



## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 3 JULY 1996

Present

Mr George, Governor

Mr Davies, Deputy Governor

Mr Foot

Mr King

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 Meeting, having been circulated, were noted.

*H. S. D.*

*Johnnie*

*Secretary*

*13/7/96*

## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 10 JULY 1996

Present

Mr George, Governor

Mr Foot

Mr Kent

Mr King

Mr Plenderleith

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 Meeting, having been circulated, were noted.

*A.W.Z.*

*J. H. H. H.*

*Henry*

*18/7/96.*

## A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 17 JULY 1996

## Present:

Mr George, Governor

Mr Davies, Deputy Governor

Sir David Cooksey

Mr Foot

Sir John Hall

Mrs Heaton

Mr Kent

Sir Chips Keswick

Mr King

Sir David Lees

Dame Sheila Masters

Sir Jeremy Morse

Mr Plenderleith

Sir David Scholey

Mr Simms

Sir David Simon

The Minutes of the Court of 19 June and the Meetings of 26 June and 3 and 10 July, having been circulated, were approved.

**Outcome of the Arthur Andersen Review and the appointment of new Heads of Division (Mr Page in attendance)**

With reference to a Minute of 1 May, the Deputy Governor said that Members would by now be familiar with the main thrust of the Arthur Andersen proposals from earlier discussions. He drew attention to six points:

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- (i) this was not a revolutionary change in terms of the philosophy of banking supervision. Arthur Andersen did look at other possible systems - for example a rules based/inspection system as in the United States, or a hands-off system as in New Zealand - but were not convinced that the latter was possible in the London market, or that a switch to rules-based supervision was appropriate. That view was shared by those in the market whom they had consulted. The conclusion, therefore, was that a judgement-based system was best, so long as it was competently run and properly supported.
- (ii) But to deliver this we needed a more rigorous model for risk assessment. The RATE model needed more refinement, but would provide a useful framework for the supervisors. Essentially it delivered a risk map, rather than a set of rigid rules, but it had been tested on two institutions, with generally positive results.
- (iii) The Report revealed that staffing in S&S was a problem. Experience levels were low. This was partly transitory, but just leaving it alone would not solve the problem. There were heavy pressures on senior management, partly because of the inexperience of more junior staff. Morale was poor. There was still a feeling that the area was a poor relation of the rest of the Bank. And S&S were short on some significant specialist skills. The proposals in this area were intended to increase and strengthen the senior management team, with the appointment of three more line Heads of Division and one operational Head. Clive Briault, a HoD in Monetary Assessment and Strategy Division would transfer across.

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Court noted the appointments as set out in the organogram. The proposals would also result in longer terms in S&S - including asking graduates arriving in the area to do a longer period of supervision before moving offices. They involved a significant upgrade of training. Interestingly, we had found that other supervisors faced identical problems - salary levels, attracting people into supervision from other parts of their institutions, etc - and had sought to overcome these difficulties by providing excellent training packages for their supervisors. Finally, we would add some specialists - with some senior bankers and more outward secondments. The Deputy Governor felt that this four-pronged approach represented a realistic solution to the staffing problems in S&S.

- (iv) Cost implications. The Deputy Governor said that the effect over a three year period would be to increase the S&S budget by something like 20-25%. The precise number of additional line supervisors needed would depend on the roll-out of the RATE model. The question for Court was whether we could afford it. The view was that this was affordable, in paybill terms, over the next two years, if we could apply savings made elsewhere. However we were conscious that for internal purposes it was important to not to link the costs of extra supervisors from the savings made in other areas of the Bank.
- (v) Publication: we had announced the appointment of Arthur Andersen in November; and the Treasury, in its response to last December's TSC Report, had referred to the Arthur Andersen Report as though it were to be a public document. We had therefore reached the conclusion that

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in our announcement next week we would need to release the Arthur Andersen Report, largely on the grounds that if we did not do so now the Treasury would feel compelled to do so later. We wanted to cover it with a paper that was reasonably self-contained, leaving us on the front foot.

- (vi) Returning to the substance of the changes, there was plainly a lot to do if they were to succeed, and the Deputy Governor would be setting up and chairing a steering group to make sure that the impetus was not lost.

Sir Jeremy Morse said that he was pleased that the basic philosophy of supervision was not changing. Having visited S&S recently, he had returned with a more positive view of the mood of the staff. The work itself was intrinsically very interesting, and they certainly found it so. He had been warned by middle management not to make too much of the morale issue, which seemed to be being overplayed. There was uncertainty, but not a huge morale problem. There was a lot of potential for morale to be high, given our very strong supervisory history.

Sir Jeremy was interested to know precisely what the cost estimates given by the Deputy Governor meant in money terms. The Deputy Governor said that the current all-up costs of supervision were £34-5mn, and 20-25% implied £6-8mn of extra spending. Sir Jeremy Morse, like other Directors, felt that there should be no question about our spending the money, whether or not the current paybill constraint permitted it. He also agreed that we should publish the Report and the longer of the two response papers.

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Sir Chips Keswick noted the estimates of an additional IT spend of £3mn, but doubted that this would be enough given S&S's starting point. He suggested that in recruiting a panel of senior outsiders, we might consider an IT expert. He felt a weakness in the AA report was the failure to recognise the difficulty of combining experienced bankers with IT.

Sir David Lees said that he did not find the Arthur Andersen document surprising. Its value, as with so many consultants' reports, was that it put together a lot of the things that we already knew. But he was concerned that neither the report, nor our response, contained a statement of the objectives of supervision. We ought to be clear about that before we published, and he was surprised that we could apparently do no more than promise a statement in the future.

On publication, he would prefer not to publish the whole of the Arthur Andersen document. He wondered whether the RATE model should be more fully elaborated in one or other of the papers, given that it was key to the Arthur Andersen proposals, and he wondered as a matter of fact whether it was possible for the supervised institutions to have the facility to do the RATE assessments themselves.

Sir David Cooksey, like Sir David Lees, was concerned that we should specify the objectives of supervision in whatever papers we released. He was concerned that to provide a lot of prescriptive detail without saying what model we were pursuing would be unhelpful. So far as the paybill was concerned, we should not let that enter into our calculations at all, but disconnect it completely from the review. If it happened that we could meet our paybill constraint by savings elsewhere, then

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that was fine, but we should not allow it to be a condition of proceeding.

So far as IT was concerned we should be a leader: we had been visibly dragging our feet on IT for many years, to a point where staff in S&S were reluctant even to discuss it. On publication, he favoured the longer of the two draft responses, but was worried about publishing the Arthur Andersen Report itself; he would be more positive about how we presented the role of Arthur Andersen in the review process.

Dame Sheila Masters said that although nothing in the Arthur Andersen Report was hugely damaging, one could, reading it, build up a picture of an organisation that had drifted. She too was worried about how IT was positioned in the organisation, and also was concerned that although the means were clearly specified, the objectives were not. She would prefer to publish our version of the Report, rather than the Arthur Andersen version. She also found it difficult to reconcile Arthur Andersen's figures for increased staff with the cost estimates provided by the Deputy Governor.

Mrs Heaton said that she had been shocked by the Arthur Andersen Report: the cumulative effect of all of the recommendations did indicate the need for a radical series of changes, most significantly in the culture. If the Report were published, the Bank would face another round of criticism. This would be bad for S&S and bad for regulation. She would prefer us to issue our own summary of the Report. She noted that the Section 39 area was unresolved, and felt it was worth debating this issue in Court. She would recommend a one-to-one dialogue between auditors and the Bank. She noted that some other points were unresolved in the Report. She found the

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Bank's long response document rambling and thought it should be improved.

Sir David Scholey welcomed the papers, and said that he had been more impressed by them than he had expected. They contained criticism, but justified criticism. They should be regarded as carrying some weight. He agreed that the Arthur Andersen Report should be published, together with the Bank's long response. The latter clearly needed tidying-up, and the Bank should make a statement on its supervisory objectives at the same time. He noted what had been said about costs. He had heard it said in Court in previous years that supervision was dangerously under-resourced. We should never be in that position again. The resourcing question should be disconnected completely from the paybill: if we could make savings elsewhere that was fine, if we could not, then tough. Morale in supervision was like morale in a police force: the best contribution to morale was high-quality training and management, and giving the staff a reputation in the community. This needed continuous high-level attention in the Bank. So far as the Report was concerned, he felt that we should make the most of it, not the least. There might be criticism, but we should show ourselves to be on the front foot.

Sir David Simon shared the disappointment that Arthur Andersen did not seem to have helped us to come up with a clear statement of supervisory objectives: without that, the extended discussion of the techniques looked out of context. He agreed that in our presentation we should be firmly on the front foot.

The Deputy Governor said that we firmly intended to be on the front foot on this matter. The Report was an appendix to the

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positive things we had to say, and the changes we were announcing. So far as the broad objectives of supervision were concerned, we were very clear about them: the concern in the Report was more that we had not closed the expectations gap outside. On publication, he agreed that it was fundamentally a political judgement: the key point was that eventually it would get into the public domain, and if we didn't publish it, it would get into the public domain in a way that we could not control. Then we would be on the back foot.

Mr Foot said that we were addressing two audiences with the document: one outside, and one inside the Bank. It was important when facing both ways to be telling broadly the same story. He wanted the staff to see that while they had a good reputation in many areas and were seen to be doing some things well, that there were things that could be done better. He would ensure that the drafting of the long form of the response was tightened. He explained that the difference between the increases in staff numbers in Arthur Andersen and the cost projections lay partly in the position of WMSD, whose staff had not been included in one set of calculations and partly in the assumptions about overheads.

Sir David Scholey asked whether the Board of Banking Supervision had yet discussed the Report: the Deputy Governor said that they had done so three times, and would have a final go the following day. He also asked about the potential for liability attaching to auditors who would be required to confirm to the Bank that banking controls were effective. Mr Foot said that we had talked to the Building Societies Commission who imposed a similar requirement, but would need to have full discussion with the professional bodies. Finally,

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Sir David Scholey stressed again that we should include an unequivocal supervisory mission statement in the document.

The Governor said that he agreed that we would need to publish the Arthur Andersen Report itself: the issue, as many Directors had stressed, was presentation. In practice we could not produce, in a short timescale, a complete statement of all our supervisory objectives. What we could do was to spell out the very general objectives: along the lines of "to reduce the risk of failure, to reduce the cost to depositors and the public of bank failures". We could also emphasise the negatives: that supervision was not there for the stability of the financial system as a whole; but it was not there to enhance the reputation of the City of London, or to be responsible for preventing money laundering. It was there to bring about a reduction in risk in banking. A simple statement along those lines could be made.

Sir John Hall said that it appeared from some earlier comments that the Bank had not been very proactive in this area: we appeared to have known for some time that supervision was in an unsatisfactory state, and he drew parallels with Gloucester where we appeared to be acting only after pressure from HMT. The Governor said that our supervisory record over the past decade was excellent compared with almost any other major country. The problem was that people were measuring us against unrealistic standards.

Monthly Economic and Monetary Report, Market Charts and Policies to Raise Employment (Messrs Bowen and Jenkinson in attendance)

Mr King commented on the recent Treasury forecasts and the Treasury projection of inflation through to the end of 1997.

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He recalled that the Bank's May Inflation Report forecast had been for RPIX inflation to be marginally above 2 1/2% two years from now, and since then the Chancellor had cut interest rates in June. That would have increased the risk slightly. The minutes of the June monetary meeting, published that morning, showed that the Governor had opposed that cut. Looking further ahead, there was little reason to expect any different outcome from the May Report. The downside risk came from stockbuilding activity, the upside risk from consumer demand.

Mr Simms said that there was plenty of evidence now of confidence rising in the construction sector, although hard numbers were not yet supporting this, and he actually doubted whether there would be much rise in activity. Sir John Hall confirmed that orders were not coming through on any scale. Sir David Simon said that the petroleum industry indicators still suggested considerable strength in the economy, especially the consumer sector. Sir David Lees said that there had been a switch in spending towards personal consumption, notably in the vehicle sector. But he wondered how long the UK's demand pattern could persist in isolation from the much duller picture on the Continent.

The Governor said that the pattern did seem to us very much along the lines suggested by Mr Simms. There was a general expectation of a rise in almost every business survey, but it was very hard to find any backward-looking data to support it. That in a sense was the nature of the tension between the Bank and the Treasury. We could point only to the survey evidence: and not to hard data of increasing activity.

Sir Jeremy Morse commented on the political situation and the context for future interest rate cuts. The Governor said that

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he thought it unlikely that the Chancellor would want to cut rates further if supporting data on activity came through.

Commenting on the markets, Mr Plenderleith noted that Sterling had weakened significantly over the last few days, following a period of strength over the last month. This partly resulted from the movement in the Dollar, but it was clear that the markets were becoming less tolerant of what they perceived as policy risks, and the publication of the minutes that morning had underscored that.

#### Measures to increase employment

Mr King introduced the paper, the first in a series aimed at discussing issues in the real economy. Unemployment was a real problem in every sense of that word: in the European Union there were 18mn unemployed people, and even in the UK unemployment was 2.15mn, a rate of 7.7%. 30 years ago the unemployment rate had been 1.5%, and full employment was assumed to be central to economic policy.

Questions about labour market performance went much broader than just the number of unemployed. They also related to inequality. There was a growing gap between the rise in earnings of the skilled and educated on the one hand, and the fall in real wages of the unskilled and uneducated on the other. On the Continent, the problem of inequality was of concern to the "social partners" and a significant widening of the earnings distribution had been prevented, though at the cost of high unemployment. By contrast, in the United States unemployment as such was not a particularly serious problem, and levels were little higher than on average for the post-war

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period. But inequality had grown markedly over the past decade. Those who might, in Europe, be registering as unemployed had, in the United States, dropped out of the labour force, and in many cases, dropped into crime. 7% of the male labour force in the United States was under the supervision of the criminal justice system - more than the percentage of unemployed. The United Kingdom lay between these two extreme points. Inequality had increased, though not to United States levels; unemployment had risen, but not as badly as on the Continent. Nevertheless the problem was serious.

Mr Jenkinson outlined the various options available to policy makers: ways of raising labour demand, ways of raising the labour supply, and ways of improving the matching of demand and supply. Sir Jeremy Morse asked how widely we had considered other countries and other periods of history - for example the 1930s: Mr Jenkinson said that the public works programme idea from the 1930s was in effect ruled out by the current consensus on macro-economic policy orientation.

Mr Simms and Sir David Lees both wondered whether, even assuming we could find ways of getting another million people into the labour force and into employment, the economy had capacity to absorb them. Mr Kent noted that the issue often arose in inward investment, where government had a role but often behaved as though there was a fixed pool of jobs to be competed for. In reality it was not a zero-sum game.

Sir David Simon said that the paper was excellent, though he was not clear what we were going to do with it. The focus was on the issue of flexibility in labour markets, which arose most acutely in France and Germany. He commented that in the United States research had suggested that the wide income dispersion

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was partly compensated for by speed of movement through the deciles.

Sir David Scholey said that companies could contribute not just by education and training in a general sense, but by trying to offer employment opportunities in their local communities.

The Deputy Governor thought that deadweight costs meant that measures based on uniform rules would tend to be costly: it might be more effective to focus on particular groups - for example non-working single mothers, and attempt to bring them at least closer to the employment market. But it needed a bit of arbitrariness.

Mr King said that such selectivity had initially worked well in Sweden, but had later proved costly. On the earlier question of whether there was a finite stock of jobs, he felt it was more productive to think in terms of the price of new jobs and increasing the return to employment relative, say, to the return to crime.

The Governor, commenting on Sir David Simon's question, said that we needed to have a view on these issues because the current consensus on macro-economic management, which rightly ruled out demand-based measures to address the problem of unemployment, could prove fragile if structural unemployment became deeply embedded. We needed to have a clear view on the alternative micro-measures.

**European Monetary Union (Sir Peter Petrie and Messrs Townend and Collins in attendance)**

Introducing the paper, Mr Plenderleith said that the main recent change was that there appeared now to be a greater

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determination on the part of France and Germany to proceed with EMU on the planned timetable, and this tended to make their attitude less accommodating to the interests of the potential "outs" - making our position in a number of areas more difficult.

Mr Collins said that the main topics now under discussion were ERM2 - which ought to be relatively straightforward now that it was agreed to be a voluntary arrangement; the Stability Pact proposal from Germany, where their original ideas had been clearly outside the Treaty; and the Regulation to introduce the Euro, which was basically on the right lines, but where there were important issues which had implications for the UK - in relation, for example, to its territorial scope. In addition, more general relations between 'ins' and 'outs', of which ERM2 was an example, were coming to the fore - such as the arrangement for access to the TARGET payment system. We had started a regular report on technical transition issues, aimed at raising awareness of the issues and ensuring that those who needed to address them were doing so.

Sir Chips Keswick said that there was general apathy among banks on the topic, with the only concern being the risk of Euro-protectionism. Dame Sheila Masters asked whether the Bank's arguments about sustainability had been picked up; and what had happened to the Europeans' concerns about competitive devaluations. Mr Collins said that we continued to press the point about the sustainability of convergence, and that it would feature in the next EMI convergence report. On relations between 'ins' and 'outs', there was clearly an increase in the profile of this issue.

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Mr Townend said that the City had begun to appreciate that there was a competitiveness issue; the German banks were investing heavily in EMU preparations. UK banks were beginning to see that, whether we were in or out, the practicalities were important.

Sir David Lees asked whether the paper could be more widely circulated, for example through the Agents, to alert industry to the issues. Sir John Hall agreed that this would be helpful to raise awareness. The Governor said that we would consider this. Mr Townend added that the next edition of our paper on technical preparation would also range more widely to cover developments at the EMI such as those reported in the paper before Court.

Sir David Simon said that everyone in the UK assumed they would be saved by the opt-out. But France and Germany were accelerating the process - politics was taking over from economics - and the question for the "outs" would be market access. They could and would make life difficult for us. The Deputy Governor said that work was in hand, in the Bank, on a "threats" paper. Sir David Scholey shared these concerns. The French and Germans had a diminishing interest in talking to or accommodating the "outs". The Governor commented that, technically, market access - at a trade level - should not be an issue, and financial market issues ought to be a concern to the Commission.

#### **The Executive Report**

The Governor introduced the written Executive Report.

