secure until 19 August. Asset sales were in hand which could extend the position to 4 October. It remained probable however that we would have to move in due course to the second stage of Bank support - as outlined by the Deputy Governor - and we were actively considering the terms for negotiation. The Deputy Governor would revert to Court if this became necessary.

The second bank was East Trust Limited, to which the Deputy Governor had also referred previously but not by name. It had now become necessary for Barclays Bank to give a standby facility of £7 mn with the Bank giving Barclays Bank a guarantee in respect of this support. Our involvement in this operation was not known, nor should it be.

City Merchants, the third bank, was owned by two investment trusts and had a total balance sheet of £170 mn with a risk asset ratio of 20%. Although the Auditors' report contained no reservations as to asset quality, the liquidity position was currently fragile and the board of the bank were concerned about their continued trading. If the bank went into administration there would be a serious systemic risk. Accordingly, a two stage support operation was proposed. This provided in the first instance a £30 mn standby facility from National Westminster and Lloyds Banks for two months. If this facility was drawn upon and became a loan of a structural nature then we would assume the risk.

At the second stage, if the Bank was required to honour this commitment then the risk would be taken on to our balance sheet against an undertaking from the shareholders that City Merchants would be wound down. A deterioration of 20% in the loan book of £130 mn would exhaust shareholders funds and a 40% deterioration would leave the Bank exposed to the extent of some £25 mn.

Our remuneration for providing this facility would consist of an up front fee of £0.5 mn payable at the outset, a further fee of £0.25 mn payable at the beginning of the second year with interest (LIBOR + 3%) on drawn amounts. There would also be a variable end-fee depending on the length of time the facility was required: this was designed to encourage City Merchants to draw as little as possible and to repay as soon as possible. The proposed terms would provide us with earnings ranging from £1.5 - £6 mn.

In response to the suggestion that the Bank should seek a higher return for this facility, Mr Barnes said that he believed that we had negotiated as much out of the shareholders as we could without them chosing to go into administration rather than agree.

3 Mr Crockett spoke about his recent visit to Moscow with the Chancellor of the Exchequer.

Court gave their approval to Sir Martin Jacomb becoming a non-executive Director of Marks & Spencer plc and Chairman of POSTEL.

Two letters from Messrs Freshfields were submitted together with documents to be sealed, namely:-

(i) A Counterpart Underlease in respect of Southgate House, Gloucester;

(ii) A Deed of Transfer relating to the repossession and sale of a property in Stanford-le-Hope, Essex.

Court approved thereof and ORDERED that the documents in question be sealed with the Common Seal of the Bank.

At the Chairman's invitation, Sir Martin Jacomb introduced a Report of the Committee to consider the Securities of Certain Funds, which was laid before Court.

It was agreed that those sections of the August edition of the Quarterly Bulletin relating to the International Environment and the Domestic Economy be deferred to the following week when the Economic Assessment would also be presented.

Adrian Cadbury
15th Aug. 1991.

G. A. Croughton.
Secretary. 15 Aug 1991.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 15 AUGUST 1991

Present

Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Dr David Valentine Atterton, CBE
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Mervyn Allister King, Esq
Sir David Bryan Lees
Brian Quinn, Esq
Professor Sir Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Pendarell Hugh Kent, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report and with reference to Minutes of the previous week and earlier:-

1 Mr Quinn reported that the liquidity facility in respect of City Merchants Bank had been signed on the terms discussed at Court the previous week: no

drawings had yet been made under the facility. The outlook on National Home Loans was somewhat brighter than that reported previously. Progress continued with the asset sales and, although some of these had yet to be finalised, the anticipated liquidity shortfall had been pushed back from mid-August to mid-September.

In referring to the previous week's discussion, Sir Adrian Cadbury said that Members had been strongly of the view that the Bank should seek a proper commercial return for these support operations. The Deputy Governor agreed with this view but explained that there were constraints. It would defeat the objective to press to the point where liquidation or administration was preferred by the Board of the Company in question. And in the present situation it was the Bank's judgement that systemic risk would be reduced if support were put in place without any public announcement of official involvement. This was particularly relevant in the case of National Mortgage Bank and City Merchants Bank, both of whom were owned by public companies which would be obliged to notify shareholders of the terms if they were thought to be materially detrimental to the interests of shareholders.

In response to a question concerning the recent merger of two large banks in the USA, BankAmerica and Security Pacific, Mr Quinn said that there were concerns about certain US banks and this particular merger had been put in place to reduce costs and improve profitability. He explained that the problems that were being experienced in US banking did not apply to the UK at present.

2 The Deputy Governor said that so far as the Bank of Credit and Commerce International was concerned, the main event of the previous week had been the discussions in Washington about the confidentiality of the papers which the Bank had made available to the

Federal Reserve Bank and which had subsequently been subpoenaed by the House Banking Committee of Congress. Although the subpoena had not been withdrawn an understanding of each party's position had been reached. Within that understanding it now remained for the House Banking Committee to decide how to pursue their objectives and for us to consider our response thereafter.

In practice, the Bank had no concern about the papers which the FRB had obtained from BCCI in Abu Dhabi and which had passed through the Bank for purely technical reasons. The Bank was concerned, however, that the copies of the Price Waterhouse reports received by the Federal Reserve from the Bank should not be passed to the Committee by the Federal Reserve because of the precedent this could set for our own parliamentary committees' ability to insist on receiving documents from ourselves. The Federal Reserve were now seeking alternative sources for these documents, with partial success so far. The third set of papers were internal Bank of England memoranda and copies of the Minutes of the College of Regulators. The Committee had agreed not to press for access to these documents at the present time and for our part we had agreed to respond as best we could, and subject to confidentiality constraints, to specific questions.

In the light of these recent events we no longer felt able to pass documents to the Federal Reserve. Nevertheless, we would continue to co-operate with them but it would be necessary in future for them to inspect documents either at the British Embassy in Washington or here in London.

At the Deputy Governor's invitation:-

1 Mr King spoke about the August edition of the Quarterly Bulletin and the latest edition of Bank Briefing, both of which were due to be published later that day.

2 Mr Crockett presented the International Economic Developments paper for July.

Adrian Cadbury

22nd Aug. 1991.

G. A. Croughton

Secretary. 22nd Aug 1991.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 22 AUGUST 1991

Present

Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Professor Sir Roland Smith
Colin Grieve Southgate, Esq

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Coleby having commented on the weekly figures then spoke about the foreign exchanges and the state of the domestic markets. The Deputy Governor said that there had been some disturbance to settlements, particularly in respect of foreign exchange transactions, as a result of the coup in the USSR. Certain banks, mostly US and German, had withheld delivery to Russian banks, making it difficult for them in turn to make onward payments, with the risk of a contagious loss of confidence. Such difficulties, so far as they affected sterling payments, had been smoothed out by the actions of Mr Plenderleith and his colleagues in the Foreign Exchange Division, Banking Department and Banking Supervision.

Under the weekly executive report and with reference to a Minute of 25 July and earlier, Mr Harris said that on Court's advice he had reported to BIFU after the visits to ACAS that the Bank would not increase its final offer of an across-the-board pay award of 6% plus an additional 1/2% to enhance the level of performance awards. He had subsequently written to all members of the staff explaining the background to the Bank's offer and the reasons why the Bank now saw fit to impose the settlement. The reaction of the Union had been to ballot its members on a simple vote to accept or reject the offer. Of the 2,000 ballot papers that had been despatched 68% were returned and of those eligible to vote 51% had rejected the award. Following a meeting of the Section Council, BIFU had now informed the Bank that there had been a unanimous vote against having an industrial action ballot, but they would be approaching the Bank in due course to ask the Bank to consider the payment of a Christmas bonus and/or the bringing forward of the settlement date for the pay award in 1992 from 1 July to 1 May.

At the Deputy Governor's invitation:-

1 Mr Laird introduced two Reports of the Staff Committee, namely:-

(i) a Report on the work of the Corporate Services Department on Staffing Policy for Banking Staff for the year ended 30 June 1991; and

(ii) the Head of Personnel Division's annual Report on Salary Policy and Benefits for the year ended 28 February 1991.

Following his comments on the Report on Staffing Policy for Banking Staff and in response to questions about the relocation of the Registrar's Department to Gloucester - which had gone very well - and the number of staff now employed there, Mr Harris said that there would be spare capacity in the new building as fewer staff were required than had been originally anticipated. The Deputy Governor said that we had considered scaling down the building while we were in the planning stage, but decided to proceed with the planned building to give us flexibility in face of uncertainty about future Government funding needs. This might allow other functions to be transferred from London or alternatively the letting of part of the building.

Diversifying the activities of the Registrar's Department had also been explored but nothing identified which was consistent with our role as the Central Bank. We were therefore looking for tenants for part of the building and also for the space in the New Change building which had been vacated by relocation.

In response to questions on staffing policy, Mr Harris said that the proportion of graduates in management was continually increasing and although the emphasis when recruiting graduates was on economic literacy - and in this discipline we were not at any disadvantage with HM Treasury with whom we were competing in the recruitment market - we were able to develop the necessary wider skills to satisfy our own needs.

Finally Mr Harris emphasised that the Bank was an equal opportunities employer and it was therefore a matter of concern to the Bank and to him personally that there were currently no managers on the Bank's staff from ethnic minorities.

2 Mr Harris went on to present the Report and Accounts of BE Museum Ltd for the year ended 28 February 1991, which were laid before Court.

[illegible]
Assistant Secretary
29th August 1991

E.A.J. George
29th August 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 29 AUGUST 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Professor Sir Roland Smith
Colin Grieve Southgate, Esq

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Coleby commented on the weekly figures and Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 [redacted]

[redacted]

G

[redacted]

In a short discussion that followed Dr Atterton asked if the paper which Mr Crockett had presented some 6 months previously on developments in Eastern Europe could be updated, in particular, taking into account the viability of the Baltic States as they approach independence. The question was also raised of a quantity of gold the Bank had held on behalf of the Baltic States which was transferred in 1951 under the 1939 Trading with the Enemy Act to the Custodian for Enemy Property, who subsequently sold the gold in 1967. It was conceivable a claim could be made against the Bank but as the transaction had been required to take place under legislation, it was unlikely to succeed. Nevertheless we should remind ourselves of the circumstances.

