A COURT OF DIRECTORS AT THE BANK

THURSDAY 2 JANUARY 1992

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Sir Frederick Brian Corby
Andrew Duncan Crockett, Esq
Lord Haslam of Bolton
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq

The Minutes of the Court of 19 December were confirmed and those of last week's Meeting, having been circulated, were approved.

There being no comments on the weekly figures, the Deputy Governor 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, Mr King introduced the Economic and Financial Report for December and the monetary policy discussion. During the past month, attention had focused on interest and exchange rates. Following the increase in interest rates of 1/2% by the Bundesbank in mid-December, other members of the ERM, with the exception of the UK, had raised their interest rates. This had been followed by a reduction in discount rates in both the USA and Japan. These changes had a noticeable impact on the foreign exchanges and had put the ERM under some strain with the narrow band stretched to the full. However, although sterling weakened when UK interest rates were not raised, it remained within its permitted variation against the peseta and comfortably above the minimum level against the deutschemark. For the time being, however, interest rate policy was geared to the exchange rate position rather than to a wider economic policy.

As with the financial indicators, the most important news on the real economy had come from overseas where industrial production and business confidence had declined in both the USA and Germany and industrial output in Japan had been static. In the UK, both business and consumer confidence indicators had fallen somewhat recently although they remained at significantly higher levels than earlier in the year. The housing market had been of particular interest in the past month: prices had continued to fall and turnover was at the lowest level on record with housing starts having slipped back also. Mr King reminded Members that the Government had introduced a package of measures to reduce the number of repossessions from defaulting owner occupiers, and the Chancellor had also announced the temporary suspension of Stamp Duty until the following August.

The news of the monetary aggregates was more encouraging with the annual growth rate of M0 likely to remain well into the upper half of the target range and with the growth rates for three and six month figures well above the level of the twelve month growth rate. M4 lending to the private sector had grown appreciably in November and the decline in the growth of broad money appeared to have stopped. One of the encouraging statistics had been the reduction in the rate of growth of earnings over the past year. This would need to decline further if UK competitiveness was to be maintained but if progress was achieved on this front there was every reason to believe that the UK would meet the convergence criteria established at the Maastricht Conference. This would enable the UK to choose whether or not to proceed to Stage 3 of Monetary Union: it was important that this should be a question of choice rather than one of failure to meet the necessary criteria.

As UK membership of the ERM now meant that interest rates were not always available for control of the domestic economy because they must be used to maintain the exchange rate within its target band, it was important to consider what other action could be taken. In advance of the Budget preparation, the Bank had been discussing with HM Treasury the need to make greater use of fiscal instruments but in such a way as not to undermine credibility in the control of the borrowing requirement and hence belief in the counter-inflationary stance of policy. It would be necessary therefore, for the use of fiscal instruments that might be seen as appropriate substitutes for changes in interest rates to be used purely on a temporary basis involving switching expenditure rather than expanding it. In particular, there were three areas where such action might be considered appropriate - the temporary suspension of Stamp Duty, a temporary reduction in the rate of VAT, and temporary increases in first year allowances on investment in fixed assets. However, the emphasis should be on temporary measures as any permanent increase in the borrowing requirement could undermine the counter-inflationary stance and lead to expectations of higher inflation.

In the discussion which followed, attention focused on UK membership of the ERM. It was suggested that sterling's parity had been fixed at too high a level at a time when interest rates too were at a very high level and that the mistake should be acknowledged now and sterling devalued. However, this posed the wider question of how to move to lower interest rates in the UK. There were two possible remedies; to devalue within the ERM, but there would still be interest rate pressure as sterling would remain linked to the other currencies in the ERM; or to leave the ERM altogether, but this would involve a substantial devaluation of sterling to achieve a cut of say 2-3% in interest rates. It was very difficult therefore to achieve one without the other.

Although a lower exchange rate would improve UK competitiveness, there was nothing within the ERM experience to suggest that sterling was too high. The problems the UK experienced were shared by other ERM members and hinged on the problems facing Germany, namely, reunification and the wider impact on the deutschemark of the unsettled situation in Eastern Europe.

Apart from adjustments of a fiscal nature, it was suggested that there were a number of areas where infrastructure projects might be brought forward over the next two to three years. In particular, this could be advantageous for the construction industry which was currently in deep depression. In response, Mr King said that it was not easy for the Bank to determine the impact of bringing forward infrastructure projects but there was a clear advantage in using tax adjustments because the impact was immediate and they were easy to manipulate.

In conclusion, the Governor said that the situation in Germany was a critical issue and had implications for the British Government, the UK and for the rest of Europe. This had been apparent in the markets during the past few days but they had responded favourably to the convincing statements made by the Prime Minister and the Chancellor of the Exchequer. It was essential that there should be consistency and stability in facing these problems at the present time.

E.A.J. George
9th January 1992

G. A. Croughton.
Secretary.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 9 JANUARY 1992

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Sir David Gerald Scholey, CBE
Professor Sir 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 Plenderleith spoke about the foreign exchanges, including the Official Reserves figures for December, and the state of the domestic markets.

[redacted]

[redacted]

At the Governor's invitation and with the consent of Court, Mr Tucker, the Governor's Private Secretary, attended Court and, with reference to a Minute of 5 December 1991, the Governor explained that he and the Deputy Governor would welcome Members' observations on the Bank's Statement to the Inquiry into the Supervision of BCCI in advance of their appearance to give evidence before Lord Justice Bingham. He explained that a further paper addressing the lessons to be learned from BCCI was being prepared within the Bank, which might be submitted to Lord Justice Bingham, and that H M Treasury were engaged in similar work.

In the meantime, however, there were a number of issues where Court's assessment would be helpful; for example, the principle that the Bank's basic approach to supervision should be based on the presumption of continuity - keeping an institution in business rather than closing it down. In terms of damage to depositors, closure was the most traumatic action which could be taken and could hardly ever be in the best interest of depositors. Secondly, individuals and institutions had the right to conduct their own business as they wished, subject only to the non-contravention of the law and to their abiding by best practice: there was the presumption of innocence until proved guilty. Finally, the Governor suggested that it was important that the City of

London as a major financial centre should welcome people to conduct their business here. In fulfilling that tradition, a system of supervision had been built up based on a spirit of co-operation and flexibility rather than one of repression and inspection. It would seem wrong that we should change our whole approach to these issues now as a result of BCCI.

Mr Laird said that in his view, the Statement was too defensive. Furthermore, the Bank's approach to BCCI seemed to have been fairly relaxed initially, although the Bank had shown commendable speed of action when it became necessary. He was concerned that the view had been taken that BCCI was dependent on one person rather than a group of people, and also suggested that the Bank and other bank regulators had just not been equipped to deal with fraud of this nature.

Referring back to the position in the 1980s, Sir Brian Corby was concerned that at that time, the Bank appeared to have been too pre-occupied with their own position rather than concerned about BCCI and its depositors; why, for example, had we been so opposed to subsidiarisation at various points? He also felt that the Bank had been too soft in its relations with the Luxembourg supervisors and more generally it seemed that no-one had really considered that there was anyone who could undertake supervision better than the Bank. The question then was why we had not pursued that course.

Against that background and moving to the events of July 1991, Sir Brian wondered whether at that point the Bank had acted too quickly. The Abu Dhabi shareholders who were aware of the position by that time had not been surprised by the revelations, and the question was why the earlier policy of letting matters run had to be changed so abruptly.

Picking up the Governor's point about the 'presumption of continuity' and flexibility of supervision, Sir David Walker suggested that supervision should be soft centred but hard-edged. In this instance, he felt concerned that the extent of the consultative process in the Bank and with the College of Supervisors had diluted responsibility. In the same vein, he was struck by the number of layers of responsibility within the Bank that had added to this dilution. If the Bank had had doubts about the quality of supervision of the lead regulator in Luxembourg, then why did the Bank not force the pace (for example, by pursuing subsidiarisation). Equally, he was concerned that the supervisors might seem to have been credulous. For example, a large amount of time had been taken up in establishing what powers the Bank had to act - this suggested that the statute was in need of revision; and during that past three years there had been a number of instances, Tampa, the auditors suspicions of Naqvi etc, which in his view had raised doubts about BCCI. But overall, however, the most important lesson was to establish in cases such as BCCI who was in charge of the supervision. Nevertheless, he felt that the system of bank supervision was sound and it would be sad if changes were enforced because of BCCI.

Sir David Scholey commented that he was not as encouraged by the document as he had hoped. He questioned whether the Bank's approach had been sufficiently sceptical and curious - had the Bank failed to take steps to substantiate the gossip that had surrounded BCCI for some while. This, together with a lack of responsibility on the part of the auditors and poor support from the Luxembourg supervisors, were critical factors. Also he suggested that the Bank was not entirely sure of its locus, which was perhaps not unlike the Crown Agents issue. Sir David endorsed the Governor's point that supervision should be co-operative and flexible but added at the same time it should be both feared and respected, and he wondered whether this had been the case here? He fully accepted that supervision should be based on judgment but noted that good judgment came from experience but that experience tended to be gained from cases of bad judgment! This seemed to be a vivid case of gaining experience.

Sir Colin Corness shared the sense of unease expressed by his colleagues at the amount of time it took for the Bank to come to grips with BCCI. He felt that too much reliance had been placed on the Luxembourg Authorities to make the running and that they had not been best qualified to do so. As BCCI had been incorporated in Luxembourg and yet Luxembourg had not been equipped to take the lead on supervision, he wondered whether they should have been allowed to establish branches in the UK.

Sir Colin went on to compare Banking Supervision with the supervision of building societies, which he said was much more authoritarian. The Building Society regulators were very disciplined and extremely tight in their supervision.

Sir David Walker agreed with the distinction, but felt that the system of bank supervision was much better.

In accepting the presumption of continuity, Sir David Lees felt that nevertheless, the Tampa prosecution was a key point where the Bank had lacked pace in drawing firm conclusions about BCCI. A further concern must also be the ability and credibility of the auditors. He questioned whether the Bank had been concerned about their ability to pick up some of the issues that, with hindsight, they might have done.

Sir Roland Smith felt that Sir David's criticism of the auditors was valid but questioned whether the Bank had relied too much on Price Waterhouse instead of relying on its own analytical work. He also questioned whether the Bank's relaxed history of supervision was a factor in it being slow to respond. He also found it difficult to understand why Price Waterhouse did not get a feel of the situation within BCCI earlier and tell the Bank at that point rather than wait until a full report was required.

Mr Southgate was also worried about the timing lags, particularly during the past three years. In retrospect, it was easy to see that the Bank should have been more persistent in its enquiries. There had been a tendency to back-off from time to time. Putting himself in Lord Justice Bingham's shoes, he felt it had to be asked whether there had been sufficient circumstantial evidence for the Bank to have moved earlier, and also that the auditors had much to answer for. The shareholders were aware of fraud in April 1990 and surely this was something the auditors should have spotted and responded to sooner.

Returning to the concerns about the auditors, Sir David Walker said that there must be a question about their competence in this case. He suggested that their doubts about the probity of Naqvi was a trigger point and that they should have pursued their doubts with greater vigour. As was virtually always the case there had perhaps been a tendency to understate their concerns until they were absolutely sure of the situation.

Sir Brian Corby said that this focused on the "balance of harm", which had to be weighed alongside the presumption of continuity. Had the Bank and the auditors been more concerned about harming BCCI and its shareholders by pressing the case, than they had been about the harm that BCCI/Naqvi could impose on its customers?

Finally, in winding up the discussion, the Governor said that he was concerned about the ease with which one might blame the auditors. He thanked Members for their observations and agreed that after the Deputy Governor and he had given evidence to Lord Justice Bingham, it would be timely to update Court and to seek Members' further advice and comments.

E.A.J. George
16th January 1992

G. A. Clayton
Secretary.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 16 JANUARY 1992

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 Colin Ross Corness
Lord Haslam of Bolton
Mervyn Allister King, Esq
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
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.

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 Mr Quinn said that earlier that week in the High Court in London, BCCI SA had been put into liquidation. This followed similar action in Luxembourg earlier in the month and in turn had been followed by action in the Cayman Islands. Now that the winding-up order had been made, the Deposit Protection Board was able to consider claims for compensation under the Deposit Protection Scheme. A Press Notice had been issued which indicated

the steps to be taken to establish eligibility for payment. This was likely to be a lengthy process because of the complicated nature of the BCCI liquidation and the intention to co-ordinate the various liquidations around the world. Touche Ross, the liquidators, proposed to prepare a standard package for all creditors, including a proof of debt form, which would need to be in a format acceptable to the authorities in each jurisdiction. The package would also include details of the majority shareholders' new compensation scheme. It was not clear to what extent the Board would be able to participate in the arrangements being made by the majority shareholder to provide additional funds but the Board would be seeking to have its priority over the depositors it has already reimbursed, maintained.

The Deposit Protection Board would be represented on the informal Creditors Committee established by Touche Ross.

At the Governor's invitation:-

1 There being no comments on the Accounts of the Houblon-Norman Fund for the year ended 30 June 1991, Mr King, in his capacity as a Member of the Houblon-Norman Advisory Committee, commented on the Report of the Committee and drew attention to the award of a Fellowship to be shared between Professor P B Kenen and Dr Patricia Fraser. An expansion of the scheme to provide for Fellowships for overseas researchers and for periods of less than six months, was being considered and would be discussed with the Advisory Committee and the Trustees in due course.

2 Mr Harris introduced a paper entitled Information Systems Strategy Project - Final Report, which had been produced by a joint Bank/Touche Ross team following a

review of information systems strategy in the Bank, the objectives of which had been to:-

(1) validate the business needs of the Bank for information systems;

(2) examine the effectiveness of current information strategy provision in meeting them; and

(3) make recommendations for a strategy to meet the business needs in the future, cost effectively.

The mid-point conclusion of the Review Team had focused on the critical business areas and the appropriateness of the current information systems provision in terms of meeting requirements and of cost effectiveness.
This had been discussed by the Deputy Governor's Committee and a further report commissioned to explore the options for change and to identify the likely costs and staffing implications.
The final report had identified three options, Paths 1, 2 and 3, each of which involved considerable staff reductions and Paths 2 and 3 a degree of organisational change. The Executive proposed that Path 1 - an evolutionary development based on the current arrangement of shared general purpose services for mainframe users and a centralised Management Services Department - effectively a "no change" option, be discarded and that Path 2 - providing for the retention of an IBM mainframe for core Banking business and Corporate Service Department accounting purposes only - and Path 3 - which involved the abandonment of an IBM mainframe and the widespread adoption of departmental computing - should be considered further.
Sir Adrian Cadbury, having declared his interest as a Director of IBM, took no part in the ensuing discussion.

Members of Court endorsed the recommendation of the Executive and in doing so focused on a number of points; the need to ensure flexibility and, if necessary, to pay to achieve it; the maintenance advantages of buying established packages which should be error free; the value of inter-connected local area networks and instant standby facilities; and cautioned that it could be false economy to under-specify when purchasing new equipment.

Although the staffing implications of decentralisation involved the possibility of redundancies which would need to be faced, emphasis was placed on the advantages of greater local commitment that would derive from decentralisation together with the need to retain a small but expert team at the centre, to control and maintain standards and compatibility of computer equipment.

Finally, it was suggested that a full presentation of information technology in the Bank might be made to Court in a year or two when the present proposals had been put into effect.

Secretary

Adrian Cadbury

23rd Jan 1992

A COURT OF DIRECTORS AT THE BANK

THURSDAY 23 JANUARY 1992

Present

Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Dr David Valentine Atterton, CBE
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
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.

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 12 December, the Deputy Governor said that following agreement with H M Treasury, it would be announced the following week that the cash deposit ratio would be reduced from 0.4%

of eligible deposits to 0.35%; and that unless an announcement was made to the contrary in the intervening period, the ratio would revert to 0.4% in four years.

2 [redacted]

3 The Deputy Governor informed Court that Sir David Walker's period of office as Chairman of the Securities Investments Board expired on 31 May and that he would be succeeded by Mr Andrew Large. It was expected that

an announcement to this effect would be made later that day.

At the Deputy Governor's invitation, Mr Crockett presented the International Economic Developments paper for December. During the ensuing discussion, attention was drawn to the comparative statistics showing the increase in earnings in the major seven economies in the past 12 months, and the need to translate these into comparable unit labour costs; and in respect of Europe, the mechanisms for implementing change in monetary and, particularly, economic policy.

In accordance with Section 10 of the Charter, the Deputy Governor and Messrs Quinn, Crockett and King withdrew, together with Messrs Harris, Kent and 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.

Sir Adrian Cadbury reminded Members that Court had agreed on 19 December a revised salary structure for the Bank's Executive to be effective from 1 January 1992. Subsequently, as requested by Court, he had discussed with the Deputy Governor the levels of remuneration recommended by Court for the Governor and the Deputy Governor. The Governor had agreed that his full salary entitlement, as determined by Court, should be shown in the Bank's Annual Report and Accounts together with the Governor's decision to waive sufficient remuneration to limit his actual remuneration for the year 1991/92 to record an increase of only 6% on the previous year, 1990/91, in line with the increase awarded to the staff. Given that the Governor's salary entitlement would be shown in the Annual Report, the Governor was content that the Deputy Governor's remuneration should be at the level agreed by Court even if this meant that the Deputy's remuneration would be above the Governor's actual remuneration after waiving. The Deputy Governor had accepted this situation albeit somewhat reluctantly. Accordingly, the levels of remuneration for both the Governor and Deputy Governor for 1991/92 would be shown in the Annual Report and Accounts.

