COMMITTEE OF NON-EXECUTIVE DIRECTORS (NEDCO) MEETING

Thursday 12 February 2009

Present:
Sir John Parker, Chairman
Mr Brendan Barber
Mr Roger Carr
Ms Amelia Fawcett
The Hon Peter Jay
Dr David Potter
Prof David Rhind
Ms Susan Rice
Mr Arun Sarin
Mr James Strachan
Lord Turner
Mr Bob Wigley
Mr Geoffrey Wilkinson

Also attending:
The Governor, Mr Bean, Sir John Gieve, Mr Bailey, Mr Dale, Mr Footman, Mr Haldane, Mr Jones, Mr Tucker, Mr Graham Nicholson.

It was noted that it was Sir John Gieve's final meeting of NedCo and Court, Sir John was thanked for his contribution to the Bank and, particularly over recent months, his input into the Banking Bill.

It was reported that Sir Andrew Likierman had resigned as a Director. He was thanked for his contribution to Court.

Mr Haldane and Mr Nicholson were welcomed to their first meetings of NedCo and Court.

1. Minutes – 10 December 2008

Approved.

2. Matters Arising

None.

MANAGEMENT OF THE BANK

3. (i) Executive report

The Governor introduced the item.

Recent and forthcoming meetings and events

Domestic:

- regional visit to Hertfordshire (17 December);
- regional visit to the East Midlands, including public speech by the Governor in Nottingham (20-21 January);
- House of Lords Economic Affairs Committee appearance – Governor, Charlie Bean (27 January);
- Inflation Report and press conference (11 February);
- Treasury Committee hearing - Banking Crisis Enquiry (26 February);
- speech at the Worshipful Company of International Bankers (17 March);
- Treasury Committee Inflation Report hearing (24 March);
- House of Lord's Economic Affairs Committee hearing (re-arranged for 24 March);
- regional visit to Greater Manchester (26 March);
- regional visit to Northern Ireland (28-29 April).

International:

- BIS meetings (11-12 January and 8-9 March)
- G20 meetings for finance ministers and central bank governors, Horsham, Sussex, (13-14 March);
- Ecofin meetings, Prague (3-4 April);
- IMF Spring meetings, Washington (23-26 April).

Since the previous NedCo meeting, there had been several tripartite meetings and meetings with the Prime Minister. A meeting with Ben Bernanke had been held on 13 January and with Rakesh Mohan - Deputy Governor, Reserve Bank of India – on 3 February. A meeting with John McFall MP had taken place on 9 February. Meetings with Lord Turner and Sir Nick Macpherson had been scheduled for 17 February and 10 March respectively.

[redacted]

Financial stability – Government announcement of 19 January

It was explained that the announcements made on the 19 January by the Government represented the second wave of the five-point plan designed to reinforce the stability of the financial system, to increase confidence and capacity to lend and, in turn, to support the recovery of the economy.

It aimed to address the current barriers to lending by: first, offering capital support through an asset protection scheme for banks and by clarifying the regulatory approach to capital requirements. The work to operationalise the Asset Protection Scheme was being led by HM Treasury; second, to support funding by extending the drawdown window for new debt under the Government's Credit Guarantee Scheme (CGS) and by establishing a new facility for asset backed securities; third, signing lending agreements to oblige the banks to meet lending targets; fourth, to support the provision of mortgage finance by revisiting the lending strategy for Northern Rock; and fifth, by establishing a new Bank of England facility for purchasing high quality assets to support the availability of corporate credit.
It was stated that the five-point plan had yet to be fully implemented and the priority over the coming weeks was to ensure that happened and that all the major banks participated.

In relation to capital, it was explained that the idea was that banks would be offered, through a range of different mechanisms, insurance against losses that might occur on their balance sheets, which would otherwise reduce their capital and constrain their ability to lend. Capital had been provided unconditionally in October. The Bank shared the view that further capital contingent on future losses was the right approach. Future losses were unknown so the actual capital needs of the banks as the economic downturn unfolded could not be known. It was stated that the details of the APS were somewhat vague at this stage. The Bank had pressed for a scheme that offered clear contingent capital insurance for the entire balance sheet of banks. This would demonstrate a clear commitment to the framework for supporting the amount of capital that banks would need. However, the Government had been engaging in a series of bilateral negotiations. It remained to be seen what the outcome would be but it was noted that those banks that did not want to be associated with the weaker banks would seek to be distant from the scheme if it was not a general framework.

In relation to funding, it was stated that the Bank had pressed the Government to extend the CGS. The Government had extended the drawdown window to the end of the year and would extend the scheme to a range of asset back securities in April. Lending agreements needed to be signed by any bank that wanted to take advantage of either contingent capital support or the CGS scheme. Again, there was presently a lack of clarity but it was hoped that agreements would be in place shortly. In relation to the housing market, a large amount of capacity in the UK mortgage finance market had disappeared – Northern Rock, Bradford & Bingley and the Irish banks had withdrawn. The large banks had not stopped lending but they were reluctant to lend above loan-to-value ratios of 75%. It had therefore been decided that the running down of the balance sheet of Northern Rock should come to an end. Merely stabilising the balance sheet of Northern Rock was equivalent to one third of the total amount of lending to the household sector.

The final element was a new Bank of England Asset Purchase Facility. That would enable the Bank to purchase assets, financed by Treasury Bills, to help unblock the supply of credit to companies, particularly that outside the banking system.

(ii) Asset Purchase Facility

The Governor and Paul Tucker introduced the item.

It was explained that the Asset Purchase Facility (APF) and the Bank's role and position had been set out in an exchange of letters between the Chancellor and the Governor on 29 January. The Transactions Committee had been consulted prior to that (minutes circulated). The APF had initially authorised the Bank to purchase up to £50 billion of high quality assets with the object of improving the availability of corporate credit. It was stressed that the success of the scheme would not be judged in terms of the amount that was purchased but rather whether it was successful in reducing some of the very high liquidity premia in the market for corporate bonds and other instruments. Moreover, the Bank would not be trying to substitute for the wider market. The aim was to help make the capital markets more liquid and to increase issuance to private sector investors.

The Bank had initially published a news release and Market Notice setting out the details of how it intended to operate the APF. It would involve a facility to purchase investment grade, sterling commercial paper issued by companies in both the primary and secondary markets. Maximum prices (expressed in terms of minimum spreads over risk-free rates) had been established. The objective was to help to reduce the spreads on these instruments to make it more attractive to buyers to take up such paper and help companies to finance themselves by means of the capital markets rather than direct finance from the banks. The commercial paper facility would be operational from the following day.

It was noted that the Bank had also set out an outline proposal for a corporate bond secondary market facility. The Bank would propose to make essentially a back-stop offer to purchase modest amounts of a wide range of investment grade sterling UK corporate bonds. The aim was to reduce liquidity premia on such instruments and improve the incentives for others to make markets in such instruments.

The Bank had also requested feedback on an outline proposal for the APF to purchase paper issued under the CGS, and was in the early stages of exploring how best to purchase syndicated loans and asset backed securities within viable securitisation structures. The objectives would be the same as those for the commercial paper and corporate bond facilities.

