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A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 15 JANUARY 2003

Present:

The Rt.Hon Sir Edward George, Governor
Mr King, Deputy Governor - Monetary Policy
Sir Andrew Large, Deputy Governor - Financial Stability
Sir David Cooksey, Chairman, Sub-Committee of Directors
Mr Bailie
Ms Blow
Sir John Bond
Sir Howard Davies
Mrs Francis
Sir Ian Gibson
Sir Graham Hall
Dr Julius
Dame Sheila McKechnie
Sir Brian Moffat
Mr Morris
Mr Neill
Ms O'Donovan
Mrs Powers-Freeling
Mr Stretton

The Governor congratulated Mr Morris on receiving the Order of Jamaica, and Sir Graham Hall on his knighthood in the recent New Year honours announcement.

The Minutes of the Court of 18 December, having been circulated, were approved.

MONETARY STABILITY ISSUES

Economic and monetary discussion, together with the monthly MPC Report to Court (Messrs Bean, Tucker, Allsopp and Ms Barker and Ms Bell in attendance)

In introducing the MPC Report to Court, Mr Bean said that the global recovery remained patchy, although recent US data had been more positive. In the UK, manufacturing output had increased in November driven by a large increase in machinery and equipment output. He said he was wary of reading too much into the data. On the demand side, Mr Bean said the MPC was expecting a slowdown in consumer demand but it was critical that it was not too rapid. The fall in consumer confidence in recent months had reflected a decline in sentiment about the overall economic situation so was less likely to be a good indicator of future spending.

Turning to the markets, Mr Tucker said that market interest rate futures implied a somewhat increased expectation of an MPC interest rate cut over the coming months. Dollar bond yields had increased over the recent period, possibly reflecting an anticipated impact from US budget proposals. Equity prices had been broadly unchanged over recent months though the Dax index was noticeably weaker, reflecting corporate developments in Germany. Exchange rate movements had continued to centre on the rise in the euro and the fall in the dollar. The euro's ERI had risen by 7-8% over the past year; and the euro had appreciated by some 20% against the dollar. In considering to what extent a possible war with Iraq was being priced into financial markets, Mr Tucker noted the strengthening of the Swiss franc and higher oil and gold prices as indicative. However, there had been no notable increase in corporate bond spreads.

Dr Julius commented on recent developments in the oil market. She said the strike in Venezuela alongside a possible reduction in supply from Iraq would mean that short term OPEC capacity was not sufficient to meet demand. Therefore, the risk of higher oil prices had increased recently. She explained that the impact of reduced Iraqi support in isolation was less consequential.

Mrs Powers-Freeling said that the surge in retail spending in the run-up to Christmas had occurred later in the month than the previous year but had been positive overall. January sales had started more strongly than anticipated, though many retailers had large stocks and were discounting heavily. She said that operating plans for the year ahead centred on an expectation of growth of around 2½%. Clothing retailers were paying more attention to stock levels and the length of the buying cycle.

Mr Neill reported that car sales in December were 14% higher than a year earlier, with imports representing 80% of the market – a record. He said that growth had been driven by discounts and other dealer incentives related to a year-end sales push. He felt underlying demand was less buoyant. Sales over the first 10 days of January were 20% lower than a year earlier. Dame Sheila McKechnie said that dealer pre-registration of vehicles was likely to account for some of the increase in sales.

Sir Graham Hall asked whether the increase in RPIX inflation in November was in line with what the Bank had expected. Mr Bean said it was pretty much as expected and largely reflected the earlier increase in house prices. A short-term 'hump' in inflation was for instance built into the November *Inflation Report* forecast. He said the rise in November was not, however, felt to be material to the medium-term outlook. The Governor said that the influence would persist for much of the year. Sir David Cooksey asked whether the increase in RPIX inflation was likely to feed through into wage negotiations. Mr Bean said that some leakage was possible but unlikely to be significant. The impact of the forthcoming increase in National Insurance contributions was a bigger concern to the Committee.

MPC Procedures:
(i) Peer review comments on the pre-MPC process
(ii) External analysis of MPC procedures, and
(iii) Provision of regional and sectoral information to the MPC
(Executive Directors, external MPC members and Mr Jenkinson in attendance)

In introducing a series of three papers relating to the MPC's procedures, the Governor reported that the first paper summarised the views of non-Bank visitors who had attended pre-MPC meetings. The second and third papers commented on views freely expressed by external parties relating to procedures adopted by the MPC and provided a summary of the regional, sectoral and other information regularly supplied to the MPC. Mr King briefly introduced the papers.

Peer review comments on the pre-MPC process

Mr King noted that, alongside the generally positive comments, critical remarks once again centred on the amount of data presented at pre-MPC. However, he said that the Committee felt this to be less of an issue for them month to month. Much of the data were relevant to the other MPC meetings which external visitors did not experience.

Sir David Cooksey noted that the only regular external attendee of pre-MPC meetings was the Treasury representative. He asked whether it would be possible for that party to contribute to the review in the future. The Governor said that this could be done. Sir Howard Davies said, having recently attended pre-MPC, he felt that the previous comments about the meeting had been well addressed. Presentations were now more thematic. He added that feedback from external attendees should be a condition of attendance and noted that the ECB had not responded to the review. Mr King said that feedback was an informal condition of attendance. Mr Jenkinson explained that the ECB team had visited the Bank to consider specifically the role of the Agencies.

External analysis of MPC procedures

External commentators continue to comment on the lack of a statement with MPC announcements. Ms O' Donovan asked whether the Bank had spoken to the Financial Times following its leader article on the issue. Mr King said the Bank spoke to the FT regularly on these issues. He said any statement accompanying the interest rate announcement would have to be short and restricted to explaining only the decision itself. The MPC continued to prefer to offer a full and coherent explanation of all the issues and arguments discussed in the meeting through the minutes. The Committee had a different view for those occasions when their decision was likely to be unexpected, when an immediate statement was more appropriate. He added that there was no general sense that markets were concerned by the lack of a regular statement. Sir David Cooksey said that when the MPC process started there was considerable pressure for information to help explain the Committee's thinking and actions. This reflected the fact that markets were uncertain about the new framework. However, he thought that there had been a noticeable reduction in these demands over the past few years.

Provision of regional and sectoral information to the MPC

Mrs Francis queried whether there might be an unconscious bias in the Agents' reporting, reflecting the type of companies that spoke to the Bank. She asked if the Bank had undertaken any analysis of the Agents' reports. Mr Jenkinson said that each year there was an informal assessment of the reports and a comparison with trends in the economic data. That was included in the annual paper to Court on the work of the Agents. Monetary Analysis were considering a more formal comparative analysis using the Agents' statistical annex scores.

Mr Stretton asked whether the Bank wanted to see more emphasis on regional information and whether more priority should be afforded to it by the ONS. Had we asked the question internally? Mr King said that more regional information was not a high ONS priority for the MPC in view of its national inflation target. Regional information was useful in informing the national economic picture but was not required in its own right. The ONS faced the challenge of improving its statistics with a difficult organisational structure and with the staff at its disposal. The MPC had made clear its priorities to the ONS to ensure work was focussed on the most important areas.

Mr Bailie asked if MPC members were ever surprised by what they heard on their regional visits and how was the intelligence fed into MPC discussions. Ms Barker said she was not usually surprised because the Agents' monthly reports flagged most of the issues. She added that the visits were often discussed anecdotally by the MPC. Mr Allsopp said he often discovered additional facts from his visits; for example, the strength of house prices in particular areas.

Dr Julius said Court needed to evaluate the quality of sectoral information available to the MPC. She asked if it had improved over the past year and was the standard as the Bank required. For instance, given the importance of house price data at the present time, was the Bank satisfied with the data? Mr Jenkinson said service sector statistics had improved, albeit in a marginal way and work was ongoing; for example, the extension of the coverage of corporate services price indices. He added that the ONS were developing an official monthly house price index, expected on an experimental basis in mid-2003.

Sir Graham Hall outlined to Court the forthcoming White Paper on regional devolution. The nine Regional Development Agencies would receive increased funding to 'lever' the regional economies. An initial step would be for the RDAs to establish statistical and information databases. The meetings between the Bank's Agents and the RDA's were useful and provided a 'sanity check' on what they were both thinking. Sir Graham encouraged the links between the Agencies and RDAs.

Dame Sheila McKechnie suggested that if the new ONS house price index was not of a high standard it would add to rather than help the problem of statistics covering the housing market. Mr King said all statistics were estimates. House prices were inherently difficult to measure as different types of houses in different places were sold each month. Much depended on statistical adjustments for changes in the mix of locations, and size and type of houses sold. He said the Bank could discuss the approach to these problems but it was for the ONS to implement the methods chosen and produce the statistics. The Governor said difficulties with particular statistics made it important for the MPC to have a number of different measures at its disposal. He felt precise individual numbers were less important than the need to be able to form an overall judgment about economic trends. It was important to be able to cross-reference different data sources to do this.

The MPC's response to the Pagan Report
(Executive Directors and External MPC Members in attendance)

Mr Bean introduced a draft response from Court and the MPC to the Pagan Report, which had been discussed by the MPC the previous week. The intention was to publish the response alongside the report itself. Mr Bean said the response was broadly welcoming but he would be grateful for comments on both tone and content. The second paper, which was not for publication, was a list of recommendations contained in the Report, as requested at the December Court. The second paper was for information only.

Mr Stretton suggested a drafting change in paragraph 16 to replace the phrase "learning from past mistakes." Sir David Cooksey suggested that the last sentence of paragraph 1 should read "simultaneously assists Court and Non Executive Directors in the execution of their oversight duties". He also suggested a drafting change to the last sentence of paragraph 14 to make clearer that it was a situation that may happen from time to time in the normal course of events. Mr Bean said he would take these suggestions on board. The Governor said he looked forward with interest to the reaction of the House of Lords Committee, and also to Professor Pagan's follow up work when the new model was in place. Court agreed the changes and was content with the first paper.

With reference to questions 5 and 6 in the list of recommendations in the second paper, Dr Julius noted that Professor Pagan suggested that the Bank might consider a small unit to work on model development. She said that while the MPC response was that the basic objective seemed valid, it appeared to indicate that it was debatable whether a small dedicated unit was the best way to achieve it. She asked whether the suggestion had been considered, and the Bank had not been able to conclude whether it was a good idea or not, or whether the suggestion had been considered and dismissed. Mr Bean said the concern was that such a unit would be cut off from the rest of Monetary Analysis that ran against the general strategy within MA that research should be done side by side with analysis rather than in separate units. For that reason the Bank was wary of creating a completely separate unit dedicated to just model development. Indeed at one time there had been such a unit and it had been abandoned for the reasons he had given. However, resources for continuing development would be made available within the existing divisional structure. Mr King agreed. The Governor noted that the opening of the modelling process to input from other divisions was a significant improvement. There was no doubt a continuing question of how best to organise such work, and the Bank would look at that aspect.

FINANCIAL STABILITY ISSUES

Domestic developments and international issues
(Executive Directors in attendance)

Mr Clark introduced his bullet point note on Argentina and on a legal issue between JP Morgan Chase and various insurance companies. The Governor noted that in Basel he had met the new Governor of the Argentine central bank, who had made a positive impression on him and his fellow Governors. The political context was the real problem in Argentina. The Governor also noted that he had met the new governor from Brazil. There had been a positive reaction to the new Brasilian Government and the new central bank governor was favourably received in Basel.

Mr Clark noted that the next Court would discuss a paper on the financial stability role of the Bank. He would be more than happy to arrange short briefing seminars for Non-Executive Directors to explain more about the Bank's financial stability activities.

MARKET OPERATIONS ISSUES

Quarterly report on current developments
(Executive Directors in attendance)

Mr Tucker introduced his report, which covered: market contracts; Euro-notes, bills and the Bank of England balance sheet; risk management; and a projects update (OpenLink Business Developments and the Forex Cash Management Unit.) There were no questions.

EXECUTIVE REPORT
(Executive Directors in attendance)

The Governor noted that the terms of six Non-Executive Directors would expire on 31 May, and of those Directors five had served more than one term. The Chancellor had taken the view that he would not wish to reappoint any of those five. He would be happy and willing to reappoint Sir Brian Moffat who had done one term, but that depended on Sir Brian's decision on whether he wished to continue. The Governor said he regretted that the Bank was not going to be able to carry forward some of the experience of people who had served two terms. It would mean that a very intensive Nolan process would have to be undertaken. The plan was to put out an advertisement on 27

January. A great deal of thinking would be required about the composition of Court in a sectoral and regional representation sense. The Governor said he was anxious that these considerations should be reflected in some degree in the advertisement, and the Bank was in discussion with the Treasury about that. The Governor noted that there would be an opportunity to thank the retiring Non-Executive Directors at a dinner at the end of May.

MANAGEMENT OF THE BANK

The Quarterly Financial Report
(Executive Directors and Mr Smout in attendance)

Mr Smout introduced the Quarterly Financial Report. Sir Brian Moffat asked whether managers were being encouraged to spend up to budget. Mr Smout replied that this was not the case. There were a variety of developments on the banking side which happened to be in February and March, and this spending was for business reasons rather than a year end rush. The Governor drew attention to a paper Mr Smout had circulated on the professional fees for the disposal of the printing operations, which had been requested by Mr Neill.

The Annual Pay Review
(Executive Directors and Mr Footman in attendance)

Mr Footman introduced his paper, noting as background that there had been a change of Unifi national official. Mr Brawley had been replaced by Mr Brookes. Mr Footman also noted that a ballot proposed by Unifi could delay a settlement.

In response to a question from Ms O'Donovan about ballot rules, Mr Footman said the ballot would only apply to the main bargaining unit and a decision would be by a simple majority. In response to a question from Sir Graham Hall about whether the Bank had considered a two to three year deal, Mr Footman said he was not sure that the Bank as a whole would do this, but it might be needed for Gloucester up to the point at which the operation closed, which was more than a year away.

Dr Julius commented that it would be highly embarrassing if even a percentage of staff at the Bank of England received across-the-board awards above the inflation rate, and it was important to be sensitive about the percentage being discussed. Mr Neill said that his advice was to try to move the whole Bank to the point where pay increases were between the manager and the individual concerned. In response to a question from Mr Neill about the ballot, Mr Footman said the immediate question was whether the union would or would not recommend the offer. It would not be a ballot about industrial action. If the ballot was against acceptance, the question would be whether the Bank should go ahead and pay the award, or whether it should hold it up and carry on negotiations in circumstances where delaying the actual payment would be unpopular with staff. Sir Howard Davies said he had never wholly understood the Bank figures for pay awards but in so far as he did, the FSA was looking at similar numbers.

In response to a question from Mr Morris about whether there were any residual Benefit Select issues that might impact on the discussion, Mr Footman noted that the union had asked for an increase in the benefits allowance. Some benefit costs, notably medical insurance, were going up but we had increased the allowance last year and his instinct was to keep the powder dry on the issue. The Bank would be negotiating a new three year contact with medical insurance providers at the end of this year, and that would be the time to think about the size of the allowance. Sir Ian Gibson agreed with Mr Neill that once a move away from across-the-board awards was started the Bank should keep on in that direction. He also recommended that the Bank should decide in advance of the ballot whether it would either pay the award or continue the debate, in the event that the ballot came down against the award. In response to a question from Sir David Cooksey about IT awards at a time when there had been significant redundancies in the City IT sector in the previous few weeks, Mr Footman said there had been a complete change in the recruitment situation of IT professionals. One reason for separate IT awards had been to allow the Bank to increase salaries faster when there were recruitment difficulties. But this year and last year the scheme had allowed us to do the reverse.

There being no other business Court was up.