These decisions now ensured that the full market-related salary structure for the Bank's Executive would be put in place with effect from 1 January 1992, fulfilling the commitment made a year ago. In looking ahead to 1992/93, Sir Adrian Cadbury also said that the Remuneration Committee's view was that the Governor should take his salary in full in that year, a view endorsed by Court.

Sir Adrian Cadbury reminded Members of Court that the Executive salary structure was both market-related and performance-based. Accordingly, the Governors had considered the individual position of each of the Executive and Associate Directors and Advisers to the Governor and had made proposals to the Remuneration Committee for submission to Court.

The Recommendation was approved and Sir Adrian Cadbury was asked to convey to the Governors, Court's observations on a number of points.

Sir Adrian Cadbury reminded Members that at the time of the publication of the Bank's Annual Report and Accounts, Mr Laird and he would take the initiative in speaking about the Bank Executive's salary structure and that he would ensure that Members of Court had advance copies of the briefing. He also said that in accordance with the recommendations issued recently by PRONED relating to Remuneration Committees, it was proposed that the names of the Bank's Remuneration Committee should be published in the Annual Report.

E.A.J. George
30th January 1992

R. A. Coghlan.
Secretary.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 30 JANUARY 1992

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
Lord Haslam of Bolton
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
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.

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]

2 The Governor spoke briefly about the G7 Meetings which he had attended the previous weekend which had resulted in general agreement that each country would follow policies appropriate to its own situation and that exchange rate policy would be consistent with growth and stability.

There had been no support for the Chancellor's initiative for a stabilisation fund for the Rouble. In addition, there were concerns about Russia's ability to service old USSR debt because of the diversity of holdings of foreign exchange, and a general lack of such funds.

At the Governor's invitation:-

1 Mr King presented the Economic and Financial Report for January.

2 In introducing the regular monthly discussion of monetary policy, Mr Plenderleith said that the latest monetary data were consistent with the continuing subdued performance of the economy. However, there was some evidence to suggest that the main ingredients for recovery on a sustainable basis were at hand; the main inhibiting factor now might be a lack of confidence.

Narrow money (MO) continued to grow in the top half of its target range with a year-on-year increase of 2.8%. Notes and coin in circulation fell in December by 0.3%, with the year-on-year increase down from 3% to 2.4%. However, these movements were probably erratic reflecting some distortion in the figures caused by the Christmas and New Year holidays. The indications were that the data for January were returning to a more normal path.

Broad money (M4) which had been growing more substantially in recent months, recorded an increase of 0.8% in December, with year-on-year growth rising to 6.2%. The prolonged deceleration in M4 growth over the past year or more was probably now levelling out at around 6.5%pa: this was consistent with a gradual recovery in activity if we continued in an environment of controlled low inflation. Equally, the slowdown in the growth of M4 lending seemed to be levelling out at an annual rate of around 5.5%. The most buoyant ingredient recently in M4 growth had been wholesale money, with corporate sector borrowing in the equity market initially being used to repay bank debt, but more recently also being used to build up bank deposits. This suggested that companies had the financial resources to respond to a recovery in demand.

Overall, it remained the case that there was no very convincing evidence of any significant recovery in activity. The adjustments necessary if recovery was to be sustainable had however been moving in the right direction. Inflation continued to decline, despite a temporary upturn in the headline RPI figure, and inflationary expectations were inching down: wage settlements too were falling. Two other helpful developments recently had been the stamp duty "holiday" and a reduction in mortgage interest rates, both aimed at improving activity in the housing market.

Whether an additional stimulus should be delivered through an easing in the authorities' monetary stance depended on whether that would be consistent with maintaining confidence in sterling within the ERM. Sterling had been steadier this month, but there were risks in narrowing further the differential over the

German interest rates given sterling's exposure to changes in German monetary policy. Moreover, with the Budget scheduled for 10 March, the monetary stance had to be considered in the context of the overall fiscal situation.

In the discussion which ensued, attention focused on reasons for the continuing lack of confidence. Political uncertainties and the prospect of a general election combined with a general disappointment that the hoped-for recovery had not emerged; continuing nervousness about unemployment; and the general situation in the USA and Europe, particularly in Germany, were all factors that might dampen confidence.

The Deputy Governor and Mr Quinn responded briefly to a question about their appearance before Lord Justice Bingham. The Governor would be giving evidence the following week.

G. A. Croughton
Secretary.

E. A. J. George
6th February 1992

[redacted]

A COURT OF DIRECTORS AT THE BANK

THURSDAY 6 FEBRUARY 1992

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
Sir David Bryan Lees
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
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 January, and the state of the domestic markets.

Under the weekly executive report:-

1 [redacted]

2 Mr Plenderleith informed Court that BIFU had submitted a pay claim in respect of the staff at Gloucester comprising an across-the-board increase of 6% plus a flat-rate pensionable increase of £200, and various other adjustments, to be effective from 1 March 1992.
The settlement for the previous year of an across-the-board increase of 7% plus a pensionable addition of £300 had been well received by all concerned; morale had improved, helped by the move to the new building; and at the present time there was no significant loss of staff nor any need to recruit. Accordingly, the Bank was looking for a fair settlement matching the rate of inflation, currently 4.5%, and no more. It was also proposed for management purposes, to introduce certain small merit increases to the junior scales, rather than to provide a flat-rate increase for all staff. The Chief Registrar would enter into negotiations with the Union on that basis.

3 Mr Quinn spoke to Court about his appearance, with Mr Barnes, before the Treasury and Civil Service Committee the previous day to answer questions on BCCI. The Committee's attitude had not been hostile towards the Bank and had focused on whether the Bank had done the right thing at the right time and on whether the episode revealed any shortcomings in the arrangements governing international supervision of banks. He mentioned that Price Waterhouse had submitted written evidence in response to earlier questions from members of the Committee: this had been helpful to the Bank's position.

4 With reference to a Minute of the previous week, the Governor said that when he gave evidence to Lord Justice Bingham on BCCI, the questioning had been to establish whether the Governor's views were consistent with those of his colleagues who had given evidence earlier: he felt this had been the case. Although it was unlikely that Lord Justice Bingham would challenge

the Bank's decision to close BCCI, the Governor felt that he may question the timing of that decision; why the Bank had been slow to collate the evidence; and why we had not adopted a stronger stance in the mid-1980s.

The Inquiry would continue with evidence being taken from the independent members of the Board of Banking Supervision, members of HM Treasury, the Prime Minister and members of the staff of Price Waterhouse. In the meantime, work would continue in the Bank on the preparation of a paper addressing the lessons learned from BCCI, for submission to Lord Justice Bingham.

5 The Governor mentioned that a new video of the Bank was in the course of preparation. It was proposed that the early part of the proceedings of Court the following week should be filmed for inclusion in the video.

At the Governor's invitation:-

1 Mr Crockett introduced the January edition of the City EC Committee Background Note.

2 In the absence of Mr King, Mr Price spoke about the General Assessment which formed part of the February edition of the Quarterly Bulletin which was due to be published on Tuesday 11 February.

G. A. Croughton. E. A. J. George
13th February 1992.

Secretary.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 13 FEBRUARY 1992

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
Mervyn Allister King, Esq
Sir David Bryan Lees
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
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 Deputy Governor said that the position of National Home Loans could reach a critical situation in the course of the coming week when their Board of Directors would meet to discuss whether, inter alia, they were able to give a warranty that there had been no material adverse change in their position since entering into certain funding agreements in 1987. If the Board were unable to give such a warranty, and there was considerable doubt that they could, they would have to consider whether they could continue trading. This raised the question of whether the Bank should intervene to prevent NHL going into administration.

[redacted]

2 [redacted]

3 Mr Plenderleith said that the Legal Risk Review Committee, which had been established under the Chairmanship of Lord Alexander in the Spring of 1991, would be issuing a consultation report the following week. A number of areas of legal uncertainty had been identified but the Report concluded that not all such instances would require changes in legislation. Much could be achieved by improved communication and education to improve practitioners' understanding of the law and by strengthening trading practices. The Report also recommended the establishment of two new bodies. A Financial Law Panel was proposed, with membership drawn from market and legal practitioners, which would be able to address incidents of legal uncertainty as they arose. The other body, to be known as the Financial Law Liaison Group, would provide liaison between the Financial Law Panel and Government

departments particularly where legislation was involved. Finally, the Report contained an analysis of the problem of legal vires. The Report concluded that there was a case for the abolition of the doctrine of legal vires and it offered this view for comment.

Overall, the Report made a case for establishing the necessary machinery for addressing issues of legal uncertainty many of which arose because of the distinctive innovative character of London's markets which tended to run ahead of the legal system. Having such a machinery in place could serve to strengthen London's competitive advantage over other centres.

4 The Governor informed Court that after further consultation he had submitted his recommendations for appointments to Court to the Chancellor of the Exchequer. He was hopeful that it would be possible to make a formal announcement before 1 March, the date from which the appointments became effective.

At the Governor's invitation, the Deputy Governor spoke about a Governor's Recommendation arising out of the recent Annual Review of Senior Officials. It was agreed that with effect from 1 March 1992:-

1 [redacted] be promoted from Point F to Point E

2 be granted £3,000 personal pensionable salary

3 be appointed a Senior Official Point F

[redacted]

be appointed a Senior Official Point D

be appointed a Senior Official Point F

With reference to a Minute of 14 November 1991 and the discussion of the Court Working Party Report, the Governor suggested that the pattern of Court Meetings should be adjusted to include one long Court each month, two normal Courts and one short Court. On this basis, an experimental calendar of Court meetings for the six months from March to August had been drawn up incorporating these proposals and identifying subjects for discussion at the long Courts. The Governor explained that he proposed to dispense with a Standing Committee of Treasury in future but that the Audit, Securities, Debden and Charitable Appeals Committee would remain unchanged. As regards Staff Committee, it was proposed that the nature of the Committee should change such that it would need to meet no more than perhaps twice a year. Provision would be made for the Heads of function who currently appeared before the Non-Executive Directors at Staff Committee, to make similar reports in future at normal Court meetings. Detailed proposals for membership of the Committees would be brought to Court on 5 March.

The Governor noted that this was the last occasion he would be at Court before Dr Atterton's retirement at the end of the month. He extended his personal thanks to Dr Atterton for his contributions at Court over the past eight years.

RA Hoffmann
Assistant Secretary
20th February 1992

Adrian Cadbury
20: Feb. 1992.

MINUTES\CAA0421

A COURT OF DIRECTORS AT THE BANK

THURSDAY 20 FEBRUARY 1992

Present

Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Dr David Valentine Atterton, CBE
Anthony Laurie Coleby, Esq
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
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.

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 informed Court that the Prime Minister had supported the Governor's nomination for the new Director.

2 [redacted]

[redacted]

3 With reference to a Minute of the previous week, the Deputy Governor said that the parent company of National Home Loans had concluded that they were unable to give a warranty that there had been no material adverse change in their position since entering into certain funding arrangements in 1987. Discussions were continuing with the leaders of a syndicate of banks and, depending on progress, a statement would be made. It would be made clear, however, that the position of the National Mortgage Bank was not affected should the non-banking part of the group be put into administration. [redacted]

The Deputy Governor went on to refer to the comparisons that would be made between the treatment given in this case and [redacted]

4

5 Mr Kent referred to an article which had appeared earlier in the week in the Financial Times claiming that Lloyd's had applied to the Bank for support to ease a liquidity crunch. There was no truth whatsoever in this claim and Lloyd's had put out a statement to that effect. Somewhat inevitably the press had interpreted the denial as suggesting there might have been discussions with other interests associated with Lloyd's - this was not true either. Some interested parties had visited the Bank to explain their views but this was as far as it went. There was no presumption either that there was a liquidity difficulty or that, if there were, we could provide resources.

6 The Deputy Governor mentioned that, together with the Governor, he had attended a meeting organised by the Lord Mayor the purpose of which was to generate support in the City for the European Central Bank and European Monetary Institute. Work was being undertaken, in low key in the run up to the election, to generate grass roots support from within the City itself. The direction to be taken thereafter would depend very much on the Government view after the election. The initial aim was to ensure that the issue was debated on its merits and not accepted as simply a matter for political horse-trading. At an appropriate point we would need to lobby smaller countries for their support.

A letter from Messrs Freshfields was submitted, together with three documents to be sealed, namely an Underlease, the Counterpart Sub-Underlease of below ground space being retained by the Bank, and a Licence from the Superior Landlords, relating to the underletting of Bank House, Manchester to Barlows plc.
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:-

> Mr Crockett presented the International Economic Developments paper for January. In the discussion that ensued, Mr Southgate said that he had spent the previous two weeks visiting Japan where he had noted that they had problems with their electronics industry. The consumer market was becoming non-existent as a result of lack of new products at a time when workers were demanding more pay. Japanese consumers were still spending, but more on travel and clothing. There was nervousness over what steps should be taken to rectify the position. Other Directors saw problems at home with the continuing rise in unemployment and the problems the UK had to remain competitive. These comments, said Mr Crockett, provided a lead into a further paper the International Divisions had prepared which detailed recent wage growth in the major seven economies. It made the point that wage growth was not the only determinant of competitiveness and went on to show that an examination of trends over the past decade in wages and productivity growth together gave a measure of labour cost per unit of output which provided a better representation of productivity trends.

David Scholey

BA Hoffmann
Assistant Secretary
27 February 1992

A COURT OF DIRECTORS AT THE BANK

THURSDAY 27 FEBRUARY 1992

Present

Edward Alan John George, Esq, Deputy Governor
Sir David Gerald Scholey, CBE
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
Colin Grieve Southgate, Esq

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. As a result of a request made during the discussion that followed, Mr Crockett undertook to produce a paper for Court dealing with the position of the latest GATT discussions.

Under the weekly executive report:-

1 [redacted]

2 [redacted]

3 The Deputy Governor went on to bring Court up-to-date with the position regarding National Home Loans which had also been mentioned the previous week. It had been announced that the Chairman and Chief Executive had left and had been replaced by an Executive Chairman, Jonathan Perry, formerly of Morgan Grenfell. Renegotiations with the syndicate of banks would not affect the position of NHL's subsidiary the National Mortgage Bank, which was to wind down its business, on the basis of liquidity support from a group of banks

underwritten by the Bank, and surrender its licence. Ian Hay Davison had been appointed Executive Chairman of NMB to manage the wind down.

At the Deputy Governor's invitation:-

1 Mr King presented the Economic and Financial Report for January.

2 In introducing the monthly discussion of monetary policy, Mr Coleby said recent monetary and financial data showed little evidence of change. The acceleration in narrow money apparent towards the end of last year had now abated; growth in the currency circulation was running at around 2 1/2%, consistent with retail sales. The long decline in year-on-year rates of broad money and lending appeared now to have ended. M4's annual growth rate of just over 6% had been reasonably uniform over the past year, as had that of M4 lending at just under 6%. Perhaps the most intriguing element in January was the strength of bank borrowing by industrial and commercial companies, taken together with fund raising in capital markets. It was intriguing because the concentration of tax payments in the month was nothing like a sufficient explanation. Nor was it plausible, in the light of the latest cost and price developments, to suppose that depression of income provided the missing explanation, and that was equally true, given the latest real economy data, of any explanation looking to incipient increases in output.

Market sentiment towards sterling had improved in January, and that had continued in February. However, it was still difficult to disentangle influences specific to sterling from those attributable to dollar/deutschemark fluctuations. The markets had been most depressed about sterling when its Exchange Rate Index had been - because of the depressed dollar - at recent highs; and sentiment had recovered as the ERI fell. It was clear that the market perceived United Kingdom interest rates to be subject to a combining exchange rate constraint, despite periodic optimism in domestic markets, much influenced by political considerations. The constraint would exist even if we were not in the ERM, because we had to be concerned about the effects of a weak exchange rate in transmitting inflation into the domestic economy, as it had in 1989. But the ERM provided the form in which the constraint was visible, most conspicuously in the relationship between the pound and the peseta. He agreed with Mr King's analytical conclusion, that we could not rely on market movements in sterling dragging the peseta with it, and that had been demonstrated in the past week when the Bank and the Bank of Spain had both intervened at the limit. Perhaps surprisingly, that had not been picked up by the media, but it must be a source for concern; once heavy or continuous intervention was observed, it could severely undermine confidence in a currency, as the French had found.

The domestic case for policy relaxation might accordingly not be well served by lowering interest rates, because of the risk that the cut might have to be reversed. The coming Budget provided an opportunity to ease policy by another means; and would in any event have effects on market sentiment that were not easy to judge in advance. So the management of monetary policy in the immediate future offered no simple options. We were faced with a difficult policy dilemma.

In the discussion that ensued, a number of Directors expressed concerns about the economy. Mr Laird had attended a meeting of industrialists in Glasgow that week and had never known such pessimism expressed. Sir Colin Corness said lending by banks and building societies for house purchase was at its lowest since 1985 and provided a very bad portent for housing activity for the next three months. Sir Martin Jacomb commented that he could well understand why the Foreign

Exchange markets were disturbed when they saw the drop in exports, revealed by the latest trade figures, combined with the idea of kick-starting the economy; a situation which could adversely affect the pound.