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- [REDACTED]
- (a) Court approved the appointment of Mr Gordon Midgley to the rank of Deputy Director. The Governor said that this was specific to Mr Midgley, not to the job of Finance Director.
- (b) Court were content with the proposal that, from time to time, a few Heads of Division sat in on the proceedings of Court as observers to given them a better understanding of how Court operates.
- (c) Court noted that Mr Quinn, who had retired from the Bank on 29 February, [REDACTED]  
[REDACTED]  
[REDACTED]
- (d) Court noted that the Bank's Agent in Manchester was taking on two new responsibilities - namely
- (i) becoming a trustee of a special investment fund in Greater Manchester to benefit small and medium-sized businesses; and
  - (ii) joining the Manchester Centre Task Force to organise the reconstruction programme following the bombing.
- [REDACTED]

The Governor explained the background to the banks' refusal to participate in the proposed millennium pavilion.

[REDACTED]

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### Reclassification of Officials

The Deputy Governor introduced the paper which set out the outline for the new pay and grading structure for Officials. He said that the proposals derived from a working group that had met last year, and were based on a formal job evaluation scheme which had been put in place with assistance from KPMG. The new scheme had five salary bands; the top was reserved for GovCo appointments, and the bottom for new graduates, so the action lay in the middle three. They overlapped, substantially, giving a degree of flexibility, but included reference points which, combined with an increment/merit matrix, would provide a new element of discipline on pay. Moves above the reference point in each scale would be subject to central control.

We recognised that to introduce the system we would need to spend some money, and had set aside flmn. The offer to officials was 2 1/4% across the board, and a further 3 1/4% of discretionary transition funds. We intended to use the transition to benefit good performers in the younger age groups. The relative losers would be those who had been promoted too far in the past; they would find their salary prospects reduced, although none would have their current pay reduced. The new system would put pressure on HoDs to assess and reward performance more rigorously.

Court were content with the proposals.

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**Reports from the Trustees of the Court Pension Scheme and the Staff Pension Fund, together with both sets of Reports and Accounts**

The Governor, having declared his potential interest in the Court Pension Scheme, together with those of the Deputy Governor and Messrs King, Kent, Plenderleith and Foot, invited Sir Chips Keswick, a Trustee of the Scheme to introduce the Report. The Report recommended acceptance of the Actuary's suggested contribution rate, for the year beginning 1 March 1996, of 11% pa of pensionable remuneration on which pensions could be provided from the Scheme, payable at the beginning of September.

Court approved the recommendation.

The latest Report and Accounts of the Court Pension Scheme were laid before Court.

Court noted the Report of the Trustees of the Staff Pension Fund concerning the Chief Investment Manager's reports on the management of the Fund's investment portfolio during the year to 31 March 1996, and the latest Report and Accounts of the Staff Pension Fund were laid before Court.

**The Bank's Treasury Management Policies**

Mr Plenderleith said that the scope for active management of the Bank's own balance sheet was limited. The main area of risk was counterparty credit, and a new review committee had been introduced to monitor the Bank's exposures.

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Sir David Scholey asked what benchmarks were set for managing interest rate risk. Mr Plenderleith said that, for the Bank's own assets, benchmarks were of limited utility because our money market portfolio was the result of our market operations and the gilts portfolio was largely held to maturity. We did however use benchmarks extensively in managing the foreign exchange reserves for HM Treasury. There were very few conventional loans.

Court approved the policies, as set out in the report to Court.

#### The Quarterly Finance Report

This item was held over.

*Plenderleith*  
21. 9. 96

*Chitt M*  
21. 8. 96

COURT: 17 JULY 1996

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EXECUTIVE REPORT

1 Mr Gordon Midgley - an appointment

It is proposed to appoint Gordon Midgley, currently the Bank's Finance Director, to the rank of Deputy Director, and in accordance with 'Matters Reserved to Court', this requires Court's approval.

2 Observers at Court

Last month's Executive Report mentioned an experiment whereby, with Court's consent, a few Heads of Division may from time to time be invited to sit in on Court as observers. The intention is to make the workings of Court better understood by the Bank's senior management, and as part of this the Governor will be talking to Heads of Division about the role of Court on 25 July.

3 Directorships

Mr Quinn retired on 29 February. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

4 The Agent, Manchester

The Bank's Agent in Manchester is to take on two new responsibilities:-

- (a) He will become a trustee of a special investment fund in Greater Manchester investing in small and medium-sized businesses. The size of the fund will be in the region of £10mn which will be financed as to 70% private,

30% European Union.

[This is a similar case to the Liverpool Agent's chairmanship of the Merseyside Special Investment Fund approved by Court in November 1994.]

- (b) He will join the Manchester Centre Task Force whose purpose is to co-ordinate the programme for recovery from the bomb, oversee its delivery, secure resources from the public and private sectors to support the programme, and account for their use to the City Council and the Government.

These developments are reported to Court in view of the potential reputational risk to the Bank.

5 Cyprus Credit

Mr Foot will give an oral report

6 Millennium Exhibition

Further to last month's Executive Report, members will have noted from recent reports in the press that the British banks have turned down a request from the Deputy Prime Minister to fund a Millennium pavilion at Greenwich.

8 SIB/BOBS Appointments

These were announced on 3 July, and were favourably received by the Press. A copy of the Press Notice is attached.



9 Payment and Settlement Strategy

On 3 July, the Bank presented the attached paper to the City Promotion Panel setting out a strategy intended to reduce further the risks in payment and settlement systems. The key elements of the strategy are:

- To introduce **full Delivery Versus Payment (DVP)** in domestic securities settlement systems. To plan this, the Bank is establishing a working group with APACS and CREST to examine technical aspects of the options for implementing DVP in the Central Gilts Office and CREST systems. (Delivery Versus Payment is a mechanism to synchronise the exchange of final funds against good title to the securities. Without DVP, neither the seller nor the purchaser of a security can be sure of retaining title to either the security or the cash payment in the event of default by a counterparty to a trade. A separate working group will study the option of merging the Central Gilts Office and CREST in due course. This group will include the Bank and CREST.)
- In the European context, the UK will join **TARGET** - the project being co-ordinated by the European Monetary Institute to link domestic real time gross settlement (RTGS) systems across the European Union in preparation for a single currency - whether or not the UK participates in monetary union. The Bank will offer a connection to the TARGET system to enable banks in the UK to make safe high value payments denominated in euro. (TARGET is an acronym for Trans-European Automated Real-time Gross settlement Express Transfer system. It will allow high value cross-border payments in euro between settlement banks to be settled in central bank funds in minutes.)
- In relation to reducing risk in **foreign exchange settlement**, the Bank will follow through the three point strategy set out in the recent G10 report on the subject. The Bank will monitor banks' responses to the report and the G10 will review progress in each of the next two years. If progress is not adequate, central banks will consider what further action is required. (The G10 report "Settlement Risk in Foreign Exchange Transactions" was published in March 1996. It was prepared by the Committee on Payment and Settlement Systems of the central banks of the G10 countries.)

The paper also describes the key steps taken already to reduce or eliminate risks in UK payment and settlement systems, including the introduction of our own RTGS payment system in April this year.

[The City Promotion Panel was launched by the Chancellor, Kenneth Clarke, in July 1995. The panel provides a high level forum to discuss, among other things, strategic issues about the successful development of the UK financial services sector.]

## MINUTES OF A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 24 JULY 1996

Present

Mr George, Governor

Mr Kent

Mr King

Mr Plenderleith

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 noted.

Mr Plenderleith spoke briefly about the state of the markets.

*Col Sargate*  
21.8.96

*Chd M*  
21.8.96

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## MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 31 JULY 1996

## Present

Mr George, Governor

Mr Foot

Mr King

Mr Plenderleith

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 Meeting, having been circulated, were noted.

*Col Southgate*  
*21.8.96*

*Ch. A. C.*

*21.8.96*

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## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 7 AUGUST 1996

## Present

Mr George, Governor

Mr Foot

Mr King

Mr Plenderleith

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 Meeting, having been circulated, were noted.

Mr Plenderleith spoke briefly about the state of the markets and the Official Reserves figures for July.

*Col Southgate*  
*21.8.96*

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## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 14 AUGUST 1996

Present

Mr George, Governor

Mr Kent

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 Meeting, having been circulated, were noted.

*Col Southgate*  
21.8.96

*Chutley*  
21.8.96

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## A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 21 AUGUST 1996

## Present

Mr George, Governor  
Sir Colin Southgate  
Sir David Cooksey  
Mr Kent  
Sir Chips Keswick  
Dame Sheila Masters  
Sir Jeremy Morse  
Mr Neill  
Sir David Simon

The Minutes of the Court of 17 July and the Meetings of 24 and 31 July and 7 and 14 August, were approved.

**Inflation Report Discussion**  
(Mr Bowen in attendance)

In the absence of Mr King, Mr Bowen said that the underlying rate of inflation, measured by RPIX, had remained fairly steady at or just under 3% since the beginning of 1995. Spare capacity and unemployment had exerted downward pressure on inflation, but those factors had been balanced by the impact of price increases for imported commodities from mid-1994 and the depreciation of sterling in Spring 1995. But recently the upward pressure on 12-month inflation rates from the prices of traded goods and services had disappeared, and short-run measures of inflation had already started to fall. World commodity prices were subdued and, in manufacturing, input prices - apart from oil -

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had been falling and output prices had barely risen this year. The short-run outlook for retail price inflation was favourable: indeed, RPIX inflation was likely to fall below 2 1/2%, the Government's target, before the end of this year.

But, further ahead, the prospects for inflation were not as good. The signs were that domestic demand, excluding stockbuilding, was accelerating. Consumption was strong in the first quarter, growing by nearly 1%, and was likely to remain so over the next two years: real pre-tax earnings had risen, tax cuts had boosted post-tax income, real financial wealth had gone up, and debt burdens had fallen. Real private investment grew at its fastest rate for seven years in 1996 Q1, and the outlook was for further increases in investment, for instance, to relieve the relatively high capacity utilisation in the services sector. The rapid growth rates of broad money and credit would support the pick-up in domestic demand.

Output growth was likely to lag the growth of demand because there was still a large overhang of stocks. Manufacturing output, in particular, was likely to be held back. But we still expected some pick-up in whole-economy output in the second half of this year. As spare capacity was used up, skill shortages developed, and some raw-material prices were bid up, the upward pressure on retail inflation would be likely to intensify. These developments were likely to be reflected in the labour market. Although underlying earnings growth had remained remarkably stable in nominal terms, it had picked up this year in real terms. The excess of labour supply over the demand for hours was likely to decline, having been more or less stable over the past year.

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The implications of this analysis for inflation were summarised in the Bank's new projections, shown in Section 6 of the Inflation Report, which had concluded that, on the basis of the data available at the beginning of August, a tightening of monetary policy would be necessary at some point to achieve a better-than-even chance of keeping inflation below 2 1/2% in the medium term.

The Governor said that, in the short term, the economic prospects looked favourable with inflation expected to fall and the outlook for production encouraging. But looking further ahead there was the likelihood that inflation would pick up speed and would need to be moderated if the Government's target was to be maintained. The danger was that, given the favourable short term position together with the political calendar, it was difficult to get people to focus on that more distant prospect. Today's fall in retail sales would add to that difficulty.

Sir Colin Southgate asked if Court could see any projection by the Bank of inflation more than two years ahead. He also asked for an indication of our forecasting history and the extent to which forecasts were subsequently justified by events. Mr Bowen said that, although the Bank did make forecasts beyond two years, they had to be interpreted cautiously because of the very large degree of uncertainty and the artificiality of the assumption of unchanged interest rates.

Sir Colin Southgate saw continued strength in the retail market and noted that the market for shop premises had begun to tighten. Sir Chips Keswick feared that there could be an inflationary boost over the next two years once the current price-cutting war between financial institutions had ended.

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In answer to Sir Jeremy Morse, the Governor said that the last interest rate cut had been against the Bank's advice, which had particularly been influenced by forward-looking indicators including survey evidence. But evidence since then had mostly been softer. Mr Bowen noted that the easing in the growth of broad money and retail sales had been expected by the Bank and did not change our concerns about the prospects for inflation.

Mr Neill reported that the car industry had been strong in April and May. Although sales in the first 10 days of August had been below expectations, the month often saw a large peak in the last few days. He pointed to increased pressures on pay reflecting a tighter labour market with employers having to pay more, in particular for managers, rather than responding to trade union pressures. Sir David Simon said that the energy market remained robust in the UK and he sensed a more optimistic mood in Germany.

Sir Jeremy Morse suggested that the Quarterly Bulletin and Inflation Report should be published on separate days to reduce the volume of material simultaneously made available. The Governor said this was an issue which was considered from time to time and Mr Bowen noted that the charging policy for these publications was being reconsidered.

**Quarterly Supervision Report**  
(Messrs Page, Reid, Stephenson and Ms Walsh in attendance)

Changes post Arthur Andersen Report

Following the publication last month of the Bank's Review of Supervision which included the Arthur Andersen Report, Mr Page reported on how the plans had been presented to staff and how the staff had reacted. The staff had responded well to the new strategy and in particular welcomed the commitment to high

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standards and to the provision of greater resources and the emphasis on training, although inevitably there remained an undercurrent of cynicism of whether all changes would really occur and some concern by junior staff about the proposals on multi-skilling. The press coverage had been satisfactory and, in particular, the recruitment of "grey panthers" had attracted attention. The reaction of the banking sector had also been positive and he welcomed their support for the secondment programme.

Sir Jeremy Morse welcomed the "grey panthers" initiative and the Governor said that its success would depend on the extent to which supervisors made use of them. Dame Sheila Masters asked if there was a detailed implementation timetable, to which Mr Page said there was a schedule for nine specific projects and a game plan for staff recruitment. Dame Sheila Masters said it would be useful to know of progress at the time of the next Court review of supervision.

Mr Neill asked if Court could have a discussion on the IT strategy and the need for greater IT literacy, and Sir David Cooksey noted that Mr Foot had raised the possibility of a separate teach-in on this subject. Mr Neill also stressed the importance of getting the staff to share in the vision of the new supervisory regime and wondered if the Bank might need some external expertise in managing the considerable changes it faced, particularly with IT. Mr Page reported on the extent to which outside consultants were already being involved.

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Supervising Developing World Banks

Mr Reid introduced a paper outlining the work of the Developing World Division. He noted that three quarters of the banks supervised by the Division were branches of foreign banks whose London operations were typically small although the banks were generally important in their own countries. Their operations were often relatively simple and concentrated on ethnic retail services, private banking, simple treasury operations, trade finance and servicing corporate clients. There were three elements to our supervision: ensuring UK branches were prudently run; being satisfied that the bank as a whole met our authorisation criteria; and being alert to country risks and the possibility of inadequate supervision at home. There were currently 13 cases in which the Bank's formal powers were exercisable because authorisation criteria were not being met. The schedule to the paper explained the actions we were taking to deal with the problems.



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### The Executive Report

The Governor introduced the written Executive Report.

#### Pre-Court Presentations

Members were in favour of the proposed pre-Court presentations ie Mr King to speak about the intellectual framework underlying monetary policy, on 16 October; and Mr Trundle to speak about the work of Payment Settlement and Clearing Systems Division, on 18 December.

#### "Prudence"

Court reviewed the "dummy issue" of "Prudence" sent to them the previous month. Sir David Cooksey wondered if it would be possible to maintain sufficient interesting articles and also queried who would read it. He wondered if articles might not be incorporated in the Quarterly Bulletin instead. The Governor was confident that sufficient articles would be found and in particular he considered the publication would be a very useful document of record. But he said that the question of how often it should be published was still under consideration. In responding to Mr Neill, the Governor said the aim of "Prudence" was to generate a broader public understanding of supervisory issues and to put the UK's banking supervisory questions into a broader perspective. In addition to the general

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[redacted]

audience, there was a technical audience of regulators who needed to be kept abreast of developments.

Sir David Simon thought the content was good but that its title did not carry sufficient weight and suggested a title such as "Financial Stability Today", an idea supported by Sir Jeremy Morse.

#### Registrar's Department

Mr Kent explained the new targets for the Registrar's Department which had to be achieved over the next five years. The Governor noted that the incentive for management was that the Bank would lose registration if they did not deliver against the target. Mr Neill feared that it would be difficult to manage change on the proposed scale without offering staff the prospect of a better future after five years. In answer to Dame Sheila Masters, Mr Kent said that there would be senior management changes as a part of the move towards smaller staff, but that he had assured staff that the Bank would consider ways of enlarging the business once the achievement of lower costs had been met. However, a management buyout was difficult given the statutory requirements to provide a registration service to the Government. Sir David Cooksey felt that the Bank had done well in gaining agreement from the Government to retain the business provided the economies were achieved.

The Governor also drew attention to the refurbishment of the Bank's Printing Works, [redacted] the new banknote paper supply agreement with De La Rue and the dollar bond issued for HMG.

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**Bankwide Insurance Cover and Uninsured Risks**  
(Mr Charman in attendance)

Mr Charman, in presenting his paper, said that the Deputy Governor had asked for such a paper as it was good corporate practice for Court to be aware of the Bank's strategy on insurance. He gave an account of the evolution of policy over the last five years when, acting on the recommendations of external consultants, a more co-ordinated approach had been adopted. He noted a number of changes to the insurance cover and pointed out the considerable savings in costs by changing our broker to Willis Corroon. He reported that the principal insurance risks which were not covered were those of crime and professional indemnity, but the relatively small cover available seemed too expensive.

Court endorsed the policy recommended in the paper as presented and noted the extent of the major uninsured risks.

**The Delivery of CREST**  
(Mr Saville in attendance)

In presenting the last report on CREST, Mr Saville, CRESTCO's Chief Executive, noted that settlement had gone smoothly in the first days since the system had gone live, but as yet volumes were relatively small and would not achieve their full extent until transition was completed next Easter. The project would not be complete and the Bank's name would still be at risk until then. For that reason CRESTCO would need to keep most of the business team seconded from the Bank in place until completion of that process. Sir Jeremy Morse noted, however, that the Bank's immediate financial risks had terminated now that the system had gone live. Looking further ahead, Mr Saville said that CREST would continue to evolve and questions which it would

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face would be how to link with RTGS, how to establish a unified securities settlement system embracing CGO and, perhaps how to link with a Euro-settlement system if EMU comes about.

Sir Jeremy Morse proposed congratulations to Mr Kent, Mr Saville and the CREST team for their considerable success in achieving this difficult project on time and within budget. The Governor added his own congratulations and read a letter from Sir David Lees which praised the CREST team and noted that the fears about reputation risk which had previously been expressed by Court had diminished considerably.