2 Mr Coleby informed Court that a notice was being issued that day calling in Series D £5 notes on the 29 November 1991, almost 18 months after the successor note had been launched - the normal interval on such occasions. After that date the notes would continue to be payable at the Bank.
One of the reasons the Bank was taking such a step was that there were similarities between the dimensions of the Series D £5 note and those of the new Series E £10 note due to be issued next year.

At the Governor's invitation:-

1 Mr King presented the Economic and Financial Report for August, including the Overseas Trade Figures for July.

2 In introducing the regular monthly discussion of Monetary Policy, Mr Coleby said the monthly data did not add anything of substance to the real indicators. M0 remained at the mid-point of the target range with a year-on-year growth of 2%. The growth of notes and coin in circulation fell in July from a little above 2% to a little below, but in August to almost exactly 2%. M4 and M4 lending in July were also back to a little over 1/2% growth, after June's lower figures, and therefore at a rate that would broadly maintain the current year-on-year growth rates of 7% - 8%.

Over the previous month sterling's effective rate had remained steady in the face of market disturbances arising from the DeutscheMark interest rate increases and, more recently, the upheavals in the Soviet Union. The sterling interest rate cuts taken so far had been well received by the markets, perhaps largely because they had already been pretty fully discounted.

Though market expectations of further cuts remained, they were not, so it seemed, thought to be imminent. The remaining scope for interest rate cuts was limited by the sharply narrower differential against DM rates. The strength of the case for such cuts was less than earlier in the year, with the real economy close to its low point and expected to move ahead in the coming months in response to earlier cuts.

The strength of the upturn was, however, uncertain and it seemed unlikely that further stimulus would produce any early threat of driving demand up too closely towards capacity.

So further cuts were not excluded, but care would need to be taken over their timing so as not to disturb markets.

During the discussion that followed on the Economic and Financial Report and Monetary Policy, questions were raised as to the value of the invisibles component of the monthly trade figures. A request was made that these figures be examined for the previous three to four years in an attempt to establish their accuracy or otherwise.

E.A.J. George
5th September 1991

G. A. Croughton
5th September 1991
Secretary.

[redacted]

A COURT OF DIRECTORS AT THE BANK

THURSDAY 5 SEPTEMBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Mervyn Allister King, Esq
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Sir Roland Smith
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges, including the Official Reserves figures for August, and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

In accordance with Section 10 of the Charter, Mr King withdrew from Court.

[redacted]

[redacted]

[redacted]

A further letter from Messrs Freshfields was submitted together with a document to be sealed, namely a Deed of Covenant for £73,200 with the Charities Aid Foundation. Court approved thereof and ORDERED that the document in question be sealed with the Common Seal of the Bank.

Mr King having rejoined Court, the Governor, having declared his actual interest in the Court Pension Scheme and the potential interests of the Deputy Governor, Sir David Walker and Messrs Quinn, Crockett, Coleby and King, invited Sir Adrian Cadbury to present the two Reports of the Trustees of the Court Pension Scheme, together with the Annual Report and Accounts for the year ended 28 February 1991, which were laid before Court.

Mr Harris introduced a Report of the Trustees of the Bank of England Pension Fund, together with the Annual Report and Accounts for the year ended 28 February 1991, which were laid before Court.

The Governor mentioned that Mr J G W Davies, OBE, who was an Executive Director of the Bank from 1969 to 1976, would be celebrating his 80th birthday on Tuesday 10 September and that he proposed to send a letter of congratulations together with a framed photographic copy of a £1,000 banknote, from the Bank's Distinguished Visitors' Book, which was autographed by D W Gregory, Captain of the Australian touring XI on 21 June 1878.

G. A. Croughton
The Secretary.

11th September 1991

E. A. J. George
11th September 1991

A COURT OF DIRECTORS HELD AT SOUTHGATE HOUSE, GLOUCESTER ON WEDNESDAY 11 SEPTEMBER 1991 FOLLOWING THE OFFICIAL OPENING OF THE BUILDING BY HRH THE DUKE OF GLOUCESTER EARLIER THAT DAY

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Brian Quinn, Esq
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

The Governor said that there was no record of the Court of Directors having met outside London before and thanked Members for travelling to Gloucester for this unique occasion. He explained that since the foundation of the Bank in 1694 the Registrar's Department, known originally as the Accountant's Department, had managed the register of stock comprising the National Debt. The total amount in July 1694 was £1.2mn, which was the capital stock of the Bank, and represented the start of the funded National Debt. Currently the figure stood at £120bn. He said that Southgate House was a fine building worthy of its site and of the Bank of England, and a great contribution to the City of Gloucester.

On behalf of his colleagues on Court, Mr Laird expressed thanks for the opportunity of being present at the opening of Southgate House and for the hospitality that had been made available that day.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

There being no items for discussion under the Weekly Executive Report, the Governor took the opportunity to draw Members attention to an initial draft of a speech to be given at the West Midlands Chamber of Commerce in Birmingham on 18 September. The occasion presented an opportunity to make an important speech on the current economic situation and the Governor invited Members to submit any comments in due course.

At the Governor's invitation, Mr Crockett presented the International Economic Developments paper for August. A brief discussion ensued.

Adrian Cadbury
19/9/91.

G. A. Croughton.
The Secretary. 19 Sep 1991

A COURT OF DIRECTORS AT THE BANK
THURSDAY 19 SEPTEMBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Sir David Bryan Lees
Brian Quinn, Esq
Colin Grieve Southgate, Esq
Sir David Alan Walker

Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

(i) With reference to the Minutes of 15 August and earlier, Mr Quinn reminded Members that in the wake of BCCI, the Bank had been maintaining a watching brief over National Home Loans, where a funding crisis had arisen in July of this year. Because of market nervousness and concerns of systemic risk at that time the Bank had agreed to indemnify the banks who had put together a £200mn facility for NHL. In the intervening period, however, asset sales had not materialised, the management of NHL had lost credibility and no firm purchasers had emerged. The facility was now fully drawn and it was likely that NHL would be unable to meet its obligations as of 30 September or possibly 11 October at the latest. Without further support, NHL would then probably go into administration. However the markets continued to be nervous and concerns of systemic risk remained. An additional factor to be taken into account was that local authorities had some £100mn on deposit with NHL. There was clearly no possibility of a commercial solution being reached within the time frame and so the Bank had identified two alternative courses of support.

The first was to extend the existing facility with a further £200mn being made available. One disadvantage of this course of action was that the risk could extend to the maximum potential funding which was currently estimated at £1.1bn. It would be necessary to attach conditions to any further support but this would make it virtually impossible for the management of NHL to proceed without disclosure. Following our stance on BCCI, such a situation would be presentationally difficult for the Bank. Finally, there was no certainty that this action would lead to a satisfactory solution which might then leave the Bank tied into a long term commitment.

An alternative course of action would be to seek a commercial buyer. However despite the very low share price - currently 12p from a high of 157p - no interest had been shown. This might reflect concern for the quality of the assets and indicate a predatory interest in the possible break-up value in due course. One option would be for the Bank to agree with a potential purchaser to share part of the risk that NHL was insolvent. The advantages of this were that it would put a cap on the level of the Bank's contribution and it was possible that it could be achieved without disclosure of the Bank's involvement.

Mr Quinn said that the Deputy Governor had held discussions with Abbey National plc, a prospective buyer, the previous day. They were looking at the proposition again on a commercial basis and would revert, hopefully, before the end of the month. In the meantime they had been told that should a funding crisis arise before they were ready to commit themselves, the Bank might stand ready to offer an arrangement to share the risk. But no detail was discussed.

In response to the Governor's request for Members' views on the strength of systemic risk, some directors suggested that although the risk of a systemic problem remained, it was now on a reduced scale, and it was likely that NHL would be seen as a one-off incident brought about by lack of confidence in its management. Apart from the systemic risk, there was also the political risk that would arise, particularly at the present time with repossessions continuing to increase. Doubts were expressed that much interest would be shown by UK purchasers and certainly not from building societies who might be more anxious to put their support behind some of the smaller building societies. Some Members suggested that the Bank should not be involved further in support for NHL and that it should be allowed to go into administration. It was also suggested that the Bank should not attach too much attention to the position of local authorities, whose involvement was not a central issue.

Mr Quinn took note of Members' comments which would be borne in mind during further discussions during the coming week. However, he pointed out that in the current political atmosphere comment referring to a banking crisis could trigger a crisis of confidence among retail depositors and significantly change the situation. There was a good possibility that Abbey National would take a longer term view.

Sir Colin Corness, in his capacity as Chairman of Nationwide Anglia Building Society, had earlier declared his interest in this issue.

(ii) In referring to the Governor's speech to the Birmingham Chamber of Industry and Commerce the previous evening, Sir Adrian Cadbury said that it had been well received and had made considerable impact. There had also been a spontaneous tribute to the role of the Bank's Agent. In response, the Governor said that his speech had been prepared as a careful assessment of the current situation and he had been disappointed that the press had given it a political flavour.

During a wider discussion of the content of the speech, the industry-based Members of Court expressed their doubts about any evidence of increased company confidence and in their view there was no sign of an improvement yet. It was suggested that greater use might be made of the evidence which the Agents collect from the regions, particularly as businessmen felt able to reflect the local situation through their regular meetings with the Bank's Agents. The Governor said that the Agent's regional reports were not overlooked in this context and suggested that in future it might be appropriate for them to be brought to Court periodically.

BA Hoffmann
Assistant Secretary

26th September 1991

Adrian Cadbury
26 Sept 1991.

MINUTES OF A COURT OF DIRECTORS AT THE BANK
THURSDAY 26 SEPTEMBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Sir George Adrian Hayhurst Cadbury
Dr David Adrian Valentine Atterton, CBE
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Sir David Bryan Lees
Brian Quinn, Esq
Professor Sir Roland Smith

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 With reference to a Minute of the previous week, concerning the position of National Home Loans, Mr Quinn reported that there had been two developments of note. Firstly, the funding deadline had been extended to 11 October. Secondly, a response had been received from

Abbey National, who had been considering purchasing NHL on a commercial basis. They had considered an information package on NHL but had decided against any involvement. They had reached this conclusion for a number of reasons. They considered that the asset quality was poor. Also, they were concerned that too much senior manager's time would be necessary to sort matters out especially when this was at a premium as a result of their recent acquisition of Scottish Mutual. Lastly, they were concerned about the affect on their reputation in the market place of buying a company not at the top end of the market.
The Bank had decided to appoint Touche Ross to undertake a Section 41 report on the quality of NHL's assets on both a going concern and recovery basis with the report to be available by 4 October. Although Touche Ross were NHL's current auditors the Bank were satisfied that they would provide an objective assessment. It was still not inconceivable that a buyer could emerge for NHL. An American and a French company had shown interest as well as a United Kingdom bank. However hopes were not high.