The Deputy Governor paid tribute to Dr Atterton on the occasion of his last appearance at Court. He said he had given tremendous service to the Bank and we were very grateful.

G. A. Croughton

Secretary.

E.A.J. George

5th March 1992

COURT OF DIRECTORS

For the year ended 28 February 1993

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
		Sir David Alan Walker
		Sir Frederick Brian Corby
		Lord Haslam of Bolton
		Gavin Harry Laird Esq, CBE
		Sir Martin Wakefield Jacomb
		Sir Colin Ross Corness
The Governor	5.3.92	#Brian Quinn Esq
		Andrew Duncan Crockett Esq
		Anthony Laurie Coleby Esq
The Governor	5.3.92	#Mervyn Allister King Esq
		Sir David Bryan Lees
The Governor	5.3.92	#Professor Sir Roland Smith
		Colin Grieve Southgate Esq
The Governor	13.3.92	*Sir Christopher Anthony Hogg

Reappointed 1 March 1992

* Appointed 1 March 1992

A COURT OF DIRECTORS AT THE BANK

THURSDAY 5 MARCH 1992

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
Sir David Bryan Lees
Brian Quinn, Esq
Professor Sir Roland Smith
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Governor welcomed Sir Roland Smith and Messrs Quinn and King on their re-appointment to Court and explained that because of prior business commitments, Sir Christopher Hogg would be unable to attend Court during the coming month.

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 February, and the state of the domestic markets.

Under the weekly executive report:-

1 **The Deputy Governor was invited to describe to Court the arrangements which were proposed regarding**

[redacted]

[redacted]

[redacted]

Court authorised the early release of the above Minute.

2 The Governor informed Members of Court that the Report of the Treasury and Civil Service Committee on BCCI would be released on an embargoed basis the following Monday prior to publication the following Wednesday. Early evidence from parts of the Report which had been leaked to the press the previous day suggested that the Report would be critical of the Bank. The Governor suggested that, in this event, the Bank's response should be immediate and robust. To this end, a draft statement, copies of which were made available to Members, had been prepared. Members of Court supported the Bank's planned response.

At the Governor's invitation:-

1 The Deputy Governor introduced a Recommendation of the Governors relating to the composition of the Standing Committees of Court for 1992/93. He also introduced a Resolution, pursuant to paragraphs 5 and 13 of the Bank's Charter, establishing a Sealing Committee and setting out its terms of reference. It was noted that the Committee would report to Court from time to time on the application of the Bank's seal.
It was RESOLVED that the Sealing Committee be established and the Recommendation was approved.

2 The Deputy Governor then spoke briefly about Directors' visits to Branches, Agencies, Departments and Divisions

which for the past two years had been undertaken on an entirely voluntary basis. He thanked Members for undertaking such visits during the past year and said that, for those who wished, similar visits could be arranged during the coming year. The programme of visits by Senior Officials introduced two years ago had proved valuable and would be continued.

3 Mr Crockett presented a paper entitled 'Developments in the former Soviet Union' which explored the ties linking the 15 Republics, the political and economic tensions between them, reform programmes undertaken to date, and the types of western assistance that they still required.

During the discussion which followed, attention focused on the probable need for a stabilisation fund, particularly if the option of a fixed exchange rate was adopted to bring inflation under control as part of the programme of economic reform. The bureaucratic problems which hindered British industry in doing business in the former Soviet Union were also noted and it was suggested that a Government backed programme might be developed to help and encourage British industrialists to do business in the CIS.

G. A. Croughton
Secretary.

E.A.J. George
19th March 1992

A MEETING OF DIRECTORS AT THE BANK

THURSDAY 12 MARCH 1992

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Anthony Laurie Coleby, Esq
Mervyn Allister King, Esq
Brian Quinn, Esq

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, 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.

E. A. J. George
19th March 1992

G. A. Croughton.
Secretary

A COURT OF DIRECTORS AT THE BANK

THURSDAY 19 MARCH 1992

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
Lord Haslam of Bolton
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

Hugh Christopher Emlyn Harris, Esq
Ian Plenderleith, Esq

The Minutes of the Court of 5 March were confirmed and those of last week's Meeting, having been circulated, were approved.

Details of the weekly figures and graphs relating to the state of the foreign exchanges and the domestic markets were laid before Court.

Before Mr Quinn spoke under the weekly executive report about the merger between Midland Bank and the Hongkong and Shanghai

Banking Corporation (HSBC), Sir David Scholey declared his interest, S G Warburg being advisors to the Midland Bank.

Mr Quinn explained that at the end of 1987, HSBC acquired 14.6% of Midland Bank's shares. In December 1990 the Midland Bank and HSBC decided after careful consideration, that it was not the right time for a closer structural association between the two groups. However, about a month ago, HSBC revived its interest in Midland Bank and informed the Midland Bank Board and the Bank of its intention to purchase the remaining 85.4% of Midland Bank's shares.

Since then, there had been a number of discussions of a non-committal nature between senior representatives of the two groups, and additional discussions and exchanges of documents between HSBC and the Bank.

Earlier that week, agreement in principle had been reached between the two banks on a merger and an announcement had been made jointly by them of their intention to merge on the basis of an offer by HSBC for Midland Bank shares at a premium to the current market price. The offer remained subject to the necessary regulatory approvals which fell into two categories:-

(a) banking supervisory consent from the Hong Kong and UK authorities; and

(b) consent from the competent competition authorities.

Clarification was being sought from the EC Commission whether the merger fell within its jurisdiction or that of the UK authorities. It was probably the former, but either way, it seemed unlikely that the merger would be blocked on competition grounds.

The Hong Kong Banking Commissioner was favourably disposed towards the merger and it was thought likely that he would give his consent. The Hong Kong Government was also in favour but it was possible, though not likely, that HM Government could intervene on grounds of public interest. There was therefore some uncertainty but the crucial determinant, assuming the parties agreed and no other bidder emerged, would be the Bank's attitude.

[redacted]

The Governor, in responding on the implications of this merger for the general policy relating to the takeover of British banks by non-UK institutions, as set out in his speech in Belfast in 1987, said that although things had moved forward since then, the fundamental concern remained that the control of the payment systems should be in the hands of a UK institution, although under EC legislation we could not now resist control of a British bank by a fit and proper European bank. Reverting to the position of HSBC he said that it was the intention that their headquarters and their management would move to London in due course.

[redacted]

The Governor explained that following the recent announcement that Sir David Walker was retiring as Chairman of the Securities and Investments Board in May of this year he had been invited to join the Board of Lloyds Bank as Deputy Chairman.
As the appointment did not create any conflict of interest with Sir David's membership of Court at the present time, Court approved thereto. It was noted however that the situation would be reviewed when Sir David's current term of office expired in February 1993.

At the Governor's invitation:-

1 Mr Quinn introduced a paper entitled 'Gibraltar and Banking Supervision' which highlighted a number of issues concerning the future of banking supervision in Gibraltar which had arisen as progress was being made towards the implementation of the Second Banking Co-ordination Directive.
It had been ascertained that the UK was responsible for the implementation of EC legislation in the financial field for Gibraltar. The Second Banking Co-ordination Directive would permit EC institutions to branch and offer services abroad on the basis of home country authorisation only. Banks and other financial institutions would therefore be able to establish in Gibraltar and branch throughout the EC without any other authorisations being needed, and any failure of

such a bank would be the responsibility of the UK as the home country.
Financial supervision was carried out independently in Gibraltar by the Financial Services Commission and the Gibraltar Government was strongly opposed to any suggestion that autonomy in this area could be removed or replaced by HM Government or its agents. The Gibraltar Government was also keen to develop Gibraltar as an off-shore financial centre within the EC and HM Government were concerned because the Gibraltarian resources were inadequate and standards were suspect. HM Government were divided on the way through this. The Foreign and Commonwealth Office were anxious not to go back on earlier assurances that Gibraltar could develop within the EC and were keen to avoid any constitutional crisis. HM Treasury were equally determined to avoid a situation that placed the UK in a position in which responsibility for financial failure would fall on them while powers to authorise and supervise financial institutions were not available to ensure that the job was done properly. The dilemma was the Government's but there was a risk that a compromise would be proposed which placed the Bank in a position of having partial or incomplete powers in relation to the activities of financial institutions operating out of Gibraltar.
The Bank's concern was that such a solution could be disastrous and we might therefore have to refuse to act as Government's agent in this matter. Even taking responsibility with full powers could have serious drawbacks and we may feel that we could not accept the job of supervising banks in Gibraltar under any circumstances. This was a constitutional issue for the Bank and Mr Quinn promised to keep Court informed of developments.

There was general support from Members of Court for the view that if the Bank were to become involved it should only do so if it had total control. The Bank had been blamed recently for shortcomings in supervision in Luxembourg in the case of BCCI and so how much more likely were we to be seen as responsible for any shortcomings in Gibraltar. The Governor explained that even with total control for supervision in Gibraltar the Bank could be placed in direct conflict with the Gibraltarian authorities by refusing to authorise a bank which wished to operate in Gibraltar and concluded that it was clearly preferable for the Bank as an institution not to be involved at all. Finally, the Deputy Governor explained that if the UK had the responsibility for supervision in Gibraltar this need not necessarily be vested in the Bank. Government could establish a separate body in Gibraltar but under UK Government control.

2 Mr King introduced his papers on the 'Design and Implementation of Macroeconomic Policy'. The main paper sought to provide a definition of stable prices and policy. It traced the shift in the post-war approach to policy from the Keynesian demand-management views of the 1950s and 1960s towards the current consensus, in which there was seen to be no <u>long-run</u> trade-off between output and inflation. Policy was now seen as affecting behaviour in part by its effect on expectations of future policy intentions. Hence credibility, commitment and consistency of policy become crucial to the success of any policy strategy. The paper advanced four mechanisms for creating credibility:

- Pre-announced policy rules (but such rules were hard to find -witness the monetary aggregates).
- Investment in reputation, by pursuing tough policies in the short-run (but there was little incentive for Governments, which have short electoral horizons, to do this).
- Creating incentives for future Governments not to inflate (eg by indexing Government debt).

- Delegating monetary policy to an institution charged with the objective of price stability.

In discussion, there was general acceptance of the importance of price stability as an objective. Inflation eroded confidence, and led to uncertainty. This in turn fostered a short-term view of the world which had an adverse effect on productivity and growth. Price stability, of itself, was not a sufficent condition for economic growth. Without sufficient economic growth to meet the aspirations of society, any policy directed towards price stability would come under increasing strain.

To encourage economic growth, other successful countries - in particular Germany and Japan - allied anti-inflationary macroeconomic policy to a microeconomic industrial strategy. The details of the strategy differed from country to country, but it was less about "picking winners" than about creating a culture in which businessmen, politicians and civil servants co-operated closely. It also extended to the areas of training, education and investment. It was important to note, however, that provision of finance as part of the strategy might be at the expense of economic returns on savers' investments.

The Non-Executive Directors were invited to set down how they perceived industrial policy.

There was general agreement that domestic policy had to be framed in the context of the international environment. Membership of the ERM was seen as an important component in the present policy approach, owing to the anti-inflation credibility which membership conferred. The other effective means of enhancing credibility was likely to be the provision of incentives to future Governments (eg debt-indexation). Policy statements were unlikely to have much effect, unless allied to a convincing track-record. The only way this could be ensured was by removing the inflationary temptation from elected authorities: Central Bank independence could achieve such an objective.

The second paper sought to relate the recent Budget to the issues of credibility raised in the main paper. It was noted that the MTFS had remained relatively unchanged from recent years - apart from the inclusion of the commitment to the ERM as the main determinant of monetary policy - but that its clarity had blurred. In particular it was less obvious that the PSBR would be balanced over the medium term. The rise in the PSBR was set to raise the ratio of national debt to income, reversing a secular decline in the ratio. This might have an adverse impact on the authorities' anti-inflationary credibility. This, in turn, may have been reflected in the rise in gilt yields which followed the Budget.

The Budget was felt to have erred on the side of fiscal laxity - although the degree of laxity was difficult to quantify. Both the Budget and the Shadow Budget were disappointing owing to their political content, and neither was likely to reduce inflationary pressures. Some comfort could be taken from their common commitment to the ERM, but there was relatively little of substance on longer-term questions. It was not clear that the reaction of interest rates reflected a deterioration in inflation expectations, rather than increased short-term political uncertainty, and the supply/demand balance in the markets. The high PSBR had been expected to have an adverse effect on yields.

Adrian Cadbury
26th March 1992.

Secretary 26 March 1992.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 26 MARCH 1992

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Sir George Adrian Hayhurst Cadbury
Andrew Duncan Crockett, 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.

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 1992. The Report also commented on three issues relating to accounting policies in respect of the Bank's annual report, and noted the recovery of funds following the erroneous payment from [redacted]

The Report was approved.

2 Mr Harris introduced a Recommendation of the Governors that with effect from 21 April 1992 and 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, Mr T P Sweeney be authorised to act as the representative of the Governor and Company of the Bank of England at any Meeting of the Foundation for Management Education, in place of Mr Shilson.

The Recommendation was approved.

3 With reference to a Minute of 5 December, Mr Kent presented two papers addressing the issues arising from the Maxwell affair. The first highlighted the circumstances which could lead to the financial collapse of a company and the second dealt with pension fund regulation.

During the discussion which followed, attention focused initially on the use that could be made of the information that had been collected. Presumably all the banks involved would be analysing the situation and the Bank should perhaps be seeking their views too.

In examining the role of the Auditors a number of suggestions were put forward - should the major accounting firms take on an audit in companies where no audit committee existed; should there be rotation of Auditors as recommended by the Audit Commission for local authorities, perhaps with audits being put out to tender say every five years; and was the training of accountants sufficient in the current climate.

Turning to the role of the banks, it was suggested that they were not particularly rigorous in protecting their own position. Should they be insisting on more frequent audits of interim results etc - they were, after all, in a position to impose such terms on borrowers. When problems began to emerge it was often clear at crisis meetings that banks did not have a common base of knowledge: should they therefore insist on more frequent reporting. Perhaps the Financial Reporting Council and the Accounting Standards Board should consider making half yearly audits a requirement or a periodic "statement of indebtedness". Overall, banks did not seem to be particularly aggressive in their enquiries of potential borrowers and such major lending decisions seemed often to be taken at a relatively low level in the organisation. It was suggested that the Bank had a particular and immediate responsibility for the recent record of poor banking. It was necessary to ensure that the commercial banks focused fully on this weakness at the behest of the supervisors and learnt the appropriate lesson.

In considering the supervisory issues of 'pig on pork' security, it was suggested that the Basle Concordat on risk assessment did not go far enough and there was perhaps a case for more tiering of the categorisation of risks.

In response to some of these issues, Mr Quinn said that some banks had been guilty of errors of judgment and were addressing these issues. On risk assessment he suggested that banks should undertake their own risk analysis and charge accordingly. He did not favour fine tuning of risk weighting by supervision.

Mr Quinn resisted the suggestion of Mr Kent's cover note that restricted entry to the ranks of commercial bank management by the "fit and proper test" accounted particularly for poor banking judgment. A more likely explanation was the intense pressure for balance sheet growth.

In commenting more specifically on the issues relating to pension fund regulation, it was suggested that there were a number of complex issues relating to the governance of pension funds, ownership of assets, role and training of trustees etc, which called for urgent attention: these issues would have to be addressed by the incoming Government.

Mr Plenderleith explained the role of stock borrowing and lending as a legitimate part of the market and did not think that curbing of the practice would be a useful palliative.

In conclusion, it was accepted that the discussion had identified a number of issues, large and complex, that fell within the Bank's area of responsibility and were a particular concern of Court. They did not necessarily point to a need for a change in law or regulation but more to enhancing the quality of performance. They should nevertheless be addressed as a matter of urgency.

Finally, the Governor suggested that a supplementary paper addressing the issues that had been raised, and answering some, should be produced for a resumption of the discussion at a future Court.

E.A.J. George
2nd April 1992

G. A. Croughton
Secretary.
2nd April 1992

A COURT OF DIRECTORS AT THE BANK

THURSDAY 2 APRIL 1992

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
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
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.

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

Under the weekly executive report:-

1

[redacted]

[redacted]

2 Mr Kent drew Members' attention to recent press reports of the Bank's involvement in the Olympia and York situation, and in particular to a rather misleading report in the Financial Times earlier that week. In fact, Paul Reichmann had flown to London to meet the banks here on the weekend of 14 March in the hope of staving off a liquidity crisis. He had also called on the Governor and Mr Kent. The main outcome of his visit to London seemed to have been recognition that a global restructuring was inevitable and that Olympia and York would need to open their books to the banking community.

Since then our best information was that British banks did not have a very large exposure - some C$335 mn between two of them, out of some C$14 bn worldwide, to O and Y. Total exposure of the Group was said to be of the order of C$20 bn. There did not appear to be a significant systemic risk in the UK so far as banking institutions were concerned but the position of the property sector was difficult to read at present. Canadian bank exposure in Canada was nearly C$4 bn [now updated to C$7.5 bn] and was obviously uncomfortable.

3 With reference to a Minute of 15 July 1990, Mr Kent informed Court that the merger between LIFFE and London

Traded Options Market had taken place on 22 March. This was a satisfactory outcome and likely to strengthen both markets and so enhance London's competitiveness in Europe in financial derivatives. However, the merger would probably not have come about without the Bank's good offices.