David Cooksey

Peter Rodgers

19 February 2003

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A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 19 FEBRUARY 2003

Present:

The Rt.Hon Sir Edward George, Governor
Sir Andrew Large, Deputy Governor - Financial Stability
Sir David Cooksey, Chairman, Sub-Committee of Directors
Mr Bailie
Ms Blow
Sir John Bond
Mrs Francis
Sir Ian Gibson
Dr Julius
Dame Sheila McKechnie
Sir Brian Moffat
Mr Morris
Mr Neill
Ms O'Donovan
Mrs Powers-Freeling
Mr Stretton

Absent:

Mr King, Deputy Governor - Monetary Policy
Sir Howard Davies
Sir Graham Hall

The Minutes of the Court of 15 January, having been circulated, were approved.

MONETARY STABILITY ISSUES
Inflation Report, together with the economic and monetary discussion, incorporating the monthly MPC Report to Court
(Executive Directors and Ms Bell in attendance)

In introducing the MPC Report to Court, Mr Bean said that global recovery remained patchy and fourth quarter US GDP had risen 0.2%. Business confidence was holding up in the US, with indicators suggesting a recovery would continue this year, but not at a particularly dynamic pace. However, the euro area was subdued and this mattered more to the UK because of the greater importance to our net trade with the rest of the world. He noted that oil prices were higher by $6 than at the time of the November *Inflation Report* and equities had fallen further. Turning to output, he said UK GDP was up 0.4% in the fourth quarter but he noted the distortions arising from the Jubilee holiday. Looking through that, growth in the second half was between 0.5 and 0.6% per quarter, a little below trend. Services were holding up while manufacturing fell, but the underlying fall in the latter was exaggerated, which could be seen by stripping out the Jubilee distortions. Business confidence had edged down in services and manufacturing. Turning to consumption, he said retail sales were up 1.1% in December but seasonal factors including the timing of Christmas made the trend unclear. The housing market seemed to be cooling a little. All the main indices implied that the rate of growth had slackened. The leading indicators of housing market activity implied that activity was moderating. He also noted that consumer confidence was down sharply.

Mr Bean said investment had fallen but might be nearing the trough. There were some signs that profitability might be stabilising. Measures of investment intentions implied that there might be some mild pick up later in the year. Exports were weak, though the data was erratic, and he would welcome insights from Court into the reasons for the sharp October and November falls. The puzzle was that the reported weakness was to the US, which was not what would have been expected. Turning to labour and prices, he said that unemployment was flat and pay growth steady overall, though it had risen in the public sector. Input price inflation had picked up but RPIX inflation was unchanged at 2.7% in January. He noted that oil and housing depreciation were temporary factors. Turning to the *Inflation Report* projections, he noted that growth had been revised down but was close to trend, dropping a little below trend the following year. Inflation edged up temporarily but then fell back to target. The risks were increased by the prospect of war. He noted that the MPC had decided by seven votes to two to cut rates by 0.25 percentage points.

Turning to the markets, Mr Tucker noted that the interest rate cut was a surprise in terms of its timing, but not in terms of whether there would be a cut. That had been expected later in the Spring, not this month. He drew attention to Chart 2, covering the path of rates during the day of the MPC announcement. He also noted that in Chart 3, between the November *Inflation Report* and the most recent meeting, the money market curve had shifted down a lot. This had pushed out the point at which the markets had expected interest rates to rise. The market was now betting on a further cut in the next few months and had pushed out even further the time at which rates would start to rise again. He noted that Chart 4 showed a downward shift in the dollar and the euro and, more recently, a marked shift in sterling. He drew attention to Chart 5, which showed ten year spot rates derived from government bond yields, and Chart 6 which showed a weakness in equity indices ahead of the most recent meeting, and then sideways moves. Chart 7 showed sterling had shifted downwards on the exchange rate index while the gold spot price in Chart 8 showed that gold was off its peaks in both dollar and euro terms but still up on Autumn levels. Finally he drew attention to Chart 9 which showed US dollar bond spreads by credit rating: they had risen modestly in the sub-investment grade area.

In reply to a question from Ms Blow, Mr Bean said that the MPC by convention took Government announced spending plans and assumed they would spend what they had announced, though the MPC might take a different view on tax revenues, which depended on activity. The nature of spending was also significant. He noted that a key engine of growth this year was the increase in public expenditure. Sir Ian Gibson noted the outlook for the US and European auto industries and said that they were gearing up for a very difficult year.
Mrs Francis noted that the relaxation announced by the Financial Services Authority had led insurance companies to stop feeling the need to be forced sellers of equities and that had had some underpinning effect on the market. But she heard from member companies that they did not yet feel they had the confidence to buy again. In response to her question about market values, Mr Bean said that it was probably reasonable to suggest that most of the necessary correction had taken place now, though caution was required. In the longer run he would be slightly more optimistic, not so much in relation to the UK but to the rest of the world particularly developing economies. There, the demand for capital ought to be rising in the future and that might help push up returns on equity. There was also a growing awareness of the need to push up savings for the future.

Mr Neill noted that the car market in January was down 20% in the first ten days and February was currently running 15% down, with large fleet sales down 20% and retail down 10%. The order intake coming through implied a lower March than the previous year. There was, overall, a cooling in the market. It was going to be a difficult year and his own firm was cutting back whenever it could. Mr Bailie noted that, the day before, the printing and packaging industry had settled for an average 2.4% on basic pay, which he believed to be a very modest amount in view of the fact that there was a 1% increase in NICs. He noted that the service sector and CBI reports for Northern Ireland were more pessimistic. The impact of the slowdown in the Republic was beginning to trickle into the north. Mrs Powers-Freeling noted that, after the terrorist warnings, there had been a noticeable redistribution of shopping away from city centre/high streets and big shopping malls to secondary high streets and supermarkets. Consumers were changing where they bought rather than whether they bought. Mr Morris noted that Government departments often did not spend their capital budgets. He also noted that in the motor industry the impact of the slowdown might be more immediate. Rover had days of zero production. He supported Sir Ian Gibson's concerns about the US car industry. Mr Bean, replying to Mr Morris, said that there was a distinction between undershooting of capital and current spending, in that the former was much smaller in monetary terms even though the percentage undershoot was larger. Consequently the impact was less. Roughly speaking Government expenditure was £10bn less than planned (1% of GDP), the level of GDP would also be around 1% lower. A material undershoot, if one took place, could thus have significant effects on growth prospects this year.

Dame Sheila McKechnie noted factors affecting the electrical sector. One related to a possible OFT decision on complex monopolies in extended warranties. Another issue related to supermarket competition, in particular from Wal-Mart, related to its buying power in the domestic goods markets world-wide. A third issue she noted was in relation to pensions where people were only beginning to understand that pensions were part of the total remuneration package. Wage increases might be denied as a result of large pension contributions and this raised the possibility of legal cases. Mr Stretton, commenting on a remark by Mr Neill highlighting pensions issues, noted that the increase in life expectancy was not news and had been allowed for in planning for a long time. The issue was whether enough had been allowed. He also noted, in relation to the market falls, that in pension funds, main interest was in fact in the flow of income, which depended on valuations 20 or 30 years ahead, and not in immediate changes in value. The real question for them was whether there had been a change in the economy that implied that long term valuations should be looked at in different ways. Focusing on the issue of immediate market valuations could make things worse. Sir John Bond supported Mr Stretton. The market was going through a period when cost containment was driving performance and waiting for a period when revenue would pick up. He also noted the importance of the very large increases in demand in emerging markets, and their cost advantages, including labour rates.

FINANCIAL STABILITY ISSUES

The Bank's Financial Stability Role (Executive Directors in attendance)

Sir Andrew Large noted that the paper by Mr Clark was deliberately retrospective in its approach. Mr Clark introduced his paper noting that financial stability problems, while they typically attracted less attention than monetary policy and inflation, could nevertheless involve a serious economic cost.

In response to a question from Dr Julius about the FSAP review by the IMF, Mr Clark said that parts of the FSAP would be published very soon, and he would give Court a brief digest. Dr Julius commented that the distinction made in the paper between surveillance, infrastructure and crisis management was useful. She noted that there was no comparable single indicator for financial stability to the inflation target for monetary stability, and asked whether it would be worth trying to come up with an aggregate indicator of the relative level of financial stability. She also believed there was a role for more scenario analysis because crisis management was about getting managers to think seriously about possible, if unlikely, outcomes. Finally she asked where responsibility would lie if a large insurance firm was in danger of going under. The Governor noted that this would be an issue for the Tripartite Standing Committee. Mr Neill noted that there were a number of useful software tools for scenario planning. It was also something Shell did very well. Sir John Bond said he believed the Bank did an admirable job in its financial stability work. He was particularly interested in the efficiency and effectiveness of financial services. In the past people had said that the German and previously the Japanese banking sectors were the ideal systems. He believed that it was clear now that having a reasonably profitable financial sector was a strategic strength for an economy. If he made that point himself it would not be as fully accepted as if the Bank said it. If the Bank were to make the point, it would be helpful in public debate. Mrs Francis endorsed what Mr Clark had said about the tripartite system. She believed it was working very well. She noted, though, that some City firms were no longer as clear as in the past about where a calming voice would come from if there were real problems, though she suspected those people were harking back to golden days that never were. She said that there was a compensation scheme available if an insurance company became insolvent. The systemic issue was whether, if a lot of companies were in difficulty at the same time, there would be a chain reaction. One of the important issues to be discussed at that point would be whether it would be right to have a lifeboat or to wait for the compensation scheme to be triggered.

Sir David Cooksey noted the importance of demonstrating what the Bank achieved from its financial stability work. He gave as an example banking and small and medium enterprises, where there was a huge gulf in perceptions between the banks and SMEs 10 years ago. But the Bank had created trust and understanding. In relation to the FSA and the Treasury, it was quite clear that the Bank's financial stability work was different and complementary. But he noted that the paper did not show what the Bank had spent on financial stability in recent years. Cost benefit analysis over time would allow the Bank to reject any argument about the value of its financial stability work. Mr Morris said he found the paper very reassuring, particularly in the three areas of surveillance, infrastructure and crisis management. He admired the way the tripartite group worked. He asked whether there was any mechanism to share the information which gave this reassurance to Court with other sectors of the financial community. The Governor noted that considerable amounts of information were published in the FSR, though the Bank had to balance publication against the potential risks of putting the information in the public domain. Returning to scenario planning, Ms O'Donovan noted that Shell set the world benchmark and it employed 60 people for the task.

Mr Clark, in response to Dr Julius' point about measurement, said the Bank had tried to move in that direction, particularly in looking at banking exposures, and risks in aggregate across the banking sector in the UK and beyond. More could however be done. A lot of work had been carried out on leading indicators of crises in emerging markets. A difficulty arose, however, in trying to combine this with analysis of the impact of structural changes. With respect to scenario analysis, he said that the Bank had carried out work in that area. He noted that exercises had been done in relation to further falls in the market, particularly for insurance companies and also looking at the implications of war in Iraq. Beyond that, the Bank had carried out more specific analysis of what would be needed in the event of a failure of a large complex group. That work was not complete. Other work had been done in relation to terrorist attacks. The FS area had not looked at financial manifestations of general economic shocks, but was beginning to do that using the Bank of England model. These exercises were mainly valuable not because they gave the answers but because they made people think about the questions.

Turning to the issue of responsibilities, he said they were set out in broad terms in the Memorandum of Understanding. The traditional interest of central banks had focussed on banks but it could not be ruled out in some circumstances that this would widen. Beyond a certain point it was unlikely to be within the financial capability of a central bank on its own to provide support. One of the essential features of the Tripartite Standing Committee and the MOU was that it laid out what the contribution of each of the three bodies would be in such circumstances. The key issue was the potential for systemic knock-on. The Bank was not in the business of propping up individual firms whose failure did not have implications for the wider financial system or economy.

Turning to the efficiency and effectiveness of the financial system, Mr Clark said that the FS area did not scour the country looking for inefficiencies. It took up opportunities where they arose, where it saw possibilities of improving efficiency and containing risk. Turning to questions about where a calming voice would come from, he said that issues of co-ordination had been handled well through the Standing Committee. For example there had been many additional meetings of the Committee to make sure all three bodies were speaking with the same voice on the insurance industry. He noted in response to Sir David Cooksey that FS spending was set out in the Bank's budget, but agreed that it would be useful to draw it together for Court. Finally he noted that the FS area had made considerable strides in transparency, particularly through the FSR. It was always difficult to judge quite how far one could go without precipitating the trouble that it was hoped to avoid, but in laying out the issues, the Bank tried to be as open as it could.

MARKET OPERATIONS ISSUES

Current Issues
(Executive Directors in attendance)

Mr Tucker reported on the results of the 2006 Euro Note Issue and the ending of money market loans to local authorities, as set out in his bullet point note. There were no questions.

EXECUTIVE REPORT
(Executive Directors in attendance)

Sir Andrew Large drew Court's attention to a change in which Mr Footman would chair ManCo. There would be a monthly meeting of GovCo to address the issues arising from that process.

MANAGEMENT OF THE BANK
A Report from the Chairman of the Audit Committee
(Executive Directors in attendance)

Ms O'Donovan outlined the main points contained in the draft minutes of the Audit Committee meeting held in January. The Governor said he was very grateful for the work done by Ms O'Donovan as Chairman and by the Committee. There were no questions.

Pension Fund Issues
(Executive Directors and Messrs Smout and Bennell in attendance)

<u>Amendments to Staff Pension Fund Trust Deed and Rules</u>

Sir Andrew Large drew attention to the papers in Members' folders regarding changes to the Trust Deed and Rules of the Staff Pension Fund, which required Court's approval. The changes were:

- To reflect a statutory change in respect of AVC deferral: the effect of the change was to allow members to defer, up to age 75, using their AVC fund to purchase additional pension benefits, rather than being obliged to do so at the same time as their Staff Fund pension came into payment.

- To implement pensions sharing regulations which facilitate a clean break in a divorce settlement by allowing the ex-spouse to take an agreed proportion of the member's accrued pension benefits either as a transfer value or as a life annuity in the Pension Fund.

- To amend the Trustee's investment powers to clarify that investment in futures and derivatives was permitted.

Court APPROVED the Deed of Amendment giving effect to the changes in the Trust Deed and the Resolution covering the amendments to the Rules of the Fund.

Court Pension Scheme

The Governor having drawn attention to the interests of himself, Sir Andrew Large and Messrs Bean, Clark and Tucker in the Court Pension Scheme, Sir Andrew Large noted that, because the Scheme was small and more exposed to changes in membership or asset value, an actuarial valuation was carried out as at 1 March each year. The 2002 valuation had shown the Scheme still to be in surplus, albeit reduced, but the financial position had deteriorated since because of the decline in equity markets and membership changes. Accordingly, the Trustees had:

- asked the Bank for an augmentation payment of £733,000, largely to meet the cost to the Scheme of the pensions drawn, without actuarial reduction, on the early retirement during 2002 of Messrs Clementi and Plenderleith and adding Mr Tucker to the Scheme. The Governors were minded to agree.
- signalled the likely need for resumption of annual contributions from the 2003/04 financial year, at a rate to be determined when the results of the 2003 valuation were available in the summer. A formal proposal would be brought to Court in due course.

Valuation of the Staff Pension Fund

Sir Andrew Large reported that the latest triennial actuarial valuation of the Fund had recently been finalised. The results showed that, as at the valuation date of 28 February 2002, the funding level was 112%. This surplus would, in the Actuary's calculation, have allowed the Bank to continue with the full contributions holiday – started in 1996 – for a further nine years. The Bank would then have to resume annual contributions at the full service rate which, as assessed in the 2002 valuation, would be 27% of the pensionable salary bill.

After discussion of the valuation results in the Trustee Board and GovCo, the Trustees had requested a resumption of contributions from 1 March 2003 at an annual rate of 10% of pensionable salary (ie some £6.5mn); Govco was minded to agree. The reasons were to extend the period over which the surplus was run off, to smooth the path back to full contributions and to recognise the pressure on the funding level of low equity market valuations.

Mr Stretton declared an interest as chairman of the Trustees. He noted that the Trustees would have been content with a lower Bank contribution, but he believed it was important that the level at which it was set was high enough to give the staff full confidence in the scheme. The Governor agreed, saying reassurance to the staff was very important.