Finally, it was noted that the APF framework could subsequently be used for monetary policy purposes should the MPC decide to use asset purchases, financed by central bank money, as a means of injecting money directly into the economy. The exchange of letters between the Governor and Chancellor included a formal request for the MPC to use the APF should it wish to do so, and also to extend the range of assets for that purpose. That would primarily allow the purchase of gilts for monetary policy purposes. It was stated that this second phase of the APF would involve the MPC requesting the Bank's executive management to make purchases. The main difference would be that instead of asset purchases being financed by Treasury Bills, new central bank money would be created. In contrast to much of the post-war period when the need had been invariably to reduce the supply of money to bring inflation down, the problem was now a need to increase the money supply and nominal spending. The APF provided a framework to do that.

It was stated that the Audit Committee would be informed of the arrangements being put in place to manage the programme of asset purchases, along with the appropriate legal and governance controls and risk management procedures.

In response to a question, it was explained that the vehicle for the APF would be a wholly owned subsidiary of the Bank of England. All transactions would take place within that vehicle and would therefore not be on the Bank's balance sheet. There were two reasons for such a vehicle.

First, it ensured that any losses – which might be inevitable if the policy objectives were to be achieved and so yields rose – would not flow through to the income or balance sheet of the Bank. It was noted that the scale of the transactions would be large relative to the Bank's capital. The Treasury were entirely supportive of this. It was acknowledged that it would be possible instead for the Bank to take the exposure itself with the Government undertaking to recapitalise the Bank in case of loss. However, that would be unwelcome in the present context. Second, in the first phase, the Bank would be in some respects conducting the operations on behalf of the Government, and purchasing assets that were generally riskier than would be the case in conventional central bank operations. It was appropriate that those risks flowed to the Treasury. In that sense, the Bank was acting as an agent for HM Treasury in purchasing corporate paper, though with a fairly broad brief to use its judgement about what to purchase and how within the general asset classes agreed with the Treasury.

It was asked if the Bank had the appropriate people, skills and processes in place to undertake such a programme of asset purchases that was different to the Bank's normal operations. In particular, was the Bank able to understand the risks and prices of the assets to be purchased given it would want to avoid making large losses? It was agreed that those considerations were crucial to the Bank and work was in train to prepare for the operations and collateral management. It was noted, however, that losses in the APF vehicle might not be losses to the UK as a whole. For the APF to achieve its objectives, it might be necessary to take on risks and incur losses. Success certainly could not be judged in terms of whether or not the APF made a profit.

The sequence of operations within the APF was explained. It was noted that the decisions to be taken were different for each of the asset classes, and the amount of knowledge and expertise needed would also vary. In relation to the commercial paper market, it was noted that the UK sterling market was small for primary issuance and secondary market trading was very thin. The Bank was therefore setting up the facility to buy paper predominantly from companies directly, via their financial intermediaries. The Bank would purchase commercial paper at a minimum spread above the risk-free rate, which would be set separately for different ratings grades. That would be set below the current market rate but above most estimates of credit risk. That broad approach could be applied more generally to other asset classes in due course. It was stated that a broad proxy for liquidity premia was the gap between corporate bond spreads and those for credit default swaps.

The Bank would review and assess its purchases and what it was being offered, and reserved the right to change its minimum spreads if necessary. The framework being established was designed to avoid making case by case credit judgements subject to one safeguard. The Bank would need to protect itself from buying paper where sellers knew a company was in trouble but that was not widely known. The Bank would be holding a meeting with the chief risk officers of the clearing banks to ask them to inform the Bank of the companies that were on their watch list. It was thought that the major UK banks would cover more or less the whole of the UK corporate sector. If the Bank had such private information from the market, it would exercise its discretion.

It was explained that the anticipated corporate bond scheme would be somewhat different in the details of its design and objective, although aiming to meet the same ultimate objective. The purpose would not be to purchase a large quantity of paper but to help revive the secondary market. It was stated that with £50 billion, it would be possible to buy a very large part of the investment grade market but that would probably serve no purpose in terms of reviving the market. Spreads would initially collapse but then quite probably rise again. Instead, the aim would be to provide a back-stop bid for market makers. The number of market makers in high-grade corporate bonds had declined significantly to perhaps no more than two at present. The Bank would provide a back-stop bid via auctions. Institutions would bid to sell to the Bank, which would set a maximum price for itself. In that way, the Bank would act like a market maker of last resort. It would aim to purchase small amounts each day – for example, £10 million for each individual bond. This activity would hopefully lubricate the market.

It was noted that the Bank would keep under review whether it needed to import credit risk expertise. What was required to a greater degree were individuals with a broad knowledge of the companies likely to offer the Bank paper. Management in the Markets areas were considering whether or not to reach out in the first instance to a few individuals with such experience that had retired from the Bank.

It was asked what success measures would be set for the Asset Purchase Facility, for both credit easing and monetary policy purposes. In relation to the commercial paper facility, it was stated that the best success measure would be that spreads fall below the Bank's minimum price without the Bank needing to buy any or much paper. A second measure of success for the commercial paper facility would be that spreads fall to the Bank's price and that the Bank acquired paper not only from existing issuers but also from companies that had not usually issued sterling commercial paper. In that case, the Bank would have helped to improve the use of the commercial paper market. It would have effectively provided finance to the corporate sector to facilitate a fall in spreads. The commercial paper facility was perhaps the most straightforward in terms of establishing success criteria. It was emphasised that the first phase of the APF was aimed at creating conditions to facilitate more non-bank private sector financing of companies. The US Federal Reserve's success with its equivalent scheme was encouraging. It was stated that it would be difficult to judge how long the scheme might be necessary.

The second phase of the APF would make the inflation target the framework to determine decisions. The MPC would decide when to stop asset purchases based on its judgements about the extent to which the money supply needed to be increased in order to achieve the inflation target. It was stated that at some point the MPC would need to raise Bank Rate, perhaps sharply and quickly, from its very low level to more normal levels. The inflation target was the anchor and provided confidence that, although the MPC was aiming to boost the money supply, it was doing so to bring inflation back to its target.

It was suggested that the success measures might be tabulated so that they could be assessed. In response, it was stated that for the first phase of the APF, information would be reviewed on the impact on spreads and the issuance of corporate debt. Phase two of the APF would require the MPC to decide what increase in broad money, credit and spending it wanted to see. Attention was drawn to Chart 1.2 in the February Inflation Report, which illustrated the abrupt fall in the growth of broad money. For much of the period since 1997, broad money growth – excluding growth within the financial sector – had averaged around 5% per {annum}. That was approximately consistent with a rate of growth in nominal demand that was, in turn, consistent with meeting the inflation target. It was stated that the indicators that the MPC would consider were the volume of money and credit and particularly the rate of growth of nominal spending.