At the Governor's invitation:-

1 The Deputy Governor reminded Court that the interim payment in lieu of dividend was to be made the following day and that the payment was governed by a formula under which the Bank and HM Treasury shared post-tax profits equally.
After making a notional provision at this stage of £25 mn in respect of support operations, the operating profit for 1991/92 was estimated at £165.5 mn. Applying the formula, the total dividend after tax payable to HM Treasury for the current year would amount to £67.9 mn. Accordingly, Court agreed that, pursuant to Section 1(4) of the Bank of England Act 1946, an interim payment of £34 mn be paid to HM Treasury in lieu of dividend on 3 April.

2 The Governor reminded Members of Court that one of the Recommendations arising from the recent Court Working Party review had been that the submission of oral reports from Heads of Divisions and Departments, which in the past had been made to the Staff Committee, should now be made to Court. Accordingly Mr Barnes, Head of Banking Supervision and Mr Bull, Head of Financial Statistics Division had been invited to attend Court that day.
In presenting his report on the Banking Supervision Division, Mr Barnes explained that the overall structure of the Division was rather complicated with 145 people involved in operational supervision and 45 people providing support in the form of policy, legal and administration work. Although the Division was

young by age - only three people over 50 and eighty under 30 - of the management team of some 32 people, 19 had five or more years' experience in the Division. The total cost of Banking Supervision Division's operation (including support services) was £13 mn of which staff costs accounted for £9 mn. Of the balance, the most significant items were legal and accounting costs.

Mr Barnes said that the Division regarded themselves as supervisors, a role which attracted more risk and required a greater degree of judgement than that of regulator. As such the Division was involved in making a continuous assessment of the risks that banks' management were taking, the resources they had at their disposal and the extent to which those resources could cope with the risks.

It was a difficult area in which to quantify success. By and large success went unsung while failures were all too obvious. Many issues were resolved before they became a real problem but one never knew the extent to which the Division's intervention had been contributory to the solution. It was suggested that success might be measured in other ways such as the number of licences withdrawn or by the total of depositors' money lost in a year but such targets might colour the Division's approach to the problem.

The Governor said that one measure of success was the number of banks who chose to operate in London because they saw London as an efficient and clean market where supervision was effective but not intrusive.

Focusing on the guidelines which he had circulated earlier, Mr Barnes emphasised that they had not been updated yet in the wake of BCCI: this was a task which might need to be undertaken in due course. The guidelines described the general approach to a dialogue between the Bank as supervisors and those it supervised but clearly that was adjusted to meet the needs of particular situations, for example those involving foreign banks.

Responding to questions on the staffing situation, Mr Barnes said that recently the Division had lost a number of good graduates with some 4/5 years experience. Their successors who had yet to acquire the experience, overall were probably not of the same high calibre thus presenting a problem for the immediate future, as did the general staff shortfall. However Mr Barnes said that these were issues that he would seek to resolve through the appropriate channels. In conclusion, Court endorsed the good work being done by Banking Supervision and noted in particular the extent to which the Division had been exerting its influence so effectively particularly in recent years.

Mr Bull presented his report on the Financial Statistics Division and identified their role with the core purposes of the Bank in providing the necessary statistical data enabling the Bank to carry out its supervisory and monetary policy functions.

In addition the Division had a statistical input to the National Accounts, to some extent as a by-product of FSD's core responsibilities. Recently the Division had been under some pressure from the Central Statistical Office to devote extra resources to national accounts; following careful consideration within FSD, and discussion with the CSO, the outcome was that a number of functions related to the national accounts work were being transferred to the CSO.

Mr Bull also identified as another area of current concern, the European dimension and the implications that the statistical function of the European Monetary Institute and, eventually, the European Central Bank would have for the Division. Other European central banks had a wider role than the Bank of England in financial accounting and balance of payments, in addition to monetary and banking statistics.

In response to a question about electronic transmission of data to the Bank, Mr Bull observed that the present system (used by over 100 banks) had proved more expensive to set up and maintain than had been expected, and was not troublefree. The Division were actively considering an alternative arrangement.

On the staffing front, Mr Bull said that at management level the average age was probably in the 40s with staff at group level aged around the mid-20s. The turnover of staff, some 30% a year presented a problem but it was equally important to ensure that people did not remain in the Division for too long as it was essential for them to gain experience elsewhere. This helped the process of knowing the statistical requirement of other areas of the Bank.

3 Mr Coleby introduced a Report of the Charitable Appeals Committee which covered appeals considered in the latest review period.

In introducing the Committee's Recommendation that the Bank should make a donation to the Royal Anniversary Trust to commemorate the 40th Anniversary of HM The Queen's accession to the throne, Mr Coleby explained that the appeal - requesting a donation of up to £60,000 - did not readily fit the Bank's normal criteria for charitable giving. However, the appeal commemorated a notable national event and accordingly the Committee recommended that a contribution of £10,000 would be appropriate.

Members shared the Committee's concern about the purposes of the appeal but agreed that a donation of £10,000 be made, this amount to be additional to the annual budget for charitable appeals.

Mr Coleby also drew attention to the overall charitable appeals budget which had remained unchanged at £152,500 since 1988, apart from the increase of £2,500 in 1990 to provide the Chief Registrar in Gloucester with the same facility as the Agents. Mr Coleby acknowledged the increase in the Bank's matching contribution to staff and pensioners' giving under the Give As You Earn scheme but explained that there was pressure on the budget brought about by the continuing increase in the number of appeals received each year. This might lead to a recommendation to increase the budget next year. It was agreed that the level of the Bank's charitable appeals budget be considered the following month when a paper setting out the Bank's overall involvement in community affairs would be before Court.

4 Mr Harper, Chairman of Minories Finance Ltd, attended Court and introduced the Report and Financial Statements of Minories Finance Ltd for the year ended 31 December 1991, and commented on progress being made.

The paper describing the background to the Uruguay Round of GATT negotiations was before Court for information.

E.A.J. George

9th April 1992

[illegible]

Secretary. 9th April 1992

A COURT OF DIRECTORS AT THE BANK

THURSDAY 9 APRIL 1992

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 Christopher Anthony Hogg
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 Governor extended a welcome to Sir Christopher Hogg who was attending Court for the first time following his appointment as a Non-Executive Director.

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

Details of the weekly figures and graphs relating to the state of the foreign exchanges and the domestic markets were laid before Court.

Under the weekly executive report, Mr Crockett spoke about Portugal's application to join the ERM the previous weekend and explained some of the procedural and substantive issues that had emerged. In particular he mentioned the UK concerns about the possible impact on sterling of the initially proposed rate of PTE180 per ECU, some 2 1/4% below the prevailing market rate, and the timing of the announcement in relation to the general election. In the event, a compromise rate of PTE178.735 per ECU had been agreed.

The Governor reminded Members that, at the discussion on the Bank's Statement to the Bingham Inquiry into the supervision of BCCI on 9 January, he had mentioned that the Bank would be producing a paper focusing on the supervisory lessons arising from BCCI. The draft paper now before Court, which had been prepared in response to a specific request by Lord Justice Bingham, would be submitted to him by Easter and focused on supervision in the UK, supervision of international banks, and some of the wider issues. It was intended in part to put before him some of the complexities and difficult policy judgements involved in supervision and to avoid too overt a flavour of "mea culpa".

During the discussion attention focused on the deterrence and detection of fraud. Although there were a number of agencies who were involved, it was questioned whether they had appropriate powers to take action and whether they had the resources and mechanics in place to permit effective cooperative action. Alternatively there was a question whether it would be better to have a single agency - perhaps the central bank - fulfilling that role.
Another area of concern was the need for supervisors to ensure that organisations adopted an acceptable structure to ensure that supervision could be carried out effectively. Should the supervisors have the power to impose such a structure?

In response to these points, Mr Quinn said that the purpose of the paper was not to respond to questions on BCCI but to draw general lessons from the case. Incidence of fraud committed by banks was very rare, fraud committed on banks by employees or by customers was more common. The case of BCCI, however, had been particularly unusual both in terms of its scale and its nature. A number of factors had also made it particularly difficult to detect the fraud: the fact that management, customers, and some banks were all colluding; that the structure of the group was diffuse and opaque; and the culture of hierarchy and fear in the bank's management. The first problem was to identify fraud and, in the case of BCCI, there had been many suggestions of fraud but no hard evidence. He questioned whether the central bank should acquire the necessary skills to detect and prosecute fraud. It was, in his view, more sensible to liaise closely with other agencies, the police, other supervisors, the Serious Fraud Office and the Department of Public Prosecutions, and provide to them whatever evidence one could. To this end Mr Quinn mentioned that he would be attending the following day the first of a series of meetings involving these agencies together with the Department of Trade and Industry and the Home Office, to identify responsibilities and to consider a way forward.

The Deputy Governor said that it was particularly important to draw the distinction between supervision and regulation on the one hand and detection and prosecution on the other: it would be detrimental to combine them in one institution, particularly in the Central Bank. There must be a presumption of trust in the relationship between the supervised and the supervisor or regulator. This relationship could be destroyed if the supervisor were to carry out criminal investigations or prosecute. The Supervisor could probe deeper up to a point; if there was evidence of criminal activity it should be passed on to the other relevant authorities for them to take the necessary action.

The Governor said that it was important to identify three levels of severity in the supervisory role: supervision, regulation, and criminal detection. Successful supervision was based on trust and confidence, with the supervisor acting in a quasi-advisory capacity. This was the optimum arrangement. Regulation imposed a rather more severe regime involving the imposition of certain rules, and finally criminal detection was inevitable once there was evidence of fraud. Mr Quinn said that although the Bank acted as supervisor in the majority of cases we had powers to regulate if we needed to. Part of the skill of the job was to judge the appropriate time to switch. Again referring to the case of BCCI, Mr Quinn said that the Bank could have adopted a regulatory role earlier on prudential evidence but at that time the shareholders had come forward with a scheme that in our judgement would have been more beneficial to depositors. The judgement then had been in favour of the remedial measures offered by the shareholders.

Attention was drawn to the public perception of supervision and the need for the Bank to intervene in a timely fashion when problems were identified. It was suggested that little could be done to change public perceptions and that this therefore made the supervisor's task very difficult.

The role of Auditors was also considered. Their reluctance to qualify accounts could perhaps be overcome by expanded audit reports to draw attention to matters that were under review but were not so serious as to require formal qualification. The need for auditors to have access to independent board members was also important and, furthermore, directors should perhaps have an explicit duty to ensure there were adequate financial controls to prevent or detect fraud.

In the context of international issues, the possibility of more frequent recourse to subsidiarisation was explored. It was noted that securities regulators tended to rely on this more than banking supervisors had done hitherto. The Deputy Governor said that we did indeed wish to have power to deal with unacceptable group structures but if this was taken too far it would make international banking impossible.

At the Governor's invitation:-

1 The Deputy Governor introduced a paper 'The Financial Framework' which incorporated the Current Expenditure Budget, the Banking Department Profit and Loss, Staff Numbers, the Cash Limit Position, and Capital Expenditure, all for 1991/92 and 1992/93 and said that he would explain the final Profit and Loss figures to Court in greater depth when the Annual Report and Accounts were submitted the following month.

In focusing on the table of current expenditure, the Deputy Governor drew attention to budgeted expenditure for 1992/93 of £175.8 mn which was only £1.7 mn in excess of the outturn for 1990/91 of £174.1 mn. The effect of two years' inflation and two years' pay awards had thus been virtually fully offset by real reductions in expenditure. Personnel expenditure had declined from £94.6 mn in 1990/91 to £93.8 mn for the budget year 1992/93 and further savings were anticipated from the implementation of the Information Systems' Strategy Review. The only other figure of note was the cost of legal fees in respect of BCCI and the Bingham Inquiry.

2 In introducing the paper on Staffing and Pay Structures in the Bank, Mr Harris outlined the current salary positions and relationship between the Bank's Executive, Senior Officials, Officials and Officers and drew attention to the issues which were of current concern. He said that Court's views would be helpful in formulating the Bank's response to the annual pay claims that would be submitted by BIFU later that month.

It was noted that the implementation of the revised salary structure for Executive and Associate Directors had opened up a gap between the salaries of the Executive and Senior Officials although the figures in the chart did not take account of the cost of living increase in July for Senior Officials. Nevertheless there was now scope for some selective uplift in Senior Officials' salaries.

In focusing on the position of Officials 1a, it was suggested that greater flexibility might be adopted in dealing with this predominantly graduate workforce. They were much sought after by Heads of Division in the internal labour market because of their lower cost and higher added value, but equally a number of Officials in this category, many of them of high calibre, had resigned for higher salaries, better prospects and more responsibility elsewhere.

It was noted that there had been a massive reduction in staff numbers over the past decade which had been achieved by voluntary means, but the ability of dealing with the current surplus in the same way was questioned. Was it still appropriate to avoid compulsory redundancies? The Deputy Governor pointed out that although the phasing of severance meant that we were for the time being running with some surplus staff, they were not idle; they had for example made it easier to respond to emergencies, such as BCCI. However, for EDP staff - who had no right of bridge-back - compulsory redundancy might be necessary.

One particular aspect of the Bank staffing structure that attracted attention was the lack of women in senior positions within the Bank: the Governor said that this issue was being addressed and that he and the Deputy Governor had attended a number of meetings recently in the context of Opportunity 2000.

A further report on Salary and Benefits 1991-92 was laid before Court for information.

[illegible signature]
Assistant Secretary
23rd April 1992

Adrian Cadbury
23rd April 1992.

A MEETING OF DIRECTORS AT THE BANK

THURSDAY 16 APRIL 1992

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Anthony Laurie Coleby, Esq
Andrew Duncan Crockett, Esq
Mervyn Allister King, Esq

Hugh Christopher Emlyn Harris, 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 Coleby commented on the weekly figures and the foreign exchanges. In commenting on the state of the domestic markets, he mentioned that the Bank had been particularly active in selling gilt-edged securities immediately after the General Election. The Governor congratulated the Gilt-Edged and Money Markets Division on their success in this operation.

RA Hoffmann
Assistant Secretary
23rd April 1992

Adrian Cadbury
23rd April 1992

A COURT OF DIRECTORS AT THE BANK

THURSDAY 23 APRIL 1992

Present

Edward Alan John George, Esq, Deputy Governor
Sir George Adrian Hayhurst Cadbury
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Sir Christopher Anthony Hogg
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
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 Court of 9 April were confirmed and those of last week's Meeting, 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 With reference to a minute of 19 March, the Deputy Governor said there had been a number of developments since the Hongkong and Shanghai Banking Corporation bid

for Midland Bank had last been mentioned to Court. He recalled that the Bank, which would need to assume the role of lead regulator for the HongShai group, had had concerns over the location of its "mind and management", over our ability to supervise the group, and over the question of Hong Kong risk. On the location of "mind and management" the Bank needed to be fully satisfied that what was intended was an international banking group run from the United Kingdom and not one run from Hong Kong. After detailed discussions the Bank was now content on this point. The relocation, however, could not be immediate as there were tax and logistical implications; it would be staggered with effect from 1 January 1993. The role of Chairman and Chief Executive would be split with the latter operating from London as from January 1993 and both the Executive Committee and the Board routinely meeting here from that time. Purves, the present Chairman and Chief Executive, would be moving to London in the autumn of 1993.

[redacted]

[redacted] HSBC had submitted a formal application to become the controller of Midland and had proceeded with their formal bid for Midland Bank last week. The reaction to the terms had been coloured by the fact that the HSBC's share price had dropped since the initial announcement had been made. This in turn had increased speculation that another bid might be mounted but this, at present, was uncertain.

2 Mr Kent informed Court that the Bank had agreed to spend £10.75 mn on a new fleet of De La Rue Giori printing and finishing machines for the Printing Works. They would be the third such fleet and would replace the existing web machines used for the £5E bank notes and which were 25 years old. This would conclude the major equipment renewal at the Works. The main benefits would be higher productivity savings from compatible fleets and the ability to print the entire series E bank notes on any one of three fleets. It would also increase confidence at the Works in the Bank's commitment to turn it into a modern industrial site.

Mr Kent went on to speak about the current round of pay negotiations at the Works. Pay had traditionally been determined by the outcome of negotiations between the British Printing Industries Federation and the Graphical Paper and Media Union - formerly NGA and SOGAT - and termed "the trade rise". This year it would be phased as 2.77% on 1 May and 1.55% on 1 September. This would give an absolute increase of 4.32% but its overall impact on the Bank's financial year would be an increase of 3.08%. The offer had been endorsed by the Bank but had yet to be accepted by the staff.

The Deputy Governor introduced the Governor's Foreword and Directors' Report from a draft of the Bank's Annual Report for the year ended 29 February 1992. He explained that the parts to be discussed were those that had not been prepared by the Auditors. The draft Accounts would be taken at Court on 7 May, and would be for final approval on 14 May. The Annual Report was due for publication on 20 May. In the discussion that ensued a number of points were made and were noted. Court also had before it a paper that had been prepared by Mr Harris expanding the section on Community Involvement that appeared in the Directors' Report. The question was raised as to the direction of the Bank's initiatives in this field and whether they were spread too thinly. The Deputy Governor in response said he would arrange for the wider subject of the Bank's giving to be examined and revert to Court.