2 With reference to a Minute of 4 April and earlier, in connection with a Drawing Office error concerning [redacted]
Mr Quinn said that it was only this month that the Bank had received a response from the CBI to their communication in January. In the meantime the Bank had been considering three options:

a) [redacted]

b) [redacted]

c) [redacted]

[redacted]

3 Mr Crockett spoke about his recent visit to Moscow.

At the Governor's invitation:-

1 Mr King presented the Economic and Financial Report for September, including the Overseas Trade Figures for August.

2 Mr Coleby introduced the monthly discussion of monetary policy by examining the evidence provided by the August monetary data. It was possible for those who wished to do so to find in them signs of further economic weakness, but he believed that conclusion was not justified. As regards narrow money, the argument would be based on the very weak performance of the

currency circulation in the most recent three months, including September. It seemed likely that the seasonally adjusted series would show an absolute fall over that period. But the same thing had happened last year, so that the year-on-year increase had remained virtually unchanged at 2%, the exact centre of the target range for MO. So it would not be right to put too much weight on the seasonal adjustments. Moreover, we had begun to see again over recent months the increasing velocity of circulation of narrow money which had been evident until about two years ago, as was illustrated in the MEFR. It might reflect a changing composition of spending, with a revival in the buying of 'lumpy' items. Subdued growth in narrow money did not mean there would be correspondingly subdued growth in the value of retail sales.

As regards broad money and lending, a similar impression of weakness would be given by annualizing M4's change over the three months to August, and by the continuing decline in the year-on-year growth of both M4 and lending. The central question was whether these observations contained a message for the future, or were merely confirming what we already knew about the past. Mr Coleby preferred the second explanation. The data were telling us quite a lot about the adjustment in the corporate sector that had already taken place. The weakest component of M4 was the money held by 'other financial institutions' - which included long-term investors like pension and life funds. They had been drawing on their money balances to subscribe for the new capital market issues being heavily undertaken by industrial and commercial companies (and others), the proceeds of which were frequently used to repay outstanding bank borrowing. The turnaround in the net position of ICCs with the banks in Q2 had been described the previous month. Now we had some of the accompanying real economic data, which revealed how the financial position of companies had been improved, both by cutting back spending on, notably, stocks and by sharply reducing unit labour costs. What we could not say with any certainty was how much further that adjustment had to go, but it seemed reasonable to conclude that it would not intensify, so that, for example, stock run-down ought from now on to become less of a depressant on output than hitherto.

In the markets, sterling's ERI continued to be pretty steady, but the weakening of the dollar had lowered sterling's DM rate. That was widely seen as leaving little scope for further reduction in the sterling/DM interest rate differential, already down to little more than 1%, and capable of being narrowed by another increase in German rates. Meanwhile, the strength of the gilt market, bringing long yields down to their lowest of the year, indicated that there was as yet no concern that policy easing was undermining the prospects for lowering inflation.

The ERM constraint implied that, at most, there might be scope for just one further reduction of 1/2% in interest rates. Did that limitation pose a conflict with domestic objectives?

Mr Coleby thought not. The questions remaining over the economy's recovery were not whether, nor even when, but how strongly. All past experience, as Mr King had said, was of belated recognition and under-estimation of recoveries, with policy mistakes concentrated on stimulation beyond turning points. Given the still unrealised effects of past policy easing, the ERM constraint should not be unwelcome.

In response to questions that were raised in the ensuing discussion Mr King undertook to provide a break-down of invisibles into components to see where the decline had arisen and also to provide, if possible, data on export margins.

E. A. J. George

3rd October 1991

G. A. Croughton.

Secretary.

3rd October 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 3 OCTOBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Sir Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges, including the Official Reserves figures for September, and the state of the domestic markets.

Under the weekly executive report:-

1 The Governor said that the Abu Dhabi authorities would be announcing shortly that 85% of the staff of BCCI in the UK were to be made redundant. The relevance of this announcement, so far as the Bank was concerned, was that the shareholders probably saw no prospect of a reconstruction of BCCI in the UK. The Governor suggested that this was a matter for the shareholders

and the liquidator and not something on which the Bank should comment. Mr Quinn added that he was sure that the shareholders were aware of the implications of this course of action so far as the future of BCCI in the UK was concerned.

2 With reference to a Minute of 2 November 1989, Mr Kent reminded Court that Court had agreed that the Bank should dispose of its shareholding in 3i as it was no longer appropriate for the Central Bank to maintain a shareholding in such a free-standing and commercial undertaking. Proposals in September 1990 for the private placing of the shares of those banks wishing to dispose of their holding had failed but a new formula for the flotation of 3i by the end of March 1992 had now been proposed. If these proposals proceed the impact on the Bank would be to replace a book cost of £31.7 mn with cash of £93.4 mn after payment of a dividend to HM Treasury. The yield on this sum would exceed the dividends typically received from the Bank's shareholding in 3i. Of the other shareholders, Barclays and National Westminster Banks have decided to reduce their respective shareholdings but to maintain at least a 25% holding between them, sufficient to enable them to call an Extra-ordinary General Meeting should they wish.
These latest proposals had the support of both the shareholders and the company and if they were adopted, Sir John Cuckney should remain Chairman of the company for at least a year thereafter.

3 Mr Harris informed Court that the partners in Allen & Overy had now decided to take a major part of the empty space in the Bank's New Change building. Allen & Overy would be moving temporarily from their current location to the Bread Street block to enable them to refurbish the Cheapside area which would be done under Bank supervision. Thereafter Allen & Overy would re-

6

group their staff from other offices into the New Change building.

The Governor said that he had been concerned that the Bank's premises at New Change had remained unoccupied and he had encouraged this agreement with Allen & Overy. As the Bank now occupied a relatively small proportion of the New Change building, the Bank's continued ownership was questioned. The Deputy Governor pointed out that we would not be able to achieve full value for the present lease, the terms of which were attractive for the Bank.

In introducing the discussion on the Bank's Administrative Framework, the Governor explained that he had met with the other members of the Executive the previous month for the first annual review of the Administrative Framework and had sought Directors' views on four particular issues, namely:-

1 Were Directors satisfied with the Purposes Statement? Had it helped to give staff a better sense of mission? Were there any parts of the Bank which felt insufficiently covered in the Purposes Statement and, if so, what could be done in response to this?

2 Was there satisfaction with the way the Purposes Statement related to the new budgetary procedure? Had this been welcomed as successfully providing a framework for identifying priorities? Alternatively, were there any concerns/perceptions that the Bank was shrinking?

3 Were proper procedures in place to identify areas of expansion in the future and to ensure that the Bank carried sufficient resources to be able to respond quickly and effectively to emergency situations?

4 Would Executive/Associate Directors value an opportunity to discuss with Court on a regular basis these issues and the performance, prospects and problems of their Divisions/Departments?

Their comments on these points had been circulated to Members of Court by way of the Minutes of that meeting.

At the Governor's invitation the Deputy Governor said that he welcomed the opportunity of providing Court with a progress report and of discussing the developing approach to the management of the Bank. The introduction of the statement of the Bank's Purposes had been very satisfactory. The attempt to clarify the Bank's core purposes had been welcomed and it was proving a useful tool for training purposes. The contents of the statement had been reviewed and although changes to the Bank's international role, and towards Europe in particular, had been considered, no changes were proposed at this stage.

Of the four areas identified the previous year for new or increased emphasis, the Centre for Central Banking Studies had been particularly successful. However to enable the Centre to relate more closely with the International Divisions, responsibility for the Centre would move from Mr Harris to Mr Crockett. In addition, a new area of priority had emerged during the year with the establishment of the Legal Risk Review Committee. In the coming year greater emphasis would be placed on career planning for individual Officials, extending in due course to Bank Officers. It was planned to identify, in discussion with the Officials themselves, their local management and the Centre, a "presumptive career path" to ensure that individuals were developed to fulfil an identified future role. This course of action should help morale and in addition would be of particular help in succession planning.

The introduction of the budgetary framework which had been discussed at Court the previous year had also been particularly helpful in explaining the need for continued budgetary pressure and had been helpful to management in formulating expenditure decisions. Although there was a requirement for an overall budget reduction of 1.25% a year, cases for expansion could be made and discussed and, if appropriate, agreed. The need to be able to respond to emergency situations such as the Gulf War and BCCI had to be borne in mind and our ability to respond in such cases was being examined currently as a separate exercise. The framework in its present form therefore remained appropriate not only to enable us to manage our resources efficiently but to enable the Bank to respond to HM Treasury, our shareholder - who were currently raising the question of the privatisation of the Printing Works - and the clearing banks - the providers of our income - who were currently seeking a reduction in the cash ratio deposits. Despite the budgetary framework and the targets that had been established for the current year, the budget outturn would however diverge from the targets as we have surpluses in two areas, staff whom it has been agreed should remain surplus rather than be made redundant, and floorspace which had been identified as surplus but which could not immediately be put to alternative good use.

In response to the Governor's invitation, Sir Adrian Cadbury said that he was sure Members of Court welcomed the opportunity to discuss the Bank's Administrative Framework but felt that more time should be devoted to such a discussion. In the past, Court had not had an opportunity to take part in any discussion on the Bank's priorities or to see what progress was being made in achieving them. In referring to the Purposes Statement, Sir Adrian suggested that the international role of the Bank in representing the UK's interest in the international financial world, both professionally and effectively, should feature as a fourth core purpose. It was evident that a considerable amount of senior management time was devoted to international affairs and it would be appropriate therefore - not least for external reasons - to establish our international role as an important and necessary part of the Bank's overall function.