Mr Kent reported that he would step down as Chairman of CREST following its first Board meeting in September.

#### The Printing Works Report to Staff

The Report was laid before Court for information only.

#### Sealing Committee Minutes

In accordance with the terms of reference of the Sealing Committee, the Minute Book of that Committee was laid before Court for inspection.

*Howard J. Jones*

*J. A. Grotman*

*Secretary*

*18 September 1996*

TO MEMBERS OF COURT

The Written Executive Report: Court 21 August 1996

1 Pre-Court Presentations

Following the presentation on the Bank's finances last June, it is proposed that:

- (a) Mr King should make a presentation before the Long Court on 16 October addressing the intellectual framework underlying monetary policy, and
- (b) Mr Trundle, the Head of Payment Settlement and Clearing Systems Division, should make a presentation before the Long Court on 18 December on the work of his Division.

Would Members be interested in attending these presentations?

2 "Prudence"

The Deputy Governor wrote to Members on 22 July enclosing a copy of a "dummy issue" of this publication which addressed topics concerning the "financial stability" areas of the Bank's responsibilities. Members' comments on the publication will be welcomed at Court.

3 Registrar's Department

As Members of Court will be aware, in the course of its Fundamental Expenditure Review last year, HMT considered the cost of gilt registration, and the Bank and Treasury agreed to set up a joint working party to benchmark the cost of Registrar's Department against the cost of registration in the private sector. At the same time, the Bank decided independently to employ external consultants - both to carry out a benchmarking study of our own (to ensure that comparison took account of the quality of service etc) and to explore the possibility of substantially reducing Registrar's Department costs.

Both exercises have now been completed. Each concludes that, per account, private sector registration would cost less than half the rate charged by Registrar's. However, the Bank's external consultants also concluded that Registrar's could be re-engineered to bring costs close to private sector levels. This would involve a substantial investment in IT which would in turn allow staff numbers to fall.

We decided that, as long as HMT would provide some certainty over the medium term (specifically agree not to revisit the question of market testing for at least five years), we would offer to implement the necessary changes at Registrar's. This would enable the Bank to retain responsibility for gilt registration at a time of rapid change in the gilt market.

The Chancellor has now accepted this proposal. Specifically, HMT has suggested an, in principle, fixed unit cost over five years of around £4.60 per account from £10.80 (excluding central overheads). They have also agreed that there is a strong prima facie case for merging the National Savings Stock

[REDACTED]

Register with Registrar's Department in which case, the cost would come down to £4.30 per account (again exclusive of overheads). The details of both the pricing formula and merger are now being discussed. In the meantime, Registrar's Department is proceeding to implement the necessary changes in IT (and staffing), and Bank staff have been told of developments.

Southgate House, the premises from which the Registrar's Department operates in Gloucester, is about to be marketed and the Registrar is aware of some interest being expressed by a potential purchaser. In terms of finding smaller premises, he is now in contact with local agents to see what is available.

#### 4 Printing Works Refurbishment

This project has been completed for a total outcome of £37.8mn. [REDACTED]

[REDACTED]

[REDACTED] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Given the inherent uncertainty of the refurbishment of a building with continuing production in a high security environment, this is a satisfactory outcome. [REDACTED]

[REDACTED]

[REDACTED] Throughout the project the management team had very good support from our advisers, Gardiner and Theobald (Quantity Surveyors) and from Posford Duvivier (Consulting Engineers). The day-to-day "grip" on the project was provided by [REDACTED]

[REDACTED]



On Monday 15 July, the Bank on behalf of HM Treasury, launched a major dollar borrowing, in the form of an issue of \$2 billion five-year bonds. The issue was made for routine debt management purposes, to refinance in part the UK Government's \$4 billion floating-rate note which falls due for repayment in September.

The operation is thus an exercise in foreign currency debt management (the UK Government has about \$30bn of foreign currency debt, more than covered by foreign exchange and gold reserves of \$48bn) and has nothing to do with the PSBR. The issue met all the Bank's aims; in particular the very fine pricing was in keeping with the Government's prime market standing (the launch yield of 5 basis points over US Treasury bonds being the finest achieved by an issuer for such a bond) and it met strong demand from long-term investors around the world (being heavily oversubscribed and with the secondary market price therefore improving slightly after launch). It is trading as the new liquid benchmark in that area of the eurodollar market.



## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 28 AUGUST 1996

## Present

Mr George, Governor

Mr Davies, Deputy Governor

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 noted.

*Howard J. Paine*

*The Hon*

*Kenray*

*18 September 1996*

## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 4 SEPTEMBER 1996

## Present

Mr George, Governor  
Mr Davies, Deputy Governor  
Mr Foot  
Mr King  
Mr Plenderleith

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 Meeting, having been circulated, were noted.

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*18 September*

*1996*

## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 11 SEPTEMBER 1996

## Present

Mr George, Governor

Mr Foot

Mr Kent

Mr Plenderleith

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 Meeting, having been circulated, were noted.

*Howard J. Davis*

*J. K. Horn  
Secretary  
18 September 1996*

## A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 18 SEPTEMBER 1996

## Present:

Mr George, Governor

Mr Davies, Deputy Governor

Sir David Cooksey

Mr Foot

Mrs Heaton

Mr Kent

Sir Chips Keswick

Mr King

Sir David Lees

Dame Sheila Masters

Sir Jeremy Morse

Mr Neill

Mr Flenderleith

Sir David Scholey

Mr Simms

The Minutes of the Court of 21 August and the Meetings of 28 August, 4 and 11 September, having been circulated, were approved.

**Monthly Economic and Monetary Report, and Market Charts (Ms Kelly in attendance)**

Mr King said that over the past few months any remaining uncertainties about the economy had become less, and the picture we had expected, of a steady recovery, had become clearer. There had been some slightly disappointing figures on inflation. It now looked as though the RPI would not fall below 2 1/2% this

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year, and while it was wrong to become too preoccupied with the monthly figures, it would be bad for credibility if the RPI rate were not seen to fall below the Government's target at some point.

The pattern of money growth continued to reinforce our view of the strength of demand growth. The retail sales data published that morning were very strong; there was also evidence of de-stocking, suggesting that output would be picking up more, and there was indeed already some evidence that manufacturing output was doing so. The labour market seemed to remain subdued, but we were probably nearer the point at which pressure on earnings would begin to emerge. Our overall conclusion was that, while some uncertainty remained over the impact of the stock cycle on output, there was very clear evidence of demand coming through, including investment demand. This would lead to higher output and to pressures on prices, and it was therefore a source of regret that the Chancellor had rejected our advice to keep interest rates unchanged during the summer.

Mr Flenderleith commented that, despite the disagreement with the Chancellor, sterling and other markets had remained steady.

The Governor recalled his comment at the previous Court that the analysis was as clear now as he could recall: the economy was displaying all the hallmarks of a classic demand expansion, and was developing exactly as we had anticipated. The question now was how strong the economy would become, and whether and how much the expansion would feed through into inflation.

Mr Simms agreed that demand was stronger. In the construction sector the data had become more solid: there were indications in contracting that tender prices were continuing to grow, despite

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some short-term weakness in road-building. In house-building, the pick-up in demand was real. Mr Neill said that although the short-term indicators were confusing, the automotive sector was up overall around 3%, and firms were happy with the pattern of demand. Sir David Cooksey commented that textile manufacturers were finding it possible to get 5% - 6% price increases through retailers. Mr Simms commented that 5% - 5 1/2% price increases were expected in construction too.

Sir David Lees agreed that company sentiment was now better than two to three months ago. Manufacturing performance and schedules were stronger. There was less pessimism related to growth on the Continent (at least as far as Germany was concerned); there was a lot of new defence work coming through. Skill shortages in engineering were beginning to be talked of again, for the first time for some time, a point confirmed by Mrs Heaton. On investment, corporate liquidity was strong, and this was having an effect on prices. People seemed to be accepting lower investment hurdle rates.

The Deputy Governor commented on his visit to the West Midlands: conditions there were better, mainly because of home orders, and there was an expectation of increased employment. On the labour side, some firms expected pay trouble over the winter, and some too were experiencing poaching among management staff.

The Governor said that all of the indications about demand were positive, and the question was the pace of the upturn. We were starting from a situation, admittedly, in which slack had to be taken up, and we were fortunately starting from a good inflation position. Today's retail sales figures confirmed that demand was strong. Our policy view was consequently very clear: at least on the direction, if not the pace or the timing. But we had to

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recognise that markets saw no chance of an interest rate increase ahead of the election. Sir David Scholey added that the markets were in effect saying that the Chancellor would want to cut again before the election.

Sir Jeremy Morse commented on the strong consensus in Court: he wondered whether the evidence was equally clear to the Chancellor. The Governor felt that the evidence would make it harder for the Chancellor to cut rates, whatever the external pressures on him to do so. But it was a more significant step to being ready to raise rates early.

Sir David Scholey noted that the current developments in the economy were in line with the Bank's forecast, and wondered if we could publish our forecasting record over time. Mr King said that we had done so occasionally in the Inflation Report. To establish a forecasting track record a longer run of data was needed; the provisional conclusions that could be drawn about our forecasts were that in the very early stages, 1993-1994, we had underestimated the extent of disinflation after the exit from the ERM; the Governor added that we had additionally missed the sharp downturn in Europe 18 months ago, with its effect on the stock cycle. More recently our forecasts had been very accurate. Mr King reminded Court that our forecasts were not unconditional: they assumed no change in interest rates throughout the forecast period so that in a period where interest rates were rising, we would tend to look pessimistic on inflation.

**International Economy - Preview of the IMF/World Bank annual meetings (Messrs Collins and Drage in attendance)**

Mr King said that the issues for the forthcoming IMF meeting could be grouped under two headings: the world economy; and "post-Mexico" issues.

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On the world economy, it was likely that the IMF would paint a broadly optimistic picture. There were two issues likely to be discussed. First, Europe: the move to EMU plainly required significant fiscal consolidation, and as seen from the United States, in the absence of a monetary easing the participating countries would have to go ahead on the basis either of a fudge or of a depression. There could well, therefore, be some pressure for a co-ordinated easing of monetary policy in Europe. The other issue was likely to be the growing balance of payments deficits among some of the major newly industrialised economies.

The major post-Mexico event was the negotiation of the New Arrangements to Borrow, the successor to the General Arrangements to Borrow. The original aim had been to double the size of the potential liquidity pool and (more importantly) to bring in new members. A broad agreement on this issue had now been reached, and would be finalised in Washington. Other post-Mexico issues included the enhancement of surveillance of economies and of statistical requirements.

Sir Jeremy Morse said that he could see the attraction of encouraging better data flows with more regular publication and information. He noted that in several cases one issue had been the rapid build-up of short-term debt, and he wondered about the role of the banks that had channelled that finance: ought they not to be part of any exercise? And in this connection he wondered whether there was a role for the Institute for International Finance.

Mr King noted that the problem with Mexico had not been just the availability of information, but the interpretation of it. The IMF recognised now that it had become excessively detached from the problem: the Mexicans had tended to deal directly with the

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United States, and Executive Board discussion of Mexico had therefore become muted. It was now clear that there should be franker discussions in the Executive Board. This was beginning to happen.

The Governor commented that there was an intense debate within the Institute for International Finance between those who felt official finance should be constrained to avoid introducing moral hazard, and those who felt that official finance could cushion some of the shock of adjustment for a country in difficulty. Sir Chips Keswick pointed out that official finance on the scale contemplated could do very little; and it was likely that in practice markets and credit rating agencies would control flows. Mr King thought that public sector institutions might be able to offer help in the form of experts to support governments' change programmes. Mr Plenderleith commented that while banking markets had managed to arrest the decline in spreads, the capital markets were tending to show extreme lack of discrimination between borrowers.

Dame Sheila Masters asked what could be done to test the quality of individual countries' data, and to raise it. Mr King said that the IMF had a statistical department, which was involved in monitoring countries' performance and issuing statistical manuals: but the issue at this stage was delays, release dates and standards of disclosure. The Governor said that he could not think of a case where absence of data had been a problem: it was the absence of analysis that had been the difficulty. The IMF now accepted that it had missed a lot of the signals in the Mexico case.

Sir Jeremy Morse asked about the idea of a working group involving supervisors and International Financial Institutions.


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Mr Foot said that the supervisors were a long way behind in policy co-ordination. There had been a discussion in Basle the previous week, involving the IBRD and IMF, on how the issues might be drawn together: there was obviously support for training and technical assistance, but in terms of setting and enforcing world-wide standards there were likely to be considerable difficulties.

On gold sales, Mr Drage reported that although there was a substantial majority in favour of the proposal, it might well not go to a vote as the French did not want to upset the Germans. Mr King added that the income from gold sales would anyway not be needed for a couple of years.

**EMU - Practical issues arising from the introduction of the Euro  
(Mr Collins in attendance)**

Introducing the paper, the Governor said that there had been considerable interest over the summer on the impact of monetary union on the City. Three main themes had emerged: first, that the City might not be ready for EMU; second, that no-one was giving a lead; and third, that there was a real threat to the City if the UK stayed on the outside: 20,000 job losses had been mentioned. Against that background, the Governor wanted to set out what the Bank had been doing, leading up to the publication of the latest "practical issues" paper. It had not been possible for the Bank to initiate a process of City preparations until the changeover scenario had been agreed at Madrid at the end of 1995. After that, we had opened consultations with all of the relevant associations and markets to ensure that they were aware of the implications of the changeover scenario and could begin to make practical preparations for it. The scenario itself was quite helpful to the UK, in that the preparations which needed to be



undertaken in relatively short order were identical whether we were in or out.

We had published the first progress report on our consultations in May, and the second report on 16 September. The second report was substantially larger than the first, reflecting the extent to which the work had taken off over the previous three months: ironically, the build-up of work had itself probably sparked the worries, reported in the press, that London might not be ready. We had wanted to demonstrate the extent to which progress had been made, and the second report had been launched with rather more fanfare than the first, at a press conference. We felt this had gone some way to calming worries.

On the question of whether the City was disadvantaged by the UK staying outside EMU, the point was often made, but people found it very difficult to point at specifics. It was partly for this reason that when a specific issue had come up - TARGET - it was seized upon as a case in which the 'ins' had determined to discriminate against the 'outs', and with London very much in mind. In reality the TARGET issue was a trivial one. TARGET was the European Real Time Gross Settlement network: RTGS was all about risk reduction, and banks would use it if it was not too expensive, otherwise not. We were in favour of TARGET, but if TARGET did not exist the other existing payment mechanisms would do perfectly well. It was agreed at the EMI that the 'outs' and the 'ins' should have access to TARGET, but it had been suggested that the 'outs' access to intra-day credit should be limited. Intra-day credit was critical to any Real Time Gross Settlement system: it oiled the wheels and prevented gridlocks developing. It did not spill over into overnight credit - which would have monetary policy implications - and any tendency for it to do so could and should be countered by penal interest rates.

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We were in no doubt that, if intra-day credit were not extended to the 'outs', London could operate through a variety of alternative means. But the introduction into the EMI Council of a purely competitive issue represented a new departure, and as a matter of principle we had objected. We would continue to press the point, while continuing the constructive work that we had been engaged in across the whole range of EMI issues.

Sir Chips Keswick asked about the timing of the resolution of the TARGET issue. The Governor said that it was a decision for the European Central Bank, ultimately, in 1998. In practice, there would be further rounds of discussion in the EMI on TARGET, and we hoped to get more vocal support from the 11 countries that supported us.

Sir David Lees commented that TARGET went well beyond the settlement system itself; people were seeing it as the first major issue between the 'ins' and the 'outs', a classic example of the feared inner ring developing. It was important to get the issue settled as soon as possible. The Governor agreed, and said that it underlined the need to establish and continue to hold to our general point of principle.

Sir Jeremy Morse felt that the Bank was steering a sensible path, and he very much welcomed the paper. But the issues were bound to become more difficult. Even if we settled TARGET, there would be other 'in'/'out' issues. One problem for the City was uncertainty. There was no doubt that the City could do well as an 'out', and equally as an 'in'; but it needed to know which it was to be. Was it really the case that preparation for the 'in' scenario and the 'out' scenario was identical at the present? The Governor said that he entirely understood the concerns about

uncertainty: but when one looked at the practical issues, the differences were relatively small, at this stage, between the 'in' and the 'out' scenario.

Dame Sheila Masters asked whether we were helping the City to take advantage of opportunities, as well as preparing for the risks: the Governor felt that preparedness was uneven across the City: LIFFE was doing well, others were adopting a more defensive stance. The role for the Bank was to prepare the City to take advantage of opportunities, but we could not tell firms what to do. The Deputy Governor commented that some institutions had done quite a lot, others nothing. Often they pleaded political uncertainty, but we could now put to them a reasonable assumption that there would be a group that went ahead, and that we would not be in it. We were actually beginning to talk to a wider group, based around the CBI and the British Chambers of Commerce, with whom we might be preparing videos and information packs. It was clear that there was a large demand for this kind of advice.

Sir David Lees said that it would be helpful to have more information on the terms of the stability pact. In general, people were clear about the rules of entry to EMU, but not the rules for continued membership. The Governor agreed that it was important that this should happen and thought that some more detail would emerge after the informal ECOFIN over the coming weekend.

The Deputy Governor reported that the entries for the EMI banknote competition had gone in, including one from the Bank of England.

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Developments in the Bank's Economic Liaison Function (Mr Allen in attendance)

Mr King commented on the recent build-up of the Agencies in the light of the decision to expand the network, the approval of an IT project to link them to Head Office, the introduction of panels of consultees, and the recent invitation to members of Court to visit the Agencies. The Deputy Governor reported on the run down of the branches: this was proceeding smoothly, and it was likely that all would close together, at about the same time, about a year from now. A note club had been successfully introduced in Birmingham. The Agents were looking for properties away from the branches.

In reply to a question from Sir Jeremy Morse, Mr Allen said that the changes now in train, including the move to Monetary Analysis control, would not diminish the Agents' representational role.

Sir David Scholey said that Members would welcome invitations to lunches, dinners and panel meetings at the Branches. He asked whether the panels, which he welcomed, would help the Agents to cover the service sector better. Mr King said they had initially been formed to cover the small firm sector, but had since evolved differently: the Agents were certainly putting effort into services. Mr Allen added that the better coverage of Greater London would also help.