At the Deputy Governor's invitation:-

1 With reference to a Minute of 26 March, Mr Kent re-introduced the paper on the Maxwell affair relating to pension fund regulation. He said that he considered there were two particular points to address. Firstly, the question of balance between the interests of pensioners against the incentive of the employers to play a full part. Secondly, should the Bank add its voice to the pressure for a full review of the present regulations. In opening the discussion Sir Brian Corby said that pension funds were essentially a way of providing a promise in the form of deferred pay. The Maxwell affair had shown that things could go wrong without there being any obvious recourse. The structure under which pension schemes operated at the moment was unsatisfactory. To do nothing in view of recent events would be unacceptable. If a substantial review were undertaken, or a Royal Commission convened, it would at least show the public something was being done. Professor Sir Roland Smith said he considered that a review of the pension fund industry should be held in its own right and not against the background of fraud. He felt that companies should be prohibited from investing pension funds in their own companies.

If this had been the case the Maxwell affair would not have happened. Also the position of accountants should be examined. They operated in a complex field. It was important any review was kept on a macro level and did not become involved in too much detail. In addition, it should be remembered that pension arrangements were part of the wage negotiating process and a review should embrace the industrial relations aspect.

Sir David Walker thought there were compelling reasons for an Inquiry. Every issue had some relationship with every other issue and there was need for answers to problems as a whole and not in part. The Inquiry shouldn't be driven by the question of fraud. There were a number of aspects to consider. The area of custody and the responsibilities of Custodians should be addressed. He felt that the case for extending regulation to them was now unanswerable. The question of compensation for pensioners was also important but in order to avoid moral hazard, any scheme should be at a minimum level and available only in cases of malfeasance or similar wrong doing. Having said that there was nothing fundamentally wrong with our present regulations, from a wider perspective we were in a healthy position compared with our industrial competitors. Demographic trends in the UK were less adverse than in most comparable countries, and, unlike them our schemes were fully funded. For his part Sir Adrian Cadbury felt it important to recognise that certain major changes had taken place: in Europe; in individual pension arrangements, in the investment policy of pension funds and the influence they exerted; and lastly the legal uncertainty on who owned the assets. These were major issues and they needed to be grappled with. Sir Christopher Hogg and Mr Charkham both focused on the position of pension fund Trustees. Their jobs had become more difficult. Any review should examine the role of Trustees and their training;

a statement of principles should be drawn up for their guidance.

The Deputy Governor concluded by thanking Court for their comments which he would convey to the Governor. It was apparent that it was felt there should be a comprehensive review of pension fund regulations and he would suggest that the Governor wrote to Whitehall in support of this view.

2 Mr King introduced the draft Assessment of the May Quarterly Bulletin which had been sent to Members the previous week. A number of suggestions were made and these would be incorporated although it was pointed out that the draft still had to be seen by the Treasury before publication on 19 May. Generally it was agreed the rather more downbeat tone from the previous edition was appropriate. Sir Colin Corness said this was borne out by his view of the Building Industry. There had been no increase in the level of transactions and there was no hard evidence of improvement.

E.A.J. George
7th May 1992

G. A. Croughton
Secretary. 7th May 1992

A MEETING OF DIRECTORS AT THE BANK

THURSDAY 30 APRIL 1992

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Anthony Laurie Coleby, Esq
Andrew Duncan Crockett, Esq
Mervyn Allister King, Esq
Brian Quinn, Esq

Hugh Christopher Emlyn Harris, 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 Coleby spoke about the foreign exchanges and the state of the domestic markets.

E.A.J. George
7th May 1992

G. A. Croughton.
Secretary 7th May 1992

[redacted]

A COURT OF DIRECTORS AT THE BANK

THURSDAY 7 MAY 1992

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
Lord Haslam of Bolton
Sir Christopher Anthony Hogg
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Sir David Gerald Scholey, CBE
Professor Sir Roland Smith
Sir David Alan Walker

Ian Plenderleith, Esq

The Minutes of the Court of 23 April were confirmed and those of last week's Meeting, 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 April, and the state of the domestic markets.

Under the weekly executive report and with reference to a Minute of 2 April, the Deputy Governor said that [redacted]

It was agreed that it was unnecessary to brief Court further on this issue.

At the Governor's invitation Mr Chapman, the Senior Partner of Coopers and Lybrand Deloitte, the Bank's Auditors, and Mr Rumins, the Head of Finance and Resource Planning Division attended Court for the presentation of the Bank's Accounts.

The Governor explained that the Audit Committee had considered the Accounts earlier that week and invited Sir David Scholey, in his capacity as Chairman of that Committee, to comment on the Accounts during the course of their presentation.

In introducing the Banking Department Profit and Loss Account, the Deputy Governor said that the increase in fixed income over the previous year was attributable to two factors in particular, an increase in interest on British Government Stock, and an increase in commissions and fees, being an increase in commission on foreign exchange transactions and commitment fees in respect of support operations. Variable income had declined appreciably on account of lower cash ratio deposits and lower interest rates. Total income for the year amounted to £308.5 mn, an increase of £20 mn on the previous year. Current expenditure for the year totalled £173.6 mn, £0.5 mn less than the previous year. After taking recoveries from HM Treasury into account there was a profit before provisions of £186.4 mn.

Court then considered a paper prepared by the Deputy Governor on the provision required in the Bank's 1991/92 Accounts in respect of support operations.

Court reviewed the various estimates of loss that might be sustained and approved a provision of [redacted] mn in respect of [redacted] as being a prudent response in all the known circumstances. It was noted that this provision had been calculated on the basis of a work-out over the next two years. The Bank was expected to earn income of approximately [redacted] mn in that period which would be added to the provision. In addition, there was a contingent liability amounting to [redacted] mn, being the amount of the guarantee given [redacted] mn) less the provision made in the Bank accounts [redacted] mn). Further contingent liabilities in respect of other support operations amounted to [redacted] mn.

The Deputy Governor reminded Court that the Bank's financial statements were drawn up to comply with the requirements of the Companies Act and applicable accounting standards in so far as they were appropriate to a central bank. There was no legal requirement to do so. Having taken professional advice it was arguable that in pure accounting terms some disclosure should be made. Court, however, agreed that as the guarantees had been entered into to avoid possible systemic risk, it was not appropriate for the Bank to disclose either the extent of the provision or the contingent liability in the financial statements.

Sir David Scholey confirmed that the Audit Committee had been supportive of this view which was entirely reasonable in the context of the mission of the Bank and its self-imposed discipline within the Companies Act.

The Deputy Governor confirmed that he would advise HM Treasury of Court's decision, together with the quantum of the provision the Bank had made and the amount of undisclosed contingent liabilities.

Taking provisions into account, the operating profit before taxation amounted to £166.2 mn. After tax, this would provide a dividend of £67.6 mn payable to HM Treasury with a similar amount being retained by the Bank. In this connection the Deputy Governor said he would seek Court's formal approval for the payment to the Treasury, the following week.

Turning to the rest of the Accounts the Deputy Governor said that they were in the same basic form as hitherto with the exception of the Cash Flow Statement which derived from Financial Reporting Standard 1 and replaced the statement of Source and Application of Funds in the previous year's accounts. Sir David Scholey confirmed that the Audit Committee were content with this procedure but had asked for the order of actual and comparative figures for the previous year to be consistent with the rest of the Accounts.

The Deputy Governor explained that the Cash Flow Statement identified an outflow of £700 mn which reflected a reduction of cash ratio deposits, bankers' operational deposits and the existence in the previous year of a large deposit by Issue Department. It was noted that these movements might need to be addressed specifically at the press background briefing on publication of the Accounts.

In referring to the Notes to the Banking Department Accounts, the Deputy Governor and Sir David Scholey drew attention to a number of minor textual changes and it was agreed that the presentation of Directors' Emoluments be considered further by the Governors and Sir Adrian Cadbury.

The Deputy Governor then drew attention to the Note to the Accounts relating to the Reserves which showed a deficit of £8.3 mn being charged to the revaluation reserve. This arose from the quinquennial revaluation of the Bank's properties by St Quintin.

A valuation of Southgate House, Gloucester, had been undertaken as part of the quinquennial revaluation. It had been valued at £10.3 mn against a total cost of £20.6 mn but this deficit was not included in the Bank's accounts as the property was held by BE Property Holdings Ltd. Nevertheless, Audit Committee had been concerned about the inconsistency of treatment of this building compared with other properties held directly by the Bank. It raised the question of whether this valuation and the ensuing deficit should be reflected in the Bank's Accounts and those of BE Property Holdings Ltd.

Audit Committee had considered a number of alternative methods of reflecting this position and had recommended that the property should not be written down after one year on the grounds that it had been purpose-built for the Bank; a long term occupancy was proposed; the property would be depreciated each year; and that in due course the valuation and the written-down figure would equate.

Sir David Scholey said that in making this recommendation the Audit Committee would also be recommending a review of the accountancy policy in respect of all Bank properties within the next year, in particular the New Change building which might be reclassified in the accounts as an investment property as some 80% of the building was let.

The Deputy Governor drew attention to the valuation of unlisted investments which had been prepared on the same basis as hitherto. He also referred to the current position of Minories Finance Limited and Slater Walker Limited and said that no reference had been made to contingent liabilities as the Bank had been advised that legal proceedings against these companies were unlikely to succeed.

The Deputy Governor concluded by saying that the Report and Accounts would be before Court the following week for approval together with the Letter of Representation that the Auditors would require him to sign on behalf of the Bank.

Mr Chapman confirmed that Coopers and Lybrand Deloitte had completed the Audit satisfactorily and that the Accounts would be unqualified. His overall conclusion was that the systems within the Bank were operating in a secure and well controlled environment and he commented on the full co-operation that his staff had received from Bank staff in carrying out the audit.

The Governor thanked Mr Chapman and his staff for their work in undertaking the audit and Sir David Scholey and his colleagues on the Audit Committee for their work in connection with the Bank Accounts.

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 Crockett, Coleby and King, invited Sir Adrian Cadbury, the Chairman of the Trustees of the Court Pension Scheme, to introduce a Report of the Trustees.
The Report approved the appointment of [redacted] as the Chief Investment Manager of the Scheme, considered the latest Report of the Chief Investment Manager and agreed certain matters associated therewith. The Recommendation that certain changes be made to the Rules of the Scheme to discontinue abatement in respect of the State pension when calculating widows' allowances - in line with that recently approved in respect of the Staff Pension Fund - was approved.

At the Governor's invitation the Deputy Governor introduced a paper concerning the celebration of the Bank's Tercentenary in 1994 which updated the paper that had been considered by Court on 18 April 1991.
In response to questions the Deputy Governor said that Mr Keyworth, the Bank's Curator, was now assisting Mr Christopher Fildes on a formal basis, in the preparation of his book, and that he did not think that the location of the EMI and ECB would make any material difference to the plans which included the promotion of London as a financial centre, as part of the Bank's tercentenary celebrations. He undertook to seek advice on the permanent floodlighting of the Head Office building.

The Governor mentioned that he had chaired the Annual General Meeting of the Sports Club on Wednesday of the previous week, and had been asked to convey to Court the appreciation expressed at that Meeting for the continued support given to the Sports Club by the Bank.

Adrian Cadbury

14th May 1992.

G. A. Croughton

Secretary.

14 May 1992.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 14 MAY 1992

Present

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 Christopher Anthony Hogg
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Colin Grieve Southgate, Esq

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, Esq

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

Details of the weekly figures and graphs relating to the state of the foreign exchanges and the domestic markets were laid before Court.

Under the weekly executive report and with reference to a Minute of 23 April, Mr Quinn updated Court on the position relating to Midland Bank; Sir David Scholey declared his interest in this matter.
Mr Quinn reported that the Bank had come close to completing its scrutiny of the Hongkong and Shanghai Banking Corporation application to become a controlling shareholder of Midland Bank and the subject would be discussed with the Board of

Banking Supervision later that day. He believed that the prudential concerns, including the Hong Kong risk, had been satisfactorily answered. The matter would now follow the normal procedures and timetable and the Hongkong and Shanghai Banking Corporation would be notified shortly.
So far as the bid from Lloyds Bank was concerned, the Bank had written to the Office of Fair Trading offering views on prudential and competition aspects. There were no difficulties with the former but the competition aspects were rather more complex.

At the Deputy Governor's invitation Sir David Scholey introduced a Report of the Audit Committee which was laid before Court.

The Deputy Governor reminded Members that the Annual Report and Accounts for the year ended 29 February 1992 had been laid before Court the previous week. [redacted]

Court gave their approval for the Accounts to be signed and for the Annual Report and Accounts of the Bank for the year ended 29 February 1992 to be printed and issued; and to 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, Messrs Freshfields having confirmed that it was in order for the Bank to give such a letter.

The Deputy Governor then reported that a further payment in lieu of dividend of £33,648,000 would fall due to HM Treasury on 5 October next, bringing the total payment in lieu of dividend for the year ended 29 February 1992 to £67,648,000. Court approved thereto.

With regard to the publication of the Bank's Report and Accounts, Sir Adrian Cadbury drew Court's attention to a proposed Press Notice and in particular to the comment on senior staff pay policy. Court endorsed the terms of the proposed press release.

In introducing a paper setting out the Bank's proposed response to the pay claim submitted by the Bank of England Section of BIFU, Mr Harris explained that this claim was for the main bargaining unit which included all groups of staff except Officials and EDP staff. The claim in respect of the Officials' bargaining unit, which now included Officials 1a, was expected from the Union shortly.
In response to the Union's claim for an across-the-board increase of 5.7% plus a pensionable cash sum of £200, from 1 July, it was proposed that the Bank should aim to settle at a cost of no more than 4.5% across-the-board.
Some Non-Executive Directors noted that this response was ahead of the awards made to the Clearing Banks earlier in the year but accepted that on many occasions the Bank had settled below the Clearers. Taking into account the external position within the financial sector where the employers' ability to pay was a particular factor, but not one that affected the Bank, and also the staff's continuing response to increasing pressures, as noted in the Governor's Foreword to the Annual Report, the Executive had considered that this year was perhaps a good year for Bank salaries to catch up a little on Clearing Bank salaries.
After some discussion Court agreed that it would be appropriate to seek a settlement of up to 4.5% but were strongly of the view that if this was not acceptable to the Union, the award should be imposed at that level.

The Deputy Governor drew Court's attention to two items concerning donations by the Bank.

During the Governor's recent visit to South Africa he had visited the black township of Alexandra where his attention had been drawn to a project to develop a cricket ground designed to promote multi-racial cricket. The ground was available but there was a need for an artificial wicket which would cost £5,000. The Governor very much hoped that the Bank could be associated with this project and sought Court's agreement to the Bank funding the purchase of the artificial wicket. Court agreed thereto, noting that a donation of this nature fell outside the Bank's criteria for charitable giving.

The second item was a request for the Bank to become a member of the Institute of Business Ethics. Court agreed that the Bank should support the Institute in the sum of £2,500 per annum rather than £5,000, the sum being sought by the Institute from large Corporations.

In introducing a paper reviewing the new arrangements for Court, the Deputy Governor acknowledged that it was early in the year for such a review but it would help to make adjustments, if necessary, for the latter part of the year.

It was noted that the agendas in recent months had been particularly congested with a number of additional important items being discussed. However, it was agreed that the new arrangements were a great improvement and should be continued. Emphasis should be placed on discussion of those issues where the Non-Executive Directors' contribution would be of particular help and, if the concept of such discussions at long Courts was to succeed, it was important that Non-Executive Directors should make every effort to be present on those occasions.

To focus more attention on specific areas of the Bank and to ease the congestion of the agendas it was agreed that it would be more appropriate for one Head of Function to report at normal Courts each month rather than to take them two at a time. In particular it was agreed that once those reports were on the agenda it was inappropriate to defer them. The

suggestion that on occasions normal Courts might start at 11.45 am also met with support.
There was some discussion on specific points for the agenda and it was agreed that the discussion of the Cadbury Report would be more logical at the July long Court when the main discussion would focus on industry. The need for some internal matters to be the subject of a long Court was discussed but it was agreed that there was value in providing an opportunity for the Non-Executive Directors to express their views on these issues, to balance those of the Executive, particularly on the content of the Purposes Statement.
Finally, there was unanimous approval for the new Court Room table.

At the Deputy Governor's invitation, Mr Barnes, the Head of Banking Supervision Division attended Court for the presentation of the Banking Supervision paper.
Mr Quinn introduced the paper which explained the background to the supervision of banks; and the reasons why, in the UK, supervision was undertaken by the Bank. The paper described the evolution of banking supervision from a non-statutory to a statutory basis and emphasised the use of a discretionary approach in all phases of supervision. Mr Quinn said it was important to note that operating under statute was different from the earlier non-statutory basis in that proper legal procedures had to be followed, firm evidence must support discretionary judgements, and mistakes had to be avoided if at all possible. Public tolerance of mistakes by officials was continually diminishing and "accidents" were no longer tolerated. Unlike regulation, supervision placed a premium on discreet behaviour which meant that successes and the application of sanctions were not visible. Mr Quinn drew the attention of Court to the annex to the paper which gave evidence of the various kinds of intervention and action taken by the Bank.
In commenting on the paper Members accepted the need to operate the supervisory regime quietly but at the same time expressed a general view that the Bank was too modest about

its achievements in this field. The Bank had much to be proud of and should point out its successes. However this was perhaps difficult at the present time in advance of BCCI.