Sir Brian Corby said that he was uncomfortable about the comments in the papers relating to a two-tier Bank. This was inevitable in an institution such as the Bank with some areas, BSD for example, having a high profile. He suggested that it might be appropriate to ensure that some of the Bank's high fliers had management experience in some of the less glamorous areas of the Bank. He was also concerned lest the budgetary pressures were reducing staff numbers to too low a level. Sir Brian endorsed Sir Adrian Cadbury's comments on the Bank's involvement in Europe and the rest of the world where, to his knowledge, the Bank had a high reputation. We should do all we could to maintain such a reputation by retaining standards of excellence.

Referring to Sir Brian's comments on a two-tier Bank, the Governor said that it was necessary to guard against this situation but Mr Southgate said that many institutions had this problem. In his view it was important therefore that every member of staff should be able to identify themselves in the company's mission statement. He also felt that the impact of technology should be examined constantly in greater depth and suggested that annual reductions in budgets were an appropriate way to achieve this.

Sir Colin Corness said that as the current discussions of the Court Working Party addressed some of the issues contained in the Administrative Framework he would not comment on them at present. However, he felt it was important to establish that the tasks currently being carried out in the Bank were really all necessary, and he encouraged the use of zero based budgeting. After five years as a Member of Court he had no idea whether the staffing level of the Bank was appropriate or not.

As the Bank's performance could not be judged on normal commercial criteria, Sir David Walker said that it was important to focus on costs and budgets but at the same time to achieve an appropriate balance to maintain high standards. He suggested that it would be appropriate for Court to have a wider involvement in the Bank's Administrative Framework and to be made aware of areas of disagreement as well as agreement, in matters of priority and emphasis. In referring to the Centre for Central Bank Studies and the nature of their work, Sir David suggested that it might be appropriate for the Bank to seek some financial support from Government so long as they would not impose conditions. The Deputy Governor said that Mr Hewitt had already sought support from the Know How Fund - with no strings attached.

Referring to a two-tier Bank, Professor Sir Roland Smith said that the Bank was an elitist organisation and it was appropriate that it should be so. The main objectives were elitist and required appropriate staff to fulfil them and it was inevitable therefore that there would be two-tiers of staff. He also supported the view that Europe would become increasingly significant and the Bank's role within it more important.

Sir David Scholey also suggested that more time should be set aside for a discussion of the Bank's Administrative Framework. So far as the Purposes Statement was concerned he felt that amendments should be made as they became necessary and that in an organisation such as the Bank it was appropriate to exercise constant pressure on cost controls, but not at the expense of its pursuit of excellence: Sir David noted that over the years he had seen a decline in absolute quality. 'Good enough' was not necessarily good enough. Referring to the staffing issues, Sir David said that the Bank should not be reluctant to impose compulsory redundancy and in his view career planning was equally important for Officers as for Officials. In looking at the budgetary framework, Sir David suggested that there should not be too much emphasis on a bottom-up approach to budgeting. He agreed with earlier speakers that references in the Statement to international aspects of the Bank's role should be more explicit; and that divisiveness should be avoided so far as possible.

In referring to the comments from Members of Court, the Deputy Governor said that the International Divisions were currently carrying out a priorities exercise. Once this was completed it would be appropriate to look again at the international issues in the Purposes Statement. In responding to the discussion on a two-tier Bank, the Deputy Governor said that this was not a consequence of any recent actions. It had been an underlying fact for some years and the Bank had faced up to that fact by addressing the issue in the 1987 Scheme of Classification. The Deputy Governor said that whilst he accepted Members' comments on zero-based budgeting he felt that the present system to some extent achieved similar results. Nevertheless, he would welcome further comments from Members on the implementation of using zero-based budgeting across, rather than within, Bank functions.

Finally, the Governor thanked Members for their contributions and suggested that time could be set aside for a further discussion when Court discussed the report from the Deputy Governor's Working Party. In the meantime, however, we would go ahead on the present basis to set in train the budgetary process for the coming year.

G. A. [illegible]
Secretary
10th October 1991.

E. A. J. George
10th October 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 10 OCTOBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Brian Quinn, Esq
Professor Sir Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

In commenting on the weekly figures, Mr Quinn mentioned particularly that they reflected the payment of £41 mn to HM Treasury, being the final instalment in lieu of dividend for the year ended 28 February 1991. Mr Coleby then spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 With reference to a Minute of 26 September and earlier, the Deputy Governor updated Court on progress with National Home Loans. The next critical funding date was 21 October but it was likely that a further securitisation had a good chance of success and this would push the date back to 5 November.

Although the report of Touche Ross commissioned under Section 41 of the Banking Act 1987, had not yet been received, it was understood that substantial net worth had been identified in NHL as a going concern. On that basis it should be possible to find a market solution and there was therefore no need for the Bank to be involved at this stage.

Referring to the affairs of City Merchants Bank, the Deputy Governor said that the standby facility which had been put in place by National Westminster and Lloyds Banks with a guarantee from the Bank of England, as reported to Court on 8 August, had not been drawn but had now expired. It had been extended on the same basis for a further four months on the understanding that City Merchants would reduce their balance sheet further.

2 Mr Kent said that in December 1990, he had informed Court that legislation was being put in place to remove the constraints that had been imposed by the Statute of the Agricultural Mortgage Corporation on both its assets and liabilities. This had been enacted and became effective on 25 September. Accordingly, the shareholders, the commercial banks and the Bank of England, were now free to divest their shareholdings. However, the Bank was constrained by the Minister's statement in the House that the Bank was concerned that it had a "special role to play in ensuring an orderly

adjustment to the new market situation. The Bank would therefore only dispose of its shareholding when it was satisfied that this adjustment was assured."
In the meantime, the shareholders had become increasingly disappointed with the performance of the Agricultural Mortgage Corporation and a lack of executive expertise at Board level had been identified. This had led to the suggestion that the Bank and the clearing banks as shareholders, should have representation on the Board. Accordingly, the Bank had nominated Mr Martin Harper whose experience as a Director of Johnson Matthey and Minories Finance made him an appropriate nominee.
Finally, referring to the Bank's shareholding, Mr Kent said that the Bank's share of the Net Asset Value was something of the order of £8 mn - £10 mn, but that the actual proceeds were likely to be considerably less, because of the need for a buyer to inject new capital into the business.

At the Governor's invitation:-

1 Mr Harris informed Court that following the relocation of the Registrar's Department to Gloucester, [redacted] the Deputy Chief Registrar, would be resigning from the Bank at the end of the year. He then introduced a Recommendation of the Governors that with effect from 16 December 1991:-

[redacted] be appointed Deputy Chief Registrar, and be promoted to Senior Official [redacted]

Court agreed thereto.

2 Mr Crockett introduced a paper entitled "The Oil Market in the next twenty years." During the discussion which followed, it was accepted that such a forecast over a period of 20 years must inevitably be treated with some reservations as there were a number of factors relating not only to oil but to other energy sources - the price, geographical location and the environment - which by their nature had a highly political dimension.

E.A.J. George
17th October 1991

G.A. Croughton
Secretary 17 October 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 17 OCTOBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Professor Sir Roland Smith
Colin Grieve Southgate, Esq

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Coleby commented on the weekly figures before speaking about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 Mr Harris advised Members that the Bank had agreed to join Opportunity 2000, an initiative of the Business in the Community Women's Economic Development Target Team which was chaired by Lady Howe. Opportunity 2000 was a campaign aimed at

increasing the quality and quantity of women's participation in the work force, especially in management. As evidence of its commitment to the Opportunity 2000 Campaign which would be launched later that month, the Bank had produced a formal Statement of Commitment, copies of which were circulated to Members.

2 The Governor said that following the move of the Registrar's Department to Southgate House, Gloucester and the successful completion of the relocation exercise, it would be appropriate for the Deputy Governor to relinquish responsibility for this area of the Bank's activities. It was proposed, therefore, that Mr Plenderleith should assume executive responsibility for the Registrar's Department.

3 The Governor spoke about the meetings he had attended recently of the Finance Ministers and Governors of the G7 countries, some sessions of which have been attended by representatives of the Soviet Union, and the Annual Meetings of the IMF and IBRD, which had been held in Bangkok.

At the Governor's invitation:-

1 Dr Atterton introduced a Report of the Charitable Appeals Committee which covered appeals considered in the latest review period.
A Recommendation contained in the Report concerning the Bank's contribution to match the charitable giving of staff and pensioners under the Give As You Earn Scheme, which had totalled £38,668 in the year ended 28 February 1991, and its distribution to charities nominated by staff and pensioners was approved.

2 The Deputy Governor spoke about the Report and Accounts of B E Property Holdings Ltd for the year ended 28 February 1991, which were laid before Court.

3 Mr Crockett presented the International Economic Developments paper for September: a brief discussion ensued.

G. A. Croughton.
Secretary. 24th October 1991

E. A. J. George
24th October 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 24 OCTOBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Mervyn Allister King, Esq
Sir David Bryan Lees
Sir David Gerald Scholey, CBE
Professor Sir Roland Smith
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

At the Governor's invitation, Lord Laing, Chairman of the Debden Committee, joined Court and:-

1 Mr Kent introduced a paper entitled "The Ownership of the Bank of England Printing Works" which responded to a

recent request from HM Treasury for comments on whether the Printing Works could, with advantage, be privatised. He emphasised the main arguments which suggested that privatisation would not yield advantage, namely that the security and integrity of the note issue would involve the Bank in retaining, at its own expense, an expertise in printing and design and in particular the need to keep research and development ahead of counterfeiting techniques; and, as the Bank's production of Bank Notes was as least as efficient as the private sector, economies were unlikely to accrue from privatization. Costs of production had been reduced substantially over the past five years with the main contribution coming from increased productivity of the new improved machinery and a reduction in the note size. Savings would continue over the coming three to four years with an anticipated staff reduction from 1100 to 850, compared with a work force of 2000 in 1980.

Although initially a number of Directors had questioned the appropriateness of the Bank maintaining an industrial process, after some discussion there was general support for the Bank retaining control of the note printing process although the arguments presented in the paper needed strengthening. In particular, it was important to emphasise the need to keep abreast of counterfeiting techniques and the need for security of production and transport of new notes etc. As these factors featured in other private sector industries they were not necessarily a constraint or justification for the Bank to retain the operation. However, they could only be achieved at a cost, and it was felt that to strengthen the Bank's case an attempt should be made to evaluate all such additional costs that might accrue in the private sector. The argument might also be strengthened by the inclusion of comparative costs for note production in other countries and by private companies if this was possible. It was agreed that it would be inappropriate for the Bank to commission an independent assessment of the privatisation of the Printing Works.