Court was content.

The Bank's Budget for 2003/04
(Executive Directors and Messrs Smout & Footman in attendance)

Mr Smout introduced his paper seeking Court's approval for the Bank's budget for the coming year, reviewing the level of Cash Ratio Deposits (CRDs) based on an assumed rate of return, and seeking Court's authorisation for the Governor to write to the Treasury relaying Court's conclusions in relation to CRDs, and also seeking agreement to the proposed wording for Bank Objective 9. Mr Smout drew attention to the table on page 2 of his paper, which set out why profits were expected to fall the following year, and included the impact of BCCI legal fees, and also to the table on page 3, setting out the main elements of income. Mr Smout then drew attention to the main expenditure items on pages 5 and 6 of his paper, and set out some of the background. Expenditure in net terms, excluding BCCI costs, was up by around £5mn, about half of which reflected a conscious decision to maintain recruitment during a downturn in the City labour market.

He noted that the sale of the printing operations was on the whole continuing satisfactorily. De La Rue had issued its third profit warning in eight months the previous day but the liquidity of the company remained very strong. The shares were around 190p, compared with 240p at the time the Bank decided to go ahead with the sale in November, but some part of that fall reflected a more general decline in the market since November. Mr Smout also said that, following a delay, he hoped the Office of Fair Trading would shortly give its conclusions. It also appeared that the Bank would arrive at a very satisfactory outcome on pensions and redundancy, thanks to Mr Footman's skill as a negotiator. He noted that the hive down of the operation into Debden Security Printing was at present due to take place on 1 March and it was hoped that the deal would be completed by 28 March

In response to a question from Mr Neill, Mr Smout said there were detailed provisions in the supply contract which covered issues such as the supplier going into administration or there being a change of control. It was clear in talking to De La Rue that their liquidity position was strong and there was very little borrowing. Mr Neill asked whether in the longer term the Bank would have expertise available in the design and printing of notes. Mr Smout said that the Bank was retaining some expertise in these areas so that it would not be in a position in seven years time of having to depend entirely on the expertise of an outside party. Dr Julius noted that there was an expenditure increase, excluding BCCI costs, which was explained partly by the decision to go ahead with recruitment. She was not sure it was entirely prudent to continue recruiting, particularly if the assumption was that the labour market would return to its previous condition. Mr Footman said that compared with an intake of 54 the previous year the Bank was targeting 30. It could have made a case for zero but the judgement was that the Bank's credibility with universities would be damaged if it did. On balance, the quality of those the Bank seemed likely to recruit was higher than two years ago. The Governor noted that for the first time the Bank was staffed to budget. In the past it had made the mistake of cutting recruiting in this situation and that had not been good for the development of staff. In response to a question from Sir David Cooksey, Mr Footman said that a key issue would be to keep the people the Bank recruited in this difficult period. That went back to the quality of career planning. In response to a question from Sir Brian Moffat on BCCI legal fees, the Governor said that essentially the Bank was reliant on outside work. Bank legal staff were busy preparing witness statements. He noted that the trial was postponed to October and it was possible that it could be delayed even further. Until the Bank received the revised statement of complaint it had no further basis to judge how to proceed. It was important to continue, and not to encourage litigants in the belief that they would be paid off if they made things difficult enough.

Mr Smout said the Treasury would announce the following week that there would be a review of CRDs, to be completed by the end of May. The Bank did not think it likely that the Treasury would make major changes to the framework for CRDs (as opposed, for instance, to their level) unless there was a decision to enter monetary union.

Court was content to authorise the Governor to write to the Chief Secretary to the Treasury on the basis proposed in the draft letter before Court.

Court was also content with the wording of Objective 9 on page 11 of Mr Smout's paper.

Senior Succession Planning
(Mr Footman in attendance – Executive Directors withdrew)

The Executive Directors having withdrawn from the meeting, Mr Footman introduced his paper which outlined how the process adopted for senior succession planning in the Bank was managed. Mr Morris said he would feel more comfortable if he received a full paper dealing with employment practices lower down the Bank so that he could be assured that these practices were informed by the best in the Civil Service. He believed public institutions should reflect the make-up of society in gender, race and by other considerations. The Governor said the point was well made but the paper was not directed at that question. The Bank would be very happy to produce a further paper on Mr Morris' question. Mr Footman said he was planning a paper setting out the data on ethnic minority and other issues in the next few months. In terms of employment practices the Bank did not automatically advertise outside and there was a presumption that promotion would be from the inside. He said he could report on the process by which the Bank established its cohort of potential Heads of Division.

The Governor commented that it was very important that the Bank should explain how that process worked. Equality of opportunity was very important to the Bank in terms of gender and ethnic mix, and also nationality. Mr Neill said that while equality of opportunity was very important it should never compromise a determination to have the highest quality people.

Sealing Committee authorisations for inspection

The Governor invited Members to view the Sealing book, if they so wished.

There being no other business, Court was up.

David Cooksey

Peter Rodgers
19 March 2003

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 19 MARCH 2003

Present:

The Rt.Hon Sir Edward George, Governor
Sir Andrew Large, Deputy Governor - Financial Stability
Mr Bailie
Ms Blow
Sir David Cooksey, Chairman, Sub-Committee of Directors
Mrs Francis
Sir Ian Gibson
Sir Graham Hall
Dr Julius
Mr Morris
Mr Neill
Ms O'Donovan
Mrs Powers-Freeling
Mr Stretton

Absent:

Mr King, Deputy Governor - Monetary Policy
Sir John Bond
Sir Howard Davies
Dame Sheila McKechnie
Sir Brian Moffat

The Governor noted the appointment of Rachel Lomax as Deputy Governor, Monetary Policy and Richard Lambert as a member of the Monetary Policy Committee. He said that, very sadly, Christopher Allsopp had not been re-appointed and he wished to take this opportunity to say how much he appreciated all he had done for the Bank, the Court and the Monetary Policy Committee.

The Minutes of the Court of 19 February, having been circulated, were approved.

MONETARY STABILITY ISSUES
Economic and monetary discussion, incorporating the monthly MPC Report together with a report on international economic developments
(Messrs Clark, Bean, Tucker together with Mr Allsopp, Ms Barker and Ms Bell in attendance)

In Andrew Bailey's absence in Washington , Mr Bean introduced Mr Bailey's paper on international economic developments, including the US, the Euro area, Japan and China. Turing to the UK position, Mr Bean noted that fourth quarter GDP was up 0.4% and manufacturing was up 0.3% in January, with an important contribution from computers. Service growth had moderated and confidence was down further. On the demand side, fourth quarter consumption was up 1% while retail sales fell in January, though the picture was made more complicated by large seasonal factors. Confidence was down sharply while house price inflation had eased a little and price expectations were down. Investment was still weak. In the labour market unemployment was flat and employment was up further while hours had fallen and pay growth was steady, with settlements flat. This was despite the imminent increase in national insurance contributions and the pick up in inflation. Turning to prices, he noted that the exchange rate was down 3% since the February Inflation Report while oil prices were somewhat lower. Input price inflation was higher and he noted the impact of higher council taxes. RPIX inflation rose to 3% in February, largely reflecting the influence of clothing and footwear. He noted that the minutes of the March meeting of the Monetary Policy Committee, at which it had been decided not to change interest rates, showed a vote of 8 – 1, with Mr Allsopp preferring a reduction of 0.25% points.

Turning to the markets, Mr Tucker noted that chart 2 showed that the rally in the markets began in the middle of the previous week, while chart 3 demonstrated major changes in the expected path of interest rates. There had been an easing in credit conditions since the Inflation Report in February followed by a retightening as the curve moved back up. In the near term markets expected a further cut. Charts 4, 5 and 6 showed changes in short term interest rate futures which were very slightly up since the last Court. Chart 7, 10 year spot rates derived from Government bond yields, showed significant changes. Chart 8, showing 10 year nominal forward rates, illustrated a proxy for short rates expected in 10 years time and was barely changed. The shift was very much at the short end. Turning to equity indices, in chart 9, he said that the markets had rallied since the end of the previous week and were slightly higher than at the time of the March MPC. Chart 10 showed changes in sterling, dollar, euro and yen exchange rate indices, sterling remained off 2 – 3% from the assumption in the February Inflation Report. Chart 11 showed that crude oil was significantly lower in price since the MPC meeting while Chart 12 showed US corporate bond spreads had eased, and commentators had seen some de-coupling from equity markets. Mr Tucker noted that the US corporate sector had pushed out the maturity of its debt. Corporate credit spreads had also moved out very sharply in September and October 2002 so the spreads may have become exaggerated in terms of the fundamentals. There had been some correction since then. This was a view the Fed shared.

The Governor invited external members of the MPC to comment but they had no comments.

The Governor noted that the picture was so confusing that even the Fed had decided not to express an opinion in its statement the day before. Mr Neill noted that Mr Bailey's paper did not comment on the scale of the global pensions deficit. Mr Bean said that the population would clearly have to build more savings but the issue for monetary policy was whether that was going to happen suddenly or slowly. The Bank had tended to think the latter. So it would not create serious difficulties on the monetary policy side though it might on the financial stability side. Mr Tucker noted that there was considerably increased awareness of the issue in the United States, partly because of the attention paid to it by ratings agencies. Mr Clark said that a single snapshot view of the deficit at present might over-state the size of the problem; but that there was a significant deficit was absolutely clear. Mr Allsopp said that, looking forward, the key issue was what was happening to savings, irrespective of whether pensions were publicly or privately funded. If the savings flows could be translated into changes of output that would solve the underlying problems. Mr Tucker agreed that the key was the impact on investment, and even if there were a recovery he did not believe the situation would return to exactly where it was, before. Dr Julius said it was probable that the oil price peak had not been seen yet. The war was starting with stocks at a very low level. It was also possible that Saddam Hussein would blow up oil fields and these would take 6 – 12 months to repair. Oil prices would be very very volatile for the next few months. Mrs Francis agreed with Mr Allsopp on pensions issues for the long term, but in the short term she said there was a concern that while insurance companies had had to offload equities as the market had fallen occupational pension funds had not been required to do so, and the fear was that they would start offloading their equities as the market recovered and dampen that recovery. However, the alternative was that if the markets recovered after a short war, people would be swept along with them and such concerns would not arise. Mr Neill said the issue was potentially extremely serious, and he wished the Bank would present a paper thinking through the issues.

Non-policy meetings of the MPC
(Messrs Clark, Bean, Tucker and Allsopp together with Ms Barker and Ms Bell in attendance)

Mr Bean presented a note about the five MPC meetings held during the previous six months outside the regular monthly policy and quarterly Inflation Report meetings. In response to a question from Sir Graham Hall, the Governor said that the MPC would be briefed on the Budget on the Monday before.

FINANCIAL STABILITY ISSUES
Domestic Developments and International Issues
(Messrs Clark, Bean and Tucker in attendance)

Mr Clark outlined the issues set out in his bullet point note, which covered Iraq, where he noted a number of sectors that might be affected; the Financial Stability Forum meeting to take place in Berlin on 24-25 March; and the round table on contingency planning on 27 March.

In response to a question from Dr Julius, Mr Clark said he did not know who Mr Buffet had in mind when he mentioned the problems of reinsurance companies in his annual letter to shareholders. There were one or two possible candidates. The problems with reinsurance were the lack of information, the differences between - and in some cases the lack of a - regulatory regime, and the question of the extent of risk taken on by reinsurers in relation to their involvement in financial engineering products. In response to a question from Ms O'Donovan about the disclosure of equity positions of hedge funds, Mr Clark said disclosure had not got very far. Hedge funds were unregulated. There was however further discussion under way on disclosure of short selling. Plans at present envisaged coverage of cash markets but how useful that would be he could not say. The Governor noted that the issue of hedge fund disclosure was a French pre-occupation.

[redacted]

MARKET OPERATIONS ISSUES

Current Issues
(Messrs Clark, Bean and Tucker in attendance)

Mr Tucker outlined the main points covered in his bullet point note. In addition he noted that while the Bank had never sought a credit rating, Standard and Poors had given the Bank an AAA rating and FED management believed that this had helped to generate demand, eg amongst certain Asian investors during the sale of the second tranche of the 2006 euro note. Because it was able to issue at a better price than previously, the Bank's options were widened between credit and liquidity risk and pure profit. A paper was to be taken to Alco to set out the choices.

EXECUTIVE REPORT

(Messrs Clark, Bean and Tucker in attendance)

Sir Andrew Large noted that Colin Mann, the Head of Customer Banking Division, was planning to retire in September and would be replaced by Chris Mann. Andy Brookes would replace Chris Mann as Head of Market Services Division. Mr Brookes would be replaced in Management Services Division by Chris Piper, at present the Head of the Business Support Unit in MA. Mr Brookes would be joining Banking and Market Services in mid-September. Mr Piper would be joining MSD a little before that.

Mr Bean noted that Tony Strachan had been appointed as the Bank's new Agent for Scotland with effect from April, succeeding Miss Janet Bulloch, who would be returning to the Bank in London after five years as Agent for Scotland. [redacted]

MANAGEMENT OF THE BANK

Payment to HMT in Lieu of Dividend
(Messrs Clark, Bean, Tucker and Smout in attendance)

The Governor requested Court's approval for the payment, on 4 April, of the sum of £15.5mn to HMT, as the interim payment in lieu of dividend. Court gave its APPROVAL.

External Bank Auditors – change of status
(Messrs Clark, Bean, Tucker and Smout in attendance)

Sir Andrew Large drew attention to Mr Smout's paper setting out the background to PricewaterhouseCoopers' decision to change its status and convert to a Limited Liability Partnership. This, technically, resulted in a change of external Auditor and Court APPROVED the new appointment.

The Printing Works – completion
(Messrs Clark, Bean, Tucker and Smout in attendance)

Mr Smout reported that it was intended to complete the sale of the printing operations to De La Rue, the sale of the shares in Debden Security Printing and commencement of the note supply contract, before the end of March. Court was requested to endorse the following form of words required by clause 3 of the Agreement for the Sale and Purchase of the Issued Share Capital of Debden Security Printing Limited (the ***Sale and Purchase Agreement***). Court authorised the execution of and the performance by The Governor and Company of the Bank of England of its obligations under the Sale and Purchase Agreement, the Supply Contract and each of the other documents to be executed by The Governor and Company of the Bank of England pursuant or ancillary thereto.

Court APPROVED the proposed form of words which was duly minuted.

Mr Smout added that at the end of the month, the only outstanding matters would be to complete the building separation works and the formalities of a final salary pension scheme for future service within the De La Rue group. These would be completed before summer was out.

Mr Stretton noted that there were two small issues outstanding in relation to pension transfers which would be considered at a meeting of the Trustees that afternoon. He believed there would be no problem but noted that the Trustees would need to decide formally on the issues concerned. [The Trustees duly approved the issues concerned.]

Sir David Cooksey said he wished to place on record his belief that the staff had done a tremendous job in getting the sale through so promptly and it should go on record that Court was grateful to them for achieving that. The Governor said he would pass that on to the staff. Mr Smout agreed with the Governor that Debden staff had been calm about the issue and he noted that as a result of Mr Footman's handling of the pensions and redundancies issues the outcome had been better than some had feared.