More specifically, the paper raised a number of separate issues. Attention focused on the need for the system not to encourage moral hazard with the supervisor taking the risk rather than the market. The depositor should be made aware of the risks. The inclusion of a bank in the List of Authorised Deposit Takers was not a guarantee against failure although it was accepted that this was probably how it was perceived by many. While this perception existed, any failure was likely to attract criticism which suggested that supervisors should take a tough approach. But the supervisory system should also be flexible enough to allow competition between deposit-taking institutions and for new banks to start up.

On the wider aspects of regulation, the need for a separate and different regulatory systems for banks and building societies was raised and regulatory proliferation was questioned. The role of Rating Agencies and their importance to regulators was also raised. Did the Bank have a view on their role and value and how did the Bank perceive its standing in the eyes of its constituents?

In response to these questions, Mr Quinn said he had been very encouraged by the support that the Non-Executive Directors had given to the Bank's role and the encouragement for the Bank to be less modest; he would wish to reflect on how we might best go about it. However, we would have to be aware that if the Bank published examples of its achievements this might be counter-productive, frightening depositors.

He supported the argument against moral hazard and accepted that in the financial world the lesson of loss had to be learned. Bank failures were part of market forces and it was important to educate the public in this respect. In this context the List was being looked at actively to see whether it might contain a health warning or might in other ways make clear the risk of loss.

In responding to the question of regulatory proliferation, Mr Barnes said that this was a major issue for the next decade. If supervision was to include conglomerates active in all financial fields, then one supervisory agency might be appropriate, as in Canada, but there was, to his knowledge, no occasion where a central bank exercised such power. There was logic in having the one regulator but whether it would be the central bank was a matter for discussion not only in the UK but more widely in Europe.

It was agreed that if the Bank felt it necessary to put forward a view on regulatory agencies it would seek the views of Non-Executive Directors before doing so.

Turning to the regulatory system for banks and building societies, Mr Barnes said that building society regulation was largely historical. Tight control had been exercised from Victorian times and the days of Friendly Societies. One major difference between banks and building societies which facilitated a more regulatory approach was that the latter were an homogenous group - each society looking very much like another - unlike the banks.

Mr Barnes went on to say that more and more corporate treasurers were looking for rating agencies' assessments before placing their funds. However a supervisor should not be rating those it supervised and there should not be a first and second division. The Bank therefore tried to keep away from direct discussions with rating agencies but nevertheless felt it was desirable that the rating agencies were aware of the supervisors' criteria.

Reverting to the subject of moral hazard, Mr Barnes said that if the emphasis was to be one of "no failure" rather than moral hazard, there would be a risk averse philosophy of supervision. It was not possible to adopt a regulatory system which included amber lights - they could only be green or red. As to acting on "smell", Mr Barnes said that the supervisor had to be even-handed and if he was going to act on "smell" then he had to be consistent in his approach from one case to another and this involved setting a standard for the necessary burden of proof.

The relationship between the Bank as supervisor and its constituents varied. Some had too much respect for the Bank and it was important to avoid making their decisions and running their business for them but the majority of institutions had the relationship right. He suggested that a small number might think that the Bank's supervisory role was superficial but they were those who were probably particular risk takers in sophisticated areas and not those who had responsibility for the business as a whole.
Mr Crockett commented that although not actively involved in the Bank's supervisory role he was aware from his contacts with foreign banks of the enormous respect in which the Bank of England as a supervisor was held particularly abroad. In conclusion the Deputy Governor endorsed this view and said that it was not only banks but the overseas supervisors who held the Bank in very high regard.

Following on from this paper, Mr Quinn spoke about the Banking Act Report for 1991/92 which was due for publication on 20 May. With reference to a Minute of 13 July 1980, 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.

Mr Quinn presented the Report and Accounts for the Deposit Protection Board for the year ended 29 February 1992, which were laid before Court.

Assistant Secretary
28th May 1992

E.A.J. George
28th May 1992

A MEETING OF DIRECTORS AT THE BANK

THURSDAY 21 MAY 1992

Present

Edward Alan John George, Esq, Deputy Governor
Lord Haslam of Bolton
Anthony Laurie Coleby, Esq
Mervyn Allister King, Esq
Sir David Bryan Lees
Brian Quinn, Esq
Professor Sir Roland Smith

Hugh Christopher Emlyn Harris, Esq
Pendarell Hugh Kent, 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:-

(i)

(ii) Also with reference to a Minute of the previous week and Court's decision on non-disclosure of provisions in the Bank's Accounts, the Deputy Governor said that HM Treasury had taken the view that as they laid the Accounts before Parliament it was appropriate that they should inform the Clerks to the Public Accounts Committee and the Treasury and Civil Service Committee of the non-disclosure, so that the Chairmen of those Committees could be made aware of the position in due course.

The Governor had spoken to the Chancellor of the Exchequer earlier in the week expressing his concern about the sensitivity of this information. The Chancellor had agreed to consider the matter further but with no guarantee that he would support the Governor's position.

Finally, the Deputy Governor said that in line with the suggestion that had been made to the Court Working Party when reviewing Court procedures, Sir Terence Burns, the Permanent Secretary to the Treasury, would be lunching the following week, 28 May.

B.R. Hoffmann
Assistant Secretary
28th May 1992

E.A.J. George
28th May 1992

A COURT OF DIRECTORS AT THE BANK

THURSDAY 28 MAY 1992

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Edward Alan John George, Esq, Deputy Governor
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Sir Christopher Anthony Hogg
Mervyn Allister King, Esq
Sir David Bryan Lees
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
Ian Plenderleith, Esq

The Minutes of the Court of 14 May were confirmed and those of last week's Meeting, having been circulated, were approved.

Before proceedings commenced, the Governor expressed his sorrow on behalf of Court at the news of the death of Lady Cadbury.

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 16 January, Mr Harris brought Court up-to-date with the latest position with regard to the implementation of the decisions arising from the joint Bank/Touche Ross Report on the Bank's Information Systems Strategy. The Report had concluded that the IBM architecture general purpose mainframe operations should be abandoned in favour of the adoption of departmental computing or a much smaller mainframe operation for core banking and accounting applications. It was recognised at the time that such a strategy would have staffing implications involving the possibility of redundancies.

Since January, work had been concentrated on establishing whether or not the core banking operations could be met in a non-IBM mainframe environment. The project team, having studied the packages on the market, had concluded that this could be done, although there was more work to be done before recommendations could be made before implementation of particular packages.

The project team's report had recently been discussed and accepted by the executive subject to further examination of any security risk which might arise from the Irish origin of the preferred package - Bankmaster, developed by Kindle Ltd. The Bank's external auditors had been kept fully in touch with these discussions.

In parallel with the Banking Information Technology Selection Project (BITS), the Bank had also been considering how to deal with the operations and support of its IBM architecture mainframe systems from now until they become replaced, a process which would happen system by system - except for the accounting system - over the next three years or so. Mr Harris said that Court might recall that the Information Systems Strategy Project Report suggested that this might best be done by using Facilities Management. This would give the Bank assurance that the systems would be maintained through what is likely to be a period of increasing uncertainty for the 40 or so staff concerned. At the same time, if the staff were transferred to the FM supplier this would give them entry to a growth employer rather than remaining in a dying industry here, and thus enhance their longer term employment prospects.

Accordingly, detailed discussions had taken place with Hoskyns the previous day, one of the leading FM suppliers in the UK, to see whether suitable terms could be agreed. Again the external auditors, and the principal users within the Bank, had been kept informed.

Accordingly the staff concerned, and BIFU, had been informed the previous day of the Bank's intention to transfer the operations and support of these systems to Hoskyns from 13 July. In accordance with appropriate procedures, both internal and those relating to the Department of Employment, the Bank had informed the staff that simultaneous with the offer of a comparable job by Hoskyns, the Bank would issue notices terminating their employment with the Bank and that the Bank's normal severance terms would be used.

The immediate reaction from the staff and BIFU was predictably shocked and aggrieved. BIFU's initial Newsletter had accused the Bank of bad faith in resorting to compulsory redundancy. BIFU were holding a Branch Committee emergency meeting that day to determine all the options with industrial action not being ruled out. The Newsletter had not been put out in consultation with the members involved. Mr Harris said consultations would now take place between the Union and himself. The staff involved had worked normally the previous night and that morning.

Sir David Scholey said that it was important that the Bank's internal auditors should have access to Hoskyns' operations. Sir Brian Corby cautioned against any possible change of ownership of the FM provider.

2

Mr Harris, as Chairman of the Trustees of the Staff Pension Fund, presented a Report of the Trustees of the Staff Pension Fund on the increases in pensions and allowances to be awarded from the Fund, with effect from 1 July 1992. The recommendations contained in the Report were approved.

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 and King, invited Sir Brian Corby to introduce certain

Recommendations from the Trustees of the Court Pension Scheme. These concerned increases in the pensions and allowances in payment to former Governors and Executive Directors and to widows of former Governors and Executive Directors, with effect from 1 July 1992. The Recommendations were approved by Court.

Before asking Messrs Townend and Allen to introduce Reports on their respective offices the Governor mentioned that as the work of the Gilt-Edged and Money Markets and Foreign Exchange Divisions was so closely related he had asked the Heads of the Divisions to present their Reports together.

Mr Townend for the Gilt-Edged and Money Markets Division said it was difficult to do justice to their work in such a short paper. At the broadest level his Division were involved in the continuous assessment of monetary conditions as an essential background to the Bank's advice on the appropriate level of interest rates. But much of the work involved conducting the Bank's operations in money and gilt-edged markets. In the money markets the terms on which the Bank provided assistance to the market served as a signal to the authorities interest rate intentions. Careful judgement had to be exercised as to the type and strength of signals given. In the gilt market, the Divisions' operations were guided by the "full fund" rule. However, with the recent large savings in the public sector's financial position they had had to exercise judiciously the full range of funding techniques at their disposal.
In performing these tasks the Division were dealing with a continually changing environment. Therefore, they were constantly anticipating developments and trying to plan ahead. Mr Townend commented that he did not underestimate the importance of what his Division were trying to do since his team were at the heart of central banking activity. By carrying out their tasks professionally, efficiently and exercising good judgement, they could bring great credit on the Bank generally. He had quite a small team - some 20 in all - who were highly motivated and found the work to be

enjoyable and interesting. This made his management task that much easier but whilst there was no difficulty attracting people to the Division, it was not always easy to attract the right staff at the right time.

In commenting on the report Sir David Lees asked what the measurement of success was for the Division. A question, he said, which it might be useful if every such Report addressed. Mr Townend responded by saying that on one hand at a simple level it could be said that we had successfully secured our objective in the money markets if we achieved at all times the level of interest rates which we judged appropriate. Whilst in the gilt-market success could be measured by achieving the full fund. At this level we had undoubtedly succeeded. But at a different level, success was much harder to measure because it depended on the markets' perception of our professionalism. In answer to Sir David Walker's question on the constraints imposed on the Divisions objectives by not being able to obtain the right staff at the right time, Mr Townend said he did not think taking people on secondment was necessarily the right answer in view of the sensitivities within the area. It would be preferable to try and find more permanent recruits from outside. Sir David Scholey enquired about the development and training of staff and the extent to which the Bank sent staff out to the private sector and abroad to obtain knowledge and contacts in the market place. Mr Townend responded that this was a very good idea and that arrangements already existed for his staff to spend time in the market place and plans were in hand to interchange with other Central Banks and, especially with European Banks: this would obviously become more important in the future. Unfortunately such arrangements tended to be constrained by resource implications.

In presenting his Report on the Foreign Exchange Division, Mr Allen said there were three main areas covered by the Division. The Foreign Exchange side who were responsible for conducting market operations in foreign exchange. This involvement gave the dealers access to a wide range of sources of information about market conditions and sentiment which properly interpreted represented an extremely valuable ingredient of monetary policy decisions. It also enabled the Division to identify and, where possible, resolve market problems relatively quickly. The second main area concerned analysis. This had two aspects - the interpretation of information obtained from market sources and consideration with other EC central banks of the foreign exchange implications of the process of European monetary integration. This latter aspect was placing increasing demands on time.

The third part of the Division was responsible for reserve management - specifically for investing most of the UK's foreign currency reserves and managing the UK's foreign currency liabilities. This was one area where the success or otherwise of the Divisions' operations could be and was measured in financial terms; the results were very encouraging. The measurement of success was not so easy in other areas: the main concerns were the external reputation of the Bank and the quality of advice on monetary policy.
In responding to a question on the stress faced by his staff Mr Allen said this was variable. It depended on the performance of sterling, rather than, as in commercial banks, on profit and loss considerations. Whilst there had been occasions in the last couple of years when sterling had been under considerable pressure, the pressure had not been sustained over long periods.
Addressing the question of the cultural barriers between the sterling and foreign exchange dealing side, Mr Townend said that there was now a unified dealing room in operation and staff were being experimentally moved around between the two areas to increase flexibility. An attempt was also being made to change the nature of those who acted as dealers with as many graduates as possible going through the dealing room as part of a career plan.

6 Mr King presented a paper on the Performance of the UK Banking Sector. It had been commissioned following the Maxwell affair when it was considered that a number of recent developments in

the UK banking sector gave grounds for concern not only over Banks, but also over the wider economy.

In 1991, the four largest British clearing banks earned total profits of £1,300mn, compared with £4,400mn only three years before. Total domestic loss provisions increased over the same period from £430mn to £4,400mn, a tenfold increase. Profits had fallen and large provisions made. Why had this happened? What did it tell about the quality of lending decisions? And did it raise questions about the long-run performance of UK banks? These were the questions the paper posed.

The first point to be made was an obvious one. Losses made by a bank tell little about its underlying performance. A bank that never loses money on a loan is most unlikely to be an efficient bank. A profitable bank was one that charged an appropriate margin to allow for the fact that some loans would result in losses.

Mr King said the paper identified three main factors that had affected the performance of the banking sector in recent years:

1 The recession: profits would be expected to fall during a deep and prolonged recession, especially one affecting those sectors which had proved less risky in the past but were badly hit by the current recession, such as the service sector.

2 Longer-term structural changes in the banking industry, resulting in greater competition from other banking institutions and from new entrants into the market for the services supplied by banks.

3 Poor assessment of credit risk and low quality of lending decisions.

The paper tried to assess the relative contribution to the poor profitability of banks in recent years from these three factors. It did not purport to be the last word on the subject. But from a preliminary look at the evidence two features stood out clearly. Firstly, there was no evidence of any downward trend in profitability over the last twenty years - there was however, a clear cyclical downturn in the last two years. On the face of it, therefore, the recession explained a good deal of what had happened to bank profits and loss provisions.

Secondly, in terms of exposure to risky sectors and institutions, UK banks seem to have performed better than many foreign banks. Foreign banks had a greater exposure to commercial property than UK banks - 7.4% of total lending to UK residents by British banks was accounted for by lending to commercial property, compared with 11.4% for foreign banks. And this share had almost quadrupled over the previous ten years in the case of foreign banks whereas it had less than doubled for British banks. From a table showing the exposure of British and foreign banks to twelve of the most indebted companies it was clear that the exposure of foreign banks was in most cases much larger than that of UK banks.

Mr King said it would be wrong to draw strong conclusions from these statistics. But there was little evidence that the UK banks could be singled out as exhibiting a low quality of credit assessment in comparison either with foreign banks or with historical experience.

Of the three possible explanations for current low levels of profit - the recession, strategic responses to greater competition, and flawed risk assessment - the last might, therefore, be the least significant.

In the discussion that ensued Mr Kent said that from his more parochial view point the question arose of could we not make banks do better? There were two groups of banks, some got the price right in advance but their conclusions were invalidated. Other banks got prices wrong to invalidate what the first group of banks were doing. All of which left the question of what we could do about monitoring, information and control.

Sir Colin Corness felt the business cycle was the major culprit. In the service sector companies were being financed by banks on the back of scanty information. In the property sector banks' exposures had been limited unlike the previous time. The banks had got their pricing wrong in the last recession. Margins had looked good to start with but they were not adept at doing an empirical analysis.

Sir Brian Corby said he agreed with Mr Kent's comments. Much that had been said about the bank sector could also be said about the insurance sector. The question was raised as to whether or not the financial services sector had the same quality of management as in other sectors. Discretion had been removed from those people like bank managers who were best placed to assess the individual borrower. The drive to lend had been driven by competition. The top banks had wanted to expand their lending, a policy which had led to banking standards deteriorating. The question of management was one that Sir Roland Smith took up when he said that there was continuing concern and disquiet over the constant changes in management in the clearing banks at both regional and local level. He also made the point that banks were not always aware of the totality of borrowing of clients.

Sir David Lees felt that the whole question of profits performance related to the reluctance of banks to attack the cost base of their banking. Something which would be the first response of a manufacturing company.

Sir David Walker commented on the quality of the whole cycle of assessment risk. Capital markets were not good at pricing. Bank regulators were not giving as good signs as they should over the pricing of risks. A closer look should be taken at the single risk rate for all private sector claims.

For his part Sir David Scholey considered the paper raised a number of interesting long term questions. He wondered to what extent deregulation and competition had reduced the value of the banking system as a conduit of monetary policy and how it had reduced the special position of banks. Foreign banks certainly could derive no comfort from the figures.

The Governor concluded by saying that the paper raised a number of questions which should be returned to.