The Executive Report



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Members had no further comments on the Executive Report paper laid before Court which also included references to Officials' pay, recent appointments at CREST and the Stock Exchange, a possible further foreign currency bond issue and the dates of long Courts in 1997.

Howard J. Laier

J. K. Thomas  
Secretary.  
16 October 1996

## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 25 SEPTEMBER 1996

## Present

Mr George, Governor  
Mr Davies, Deputy Governor  
Mr Foot  
Mr Plenderleith

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 noted.

*Howard J. Lane*

*John Gorman*

*Secretary*

*16. 09.1996 1996*



## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 2 OCTOBER 1996

Present

Mr Davies, Deputy Governor

Mr Plenderleith

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 Meeting, having been circulated, were noted.

Mr Plenderleith commented briefly on the Official Reserves figures for September.

*Howard J. Davis*

*John Gorman*

*Secretary*

*16. October 1996*

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 9 OCTOBER 1996

Present

Mr Davies, Deputy Governor

Mr Foot

Mr King

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 Meeting, having been circulated, were noted.

The strength of sterling on the foreign exchanges was briefly discussed.

*Howard J. Davies*

*Antonia*

*16 october 1996*

## A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 16 OCTOBER 1996

## Present:

Mr George, Governor

Mr Davies, Deputy Governor

Sir David Cooksey

Mr Foot

Mrs Heaton

Sir Chips Keswick

Mr King

Sir David Lees

Dame Sheila Masters

Sir Jeremy Morse

Mr Plenderleith

Sir David Scholey

Mr Simms

Sir David Simon

Sir Colin Southgate

The Minutes of the Court of 18 September and the Meetings of 25 September and 2 and 9 October, having been circulated, were approved.

**Supervision Report - International Regulatory Co-operation**  
(Mr Smout in attendance)

Introducing the report, Mr Foot said that the past year had seen a lot of activity in the area of co-operation between regulators, both domestically and internationally. Inevitably issues had been raised by Barings, as well as by Daiwa and more recently Morgan Grenfell Asset Management (MGAM). The Bank had

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been very active in many of these areas. So far as UK regulators were concerned, most work had gone into co-operation with the SFA and the Building Societies Commission; this had involved study of each other's methods, agreement on practical aspects of co-operation such as information exchanges and ensuring that information reached the right place. We were now doing more bilaterally with the SFA, including a few joint visits to firms. For some years we had had regulatory colleges, bringing all UK regulators together to discuss multi-function groups of common interest. We had recently taken this further, including the involvement of overseas regulators where appropriate. It was clear that there was still more to do; in particular, post Morgan Grenfell, we needed closer co-operation from IMRO.

On the overseas side, there had long been the network provided by the Basle Committee of Supervisors, and more recently the EMI sub-committee on supervision. Under the Second Banking Co-ordination Directive, we had developed MoUs effectively with every other member of the European Community. The position had been reviewed after the Barings collapse, and it had been decided that additional efforts should be concentrated into relations with banking supervisors internationally. The main focus would be areas where British banks had significant interests - the United States, Japan, major parts of the Commonwealth and key off-shore islands. There was already good co-operation with many authorities, and the Bank had also helped to take forward an important agreement between the Basle Committee and the off-shore centres. In many cases we would hope to produce MoUs - for example with the US supervisors - but this was not always legally or politically possible, and in any event, if there was no basis of trust, there was no point in having a written agreement.

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Mr Smout added that co-operation between bank supervisors had a significant history. The major achievement of the Basle Committee in its first 10 years was to produce a Concordat which clarified the major relative responsibilities of home and host supervisors, and to gain acceptance for the need for co-operation. The banking supervisors had long emphasised the importance of consolidated supervision, with the home country in the lead. Securities supervisors had tended to rely more on ring-fencing of a particular operation. A recent practical manifestation of co-operation had been the quadrilateral meetings in New York, which had shown how little the management, legal and supervisory structures of complex groups coincided.

There was a UK political interest in encouraging the lead regulation model, though this was sensitive for the Americans. Some SEC staff still believed that a "ring fence" model was workable; others in the SEC were reluctant to take on wider responsibilities without legislative powers to go with them. The US bank supervisors also had legal problems, and turf disputes between themselves and with the SEC.

Sir Jeremy Morse said that the Bank had an enormous head start in this area, having provided the first two Chairmen of the Basle Committee and having pioneered the UK/US capital convergence agreement. His sense was that our main intention at the moment was the creation of better banking co-operation with other countries. Co-operation with securities and insurance companies' regulators seemed secondary. The implication was that insurance was not diversifying overseas as fast as securities. This was not surprising - the cross-interest between securities and banking was wholesale money. It had to be accepted that regulators were never going to get

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their hands right round a market. The question was how you "get prudence in". Sir Jeremy had found the MGAM affair upsetting because it suggested almost amoral conduct on the part of the investment manager - worse than a simple rogue trader. The Bank might need to preach to firms, to educate them in standards.

Sir Chips Keswick said that his impression from the paper was that supervisors were getting wider and wider remits, and were thus being drawn remorselessly beyond their powers. Supervision was getting out of touch or ahead of the underlying legislation. In some cases this was unsustainable. The question was how the supervisors could introduce a fresh fear into the system. Rogue traders must not feel they could simply get away with it. Central banks were not, in his experience, willing enough to make use of the sanction of de-authorising firms.

Sir David Scholey asked about our perception of the compliance culture in firms. He did not have any feeling for how attitudes compared in banks and other companies, for example in the relationship between compliance and top management. His sense was that at the top there was often a lower level of compliance culture than was desirable. He wondered whether the S&S people routinely had discussions with compliance officers in firms.

On the general question of co-operation, he agreed that the Bank had done well, but did not agree that the concerns were still mainly with the banking industry. There was a growing overlap between different kinds of company - banking, securities, insurance and other. The "other" category, including names like AIG, GMAC, Ford Motor Credit, was

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important: these were very large companies in their fields, but had only peripheral contact with regulators, and were anxious to keep it that way. (There was a parallel with the United States' securities firms, with support from the SEC, trying to keep away from the Federal Reserve.)

The Deputy Governor commented on the usefulness of the new link between BoBS and the SIB. As a new SIB board member, his impression was that this was working well, providing us with easier information flows, creating a positive PR dimension particularly with the Labour Party, and improving discussion of particular cases.

Mr Foot said that the relationship with compliance was less formal than it was with internal audit. However it was now normal for analysts to have contacts among compliance officers and he and Mrs Sergeant had recently talked to the compliance officers group. But it was clear that when the buck stopped only two issues really mattered: de-authorisation, and our powers over individuals. We had in fact found it easier to deal with individuals than the SFA had. The recent SFA paper on the responsibility of directors, which had raised considerable concerns in the investment community, might in practice do little more than give them powers that we already enjoyed.

The Governor said that the whole subject was in a state of flux and development. There were very significant changes and implications. It was clear that there was a mis-match between the control structure of complex organisations, which was different to the legal and regulatory structure: so that oversight of any group, even just for prudential purposes, was massively complicated. The position was changing all the time,

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and could have implications for the structure of regulation in the long run. Quite a lot of analysis of this subject had been done, and contacts and links had been built up with overseas regulators at home and internationally, both in the banking and securities fields. What we had not got very far with was getting pictures of the individual multi-function groups. We were very keen to move towards that, but it was clear there was a huge way to go.

Sir Colin Southgate asked who was doing work on why Leeson and Young had been able to do what they did. Mr Foot said that there was already an intensive work programme involving the securities regulators in the wake of the MGAM affair.

#### **The Executive Report**

The Governor informed Court that Mrs Heaton and Sir Chips Keswick, whose first terms as Directors would be expiring at the end of February, had expressed a willingness to continue to serve for a second term. Sir Jeremy Morse's first term also expired at the end of February, but on age grounds he would not be eligible for a further term. The Governor hoped that his replacement would be from the financial sector, and said that he would very much welcome suggestions from Members of Court. Sir Jeremy Morse himself had suggested that his successor should be someone who knew the Bank well. The Governor added that Pen Kent's term also expired at the end of February, and he was not seeking re-appointment: the Governor would bring proposals for filling that vacancy to Court in November.

Members had no comments on the Executive Report paper laid before Court which provided a progress report on changes

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following the Bank's recent review of Supervision and an update on EMU/EMI matters.

Monthly Economic and Monetary Report, Fiscal Policy - the Budget background, Market Charts and Minimum Wages (Messrs Bowen, Jenkinson and McGiven in attendance)

Mr King said that monetary policy was moving into a delicate stage. The picture in the August Report - the recovery in domestic demand and output continuing but with inflationary pressures eventually building up - was still valid. Domestic demand was still strong. Consumption and the retail trade remained robust. A key number would be the third-quarter GDP estimate on 25 October. Unemployment was down sharply, and on that morning's figures, now stood at 7.4% against a peak in 1992 of 10.5%. Earnings growth seemed still to be rising slowly.

There had been three new developments: one, a significant upward revision to GDP estimates for the first two quarters; the second, higher RPI numbers than we had expected, with the prospect next month of an inflation number above 3%; and third, on the more positive side, output price inflation had remained low, and the sterling exchange rate had been strong, reducing the risk of inflation in the future.

Turning to fiscal policy, Mr King said that in 1993, the general government deficit had reached 8% of GDP, and, although progress had been made in reducing this, there was still a long way to go. Without a bit more tightening, it was likely that the UK would miss the Maastricht criteria: and, although the deficit was projected to decline, there had been a serious slippage over the past two years, and the Government's projections did assume extremely tight control of public

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expenditure. Our view was that budget deficits continuing at the present rate could not be reconciled with both a sustainable fiscal policy and price stability.

Mr Plenderleith said that the dollar had strengthened significantly, possibly because the prospects of a wider European Monetary Union, including countries like Italy, had made the Deutschemark weaker. Bond yields had fallen sharply among the countries thought likely to be part of such a monetary union. Sterling had been strong, for reasons which were not entirely clear. Sir Chips Keswick commented that there was not a great deal of activity in the markets, so not too much could be read into the strength of sterling.

Neither Mr Simms nor Sir David Lees felt that business conditions had changed significantly over the past month. Commenting on oil prices, Sir David Simon thought some of the recent strength was related to the stocking cycle, and to continued restraints on Iraq. Market expectations were of a fall in the new year. He thought that fundamentally the economy remained stronger than was generally acknowledged, and there were no recent developments to change that perception. The dilemma was when to tighten policy: there was clearly a lot of pressure building up.

The Governor said that, returning after a short break, he found the position more uncomfortable than when he went away, in the sense that the economy was developing very much as we had expected, but with the added complication that a stronger exchange rate was prospectively operating the other way on inflation and making a rise in rates less easy to justify. There was thus the prospect of a significant imbalance between internal and external pressures.

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Mr Jenkinson introduced the paper on minimum wages which assessed the potential impact first on poverty, second on employment, and third on inflation. On the first point, it was clear that the minimum wage would help those low-income people who were in work - but many were not. Moreover a significant percentage of low-paid workers were second-earners in better-off households. A recent study by the IFS had suggested that a minimum wage in excess of £3 would enable rich households to gain more than poor ones. As to the effect on employment, there was a similar ambiguity: while pure economic logic would suggest that raising the price of labour would reduce the demand for it, and that a minimum wage would thus cause unemployment to rise, recent theoretical and empirical studies had suggested that this might not always be the case. Finally, with regard to the impact on inflation, as with the other effects it depended entirely on where the level was set; a low minimum wage might have a one-off effect on the price level on its own, but a high minimum wage would undoubtedly have second-round effects that would feed through to inflation further out, and require a monetary policy correction.

Sir David Cooksey said that the clothing and textile sectors were under huge pressure, and several companies were planning to announce the relocation of operations off-shore. This would have an impact on employment in the UK, and minimum wage legislation would undoubtedly make the situation worse. Sir David Lees said that the issue plainly was the level at which the minimum wage was set. If at the higher end, £4+, the knock-on effects would be significant. If at £3, affecting 9% of the employed population, the damage would be smaller.

Sir Jeremy Morse asked what lessons could be learnt from the effects of the introduction of minimum wage legislation abroad.

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Mr Jenkinson said that the introduction in America had been some time ago, in the 1930s; more recent studies, looking at individual states' legislation, were controversial but tended to suggest that the impact on employment at least was small. Dame Sheila Masters thought that the political pressure was for a minimum wage of around £4, but the Deputy Governor felt that this was not thought realistic even by the TUC. Privately the TUC believed that the minimum wage of £4.26 would be catastrophic, but the emotional politics were such that no-one was prepared to admit that. In reality the TUC would be delighted with £3.40. The TUC generally felt that the abolition of the Wages Councils had been a mistake, taking away all the basic underpinning of the wage structure in the labour market. It was also clear that the nature of wage bargaining had changed, and that there were fewer structures with points where raising the bottom inevitably raised the rest of the pyramid. Mr Simms said that at £3.50 this was right, but if the minimum wage was set at £4.00 - £4.10 it would imply a 10% basic increase for operatives, and would tend to push up other pay rates. This would have the effect of putting up the cost base of the construction sector which would be significant for the UK.

#### **Proposed Money Market Reforms (Mr Tucker in attendance)**

Mr Plenderleith said that the weaknesses in our present money market operations were clearly set out in the paper, and we had been aware of them for some time. We had always seen the long-run remedy coming from the introduction of a gilt repo market, which could broaden the market and extend the potential number of counterparties.

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Mr Tucker said that the two core reforms addressed the two key weaknesses. There was a shortage of instruments in the money market that met the requirements for use in our money market operations - high credit quality, in large supply and in lots of hands. Gilt repo met those requirements. And the discount houses had become marginalised and weakened in recent years: we could now see ourselves dealing directly with all supervised institutions. Because we would be dealing direct with banks, the requirement for separately-capitalised intermediaries would fall away, and we would apply the same logic in the gilts market.

Sir Jeremy Morse asked if this was an expected outcome and whether the demise of the discount market had been in the Bank's sights all along. Mr Plenderleith said that market forces had marginalised the houses, and we had recognised that for some time. Sir Jeremy Morse noted that the Bank had in the past been ready to protect the houses from this analysis: were they ready to have the protection withdrawn? Mr Plenderleith said that the outcome would not be a surprise. The Governor added that it was in effect the last stage of a process begun at the Big Bang.

Mrs Heaton asked what would happen if a counterparty failed. Mr Plenderleith said that we would obviously cease to deal with it; our positions would be protected by the security inherent in the paper we were taking and margining. It would be for the supervisors to deal with the wider issues.

Sir Chips Keswick, while welcoming the paper and endorsing the outcome, observed that the Bank was denying itself a valuable source of economic and market information by withdrawing from the Bill market. The change represented the final

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transformation of a commercial market into a purely financial market. Mr Plenderleith noted that the information had become less valuable due to the prevalence of finance bills and the small scale of the market.

The Governor left Court to attend another meeting and the Deputy Governor took the Chair.

**The Financing of Technology-based Companies (Mr Piper and Ms Lund in attendance)**

The Deputy Governor set out the background to the report. One of the Bank's purposes was to ensure that firms had access to finance on reasonable terms, and the Bank had been very active in the small firms area; in 1993 the first of a series of annual meetings had been held, an annual report on small firms finance was now issued and an authoritative statistical publication appeared quarterly.

The present paper was different in its conception. It had originated from a discussion with the Deputy Prime Minister, who had wanted to explore how the Bank's work could support his competitiveness initiative. After declining some of his suggestions, we had volunteered two papers - one on trade and competition, and this one.

The paper had been prepared by Business Finance Division and reflected quite a fruitful collaboration with the Cabinet Office, as well an exercise by the Agents. It offered a series of recommendations, essentially for discussion, and we would be taking it further next year in a conference being organised jointly with the Royal Society and the CBI.

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Mr Piper said that we had taken it as given that high-technology firms were important to the economy and that they had financing needs. The main conclusion was that, despite all that had been done in the private and public sectors, problems remained, and the recommendations fell into three main groups: measures to raise the profile of the issue (increasing the profile of Business Links, use of role models, better education, more sector-focused initiatives, promoting corporate venturing); measures to promote understanding in the UK of financing techniques that seemed to work well in the US; and measures to improve the availability of finance, removing impediments both at the receiving and the giving ends.

Sir David Lees was not clear from the report how big the problem was - even what it was. Mr Piper said that the Government view was that the UK had a world-class scientific/technical research base, but fell behind some other countries - in particular the US - in our ability to develop products and applications. There had been no attempt to quantify this problem.

Sir David Cooksey said that the venture capital industry in the UK was second only to the US. But there were problems with the sector covered in the report. Institutions were reluctant to contemplate early-stage investment. Concentration in finance had increased since the Big Bang. And almost half of money raised for venture capital in the UK last year actually came from outside the UK. There was a need in the UK for more consistent support from institutions. Early-stage finance was a fashion-dominated sector: an adverse announcement from British Biotech could cause the entire bio-technology market to dry up. The situation in the US, where funds were required to put a proportion of their assets in small firms and where

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government procurement had to favour small firms, could not easily be replicated here.

Sir David Cooksey also felt that the group contacted by the Agents did not appear to be very representative of the sector as a whole. They had been more successful than the average. Sir Chips Keswick added that the tax treatment of speculative investment in the US was also critical. Sir Jeremy Morse noted the problem that British entrepreneurs were reluctant to cede equity stakes in their companies.

Sir David Simon said that an important question was how to move Europe's venture capital system as a whole towards US norms; the Commission itself recognised the need to shift funding away from blue sky activity towards application. One possibility was intermediate exchanges, perhaps on a Europe-wide basis.

Sir Colin Southgate said that in his experience, government funding was shared out between big companies. In the US, small firm funding often drew on local pools of capital - individual rather than pooled money. Mr Piper agreed, although, in some parts of the US, the situation was probably no better than here; equally here there were areas - Cambridge, Oxford, and Manchester - where a US networking culture was developing.

#### **The Bank's Strategy for 1997/98**

The Deputy Governor said that ahead of the Strategy Court in November, and following a suggestion made at the informal dinner in May, there would be an off-site meeting with senior management of the Bank to review the issues set out in his paper. The outcome would be reported to Court next month.

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The main issues were likely to be related to personnel strategy.

The Deputy Governor said that it was now clearer than before that the paybill constraint would be unlikely to bite for the next two or three years, and we had secured a deal with the Treasury that if we underspent our paybill in the meantime we would not lose it as supervision built up.