Annual Report:-
Draft Executive Assessment of the Bank's Performance
Draft Report on the MPC's Processes
(Messrs Clark, Bean, Tucker, Smout and Footman in attendance)

Mr Footman introduced two draft papers for Court to consider, with the remainder of the Report due to go to Court the following month. The first paper reviewed the Bank's performance against the objectives and strategy set by Court the previous year; and the second paper focused on the procedures followed by the MPC, especially in relation to the collection of the regional, sectoral and other information necessary for the purposes of formulating monetary policy. Mr Footman drew attention to a number of red and amber traffic lights in the document supporting the draft executive assessment. These included red lights for the Globus project. Ms O'Donovan asked why some reds and ambers did not have the "still to do" column filled in. The Governor said the Bank would take that point on board. Sir David Cooksey asked whether in the light of MPC members' responses to key questions the report should reflect more clearly the issues surrounding the new model and whether there was any possibility that there could be delays. The Governor noted that the report set out the current plan. The issue was whether that could be achieved before the introduction of chain linking. Otherwise there might be a significant delay. Mrs Powers-Freeling asked whether the book should have another column setting out the cost and risk implications of projects not being ready. The Governor said the Bank would take note of that point too. Mr Neill said there was a tendency to concentrate on the reds, and the greens showed impressive achievements. The Bank had shown a good performance. The Governor said he appreciated that point and he was sure that the staff would too.

In response to a question from Mrs Francis about business continuity plans, Mr Footman noted the red traffic light in the Financial Stability area. There were issues for the Bank in how to address business continuity management. It had been suggested that management should be from the top down, and the question had been raised of whether the Bank should put more resources into managing the business continuity facilities themselves. There was a further question, which related to Financial Stability, about whether [redacted] But parts of the Bank - and Financial Stability was the most obvious – would have an important role to undertake at a practical level in any emergency. Mr Clark said the Bank had several sites – [redacted] and also Eagle House, which Financial Stability was using. But the latter was due to be sold. A question that needed to be resolved was whether another centrally located substitute should be found. Mr Tucker said Markets faced a similar issue. [redacted] Mr Clark noted that the arrangement for the Financial Stability area needed also to be linked to those of the Treasury and the Financial Services Authority. Mrs Francis asked whether there could be a report back to Court on the issue. The Governor said that the Bank had received a very good assessment by the Auditor with comments by [redacted]. Once GovCo had discussed it, the Bank would report back to Court on the subject.

Mr Footman then introduced the review of performance. Sir Graham Hall suggested a drafting change in the paragraph about the review of the model, and he also said that the report should reflect that the Agents were doing much more than was defined on page seven of the review. Mr Footman noted that the Agents featured in chapter five as well. Sir Graham suggested that on page 23 there should be a specific mention of Globus.

Mrs Francis noted that on page four there were comments on the tendency for inflation to be lower than projected and she asked whether there was anything that should be said about measures to rectify that. The Governor said that the Bank would look at that point. Turning to page nine, Mrs Francis noted that the approval rating in the opinion polls had fallen 6% from a year earlier without any comment exploring the reasons for the fall. The Governor said that the Bank would look at that too. The Governor agreed with Sir David Cooksey that there was a correlation between the answers to this question and economic well being. Dr Julius said it was premature to say that the approval rating would go up and down with the economic cycle and the next step should be to look at it in more detail and see if the Bank could find ways of improving the rating.

Ms O'Donovan suggested taking out the words "for some time" on page four of the draft review. The Governor agreed with her that Professor Pagan should be shown the wording referring to his work. She also suggested that the words "other issues" should be changed to "other matters". On page five she suggested that there should be an explanation of why economists were leaving MA. Mr Footman said the report could make the point that most left to join other parts of the Bank. She said thought should be given to whether the words "desirable structural features" in the middle of page 12 should be changed. She noted the importance of getting the wording right about Globus so that it would be seen to have been noted if further issues were to arise. Turning to the reference to savings in overhead costs on page 22, she said Court needed to be completely happy that the savings would be achieved, as stated, by mid-2003. Mr Smout said that the only doubt would arise if the Bank were unable to vacate Bank Buildings, and the only issue he could think would prompt that would be a discussion to enter the euro. There was in fact a good prospect of rehousing people working on that issue within the headquarters building.

Mr Footman introduced the draft report on MPC processes. There was no comment.

Globus C21 Project – an update
(Messrs Clark, Bean, Tucker and Ms Lowther in attendance)

Sir Andrew Large noted the importance of the project to the Bank's functions and the way it handled risk. There was good news in that the project was clearly being resourced in a way that led to real confidence that it would be delivered. The bad news was that there were problems with the software supplier. It was important that the Bank reached certainty in terms of when Globus went live.

Ms Lowther introduced her paper. She noted that a lot of good progress had been made but a small number of very specific software problems had to be resolved with the supplier. The supplier had identified potential fixes for most of the items but had not yet proved those fixes. Ms Blow said the project was under much better control than it had been before. She noted that software suppliers were not selling new licences in any number and this was leading some into financial difficulties, and they had started laying off support people. In reply to a question from Sir Graham Hall, Ms Lowther said that the cost savings expected from Globus were around

£2million a year and £1.6million of that had been realised already, as set out in the note. Therefore there was a relatively small percentage cost from the delay. There were 20 people who could not be released till the programme went live. The deferral of these redundancies was delaying the realisation of the full benefits.

Sir David Cooksey asked what the implications were of Mr Brookes moving on. He also said it would be useful to draw in the future on the lessons of Globus and he asked when a post-audit would be available. Sir Andrew said that lessons had clearly to be learnt. The Bank would review the way it handled projects generally, and also in this particular area. He did not believe Mr Brookes' move would have an impact on the Globus project and it would not take place until September. Ms Lowther said the Bank had done many projects, and most had gone very well, particularly external projects where the Bank's track record was second to none. An interesting question was what the Bank did differently as between external projectsand, internal ones. The Governor expressed his appreciation to Court for support in dealing with the problem and commended Ms Lowther for taking note of Court's views in the way that she had.

The Higgs Review
(Messrs Clark, Bean and Tucker in attendance)

Mr Clark introduced the paper, which highlighted the recommendations contained in the Higgs Review on the role and effectiveness of non-executive Directors and Sir Robert Smith's recommendations relating to the role of Audit Committees, and drew comparisons with the Bank's current practices and arrangements.

Sir Andrew Large said there was a number of areas where the Bank differed somewhat from the Higgs prescription. Some resulted from legislation. In a few cases the Bank could choose to alter its arrangements. His recommendation at this stage was to take note of the report without necessarily deciding which measures the Bank wished to take forward, mainly because the Higgs Report itself was in a state of flux. In response to a question from Ms Blow about the Treasury view, Sir Andrew said that the Bank had not been looking at the issue in terms of changing the law, though that could perhaps arise at a later date. Mr Bailie said that the companies he was involved in would probably comply with Higgs, in particular because of the danger that if they did not that fact would be highlighted in the media. Mr Neill said it would be helpful for the Bank to think about the Higgs proposal for a nomination committee. There had been a huge turnover in the last 12 months in the Executive and on NedCo. It was worth thinking about how that should be handled in the future. The Governor noted that it was a question of whether the Bank or the Treasury needed to think about it. In response to a suggestion from Sir Graham Hall that the report by the Bank should be sent to the Treasury, the Governor said he was a little nervous that it would imply that the Bank was champing at the bit to make the changes in line with Higgs, if only the Treasury would let it. But he agreed that the Bank should share the work with the Treasury to show that the issue had been looked at. Ms O'Donovan noted that the Treasury and the Department of Trade and Industry were the two ministries pushing Higgs from behind. She did not expect much in the recommendations would be changed.

Sir David Cooksey noted that Higgs required attendance at meetings of boards and committees to be published and he asked whether that should be done in the 2002/03 Annual Report. The Governor commented that that should depend on where the Higgs process got to. It would be wrong to make that change immediately if the Higgs proposals were still under discussion. In principle he was not sure that the Bank would have difficulty with it but it was something for NedCo to discuss. If Higgs were to be cut and dried by the time of the Annual Report perhaps the Bank should consider whether to include attendance. He would be surprised it that were the case.

There being no other business, Court was up.

David Cooksey

Peter Rodgers
16 April 2003

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 16 APRIL 2003

Present:

The Rt.Hon Sir Edward George, Governor
Mr King, Deputy Governor - Monetary Policy
Sir Andrew Large, Deputy Governor - Financial Stability
Sir David Cooksey, Chairman, Sub-Committee of Directors
Mr Bailie
Sir John Bond
Sir Howard Davies
Mrs Francis
Sir Graham Hall
Dame Sheila McKechnie
Sir Brian Moffat
Mr Morris
Mr Neill
Ms O'Donovan
Mrs Powers-Freeling
Mr Stretton

Absent:

Ms Blow
Sir Ian Gibson
Dr Julius

The Minutes of the Court of 19 March, having been circulated, were approved.

MONETARY STABILITY ISSUES
Economic and monetary discussion, incorporating the monthly MPC Report to Court (Messrs Clark, Bean and Tucker together with Ms Barker, Ms Bell and Professor Nickell in attendance)

In introducing the MPC Report to Court, Mr Bean noted that, on the international front, equities were up and oil prices were down after a swift resolution of the conflict in Iraq, but confidence was lower, perhaps reflecting the timing of surveys. He noted also that US industrial production fell in March. US consumer confidence seemed to have rebounded in April and was above February levels. Employment was, however, down half a million in February and March taken together. Euro area business surveys had weakened and consumer confidence had declined. Turning to the UK, manufacturing output was up 0.3% in February, which included most sectors, but business confidence was down markedly in March. On the demand side, retail sales were down 0.1% in February and consumer confidence dropped further in March, though the sample was taken before the war. House prices were still rising but activity and survey indicators had weakened. The measures in the budget were unlikely to have a significant impact on the Bank's view of where the economy was going or on the monetary policy decision. There was a significant weakening of sterling in February which would help sustain demand, particularly in the traded sector. Turning to the labour market and prices, he noted that the headline rate of earnings just released by the ONS was down quite sharply and annual regular pay growth had also moderated. Input price inflation had fallen back and output price inflation was steady. RPIX inflation in March had been 3%. He said that the Chancellor had flagged in the budget speech that in future the Government might switch to the HICP target, and he explained the difference between that and RPIX. Mr Bean also noted that there had been no change at the policy meeting and the minutes would be published the following week.

Mr Tucker made a number of comments on his charts but said that the movements shown in them were misleading in terms of what was actually going on in the markets. In the view of some market participants, at times it had become unsafe to trade during the war. This was because of sharp intra-day moves which depended on blow by blow news from Iraq on CNN etc. That volatility might now be over.

The Governor invited external members of the MPC to comment. There were no comments.

Mr Bailie said the latest information from Northern Ireland was that the purchasing managers index showed that domestic demand was slowing and business generally was contracting, with investment deferred. But input costs were up sharply, more so than in the UK, notably in energy and insurance. The main issue being discussed by business was the effect of the National Insurance increase. He also noted the offsetting influence on business of the rise in the value of the euro. But the slowdown in the Republic was starting to impact on the service sector in the North. In response to a question from Mr Bailie about HICP, Mr Bean said the crucial matter was how the target was changed in a switch to HICP. Since in a steady state the average difference between HICP and RPIX was normally about 0.5% - looking beyond the temporary large difference at the moment – then a 0.5% difference in the target would be expected. If the Chancellor reduced the target by about 0.5% to 2% it was not clear that it would have any very significant impact on interest rates.

Mr Neill noted that the March car sales were better than expected, with another all time record, an increase of 3% over the previous March. He said there had been an increase in import penetration. Sir Graham Hall noted that the Deputy Prime Minister had approved an international airport near Doncaster which had significant implications for Yorkshire and Humber, and was a major milestone for the region. Dame Sheila McKechnie noted that the Consumer Credit Counselling Service had found an increase of 50% in consumer debt per person since 1998, based on a sample of 50,000 people. In response to a question from Dame Sheila, Mr Bean said it was remarkable how flat wage settlements had been in the last few months, whereas it might have been expected that people would start to become more aware of the increase in National Insurance. The crunch would be seen in April and later. Sir Brian Moffat noted the impact of the £1.4mn cap on individual pension funds that the Government was planning to institute. Accountants were recommending an increase in salary as an alternative to a pension arrangement, and first discussions on this suggested increases of the order of 30%, which would be inflationary and lead to disaster.

Review of the work of the Agents
(Messrs Clark, Bean Tucker, Jenkinson, Iles and Bartlett together with Ms Barker, Ms Bell and Professor Nickell in attendance)

Mr Jenkinson introduced his paper. Mrs Francis said that it was impressive. She asked whether there was any difficulty in acquiring new contacts given the number of Government Agencies fishing in the same pool, and also asked how the Agents' forecasts compared to official statistics. She would like to see reports on that. Mr Iles said that the Agents had no great problem overall in gaining additional contacts, and the numbers in total were probably continuing to rise. The Agents were in regular contact with the Regional Development Agencies and links were good. The Bank was certainly monitoring what Agents were finding in relation to official statistics, and work on projects related to that question would be taking place over the next year or so. Sir Graham Hall said that he had an excellent working relationship with Mr Pratt. He also noted that there was not yet an accurate measure of regional GDP. Mr Morris said that he was interested in feedback from the regions about the key reasons for employment migration. Mr Iles said that migration pressures in a region such as the South arose partly from changes in the structure of industry and more recently changes in the public sector. They mostly reflected a need for skills rather than a large difference in labour costs. In response to a question from Dame Sheila McKechnie about whether there were sufficient resources in the Bank to support the Agents, Mr Jenkinson said there were. The Agents were trying to integrate what they were doing more with the work of Head Office, and regular dialogue had been strengthened. More opportunities were also being provided for economists to visit the Agencies, and the feedback was positive. Mr Iles said there had been a very substantial programme on that front over the last year. With respect to relationships with MA, he said there were procedures every month whereby presenters to the MPC got in touch with the relevant people in Head Office as early as possible, and there was often a video conference meeting between the presenting Agent and relevant staff in advance of the pre-MPC meeting to discuss key issues.

Agent's Issue of the Month
(Messrs Clark, Bean, Tucker, Jenkinson, Iles and Bartlett together with Ms Barker, Ms Bell and Professor Nickell in attendance)

Mr Bartlett, the Agent for the West Midlands, introduced his paper on the findings of the special survey conducted by the Agents on the apparent exceptional weakness in ONS data for exports of goods in 2002 Q4. The Governor said it was a very interesting result, though it had left the MPC with a still greater puzzle.

A Presentation by Representatives from the ONS
(Messrs Clark, Bean, Tucker, Jenkinson, Cook, Mowl and Stamp together with Ms Barker, Ms Bell and Professor Nickell in attendance)

The Governor welcomed Messrs Cook, Mowl and Stamp from the ONS and thanked them for agreeing to speak to Court about the work and priorities of the ONS. He noted that Mr Cook had previously spoken to Court in September 2001 about his organisation's provision of statistical information to the Bank, which fed into the MPC's processes. In introducing his presentation, Mr Cook said that having a central bank so enthusiastic about the quality of statistics was a real strength. He noted that Sir David Cooksey and Ms Blow had visited the ONS, and that had been of real value to his office. He noted that the ECB was also a customer of the ONS, and commented on some related issues. He said that the comprehensive review had led to a good settlement for the ONS over the next three years, allowing it to modernise its information management environment and tools. He noted changes in the ONS website, which was very different from a year ago and would be very different again in a year's time. However the ONS was not at a stage where it could trade off timeliness in some areas of statistics for earlier production in others because the systems were currently too rigid for that. He said there were a number of problems, for example with the retail figures, which were volatile and which required a fundamental look again at survey design. There were major changes in systems and methods afoot at the ONS, and that was an integral part of the job. The agenda was to deliver that programme while introducing changes and improvements in the statistics produced. There was for example a lot of work to do on labour market statistics, the national accounts and inflation. Mr Mowl had been charged in particular with these three issues, and the ONS recognised it had to do better. There was much work to do with regional statistics, where the ONS had poorly met demand. Turning to the harmonised index of consumer prices (HICP), he said he was very positive about a possible change which was a great opportunity to shift from an RPI that had been designed with two ambiguous purposes – to measure outlays and inflation. There was an advantage in having one aim for an index. An opportunity to shift, created new challenges including the question of how to index pensions, and it was necessary to be open about the fact that such issues had to be resolved.