G. A. Croghan
Secretary 4 June 1992

E.A.J. George
4th June 1992

A COURT OF DIRECTORS AT THE BANK

THURSDAY 4 JUNE 1992

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
Lord Haslam of Bolton
Sir Christopher Anthony Hogg
Mervyn Allister King, Esq
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
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, Mr Crockett said that it was difficult to assess the consequences of the result of the Danish referendum on the Maastricht Treaty. Nevertheless the "no" vote was clearly a setback to the process of ratifying the Treaty. It was in the face of strong political and business support in Denmark and seemed to have reflected general unease about the political implications, particularly for the smaller countries; concern over such issues as second homes for Germans and army conscription; and general scepticism about the European Community.

Mr Crockett said that at a meeting of Finance Ministry and Central Bank officials which he had attended the previous day in Brussels, a number of possible responses to the Danish situation had been considered. First, the remaining countries could press ahead with the Treaty with the hope that Denmark might follow in due course. It was unlikely that the Danes would hold an early second referendum but a later vote was possible if there was a material change in circumstances. A second possibility was that the Danish protocol could be amended to allow the Danes to opt out of part of the Treaty but this presented practical difficulties. Third, the Treaty itself could be amended to allow the other 11 countries to go ahead, excluding Denmark. It was unlikely, however, that there would be much enthusiasm for such an exercise which might encourage other countries to re-negotiate other aspects of the Treaty. A final option would be to leave ratification of the Treaty on the table until the time was right to reconsider the position.

Mr Crockett said that it was too soon to identify which way things might go. Much would depend on the reaction in the other 11 countries, some of whom might now also wish to opt for a referendum.

The Governor said that in Toronto where he had been for the International Monetary Conference there had been great concern among the Danish businessmen at the result of the referendum and others regarded the result as surprising considering the benefits that Denmark had derived from European membership. Nevertheless, there was a feeling that the result reflected public opinion and a concern that national identity might be lost.

6 The Governor went on to explain that in the wake of the result of the Danish referendum, the paper "Why the EMI and ECB need

to be located in London" might take a lower priority. However, although the topic would form the basis of a more detailed discussion later in the year, Members' initial comments would be welcome at this stage.

Sir David Walker said that we should not be too defensive in responding to comments about recent financial scandals that had taken place in London. Many of these arose from market manipulation and similar instances occurred elsewhere. The difference was that they were highlighted in London where such behaviour was a criminal offence whereas this was not the case in some other European countries.

Sir David Scholey challenged the assumption that central banks were generally located in their countries' principal financial centre because of their need to be in close contact with the financial markets. This was not entirely so and in federal countries the location in political centres was seen as equally desirable. Sir Roland Smith suggested that there were arguments beyond the technical that might point to the location issue being politically motivated, not least the attitude of certain countries towards Germany.

Sir Brian Corby suggested that there were other aspects relating to the European Central Bank, particularly banking supervision, which it might be helpful to discuss at Court in due course.

Court gave their approval for Sir Colin Corness to join the Board of Chubb and Son as a Non-Executive Director.

At the Governor's invitation:-

1 In presenting his report on Wholesale Markets Supervision Division, Mr Beverly said that the Division operated with a clear philosophy: his team aimed to understand the markets and to respond quickly and sensitively to the problems that arose within individual firms or the market as a whole. This was not an easy task, particularly at the present time of change and with important EC directives in the pipeline. The diverse nature of the Division's

responsibilities called for committed staff of high calibre, able to accept responsibility and sufficiently versatile to grasp new issues quickly. The staff dealt directly with professionals in the market and must therefore be credible. Currently the quality of staff was good but the Division had been below budget throughout the past two years although it was hoped that it would be at full budget strength by the Autumn.

The priorities of the work of the Division were reviewed regularly. There had been a real constraint on the ability of the Division to keep up with general market developments and this aspect of its work was being reviewed in advance of the next budget round. Mr Beverly explained that his Division co-operated with Banking Supervision Division and worked closely with the Foreign Exchange and Gilt-Edged and Money Markets Divisions. Although the Wholesale Markets Supervision Division was a significant part of the Markets area he recognised that its role was distinct and there was a need to be alert to any potential conflicts of interest. Finally Mr Beverly emphasised the value of the role of the City Regulation Committee which he had chaired for the past two years. It played an important part in contributing to the development of supervisory policies as well as fostering good internal communication and co-ordination. His Division contributed fully to the workings of this Committee. In responding to Lord Haslam, who noted that the average experience of the staff of the Division was only 24 months, Mr Beverly said that it had been necessary to allow staff to move on to develop their career prospects. He hoped, however, that his present staff would be able to remain for a somewhat longer period. Some of his staff had been involved in major special exercises over the last two years eg the Bingham Unit, and the Iraq/Kuwait episode, and this capacity to assist the whole Bank in this way was to be expected of a Division with good quality staff.

Sir David Scholey noted that the staff of the Wholesale Markets Supervision Division were involved in long-term exercises and analysis on strategic issues including the viability of the Discount Houses. He enquired about the capacity of the Division to undertake research into the development of the derivatives markets etc, and to what extent it was able to draw on other areas of the Bank. In response Mr Beverly said that he would like to do more research-type work within the Division - particularly on derivatives where considerable current interest was being shown in the UK and USA - and indeed this area was about to be pursued with other parts of the Bank. He was clear, however, that priority had to be given to the day to day work.

Sir David Walker focused on the close relationship the Division had with those firms it supervised, many of which were Bank counterparties, and enquired whether there was a conflict between the regulatory/supervisory role of the Division and the stated aim of being responsive to the needs of firms. Mr Beverly said that his responsibility was that of a supervisor/regulator first and foremost. There could be a conflict but he noted that with his colleagues in the operational areas of Foreign Exchange and Gilt-Edged and Money Markets Divisions he sought to ensure that the correct balance was maintained. Mr Beverly said that the Bank counterparty relationship was relevant and as a result of it the Bank had a close knowledge of those firms. This clearly affected the way it discharged its responsibilities. He readily accepted the point that Sir David Walker made and hoped that his Division were alert to the balance required but he repeated that he had to give priority to supervision/regulation. Mr Quinn said that there was a need to understand the nature of the markets and the place of firms within them if the Bank was to act as a competent supervisor.

2 Mr King said that this was the first occasion on which Court had been able to discuss the Monthly Economic and Financial Report since the Election and it was interesting to see whether there was evidence that, after the Election, we had finally reached a turning point.

In the first quarter of this year, GDP had fallen by 0.6%, and non-oil output by 0.4% - the seventh consecutive quarterly fall, and during the month before the Election retail sales had fallen by 1%.

Statistics of three kinds were now available covering the post-Election period; prices and yields in financial markets; surveys of business and consumer confidence; and a limited amount of data on activity and spending.

On the stock market the FTSE 100 Index had risen sharply immediately after the Election, although only to levels some 2% or so above those reached prior to the Election being called. Over the last month prices had risen a little further. Bond yields had fallen sharply to below 9%. The combination of higher share prices and lower long-term bond yields would, other things being equal, lead to an increase in personal sector wealth. But other things had not been equal. In particular, house prices had continued to fall - and were currently 6% below their levels of a year ago. So there was little sign of an increase in wealth that would underpin a recovery in consumption.

Both business and consumer confidence had been rising and were now at their highest levels since 1988.

There was no sign of any dramatic impact of the resolution of electoral uncertainty on spending. The increase in retail sales in April had not been enough to reverse the fall in March and car sales figures showed an increase of only 1.4% in registrations over the past year. Turnover in the housing market, as measured by particulars delivered and new mortgage commitments, were still falling.

Nevertheless, in the first instance recovery in output was likely to come from a change in the rate of stockbuilding and manufacturing output had risen for the past two months. The counterpart of all this was that underlying inflation continued to fall, and it was expected that the annualised rate of increase of both the RPI itself, and the RPI excluding mortgage interest payments, would come together at a figure of about 4% by the end of the year. RPI inflation rose to 4.3% in April following changes in both this and last year's budget. The underlying measure of inflation - RPI minus mortgage interest payments - which was currently running at 5.7% was expected to fall steadily through the year and pay settlements were running at between 4 and 4 1/2%. Downward pressure on inflation was expected to continue, even when output started to recover, because of the gap between actual and potential output.
It was clear following the Election that a change in the policy mix was desirable - with some monetary easing and fiscal tightening required. The combination of a cut in interest rates on 5 May and the prospect of a tight spending round this summer would go some way to produce a more balanced policy mix.

There were three implications for policy which arose from this analysis. On domestic grounds it would be surprising if the next move in interest rates were not downwards, but there was the constraint within the ERM. There was now only a small difference, of a 1/4%, between UK and German short-term interest rates. In addition, any policy action must be careful not to undermine markets' credibility in our long-term counter-inflationary strategy. Bond markets were a useful indication of this credibility, and that was why they were part of the convergence criteria for monetary union agreed at Maastricht. The hiccup produced by the Danish referendum result had led to uncertainty in bond markets and it was now more important than ever that the UK should not only meet, but be seen to be determined to meet, those convergence criteria. Indeed, if other countries too were seen to be determined to meet the convergence criteria for domestic reasons, then the basis for ultimate monetary union would be strengthened.

3 In introducing the monthly discussion of monetary policy, Mr Coleby said that monetary growth in April had been rather stronger than in recent months. M4 had increased by 0.8% to leave year-on-year growth at 5.7%, little changed on the previous month. M0 had risen by 0.4%, making 2.3% year-on-year. There was not sufficient evidence in these figures to suggest a turning point. Over the past six months, the increase in currency in circulation had been only 1/2%, consistent with the value of retail sales.

M4 growth in April had been driven by higher lending, most notably to securities dealers for post-election financing of their gilt-edged portfolios. There had been some recovery in demand from corporates, but from very low levels. Lending for house purchase, though higher on the month, had certainly not taken off and building society commitments in April, at £2.75 bn, were the lowest for five years. The hoped-for recovery in the housing market was not at all evident. Turning to the policy issues Mr Coleby said that hard evidence of recovery was not yet to be seen: indeed, there was some evidence of continuing sluggishness. Further easing of policy might be considered, although some contribution was already coming from the fiscal stance. Inflation, moreover, still had a long way to come down in order to meet policy objectives, so even on purely domestic grounds any easing of monetary policy would need to be approached cautiously. More immediately, it was the external constraints that were dominant. The short-term interest rate differential with Germany was just 1/4%. There was no reason in principle why the differential should not disappear or even reverse. That would be the outcome if the Germans again raised their interest rates and we resisted following suit, as we had successfully done last December and would certainly seek to repeat. A rise in German interest rates currently seemed less likely than it had a few weeks ago, but the threat had not gone away completely. While that threat remained, it would be hazardous for us to reduce our own interest rates. But we could begin to consider such a move once we became confident that the Germans would not raise theirs.

Commenting on the current housing situation, Sir Colin Corness said that there had been a slight increase in house prices in May but the inhibiting factors were not so much the level of interest rates but the level of unemployment and repossessions. Many building societies were offering discounts of up to 2% - to 8% - to first-time buyers so a further cut of 1/2% would make little difference.

Sir Brian Corby suggested that we should create the confidence for UK interest rates to drop below German rates if our domestic situation justified it. We needed to be able to run our economy without constantly looking to the German economy.

G. A. Croughton
Secretary 11th June 1992.

A COURT OF DIRECTORS AT THE BANK

THURSDAY 11 JUNE 1992

Present

The Rt Hon Robert Leigh-Pemberton, Governor
Sir David Gerald Scholey, CBE
Anthony Laurie Coleby, Esq
Sir Frederick Brian Corby
Sir Colin Ross Corness
Andrew Duncan Crockett, Esq
Sir Christopher Anthony Hogg
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Gavin Harry Laird, Esq, CBE
Sir David Bryan Lees
Brian Quinn, Esq
Sir David Alan Walker

Hugh Christopher Emlyn Harris, Esq

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

Details of the weekly figures and graphs relating to the state of the foreign exchanges and the domestic markets, were laid before Court.

Under the weekly executive report:-

1 the Governor spoke about recent developments concerning the Maxwell pension funds and their pensioners and said that at a meeting earlier that week the Chancellor had made it clear that he was expecting the banks to make good the pension fund deficit on an ex-gratia basis.

The Governor emphasised that there were two separate issues that needed to be addressed - the immediate relief of hardship being experienced by Maxwell pensioners; and the larger more difficult problem of replenishing the pension funds themselves. The Governor had explained to HM Treasury that because one part of the private sector had been at fault this should not automatically put pressure on other parts of the sector to rectify the damage. In particular the Governor was concerned that banks were being accused of sheltering behind the law and not accepting that they had a moral duty to respond on an ex-gratia basis to help pensioners.

Mr Lilley, the Secretary of State for Social Services, had recognised that there were two distinct and separate problems. The first was to provide relief for those whose pensions were in payment, while the second was the factual matter of establishing where the pension funds stood now, and the legal position of their assets.

In response to the first issue, the Government had now provided £2.5 mn relief to the pensioners which would provide support for five months. Thereafter, there would be pressure on the financial institutions to maintain support to avoid hardship and Mr Lilley had suggested that the banks should do this.

However, the Governors' view was that the banks should await the outcome of the investigation of the Government Unit which the Secretary of State had set up to establish the present position of the Maxwell pension funds, who held what assets and in what capacity.

The overall complexity of the situation had been further highlighted earlier that morning when National Westminster Bank had entered an inter-pleader seeking the Court's ruling on the ownership of shares in an Israeli pharmaceutical company which the bank had taken as security against a loan advanced after Maxwell's death. The loan had been to provide funds to stabilise the Maxwell situation and the shares were now being claimed by the Maxwell pension funds and by the administrator of one of the companies of the Maxwell Group. The issue revolved around whether the shares had been received in good faith and after due diligence on the part of the bank.

The Governor went on to explain that he had agreed to meet Mr Frank Field MP, a representative of the Maxwell pensioners, privately. Subject to the outcome of that meeting he might agree to meet a committee of MPs to try and get the matter into proper perspective.

Overall, this could be a long and difficult issue. Even if the banks could establish that they had good title to the assets they would need to consider whether they should be involved in any further action on an ex-gratia basis. The pension fund deficit was a large sum, some £400 mn, but at least for the present, five months support for individual pensioners had been secured.

In response to a request that Court might be involved in any input which the Bank might make to the Government Unit, the Governor said that he did not expect the Bank, necessarily, to be involved but the Bank would nevertheless keep alongside the inquiry and ensure that the banks were not being unjustly attacked.

Sir Brian Corby said that it was important to keep the pension funds from being wound up and to continue to drip feed support as at present. The suggestion that those institutions who had done well out of their dealings with Maxwell in the past might now contribute to a compensation fund, and that pension funds generally might contribute to restore the £400 mn was unethical and probably ultra vires so far as pension schemes were concerned. The Goode Committee which would be looking at pension funds in the longer term might consider the imposition of a levy on pension funds to establish a compensation fund but such a levy could not be established retrospectively.

It was acknowledged that it was dangerous for any institution to respond to the situation out of moral obligation at the present time and particularly banks who also had to consider the position of depositors and shareholders to whom they had a responsibility.
Finally it was noted that there were several groups of people involved in the Maxwell pension funds saga who had rights of action and that their position should first be established in law. There was perhaps a case for Government to petition the Courts to establish the legal position of each party.

2 With reference to a Minute of 28 May, Mr Harris reminded Court of the Bank's intention to move the IBM operations and support to Facilities Management. He said that discussions had been proceeding with staff and BIFU over the past two weeks on the principle of compulsory redundancy in conjunction with job offers from Hoskyns, and on the effects of the inferior terms of service offered by Hoskyns compared with those of the Bank.
The Bank had not yet persuaded the staff concerned and the Union of the wisdom of the Bank's action and as a result the current position was that the Union had mandated their Assistant Secretary to hold a ballot of their EDP members in MSD proposing a series of 24 hour strikes. This decision was likely to receive some publicity in the press.
In response to a question from Mr Laird on the effect that this would have on the Bank's operations, Mr Harris said that if the action was restricted to those staff who were directly concerned the Bank could cope. However, if the rest of the EDP staff of MSD were involved there could be severe problems.
Mr Laird said that such action on the part of the staff of MSD would be in breach of their contract of employment and the Bank would be within its right in terminating their employment. It was agreed that

Mr Harris would discuss the matter further with Mr Laird outside the meeting.

At the Governor's invitation:-

1 Sir Martin Jacomb introduced a Report of the Committee to consider the Securities of Certain Funds covering the period 1 June 1991 to 31 January 1992, which was laid before Court.

2 Before asking Mr Crockett to present his papers on current international policy issues, the Governor invited Sir Peter Petrie, Adviser to the Governor on European matters and Messrs Foot, Latter and Page, the Heads of the International Divisions to attend Court for the presentation of these papers.

In introducing the first of the International Division presentations, Mr Crockett said that there were a number of reasons why the Bank felt it necessary to produce independent projections of world economic developments.
The first reason was that the analysis of domestic policy options and constraints had to take account of international circumstances. For example, the possibility of a change in UK interest rates was clearly influenced by the Bank's analysis of the economic situation in Germany, and the potential response of the Bundesbank. In addition to the domestic reasons for analysing international developments, the Bank participated in numerous international fora in which international policy co-ordination was discussed. The most important of these was the G7 Ministers and Governors meeting held two or three times a year to assess international economic performance and to decide whether co-ordinated actions were desirable - particularly in the exchange rate field - to achieve stable economic growth. A second important forum was Working Party 3 of the OECD.