Sir Jeremy Morse asked whether this view took account of the need to raise salaries to attract the right sort of recruits. The Deputy Governor said that we could not increase salaries across the board, but over the summer we had reviewed all officials salaries and there had been targeted increases, amounting to 10-15% for the best individuals. We would find out if that had been enough to allow us to fill the gaps.

Sir David Simon asked if we had considered a "task-force" approach to staffing special projects like EMU: a short-term recruitment from outside of highly qualified people. The Deputy Governor said that we would consider that; it might help with the external part of the exercise.

Quarterly Financial Report (Mr Midgley in attendance)

Court noted the Report. Sir David Simon said it was a credit to Finance Division.

*Howard D. Lane*

*Col Jones*  
*Assistant Secretary*  
*23 October 1996*

TO MEMBERS OF COURT

The Written Executive Report: Court 16 October 1996

1 Progress Report on changes following the Bank's Review of Supervision

The following summarises the progress that has been made in implementing the various recommendations arising from the Review of Banking Supervision since its launch on 24 July.

The main work to date has been on establishing the necessary infrastructure in order to take forward the recommendations. On 1 September, S&S was reorganised with the creation of three new line divisions and an Operations Division. Identification of officials to manage the new structure, including the Quality Assurance and Change Management functions, is now largely complete although a number of people have yet to be released from other areas of the Bank. The specialist positions (Head of Quality Assurance, IT Strategist, Training Adviser and Senior Banking Advisers) have all been advertised<sup>1</sup> but appointments have yet to be made; in the case of the Senior Banking Advisers, a short list of 8 has been drawn up from the 400 plus applications and Mr Foot has contacted a number of other senior bankers who might be available. Interviews for these positions and for the IT Strategist have begun.

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<sup>1</sup> advertising and executive search where appropriate is being handled in consultation with Goddard Kay Rogers and MSL International.

We have consciously accepted that the reorganisation and taking the work programme forward means that the quantum and expertise of the resources being devoted to line supervision have fallen in the short-term as a result of the newly created posts being filled by the more experienced staff. As well as targeted recruitment for the specialist positions, we are pursuing three solutions to filling the gap. First we are hoping to recruit around 10 people with relevant skills e.g. bankers, accountants; these positions have been advertised. Secondly, inward secondments from the major banks are being pursued, although initial indications are that the banks are more receptive to our staff being seconded to them and in providing places for S&S staff on their own training courses than in providing us with staff. Thirdly, we are undertaking a further graduate recruitment round aimed at those interested in joining the Bank in January. We have received over a thousand applications already. Nevertheless, possibly for some time to come, the resources available for day to day supervision are reduced. Heads of Division have been asked to identify the tasks, the postponement/abandonment of which poses the least risk. Our aim is of course to ensure that the risks to the Bank during this transitional period are minimised.

To take forward the Review's recommendations, eight project teams have been established, each having a defined terms of reference, project plan and timetable. All project teams have now met and some are nearing the completion of the first stage of their work. By the end of this month, internal papers on supervisory objectives and standards of supervision, section 39 reports and internal controls, and improving liquidity returns should be available. Other project teams e.g. IT and risk based supervision have contacted a number of outside

organisations in order to look at relevant systems and to find out how they approach such issues.

A Senior Management "away day" was held in early August to discuss the main priorities for S&S over the coming months and improvements that could be made to working practices. To build on the ideas that were forthcoming, a series of divisional away days are planned in the next couple of months which will focus in the main on implementing changes in working practices. Work on improving management information and the production of indicators to monitor the success of the programme has also commenced.

Two steering committees to oversee the implementation of the change management programme have been established, one chaired by Oliver Page to deal with internal S&S matters and another by the Deputy Governor which will consider issues which have Bank-wide implications or require approval at POLCO or BoBS. At the first Deputy Governor's steering committee, a communications strategy for the programme was agreed, including the use of the new publication "Financial Stability Review" and the holding of open meetings to promulgate changes arising from the programme.

It is proposed to offer further progress reports whenever there is a supervisory Long Court ie normally every 3 months.

2 EMU Update

Informal ECOFIN on 21 September

Progress was made on the three main issues tabled at ECOFIN - ERM 2, the draft Regulation for the introduction of the euro,

[REDACTED]

and the Stability Pact - although difficult issues remain. The Council supported the EMI proposal for ERM 2 (of which membership would be voluntary) centred on the euro in a 'hub and spokes' arrangement. It agreed that further work would be conducted on surveillance procedures, and that a report on ERM 2 would be delivered to the Dublin Council in December.

Regarding the draft Regulation, it was decided that experts would consider how best to split its provisions so that those which had to be implemented rapidly, in order to remove market uncertainty, could be incorporated in an early Regulation, while the rest could be effected separately via a subsequent Regulation once the identity of the participants in EMU had been agreed. It is envisaged that the Commission will make a formal proposal this month.

Finally, in relation to the Stability Pact, it was agreed that 'ins' would be required to submit medium-term 'Stability Programmes' and 'outs' 'Convergence Programmes'. The question of how long an 'in' had to take 'effective action' to address an excessive deficit before sanctions could be imposed, was discussed, but without any consensus emerging. Most countries considered that sanctions could incorporate a fixed and a variable component, and be capped. The Monetary Committee were invited to progress work on the Stability Pact, bringing matters to ECOFIN by December. The Irish Presidency said that if the French idea of a Stability Council of the 'ins' was to be considered, it would be taken up by the Dutch Presidency.

#### EMI

The EMI and the Commission are currently producing reports assessing the progress towards convergence. The reports will

be published in November. The European Council confirmed at the Florence Summit that EMU will start in 1999, and that an overwhelming majority of Member States fail to meet the criteria at present. Nonetheless, it has not proved possible to stop the legal process required in the Treaty for a formal assessment before the end of 1996 of whether an earlier date is feasible.

The draft EMI Report focuses on economic convergence and on whether central bank statutes are consistent with the Treaty requirements on central bank independence. The Report concentrates on progress to date and notes that while most countries are making strides in the right direction, substantial further progress is needed to reduce budget deficits, in particular, if the 3% reference value for the government deficit to GDP ratio is to be attained in 1997. A number of countries, for example France, Spain and Italy, have recently announced "austerity" budgets aimed at meeting this objective. Spending cuts are a common theme, although the budgets stop short of radical changes to social welfare. And one-off measures and creative accounting are much in evidence.

## A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 23 OCTOBER 1996

## Present

Mr George, Governor  
Mr Davies, Deputy Governor  
Mr Foot  
Mrs Heaton  
Mr Kent  
Sir Chips Keswick  
Mr King  
Dame Sheila Masters  
Sir Jeremy Morse  
Mr Plenderleith

The Minutes of the Court of 16 October, having been circulated, were approved.

Mr Plenderleith spoke briefly about the foreign exchange market and the two gilts auctions being held during the week.

Members noted the Executive Report paper laid before Court which reported on the proposed capital reduction at Minorities Finance Ltd. In response to Sir Jeremy Morse, the Governor confirmed that the Bank expected ultimately to receive back the full amount of its capital investment in the company provided that the litigation brought by Mr Shamji was unsuccessful.

The Governor agreed to a request from Sir Jeremy Morse to bring a short paper to Court on Nazi gold and the Bank's position in this regard.

*Harold J. Paine*

TO MEMBERS OF COURT

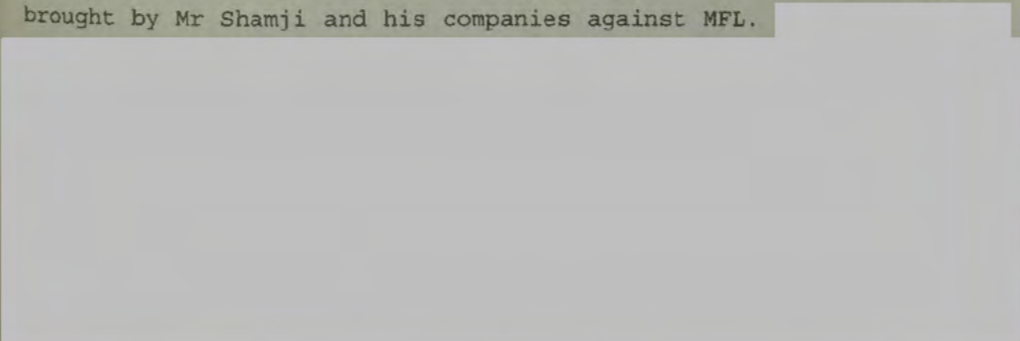
THE WRITTEN EXECUTIVE REPORT: COURT ON 23 OCTOBER 1996

The following is reported for information only.

MINORITIES FINANCE LIMITED (MFL): CAPITAL REDUCTION

MFL is a wholly owned subsidiary of the Bank which holds the rump of the assets of Johnson Matthey (Bankers). As the assets are being realised, the company is becoming more liquid. In June 1987, there was a capital reduction at MFL of £37.5mn with the proceeds being repaid to the Bank; this left capital in place of £37.5mn. It is now proposed to make a further capital reduction of £25mn in the same way.

As was the case in 1987, the only drawback remains the litigation brought by Mr Shamji and his companies against MFL.





A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 30 OCTOBER 1996

Present

Mr George, Governor

Mr Davies, Deputy Governor

Mr Foot

Mr Kent

Mr King

Mr Plenderleith

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 noted.

Members briefly discussed the initial reaction of the markets to the 1/4% increase in interest rates announced following the Governor's monthly meeting with the Chancellor that morning.

*Howard J. Paine*

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 6 NOVEMBER 1996

Present

Mr George, Governor

Mr Davies, Deputy Governor

Sir David Cooksey

Mrs Heaton

Mr King

Sir Colin Southgate

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 Meeting, having been circulated, were noted.

Mr King spoke briefly about the state of the markets, including the Official Reserves figures for October. There followed a short discussion on the implications of the strength of sterling and of the rise in house prices.

*Harold J. Pais*

## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 13 NOVEMBER 1996

## Present

Mr George, Governor

Mr Foot

Mr Kent

Mr King

Mr Plenderleith

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 Meeting, having been circulated, were noted.

Mr Plenderleith spoke briefly about the foreign exchanges and the state of the domestic markets. In response to a question from the Governor, Mr King said that the benefit of the strong pound was not expected to feed through to the RPI until next year.

*Howard J. Lane*

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 20 NOVEMBER 1996

Present:

Mr George, Governor

Mr Davies, Deputy Governor

Sir David Cooksey

Mr Foot

Sir John Hall

Mrs Heaton

Mr Kent

Mr King

Sir David Lees

Dame Sheila Masters

Sir Jeremy Morse

Mr Neill

Mr Plenderleith

Sir David Scholey

Sir Colin Southgate

The Minutes of the Court of 23 October and the Meetings of 30 October and 6 and 13 November, having been circulated, were approved.

**Inflation Report Discussion and Market Charts**

Mr King said that the main conclusion of the November Inflation Report was that the medium-term outlook for inflation was broadly similar to that in the August report. The economy had developed much as anticipated. But there had been important developments since August: a sharp rise in sterling, a 1/4%

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increase in official interest rates, and the failure of inflation to fall as expected. These have been worked into the Bank's medium-term forecast, but the net effect was to leave the central projection two years from now little changed. However, the risks were more on the upside, and the immediate prospect for inflation was less favourable than before.

Mr King explained the view taken on sterling. It was clear that sharp movements in the exchange rate, whether up or down, would affect the price level in the short run. However, it did not follow that monetary policy should be changed to offset that impact. In the spring of 1995, after a fall in the effective exchange rate of 5%, domestic prices had been allowed to rise, but the aim of monetary policy had been to ensure that the temporary increase in prices did not lead to second-round effects that would push inflation up over a longer period. Now, with the stronger pound putting temporary downward pressure on prices and inflation, we should not set an easier monetary policy to compensate. We needed to view rises and falls in the exchange rate symmetrically.

We also needed to understand why the exchange rate had changed. There were three possible explanations: an anticipated rise in interest rates here, an anticipated fall in interest rates abroad, and a rise in the real exchange rate. It seemed likely that all three of these explanations played some part, but at this stage it seemed right to put some weight on the possibility that the real exchange rate had risen, possibly reflecting the sharp increase in oil prices, possibly related to expected fiscal changes here and abroad. Only if the rise could be attributed to a tightening of policy in the UK would there be any implication for inflation in the medium term. In that case, increases in interest rates and in the exchange rate

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would be complements for one another, not substitutes. We did not believe in any rule of thumb relating changes of interest rates to a change in the exchange rate. The key focus of monetary policy had to be domestic demand.

There were two main explanations for the unexpected rise in RPIX inflation: higher petrol prices worldwide, and faster demand growth in the UK. Part of the increase in inflation appeared to reflect a broadly-based increase in service sector inflation. That could indicate faster demand growth, and a closing output gap. We still expected a u-shaped profile for inflation, but the length of time for which inflation was likely to be at or below 2 1/2% was now less than in August. All of the evidence on demand and output suggested that inflation was likely to be more rather than less of a problem two years from now, and that some further rise in interest rates would be necessary in order to meet the inflation target.

Commenting on the markets, Mr Plenderleith said that the short-run picture showed sterling rising, but over the past few weeks more against the dollar than against the deutschemark. This suggested that the appreciation of sterling might have run its course. Nevertheless the upward movement had taken sterling back to immediate post-ERM levels.

Sir Jeremy Morse commented that the Chancellor had taken a gamble at the top of the interest rate cycle, and won; he had taken a gamble on the bottom of the cycle and lost. The Bank was therefore in good standing, in the short term. However, there were diverse views on the long term. Many thought the world was going deflationary: the Bank was on the opposite side, warning continually of the danger of inflation. It was right for us to err on that side, but we needed to be careful

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not to overdo it. So he was worried about Mr King's observations on the exchange rate. We were saying that the effect of an exchange rate change was short term, and one should not respond to it. That seemed too dismissive.

Mr King repeated that we had to be symmetrical. A change in the exchange rate, whether upwards or downwards, would have an affect on prices. The aim of monetary policy was to stop second-round effects. The monetary policy stance did not depend on the exchange rate, but on the position of the domestic economy. In 1995 we had sought only a modest rise in rates, despite the fall in the exchange rate, because of our assessment of the domestic economy. Now, despite initial downward pressure on prices from the higher exchange rate, we were not comfortable about the likelihood of reaching the 2 1/2% inflation target. If we had seen inflation heading for 1% then perhaps we would take a different line. As it was, we still needed some tightening. Perhaps we needed less tightening than previously, but we could only judge by reference to domestic demand. We couldn't read a direct link from the exchange rate to the interest rate. The Governor said that this was the key point. We were not saying that there was no effect from the exchange rate, but we were saying that there was no rule of thumb linking the exchange rate to interest rates. We could not deny that there was an impact, but it was wrong to say that a change in the exchange rate equated to some measurable tightening of monetary policy. The exchange rate effects were taken into account in the inflation forecasts.

Sir John Hall said that it was nice to see the economy moving again, and this made it easier for industrialists to plan and to invest. However, his worry was that as soon as this became possible, the prospect of a tightening of monetary policy


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loomed and cut off confidence and banished investment. There was real confidence now in the economy. He did not want to see it go wild; equally he did not want to see it cut off.

The Governor said that that was our concern too. If the economy went wild, would industrialists seriously invest? Sir John Hall said that businesses wanted to see steady growth. Mr Plenderleith said that the best way to maintain confidence among industrialists was to give them grounds to think that steady growth would continue, not blow up out of control: we therefore had to use increases in interest rates in order to keep growth sustainable. Our success could be seen in the fact that these interest rate changes were far less than in the past.

Mr Neill agreed that expanding demand was a good motivator for investment, but our inflation record was poor. It was still weak by international standards. High inflation rates tended to lead to a high cost of capital, making it more difficult for companies to make acquisitions or to invest. He therefore supported the toughest policy for keeping inflation low. On the exchange rate, the Japanese had faced exchange rate rises of 88% over four years, and had responded by cutting costs. They had made it an objective to have their economy competitive at 85 yen to the dollar. The reaction here tended to be the other way round. There were massive productivity gains still to be made in our economy. Our objective should be to keep inflation as low as possible, even if it hurt.

Sir David Cooksey agreed with Mr Neill. He referred to a report from the US Council on Competitiveness, showing the UK improving, but only marginally against others. But there were short-term problems with pursuing the policy suggested by






Mr Neill: the rise in the exchange rate was beginning to have a big effect on companies' exports. The effect of the exchange rate could be disastrous for profitability. We needed to avoid too much of a rise.

Sir David Lees said that the exchange rate movement could be very significant for business, especially for those who were dependent on exports. It had a big impact on margins. He had been interested to see the recent Agents' Quarterly Report making so little comment on the exchange rate. He suggested that we should ask the Agents specifically to address the question in their next report.

Sir Colin Southgate said that the latest picture from the CBI, covering a period up to 13 November, showed manufacturing stronger than for a very long time. He was concerned now about the economy: house prices were running away fast, and this posed a big risk to inflation. He personally felt that the recent interest rate increase should have been 1/2%: the economy was now in need of a shock. It was clear that exchange rates would have a big effect on the profitability of some companies, but they had to take the rough with the smooth.

Dame Sheila Masters asked why we gave our forecasts in the Inflation Report on the basis of unchanged interest rates: could we not be positive, and say that in order to meet the inflation target we needed to set interest rates at a given level? The Governor said that we had debated this extensively. We could not be so confident in our forecasts as to make statements like that; and by doing so we would generate market expectations. It would not be a matter of saying a rise of x% was needed; we would more likely be saying that, to meet the



inflation forecast, interest rates would have to rise by between say 1/2% and 2 1/2%, which would not be helpful.

Sir David Cooksey wondered whether 2 1/2% was the right level for the long-term inflation target. The Governor said that there was a continuing debate about that. His view was that we should get down to 2 1/2% before looking for more. And aiming for 2 1/2% or less would deliver most of the stability that we wanted to achieve.

Sir Colin Southgate asked whether we could measure the effect of interest rate shocks. Mr King said that the biggest impact came from a change of direction in interest rates, as that caused the whole yield curve at the short end to shift upwards or downwards. Even a 1/4% change could have that kind of impact if it was a change of direction. Sir Colin Southgate asked whether we had expected mortgage rates to follow the recent increase in interest rates; Mr King said that this was a matter for the building societies; we should not try to second-guess them.