In reply to a question from Sir John Bond about the numbers leaving the UK, Mr Cook said that the UK spent a disproportionate amount of money on the census and too little on measuring change. Migrant flows were not measured accurately. 52% of population flows were migration rather than natural increases. The ONS was consulting with the Home Office about improving the statistical base. There were a number of proposals, including swipe passports, which had been introduced in Australia. There was a review with the Treasury of the citizens information register, which included births and deaths data, and the extent to which that could be built upon. Sir Graham Hall noted the importance with regional statistics of having relevant information at the right time, and he did not see that as a central part of the ONS strategy. Mr Cook said that an important part of the ONS plans was the small area referencing system that allowed the country to be divided into many small local areas for statistical purposes. This would be a basic building block and should last three censuses or more. The ONS was also working hard with Scotland , Wales and Northern Ireland to support their statistics needs. In response to a question from Mr Stretton, Mr Cook said that ideally every major statistic should be examined as if starting from the drawing board, and that should lead to a decision on what was wanted and what was not wanted. At the moment too many reviews were being done and not enough fundamental examination of this sort. In response to a question from Dame Sheila McKechnie about whether the inputs could be simplified Mr Cook said that the ONS had very tight compliance costs as a result of a report some time ago. That had left the ONS with a rigid structure of forms, while at the same time it was trying to keep the volumes down. Perhaps it should be the other way round. There was an issue of how to design easier forms and simpler survey questions. In response to a question from Dame Sheila, Mr Mowl noted that the Office of the Deputy Prime Minister's new housing index would be available later in the year and would be much more timely and better than the ODPM's present index. However, like the Halifax and Nationwide indices, it did not cover the 20% of houses bought for cash. In response to a question from Mr Morris about pensions, Mr Cook noted the importance of getting to grip with a number of hard public questions each year.

Sir David Cooksey asked whether, under the settlement in the spending review, the ONS had got what it needed on IT investment. Mr Cook said that it had. The Governor said that Court appreciated what a terrifically difficult job Mr Cook had, and appreciated also the way he approached it, as well as his willingness to give time to come to Court to explain the work.

FINANCIAL STABILITY ISSUES
Domestic Developments and International Issues
(Messrs Clark, Bean and Tucker in attendance)

Mr Clark introduced his note on the IMF and G7 meetings, liquidity and IAS39. With reference to IAS39 Sir Brian Moffat said that on a stand alone basis the standard was not too difficult, until one read the 230 pages of supporting explanation which was virtually incomprehensible. Mr Clark said the point had been made in almost all discussions and had been partially taken on board. The question was whether what had been done really met the concerns. The Bank had suggested specifying principles rather than putting the onus on details and leaving auditors to judge whether the principles were obeyed. In response to a question from Ms O'Donovan, Mr Clark said that if the whole enterprise of formulating global standards collapsed, it would mean substantial additional costs for issuers. He noted that FAS133 had been implemented in the US, banks had not been enthusiastic since it was costly and in one or two European countries something like IAS39 had been implemented. It was not so much a question of whether a standard could or could not be implemented but of whether the costs could be reduced to an acceptable level. It had become almost a theological issue in one or two countries.

Sir Andrew Large said that Sir Brian Moffat had hit the nail on the head in his comment on complexity. Sir Andrew noted two problems: the changes were aimed at new financial instruments, which were rather opaque, and although it would be preferable to make the standard simpler, in that context it was very difficult. And with the current standard, with its very prescriptive rules, there would be those who sought to find their way round the rules in practice, so there might be a false sense of security. Mr Clark noted that in a meeting with the 100 Group of finance directors the view he heard was that the standard was not ideal but was acceptable. The main weight of criticism and concern was in the banking community.
Sir Brian agreed with the points made. He commented that there had to be controls and risk assessment alongside to ensure that abuse did not happen and that the principles were adhered to. If this issue were addressed more directly he believed there would be greater understanding and co-operation.

Sir Howard Davies said that his belief was that the official sector should play as little a role as possible in this issue. The US had two concerns: these were meant to be comprehensive standards and that was not possible without something covering financial instruments; they were also very keen to have non-political governance for the IASB. The way the French in particular had turned this into a national campaign had not helped. It was far better left to the standard setters in the industry and should not be turned into a political debate.

MARKET OPERATIONS ISSUES

Quarterly Report on Current Issues
(Messrs Clark, Bean and Tucker in attendance)

Mr Tucker introduced his quarterly report on current developments. There were no questions.

EXECUTIVE REPORT
(Messrs Clark, Bean and Tucker in attendance)

The Governor, noting comments in the press about the transfer of the Bank's printing operations to De la Rue at the end of March, was pleased to report that the transaction had been completed successfully without any hitches.

The Governor also noted the judgement in the BCCI case that the Bank must hand over papers prepared by the Bingham Unit.

MANAGEMENT OF THE BANK
The Quarterly Financial Report
(Messrs Clark, Bean, Tucker and Smout in attendance)

Mr Smout presented the Quarterly Financial Report covering the final quarter of the Bank's financial year. There were no comments.

The Bank's CRD Income
(Messrs Clark, Bean, Tucker, Smout, Footman and Robson in attendance)

In introducing the paper outlining the Bank's contribution to HM Treasury's review of the working of the statutory cash ratio deposit scheme, Mr Smout invited Court's comments on the proposals submitted.

Mr Neill said that his view was that "if it isn't broke don't fix it". In reply to a question from Mrs Francis about how other central banks were financed, Mr Robson said the most common model would amalgamate the Bank's two balance sheets so unremunerated activities would be charged against income from the assets backing the issue of banknotes. The Bank of England separation was only mimicked by the Reserve Bank of India. Some central banks had very much larger balance sheets, for example the Bank of France was 12 times as big and the Bundesbank was 21 times as big, whereas others were very slimmed down. The Governor noted that many central banks took the seignorage and a form of cash ratio deposit, as minimum reserves, and some owned the national foreign exchange reserves and took profits from that. The Governor said he took it that the sense of the meeting was "if not broken, it should not be fixed". Court was content to send the letter to the Chief Secretary.

The Bank's Annual Report – in draft – together with the Bank's Values Statement (Messrs Clark, Bean, Tucker, Footman, Smout and Mann in attendance)

Mr Footman noted the changes incorporated as a result of comments at the previous Court meeting. Mrs Francis commented that she believed more should be said about the opinion poll approval rating. Mr King said he did not think that the Bank should give the impression in the Annual Report that it was focussing on opinion poll scores. The Governor said that his concern was that if the Bank said it took the issue very seriously, and that there would be further analysis in the QB article, he was not sure it would be possible to deliver on that. The Bank would monitor the issue over time. With reference to the chart of costs in Chapter 7, Court agreed to the version excluding BCCI.

Mr Bean noted that there was a relaunch of the Values Statement at the same time as the Annual Report and it was intended to put the statement in all individual staff appraisals suggesting that they must live up to the Values Statement. Mr Neill cautioned against sticking the Values Statement on walls as it would lead to cynical reactions among staff.

Sir Howard Davies, returning to the financial stability comments in the Report, said that there were quite a few references to joint working with the FSA but no reference to that in the organisational overview, and neither was there a reference to the Tripartite Standing Committee in that section. Given the international emphasis on those issues the omission would be regarded as significant. It was in the body of the text but not in the summary.

Compliance with Turnbull
(Messrs Clark, Bean, Tucker, Footman, Smout and Mann together with Mrs Brady and Mr Hawkins [PwC] in attendance)

Sir Andrew Large introduced his paper which summarised the management's review of risk in the Bank, and outlined the proposed procedure and evidence for the sign-off on internal controls in the Annual Report. He noted that the document was a result of a process that started with Executive Directors being asked to comment on risks within their areas, and that was done on a consistent basis. There was to be a review of Globus at the next Audit Committee, before the next Court meeting. It was moving on towards an acceptance test and it should be clearer by the meeting whether the project would meet the end-July target date.

Turning to work over the next year or so, he noted that the process might look different by the time of the next Annual Report. There were four issues. The first related to the overall risk process and the way different areas of risk should be differentiated. There had been a good start on this. The Bank was at the stage where it might seek external help to complete that process. Second, there was a feeling the Bank would benefit from having a greater top-down scrutiny of the handling of projects, including budgeting, scoping and control. Work would be in hand on that. Third, in relation to business continuity, Mrs Brady had written a report which was considered recently at Govco which revealed some gaps in the way in which business continuity was handled and in the cohesion of various measures. Sir Andrew Large said he had been asked by Govco to put together a process to address these gaps. The results would be brought to Court in due course. Fourth, there was the audit process itself. This was mentioned in the compliance paper. It was vital for Court that the audit process could give assurance that processes to handle risk were in place and could function properly and provide remedial solutions when problems arose. The work was not complete but Sir Andrew said he was expecting to see a review shortly which Mrs Brady was undertaking. That also might lead to changes relevant to the Turnbull process by next year. Ms O'Donovan noted the Audit Committee processes with respect to Turnbull. There was a need to marry up Turnbull processes more to the Annual Report. The Governor said the Bank would look at that.

In response to a question from Sir Graham Hall about terrorist attacks, Sir Andrew Large said that a huge amount of work was being done on how to handle that.

A Report from the Chairman of the Remuneration Committee
(Messrs Clark, Bean and Tucker in attendance)

In his capacity as Chairman of the Remuneration Committee, Mr Neill reported to Court on the recommendations of the Committee, which had met the previous month. Court was CONTENT with the purdah arrangements proposed for Mr Allsopp and the level of remuneration proposed for Mr Lambert and Ms Lomax.

Any other business

The Governor noted that this was expected to be the last attendance at Court for Dame Sheila McKechnie prior to her retirement and that she was unable to attend the dinner in honour of retiring Directors the following month. On behalf of Court, he expressed appreciation for her valuable contributions to Court's discussions during her time in office and her role as a judge on the panel of the Bank of England Court Awards Scheme earlier in the year.

There being no other business, Court was up.

David Cooksey

Peter Rodgers

13 May 2003

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 14 MAY 2003

Present:

The Rt.Hon Sir Edward George, Governor
Mr King, Deputy Governor - Monetary Policy
Sir Andrew Large, Deputy Governor - Financial Stability
Sir David Cooksey, Chairman, Sub-Committee of Directors
Mr Bailie
Ms Blow
Sir John Bond
Sir Howard Davies
Mrs Francis
Sir Graham Hall
Dr Julius
Sir Brian Moffat
Mr Morris
Mr Neill
Ms O'Donovan
Mrs Powers-Freeling
Mr Stretton

Absent:

Sir Ian Gibson
Dame Sheila McKechnie

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

MONETARY STABILITY ISSUES
Economic and monetary discussion, incorporating the monthly MPC Report to Court (Messrs Clark, Bean, Tucker and Allsopp together with Ms Barker and Ms Bell in attendance)

In introducing the MPC Report to Court, Mr Bean said there had been some recovery in confidence globally since the end of the war in Iraq. In the UK, a slowdown in consumer demand was evident, though data from the British Retail Consortium suggested sales in April might be stronger. He said the latest labour market data (published 14 May) might contain some upside news as earnings growth was stronger than expected. Mr Bean also commented on sterling's depreciation, noting that the impact on inflation could not be mechanically determined. Rather it depended on the reasons for the fall which would influence the strength of the pass-through to import prices, wages and other prices, and the impact on net trade.

Additionally, Mr Bean noted that a report from the Centre for Economic Policy Research had placed the Bank first in a comparison of the inflation reports of those central banks with an inflation target.

Mr Allsopp said he was interested to hear Court's views on the impact of sterling's depreciation.

Mr Neill reported that car sales during the first 10 days of May were 18% lower than a year earlier. He noted that sales in the first quarter had been extremely strong. Imports in April had accounted for nearly 82% of all sales. This would ease back with the change in the sterling-euro exchange rate as manufacturers' margins were narrow. An offsetting factor would be the increase in the costs of imported components for UK manufacturers. Many had increased their overseas sourcing following sterling's earlier appreciation. Mr Allsopp asked whether the fall in the exchange rate would feed though to prices more so than lower margins. Mr Neill said the response would be model specific with the stronger brands better able to pass-on higher prices to consumers.

Mr Bailie said sterling's depreciation would have a significant effect on trade between Northern Ireland and the Republic. Both the manufacturing and service sectors were fairly steady at present, though discretionary spending – for example, advertising – was being reduced.
Dr Julius reported that the changes in exchange rates were not likely to have a large impact on sectors such as financial services, energy, contract services and pharmaceuticals.

The Governor noted that this would be the last appearance at Court for Mr Allsopp. He expressed his appreciation and thanks for the considerable contribution he had made to Court both as a Member of the external MPC and, previously, a Member of Court.

FINANCIAL STABILITY ISSUES
Domestic Developments and International Issues
(Messrs Clark, Bean and Tucker in attendance)

Mr Clark introduced his bullet point note, covering the forthcoming Financial Reporting Council (FRC) meeting – which was to focus on the Higgs proposals – the latest consultation on the Basel II proposals, and asset securitisations. In relation to asset securitisations in Germany and Japan, Mr Clark said banks' balance sheets would only be strengthened if the credits being sold were of a low quality.

Sir Howard Davies agreed that the timetable for publication of the FRC's Code had been put back. Sir John Bond said most observers subscribe to the general direction of the Higgs proposals. The degree of prescription was the main issue. He said consideration would need to be given to people investing from outside the UK. Mrs Francis said the Government had raised important questions but there was a danger of the proposals being overly blunt and not engaging sufficiently with industry regarding how the proposals would work in practice.

MARKET OPERATIONS ISSUES
Current Issues
(Messrs Clark, Bean and Tucker in attendance)

Mr Tucker outlined the main points covered in his bullet point note – the Exchange Equalisation Account, London risk manager meetings and an update on the Cash Management Unit project. In relation to meetings with risk managers, Mr Tucker said that the range of contacts and the preparedness of people to speak to the Bank are as good as they have ever been, which reflected well on the role and work of the Bank in the financial markets.

EXECUTIVE REPORT
(Messrs Clark, Bean and Tucker in attendance)

The Governor mentioned that he had recently chaired his last AGM of the Bank's Sports Club as its President and he conveyed to Court the Club Members' appreciation for the support it had given to the Club. He also noted that copies of the Club's latest Annual Report and Accounts were in Members' folders.

MANAGEMENT OF THE BANK

The Bank's Report and Accounts, together with a Report from the Chairman of the Audit Committee

(Messrs Clark, Bean, Tucker, Hitchins (PwC), Glover, Footman, Smout and Darbyshire together with Ms Lowther and Mrs Brady in attendance)

The Governor welcomed Mr Hitchins from PriceWaterhouseCoopers to Court. He that his draft foreword was now included in folders. He noted it mentioned the departure of four Non-Executive Directors and the arrival of four new ones, but whether the names of the latter could be included depended on whether the Government decided in time. The number was four because the Chancellor had, to the Governor's delight, and that of Mr King, decided to re-appoint Mr Morris. He noted that Sir Howard Davies' position on Court was ex-officio and he had submitted a letter of pending resignation. Mr McCarthy would be appointed from September. Sir Howard Davies noted that he would be at the September Court and Mr McCarthy's first Court would be October.

The Governor invited Sir Andrew Large to introduce the Report and Accounts.

Sir Andrew said that there were three sets of issues to be covered. First, a set of key issues for sign off that had been discussed by Audit Committee. Second, some minor changes which Clifford Smout would cover. Finally some additional issues on which Court Members might give an opinion. There had been a number of minor changes to some of the notes, and completion of the outstanding items, mainly concerning the FRS13 disclosures and the cashflow, since the version sent out the previous week. Should it prove necessary, a sub-committee of Court would be able to consider any changes required to the Annual Report and Accounts and give formal approval on behalf of Court, if there were any business left over from the Court meeting itself. He noted that it was the intention to publish the accounts on 21 May and that there were no major changes in format, but a number of detailed ones.