In view of the potential scale of the transactions to be undertaken and the Bank's need for an indemnity, it was asked if the Bank had made an assessment of the credit worthiness of the UK government. Additionally, was there a process to keep such an assessment updated and stress tested in view of the downside risk for tax revenues as the economy weakened? In response, it was suggested that much of the public commentary about the credit worthiness of the UK government was ill-informed. There was no doubt that the fiscal deficit would rise sharply. It was stated that the policy framework that had been implemented in the UK and elsewhere was to take much of the increase in private sector debt onto the public sector's balance sheet in order to slow the speed of adjustment of the private sector. That was the inevitable price of dealing with the financial crisis. However, most estimates of the likely ratio of debt to GDP for the UK remained below those for the US, where there had been far less commentary about the US government losing control of its ability to manage the public finances. And, although the UK's debt to GDP ratio would rise significantly, it was unlikely to approach the levels that Britain had experienced for most of the post-war period. It was estimated that the present situation might result in increases in debt {of} between 40-70% of GDP. That would compare with a ratio of around 250% after the second world war.

It was stated that one of the reasons for a credible fiscal framework was that it forced governments to plan to reduce the ratio of debt to GDP in normal times so that debt could be extended in the short term when a disaster or crisis occurred. Although such a large increase would not be desirable in the long run, it was sensible to do that in the short term. This was part of the 'paradox of policy' referred to in the Governor's recent speech. Overall, it was not thought that the scale of the increase in public debt envisaged in the UK would threaten the ability of a democratic government to finance its debt, though there could, of course, be no guarantee of that. It would present a major problem if financial markets did not want to finance the debt though there had not been any sign of that to date.

In response to a question about the limited scale of the APF, it was stated that the objective was to catalyse private sector activity rather than provide large-scale finance for the corporate sector. It was noted that the size of the high-grade, sterling UK corporate bond market was not much more than about £100 billion. The syndicated loan and asset backed securities markets were significantly larger and it would be more difficult to design well constructed schemes to influence trading in those markets beyond the banking sector. It was clarified that for the second phase, should the MPC decide to use asset purchases, the size of the facility would be much larger.

FINANCIAL STABILITY

4. **Banking Bill update**

The Governor and Sir John Gieve introduced the item.

The Banking Act had become law that day. The Bank team that had worked on the Bill were thanked for their considerable efforts and contributions. It was noted that there had been protracted discussions with HM Treasury on a number of points. Most of the points had been resolved satisfactorily. However, there were two aspects to draw to NedCo's attention where the outcome was not considered satisfactory. First, the Bank had not succeeded in obtaining a power to obtain data from financial institutions. The Governor had written to the Chancellor about this issue last year (circulated in folders). Second, the Act and the debate around it would inevitably lead to an expectation that the Bank would now be more involved in discussions about financial institutions. However, it remained the case that the FSA alone would decide if an institution should be put into the Special Resolution Regime. Up to that point the Bank would not have a single additional power. As previously discussed at NedCo, that created risks stemming from a perception of responsibility without having commensurate powers.

The paper outlined the position on a number of issues and an update was provided: the proposed parliamentary amendments relating to the Financial Stability Committee had been rejected as had the Opposition amendments on the Bank's financial stability objective; the Government's amendment to include a requirement to consult with the other relevant bodies was passed; the language remained that the Bank had to 'contribute to' maintaining financial stability; and the weekly Bank Return clause had not been amended.

In relation to partial property transfers within the Special Resolution Regime, which had been a particular concern of financial institutions, it was noted that there had been a complex set of negotiations with City lawyers over recent weeks about concerns that the Bill infringed and reduced legal certainty in some financial contracts. The outcome appeared a reasonable solution. If the Bank divided an institution by breaking up assets and liabilities to protect the viable part of the business, safeguards for netting, offsetting and termination rights in contracts under European law had to be recognised. Extensive safeguards had been put into the legislation to protect those rights. In practice, that might constrain the Bank in the resolution of a complex bank and it might not be possible to negotiate with various counterparties a complex reassignment of rights in a short timeframe. That would require further consideration. It was noted that the European legislation had been passed prior to the focus on bank failures. The Bank and the Treasury would need to consider how to seek changes to European legislation in the light of the Banking Act.

It was also noted that the extension of powers to cover holding companies and investment banks had been accepted subject to consultation. The objectives of the Special Resolution Regime had also been amended to make clear that ensuring the continuity of services to customers was embraced. The amendment to add wording about avoiding distortions to competition had not been accepted. An Opposition amendment requiring a six-monthly report on the use of Special Resolution Regime powers had been accepted.

In terms of the introduction of powers under the Act, it was noted that the Special Resolution Regime came into effect on 20 February; and the Bank's payment systems oversight powers would come into effect on 1 June. It was noted that from mid-April the process of collecting information and recognising which payment systems should be covered would get under way. Legislation regarding the regulation of Scottish and Northern Ireland bank notes was expected to come into effect in November. The new arrangements for Court and the Financial Stability Committee would come into effect on 1 June.

Overall, the Act amounted to an important change for the Bank. It gave it specific powers and, more generally, entrenched in legislation a larger financial stability role with closer engagement in monitoring and dealing with banks under stress. It was noted that the Opposition was considering the case to go further; for example, to have a statutory requirement for the Bank to write to the FSA setting out its views about financial stability and systemic threats, and requiring the FSA to respond.

In relation to the operation of the Special Resolution Regime, there had been a lot of practical experience over recent months under the umbrella of the Treasury and the Banking (Special Provisions) Act 2008. As of today, the Bank would need to take the lead. It was not expected that the Regime would be used in the near term for the resolution of a large bank but a number of smaller institutions were being monitored actively. The Bank was in the process of recruiting an individual to head the Special Resolution Unit. In the meantime, Andrew Bailey and his team would be available for any active resolution work.

The issue of the Bank's ability to meet its responsibilities for financial stability with limited powers and without direct access to information was discussed. The inability to drill down to the level of an individual institution's accounts and balance sheet in order to build up a picture of the system as a whole remained a large deficiency. That and the issue of the instruments that could be used by the Bank to articulate its concerns, were particularly relevant to how it fulfilled its responsibilities in peace time periods. The absence of the right to receive information, other than through a request to the FSA, was particularly concerning. It was suggested that the Bank would want to consider how it could address that gap in order to strengthen its position and perhaps seek a legislative change in the future.

It was explained that the FSA did not view the legislation as a barrier to a sensible working solution between the FSA and the Bank. That would be put in place and was perhaps of greater importance than the precise wording of the Act. The Bank took a different view about the significance of the Act. Practical experience over the past eighteen months had been that the Bank could not obtain the data it felt it needed. The Act would put the FSA in a difficult position. Regardless of the Bank's reasoning to access information, it would have to satisfy itself in order to meet its own remit that it was appropriate to request information on the Bank's behalf. It would not be sufficient for the FSA to simply say that the Bank had requested information. In essence, the Act would affect the balance of the debate about the Bank's ability to access information. The Bank's view was that it would have been considerably better if it had a right to information. That would have removed a need for discussion, which would inevitably involve using political capital in some debates in order to obtain the data the Bank judged it needed.