2 In speaking about the proposals for the refurbishment of the Printing Works plant and services, Lord Laing said that the objective of refurbishment was to create the most efficient central bank note printing operation in Europe to enable the Bank to be a contender for the production of a single European currency note when the time came. The proposals included two programmes, one of retrenchment to reduce costs, and the other of refurbishment for health and safety reasons. The retrenchment programme would involve the transfer of two processes into the main building where space had become available following the introduction of the £1 coin and more efficient machinery. Essential refurbishment would include improvements to the mechanical and electrical services and to public health services. The total costs of these proposals was likely to be of the order of £28.7mn in total. This compared with an estimated cost of £60mn to rebuild the Printing Works elsewhere.

Court noted that the first phase of these proposals, to obtain a fully costed submission for the main contract, had been approved. The Deputy Governor's Committee, the Debden Committee and the Printing Works Management supported the full proposals. These were endorsed and the estimates will be submitted to Court in about 9 months' time.

G. A. Croughton

Secretary.

31st October 1991

E.A.J. George

31st October 1991

[redacted]

[redacted]

A COURT OF DIRECTORS AT THE BANK

THURSDAY 31 OCTOBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Sir Frederick Brian Corby
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Sir David Bryan Lees
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.
Arising from the Minutes, Dr Atterton said that at a meeting of the Debden Committee following Court the previous week, Members had been shown colour copies of German bank notes alongside the originals and had been unable to identify one from the other. This example emphasised the point made the previous week that it was important to keep research and development ahead of counterfeiting and colour copying techniques.

There being no comments on the weekly figures,
Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 With reference to a Minute of 10 October and earlier, the Deputy Governor updated Members of Court on the latest developments concerning National Home Loans. There had been two developments which were moderately helpful, the most encouraging was that there was a realistic possibility of a buyer. This would provide the best possible long-term solution: talks were progressing slowly. It was also encouraging that the liquidity position was secure until 11 November and the Company were confident that a further securitisation shortly would ensure liquidity until January 1992. However, the difficulty was that the Company's accounts for the year ended 30 September 1991 were due to be published on 8 November. These would show that on an on-going concern basis, the group had substantial net value. This was consistent with the findings of the Report commissioned by the Bank under Section 41 of the Banking Act, where the Auditors suggested substantial net value on an on-going concern or on a protracted workout basis, but a deficiency (of some £500mn) on a liquidation basis. The Company and the Auditors now needed to satisfy themselves on liquidity if they were to be able to agree the accounts on an on-going concern basis and continue trading. Accordingly, they were looking to the Bank to know to what extent they could rely on our undertaking of July of this year. We believed it would be sufficient for their purpose if we were prepared to extend the term of the existing £200mn facility. This would expire in March and at the present time would need to be extended to the end of September 1992. If we did so we would not incur any additional nominal risk but the real risk would increase if the quality of the assets remaining after further securitisation deteriorated as a result of securitising the best assets first. Against that additional risk we needed to consider the systemic damage that would arise from liquidation if it happened

- it would be less than in July of this year but nevertheless the risk was still there. However, by accepting the extra risk we would be enhancing the prospects of the best long term solution by giving time for a purchaser to materialise. It was the Bank's view that we should pursue that option.

Sir David Scholey declared his interest in this subject, S G Warburgs being advisers to National Home Loans.

After some discussion, Court agreed that an extension of the facility should be negotiated with National Home Loans.

2 The Governor drew Members' attention to the draft copy of the "Mansion House" speech which had been circulated to Members and thanked them for the comments that had been forthcoming. There would be further minor alterations before the speech was delivered later that evening.

3 The Governor also spoke to Court about the meetings he had attended in Basle earlier that week and outlined the issues that had been debated during the discussions on the statutes and location of the European Monetary Institute, both of which had been inconclusive, and Stage 2 of Monetary Union.

At the Governor's invitation and with reference to a Minute of 11 April, Mr Harris introduced a Report of the Staff Committee which drew attention to the list of Pension Fund benefits which could be granted at the discretion of Court and the points at which such decisions could be exercised. The list now required updating to take account of several minor Rule Changes that had been agreed by Court in recent years which included an element of discretion. Court agreed the Committee's recommendation relating to the delegation to the Governors of these decisions.

Court also approved the Committee's recommendation that, following a change in Social Security Rules, the Pension Fund Rules be amended on compassionate grounds to permit the payment of allowances to widows, widowers and dependants without the deduction of a sum in respect of the State pension (abatement).

The Governor introduced the following matters arising from the retirement of Mr Gill from the Bank the following month:-

1 A letter from Messrs Freshfields was submitted together with a document to be sealed, namely a Deed of Change of Trustees of the Staff Pension Fund appointing Mr Kentfield a Trustee.
Court approved thereof and ORDERED that the document in question be sealed with the Common Seal of the Bank.

2 It was agreed that Mr Kentfield be appointed a Director of Securities Management Trust Ltd, and Mr Mitchell be appointed a Director of BE Services Ltd.

3 It was further agreed that pursuant to Section 375 of the Companies Act 1985, as amended and extended by the Companies Act 1989, and until otherwise resolved by the Court of Directors:-

LORD LAING, or failing him MR H C E HARRIS, or failing him [redacted] be authorised to act as representative of the Governor and Company of the Bank of England at any Meeting of BE Services Ltd.

The Governor, having declared his actual interest in the Court Pension Scheme, and the potential interest of the Deputy Governor, Sir David Walker, Mr Quinn and Mr King, invited Sir Adrian Cadbury to present a Report of the Trustees of the Court Pension Scheme. In doing so Sir Adrian paid tribute to

the work of [redacted], and Mr A F Bushell, the Chief Investment Manager, both of whom were resigning from the Bank shortly. Sir Martin Jacomb, in his capacity as Chairman of the Securities Committee also expressed his appreciation of Mr Bushell's commitment and achievement during his period of office.
The Report was laid before Court.

At the Governor's invitation:-

1 With reference to a Minute of 29 August, [redacted] introduced a paper entitled "Invisibles in the Balance of Payments" which addressed two issues: the "projection" of invisibles transactions which accompanied the monthly trade statistics and contributions to the decline in the invisibles surplus since the mid 1980's.
During the discussion which followed,
Mr Plenderleith confirmed that the frequent revision of statistics had at times had a destabilising effect upon the markets and created difficulties for the conduct of policy.
Mr Bull said that the Central Statistical Office shared these concerns and had indeed considered discontinuing the monthly projection of invisibles transactions but he understood that there was now no immediate plan to do so. The CSO did, however, attach high priority to improving the quality estimate of invisibles.

2 Mr King presented the Economic and Financial Report for October.

3 In introducing the regular monthly discussion of monetary policy, Mr Plenderleith said that it was difficult to interpret the latest monetary figures as they were, to some extent, blurred by the seasonal adjustments. Narrow money figures indicated little

change out of the ordinary over the past month but some decline over three months was apparent. However, the year-on-year figures for notes and coin in circulation probably gave a better indication of the trend: these indicated an increase of 2.3% this month compared with an increase of 2% last month, moving into the upper half of the target range for MO. This suggested some recovery in the level of personal spending and this moderate acceleration was consistent with the modest recovery in retail sales identified in the Monthly Economic and Financial Report.

Broad money showed a slight decline in the past month but again seasonal adjustment might be distorting the picture. The growth in broad money nevertheless was slowing down recording a year-on-year increase of 6.4% compared with 7.2% the previous month. Similarly the growth in bank lending was down to 7.2% compared with 8% the previous month. But it could be misleading simply to look at these figures in aggregate. A breakdown of these figures by sector of the economy revealed that the major factor at work was the revival of capital market issues since the earlier part of the year with investment institutions drawing on their bank deposits to invest in rights issues, and companies using those proceeds to reduce the level of their bank borrowing. This seemed an essentially healthy development because of the strengthening it engendered in the structure of corporate finances.

Looking more broadly at the monetary situation as a whole, the most encouraging development over the past month had been the continuing decline in inflation although, while headline inflation had fallen substantially in recent months, underlying inflation had declined more slowly and was currently 5.7% (as measured by the RPI excluding mortgage interest payments). Although this was a substantial improvement from the peak a year ago, it was still significantly higher than the best performance in ERM countries where the level was of the order of 2-3%. For this reason, it would be unwise to consider any further easing of our monetary stance at the present time. There were other factors supporting this view, namely the evidence of recent surveys that suggested the economy was moving towards modest recovery, and the knowledge that the full effects of the interest rate cuts earlier in the year still had to work their way through into the economy generally. In addition, the markets were somewhat uneasy that political pressures might persuade Government to relax their counter-inflationary stance: this unease was evident in the softness sterling had displayed in the past two months and in the recent rise in gilt yields.

The conclusions for policy, therefore, were that although significant progress had been made in reducing inflation it remained necessary to maintain a firm counter-inflationary stance. To do otherwise ran the risk of disturbing the markets and damaging business confidence. Equally, the interest rate differential of only 1% over German rates and the prospect that German rates might yet have to rise further presented a further reason for us to continue to pursue the same stance that had proved effective over the past year.

R.A. Hoffmann
Assistant Secretary
7 November 1991

E.A.J. George
7th November 1991

A COURT OF DIRECTORS AT THE BANK
THURSDAY 7 NOVEMBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Professor Sir Roland Smith
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges, including the Official Reserves figures for October, and the state of the domestic markets.

Under the weekly executive report:-

1 With reference to a Minute of the previous week and earlier, concerning National Home Loans, the Deputy Governor reported that it had been agreed in principle to extend the £200mn facility from 9 March 1992 to the end of September 1992. This would enable the Auditors to sign the accounts.

2 The Governor spoke about his recent visit to Saudi Arabia. In the discussion that followed, Mr Laird expressed the hope that the Bank might use the vehicle of the Tercentenary to see if it were possible to arrange for some form of semi-permanent bilateral meetings to be set up in order to enhance the international orientation of the Bank.