Sir David Scholey said that around the world the exchange rate was a big topic of conversation. Global investors were very positive on sterling, though this was entirely based on the assumption that whoever formed the next government would remain serious about inflation. It followed that it was more than ever impossible to fine tune the exchange rate with interest rates. Any indication that we were not committed to the inflation target would cause a sharp reverse. Our response to developments in wages, retail sales and house prices over the next few months would be critical.

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Sir Jeremy Morse returned to presentation. We were anxious to counter any belief that there was a rule of thumb linking the exchange rate with interest rates. Mr King wanted a symmetrical rule, expressing it as a desire to stamp on second-round effects whether inflationary or deflationary. We needed to stress this because the general outside perception was similar to Sir John Hall's.

The Governor agreed and added that, if the exchange rate continued to rise, it would become a big issue. The question had already been raised whether the inflation target was too tough. This would be heard increasingly if the exchange rate continued to rise. The surprise was how little fuss there had been so far.

Mr King added that while the exchange rate was not "just any other price" - it was the price of our currency relative to others - it was completely wrong to suggest that a 10% rise in exchange rate would cause a 10% drop in prices. The deutschemark had risen consistently over ten years entirely because of higher inflation elsewhere. We could not equate the exchange rate with monetary policy directly.

#### The Bank's Strategy (Mr Midgley and Ms Lowther in attendance)

In introducing his paper outlining the Bank's strategy over the next year, the Deputy Governor described the external environment facing the Bank. There were considerable uncertainties - more than usual, as we faced the possibility both of a new government and a new currency. No single strategic plan could cope with all these eventualities.


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On EMU the Bank had to be ready to be 'in' or 'out' on 1 January 1999. There could be no firm view on this until after the election. It would certainly have an effect on the Bank either way, and a planning group, chaired by the Deputy Governor, was co-ordinating work. There were twenty-two separate projects. The work was being put together now and would have some consequences on priorities elsewhere. This was in addition to the familiar work on the City, included in John Townend's quarterly papers.

On monetary policy, there was a degree of political convergence. Both parties wanted an inflation target, and the Labour Party had said that theirs would be at least as tough as the present one. There was a continued debate in the Labour Party on the monetary policy framework and the relationship between the Bank and the Treasury. The Labour Party had said that they wanted a Monetary Policy Committee: we were in touch with them about this idea.

On the second core purpose, the paper set out our preferences on the structure of regulation. We expected that a new government (Labour or Conservative) would want to make changes in the structure, though perhaps not for two to three years. On Banking Supervision, Labour spokesmen sometimes talked about taking it away from the Bank, but we thought that they would leave it unchanged. Their spokespeople had been publicly supportive of the Arthur Andersen changes.

On the third core purpose, we thought it possible that with a Labour government we might receive rather more requests for the Bank to participate in initiatives on the financial aspects of regional or industrial policy.



Mr [redacted] asked about our involvement in such initiatives. The Governor said that we would typically look at them case by case; historically there had been a tendency to become involved on the basis that if something was definitely going to happen, we might as well try and get it on the right lines. Sir Jeremy Morse thought the Bank should nonetheless 'sup with a long spoon'. Sir Colin Southgate agreed.

Sir Jeremy Morse felt that, as a general matter, if there were a Labour government things could move very quickly for the Bank in the first six months or so. There could be a referendum on EMU soon after an election. We would need to have a view by then. There might be a quick decision on Bank independence. We would need to be ready for that too. Sir David Lees felt that in this context the strategy document was rather inward looking. One way or another there was going to be a new government, and we needed to have an outward-looking strategy document which explained to an incoming government what we thought we should be doing. Should we make it clear where we stood on independence?

The Governor said that we had always been clear that we should not campaign for independence. Of course people knew our views, but if we were to start advancing them publicly it was not clear whether we would advance or retard the cause.

Sir Colin Southgate thought that we might nevertheless have position papers ready across a range of key issues, and Sir David Cooksey thought we might get a paper written by a respected outsider to ensure that our agenda was on the table. Sir David Scholey thought that a paper should be ready immediately after the election; we needed to win the race for the agenda.


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The Governor said that the contest for the agenda was already under way in the run-up to the manifestos. We were fully engaged in that. It would be quite wrong to present an incoming government with our views on the social judgements they would need to make. We could however engage with them on questions like the proposed Monetary Policy Council, and were doing so.

Sir David Lees said that he was not suggesting that the Bank started campaigning - much of what we had to say would be one-on-one with the Chancellor - but we needed a view on what the Bank's manifesto would look like, and where we would like the Bank to be.

The Deputy Governor said that the distinction being made between inward and outward-looking policies was too stark. We had already exposed our thinking in many key areas, for example the regulatory framework. On the monetary policy framework, our views were perfectly well understood. Much of what he understood Sir David Lees to want was being done - it could, though, be brought together. The Governor said that he would propose an informal session of Court in the new year to discuss these issues ahead of the election.

Sir David Scholey made three specific points on the paper. First, he would like reference to the risks as well as the merits of EMU (page 2b). Second, there was no mention of the millennium problem. And third, in the context of staff shortages, he would like to see the Bank taking a robust line on cash limits. The Deputy described the work going on under his chairmanship on the millennium issue, and said that cash limits were not an issue in S&S.



Mr Neill asked whether we were committed to Investors in People accreditation. The Deputy Governor said that some parts of the Bank were, but it was not yet universal. It was a medium-term ambition. Mr Neill said that it was worthwhile; the consultancy offered was of very high quality, and free.

Mr King said that the main themes in his area would be EMU and the Monetary Policy Framework. Specific questions that he would be addressing included:

- (i) should we settle for an inflation target of 3-4%? What would be the real costs of doing so? This was to be a major project, as the Labour Party had not yet published their intentions and we had a considerable interest in the outcome.
- (ii) Should we join EMU?
- (iii) What were the optimal procedures for deciding announcing interest rates? This had implications for the Monetary Policy Committee proposal.
- (iv) What were the optimal arrangements for issuing Government debt? There were important underlying issues to be thought through in an area where theory and practice were currently very far apart.
- (v) Has there been a change in the natural rate of unemployment? This was key to deciding how far demand and output could grow without re-igniting inflation.
- (vi) How do we make the best use of our Agencies?



- (vii) How do we keep the Inflation Report fresh?
- (viii) How do we balance the supervisory and economic needs for banking statistics?

Mr Plenderleith said that his area of the Bank was concerned with the operation of monetary policy and with the Bank's core central banking functions. Its general objectives were to contribute to the analysis of the monetary situation; to execute monetary policy decisions effectively in the markets; to pursue reform of the key markets in which the Bank operated; to ensure that the Bank conducted its core central banking functions efficiently, maintaining its position as the preferred supplier of such services; and to be closely involved in preparations for EMU. In the coming year additional resources would be needed in two priority areas - in the EMU area, particularly connected with liaison with the City and internal Bank preparations; and in developing payments and settlement systems, where we had been progressing system by system, and were now able to consider linking domestically and internationally. The four other main priorities for the coming year were continuing emphasis on market reform, where our proposals for the money market would be published soon; work in the area of banknotes, mainly connected with the concerns about counterfeiting; improvements in systems for management information and performance assessment of our market operations; and a medium-term business plan for the Banking and Market Services area.

Sir Jeremy Morse asked about the Monetary Policy Committee. Did the Labour Party see this as part of the present arrangements or as part of a reform? The Governor said that they were in a muddle: but it would be best to defer

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consideration of this to the proposed informal meeting of Court. Dame Sheila Masters asked whether either of the Monetary Stability Wing Directors saw staffing problems in the way that they had emerged in S&S. Mr King said that he was affected particularly by a lack of experienced staff: on balance he would prefer fewer staff with more experience. He could address this problem partly by recruiting experienced outsiders, or by recruiting better qualified graduates. His Heads of Division were of extremely high quality, but they tended to spend most of their time training people, rather than inputting work. We were still suffering from the losses in the 1980s. Mr Plenderleith said that his problem was different, but he recognised that he could not expect to retain in market operations too disproportionate a share of the Bank's good people, so he had never been able to achieve quite the quality that he would like. Mrs Heaton asked whether the major payments projects needed extra staffing. Mr Plenderleith said that programming resources could be bought in as required; the key need was for computer-literate management and system designers. We have some of those and so, provided we sequence the projects intelligently and retain tight control over specifications, we expected to be all right.

Turning to the Financial Stability side of the Bank, Mr Kent explained the work of the Financial Structure area across regulatory issues - new approaches to regulation and tools of supervision; the outlook for banking, insurance and financial economics; payments and settlements, where the key focuses were on ECHO/Multinet, TARGET, the OTC clearing and combining all of the various payments projects into an integrated whole; the new Financial Stability Review; technology issues such as E-money, internet and electronic trading; and the financing of small and high technology companies.


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Sir David Scholey asked how the Bank proposed to measure performance against the various objectives being set. This did not arise just in Mr Kent's area: Sir David saw a need for explicit qualitative aims as a basis for a review of the 1997/98 year, presumably in March/April 1998, covering all of the Bank's Divisions. Objectives needed to be set in such a way that we would be clear, on review, what we were measuring.

Mr Foot said that the aim in S&S, as set out in the Bank's Supervision Review, was to "remain at the leading edge of global best practice in all areas of supervision". To this end, the change management programme started in July would be unerringly pursued. A major focus for the coming year would be international regulatory co-operation - there were now 20 Memoranda of Understanding (mostly international), and would be more. Relations with domestic supervisors needed to be worked on further, especially IMRO. All of this process amounted to a big challenge, and at the same time the area could not take its eye off existing line supervision issues.

There was a need to shape the agenda for the forthcoming debate about the future of regulation, which would include debate on the future of supervision in the Bank. Mr Foot felt that, following the Arthur Andersen Review, the objectives set in his area were clearly identifiable and performance was likely to be measurable.

Dame Sheila Masters asked again about the millennium issue: whether we had a programme of structural appraisal going on across the supervised banks. The Deputy Governor noted that the Federal Reserve had sent an alert to every bank. Our approach had been different: we were seeking to build



awareness of the issue in all of the processes of supervision. (Dame Sheila Masters felt that there was a lot of unreadiness about, and the Deputy Governor suggested that the millenium might need to be deferred!)


Sir David Lees commented on the public relations implications of the strategy as a whole. He wondered whether the Bank's public relations effort was up to speed with the demands that were increasingly being put on it. The Deputy Governor said that we had reviewed this with Court earlier in the year, and had reached the view that the machinery was satisfactory, and that the Bank's approach of doing good by stealth, and advertising its successes and expertise to media such as the Financial Stability Review, was an appropriate policy. It had become clear to us that on EMU issues we needed a bigger profile, and we had had no difficulty in obtaining that. Overall the mechanism was working well. Sir David Lees, however, wondered whether the Bank was getting its basic message out to the wider public. Should we be doing external research to check how well we were coming across? He was not sure that what we currently had really met the case.

Sir Jeremy Morse asked about the status of co-ordination across the Bank, and about morale. Mr Foot said that co-ordinated committees were now generally working well: and Ms Lowther said she thought that morale had begun to improve, though it would take some time to get right. As the various elements of the new staffing arrangements fell into place, morale was likely to get better: for example, when the new Officials structure had been introduced, a major uncertainty had been removed and although not everyone was happy with the outcome people generally felt better about it.

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The Deputy Governor commented on the finance and personnel constraints on the Bank. The Bank's financial position was in fact buoyant, and with the conversion of more building societies the only question was whether we should reduce the level of CRDs. The paybill constraint, of course, bit on the Bank. We had however negotiated a deal with the Treasury whereby if we underspent our paybill in a particular year (as we were likely to do this year) we would not be ratcheted down to that level for subsequent years, but would be able to make up the lost ground. In that context, what we were now trying to do was manageable. As in many organisations, the Bank's needs-profile was changing: we needed less execution-based staff, more analytical staff. Inevitably they were in short supply, and there was an immediate deficiency. In the short term we were trying to fill the gaps by recruiting specialists, and were improving the terms on which we did so, offering some permanency in the areas into which they were recruited. For the medium-term, we were gearing up graduate recruitment, and improving the training and career planning arrangements for our recruits. For Officers, we were moving to dismantle the rather stark divide between them and the Officials, and we were also seeking to find ways of training/re-educating some of this group.

Sir John Hall asked whether we were offering sufficiently large salaries to attract staff. The Deputy Governor that we had increased Officials' pay by 6% on average during the review, with rises of 10-15% going to the pinch-point areas. In the new pay framework there were fewer grades and greater flexibility, which made it relatively easier to slot in highly-paid contract staff - though there remained a delicacy about asking staff to do broadly similar work on extremely different salaries.



Mr King introduced the proposed Values Statement. He said that it had arisen initially from the staff attitudes survey, which could see a need for the Bank to have a clear statement of values; but the draft offered to Court reflected a wish to encapsulate the Bank's values in terms consistent with the PRP statement, of which it was proposed they would form a part. The intention was to promulgate them to staff under a message from the Governor. Sir Colin Southgate felt that the text needed to have some simple messages highlighted; Mr Neill felt that the draft was a good one, in that it explained why the Bank had these values, and how they arose.


The Governor said that he would issue the Values Statement, probably through the Bank Fortnight.

#### A Report of the Audit Committee

There were no comments on the Report of the Audit Committee. The Governor thanked Sir David Lees and members of the Committee for their work.

#### The Executive Report

With reference to a Minute of 16 October, the Governor said that he had taken the view that the right step was to recommend Alastair Clark to succeed Mr Kent on the latter's retirement. Sir Jeremy Morse said that he would support the recommendation; Alastair Clark had a wide experience of the Bank. The Governor added that he was still considering the kind of support that Alastair Clark would need.



Turning to Sir Jeremy Morse's replacement.

Members had no comments on the Executive Report paper laid before Court which referred to:

- (i) the Governor's appearance before the TSC on 18 November on matters relating to Barings Bank;
- (ii) recent difficulties at CREST;
- (iii) practical preparations for EMU;
- (iv) Nazi gold held by the Bank; and
- (v) the Officers Working Party.

#### A Report of the Remuneration Committee

*[CARE - this section not circulated to Deputy Governor and Executive Directors]*

In accordance with Section 10 of the Charter, the Deputy Governor and Messrs King, Kent, Plenderleith and Foot withdrew.

Sir David Scholey, in his capacity as Chairman of the Remuneration Committee, said that the Committee had met that

morning and had agreed to recommend to Court the following changes in remuneration:

The Deputy Governor      increase in special remuneration of  
£10,000 to £190,000 pa with effect from  
1 January 1997

Mr Plenderleith            increase in special remuneration of  
£8,000 to £140,000 pa with effect from  
1 January 1997.

They also agreed to recommend to Court that [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Court agreed to these recommendations.

Mr Neill asked what comparisons the Remuneration Committee made with outside pay. Sir David Scholey said that a review of external comparators had last been made in 1992, but that a further review would be appropriate next year.

#### The Governors' Engagements

The Governor advised Members that Sir David Steel, a Non-Executive Director of the Bank from 1978 to 1985, will celebrate his 80th birthday on 29 November.

*Howard J. Lewis*

*CH James*  
*Assistant Secretary*  
*4.11.96*

TO MEMBERS OF COURT

**THE WRITTEN EXECUTIVE REPORT: COURT ON 20 NOVEMBER 1996**

Barings Bank

The Governor, Mr Watt and Mr Foot appear before the Treasury Select Committee on 18 November in order to answer further questions on supervisory and regulatory issues arising from the collapse of Barings Bank. The Committee has recently taken evidence from the SFA and SIB (31 October and 6 November respectively) at which questions focused on developments in domestic and international co-operation between regulators. We have been given a general steer by the Clerk to the Committee that this issue is also likely to be raised with the Bank, in addition to points arising from the Arthur Andersen review (including progress on implementation) and the difference between the BoBs and Singapore Reports.

CREST: Summary of recent difficulties

The CREST settlement system for UK equities and corporate bonds came into operation on 15 July. The early stages of transition from TALISMAN - the present Stock Exchange system - involved relatively small and inactive shares. This phase was handled without major difficulties. In early October, however, as CREST began to take on bigger and more actively traded securities, problems emerged. These were reflected, for example, in the "freezing" of transfers of several high profile shares, such as [REDACTED], and a progressive accumulation of unsettled bargains.

Several factors have contributed to these difficulties. In the first instance, the problems were concentrated in the two main service registrars, Lloyds and RBS, who seem to have been slow to adapt their internal procedures and who also experienced problems in reconciling their own records with those of investors and their custodians. The position at RBS improved rapidly although there have continued to be periodic lapses; the difficulties with Lloyds took longer to deal with but are now substantially resolved. Progress in this area exposed, however, shortcomings in other elements of the system. In particular it showed up flaws in parts of the CREST software and, separately, a



lack of adequate preparation and training in a number of market intermediaries, including firms at both ends of the size spectrum. It is these problems which have attracted the recent publicity. The position now is that CREST, contrary to some reports in the press, is handling around 35,000 transfers a day, of which 10-15,000 represent the settlement of Stock Exchange bargains. They are, however, only managing to settle about 60% of bargains on the intended settlement date. The latter is having a significant and cumulative impact on the liquidity and financing of a number of market firms, notably firms which have committed to provide funds to clients on a particular date irrespective of whether a deal has actually been settled by that date.

CREST have been addressing these issues in collaboration with the Stock Exchange and the SFA, and with the involvement of the SIB (as the regulator of CREST under the Financial Services Act). The Bank has also kept closely in touch. The three main remedies being pursued at present are:

- (i) rescheduling the transfer dates for a number - at present 17 - FTSE100 securities from December until the late part of the transition period next spring;
- (ii) modifications of the CREST software, which for now at least fall into the category of fine tuning rather than major redesign; and
- (iii) an intensive effort on training and technical assistance for market firms, being provided jointly by CREST, the Stock Exchange and the SFA.

There has been some improvement in performance over the last few days, especially in maintaining a stable processing timetable and in providing a faster turnaround for transfer instructions and enquiries about the status of particular transfers. But it is not yet clear that the measures taken will be sufficient to re-establish the transition process on a satisfactory basis.

#### Practical preparations for EMU

Following a recent POLCO discussion, a steering committee, chaired by the Deputy Governor, will be set up to monitor the Bank's own internal preparations for EMU. A full-time project co-ordinator will be allocated to this work and, whilst located on the Policy Planning Group, will work directly to the Deputy Governor.