In response to a question about why the Act had not accommodated the Bank's request, it was noted that the position had changed during the course of the Bill's formation. Latterly, the Government had committed itself to not presenting any further amendments in order to ensure the Bill was passed. The earlier argument had been that it was desirable on efficiency and cost of compliance grounds to use the FSA as the collector of information. Ministers had taken the view that the Bank would be able to work with the FSA without having statutory rights. In political terms, given that part of the criticism of the Bill was that the tripartite system had failed and could not work, ministers found it difficult to introduce into the legislation something that, in effect, acknowledged that was implicitly recognised.

In response to earlier remarks, it was highlighted that the Bank did already drill down into individual institutional data. The Bank had access to regulatory data and used that in its database, which covered the major banks in some detail. The Financial Stability area was in the process of modelling interactions across the banking sector at the individual bank level. Bank economists had taken a leading role in running stress tests to assess the vulnerability of individual banks. In terms of access to information in relation to resolution powers, the protocol between the Bank and the FSA and the revised tripartite Memorandum of Understanding would be important. It would be desirable to write down explicitly what had recently been agreed with Hector Sants of the FSA. That was that the FSA would like an ability to clarify with the Bank why it wanted the information it had requested, but the FSA would take as sufficient reason to collect information the fact that the Bank had requested it. The FSA would want a short exchange in order to understand the basis of the Bank's request but would not seek to delay collection if the Bank was insistent that it required the specified information. It was hoped that understanding could be written into the Bank/FSA protocol.

At the same time, the Bank did not want to drop the case for a future amendment to the Act. It remained an issue of {principle} that it was not reasonable to expect the Bank to meet its responsibilities under the Act without the ability to obtain the data it judged it needed to carry out its work. If durable arrangements were not put in place in peace time, it would certainly create difficulties when problems arose. And the practical experience over the past eighteen months had not been consistent with the view that practical arrangements and common sense would be sufficient.

Directors endorsed the stance concerning access to information alongside the need to find a practical approach through the Bank/FSA protocol. It was stressed that relying on sensible people finding solutions would be a function of personalities that would invariably change over time. The mismatch between expectations about responsibilities and powers needed to be addressed following a period when the Bank had been held responsible by the public for events and issues outside its power to control. It was agreed that the issue should be pursued. In the meantime bridge arrangements needed to be put in place. The protocol would seek to spell out that a request for information from the Bank would be sufficient grounds for the FSA to collect it.

5. **Financial markets update**

Mr Tucker introduced the item.

It was reported that financial markets had, in many respects, been in a state of limbo over the past few months, dominated by adverse macroeconomic news and the need to digest an array of official initiatives. It was stated that there were now so many initiatives globally that market participants were finding it difficult to absorb them. There was also a gap between what the official sector classified as an initiative and what market participant viewed as an initiative. The latter did not consider short statements of intent as an initiative that would impact on financial sector behaviour. In part, that explained the somewhat damp market reaction to the latest US package of measures. There was a clear need to put flesh on the bones of the announcement as quickly as possible. It was noted that the UK's January announcement by the Government had been timed in an unfortunate way. It came at the same time as news about RBS so was perceived, in part, as an initiative to re-prop up large UK banks rather than as the second stage of a broader initiative to revive lending and support the wider economy. Releasing the announcement in this way had been unfortunate.
On the positive side, it was stated that fourth quarter results announced to date by a number of large financial firms had not further undermined the system. It seemed plausible that the October package from the UK government and governments elsewhere had succeeded in placing a floor under the stability of the banking system. That was probable rather than certain, but it meant work on the second stage of reviving lending and the wider economy could continue.

6. **Financial stability – quarterly report**

Mr Haldane introduced the item.

Three areas of current work in the Financial Stability area were outlined, namely: the ongoing financial crisis, preparations for the new Banking Act legislation, and work on a range of policy related initiatives.

The Bank had maintained its heightened monitoring of system-wide stresses and the implications for individual firms over the period. That included an assessment of the various profit announcements that had been made over recent weeks and months and what they might imply for financial stability. Two particular areas of focus were noted: first, intensive monitoring and contingency planning in relation to the three main Irish banks in the UK; and second, work to assess the implications of lower interest rates for banking sector profitability. In relation to the latter, there were both monetary policy and financial stability implications – for example, for the building society sector. Through a combination of analysis and conversations with a range of firms, the Bank was seeking to assess the implications of lower interest rates.

In relation to the package of measures announced on 19 January, it was explained that joint work was underway to implement the Government's Asset Protection Scheme involving the Bank – with teams from Financial Stability and Banking – the FSA and HM Treasury, along with teams of accountants and advisors. It was noted that progress so far had been mixed and it was not possible to be completely confident at this stage that the scheme would achieve the objectives that had been set out in January, namely to provide underpinning for the system as a whole in order to support new lending.

Turning to preparations for the new legislation, two areas of work were highlighted. First, although the Bank's statutory responsibilities for payment systems oversight would not come into effect until June, the Bank was in full preparation mode and clarifying with the Treasury the precise scope of its activities and which systems should be considered as systemic. It was noted that the Bank intended to set out how it expected the new regime to operate ahead of June, as a means of forming expectations about what the Bank was responsible for and how it intended to carry out those responsibilities. It also planned to publish next month the regular annual oversight report setting out the activities that had been carried out over the past year. Second, as already mentioned (under item 4), intensive banking system monitoring work was underway. That was in part to ensure that the Bank had a systematic and regularised flow of information from the FSA.

Attention was also drawn to work relating to a raft of initiatives under consideration at the present time, many under the umbrella of the G20. A head of steam was building ahead of the heads of state meeting at the beginning of April. That would embrace a number of major issues from a financial stability policy perspective on which the Bank was actively engaged. That included liquidity regulation, cross-border crisis management, the level and quality of banks' capital, capital requirements and their adaptation to better reflect the cycle on the one hand and firms' systemic importance on the other. Those issues were all being actively considered and would also form part of the terrain of the forthcoming Turner Review.

In response to a request for an update on the recruitment of the head of the Special Resolution Unit, it was explained that the Bank had used a head hunter. Interest had been solicited from a broad community including investment bankers and restructuring experts from accountancy and legal firms. Paul Tucker, Andrew Bailey and Louise Redmond had met with the search firm to identify a shortlist of six to eight people. Following interviews a final shortlist would be selected for the Governor. Overall, the process was proceeding satisfactorily. The main concern was that a number of candidates had raised the issue that the position would be very interesting for twelve to eighteen months but it was less clear what it offered beyond that.

In relation to payment systems oversight, it was suggested the Directors should see the forthcoming paper about the Bank's new role ahead of publication in view of the Bank's new statutory responsibilities. It was noted that the Bank would need to ensure HM Treasury was comfortable with what the Bank wanted to say since it was formally the agency that recognised payment systems.

Further explanation was requested regarding the comment that the Asset Protection Scheme might not meet its objectives. In response, it was noted that market reaction to the package had been negative because it had lacked a compelling narrative about its purpose and aims, and there had been a lack of detail about its implementation. That was to follow six weeks hence, at the end of February, which had created a worry that the authorities did not already have a clear idea about the balance sheets of the main banks. It was suggested that those factors contributed to the instability that followed the announcement. The Bank's view was that the scheme needed to be a comprehensive solution. The scheme needed to unearth the sources of weakness on balance sheets across the system as a whole. Progress so far had been piecemeal, both in terms of the institutions and assets covered. It was felt that such an approach ran the risk of falling short on the objectives of stabilising the system as a whole and freeing-up banks to lend to the economy, when a cloud of uncertainty continued to hang over a part or all of banks' balance sheets.