Sir Andrew said the Bank was proposing a final dividend of £18,800,000 which would bring the total for the year to £34,300,000, as shown on page 60. This was £3mn higher than estimated at the time of the interim dividend discussions in March but in line with the figures disclosed in the April financial report. The Treasury had confirmed that they were content with the final divided. Formal approval of the dividend was sought from Court.

Turning to BCCI, Sir Andrew said that within note 25 on page 91, the Bank disclosed the current situation with regard to BCCI, which was the same as last year, apart from changing the dates when the case would be heard. The Bank's legal representatives had approved the statement and included with it in the paper was a letter from Freshfields confirming their view. Last year the report had mentioned for the first time a quantum to the claim, making clear that the numbers were the claimant's not the Bank's. The basic opinion remained unchanged, that the Bank had a strong defence.

Turning to pension disclosures, in relation to note 4 on pages 68-71, Sir Andrew said the pension fund showed a deficit under FRS17 of about £290mn this year as compared to a surplus of £200mn the previous year. In addition, profit & loss information was disclosed for the first time under this heading. The valuation was a snapshot of the position if the Fund were to close at the year end, and did not necessarily represent the ability of the Fund to pay its liabilities as they fell due. He noted that Members of Court would be well aware that FRS17 tended to generate volatility in reported surpluses and deficits. The Bank's Fund was exposed to this because it was very mature and heavily invested in equities, whereas the liabilities were linked to corporate bond rates for FRS17 valuation purposes. The investment policy of the Fund was a matter for the Trustees rather than for Court, but Members of Court may like to know that the investment policy was changing, with the percentage in equities falling from 77% to 50% over the following two years. Mr Stretton noted that the Trustees had consulted the Bank about the risk profile that they should take.

Sir Andrew said that the deficit was at 28 February 2003 and it was estimated that market movements since then would have reduced it by around £100mn, at a FTSE level of 4,000. For the purposes of funding, the full triennial actuarial valuation of 28 February 2002 was used, which showed a healthy surplus at that date. There was an update of this at February 2003, which was in Court folders, which showed a broadly similar funding position, although on assumptions that Watson Wyatt had chosen. Court would recall that the Bank was now making a contribution of 10% to the fund in respect of active staff. This decision was reached in the knowledge that on an FRS17 basis the fund would be in a significant deficit, even if the calculation on the funding basis were much more favourable. It may be that in future, payments to the fund would vary rather less than had been the case in the past.

Finally, turning to property revaluations, Sir Andrew said the Bank last revalued its properties in 2001. Since then the Bank had spent a lot on the refurbishment project, but City property values had fallen, even for a refurbished property, and consequently the book value of Head Office exceeded by £43mn its current market value. In line with best practice the book value had been reduced to its current valuation of £130mn, and similarly the valuation of Bank Buildings had been reduced by £11mn to £19mn. The deficits had been taken against the revaluation reserve. The full triennial revaluation was due next year.

Sir Andrew invited Ms O'Donovan and any other Member of Court who wished, to make comments. Ms O'Donovan noted that in relation to BCCI there had been quite a long discussion at the Audit Committee. The Committee's view was that the Bank could say it had a strong defence and that no provision was required. The Committee also discussed whether it should say that its views were based on legal advice. Legal advice was, however, that any such change might be interpreted as a change in the Bank's position. Consequently it was advised that this should not be done. The majority of the Committee were content with this but there was a strong minority view that there should be a reference to the legal advice taken.

The Committee also considered the wording with regard to the quantification of the claim. The wording in the draft accounts was the same as the year before, apart from a change in one of the dates, and there was felt to be no reason to change this. The figures quoted were those of the plaintiff not the Bank. Confirmation had been sought from Freshfields of the wording, and their letter was included in Court folders. This stated that Freshfields was content with the present wording and in particular with the opinion that the Bank had a "strong defence".

The Governor said that Court had taken note of Mrs Francis' concern, expressed at the Audit Committee, but the view of the Committee was that the Report should stay with the language of the past, and that was the advice of the lawyers. He asked whether anyone else wished to question that advice. As no-one did, the Governor said that the Report should stay with the language of the draft.

Ms O'Donovan said that there was a lengthy discussion of the pension fund at which the Committee agreed that the Bank should again follow the transitional arrangements for FRS17 and thus only make disclosures this year. The Committee noted that the Bank's Scheme showed a large deficit, in common with many companies. It had asked the Bank's actuary for his update on the actuarial review and some words on this had been included in the note. This made clear that the two calculations showed very different results as of 28 February 2003. Previously there had been a risk that the FRS17 number would be seen as more up to date than the other figure. There was nevertheless a risk that the press would seize on the FRS17 figure. The Bank's Press Office would therefore be briefed fully on this issue ahead of publication. The Committee took note of the concerns of the assumptions underlying the actuarial projections being misinterpreted as a Bank forecast, and agreed with the explanatory text offered as a solution.

Sir Graham Hall asked whether the improved level of the deficit at a FTSE of 4,000 was worth mentioning in the Report. Sir Andrew Large said that that would be part of the ammunition for the Press Office. Finally, Ms O'Donovan said that the Committee noted the reduction in the valuation of Head Office and Bank Buildings and agreed that this should be reflected in the accounts. The Governor thanked the Audit Committee and Ms O'Donovan as Chairman. He really appreciated their work.

Turning to the more minor changes, Mr Smout noted that the Bank did not give a great deal of information about provisions in the accounts, deliberately, because that was what the Bank's arrangements were designed to allow. There were three items in the provision: first a retrenchment provision of £4mn for the cost of going into a single building. This was originally £10mn and some had been released. Since last year there had been very little to justify movement. Second, there was also a provision relating to refurbishment of the ground and mezzanine floors which added value, but there were compulsory requirements of English Heritage and Health & Safety which added costs. There was a £3mn provision in 2001 and only ~~a little~~ was released a year ago but with this work virtually completed, the remainder was now being released. Third, there was the question of redundancy costs, and this was explained in note 2 on page 66.

Turning to the Auditors, Mr Smout noted that two aspects had been discussed in Court already: the Auditor's opinion included a limitation of liability to third parties, which was now standard; and PwC had converted itself to a limited liability partnership. In addition, the Bank had chosen to disclose much more information about the fees paid to PwC. Mr Hitchins said that the Bank was in the vanguard of disclosure in this area. PwC was happy with the increased transparency. Mr Smout noted that the emoluments information on page 67 was shorter because the Remuneration Report gave the opportunity to provide a lot of the information in one place. He also said that note 22 on page 90, the disclosure of loans to officers, had increased quite significantly and this was related to personal and season ticket loans.

Finally, Sir Andrew Large drew Court's attention to a number of points in the accounts where Members were asked to give a specific opinion in addition to the general approval they gave to the accounts.

Note 1(a) on page 63 – final paragraph was included to comply with SSAP25 on segmental reporting. This paragraph had been included for several years. Note 4 at the top of page 68 was about the adoption of the actuaries' assumptions (this disclaimer had been moved from where it appeared in the previous year's accounts). There were two actuaries involved, one for the Staff Scheme and one for the Court Scheme. Note 10 on page 82 included a statement on Court's valuation of the Bank's investments. A schedule of these valuations was in Members' folders, together with a cover note explaining the basis of valuation. The principal item was the BIS valuation. In the 2002 accounts, the investment in the ECB was valued at cost. With regard to Note 11 on page 83, the Directors were, as last year, of the opinion that the consolidation of the various subsidiaries with Banking Department would not be material. They had therefore not been consolidated. Note 12 on page 84 set out the downward valuation to the Bank's property interests. This was new to 2003. Note 22 on page 90 included a statement that no Member of Court had a material interest in transactions with the Bank. Sir Andrew asked any Member of Court who disagreed with this, to say so during Court. Note 25 on page 91, following consultation with Freshfields, this gave the Directors' opinion that any contingent liabilities in respect of BCCI remained unchanged.

Sir Andrew invited Ms O'Donovan to make further comment. Ms O'Donovan said that the biggest valuation item was the BIS, and this was based on dividend yield which the Audit Committee accepted as a reasonable estimate.

Sir Andrew noted that included in Court folders was a draft of the letter of representation that PwC would like to receive in connection with their audit. This was similar to previous years. Audit Committee had seen this letter in draft. Formal approval for this letter, which is given on behalf of Court as a whole, was also sought. Sir Andrew said he would then sign the letter, together with Clifford Smout. As in previous years, a letter from PwC was in Court folders, saying that they knew of no reason why the letter should not be signed.

Mr Neill noted that at the previous NedCo he was requested to discuss with the Bank an explanation of the transfer value of Mr Clementi's pension in the notes to the Remuneration Report. That had been done. He also noted a small drafting change on page 45 proposed by Remuneration Committee.

The Governor asked for approval for:

The Accounts and Annual Report including the areas where Court's views were explicitly mentioned.

The proposed payment in lieu of dividend to HM Treasury.

The giving of the letter of representation to PwC.

Court was CONTENT.

Ms O'Donovan introduced the minutes of the most recent meeting of the Audit Committee, which were in Court folders, and described the main issues arising. The Governor thanked Ms O'Donovan and the Audit Committee for their extremely valuable input to the Bank's management processes.

Court Pension Scheme – Annual Adjustment
(Messrs Clark, Bean and Tucker in attendance)

Turning to the Report from the Trustees of the Court Pension Scheme, the Governor, declared his interest in the Scheme together with that of the two Deputy Governors and the Executive Directors. The Governor said that in the absence of Sir Ian Gibson, Mr Neill had agreed to present the Report.

It was recommended that:-

(a) the annual pensions in payment to former Governors and Executive Directors and allowances to the widows for former Members of Court be increased, with effect from 1 July 2003, by the amount of the increase in the Retail Prices Index for the twelve months ended 31 May 2003.

(b) Similar increases be granted from 1 July 2003 to:

(i) the ex-gratia allowances payable to Lord Richardson, Sir George Blunden and Lord Kingsdown;

(ii) the ex-gratia payments awarded to widows of former Members of Court who retired prior to 1978 and whose allowances were based on their husbands' pensions net of commutation;

(iii) the deferred pensions payable at age 60 or later granted to Mr Pennant-Rea and Mr Vickers.

(c) The annual allowance paid to Lord Richardson from the Court Pension Scheme under special arrangements which were approved by Court on 10 February 1983 be increased in accordance with those arrangements.

Court APPROVED the recommendations.

The Deputy Governors and Members of the Executive withdrew from Court.

A Report from the Chairman of the Remuneration Committee

Mr Neill, in his capacity as Chairman of the Remuneration Committee, reported to Court the recommendations of the Remuneration Committee which had met earlier that morning. He said the Remuneration Committee recommended that, on Mr King's appointment on 1 July, he should be paid a salary of £263,316.00 which was the salary of the Governor in the current year increased by 2.5% on 1 July. The Committee also recommended that in future it should be increased at each anniversary by 2.5% or such higher amount that the Bank may determine. On completion of five years service as Governor, the pension should be augmented to two-thirds of final salary which involved granting approximately one year's added service.

Court was CONTENT with the salary and pension arrangements for Mr King as Governor wef 1 July 2003.

Any other business

The Governor said that he wished to record the appreciation of the input to Court business over their periods of office of the Members who were leaving (Messrs Neill, Bailie and Stretton), not just in relation to the functioning of Court itself, but to the Bank as a whole.

There being no other business, Court was up.

David Cooksey

Peter Rodgers
18 June 2003

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 18 JUNE 2003

Present:

The Rt.Hon Sir Edward George, Governor
Sir Andrew Large, Deputy Governor - Financial Stability
Sir David Cooksey, Chairman, Sub-Committee of Directors
Ms Blow
Sir John Bond
Sir Howard Davies
Mrs Francis
Sir Ian Gibson
Sir Graham Hall
Dr Julius
The Hon Peter Jay
Sir William Morris
Ms O'Donovan
Dr Potter
Mrs Powers-Freeling

Absent:

Mr King, Deputy Governor - Monetary Policy
Mr Barber
Sir Brian Moffat
Ms Rabbatts

The Governor noted that he had attended over 600 meetings of Court.

The Governor extended a warm welcome to the Hon Peter Jay and Dr Potter at their first meeting of Court and congratulated Sir William Morris on his recent knighthood.

The Governor explained that Ms Rabbatts and Mr Barber were unable to attend Court this month but the former hoped to join members of Court for lunch later.

The Minutes of the Court of 14 May, having been circulated, were approved.

MONETARY STABILITY ISSUES
Economic and monetary discussion, incorporating international economic developments, together with the monthly MPC Report to Court
(Messrs Clark, Bean, Tucker and Bailey together with Ms Bell in attendance)

Mr Bailey introduced his paper on international economic developments, including a discussion of economic and financial market conditions since the war in Iraq, with respect to the United States and the euro area in particular and also to other economies including those in Asia. He also noted that there were encouraging signs, providing SARS was contained, that the economic effects in a number of Asian economies should be fairly short-lived.

Mr Bean introduced his charts on the UK economy, noting that manufacturing output was up in April, but there were mixed signs about the "Baghdad bounce" in surveys. Consumer confidence had bounced back a little further after the Iraq conflict, but remained subdued. House price inflation continued to ease. Investment was weak in the first quarter with a surprisingly sharp contraction in housing, but net trade looked stronger. The Bank had been puzzled by the weakness in export outturns, but in the event the Customs & Excise introduction of a new electronic reporting system had led to a 60 day delay in many exports being recorded. Correcting for that had led to upward revisions in the figures. Turning to labour and prices, he said unemployment was up a little but the movement was very small. Pay growth was down while oil prices were little changed. In May, RPIX inflation fell to 2.9%. HICP inflation was 1.2%. Turning to the Inflation Report, which had been published just after the previous Court meeting, he said that growth was expected to stay close to trend and inflation was projected to ease back towards target. There was uncertainty over issues related to the world economy, consumption, and exchange rate pass through but overall the risks were broadly balanced.

Mr Tucker, introducing his market charts, said Bank and market analysis showed considerable uncertainty about the prospects for the world economy, but it was difficult to detect this in options market-based measures of uncertainty about financial asset prices. He noted the declines in short-maturity sterling interest rates after the May Inflation Report and the May minutes (table 1). As chart 2 showed, this had led not just to a shift in short-term rates but throughout the yield curve. Turning to international interest-rate markets futures changes (chart 4), he noted that it was not just the UK that had experienced sharp falls but the dollar and the euro too. Turning to 10 year rates 10 years forward (chart 5), he noted that these had moved down recently. One possibility was that that it resulted from a revision down of expectations of trend productivity growth in the US. Another possibility was a perception in the market that the Fed. was going to have to resort to unconventional monetary policy by buying long bonds at some point. Neither of these explanations seemed to be a good news story. That seemed at odds with the recovery in equities and the decline in credit spreads. A further potential explanation for the fall in yields was being described in the market as a 'search for yield'. Chart 7, for example, showed large inflows to US high yield mutual bond funds. On exchange rates (chart 10), he noted that sterling was now a little above the 15 day average used in the Inflation Report projections.

In response to a question from Dr Julius about the HICP inflation index, Mr Bean said that there had been some misreporting. The statement by the Chancellor did not say that there was an intention to change in November – what would be confirmed in November would be the plan for transition to HICP. He noted that nothing had been said about the numerical value of the new target through there was conjecture that it was likely to be 2%. From a monetary policy perspective there was not a great difference between moving to a 2% target in November or 2% in the next Budget, since the MPC could not do much about inflation over the next six months and instead focussed at what happened to inflation 1½-2 years out. If house prices stabilised, the gap between the two indices would be around ½%, and on that basis it would be unlikely to have significant implications for monetary policy.

Sir John Bond commented that the markets might be beginning to sense a bubble developing in the bond market and his bank was watching this carefully.

In response to a question from Ms Blow about the export numbers, Mr Bean said it was not unusual to experience data problems at a time of a change in the methodology of collection. In response to a more general question about revisions, he noted there was a trade-off between accuracy and timeliness with all statistics. Ms Bell said that electronic reporting might also lead to an improvement in the quality of information. The Governor commented that it was very difficult to get accurate and timely statistics which was why the MPC could not rely on any particular statistic and had to develop a picture looking at all the information in order to get its bearings.