The Bank is continuing to assist practical preparations in the City and beyond through increasingly frequent contact with the primary associations. Regular meetings are now held with the BBA, LIBA and ISDA and at lesser frequency with many others. The Gilts Market after EMU Group is making progress and expects to report in time for its broad conclusions and recommendations to be included in the next issue of the report on practical preparations, which we aim to publish on 16 December. Once these conclusions are known, we aim to see if they are shared amongst a broader group of London market participants. Final decisions on the development of CHAPS/RTGS for both 'in' and 'out' scenarios are expected by the end of the month. At the same time, the retail APACS companies are discussing the options for their systems, and expect to take decisions in January on development, on the assumption that under the 'in' scenario these systems would need to be adapted in time for 1.1.99.

On 10 December, the Bank, in conjunction with the CBI and British Chamber of Commerce, is hosting the first of a series of workshops on EMU and business. The aim is to provide the managers in business with basic information about the Euro-timetable, implications of being 'in' or 'out', banking arrangements etc. The Bank is providing a short booklet - copies will be sent to Court Members when finalised - and a representative of the Bank will speak at each workshop.

After London, there will be further workshops in Newcastle, Manchester, Bristol and Scotland; the programme thereafter will depend on demand. The DTI are taking a close interest, having recently become concerned that the Government was doing very little to prepare business for the Euro.

A Bank symposium on practical preparations is being planned for 21 January. The format will be a mixture of presentations, from internal and external speakers, and break-out sessions on the most important topics, and a concluding discussion, with an initial keynote address by the Governor. It is intended that there will be around 200 invited guests. The symposium will be held at the Barbican.

#### The Bank of England and Nazi Gold

The Bank's involvement with the disposition of assets appropriated by the Nazis during the Second World War has been limited to acting as safe custodian for the Tripartite Commission for the Restitution of Monetary Gold, (TGC).

The TGC was formed by the Governments of the United Kingdom, United States and France under the terms of the Paris Agreement of 1946. Its purpose was to receive claims from the formerly occupied countries of Europe for monetary gold looted or wrongfully removed; adjudicate such claims; determine which claims should be recognised; and distribute recovered gold accordingly. As all the gold recovered, both bars and coin, was deemed to be monetary gold, it was agreed not to be practicable to meet claims from private holders.

The amount of gold recovered after the War totalled approximately 337 tonnes<sup>1</sup>, of which approximately 58 tonnes was delivered into the TGC's account with the Federal Reserve Bank of New York, New York in June 1947. This deposit was in accordance with the Washington Agreement of May 1946 between the Allies and Switzerland wherein the Swiss Government agreed to place SwFrcs 250 million<sup>2</sup> at the disposal of the Allies, payable on demand in gold in New York. However, claims submitted by Albania, Austria, Belgium, Czechoslovakia, Greece, Italy, Luxembourg, Holland, Poland and Yugoslavia came to more than twice the total recovered. After investigations by the Allies, the total claims validated amounted to about 514 tonnes, still significantly more than the recovered gold. In the circumstances, the TGC agreed to meet only 65 % of each validated claim.

The TGC made initial distributions to all countries, bar Albania, mainly during the late 1940's and 1950's. Czechoslovakia's distribution in 1982 was, until last month, the most recent. Payment of Albania's claim was delayed by a number of factors, including claims against it by both the UK and US Governments. These were satisfactorily resolved at the end of last month and the distribution of 1.5 tonnes of gold to Albania has now been effected.

A total of just over 5.5 tonnes<sup>3</sup> of gold remains held by the TGC, (3.5 tonnes at the Bank and 2 tonnes at the Federal Reserve Bank of New York, New York), and will be used as the source of a final, pro-rata, distribution to all claimant countries. The gold to be used to make this final distribution was set aside by the TGC as a fund for operating expenses and other contingencies, and does not represent "excess" or "residual" gold. Rather it constitutes undistributed gold that has

<sup>1</sup> value approx. £2.5 billion at current rates  
<sup>2</sup> value approx. £123 million at current rates  
<sup>3</sup> value approx. £41 million at current rates

already been awarded to claimant countries. The 65 % limit on these claims will still not be exceeded.

The final distribution will not necessarily prove straightforward. The creation of the Czech Republic and the Republic of Slovakia, together with the difficulties in the former Yugoslavia will complicate the situation. Additionally, the Foreign Secretary has recently confirmed that he is considering a request from the World Jewish Restitution Organisation that the remaining gold be used to settle individual claims from Jewish families. However, there are formidable legal and administrative obstacles yet to be overcome as the claimant countries are likely to argue that in law the gold still belongs to them.

#### Officers Working Party

A Report by a Working Party to review the pay and career arrangements for officers (the Bank's clerical grades), chaired by Graham Kentfield, reported in September. The Report recommended:

- A performance-based pay system, under which progression would be determined by merit, not by time: there would thus be no "automatic" full, half or quarter increments.
- Abolition of the distinction between Officials and Officers, and a merging of the two structures.
- A job evaluation scheme extending through the whole range of jobs currently undertaken by Officers.
- Overlapping pay scales related to job grades, as in the new officials structure. For scales below the current officials scales (2-5), overtime would still be payable; above that, the Working Party proposed that it should be bought out.
- Progression within scales would remain a matter for local management. Promotions would be administered on a Bank-wide basis, as for officials.
- More central involvement in the management of officers. Career development would be centrally monitored, even where locally administered, and there would be a new emphasis on training.
- Job advertising for all posts.
- Recruitment with a view to a career in the Bank; recruitment of junior staff on contracts would cease to be the norm.

Following discussion in Manco and Polco, we have now put in hand a programme of work, based around the working party's recommendations. We agree, as a basic principle, that any new pay structure should place greater emphasis on performance and merit. We also agree that the present officer/official classification is no longer appropriate. Although there are bound to be differences, in any system, between the careers we can offer graduates and those we can offer school-leavers, the present system makes the distinctions unnecessarily stark. We are keen, too, to develop and maintain bridges between the groups.

As the Working Party recognised, the first step towards designing a new structure is a job evaluation exercise, and that is being put in hand right away. As with the officials, this exercise will take time, and we do not expect that the results will be available before the middle of 1997. At that stage it will be possible to design a grade structure and assess where individuals fit in. Transition to the new scheme would therefore be towards the end of 1997.

While this inevitably lengthy task is undertaken, we will be addressing other issues raised by the review. One is to review our recruitment strategy, based on a manpower planning exercise. That will be put in hand now, and we hope to make significant progress in the early part of 1997. We will be starting a review of training, also in the early part of 1997. We believe there is scope for a Bank-wide junior development programme for those who show early promise, possibly dovetailing with the existing ATP.

During the course of this work we will review the balance between central and local management of the present officer group. While our emphasis is likely to remain on local management - and this is the direction in which the officials' review has taken us - there is clearly scope for a greater contribution from the centre, not least in ensuring greater mobility of staff between areas. And we intend to develop a clearer career framework for those who join the Bank in what are currently the Officer grades, as we have been doing for those who are now Officials.

## A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 27 NOVEMBER 1996

## Present

Mr King

Mr Foot

Mr Kent

Mr Plenderleith

In the absence of the Governor and the Deputy Governor, Mr King was appointed Chairman pursuant to the provisions of Clause 6(2) of the Charter of 1 March 1946.

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 were noted.

Mr Plenderleith reported that market reaction to the Budget had been subdued. Sterling had strengthened but, latterly, some profit-taking had emerged while the response in the gilts market had been cautious. The general sense in the markets was that the degree of fiscal tightening announced by the Chancellor did not preclude a further rise in interest rates in due course, though not necessarily as soon as December.

*Handwritten signature*

*Handwritten signature*  
Assistant Secretary  
4.12.96

## A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 4 DECEMBER 1996

## Present:

Mr George, Governor  
Mr Davies, Deputy Governor  
Sir David Cooksey  
Mr Foot  
Sir John Hall  
Sir Chips Keswick  
Mr King  
Sir David Lees  
Mr Plenderleith

The Minutes of the Court of 20 November and the Meeting of 27 November, having been circulated, were approved.

Mr Plenderleith noted that the foreign exchange markets were in a period of volatility: sterling had fallen quite sharply the previous day but had recouped most of the decline that morning. These developments might indicate that sterling was searching for a new trading level, the recent rise having run its course; but it was too soon to be sure. He also noted that the gilt-edged auction held that morning had passed off reasonably well.

Under the Executive Report, Mr Plenderleith drew Members' attention to two sets of papers included in their folders. The first was a copy press release from the previous day which announced that the date for the switch over to the upgraded Central Gilts Office (CGO) service had been set for the August bank holiday weekend. It had initially been planned to introduce the upgrade in the spring but

the date set would allow market participants to focus on completing the on-going transition of equities settlement to CREST and the CGO an extended period to test and tune the CREST software which the upgraded gilts settlement system was to use. The extension of the CGO timetable meant that gilt stripping facilities would be introduced some months later than originally foreseen - the aim is for one month or so after introduction of the upgraded CGO service.

The second set of papers comprised a press notice and consultative document, issued that morning, setting out Bank proposals for changes in its daily operations in the sterling money markets. The key proposals were to extend daily open market operations to gilt repo - which reflected the successful development of that market - and to broaden the range of counterparties able to participate in these operations. Moreover, the Bank would no longer require that its counterparties be separately capitalised.

The Governor reported that, at the EMI Council meeting he had attended the previous day, agreement had been reached on the matter of the proposed Euro banknotes. Details would be announced at the Dublin Summit, to be held the following week.

The Governor also noted that the Bank's Agency for Wales would be formally opened on Friday 6 December.

Howard J. Jais

Secretary

Secretary

18.12.96



A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 11 DECEMBER 1996

Present

Mr George, Governor  
Mr Davies, Deputy Governor  
Mr Foot  
Mr Kent  
Mr King  
Mr Plenderleith

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 noted.

The Governor spoke about his dinner with Tony Blair and Gordon Brown the previous evening. The discussion had focused mainly on EMU and the options for creating a monetary policy council within the Bank.

*Howard J. Pais*

*Jim Hoffman*  
*Secretary*

*18.12.96*

## A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 18 DECEMBER 1996

## Present:

Mr George, Governor  
Mr Davies, Deputy Governor  
Sir David Cooksey  
Mr Foot  
Sir John Hall  
Mrs Heaton  
Mr Kent  
Sir Chips Keswick  
Mr King  
Dame Sheila Masters  
Sir Jeremy Morse  
Mr Neill  
Mr Plenderleith  
Sir David Scholey  
Mr Simms  
Sir David Simon  
Sir Colin Southgate

The Minutes of the Court of 4 December and the Meeting of 11 December, having been circulated, were approved.

Monthly Economic and Monetary Report and Market Charts (Mr Bowen in attendance)

Mr King said that the conclusion of the November Inflation Report, that some further rise in interest rates was likely to become necessary in due course, had been supported by virtually all of the subsequent data. Inflation itself had remained at 3.3% in

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November, and was likely to fall back towards the target of 2 1/2% in the first half of next year. Although the higher exchange rate was leading to a fall in import prices, and non-oil commodity prices had fallen for seven consecutive months, these cost influences were likely to have only a temporary effect on inflation.

Broad money growth had remained high and was accelerating. Consumption continued to grow rapidly, at about 4% a year; average earnings were growing at a similar annual rate. The retail sales figure, published that morning, was stronger than expected in November, up 0.7% on the month. All the signs were that activity was growing faster than trend, and the margin of spare capacity in the economy was closing. Unemployment had fallen in November by an astonishing 96,000, compared with an average of 33,000 per month over the previous three months. The fall in unemployment did reflect some special factors, but even allowing for these, the fall this month was larger than for a considerable period.

Mr Plenderleith said that there were three main influences on the markets. One was the macro-economic picture, where growth in the US and UK economies tended to pull the dollar and sterling upwards, although fears about the American current account deficit were acting as a drag on the dollar. Second was EMU: the continuing debate about the scope of a Monetary Union had led to some weakening of the Deutschemark, while convergence plays had caused peripheral currencies and bond markets to strengthen. Finally, there was the asset price bubble story: this tended to be rather overplayed though it was true that equity markets had been very strong. It was not clear whether any sudden weakness in equity markets would have any macro-economic implication. The combination of these three factors had led the market to become volatile, and

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to be distinctly more sensitive to the impact of public statements by officials and others.

Mr Plenderleith asked whether the market assumption about EMU was the same whatever government we had. Mr Plenderleith agreed that the market assumed that with either a Labour or a Conservative government we were likely to be out of the first wave.

Mr Plenderleith also wondered why stock market indices were not routinely adjusted for inflation. The regular new highs were illusory in real terms. Mr Plenderleith said that analysts could always look at ratios; and Mr King said that for the purposes of the Inflation Report we did adjust stock market indices, deflating them by the value of corporate assets, mainly to measure the ability of companies to finance investment.

Mrs Heaton asked about Irish attitudes to EMU. Mr Plenderleith said that they certainly expected to join, but despite that the Punt had tended to follow the Pound in the foreign exchange markets. In the bond markets, on the other hand, the Irish stood at a 1½ premium to gilts. This illustrated the unreality of describing sterling as an international safe haven from EMU. There had certainly been an appreciation in the exchange market, but people were not seeking out long-term UK sterling assets.

Sir David Scholey asked to what extent the Christmas trade was likely to be a major factor in the advice we gave the Chancellor. Mr King said that it was not a special factor, and was in any case very hard to assess. The Governor added that we were very clear that underlying consumer spending was growing very fast.

Sir David Simon commented on the oil market: it was clear demand was very strong at both the consumer and the commercial levels. All indications - transport, stocks etc - were that there was no

prospect of significant falls in oil prices. There appeared to be considerable strength in the UK economy at present. He believed that Mr King's assumption about inflation was correct. He also mentioned the risk to investment if international players were uncertain about the UK's overall commitment to stability.

Sir John Hall said that, in his experience, property markets were strong. Inflation in the building sector was thought likely to run at 4-6% for the next few years, and more and more schemes were coming forward from the Lottery. Mr Simms partly agreed: it was true that forecasters had this year been raising their estimates for the market, but over the next six months, political uncertainties could have an impact. Sir Chips Keswick said that large-scale house-builders were not doing particularly well, but estate agents were. Mr Neill added that in the car industry there had been conflicting signals all year, with individual months reflecting special promotions and various devices to increase the number of registrations. But in underlying terms the market was certainly up, although there was heavy pressure on costs. Pay pressures tended to come from middle management and skilled workers at present.

Sir Colin Southgate said that in his experience like-for-like growth in sales was slowing, although he admitted that this was in a narrow sector of the market. There seemed still to be quite a lot of price competition in the market. The Deputy Governor commented on the Retail Consortium figures, which appeared to suggest a slight slowdown in retail trade. These were like-for-like comparisons which, in a fast-changing retail market, might not be the most helpful way to measure changes: it introduced a consistent downward bias.

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sir Colin Southgate strongly believed that it had been a mistake to increase interest rates by only 1/4%: the inflation outlook was frightening, and we needed action now. The OECD's forecast looked seriously out-of-date. Mr King said that he had talked to the OECD but had received no satisfactory explanation for their inflation forecast. They seemed to be assuming that the economy could be growing fast for a very long period with no inflationary pressures.

The Governor said that it was very interesting that no-one had thus far mentioned the exchange rate. It was a consideration, at least, for policy and the CBI survey had suggested that it might now be having some impact on exports. Sir David Cooksey said that for the companies that he dealt with, the exchange rate was a real issue, and a source of pressure on margins. But, working the other way, the public spending reins had clearly been let out - public sector pay, settlements previously expected to come in at 2%, were now coming in at 2 1/2% - 3%. Mr Simms, however, thought that in construction there was unlikely to be significant wage inflation: 3% - 3 1/2% was the absolute limit for settlements. Mr King said that, given that earnings were now growing by 4% a year, it would not take much to push them up to 4 1/2% - 5%, at which point it was hard to imagine, given the likely growth of productivity, how this could be compatible with the inflation target. Dame Sheila Masters commented that the winding down of profit-related pay was likely to put upward pressure on pay settlements as well.

The Governor said he had heard nothing round the table to divert him from the attitude that the Bank had taken in November.

EMU - the third quarterly report (Mr Townend in attendance)


Mr Plenderleith explained the background to the latest quarterly survey on EMU preparations. The exercise was now proceeding on a



number of fronts although the broadly quarterly publication was the main platform. He asked for reaction from Members of Court on whether the Bank's work was having the desired impact, and on the publication itself, and sought views on whether Court felt there were any gaps in the Bank's efforts in this area.

Mr Townend said that the purpose of the report was to bring together information about all the preparatory work that was going on, and to highlight areas where more work might be needed. Its particular focus was the wholesale markets, where change would be required whether the UK was in or out of EMU. But, beyond the financial sector, it was clear that many corporates were now asking themselves what the euro would mean for them, and our work had been extended to that sector.

On wholesale payments, Mr Townend said, work had continued to develop the arrangements in the UK to accommodate the euro. The CHAPS banks had decided how they would develop the sterling real time gross settlement system to allow euro payments from the beginning of 1999. There had also been a little progress on the Target issue. It was agreed that all "out" countries should be able to link to Target, but there was an outstanding question on access to intra-day liquidity by the "outs". This had not been resolved, and was likely to have to be decided by the ECB governing council when that was set up in the spring of 1998. We remained unpersuaded that there were any grounds to discriminate against the "outs" and clearly if this did happen it would affect the costs and efficiency of Target relative to alternative cross-order payments mechanisms including correspondent banking. Against the possibility that Target is unattractive to banks in "out" countries, we will ourselves be examining alternative approaches to ensure that banks in the UK are able to make euro payments securely and efficiently.

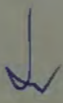


Work was now also in train on retail payments, although this was acknowledged to be less urgent. A great deal of work had been done on market conventions, particularly in the gilts market, and the report of the gilts market group had been published with the quarterly document. The document also covered legal aspects, and described the implications of the two directives on the introduction of the euro.

The EMI was to publish a framework paper in January setting out the work that they had been doing: much of that was covered in outline in the Bank's publication. Also in January the Bank would be holding a symposium at the Barbican for 200 or so people, at which the Governor and the President of the EMI would speak. The Deputy Governor would chair the other sessions. The Bank was also supporting the CBI/BCC regional workshops, and had prepared a special booklet for those attending.