3 Sir Brian Corby spoke about the recent CBI Conference.

Court gave their approval to Sir David Scholey joining the Board of The Chubb Corporation as a Non-Executive Director.

At the Governor's invitation, the Deputy Governor then drew Court's attention to the forecast of the Banking Department's Profit and Loss Account for the year ended 29 February 1992. The figures showed a sharp decline from last year in variable income from £188.6mn to £150.8mn. The reason was that interest rates were lower than last year whilst bankers balances had not increased over the previous year, reflecting the slow growth in narrow money. Against this, fixed income was holding up well. Total income for the year was forecast at £305.5mn against last year's £288.8mn when a loss was taken on the Bank's gilt portfolio. There was no provision for any such loss this year.

Budgeted expenditure at £183.6mn was slightly higher than that reported to Court in March. This arose principally from the inclusion of rental payments to BE Property Holdings on the new building at Gloucester and the increase in VAT rate.

The Bank's current expenditure at the end of August was some £5mn less than the proportion of the budget mainly as a result of the timing of payments under Premises and Equipment.

The forecast of current expenditure for the year as a whole showed little change. Personnel costs were expected to fall short of budget with a reduction in the pension contribution rate more than offsetting salary costs running above budget; the latter arising from the decision to carry surplus staff rather than impose compulsory redundancies. The shortfall in Personnel costs in turn would be offset by an increase in other expenditure as a result, essentially, of an increase in professional fees arising mainly from the Bingham Inquiry and BCCI.

Profits before tax were forecast at £177.5mn and operating profit at £190.5mn against last year's £162mn: an uncomfortably strong position. As there was no opportunity to spread these profits forward, it raised the question should the Bank refund more cash ratio deposits to bankers. The Deputy Governor said he would be bringing a recommendation to Court in this regard. In the ensuing discussion, Sir David Walker urged that before the Bank considered reducing cash ratio deposits they should consider recovering the whole of the funding cost of the MFL operation.

E.A.J. George
14th November 1991

G. A. Croughton.
Secretary 14 Nov. 1991.

SC0004

A COURT OF DIRECTORS AT THE BANK

THURSDAY 14 NOVEMBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Sir David Bryan Lees
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Sir Roland Smith
Colin Grieve Southgate, Esq

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

[redacted]

Under the weekly executive report:-

1 [redacted]

2 Following discussions with Touche Ross, the BCCI liquidators, it now appeared that a compensation package was being put together by the Abu Dhabi shareholders. The shareholders were likely to take responsibility for some of the liabilities of the BCCI Group to the extent of some $5bn. On the remaining US$10bn of liabilities, a payment to creditors of 35-45% over a period of 3 years was proposed. This package would be available to the creditors of BCCI SA and BCCI (Overseas) on a global basis. Any additional proceeds from the sale of the US banks owned by BCCI would be shared equally between the shareholders and the liquidator, and regulators worldwide would be pursued with 80% of any proceeds going to the liquidator and the balance to the shareholders.

It was hoped that the Heads of Agreement would be signed by 25 November, in advance of the next court hearing scheduled for 2 December, and that the package would then be put to creditors in London later that month. Touche Ross then hoped that they could return to the courts in mid-January with an agreed deal. BCCI would then go into liquidation.

Although the principal shareholders had asked that the Bank or H M Treasury might contribute, this was not a condition of the package, nor had the regulators in Luxembourg been asked to contribute.

Letters from Messrs McGrigor Donald and Messrs Freshfields were submitted together with documents to be sealed, namely:-

(i) A new Sub-Lease of the Ground Floor Suite used by the Glasgow Agency at 25 St Vincent Place, Glasgow;

(ii) A Conveyance which arises as the result of a divorce settlement of a member of staff;

(iii) Two leases granted to Messrs Allen & Overy in respect of vacant space in the New Change building, namely:-

(a) the Bread Street block; and

(b) three floors of the diagonal wing, the ground floor restaurant area and three floors on the New Change frontage;

(iv) A Side Deed relating to the leases granted to Messrs Allen & Overy, containing covenants personal only to Messrs Allen & Overy while they occupy the New Change building.

Court approved thereof and ORDERED that the documents in question be sealed with the Common Seal of the Bank.

At the Governor's invitation, Mr King spoke about the November edition of the Quarterly Bulletin and the latest edition of the Bank Briefing, both of which were due to be published later that day. During the discussion which followed, concern was expressed about the level of investment and the squeeze on profit margins, but some Members expressed the view that there were signs of economic recovery, for example, improvement in industrial investment in buildings.

Court adjourned to discuss informally the Report of the Court Working Party, which had been established later in the year to review the role, functions and procedures of Court and its Committees, and for further discussion of the paper on the Bank's Administrative Framework which had been discussed at Court previously on 3 October.

A detailed Minute of this discussion is recorded separately.

Adrian Cadbury
21st Nov. 1991.

[illegible]
Secretary. 21 Nov. 1991.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 21 NOVEMBER 1991

Present

Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Dr David Valentine Atterton, CBE
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Brian Quinn, Esq
Professor Sir Roland Smith
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 The Deputy Governor referred to recent media coverage of BCCI in the form of the BBC Panorama programme and the leader in the Financial Times earlier that week, both of which had been critical of the Bank. The essence of the charge against the Bank had been that we

had evidence that should have caused us to act sooner than we had: but the journalists involved could not know of the nature and quality of the evidence, and were not equipped to assess it in relation to our quasi judicial position under The Banking Act. The Bank had considered whether it would be appropriate to respond to the charges made by the media but had concluded that this could not be achieved without producing the evidence, which of course we could not. We would rely therefore, on the findings of the Bingham Report.

2 Mr Quinn reminded Court that negotiations were taking place in Moscow between the G7 Deputies and representatives of the Central Soviet Authorities and of the 12 Republics. These discussions aimed to secure a package of support for the Soviet Union which would give them a period of time in which they could be freed from pressures on their foreign debt position and provide a breathing space in which a programme of stabilisation and economic reform could be put together.

The package would include a loan of US$1bn, secured by gold, which would be available for balance of payments support; a deferral of payments of principal on medium and long-term external debt by the Soviet Union extending to the end of 1992; an agreement on the sharing of the responsibility for the external debt as between the centre and the Republics; a procedure for capturing a proportion of the foreign exchange generated in the Soviet Union; and untied credits from Saudi Arabia and South Korea. The package was worth some US$4bn.

One aspect of the negotiations of particular interest to the Bank concerned the future activities of the five overseas subsidiary banks of the Soviet Union operating in London, Paris, Frankfurt, Luxembourg and Vienna. These banks have encountered pressures in the markets over the last year or so because of the uncertainties in the Soviet Union. The G7 were naturally concerned that any assistance provided by them to meet the severe foreign exchange shortages in the Soviet Union should

[redacted]

not be diluted or lost through this support being deflected to meet the liabilities of the subsidiary banks, doubts about whose future may not be removed by any negotiated agreement. An important part of the agreement being negotiated in Moscow, therefore, was focused on plugging this potential gap.

This had obvious implications for the activities of the five Soviet subsidiaries abroad and the Bank, together with the other relevant supervisors, had been involved in discussions to consider the consequences and the least damaging and disruptive way of addressing this awkward issue.

Our latest information was that the talks were continuing but that it is by no means certain that an agreement on the package would be reached between the G7 and the Soviet Union in the current round of discussions. [redacted]

At the Deputy Governor's invitation:-

1 Mr Crockett presented the International Economic Developments paper for October which had been deferred from the previous week: a brief discussion ensued.

2 Mr King introduced a paper entitled Regulation, Pricing and Performance of the Utility Companies. The paper concentrated on the privatised utilities and their pricing behaviour and described the current regulatory framework and assessed the validity of claims that these firms have abused their monopoly power.

During the discussion which followed, it was noted that although the paper pointed out that the rate of increase of prices of utilities had not, over a number of years, exceeded inflation in the private sector, in itself this did not provide information on the level of cost efficiency in the utility sector. The RPI-X method of regulation provided an incentive to control costs but its effectiveness would not be clear until we have seen how utilities behave in the future. It was also pointed out that the tables referred to prices charged by utilities to households and not to price inflation on sales to industrial customers. It would be interesting to monitor the utilities pricing behaviour, and to compare pre and post privatisation statistics.

E.A.J. George
28th November 1991

G.A. Coghlan
Secretary.

[redacted]

A COURT OF DIRECTORS AT THE BANK

THURSDAY 28 NOVEMBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Sir David Bryan Lees
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

There being no comments on the weekly figures, Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 [redacted]

[redacted]

2 Sir Martin Jacomb drew attention to recent press reports which indicated that the European Commission had agreed to investment by the nationalised Credit Lyonnais in the Usinor Steel Company on terms broadly comparable with those for private sector investors. This raised the important question of the transfer of capital from the state to industries which were direct competitors of UK companies. Mr Crockett undertook to investigate this matter further.

At the Governor's invitation:-

1 Sir David Scholey introduced a Report of the Audit Committee. The Committee, having reviewed the arrangements for determining the scope of the external audit of the Printing Works, recommended that it should continue to be audited as a department of the Bank but that in future the scope of the audit should be determined by the Audit Committee. Court approved thereof.

2 Mr Crockett presented the World Economic Forecast for Autumn 1991.

3 In the absence of Mr King, Mr Coleby spoke about the Economic and Financial Report for November before going on to introduce the regular monthly discussion of monetary policy. He noted that the up-dating of seasonal adjustments had stood on its head the apparent message of recent monetary developments. M0 had previously been shown as falling back from mid-year after strong growth in the first half. The up-dated figures now showed a smoother progression of growth which, if anything, strengthened the message given by the year-on-year observation: the currency circulation in October was 2.8% higher than the previous year and the growth rate in the most recent six months has been even higher - slightly at odds with the recent rather dull performance of retail sales.
M4 and lending had previously been recorded as stabilising somewhat after the prolonged decline in their rate of growth. The revised figures showed a continuing decline in growth, with growth rates in M4 of the order of 4% over the past three and six months, still well below the year-on-year figure of 6.3%; the growth in lending had been even weaker over the past three months.

Drawing conclusions remained difficult: the backward-looking explanation of M4 provided an even more accurate prediction of its present behaviour than it had before the revised seasonals. Work was, however, going on to see if some forward-looking indicator properties could be found, focussing on the effects on smaller business of the rate of bank lending to non-personal borrowers.