It was asked whether work was underway to determine the optimal capital ratio for banks. In response, it was noted that there was an extensive debate domestically and internationally about the appropriate regulatory regime for banks. The broad outline was for higher capital requirements, more provision for liquidity and to allow capital requirements to vary counter-cyclically. At the same time, it had to be acknowledged that no regime could guarantee that banks, in the face of a sufficiently severe shock, would not run out of capital or stop lending to conserve capital. That created a dilemma. Should it be accepted that banks would stop lending if it was sensible for them to conserve their capital or should the authorities intervene to prevent that? Banks played a role in the economy that went beyond that of a normal private sector company and involved a 'public good' dimension. The issue for public policy was whether banks should continue to be run only in the interests of shareholders, who represented a small proportion of the total balance sheet and whose incentives might not be aligned with those of the economy as a whole. It was feasible to attempt to reduce the risk of a recurrence of the financial crisis by designing a different capital regime. But there could be no guarantee that a situation would not arise whereby the interests of shareholders were at odds with those of the economy as a whole.

It was stated that the Turner Review, to be published in mid-March, would discuss the basis for a new regulatory regime, including proposals for a new approach to capital. That would then need to be debated within international fora such as the Basel Committee and Financial Stability Forum. In broad terms, the Turner Review would suggest that capital needed to be higher in terms of both quantity and quality, with less of a focus for large firms on subordinated debt. It was stated that there was distinction between a bank as a 'going' and 'gone' concern. Subordinated debt protected the position of depositors in a failed bank yet large banks could not be allowed to fail. The capital regime needed to recognised that, which meant a stronger focus on Tier 1 rather than Tier 2 capital. It would also be necessary for banks to hold more capital against their trading books – where the existing capital regime had been very inadequate – and have a counter-cyclical capital element. It was noted that another dimension of the debate about counter-cyclical capital requirements revolved around the issue of rules versus discretion.

It was stated that there was broad international support for the regulatory agenda. A set of proposals would come forward over time that would amount to a significant change in banks' capital regimes. But managing the transition to a new long term position would be equally important, particularly as the authorities wanted banks to use their capital buffers over the near-term to boost lending. It was also noted that, although there was a consensus about the need for a counter cyclical approach, there were a variety of different approaches that had different implications. One strand of the debate emphasised the need to protect the bank from the cycle, which might include a dynamic provisioning tool such as that already employed in Spain. However, there was also a case for wider measures that protected the cycle from the banks. That recognised the public good dimension of banks beyond private interests and incentives. And there was a further aspect, namely protecting the authorities from the banks. Recognising that large banks could not be allowed to fail amounted to providing them with a capital dispensation. The capital regime needed to be attuned to the systemic importance of such banks.

In summary, the discussion had covered both issues relating to the resolution of the present crisis and the future regulatory agenda. A short note was requested outlining the various dates when the Bank assumed new responsibilities under the Banking Act and its state of readiness in each case.

7. **FSA/Bank protocol**

Sir John Gieve introduced the item.

It was stated that the protocol aimed to set out how the Bank and FSA would work together and their expectations for doing so. In view of the inevitable tensions and frictions that arose between institutions working on the same terrain, both the Bank and the FSA thought it would be constructive to set out how each institution should behave towards the other. It was noted that this would be broad protocol backed by a number of rather more detailed agreements about such issues as the flow of regulatory data.

The debate under item 4 had covered the issue of information sharing. It was agreed that the protocol should seek to establish clearly how information would be exchanged and reflect the earlier discussion. It was also noted that the protocol would feed into a revised tripartite Memorandum of Understanding, to be considered over the coming few months.

8. **Repayment of FSCS loans**

Andrew Bailey introduced the item.

Directors were reminded of the various loan facilities that had been put in place during the previous Autumn following a number of bank resolutions. All the facilities were for short maturities. Any longer term financing needed to be provided by HM Treasury. It was reported that all loans from the Bank had been repaid such that no financing was currently outstanding. It was noted that the bespoke nature and resultant complexity of the facilities had been more of an issue than the amounts involved. The Audit Committee had reviewed the facilities and controls in place and was satisfied with the outcomes.

MONETARY POLICY

9. Inflation Report and monthly MPC report to Court

Spencer Dale introduced the item.

The current economic conjuncture, outlook and Inflation Report projections were summarised.

In discussion, it was highlighted that the latest projections did not envisage inflation returning to its target over the forecast horizon and therefore there was an explicit message that further monetary easing would be required. It was explained that the reversal of the VAT reduction would temporarily increase inflation but the increasing amount of spare capacity in economy – even after demand started to recover – would suppress inflation for a considerable time.

It was asked if the impact of very low RPI inflation on wages and pensions had been assessed. Attention was drawn to the box on deflation in the Inflation Report. Annual RPI inflation was expected to fall below zero shortly, reflecting the fall in interest rates. In response to a question about the impact of the change in VAT on consumer spending, it was explained that the reduction would be expected to bring forward expenditure, particularly ahead of the end of the year before the rate increased again. Calibrating the scale of the impact could be informed by experience from previous examples of announced future rises in sales taxes, both in the UK and overseas.

In relation to the MPC's policy decision, it was asked why the Committee had not reduced Bank Rate by a greater amount given the expectation that inflation was likely to remain below its target over the medium term. Was there a purpose in keeping something in reserve? In response, it was stated that given the uncertainties of the impact of the large reduction in Bank Rate made so far, there might be a case to wait before making further adjustments. However, that argument did not hold much attraction in current circumstances. More relevant was that reductions in interest rates at such low levels had a less certain effect. The MPC could not be sure of the power of changes in Bank Rate given the difficulty for banks of maintaining satisfactory margins between borrowing and savings rates at such low rates. Given the uncertainties of the costs and benefits of rate reductions, the MPC judged 1% to be a sensible level at this stage. It was not clear how financial institutions and savers might behave. The impact on savers' nominal income had been considerable over a short period of time. It was noted that, in response to lower interest rates, many households were for the time being not reducing their monthly mortgage payments but rather choosing to make overpayments.

It was emphasised that it was important for the MPC to be ready with a coherent economic account of how quantitative easing should work through various channels, and for the Bank to be operationally capable of implementing it once the MPC had made a policy decision.

10. MPC procedures

Spencer Dale introduced the item.

The paper was summarised and a number of points highlighted. It was noted that one indication of the adequacy of the support provided to the MPC might be the comparative accuracy of MPC forecasts. During 2008, forecast errors had been broadly similar to those of other forecasters and likewise the revisions made had been similar. Previously the MPC had expressed concerns about aspects of the forecast process, in response to which a number of changes had been made over the past year to personnel and the format of meetings. The latest survey responses were more positive with MPC members reporting some improvement in the quality of forecast discussions and the forecast process. In addition, MPC members remained broadly satisfied with the material and support provided by Monetary Analysis. The scores were slightly lower than in 2007 though that was not surprising given the economic circumstances in which staff and the Committee were operating. Nonetheless, this would need to be monitored over the year ahead.