Sir Howard Davies asked whether the Bank had been thinking about the longer term impact of the changes to pension funds and structural changes in the life industry on the relative demand levels for equities and bonds. Every time a with-profits fund closed to new business it moved into bonds. Every time a pension fund dropped a final salary scheme and moved to defined contributions there was also a switch. It seemed to the FSA that these two factors, together with the hard lessons of the last bear market for the life industry about the risks of having 70% equity backing for with profits policies, meant that such investors were unlikely to go back to high levels of equity. All this tended to suggest a structural shift in demand for equities and bonds for long term financial institutions. Mr Tucker commented that the question was couched in the UK context. Globally, in many parts of the world, the life industry was running a large interest-rate exposure due to having issued longer-maturity savings and annuity prices than the assets facing them. Mr Clark said that the Bank had been working on the subject and would bring a paper to Court in the Autumn that would map out some of the issues.

FINANCIAL STABILITY ISSUES
FS Review, together with Domestic Developments and International Issues
(Messrs Clark, Bean and Tucker in attendance)

Mr Clark introduced his review paper on FS's activity. He also introduced a supplementary note on the articles to appear in the forthcoming issue of the Financial Stability Review. He noted in particular that the Treasury had asked Sir Andrew Large on behalf of the Bank to chair and organise a task force to review the operational, legal and other factors involved in the event of serious, possibly terrorist-related, disruption. An announcement was likely the day after Court.

Sir John Bond commented, with reference to the forthcoming FSR article on moral hazard, that it was a huge mistake in the official sector to think that risk proposals in a commercial bank considered the possibility that if the loan went wrong the Government would bale out the bank. He noted that he had persuaded the board of the Institute for International Finance to pass a resolution saying that none of the members had seen any evidence of that. Mr Clark said the conclusion of the paper was not inconsistent with having some moral hazard. His own view was that the econometrics was sufficiently open to different interpretations to treat with caution. Sir John noted that his shareholders ended up paying for defaults. The Governor commented that moral hazard applied as much to the debtor country as to the creditor and Sir John agreed. Mr Clark said that that was the other half of the argument. He noted that Turkey had had 18 programmes in succession and it was hard to believe that had not somehow been coloured by their view of IMF borrowing. In response to a question from Ms O'Donovan, Mr Clark said that the Bank's pension paper envisaged looking at the impact of Government's proposals for pension fund insurance.

The Bank and the Euro
(Messrs Clark, Bean, Tucker and Allen in attendance)

Mr Allen summarised the results of the Government's assessment of the five tests for euro entry, described in his note. Sir John Bond said he was a little surprised to see that financial services had met the test. Europe had totally different financial systems in different countries. If as a result of convergence all lent at the same rate as German banks, retail banking in the UK would look very different. The Governor asked whether that was a euro question or a single financial market question. Mr Allen said that retail finance was not an area where there was much integration in Europe. The question was how far that issue was determined by eurozone membership. The Governor said that quite a lot of the issue related to competition policy within the eurozone. Mrs Francis said that to achieve greater convergence in retail financial services it was necessary to influence decisions in Brussels about regulation and competition. The point might come when, if we were not on the inside, we would not have influence. Turning to flexibility, she believed that it was not clear that enough could happen to satisfy that test in the nine months up to the next budget. Mr Allen said with respect to influence that there were different points of view but the Chancellor's view was that we have already had terrific influence on the way the ECB was evolving, and also on the stability and growth pact. But he could see that there might be circumstances where being outside could make a difference. On the flexibility question, it was clear that the Treasury could not expect the flexibility programme to be completed within that period. But the promise to review the issue of whether to assess the tests again after the next Budget could not be completely empty so presumably the Treasury would make a judgement on the basis of what had begun to happen.

Sir Graham Hall noted that he had been appointed to the Standing Committee on Euro Preparations. Sir William Morris noted that one of the Treasury's proposals was for a set of new fiscal rules but he was not clear whether that would run alongside the stability and growth pact or replace it. Would institutional reforms be necessary? Mr Allen said that the Treasury were contemplating a change in the institutional framework of fiscal policy. Dr Julius commented that the reason the US and UK had avoided the economic difficulties of the eurozone was that they had a quick transmission mechanism for interest rates via the housing market. There was very little evidence that monetary policy affected many asset prices systematically. So having an interest rate sensitive housing market was a positive factor. She saw a paradox in the concern to reduce the interest rate sensitivity of the housing market. Furthermore, monetary policy worked in mysterious ways and policy makers were learning by doing. If there were structural changes in the housing market they would have to re-learn. So changing the interest rate sensitivity of the housing market could be going backwards, whether or not Britain were in the euro. Mr Allen said it was not that the Treasury thought the housing market was too sensitive to monetary policy but that the degree of sensitivity in the UK was greater than in the eurozone so that a monetary policy that was suitable for the eurozone might be too powerful for the UK.

In reply to a question from Sir William Morris about the ERM, Mr Allen said the Chancellor had said that the UK would not join. The Governor commented that the assumption was that this point would be accepted at a political level. He believed the Treasury's assessment as a whole would take a while to sink in, particularly some of the technical points in the appendices. This would be a very constructive process and he was thoroughly glad that the Chancellor had not announced that the UK was about to go in.

MARKET OPERATIONS ISSUES
Current Issues
(Messrs Clark, Bean and Tucker in attendance)

Mr Tucker introduced his short note on minor reforms to open market operations and possible HMG foreign currency bond issuance. In reply to a question from Sir Graham Hall about where the risk lay in bond issuance, Mr Tucker said that depended on the issuance structure.

Traditionally in issuing sovereign debt, the Government was at risk during the issue period. However, issuing structures had moved on. He believed that it would be possible to lock in a minumum price at the beginning and leave the risk with the issuing houses but that was a subject for negotiation in this particular case. No financial risk would lie with the Bank.

EXECUTIVE REPORT
(Messrs Clark, Bean, Tucker and Smout in attendance)

The Governor mentioned that he opened the Bank's new regional office in Exeter on 23 May in which he hosted a reception for civic and business leaders from Devon, Cornwall and Somerset marking the opening of that office. He noted that the building in Dix's Field, would be Kevin Butler's central base for the Agency. However, the Bank would still continue to be represented through its existing Bristol office in Redcliff Quay.

Mr Bean reported to Court Peter Westaway's appointment as a Head of Division for Monetary Instruments and Markets Division with effect from 1 July.

Mr Smout updated Court on the review of the Bank's cash ratio deposit funding. A steering group comprising Sue Owen of the Treasury, Forrest Capie of the London Business School and Clifford Smout had completed its deliberations. It had agreed that the statutory scheme had worked well. The Treasury was committed to publishing the results of the review which were about to be placed before the Chief Secretary. This would be published within three months for any comments. Only two provisions were suggested: the threshold for making deposits should be raised from £400mn to £500mn eligible liabilities; and there should be a clearer explanation of the workings of the scheme in the Bank's Annual Report. Quite a lot was already there but some further disclosure may be necessary. Much would depend on the exact form of the disclosure but at present the Bank did not believe that any of this would be problematic.

Finally, Mr Smout updated Court on the developments at the Bank's Sports Club at Roehampton, related to the lease of land to the Lawn Tennis Association. There had been a long history of association with the tennis authorities at the site. An agreement was reached in August 2002, as reported to Court previously, under which the tennis authorities would take a

125 year lease on around a quarter of the site for construction of a national tennis centre, subject to planning permission. Legal documents had at long last been finalised. The planning process would now start. Since it was Metropolitan Open Land it was likely to be referred to the Secretary of State for a decision. The price for the lease was £9mn but the final price might depend on the nature of the planning permission given.

The Governor reminded Court of the Employment Appeals Tribunal hearing sought by Unifi. The initial finding had been very much in the Bank's favour but Unifi challenged one of the findings related to failure to consult properly. That proposal was to go to the Appeal Tribunal. The Bank had an extremely good defence. However the cost of the appeal was likely to be £60,000, with a possibility of a further appeal. In the meantime the Bank had seen a change in Unifi representative from John Brawley to Keith Brookes. On the basis that it would save money and bring goodwill to the new relationship with Unifi, the Bank had agreed to settle with the Union by paying £20,000, which was one-third of the first stage cost of the tribunal. There was a proposed joint statement saying the two sides had agreed to put the past behind them and to continue building a productive working relationship between the Bank and Unifi. The payment was going to Unifi not to the staff concerned in the tribunal. The money was not related to the number of staff. It was a goodwill gesture to the new Secretary of Unifi.

MANAGEMENT OF THE BANK
Update on IT
(Messrs Clark, Bean, Tucker, Brookes and Smout in attendance)

Mr Brookes introduced his paper on IT which updated Court on progress over the past year. The paper focussed on major IT initiatives across the Bank, on organisation and staff issues and on areas for further work. He noted that it was the last time he would be reporting on the subject to Court and he was particularly grateful to a number of Members of Court for their help and advice during his period in the post. The Governor said he would like to echo the gratitude of the Bank to Court for the contribution Members had made to improving the Bank's IT performance. It was a wonderful example of how Court could and did contribute to the Bank.

In response to a question from Ms Blow, Mr Brookes said that all IT staff deployed in business areas had a dotted reporting line to himself or a 'senior manager' in MSD. Dr Julius said she had seen a huge improvement in IT in the last three to four years. She asked whether the Bank was still in the centralising phase. Mr Brookes said the pendulum was still moving in that direction.

In response to a question from Mrs Powers-Freeling about staff morale in the wake of the Globus problem, Mr Brookes said that the IBM manager working on that project had commented on the quality and commitment of IT staff in a very positive way. Sir Graham Hall said he had spent a couple of hours with Mr Brookes and believed he ran a good outfit well.

The Chief Cashier's Report
(Messrs Clark, Bean, Tucker and Ms Lowther in attendance)

Ms Lowther introduced her report on the main developments within the Chief Cashier's portfolio. In reply to a question from Sir Graham Hall about counterfeiting trends, she said that the Bank would soon be publishing the numbers for the first time. The data would show a rising trend. She expected there to be a fall in counterfeiting for the £10 and £5 notes as the old versions were withdrawn from circulation but it would not be permanent - there was a constant battle. The Governor commented that there had been quite a lot of resistance to being transparent about counterfeiting. Criminal investigators had been concerned that it might interfere with their investigations. Before the numbers were published the Bank would analyse them in order to understand the trends better. He was sure that Ms Lowther and Sir Andrew Large would bring this issue to Court in due course.

In response to a question from Dr Julius, the Governor noted that one or two other central banks had started publishing data on counterfeits. Ms Lowther said Canada and the ECB did, but the Bank would still be at the forefront. Ms O'Donovan suggested that the Bank set the numbers in the context of other industries with worse records, such as credit cards. The Governor said the Bank could think about that but he was not sure it would want to throw stones at others.

Domestic Matters
(Messrs Clark, Bean and Tucker in attendance)

Turning to matters of a domestic nature, the Governor said that following the departure of four NEDs at the end of May, it was appropriate to consider revisions to the membership of the Bank's Standing Committees. He drew attention to a note in folders setting out the proposed new structure.

On the Committees, he proposed that:-

Sir William Morris replaced Mr Neill as Chairman of the Remuneration Committee and Sir Ian Gibson and the Hon Peter Jay were appointed in place of Messrs Neill and Bailie. Dr Potter replaced Mr Stretton on the Audit Committee. Mrs Francis and Mrs Powers-Freeling were appointed trustees of the Court Pension Scheme in place of Messrs Neill and Bailie. Finally, Ms Rabbatts was appointed a trustee/director of the Staff Pension Fund together with Messrs Footman and Robson. Sir William Morris had asked to step down from the Staff Pension Fund and the Governor thanked him for his service on that committee, and, expressed his appreciation to all other members who served on committees.

Court APPROVED the changes.

The Governor noted in response to a question from Dr Potter that the changes took effect with immediate effect.

Any other business

Sir Andrew Large said that in Mr King's absence, and in view of the fact that it was the Governor's last Court after 21 years, and he had been a colleague and leader for 75 fellow Court Members, - and 77 as of that day - he wished to have on the record that the Governor had been a fount of wisdom and strength for all those he worked with and would be hugely missed. He expressed the thanks of all Members of Court to the Governor. Court applauded the Governor.

In the absence of the three Governors, Court was chaired by Sir David Cooksey. Court considered a note from Sir Andrew Large which read as follows: "I recommend to the Court of Directors that in recognition of Sir Edward George's substantial contribution towards the work of the Bank over the period of his Governorship, and in association with the proposal for the Advisory Committee of the Houblon-Norman Fund to award George Fellowships from the following funds, the Bank makes a cash injection of £500,000 to the Houblon-Norman Fund."

Mrs Francis said she was entirely happy with the principle but asked whether it was a transfer from the reserves, whether it would affect the profit & loss account and whether the Bank was happy that the Treasury would not raise questions. Sir David Cooksey said that the Bank had not consulted the Treasury. He believed it would be de minimis from the accounting point of view and the balance sheet. Ms O'Donovan said that since 1944 it had been standard practice for the Bank to make up for under-performance in the income from the Houblon-Norman Fund and it had been some time since a contribution had been made for that purpose. So the £500,000 was not necessarily anything to do with changing the name of the Fellowships to George Fellowships. It was a long time since there had been a top-up of the Fund to a reasonable position. In response to a question from Dr Potter about the existing scale of the Fund, Sir David Cooksey said that he believed it was about £1.4mn. Sir David also explained the Bank's correspondence with the Charity Commission which was content with the proposal to use the additional money to finance George Fellowships.
Court was content PR.

Court was up.

David Cooksey

Peter Rodgers
16 July 2003

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 16 JULY 2003

Present:

Mr King, Governor
Sir Andrew Large, Deputy Governor - Financial Stability
Ms Lomax, Deputy Governor - Monetary Policy
Sir David Cooksey, Chairman, Sub-Committee of Directors
Mr Barber
Ms Blow
Sir John Bond
Sir Howard Davies
Mrs Francis
Sir Graham Hall
The Hon Peter Jay
Dr Julius
Sir Brian Moffat
Sir William Morris
Ms Rabbatts

Absent:

Sir Ian Gibson
Ms O'Donovan
Dr Potter
Mrs Powers-Freeling

The Minutes of the Court of 18 June, having been circulated, were approved.

MANAGEMENT OF THE BANK
The Governor to address Court on proposed new arrangements
(Governors and Non-Executives in attendance only)

The Governor spoke under the following headings: his role as Governor; the challenges the Bank would face over the next five years; the objectives and the structure of the Bank; the management of the Bank; and the role and functioning of Court.

He wished to have greater clarity in the way the Bank was managed.

1 Role as Governor

The Governor proposed to give a clear lead to the MPC by visiting the regions and countries of the United Kingdom on a regular basis, every month except August, and most of his speeches on the economy would be outside London.

With respect to the leadership of the MPC, all the members felt that one of the great successes was its collective spirit of enquiry in which it was not trying to achieve an artificial consensus. He could not see any reason to change any of the procedures of the MPC.

Ms Lomax, Sir Andrew and himself would be sharing a number of tasks carried out previously by Sir Edward George. One example was that the Governor's Advisory Group would be replaced by contacts at three levels:

a) Staff would meet their technical opposite numbers.
b) There would be a new set of meetings between Sir Andrew Large, Mr Clark and the Chief Executives of the clearing banks.
c) There would be dinners for the chairmen of the clearing banks two or three times a year which would have a completely free agenda for discussing the big questions of the moment with the Governor.

2 The challenges of the next five years

The Governor drew Court's attention to his Treasury Committee statement on the challenges facing the Bank.

3 Objectives and structure of the Bank

The Bank had three core purposes. The first two were clear and general and there was no reason to propose substantial changes. The third core purpose was more problematic. It was not clearly defined and did not link to the current structure of the Bank. He wished to flag this as an issue and would come back to it.