The context for policy provided by the ERM had become distinctly unsettled without having produced any dramatic change in sterling's effective exchange rate. The economy remained as the Bank had seen it for some time: bottomed out but with no great vigour of recovery either evident or in early prospect. Areas of concern remain, such as the housing market and smaller businesses: but, more generally, evidence of successful adjustment to financial pressures is beginning to grow. Confidence, particularly among consumers, appeared not to have improved to the point where it enabled a dynamic to build up but there was no obvious obstacle to its doing so unless external events - the foreign exchange markets, German interest rates or the outcome of the Maastricht conference - were to force a reversal of the interest rate reductions of the past few months. Market operations needed to be directed to avoid that and, noting the French and Italian example, it would be inappropriate in the present context to provoke the markets by cutting interest rates. It is doubtful, in any event, whether such a move would have any significant effect in hastening or enlarging the recovery.

[illegible]
Assistant Secretary
5 December 1991

Adrian Cadbury
5th Dec 1991.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 5 DECEMBER 1991

Present

Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
Mervyn Allister King, Esq
Brian Quinn, Esq
Professor Sir Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Coleby spoke about the foreign exchanges, including the Official Reserves figures for November, and the state of the domestic markets.

Under the weekly executive report:-

1 The Deputy Governor noted that Non-Executive Directors had been given copies of the Bank's submission to the Bingham Enquiry. With Lord Justice Bingham's agreement, copies of the submission had been passed to HM Treasury and to the Board of Banking Supervision, who would also be providing evidence to the inquiry. A suggestion from the Deputy Governor that Court should have the opportunity to discuss the content of the submission

during the next few weeks was welcomed. Bank witnesses including former supervisors would be giving oral evidence to the enquiry beginning on Monday 9 December.

2 Mr Quinn gave a brief account of the court hearing the previous Monday regarding the application for the liquidation of BCCI. He recalled that, at the hearing in July, the application had been adjourned for six months to allow the provisional liquidator to consult with the majority shareholder. Touche Ross had now produced the principal elements of a scheme for the liquidation. The latest court hearing, which agreed a further adjournment to 14 January, was a low-key affair. The Bank, while represented, had taken the view that the interests of depositors were being adequately taken care of by representatives of various depositors' groups and of the Deposit Protection Board. There was an almost unanimous agreement that the provisional liquidators should proceed to flesh out their proposals to creditors, who will be given the opportunity to see these in detail before 14 January. It was understood that the majority shareholder was looking for acceptance of the compensation scheme from 70% of the creditors by value; thus the attitude of large depositors would be decisive. The Bank was generally satisfied with the outcome on Monday but recognised that much work remained. One possible complication was that the Luxembourg court had to appoint a liquidator no later than 5 January.

3 Mr Kent noted that Members of Court had been given a paper on ownership of the Printing Works which updated the draft discussed on 24 October. The paper reflected the comments made during that discussion and information received subsequently regarding note printing in Switzerland and Germany. The latter data showed that the unit costs of European Central Banks which used private sector note printers were double those of the UK. Moreover, the note printing costs of the Scottish and Northern Irish banks using De La Rue were also, pro rata,

significantly higher than those incurred by the Bank, which had achieved substantial productivity gains over the past decade with - as the charts accompanying the paper showed - more projected for the next five years. Mr Kent gave a brief account of a meeting he had attended that morning with the Economic Secretary to HM Treasury and Mr Patrick Nicholls MP, who had put down a question on privatisation of the Printing Works. The evidence presented had satisfied Mr Nicholls that the pragmatic case for privatisation did not hold up, and he would not be pursuing it, though he noted that the doctrinaire case remained to be answered. The Economic Secretary reserved his position but acknowledged that a privatisation policy which resulted in Bank of England notes being printed in Korea or by the Banque de France would be politically unacceptable. Mr Kent would report again to Court when the Economic Secretary's substantive reply had been received.

4 Sir Brian Corby asked if Mr Kent would comment on latest developments in the Maxwell companies. Mr Kent noted that, against the background of very substantial prima facie evidence of fraud, the creditor banks faced the difficulty of protecting their own position without damaging the interests of members of the companies' pension funds. The main purpose of the lead banks has been to gain time for an orderly decision-making process on how to maintain value and to preserve the majority ownership of Mirror Group Newspapers in the hands of the Maxwell family with a view to attracting a buyer in due course. The Bank had been kept informed by National Westminster Bank and by Credit Lyonnais, which leads a second lender's syndicate. The perception that the Bank was involved, albeit in a passive role, seemed to have been helpful. Mr Kent reported that the private Maxwell companies had been put into administration that morning. The wide-ranging discussion on the affair that followed included comment on the lessons for lending banks and how they might tighten their procedures as a result; the

inadequacies of the legal framework governing the operations of pension funds which was based on the common law doctrines of trust and was in marked contrast to the statute-based regulatory framework for banks and insurance companies; the likely response of trades unions and staff committees throughout the country who would now be concerned about their pension arrangements; and the damage to the reputation of London as a financial centre. Mr Kent undertook to provide Court both with an overview of the lessons of the affair and a separate paper on the regulatory regime of pension funds.

A letter from Messrs Freshfields was submitted, together with a document to be sealed, namely a Deed of Appointment of a new trustee of the Bank of England Developing Countries Educational Trust, appointing Mr Kentfield in place of Mr Gill.
Court approved thereof and ORDERED that the document in question be sealed with the Common Seal of the Bank.

At the Deputy Governor's invitation:-

1 Mr Harris informed Court that [redacted] would be retiring from the Bank in March 1992. He also introduced a Recommendation of the Governors that with effect from 9 March 1992:-

[redacted]

Court agreed thereto.

2 Mr Crockett introduced two related papers entitled Countdown to Maastricht and City E C Committee Background Note: November 1991. The brief discussion which ensued centred on the strategy for ensuring that the Bank of England was at the core of the new European Central Bank.

The Deputy Governor explained that the Bank's strategy had, for some time, been to ensure that London remained the predominant financial centre in Europe, hence the efforts which had been made to develop the ECU paper and payments infrastructure. The objective was that London would then be the logical site for the European Central Bank or, at least, for the operating arm even if the policy-making arm were located elsewhere. It was difficult to see what more the Bank could do given that the decision would, in the final analysis, be a political one.

E.A.J. George
12th December 1991

G. A. Croughton.
Secretary.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 12 DECEMBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Dr David Valentine Atterton, CBE
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Brian Quinn, Esq
Professor Sir Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.

Under the weekly executive report:-

1 The Governor spoke about the Maastricht Conference where agreement had been reached broadly on the lines

sought by the UK Government and in a manner which kept open the Bank's and City's future positions although there must still be some anxiety about our position if other countries subsequently join the Economic and Monetary Union and the UK does not. We might then lose all chance of the European Central Bank being located in London. It was important therefore that we should continue to work on the basis of the UK being part of EMU with the Central Bank in London: anything less would be a set-back to the City.

The Governor went on to explain that no radical change was proposed for the European Monetary Institute or the ECB. The EMI would be overseen by a Council with an expert outside President to be appointed for three years by the member Heads of State or Government on the recommendation of national Central Bank Governors. The Vice-President would also be appointed for three years but would be drawn from among the national Central Bank Governors. The Governor explained that this was an issue that the UK had not supported believing that the 12 Central Bank Governors acting as the Council should elect one of their number to be President.

The functions of the EMI, to be effective from 1 January 1994, would be to carry on the existing tasks of the EC Governors and the European Monetary Co-operation Fund in operating the EMS; to be involved in the preparation of the necessary monetary policy instruments and procedures for Stage 3 of EMU; to facilitate the use of the ECU and oversee the development of the ECU clearing system; and to act as agent for any individual member state's foreign exchange reserves if requested. This latter function would give the EMI an operating role, something which the UK and Germany had not supported.

Also from 1 January 1994, the ECU would represent a frozen basket of currencies with the amounts of the component currencies fixed. The ECU would become a separate currency from the beginning of Stage 3 when bilateral ECU rates of national currencies will be irrecoverably fixed with no change in the external value of the ECU at the moment of fixing.

The move to Stage 3 would be subject to assessment by ECOFIN who, by the end of 1996, would review convergence to determine who should be eligible to qualify. They would then report to the European Council who would decide when Stage 3 would be appropriate and who should join. If this remained unresolved by the end of 1997, then Stage 3 would be established on 1 January 1999.

The UK position was that we were not obliged to join without a separate decision by the UK Government and Parliament. If we chose not to move to Stage 3 the full provisions would not apply but we would retain the right to join when we saw fit, subject to our meeting the convergence criteria.

Once the date for Stage 3 had been set the ECB would be established with an executive Board of full time professionals. The Governing Council would consist of the executive Board and the Governors of the independent national Central Banks reporting to ECOFIN, the European Council and the European Parliament. The ECB would operate monetary and exchange rate policy, using the national Central Banks where appropriate. However, ECOFIN would be responsible for any agreements on exchange rate systems between the ECU and non-community currencies, and the choice of any parities. Payments and clearing system facilities could be provided by the ECB and national Central Banks with regulations possibly issued by the ECB. The ECB would have a consultative role in prudential supervision - an issue favoured by the UK as it should ensure the maintenance of standards across the community - but national Central Banks would continue to have responsibility for local supervision. Economic policy would be co-ordinated by ECOFIN who would undertake multi-lateral surveillance and, in addition, would ensure no monetary financing or bail outs and no excessive deficits.

6

So far as non-participants in Stage 3 were concerned - which may include countries other than the UK - a General Council would be established to give them representation. It would be the third decision making body of the ECB and would take over the functions of the EMI including the management of the Exchange Rate Mechanism between the ECU and non-participating currencies.
In commenting on the outcome of the Maastricht Conference, Mr Laird mentioned that one important aspect was that the Bank of Scotland could continue to issue banknotes. He also enquired about equality of pensions. The Maastricht Conference had approved a protocol to the Treaty of Rome establishing the equality of pension benefits for service after 17 May 1990: this would require ratification by member states in due course.