Sir David Scholey thought that all three papers were good and that the Bank needed to keep them up. He felt that the more complicated documents could be made more useful by using bold type to highlight important points. He asked whether the documents were available on the Bank's internet site: Mr Townend confirmed that they were.

Sir David Scholey was concerned about one piece of advice in the CBI/BCC booklet: that companies involved only in the retail sector need not undertake detailed preparations at this stage. He felt that this was too comforting, and awkward advice for the Bank to be seen to give. Mr Townend said that the point we were trying to make was only that the transition arrangements were quite helpful to retailers, in that there would be a good 4 1/2 years between the decision to go into the EMU and the actual conversion.





Sir David Scholey also asked about the Bank's reactions, first, to the suggestion that it should publish an analysis of the pros and cons of EMU; and second, to the stability pact agreed over the weekend. The Governor said that we were not expecting to be asked for an analysis of the pros and cons, and would be reluctant to provide one if we were. It was difficult to make such an assessment without a proper political locus. Elsewhere, in Sweden for example, such work had been commissioned by the Government from outside. On the stability pact, it was clear that continued fiscal prudence by member countries would be necessary in EMU, and needed therefore to be assured. Intrinsicly it was a political decision. But his own view was that the agreement was not unreasonable. It remained to be seen how it would operate.

Mrs Heaton asked what feedback we were getting to the publications, and whether we needed to be more systematic in seeking responses. Mr Townend said that there had been a huge demand for the September edition of the quarterly report, of which 25,000 copies had been distributed. There was likely to be a further huge demand for the December issue, and it was clear that, as the pace of preparation accelerated, the complacency which had been evident in the early part of the year was no longer around. It was becoming increasingly clear to everybody that the only prudent assumption to make was that, on the Continent, EMU would go ahead, and that therefore preparations needed to be made here. Were these happening fast enough? It was hard to generalise, but in the main we seem to be on track, at least at the level of infrastructure.

Mrs Heaton asked whether Banking Supervision were raising preparedness for EMU with banks as part of routine surveillance. The Governor said we could certainly ask, but we needed to be careful not to give the impression we were taking responsibility for ensuring that all banks were prepared for EMU: essentially

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there was a market, and banks had to decide what resources to devote to this project.

Dame Sheila Masters said her impression was that this was not yet a board level issue in many companies. She wondered whether simpler books or simpler speeches would help: the business and financial worlds needed to elevate the subject within company management. She suggested that the Governor might send copies of the Bank's papers personally to company chairmen. She also pointed out that the co-incidence of EMU and the Millennium meant that two system changes would be needed for many companies: it would be wasteful for companies to manage these projects separately.

Sir Jeremy Morse said that awareness in companies was poor. He felt that, while market forces had to operate, it was consistent with our third core purpose to help to ensure that firms were prepared. The Governor said that he accepted that, but not at an individual institutional level. We had to be very careful to avoid going round telling people what to do. Mr Plenderleith said that on general awareness, he and John Townend were contributing to many conferences, but there was a question how to get issues elevated to the main board.

Sir David Simon said that there was a huge marketing job to be done, and that he hoped very much that the Bank would work with associates in the field. The Governor drew attention to the number of organisations with which the Bank was already working, listed at the back of the book. Mr Neill suggested that TECS and Business Links could be used. Mr Townend said that he believed they were involved through the Chambers of Commerce.

The Deputy Governor commented that, within the Bank, we had now set up a committee to make sure that the Bank itself was ready. A big

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trawl was under way to check that all the things we needed to do were being done: we were also talking to other central banks in the EU. Their reaction, thus far, had been that our own preparations were pretty much state of the art.

Sir John Hall said that he welcomed the workshop initiative, and hoped it could be expanded. There was certainly a huge demand for information, particularly among medium-sized industries. The project needed to be carried on over many months. Sir Colin Southgate, on the other hand, felt that we had probably done enough as things stood. If we appeared to take too much responsibility for this subject we would get dumped on: the real effort should be in the accountancy profession, and with individual company management.

**Recent Bank of England Analysis of Systemic Risk (Messrs Clark and Michael in attendance)**

In introducing the paper, Mr Kent noted the calls in that day's newspapers for a super-regulator for the banks and securities markets. Even the Treasury had some sympathy with that idea, but this paper looked at the relationship between banks and non-banks and came to the opposite conclusion.

Mr Michael explained that the paper looked at banks and securities houses and found them still to be distinct. Typically banks continued to have liquid liabilities and illiquid assets, usually with more than 50% of assets in the form of illiquid loans. It remained the case that bank deposits were not usually secured through repos, although [redacted] did display a different pattern. Securities houses showed different behaviour from banks in that they did not regard their deposit funding as secure but operated on the expectation that it could evaporate in

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the face of a loss of confidence. In addition securities houses remained nervous about acquiring illiquid assets.

The Governor said that the paper looked at a fundamental and seminal question. The question affected not only the structure of regulation but also raised the question of whether public financial support should extend beyond institutions connected to the payments and settlements system.

Sir Jeremy Morse said that the paper confirmed his own views and was on the same lines as thinking at the New York Federal Reserve. But the argument for a super-regulator rested on the thought that Barings and Morgan Grenfell had got into difficulty through securities operations and so it was essential that banking managers and regulators knew more about securities markets. The Governor agreed on the need for securities market expertise whoever was the banking regulator.

Sir Chips Keswick felt that the paper should have also looked at credit rating agencies, as bank chairmen in America were more concerned about their credit ratings than their capital ratios.

Sir David Scholey welcomed what he termed a first-class paper. He was persuaded that banks in many ways were distinct from other institutions but was concerned that, to depositors, money market funds might appear to be equivalent to banks and the consumer may eventually cease to distinguish between them.

Mr King questioned the paper's concept of systemic risk which it considered in terms of liquidity mismatching, whereas it might also have been considered in terms of changing asset prices and their knock-on effects. The US authorities considered the Mexican case systemic because of its possible consequences on bond prices of

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other issuers. He went on to wonder that, if banks were distinct, was that a cause or the result of separate regulation and official support arrangements. In practice the causation might run in both directions.

Responding to the discussion, Mr Michael said that he would look further at external information on banks such as their credit ratings and equity prices. He agreed that if certain non-banks became more bank-like in consumers' eyes it could raise supervisory problems. He took Mr King's point about the nature of systemic risk and said the question of definitions was being taken forward in the G10.

Mr Kent noted that the Drexel case was one of crisis management in which the authorities intervened although that was not necessarily the same as systemic risk. Sir David Scholey was unsure of that distinction in practice, arguing that had Barings not been bought by ING, and consequently had their depositors lost money, a crisis management question might have become a systemic risk problem.

The Governor said that, although crisis management and systemic risk cases differed, one could not draw general conclusions on the role that the authorities should play in such cases.

**Survey of Financial Stability in the US: 1996 (Mr Brierley in attendance)**

Mr Foot said that the paper looked at the significance of US banks in the UK market and noted the shift by UK banks from retail banking towards investment banking in the US. In addition, developments in credit derivatives in the US could quickly have implications for UK practices, so that the Supervision and

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Surveillance Division needed to monitor closely developments in US financial markets and institutions.

Mr Brierley noted that the economic and financial background in the US had become more benign in recent months, with less talk of a need for higher interest rates following slower growth in the Summer and Autumn. Banks' net interest margins remained high and profitability remained strong. Credit card related problems seemed to have passed their worst. The tendency for US banks to concentrate more European business activities in London was continuing and would only be threatened if EMU led to a migration of markets from London but, at present, there was no sign of that. There was a continuing tendency in US banking regulation towards liberalisation, both geographically and by product. The emergence of new financial conglomerates had raised the difficult and as yet unanswered question of which of the US regulators was going to be the leading supervisor of groups combining banking and securities activities. The Federal Reserve advocated organising such groups into holding companies; the Comptroller of the Currency preferred to allow banks to carry out securities business in direct subsidiaries; and the SEC argued for separately-capitalised securities affiliates. These views were clearly linked to considerations of turf between the regulators. The Bank remained close to each of these regulators and sought to improve co-operation by agreeing memoranda of understanding and through the quadrilateral forum.

Sir David Scholey congratulated Mr Brierley and his team on an excellent paper and wondered if this sort of study went to the Basle Committee and the US supervisors. Mr Brierley said that it had only gone to other UK regulators, but that an article was being prepared for the second issue of the Financial Stability Review and

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this would be passed to the US regulators in draft. Mr Foot added that Mr Michael's paper could be passed to Mr Crockett at the BIS.

Sir Jeremy Morse wondered if the move of US bank management to London would be jeopardised by a Labour government and the possibility of tax changes. Mr Brierley said that, although this had not been discussed with the US banks, longer term factors such as deregulation and London's comparative advantages in many financial markets were the most important factors in decisions of location.

The Governor said that the Board of Banking Supervision was particularly interested in the regulatory structure in the US and the problems of supervising US conglomerates. Although there was tension between US regulators, the Bank had good informal relationships with all of them. We had been pressing the Americans to adopt a lead regulator system, but they were still some way from agreement because of the turf wars between regulators. Mrs Heaton asked if there was a political dimension in our approaches to the US and the Governor acknowledged that these issues had been raised in the G7 and G10 but without success so far. The Governor concluded by saying that he was pleased to have the chance to show Court Mr Brierley's work, as it demonstrated that surveillance was not concerned only with conjunctural issues but extended also to financial structure questions.

**Emphases and Priorities Exercise: Accounting Issues**

Mr Kent said that the question to be addressed was whether the Bank should continue to be concerned with broad, strategic questions in the accounting profession. The Bank had already scaled down its involvement from Lord Benson's days but, of course, continued to be closely involved in supervisory questions involving accountancy.

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He recounted the Bank's involvement with the Dearing Committee and in support of the Financial Reporting Council. The question was, should the Bank continue to be involved in these broader public interest questions in accountancy.

Sir Chips Keswick said that over the years the Bank had played a valuable role in preserving equilibria in various fields and so he hoped we could continue with our involvement in accountancy.

Dame Sheila Masters said that many in the accountancy profession felt that the Bank's authority could be useful at times but the commitment of the Bank could be quite small. Few other institutions could play the role that the Bank had done and at times the DTI seemed unwilling to be involved.

The Governor said that the Bank had wanted to step back a little from its involvement in accountancy but wished to maintain its present lower level of activity. Mr Kent said that, if there were to be another enquiry on the lines of Dearing, it might be reasonable to expect the SIB to step up and to take a larger role, perhaps in partnership with the Bank. Mr Clark said that, although the Bank was bound to be involved with relationships between supervisors and accountants, and with technical questions such as disclosure on new instruments, the question was how far the Bank should be involved with the governance of the profession.

The Governor concluded by confirming that the Bank had stepped back from direct involvement to a position of benign interest in non-supervisory accountancy issues.

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## The Executive Report

### British Invisibles

The Governor reported on the future of British Invisibles and said that although BI did a reasonable job in organising inward and outward missions, it seemed to lack the impact and clout that some would wish. Meanwhile the City Corporation was seeking a larger role in this field. 1997 would see a number of personnel changes at the top of BI and the City Corporation. We had been looking at the situation and saw value in bringing BI and the City Corporation together in a joint body funded 50/50 by the Corporation and the banks. The new body would have a more substantial secretariat which looked more closely at the purposes of missions. Its governance would involve the City Corporation, the Lord Mayor and the funding organisations such as the banks. The Governor had found sympathy for this approach in discussions with BI, the Corporation, the Chancellor, the Chairmen of the Clearing Banks and the Chairman of the Stock Exchange, and so it seemed an idea worth pursuing. The next step would be to set up a steering committee to take the project further. The Governor emphasised that the proposal remained confidential.

In answer to Dame Sheila Masters, the Governor said that although BI notionally covered services such as tourism, its main focus was on financial services and the new body should be seen to be solely concerned with that sector.

Sir Chips Keswick suggested that BI had done its job and had now become just a talking shop and he would not want to see much money spent on a successor body. Mrs Heaton doubted that putting BI and the Corporation together would necessarily lead to a stronger body.

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The Governor noted that this would depend on the personality of the chairman and chief executive.

#### Treasury Committee report on Barings

The Governor also drew attention to the latest TSC report on Barings which had been published the previous day. Mr Foot said that the report recognised the changes to supervision that the Bank was making, and that it saw no support for large scale changes to the regulatory system. But the report did express concern about the need for cultural change in the Bank, and warned that if this were not achieved Banking Supervision might have to be given to another body. But the overall tone of the report was less threatening than some of the press reports implied. The Select Committee's report endorsed the findings of the Bank's own report into the failure of Barings.

#### Court Succession

The Governor reported that the Chancellor was content that Mr Clark succeed Mr Kent and that Mr Buxton succeed Sir Jeremy Morse as Members of Court. The proposal would now go to No 10 and the Palace.

#### Informal Discussion

The Governor informed Court that the informal discussion of the implications for the Bank for a possible change of government would be held during the lunch after the Long Court on 15 January 1997.

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### Retiring Directors

The Governor informed Court that the dinner for retiring Directors would be held on 28 February 1997.

### Objectives of Supervision

Turning to the Executive Report paper, Sir David Scholey and Sir Jeremy Morse asked if there could be a discussion in Court of the paper on the Objectives of Supervision. The Governor suggested that he would take detailed comments outside Court with the presumption that there would be a Court discussion in January.

### RTGS

On the Executive Report item concerning RTGS, Mr Plenderleith noted that the peak of 127,000 transactions referred to in the Report represented a value of £224 bn, which was equivalent to 43% of GDP. These flows were now collateralised whereas previously they represented unsecured risk to the banking system.

Members had no comments on the other items in the Executive Report paper laid before Court which referred to:

- (i) Millennium Risk - the effect of the date change on payment systems;
- (ii) Printing Works & Registrars - Govco Members' responsibilities;
- (iii) BCCI update.

*Howard J. Davis*

*Lawrence*  
*Secretary*

15.1.97

TO MEMBERS OF COURT

THE WRITTEN EXECUTIVE REPORT: COURT ON 18 DECEMBER 1996

S&S Objectives

One of the recommendations of the recent review of banking supervision was that the Bank should publish the objectives and standards of supervision. A project team has been considering this matter and has produced the enclosed draft, which has been discussed and agreed with the Governors. As well as coming to Court, it will also be discussed by BoBS, at its meeting on 19 December, and has been sent to HMT.

The draft is intended for what might be characterised as the "informed public" ie the banks, other regulators - both domestic and overseas - as well as politicians, the financial press and trade bodies. The project group has also looked at how the objectives statement could be "popularised" in an attempt to ensure that it is accessible to a broader audience. To that end, the words marked out in bold are designed to be used to form a shorter document for the general public. In addition to the objectives statement are "the standards of good supervision" and a short "processes of supervision". Together, the objectives, standards and processes papers are intended to provide a framework for addressing with S&S staff the way in which they work and the responsibilities they have.

### Real Time Gross Settlement

Real Time Gross Settlement was introduced in April this year in the CHAPS payments system, which handles high-value sterling payments in the UK, and operations to date have proved very successful. It is operated by 14 settlement banks plus the Bank of England, and we also operate the central RTGS Processor.

Volumes have been high, reaching a peak of 127,000 transactions on 29 November, but no serious operating problems have been encountered. The one setback of any consequence - the result of an operating error - delayed access to CHAPS until 2.15pm one day in July, but even then all payments were processed by 5.30pm without resort to contingency arrangements; this demonstrated the capacity of the system to handle large volumes in a short timespan when necessary.

The Bank stands ready to provide intra-day liquidity to the CHAPS banks, against collateral, to prevent real-time payments generating gridlock. Assets provided for collateral - mainly gilts and bills transferred from the electronic settlement systems the Bank operates for those instruments - have remained steady at around £15bn.

With RTGS now running smoothly, the focus for debate between the Bank and the settlement banks has moved to the way in which liquidity management can be adapted for Target and DVP. A major issue for the banks is how they will individually manage their liquidity across several separate payment streams. The settlement banks, with our assistance, are undertaking modelling of liquidity needs to assess the impact of various business scenarios.

### Millennium Risk

As mentioned at Court on 20 November, the Deputy Governor has convened a Bank-wide group to consider whether we are doing all that is necessary on Millennium Risk. This includes work on the integrity of the Bank's own systems; ensuring (in collaboration with other APACS members) that payments systems will be able to cope with the date change; and considering the level of priority that supervisors should assign to this particular internal control issue (and whether or not specific guidance should be provided). Following a meeting convened by Ian Taylor (DTI) in July - and attended by the Deputy Governor - the Bank also agreed to raise awareness of the issue in the business associations where we have a clear locus (eg the BBA, APACS etc).

### Responsibilities following Mr Kent's retirement

Court members will wish to be aware that the Governors and Directors have agreed new reporting lines on the Printing Works and Registrar's Department consequent on Mr Kent's departure and with effect from 1 March 1997. At the Printing Works, Mr Jarvis will report directly to the Deputy Governor. At the same time, we have decided to examine the possibility of moving some or all of the Issue Office to Debden. Notes Strategy will continue to be co-ordinated by the recently created Notes Committee (chaired by the Deputy Governor and bringing together the Printing Works, Banking Services, and Finance and Resource Planning) which reports to GOVCO. In the case of Registrar's Department, Mr Sparkes (Chief Registrar-designate) will report to Mr Plenderleith. This will bring gilt registration and issuance more closely together, a step which we believe to be helpful at a time of rapid change in the gilt market.

BCCI

Following the last hearing, the Plaintiffs (ie the liquidators of BCCI) applied again to amend their Statement of Claim and the Bank applied to strike out the Plaintiffs Statement of Claim on the basis that it (i) disclosed no reasonable cause of action (ii) was insufficiently particularised; and (iii) would, even if properly pleaded, be frivolous and vexatious being founded almost exclusively on the Bingham Report, in which no basis for a misfeasance claim could on a fair reading be discerned. The Plaintiffs met (i) by amending their pleadings yet again to allege

"[the Bank] knew that the [depositors] would probably suffer loss because ... [the Bank] knew that adequate and remedial steps would probably not be taken"

The applications were argued in court between 25 November and 6 December and, on past form, judgment is unlikely to be forthcoming before February. The Plaintiffs have indicated whatever the outcome, they will appeal to the Appeal Court.

## A MEETING OF DIRECTORS AT THE BANK

TUESDAY 24 DECEMBER 1996

Present:

Mr Davies, Deputy Governor

Mr Kent

Mr King

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 noted.

*Howard J. Quier*

*The former  
Secretary*

*15.1.97*