WP3 comprised the Deputies of the Finance Ministers and Central Bank Governors of the G10 countries. It met four times a year in Paris to discuss the international adjustment process. In addition, WP3 took up special projects from time to time such as the global savings shortage or the operation of the Exchange Rate system.

A broader forum was provided by the regular meetings of the Interim Committee of the International Monetary Fund. The Interim Committee met twice a year, but, unlike the G7 and WP3 meetings, the Interim Committee was not a forum for interactive discussion, being essentially a series of presentations by the 22 members of the Committee.

Closer to home, policy co-ordination with our European partner countries was of increasing importance.

Amongst central banks, the Committee of Governors of EEC countries met every month in Basle and normally began its discussions with a review of the economic and financial situation in Europe. The Bank also participated in the Brussels based Monetary Committee and Economic Policy Committee. The Monetary Committee consisted of senior officials from Community Finance Ministries and Central Banks and met roughly once a month, usually before the regular ECOFIN meeting. The Monetary Committee always included a review of the economic and financial situation in the Community and often included an in-depth assessment of the policies and performance of individual community countries.

The Bank's assessment of global economic developments therefore had two basic functions - to help set the context for domestic economic policy decisions; and to help the Bank make a proper contribution to joint decision making in matters of economic policy co-ordination at the European Community, and at world level.

Moving specifically to the paper on the World Economy, Mr Crockett said that global economic management was very different now from the consensus of 15-20 years ago with emphasis now being placed on establishing stable underlying conditions, fiscal discipline and monetary stability. There was less active intervention although when the world economy was overheating we would still look for a response from those countries with excess money growth and budget deficits; while when the world economy was weak, any contribution to growth would have to come from countries with strong budget positions and satisfactory price performance.

What did this mean for the present situation? There were a number of issues on which Members' views would be welcomed, particularly on the dilemma between the need for price stability for sustainable growth and reduced inflation, and the argument that priority should be given to stimulating recovery by expansionary fiscal and monetary policies; the suggestion that in the short term there was unlikely to be a significant savings shortage; whether the prediction of relatively high real interest rates was a source of concern; and whether the recent pattern of exchange rates - except perhaps those for the yen - was broadly sustainable.

In commenting on the World Economy paper, Sir David Scholey suggested that high interest rates looked set to stay because of continuing scepticism over prospects for containing inflation in the long term, and worries that Japan and Germany would not be able to provide as much savings as in the past. In his view, the World Economic Forecast looked rather optimistic on this score. Sir Brian Corby agreed that policy should be aimed at levelling out the peaks and troughs and creating stability. He suggested that perhaps it was good that the US recovery was only expected to be gradual - it might therefore be more sustainable. He agreed that interest rates would stay high but felt that the growth of earnings in the UK was sufficient to encourage spending but this need not destroy the savings ratio. At the present time he suggested that consumers were taking a longer term view and re-paying debt. He felt that the exchange rate position was probably sustainable unless the Japanese or Germans acted irrationally.

In focusing on the circumstances that would induce a fall in real interest rates, Mr King said that real interest rates would fall if risk premium fell. Stable prices were a necessary condition but not sufficient on their own. The puzzle was rather why rates were so low before, rather than so high now. The present high interest rates were partly the result of good news - higher rates of return on capital as a result of successful supply side policies. Mr Crockett was rather more pessimistic and felt that large fiscal deficits, particularly in the US, were partly to blame. Mr Coleby shared Mr Crockett's view and said that long term rates were not under the control of those determining monetary policy but were driven by events in the real economy.

Looking at the present situation from the UK's point of view, Sir Christopher Hogg said that our competitive position was weak, inflation was still too high and there were still excessive attitudes on pay especially in the sheltered sectors of the economy. There was still a long way to go and it would be wrong to relax fiscal discipline. High interest rates were not as painful to industry as some claimed and indeed they often enforced more responsible behaviour. In commenting on the exchange rates, Sir Christopher said that by pegging their rates to the dollar, some Far East economies achieved an unfair competitive edge.

Mr Laird said that the Bank paper seemed rather optimistic. From his experience there was little in the manufacturing sector to give much confidence but TV advertising was picking up and the insurance industry was doing well. Pay in the manufacturing sector was certainly much more restrained than in the services sector.

Sir David Lees in commenting on the developments in the UK over recent months said that the achievement on inflation, given the length of the recession, was rather disappointing. At best there might be evidence of a gradual movement out of the recession and although there might be a temptation to relax monetary policy we should not do so as it would be damaging in the long term.

Sir Martin Jacomb also supported a tough monetary stance saying that the balance of trade would not stand any easing of policy. He was very concerned by suggestions that the savings rate should be reduced especially when the public deficit was so large. In focusing on the UK's position in relation to others in the ERM, Sir Martin asked if it was credible for the UK to continue indefinitely with the present fiscal/monetary mix of policy? He suggested that there was not a shortage of investment capital because interest rates moved to equate supply and demand. He was concerned that interest rates were so far out of line with the US making us uncompetitive. Sir David Walker asked how international differences in interest rates matched up against differences in rates of return and whether this aspect had been researched?

In commenting on interest rates, Sir Colin Corness said that differences in the level of interest rates between countries was not a concern for large companies where the treasurer was able to seek out the cheapest source. Smaller companies however were confined to raising funds in their own country. He felt that small changes of the order of half or one per cent in interest rates were of little importance compared with the overall state of confidence in determining spending decisions. This, he said, was specially true of housing.

Mr Quinn expressed continuing concern over financial fragility and asked whether there was capacity in the financial sector to respond when the economy picks up or should monetary policy be relaxed to assist?

Sir Martin Jacomb said that small and medium sized businesses were already being adversely affected but this was due more to stricter risk assessments rather than the inability of banks to finance new lending. Sir David Scholey said the he feared that there could be some crowding out of some borrowers once the requirement of the emerging countries, Eastern Europe, etc started attracting funds and financial institutions themselves sought to strengthen their capital positions.

In winding up the discussion, the Governor posed the question, if we felt disappointed about the world economy prospects, what should we do about it? Should any stimuli perhaps come from the G7, which was a non-inflationary club and generally opposed to concerted stimuli? There had been much hand wringing over fiscal deficits which usually reflected political inability to control. On exchange rates, the G7 wanted tolerable stability in the relationship of exchange rates and was opposed to competitive devaluations. However, G7 was ready to consider organised intervention so long as it was supported by appropriate domestic policies.

In introducing the second paper on Economic and Monetary Union in Europe - the current issues, Mr Crockett said that the paper had been written before the result of the Danish referendum was known. There was now some uncertainty about the future but the Bank's view was that we should continue with our existing plans, at least until the consequences of the Danish referendum had become clearer. The three stage process for achieving EMU had always been seen as a continuum - the present Committee of Governors would lead to the European Monetary Institute and then to the European Central Bank. Turning to specific issues, Mr Crockett raised the question of the introduction of a single currency and sought Members' views on whether this should be phased or introduced on a fixed day, and how consumers and business might be involved. On the single market he suggested that it should proceed as planned but questioned whether too much centralisation could lead to too much bureaucracy. The single market programme would be one of the issues for the UK Presidency, as would the outstanding issue of new membership of the Community.

In commenting on the paper, Sir Brian Corby was concerned that the UK Government would be pressurised during its Presidency into accepting unwelcome directives so that it could claim the completion of the Single Market Programme on time. He was aware that the Commission itself knew there were serious problems with implementation and he also knew that there were differences of view over the extent of harmonisation that was actually needed. He noted that the UK would have problems on border controls as the Government was not prepared to dismantle the minimum controls it thought necessary.

Sir Martin Jacomb noted that the imposition of a single currency upon the poorer areas of the Union could be disastrous and suggested that the drive for a single currency should be replaced by a move towards the ECU as a common currency. On the single market he said that the UK should try and retain its influence and complete the programme. In commenting on the single market programme, Mr Quinn raised two questions: was it desirable to harmonise further, for example, in the area of taxation and, if so, was is practicable? On the first, he had mixed feelings and on the second he felt it would be easier to make progress in the financial sector as it was a discrete area.

Mr Laird considered that the Danish vote may have made things easier for the Prime Minister. In his mind, one of the key questions was how to ensure control over the Commission and he wondered whether the German federalist model was appropriate. On the other questions, Mr Laird suggested that the UK should do what it could to widen the Community and in preparing for a single currency he suggested that we should have a "two sided" note denominated in sterling on one side and ECU on the other. Overall, Mr Laird stressed that the UK should be very positive towards the Community during its Presidency.

Sir David Walker felt that the impetus towards EMU had faltered significantly. The forces for deceleration were powerful now and he thought that the fragmentation in Eastern Europe might slow down the process and complicate the widening of the Community. For these reasons, therefore, he agreed that the UK should take a positive role during its presidency.

Turning to the question of the introduction of a single currency, Sir David wondered if the best approach might be to stagger the changeover, starting with the denomination of transactions in ECU only if they were over a certain amount. Sir Christopher Hogg noted that the Community had run into considerable difficulties in certain areas and in his view the result of the Danish referendum might prove to be a good thing in slowing down the process.

Sir David Scholey suggested that the UK should be emphasising economic rather than monetary union. With regard to the single market we had always known that it could not be finished by 1992. However, further progress should continue to be made and UK firms should be encouraged to report cases of discrimination against them. On the other issues, Sir David favoured the avoidance of unduly wide consultation in the preparation for a single currency and felt that wider membership of the Community should be encouraged but potential member countries needed to have fully convertible currencies and fairly robust economies.

Finally, the Governor reminded Members that when the practice of long and short Courts was adopted earlier in the year, it was agreed that when there was a fifth Thursday in the month that too should be a short Court. However, in view of the rather busy timetable experienced so far it was proposed that in future, normal Courts would be held on the fifth Thursday when it occurred.

Court agreed that this would be appropriate when necessary and noted that arrangements for the December Courts would be considered later in the year.

[illegible]
Secretary.
25th June 1992.

E. A. J. George
25th June 1992

A MEETING OF DIRECTORS AT THE BANK

THURSDAY 18 JUNE 1992

Present

Edward Alan John George, Esq, Deputy Governor
Lord Haslam of Bolton
Anthony Laurie Coleby, Esq
Andrew Duncan Crockett, Esq
Mervyn Allister King, Esq
Brian Quinn, Esq

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

The Deputy Governor drew attention to the knighthoods conferred on Sir Colin Southgate and Sir Alan Hardcastle, a member of the Board of Banking Supervision, and to the awards of the CBE to Mr R T P Hall, who had recently retired from the BIS, and the OBE to Mr M J Harper, Chairman of Minories Finance Ltd, which had been announced in the Queen's Birthday Honours.

G. A. Croughton
Secretary 25th June 1992

E. A. J. George
25th June 1992

A COURT OF DIRECTORS AT THE BANK

THURSDAY 25 JUNE 1992

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
Andrew Duncan Crockett, Esq
Sir Martin Wakefield Jacomb
Mervyn Allister King, Esq
Sir David Bryan Lees
Brian Quinn, Esq
Sir David Gerald Scholey, CBE
Sir Colin Grieve Southgate

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

The Minutes of the Court of 11 June were confirmed and those of last week's Meeting, having been circulated, were approved.

The Governor congratulated Sir Colin Southgate on his knighthood awarded in the recent Queen's Birthday Honours and drew attention to the other honours that were noted in the Minutes of the previous week.

Mr Quinn commented on the weekly figures and Mr Coleby spoke about the foreign exchanges and the state of the domestic markets.
A brief discussion ensued focusing on the impact of the falling Tokyo equity market on Japanese banks and the

implication this might have for them in complying with the BIS capital adequacy requirements which would become operational next year.

Under the weekly executive report:-

1 [redacted]

2 [redacted]

[redacted]

3 The Deputy Governor spoke to Court about the article which had appeared in the Financial Times on 15 June alleging that the Bank had received intelligence information pointing to Maxwell's criminality over two years ago and had failed to take any action on it. The Bank had informed the Financial Times that we had been unable to trace any evidence of receiving such information. We had also pointed out that as the Bank had no responsibility for Maxwell we would not have been an obvious recipient of such information.
The Financial Times had nevertheless published the story which reflected the Bank's comments, but in a dismissive way. The Bank had regarded this action as damaging and accordingly had taken legal advice. Counsel had suggested that the article was probably defamatory both to the Bank and to Mr Quinn and Mr Kent but had misgivings about the legal remedy. In the circumstances therefore we had decided not to pursue the matter.
In response to the suggestion that the Bank might take the matter up with the Editor of the Financial Times, the Deputy Governor said that he was reluctant to speak to the Editor in the immediate aftermath of this episode, but might do so when the dust had settled.

At the Governor's invitation:-

1 In presenting his report on Information Division, Mr Footman said that the Division was the public relations arm of the Bank but he fought shy of using that expression. Nevertheless, in that context the objectives were twofold - to ensure that the Bank's functions and activities were understood; and to ensure that the Bank was seen to be carrying them out in a professional manner.

In this respect, the Press Office targets extended beyond the press generally to include Members of Parliament, businessmen, financial and political commentators and opinion formers generally. The majority of the Bank's contact with these groups was through the Press Office but it was important that others in the Bank should be kept fully abreast of the Bank's thinking: much of the internal communications of the Bank therefore fell to the Information Division. The Press Office worked efficiently with three Press Officers providing a twenty four hour on call service to the press. Mr Footman said that in his view there was no case to use outside Press Officers. The philosophy since 1958 had been that is was better that the Press Officers be fully conversant with the Bank and then pick up the PR skills rather than approach it from the opposite direction. Nevertheless in the past year the Bank had developed a relationship with an outside external consultant, Angela Heylin, the Chief Executive of Charles Barker City. She provided valuable support and advice on a covert and personal basis, with the relationship perhaps akin to that of an external auditor.

The Bank's PR approach had been questioned from time to time - was it too leaden, should it be more pro-active and wicked? The Bank was, of course, constrained by the Banking Act and thus many of its successes went unsung. On balance however our experience suggested that it was right to play PR with a very straight bat and at the end of the day Mr Footman said that he had never had to achieve results in ways that he could not explain to the Bank's Executive. In turn this approach had lead to good relations with the press who valued the 24 hour on call facility and the Bank's Bulletins and Briefings which they received regularly.

One area that was of some concern and currently under examination was the need to be more available for television interviews and the need for training in this direction. This might become an important issue with the publicity that would accompany the publication of the Bingham Report. Other avenues being pursued at present included wider contact with MPs, particularly backbench MPs, with the purpose of inviting them to briefings and lunches.

In response to Sir Martin Jacomb who questioned the need to keep the relationship with Charles Barker confidential, Mr Footman explained that the relationship had been developed immediately after the publicity of BCCI. At that time he felt that it was wise to maintain confidentiality for fear of the press making great play of the Bank establishing such a relationship at that time: but he would be quite relaxed about it now. There was general agreement that this was the right approach and that although the Bank had engaged an external consultant, it was still more appropriate for the Bank to speak for itself.

The Governor explained that he drew great comfort from Ms Heylin's advice not least her ability to assess our standing outside the Bank and how effective we were in getting our message across.

In focusing on the external impact of the Bank, Sir David Scholey said that the speeches by the Governors were valuable and authoratitive, giving the Bank a good continuing public profile. With television and radio interviews on the other hand, the subject was at a disadvantage with the interviewer always having the last word. He felt it was important for the Bank to preserve the character and dignity of the Central Bank and not to be drawn into such situations. The Governor said that he was of like mind and felt we should avoid gratuitous television appearances but be ready to respond when the occasion demanded. The publication of the Bingham Report would be an occasion to be planned carefully with advice from Ms Heylin.

In response to comments from Sir Martin Jacomb and Sir Colin Southgate about seeking publicity for the Bank's supervisory successes, Mr Footman said it was impossible to do so because of the constraints of the Banking Act. The Governor said that even without such constraints we would be concerned that any publicity on our part might destroy the valuable flow of information to the Bank, and although statistics were published in the Bank's Report under the Banking Act, there was still a concern that there would be pressure to reveal more detail.

Referring briefly to the Library which formed part of the Information Division, Sir David Scholey said that he supported fully the need for the Library but questioned whether it was "gold-plated". In response, Mr Footman said that in practice most of the Bank's expenditure on the Library was on economic and financial information etc for general circulation rather than for Library stock but he accepted that the accommodation might be seen as excessive given the possibilities for remote storage. Mr Footman, in responding to Sir Adrian Cadbury's enquiries about the advent of advanced technology in the Library, said that the Library was already purchasing data on compact disc.

Mr King, the Director responsible for the Information Division, complimented Mr Footman on the savings made in Library costs and on the good service provided by the Library to the Bank.

2 Lord Laing in his capacity as Chairman of BE Services Limited attended Court and introduced the Company's

Report and Accounts for the year ended 29 February 1992. In speaking about the Company's financial position Lord Laing said that in his view it was appropriate for the Bank to subsidise the overheads of the catering facility supplied by BE Services but he felt that staff should meet the full cost of the food. The Governor agreed that this should be considered further.

The May Edition of the City EC Committee Background Note was laid on the table for information.

Finally, the Governor drew attention to the Seminar for the Chairman of the Central Banks of the former Soviet Union which was being held in the Centre for Central Banking Studies from 29 June to 10 July.

E.A.J. George
2nd July 1992

C R Bennett
Assistant Secretary 2 July 1992