In Ms Lomax's area, there would be the following objectives over the next 12-18 months for her and the Executive Director: to make sure that the new models work and fit into the forecast and decision-making process; to prepare the way for the MPC to discuss the forecast process after August; to look at the numbers in Monetary Analysis and ask whether the Bank needed this number of talented young economists. In the markets area there would be a look at the monetary operations and daily intervention in the money markets, and the building up of market intelligence and there would be more work done on the risk management side.

Turning to Sir Andrew Large's responsibilities, in Banking & Market Services the C21 Project had not gone entirely smoothly and the Bank would have to reflect on the reasons. There was a mistake at the outset in that it had been decided not to ask questions about what the Bank was doing but simply to ask how the Bank could do what it was already doing more efficiently. The Governor said he had asked Chuck Freedman, Deputy Governor of the Bank of Canada, to do a private short review of the distinction between the back and front office and the implications that would arise if the Bank carried out a review of functions in the banking area.

The Governor said he had also discovered that some time ago Ms Lowther had negotiated early retirement next March so it was necessary to find a replacement. The Governor said he would bring a proposal in September for the appointment of her successor.

Turning to Financial Stability, he wished to focus more closely on conclusions that could be drawn from risks to the UK financial system. He noted four important areas for the future: payments and settlements; the financial infrastructure and principles that guided it in terms of regulation, accounting and other issues; the international financial system; and the monitoring of risks to the UK financial system as a whole. It was very important that everyone understood the clear demarcation between the Bank and the FSA.

4 Management of the Bank

The Governor said he wished to have a single Executive team comprising the Governors and Executive Directors which would meet weekly and discuss everything. Below that level it was intended to delegate to individuals not to committees. The Governor said that he and his colleagues also wanted to bring the Heads of Division into the senior management of the Bank. He wished to end the concept of one Deputy Governor managing the Bank. Both Ms Lomax and Sir Andrew would have strategic management responsibilities. Ms Lomax would be responsible for the design of the new budgetary process and for a new framework for project management. Sir Andrew would have strategic management responsibility for risk management, on which he had already started, and for business continuity.

With a single executive team, the Governor said he did not believe room was left for ManCo. The Governor proposed a new Executive Director for Central Services, Mr Footman, who would be responsible to the three Governors and a member of the Executive Team who would take responsibility for the Bank's central services. The new Executive Director would have responsibility for: Secretary's, Finance, Audit, Human Resources, IT, Property and the Legal Unit. With respect to Audit, the area would report on pay and rations to the Executive Director, Central Services but the Auditor would report to the Governor.

The Governor also said that the Bank would cut out the layer of Deputy Directors. It was likely that in September he would also want to report the appointment of a new Human Resources Director. In order to involve the HoDs more in management there would be a new grouping, possibly called the Senior Managers Meeting, which would comprise the Executive Team and the HoDs.

5 Court

The Governor suggested changes in the way Court would operate.

a) He wished to change the agendas to start with an executive report from the Governor and other management of the Bank issues.

b) In the monetary policy area he proposed a long quarterly discussion after the Inflation Report. The monthly MPC report to Court would be short.

c) He proposed changing the lunches. There would be two types: the continuation at an informal level of discussions about major questions on the running of the Bank; and, there would be opportunities for presenters to lead a discussion about a major question relating to the UK.

d) Finally in terms of the chairmanship of Court, the Bank of England Act 1998 stated that the chairman of Court would be the Governor or in his absence, the Chairman of NedCo. But the Executive should more naturally be reporting to a non-executive chairman. It would take primary legislation to change the Act and it was not possible to introduce this. The Bank therefore had to find a way to give a more prominent role to the Chairman of the Non-Executive Directors. The Governor said that he and Sir David Cooksey proposed normally starting the proceedings with an extended meeting of NedCo, with the Executives of the Bank invited to be present. It would reach provisional decisions. At the end of the extended NedCo meeting there would be a short formal Court meeting chaired by the Governor to ratify the decisions. At the end of that, either Court was up or NedCo would take place in its usual way without the Executives present. The Chancellor had asked him to say to Court – and there would be a letter of comfort following – that he would support such a change if the Bank could make it work within the Bank of England Act. The Governor said the lawyers had approved this enhancement of the role of NedCo.

Sir David Cooksey said it would be helpful to have the discussion in terms of the five areas that the Governor had outlined, as follows:

1 The changing role of the Governor

Court was content with the Governor's proposals.

1 Challenges

Court was content with the Governor's description of the challenges of the next five years.

3 Objectives and structure

Court was content with the Governor's proposals for the objectives and structure of the Bank.

4 Management of the Bank

In response to questions, the Governor said he would draw a distinction between the way the Executive Team worked in practice and the organogram. When human resources were discussed the director concerned would have a direct link to the Governor and to the Executive Team. So in that sense he or she would work directly with the Executive Team. The same applied to the Finance Director. He, as Governor, would be involved in the recruitment of the Human Resources Director. In terms of the organogram and issues such as assessments and how budgets are organised it helped to group these posts in the area of Central Services. The Bank would work out what the new structure meant in terms of formal reporting lines.

In response to questions about succession planning, the Governor said that in the Autumn he would bring a paper forward with clear proposals.

Court was content with the discussion of management of the Bank and approved the appointment of Mr Footman as Executive Director, Central Services with immediate effect.

5 The role of Court

In response to questions, the Governor said the issues need not formally be agreed until September, when they could be discussed again. So there would be no change as of the July meeting. He would provide a paper for September Court.

He also proposed that for Court in August the Bank would not table any substantive items for the agenda. The Chancellor had assented in principle to the suggestion of having a minimal Court meeting in August. The Governor noted that 100% of the Bank's shareholders were in favour of the Bank not having a substantive August meeting and he could not see any prospect of criticism if one did not take place.

Court was content with the Governor's proposal to bring a more detailed paper on the changes in the operation of Court to the September meeting.

The Quarterly Financial Report
(Messrs Bean and Smout in attendance)

Mr Smout presented his quarterly financial report. Court was content.

Houblon Nominees – a Directorship
(Mr Bean in attendance)

The Governor outlined the background to Houblon Nominees. He explained that it was now appropriate for him to stand down as chairman of the board of this company and that Rachel Lomax had kindly agreed to take it on. He pointed Members to a resolution giving effect to the transfer of responsibilities and asked that it be approved.

COURT APPROVED the Resolution.

MONETARY STABILITY ISSUES

Economic and monetary discussion, incorporating the monthly MPC Report to Court (Mr Bean, Ms Barker and Professor Nickell in attendance)

Mr Bean reported to Court on the economy and the markets. Court was content.

EXECUTIVE REPORT

(Mr Bean and Mr Fisher in attendance)

The Governor explained that, in Mr Tucker's absence, he had invited Paul Fisher to comment on a UK Government US dollar bond Issue. Mr Fisher reported on the launch by the Bank of the dollar bond.

Sir David Cooksey reported that NedCo had agreed in June that Sir William Morris should be Deputy Chairman of NedCo in succession to Mr Neill.

There being no other business, Court was up.

17 September 2003

A MEETING OF DIRECTORS AT THE BANK

WEDNESDAY 20 AUGUST 2003

Present:

Mr King, Governor

Absent:

Sir Andrew Large, Deputy Governor – Financial Stability
Ms Lomax, Deputy Governor – Monetary Policy
Sir David Cooksey, Chairman, Sub-Committee of Directors
Mr Barber
Ms Blow
Sir John Bond
Sir Howard Davies
Mrs Francis
Sir Ian Gibson
Sir Graham Hall
The Hon Peter Jay
Dr Julius
Sir Brian Moffat
Sir William Morris
Ms O'Donovan
Dr Potter
Mrs Powers-Freeling
Ms Rabbatts

The number of Directors assembled was insufficient to form a quorum.

The Minutes of the last Court of 16 July, having been circulated, were noted and would be subject to ratification at the next Court.

There being no other business, Court was up.

David Cooksey

Peter Rodgers
17 September 2003

A COURT OF DIRECTORS AT THE BANK

WEDNESDAY 17 SEPTEMBER 2003

Present:

Mr King, Governor
Sir Andrew Large, Deputy Governor - Financial Stability
Ms Lomax, Deputy Governor - Monetary Policy
Sir David Cooksey, Chairman, Sub-Committee of Directors
Mr Barber
Ms Blow
Mrs Francis
The Hon Peter Jay
Dr Julius
Sir William Morris
Ms O'Donovan
Dr Potter
Mrs Powers-Freeling

Absent:

Sir John Bond
Sir Howard Davies
Sir Ian Gibson
Sir Graham Hall
Sir Brian Moffat
Ms Rabbatts

Messrs Clark, Bean and Footman, Executive Directors were also present, as was Mr McCarthy, as an observer.

The Minutes of the Court of 16 July and the meeting of 20 August, having been circulated, were approved.

The Governor's proposals for the new Bank management

The recommendations contained in the Governor's paper entitled 'The Bank of England: the next five years' were approved.

The Court Pension Scheme Report.

The Governor noted that members of the Executive had a potential interest in the Court Pension Scheme, and having confirmed that other Members of Court had no objection to members of the Executive remaining, sought Court's consent to the recommendations contained within the Report. Court APPROVED the recommendations.

Sealing Committee authorisations for inspection

The Governor invited Members to view the Sealing book, if they so wished.

Monthly MPC Report to Court.

Court noted the submission of the monthly MPC Report to Court for September and an account of the Inflation Report published in August, which included the MPC report to Court for August.

The Reports on the Globus/C21 project led by the Governor, Mr Chris Mann and the Chairman of the Audit Committee.

Court noted the reports discussed earlier that day at the meeting of NedCo.

Any other business.

The Governor said that he wished to record his appreciation to Sir Howard Davies for the substantial contribution he had made both in discussions in Court and to members of the Executive over the years.

He also noted that this would be the last occasion on which Peter Rodgers would be taking the minutes of NedCo and Court in his role as Secretary to the Bank and he looked forward to a much closer working relationship with him in his new role as the Bank's Director of Communications.

There being no other business, Court was up.

15-10-03

MEETING OF THE COURT OF DIRECTORS

WEDNESDAY 15 OCTOBER 2003

Present:
Mr King, Governor
Sir Andrew Large, Deputy Governor – Financial Stability
Ms Lomax, Deputy Governor – Monetary Policy
Sir David Cooksey, Chairman, sub-committee of Non-Executive Directors
Ms Blow
Mrs Francis
Sir Ian Gibson
Sir Graham Hall
The Hon Peter Jay
Dr Julius
Sir Brian Moffat
Sir William Morris
Ms O'Donovan
Dr Potter
Ms Rabbatts

Absent:
Mr Barber
Sir John Bond
Mr McCarthy
Mrs Powers-Freeling

Also attending:
Mr Clark, Mr Bean, Mr Footman, Mr Jenkinson. All withdrew for final item.

The Minutes of the Court of 17 September were approved.

Non-Executive Directors protocol for dealing with the media

The revised arrangements for non-executive directors' dealings with the media, as set out in Mr Rodgers' note, were approved.

MPC monthly report to Court

Court noted the submission of the monthly MPC Report for October.

Head of Division appointment; report on project management in the Bank; the Quarterly Financial Report; the report from the Low Inflation Working Party

Court noted the discussions at the meeting of extended NedCo on the appointment of David Collins as Head of Finance and Resource Planning Division, the review of project management in the Bank, the Quarterly Financial Report and the report from the Low Inflation Working Party.

Report from the Chairman of the Remuneration Committee

Mr Clark, Mr Bean, Mr Footman and Mr Jenkinson withdrew.

Sir William Morris, in his capacity as Chairman of the Remuneration Committee, presented the Committee's recommendations relating to the remuneration packages for Mr Footman and Mr Jenkinson.

Ms O Donovan asked what comparative scales had been considered to review the salaries of Mr Footman and Mr Jenkinson. Sir William said that, in this instance, the salary proposals reflected the Bank's own salary scale for Executive Directors. A review of the scale was ongoing.

Court APPROVED the recommendations.

Any other business

The Governor expressed his appreciation to Members of Court for devoting their time to travel to the East Midlands to attend the meeting and accompanying events.

The meeting of Court was closed.

19-11-03

MEETING OF THE COURT OF DIRECTORS

WEDNESDAY 19 NOVEMBER 2003

Present:

Mr King, Governor
Sir Andrew Large, Deputy Governor – Financial Stability
Ms Lomax, Deputy Governor – Monetary Policy
Sir David Cooksey, Chairman, Sub-Committee of Directors
Mr Barber
Ms Blow
Mrs Francis
Sir Ian Gibson
Sir Graham Hall
The Hon Peter Jay
Mr McCarthy
Sir Brian Moffat
Sir William Morris
Dr Potter
Mrs Powers-Freeling
Ms Rabbatts

Absent:
Sir John Bond
Dr Julius
Ms O'Donovan

Also attending:
Mr Bean, Mr Clark, Mr Footman, Mr Jenkinson.

The Minutes of the Court of 15 October were approved.

MPC monthly report to Court

Court noted the discussion in 'Extended' NedCo of the monthly MPC report to Court for November and the November Inflation Report.

17/12/03

Budget Processes, Globus, Financial Stability, Personnel Issues, the Bank's Strategy, Agents' Issue of the Month.

Court noted the discussions held earlier in 'Extended' NedCo on:

i. Budget Processes

ii. Globus/C21

iii. Review of Financial Stability

iv. Personnel Issues – Diversity

v. The Bank's Strategy, and

vi. Agents' Issue of the Month

Any other business

Mr Bean, Mr Clark, Mr Footman and Mr Jenkinson withdrew

Sir William Morris, in his capacity as Chairman of the Remuneration Committee, reported orally on the meeting of the Remuneration Committee held earlier that morning. In relation to the remuneration for Mr Bailey, the Committee had decided to recommend a salary in line with the first point on the Bank's scale for Executive Directors.

Court APPROVED the recommendation.

The meeting of Court was closed.

17/12/03

MEETING OF THE COURT OF DIRECTORS

WEDNESDAY 17 DECEMBER 2003

Present:

Mr King, Governor
Sir Andrew Large, Deputy Governor – Financial Stability
Ms Lomax, Deputy Governor – Monetary Policy
Sir David Cooksey, Chairman, sub-committee of Directors
Ms Blow
Mrs Francis
Sir Graham Hall
The Hon Peter Jay
Dr Julius
Sir Brian Moffat
Sir William Morris
Ms O'Donovan
Dr Potter
Mrs Powers-Freeling

Absent:
Sir John Bond
Mr Barber
Sir Ian Gibson
Mr McCarthy
Ms Rabbatts

Also present
Mr Clark, Mr Bean, Mr Footman, Mr Jenkinson, Mr Tucker.

The Minutes of the Court of 19 November were approved.

MPC monthly report to Court

Court noted the submission of the monthly MPC report for December.

Lessons from Globus, Audit Committee and BCCI

Court noted the discussions held earlier in 'Extended' NedCo on:

i. Lessons from Globus and the Bank's response to the Internal Audit Report
ii. A Report from Chairman of the Audit Committee
iii. the BCCI case and forthcoming trial.

Determining remuneration for Executive Directors and others

The Governor said that, following the decision to extend the formal annual appraisal system to the Governors and other members of the Executive Team, the Remuneration Committee would in future discuss remuneration recommendations in January, formal proposals would be brought to Court in February and agreed changes for Executive Team members would be implemented from 1 March. These new arrangements would take effect immediately, although the first proper assessments for the Executive would not take place until next autumn.

Any other business

Ms O' Donovan said the Bank's external auditors had been retained for an extended period in order to advise on the Globus project. It was still too early to consider the appointment of new auditors so it was proposed to retain the Bank's external auditors for one year.

Court APPROVED the appointment of the Bank's external auditors for one year.

The meeting of Court was closed.

14-01-04