2 In response to a suggestion put to the Court Working Party that Members might be involved in deliberations about membership of Court, the Governor explained that the terms of office of four Members would expire on 28 February next. Of those, Dr Atterton, who would by then have served for eight years, would not be seeking re-appointment. As it was necessary to submit a number of names to the Chancellor of the Exchequer for consideration by the Prime Minister, the Governor sought Members' views on appropriate candidates.

3 In speaking about the level of cash ratio deposits imposed on banks, the Deputy Governor reminded Court that earlier that year it had been possible, with the agreement of HM Treasury, to reduce the level from 0.45% of eligible liabilities to 0.4%, yielding approximately £1.6 million of deposits from which the Bank had derived the bulk of its pre-tax profit of £152 million for 1990/91. Pre-tax profits for the current year were estimated to be of the order of £185 million so there was a prima facie case to reduce further this

"tax" on the banking system. Using current assumptions the Bank's pre-tax profit for the year 1995/96 was estimated at £210 million and, with a reduction in the level of cash ratio deposits to 0.35%, at £180 million. Using less favourable assumptions - assuming a real interest rate of 2% rather than 4% - the estimated pre-tax profit for 1995/96 was £105 million on the basis of a cash ratio deposit of 0.35%.

On these assumptions, therefore, there was room to contemplate a reduction in the level of cash ratio deposits to 0.35% now, but in the present climate the Deputy Governor suggested it might be prudent to make the cut for a specific period of, say, four years and then to revert to the current level of 0.4% unless, at that time, there was justification for maintaining the lower level.

This had been discussed with the Chairmen of the Clearing Banks who were content with the proposition. With Court's support, the Deputy Governor would now put this proposal to HM Treasury.

At the Governor's invitation:-

1 With reference to the Minutes of 11 April and 31 October, Mr Laird, the Chairman of the Staff Committee, presented a Report of that Committee concerning rule amendments to the Staff Pension Fund and Compensation Scheme, bringing the rules into line with changes agreed by Members of Court following the Fifth Report of the Standing Committee on Pensions. The recommendation contained in the Report was approved.

2 In the absence of Mr Crockett, Mr Green presented the International Economic Developments paper for November. A brief discussion ensued.

G. A. Croughton,
Secretary

Adrian Cadbury
19th Dec. 1991

A COURT OF DIRECTORS AT THE BANK

THURSDAY 19 DECEMBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Sir George Adrian Hayhurst Cadbury
Dr David Valentine Atterton, CBE
Sir Frederick Brian Corby
Sir Colin Ross Corness
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Professor Sir Roland Smith
Colin Grieve Southgate, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq
Ian Plenderleith, Esq

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

There were no items for discussion under the weekly executive report.

In accordance with Section 10 of the Charter, the Governor, Mr Quinn and Mr King withdrew, together with Mr Kent and Mr Plenderleith and in accordance with Section 6(2) of the

Charter, Sir Adrian Cadbury, in his capacity as Chairman of the Remuneration Committee, then took the chair. At Sir Adrian Cadbury's request, Mr Harris remained to act in an advisory capacity.

Sir Adrian Cadbury reminded Members that Court had agreed to a series of phased increases in the remuneration of the Bank's Executive based upon a survey undertaken by Towers Perrin and using the role of Executive Director as a bench-mark. A fixed salary had been agreed for the Governor with salary ranges for the Deputy Governor, Executive and Associate Directors, and Advisers to the Governor. It had also been agreed that the structure to be effective from 1 January 1992 should be reconsidered in the light of an updated survey to be carried out in October 1991. This had now been received and the evidence suggested that the salary range for Executive Directors should be increased by some 3.5% to 5% to reach parity with market rates. The Remuneration Committee had proposed that this be achieved by lifting the bottom of the salary ranges only, by £5,000. However, before considering that recommendation, Sir Adrian Cadbury said that Members of Court might wish to be reminded of the text of the letters that had been sent to Members of the Executive in January 1990 when the new structure was introduced. This said that "the basic salary structure (for the Bank's Executive) will be market-related with salary ranges for each rank". Court agreed with the Remuneration Committee's interpretation, namely that the salary ranges should be market-related rather than individual market related salaries being identified within the existing ranges.

Referring to the Governor's position, Sir Adrian Cadbury said that no change was contemplated in the Governor's proposed salary wef 1 January 1992 but the Governor had said that he would not draw that salary in full: he would restrict his overall remuneration for 1991/92 to an increase of 6% on the published figure for the previous year, in line with the level of increase awarded to members of the staff in July 1991, and would waive the balance. That raised a technical point: was it necessary for any waiver of remuneration to be stated in the published accounts? Advice from Messrs Coopers and

Lybrand Deloitte, the Bank's auditors, had suggested that it should. However, Sir Adrian Cadbury was not convinced that this was appropriate, as the implication was that, for remuneration to be waived, the director concerned must be legally entitled to receive it in the first place, legal entitlement being established through a service contract either express or implied. In his view, the Governor had no such contract. The question remained, therefore, does the waiver of remuneration have to appear publicly; and if not, would the Governor still wish to go down that route?

In response to a question about the Governor's level of remuneration and the implications for his pension, Mr Harris replied that the Governor's pension arrangements would not necessarily be affected by his salary and there was no reason therefore to consider a "nominal" salary for pension purposes. Court had the authority to grant the Governor any level of pension it thought appropriate. Moving on to the Deputy Governor's salary position, Sir Adrian Cadbury explained that this would be affected by the Governor's decision on whether or not to waive part of his salary, as the intention of both the Governor and Deputy Governor was that the Deputy Governor should receive less overall in the way of published emoluments. However, it was not possible to resolve this precisely as the value of some of the beneficial items making up the Deputy Governor's overall remuneration could not be calculated until the year end. It would be important therefore to identify a salary level for the Deputy Governor from 1 January 1992 that would be mathematically and presentationally acceptable and would ensure the Governors' objectives were met for 1991/92. It was agreed that this was a matter for Sir Adrian Cadbury to discuss with the Deputy Governor on the latter's return.

Sir Adrian Cadbury went on to outline the proposed process for determining individual salaries for Members of the Executive. The Governors would make their proposals to the Remuneration Committee and, after consideration by that Committee, recommendations would be placed before Court where the Non-Executive Directors would have the final responsibility for determining salaries.

Attention then focused on the promulgation of the Executive's salaries which would become public knowledge when the Annual Report and Accounts were published in May of the following year. The intention was that the Bank should be more robust in its presentation, perhaps to the extent of speaking out in advance of publication, with Sir Adrian Cadbury, as Chairman of the Remuneration Committee, and Mr Laird, a Member of that Committee, making the running rather than giving the press the opportunity of "discovering" the levels of remuneration. There was general agreement that this was appropriate and certainly preferable to the events of 1991. Timing too could be sensitive with a general election taking place possibly at much the same time.

In reverting to the presentational difficulties, Members accepted that the Governor was in a difficult position in that he was the Bank's figure-head and his role was seen as "political". Although it was suggested that this should not necessarily rule out the option of the Governor receiving less remuneration than the Deputy Governor (this not being uncommon elsewhere where the Chief Executive might earn more than the Chairman), such a proposal could create difficulties for the Bank in the future and was not appropriate for a public sector institution such as the Bank. Equally, waiving of salaries was not an ideal solution as it destroyed the overall salary structure and sent the wrong signals through the organisation. Mr Harris said that any intention that the Executive and Associate Directors might have had in that direction was one of solidarity with the Governor, founded on the need to preserve the Bank's public image, rather than any feeling that their salaries were excessive. Sir Adrian Cadbury said that it was his intention to meet with the Executive and Associate Directors to dissuade them from waiving any part of their salary.

In reverting to the Governor's position, it was suggested that presentational difficulties might be resolved for 1991/92 if the Governor accepted an increase of, say, 6.6% in his overall remuneration over the previous year. Alternatively, if the Governor chose to restrict his overall remuneration to an increase of only 6%, publication of a higher notional salary, with the Governor waiving part of his remuneration, would ensure that the Deputy Governor was seen to be receiving less than the rate determined for the Governor. It would also ensure that the role of Governor was not publicly under valued. This course of action would also implement the structure which the Remuneration Committee had identified as appropriate. This was an important consideration, as any cutting back in difficult years was never made up in better years; there never seemed to be an appropriate time for salaries in institutions such as the Bank to catch up. This had been the problem which the Remuneration Committee in producing the current salary structure had tried to address. However, it was accepted that it was the Governor's decision to waive part of his salary or not, and that to some extent the Deputy Governor's decision would be influenced by that.

As there was ample scope for advancement through the ranges, some Members thought that there was nothing to be gained by increasing the lowest level of the salary ranges for the Executive and Associate Directors etc. Court nevertheless agreed that, on balance, it would be appropriate to re-emphasise the market related nature of the structure by adopting the new salary ranges for Executive and Associate Directors and Advisers to the Governor, in accordance with the recommendation of the Remuneration Committee; that the appropriate level of remuneration should be registered for each job, particularly that of the Governor; and that, although Members of Court were against waiving salary in principle, they would respect the Governor's wish to do so if that was the case.

Sir Adrian Cadbury said that the Governor had also expressed his concern about the remuneration of Senior Officials. The proposed increase in the salary ranges for Associate Directors and Advisers would give more head room for Senior Officials salaries to be increased and for greater flexibility to be introduced in their salary structure. This was not a question for Court now, but would be brought forward in due course.

Finally, Sir Martin Jacomb said that although the remuneration levels published in company accounts were inevitably for the accounting year and therefore reflected past rather than current levels, some companies quoted current remuneration levels as well. He commended this idea to the Bank. Sir Adrian Cadbury said that he would take that suggestion further: he also added that he would ensure that Court saw the briefing prepared for himself and Mr Laird.

E.A.J. George

2nd January 1992

G. A. Croughton
Secretary.

A MEETING OF DIRECTORS AT THE BANK

TUESDAY 24 DECEMBER 1991

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Brian Quinn, Esq
Mervyn Allister King, Esq

Ian Plenderleith, Esq

The number of Directors assembled being insufficient to form a quorum, those present proceeded to the business subject to ratification by the next Court.

The Minutes of the last Court, having been circulated, were approved.

Mr Quinn commented on the weekly figures and Mr Plenderleith spoke about the foreign exchanges and the state of the domestic markets.

G. A. Crafton.
Secretary.

E.A.J. George
2nd January 1992