In relation to resources available to the MPC, a major development over the past year had been the diversion of resources to new priorities such as the Asset Purchase Facility and more intense monitoring of bank lending. That had meant some work on longer-term projects – such as model development and MPC communications – had paused. Although that was judged to be the right response given the exceptional demands of the recent period, Directors needed to be aware of the impact on some work areas. It was also reported that a new conference on UK monetary policy hosted by the Bank had been launched successfully. The event brought together external commentators, academics and Bank staff to discuss monetary policy issues. Two such events were planned for 2009. Work on improving business processes across the Monetary Analysis areas was also highlighted. In particularly, the relocation of the Agencies to smaller premises had been completed and had resulted in substantial cost savings. The feedback from the MPC on the intelligence provided by the Agents remained strongly positive, albeit slightly less than the previous year.

In discussion, Directors noted that the annual survey amounted to a fairly clean bill of health for MPC procedures as a whole. However, the individual commentaries by MPC members could often reveal specific issues. One such point concerned the ability to challenge monetary policy orthodoxy. Although the policy framework was considered to be largely right, there remained the major issue of how to handle asset price bubbles and credit expansion. It was suggested that the Bank would need to be at the forefront of articulating what that policy regime and instruments should be and demonstrating its expertise in this area. In response, it was noted that a large proportion of the resources of Monetary Analysis was deliberately devoted to working within the framework producing the core material needed to service the MPC. But, at the same time, there was a conscious strategy to ensure that there were sufficient resources, experience and expertise outside of that process to challenge it and consider monetary strategy more broadly.

It was noted that the chairman would undertake interviews with each member of the MPC during March and April as a further input into non-executive Directors' review of MPC procedures.

MANAGEMENT OF THE BANK

11. Bank's finances and business plan – budget 2009/10

The Governor and Warwick Jones introduced the item.

It was stated that over the past five and a half years, improvements to the budget process had been made in two major ways. First, to ensure that the internal budgeting and accounting was presented in a form that made it easier for NedCo/Court to reach decisions about resources. Second, NedCo/Court had been fully involved in the process of making decisions about the scale of the budget and its allocation across the Bank. That was a particularly important discussion this year given the proposal for a significant increase in the budget. Over the past 5 years, the Bank had tried to keep the increase in nominal spending in line with targets that could be publicly defended – specifically, broadly flat spending rising in nominal terms by 2% a year. The budget being proposed for 2009/10 was very different to that, involving a significant stepped increase over the coming eighteen months in response to the changed responsibilities and functions the Bank had assumed. Thereafter, the budget would resume its original path of 2% nominal growth per {annum}, with the same principles and disciplines on spending.

It was stressed that the budget process had involved an intensive round of discussions. The Governors had challenged each Executive Director on their proposals and, in some cases, restricted bids. Part of the increase reflected the new responsibilities that flowed from the Banking Act – i.e. the Special Resolution Unit, payment systems oversight and, generally, an increased role in the monitoring and analysis of the state of the financial sector. It was highlighted that the budget incorporated plans to improve the way the Bank's IT systems work. The Bank had been trying to reduce IT expenditure connected with large banking systems and improve the effectiveness of IT used in the analytical parts of the Bank. In Human Resources, alongside efforts to reduce costs relating to processes, there was a need to improve performance in the area of talent management.

It was stated that the current budget proposal would not require any immediate change to the Cash Ratio Deposit scheme. However, the Bank would be spending in excess of its anticipated income and so its finances would not be on a sustainable path. That position could be accepted given the degree of uncertainty about income over the next few years and the increase in the Bank's reserves over recent years. However, it would be necessary to raise the position with HM Treasury. At some point – possibly at the time of the next CRD review – it would be necessary to initiate either a significant change to the Bank's expenditure or income. It was stressed that it was not the right time at present to change the CRD scheme. However, the smaller size and growth of the eligible deposit base would be a challenge for the CRD regime in the future. The important issue at present was a judgement about whether the Bank had justified the higher level of expenditure and whether it could manage that given its capital resources.

A number of points were made about the budget presentation. The paper outlined the strategic priorities and milestones that the budget aimed to support. In relation to remunerated functions, it was noted that after a series of substantial surpluses, small deficits were projected for the next few years. The note on the treatment of the Special Liquidity Scheme was highlighted. It was anticipated that the Asset Purchase Facility would be treated in the same way, though there was nothing in the current budget relating to that.

In relation to the overall financial framework, it was noted that over the period 2003-08, the Bank had made a considerable surplus after tax and dividend payments to HM Treasury. That reflected the extent that CRD income exceeded the cost of the policy functions. The chart on page 16 showed the path of policy costs and CRD income over the past ten years and the current projections to 2012/13. It was noted that at the time of the CRD review in 2008, income and spending on policy functions were expected to be equivalent. In fact, a concern at the time had been that there might be a possibility of greater surpluses. The position now was that CRD related spending was expected to be significantly higher. It was emphasised that the Bank's spending projections were not commitments but rather estimates of the likely path of expenditure in future years. Directors were asked to approve the budget for 2008/09 rather than the entire five-year financial plan.

It was highlighted that there was a higher level of uncertainty over the figures compared with previous years, in part due to the extraordinary circumstances of the past eighteen months. That also applied to the investment budget. The summary figures in the table on page 20 – which also showed the sharp differences between the 2008/09 budget and estimated outturns – were briefly reviewed. It was also noted that the new Special Resolution Unit was categorised as a separate division in the policy function (page 22). As usual, the budget included a contingency over the next five years.

It was clarified that the overall increase in expenditure in 2009/10 was around £11 million compared to the previous budget. That was the figure that Directors had to be satisfied with in terms of the extra resources that were being made available for the Bank's additional responsibilities. Attention was drawn to page 24 which showed the major differences between the numbers presented in 2008 and now.

It was suggested that non-executive Directors should not challenge the precise amounts that the executive management had budgeted to accommodate the Bank's new responsibilities and functions. It was appropriate for them to determine that. The major question for non-executive Directors was whether the Bank would have sufficient resources to respond to new responsibilities and to avoid continued strain across the organisation. It was reported that the Audit Committee had discussed the issue of strain with the external auditors. A related issue was the extent to which business as usual activities were impacted. Although it was right to re-prioritise activities over the short-term, certain work had been continually delayed. The overarching question therefore was whether the budgetary process had sufficient flexibility to ensure new activities could be accommodated without knocking other work off the agenda. The quarterly review process needed to monitor the situation and allow necessary flexibility. It was noted that over the past year the Bank had been flexible in response to strains and pressures and had spent considerably more than it had expected at the time of last year's budget.

Given the strain on staff, particularly senior management, assurance was sought by Directors that the budget factored in sufficient staff resources to handled continued pressures and demands. In response, it was noted that part of the strain was on executive management that was not addressed easily through more resources. It was agreed that flexibility was important given that it would be hard to judge precisely what the Bank might be called upon to do and when. There had been considerable fluctuations in pressures – for example, the resolution of Bradford & Bingley – which were not easily addressed by hiring more resources in advance. It required an ability to spend money promptly to obtain resources to handle large fluctuations and pressure. It was stated that part of the increase in the budget for 2009/10 related to the Special Resolution Unit which would undertake the work that had been done under Andrew Bailey's direction over the past year.

As it was not possible to know how long the period of pressure and strain would last, it was suggested that it might be sensible to have additional resources at the level below the executive management to allow more delegation. If the present workload persisted over the coming few years, the ability to delegate more would be essential. It was agreed that the pressures were likely to persist and the budget addressed that, for example, in the area of collateral management. The debate was essentially about the particular quantity of resources needed.

Individual members of the Executive Team were asked to comment on their budget positions. Were they fit for purpose in view of the workloads ahead? It was stated that the sessions with the Governors had been challenging and some budget requests were changed. For Monetary Analysis, it was noted that the baseline position incorporated an existing planned reduction in headcount of around 10%. That had not been changed for 2009/10 but it had been made clear that the position was not comfortable and the new executive director (Spencer Dale) would want consider the position further once he had assessed how such a reduction could be made. A larger budget had not been requested but it was acknowledged that the baseline was demanding and might need to be revisited.

The position in Finance and Central Service was described as satisfactory. The Finance area was not staffed for the additional work relating to the Asset Purchase Facility but those additional costs would be charged outside the proposed budget. The Central Services area continued to seek to reduce costs overall but the 2009/10 budget incorporated a substantial increase in the IT budget to increase resilience and security.

It was noted that the most of the Banking area's budget related to remunerated functions rather than the policy budget. A major challenge for the area was to make a substantial investment in collateral management. The Bank needed a larger pool of skilled resources and an updated IT infrastructure to replace an outdated approach. The challenge was not the budget but rather the implementation of new resources and systems. A further challenge related to the substantial increase in banknote demand. The increase occurred from Autumn 2008, notably for high denomination notes. The budget envisaged building up contingency stocks markedly, not least as stocks had been running at too low a level over recent years. It was stated that the budget for banknotes had to be agreed with HM Treasury.

It was noted that the budget incorporated resources for the new Special Resolution Unit. That included provision for twenty three people based on provisional judgements. It was impossible to know how many cases the Bank might be involved with and it might prove necessary to spend more money on accountants and other skills. The same was true for the Financial Stability area's budget. An enhanced role for the Bank – for example, the analysis of institutions – had been built into the budget. However, it was likely that the position would be clearer over the next year to make it easier to judge how long the present financial crisis would last and the potential workloads beyond. In that respect, the idea of a reserve contingency in the budget could be attractive.

In the Markets area, it was noted that the budget incorporated an increase in resources for collateral management above that already put in place earlier in the year. Time would tell whether that would be sufficient and the position would be reviewed. As previously mentioned, the budget had been constructed prior to the introduction of the Asset Purchase Facility. It had also been flagged during the budget discussions that a review would need to be undertaken shortly of the resources available for the market intelligence function. More generally, it was noted that there had been substantial strain on resources in the Markets area. The concern was not directly the budget but cumulative fatigue amongst senior managers. Alongside new schemes and facilities, the regular market operations had to be maintained therefore re-prioritisation had largely focused on delaying change programs. Looking ahead, it was suggested that it would be necessary to monitor whether the change programs that had been planned around the Bank needed to be undertaken and if so how they would be delivered.

It was suggested that it would be crucial to ensure active monitoring of the resource position through the coming year, not just in terms of how the Bank was performing but also whether circumstances were changing. Budgeting in an uncertain period required flexibility. It would be preferable to review resources regularly rather than end up with either overspends or disappointments. It was requested that the quarterly report clearly identify the work that was being delayed or lost because of resource pressures and prioritisation, particularly business as usual work and specific plans and issues. Such information was already largely contained in the document but it would be helpful to consolidate it on one page.

In relation to the Bank's capital position, it was confirmed that there was no definitive statement on the right level. HM Treasury had accepted the Bank's capital base needed to be higher. This issue would need to be discussed further by Directors in due course.

The investment budget was briefly summarised (page 54). The degree of uncertainty in the projections was stressed. A number of initiatives, particularly relating to collateral management, required substantial sums of money. However, there were a range of estimates so the precise level of expenditure had yet to be determined. The approach taken for the investment budget was not to second-guess individual projects at this stage but to take a view about the overall capacity of the Bank to deliver investment projects in 2009/10. In that sense, the total of £32 million was considered too high. Therefore, a 15% 'haircut' had been applied to non-property projects in 2009/10 and 2010/11.

In conclusion, Directors welcomed the budget information presented and the process underlying it. The challenge process was undoubtedly robust and effective. There was concern about the load on the senior management team and the strain more generally on many parts of the Bank during the crisis. The budget could be accepted but, given the continuing uncertainties about the workload ahead, it was proposed that a contingency fund be established. Such a fund would only be used if, following the quarterly report and review by NedCo/Court, it was felt that there was significant slippage against various milestone and the executive management made a case to address that with additional resources. It was suggested that a contingency of £5 million might be appropriate.

In response, it was felt that was an overly large amount. The budget process had considered proposals very carefully and the increase in staff numbers was already considerable. The need for continued budget discipline was stressed. It would be equally important to ensure resources were scaled back as workloads abated and temporary facilities were ended – for example, for the Special Liquidity Scheme. It was noted that there would always be demands for more resources and good arguments to support them.

It was agreed that the quarterly report and review process should identify areas of slippage and additional workloads and when necessary the executive management, through the Governor, could put forward proposals for additional resources. A specific amount of money need not be identified at this stage. A flexible approach inside the disciplines of the budget process was proposed. It was noted that such a process of review had not been in operation over the past year when there had been a significant overspend. The executive management would welcome the opportunity to adopt such a review process through NedCo/Court.

12. Quarterly reports for Q3

Warwick Jones introduced the item.

The reports were briefly introduced. The reports formally covered the quarter to the end of November though material had been updated as far as possible to reflect developments over the past few months. Attention was drawn to the Quarterly Financial Report's and the continued growth in the Bank's pre-tax profits. These largely stemmed from its market operations, particularly the extended long-term repo operations. It was noted that some of the increased expenditure on professional fees might be offset against the facilities being operated by the Bank.

In relation to remunerated functions (page 38), it was highlighted that the surplus on banking services had grown significantly over the past quarter due to rising income both from bullion service and customer banking, where it was noted that customers were holding higher balances. An offsetting factor in the future would be the inability in a low interest rate environment to earn a sufficient return from customer banking balances. It might be necessary therefore to consider different ways of charging for banking services in the future.

It was noted that the surplus from the Special Liquidity Scheme was estimated to be £676 million. As previously discussed at NedCo, the nature of the indemnity provided by HM Treasury meant the surplus did not flow through the profit and loss account but would instead be taken direct to equity after tax. It would not form part of the dividend calculation for the Treasury this year. When the scheme ended, there might be a discussion about a special payment but for the time being the surplus would go straight to the Bank's reserves.

It was stated that the Special Liquidity Scheme had been very successful in meeting its objective to alleviate the illiquidity of assets held {by} institutions. It was suggested that, had it not been for the further downturn in the world economy from September 2008, it was reasonable to think that the combination of the Special Liquidity Scheme and the bank recapitalisation package introduced in October might have been enough to deal with the problems of the banking system. Unfortunately, the capital position of banks had deteriorated further as the downturn had intensified and actual and potential losses rose.

In relation to the Bank's other operations, it was reported that the size of dollar repo and extended long-term repo operations had been reducing over the past few months, though they remained substantial.

It was explained that the interim payment to HM Treasury would be made on 5 April subject to Court's approval. The Bank usually paid a payment in lieu of dividend equivalent to 50% of the post-tax profit. The paper updated the forecast made in November 2007. If the audited accounts were different in any way from the forecast, an adjustment would be made when the final dividend was approved by Court in May, for payment in October.

Directors were content with the draft letter and payment, to be approved by Court. It was asked whether any thought had been given to the presentational issues for the Annual Report around such a large increase in the Bank's profits. In response, it was noted that the Annual Report would be discussed by Directors in April and May and the Director of Communications would be involved in the preparations to publish the report,

ITEMS FOR INFORMATION

13. **(i) ASR Review**

It was asked how public the details of the Bank's salary review would be. The increase would look quite generous compared with many other companies in the current economic environment. In response, it was explained that the information was provided to Income Data Services and other agencies. The Press Office would typically provide information that most staff received a 2% increase with further individual increases paid depending on a range of factors, resulting in an overall net increase in staff costs after churn of about 4%. The Annual Report included a figure for average remuneration each year from which it was possible to calculate the percentage increase.

(ii) Remuneration Committee minutes for 13 November 2008

Noted.

14. **CCBS Annual Report**

Noted.

Any other business

None.

The meeting of NedCo was closed.

MEETING OF THE COURT OF DIRECTORS

Thursday 12 February 2009

Present:
The Governor
Sir John Gieve, Deputy Governor – Financial Stability
Mr Charlie Bean, Deputy Governor – Monetary Policy
Sir John Parker, Chairman, NedCo
Mr Brendan Barber
Mr Roger Carr
Ms Amelia Fawcett
The Hon Peter Jay
Dr David Potter
Prof David Rhind
Ms Susan Rice
Mr Arun Sarin
Mr James Strachan
Lord Turner
Mr Bob Wigley
Mr Geoffrey Wilkinson

Also attending:
Mr Bailey, Mr Dale, Mr Jones, Mr Footman, Mr Haldane, Mr Nicholson and Mr Tucker

1. **Minutes – 10 December and 14 January**

Approved.

2. **The Bank's budget 2009/10 and the Governor's letter to the Chief Secretary of HM Treasury**

Court APPROVED the budget for 2009/10 and was content for the Governor to send the letter to the Chief Secretary of HM Treasury.

3. **Payment to HM Treasury in lieu of dividend**

Court APPROVED the interim payment of £203 million, in lieu of dividend for 2008/09, payable on 3 April.

4. Banking Act

Court noted the coming into force on 20 February of parts of the Banking Act and the powers that the Bank would exercise, in particular in relation to the Special Resolution Regime. Until the creation of the Financial Stability Committee in June, Directors agreed to delegate those powers to the Bank's executive subject to the current procedure that the Transactions Committee would be consulted when appropriate to do so.

5. Staff Pension Scheme: 2008 valuation and contributions

John Footman introduced the item.

The paper outlined the 2008 valuation of the Pension Fund and how the investment policy had protected the Fund from the recent market downturn. The additional deficit not covered by the existing agreed deficit reduction scheme totalled £41 million, which reflected changes in mortality assumptions (detailed in the paper). In addition, the accelerated take-up of early retirement was forecast to cost £17 million. It was proposed to pay into the fund these amounts to fund the additional deficit. It was also proposed to increase the Bank's contribution to 54.6% of payroll costs for 2008/09, which largely reflected the fall in interest rates and associated discount rates that raised the value of contributions.

There was a discussion about possible adjustment of the pension age in the career average scheme to take account of the revised mortality assumption. It was noted that there had been no change in actual mortality since the 2005 valuation and so no change in the normal pension age was proposed. However, it was stated that, if there had been an increase in pension provision due to different mortality assumptions, the pension age should be reviewed as Court had agreed previously. It was agreed that the Bank should request the Trustees to consider the matter further, centred on expectations of future mortality rather than actual mortality. A short paper was requested to enable Court to discuss the assumptions on mortality and pension age.

Court APPROVED payment to cover the additional deficit of £41 million and the final cost of FRS of £17 million, having requested the need to review further expected future mortality rates.

6. Chair of Staff Pension Fund

Court APPROVED the appointment of David Rhind as Chair of the Staff Pension Fund from 1 May, to succeed Kit Farrow.

7. Banknote printing contract

Andrew Bailey introduced the item.

As had previously been reported to NedCo, the minimum term of the Bank's current, indefinite contract with De La Rue would expire in 2010. EU rules required a periodic tender. It was noted that the current state of the market, and planned developments to 2012 within the EU, meant that a full tender for a long-term contract before that date would not deliver attractive prices. Negotiations had continued with De La Rue to extend the contract minimum term from 2010 to 2015 and terms had been agreed subject to Court approval. Going forward, the Bank would still need to complete a tender process and approval was sought for a formal resolution.

It was reported that new pricing arrangements with De La Rue had achieved a reduction in the Bank's cost compared with the existing 2009/10 contracted price, which would apply from the beginning of April. The pricing agreement would run until 2015, details of which were provided in the paper.

The arrangements for re-tendering could consequently take place over time, taking into account the ECB's own timetable for coordinated tendering for procurement of euro notes after 2012.

In order to ensure that the Bank's approach to the tender process was robust, Directors were asked to agree a formal resolution which the Bank's legal advisors considered an appropriate 'administrative provision' for the purpose of satisfying the provision in the Public Contract Regulations 2006 for the regulations not to apply when a proposed contract involved special security measures.

Court APPROVED the Amendment Agreement with De La Rue and the formal resolution on the tender process (reproduced in annex below).

8. Monetary policy issues

Court noted the submission of the monthly MPC report to Court for February and the discussion of the February Inflation Report.

9. Asset Purchase Facility, financial markets, financial stability report, Banking Bill update, FSA/Bank protocol, repayment of FSCS loans, MPC procedures, quarterly reports

Court noted the discussions in NedCo of the above items.

10. Sealing Committee authorisations

Noted.

Any other business

None.

[Executive Directors and Graham Nicholson left the meeting].

11. Executive Director - Markets

The Governor introduced the item.

[redacted]

It was noted that the position had been advertised as part of the new procedures for MPC members. The Bank had been disappointed by the quality of external candidates – of which there were twenty one – few of whom were considered suitable to serve on the MPC. The external candidate chosen to be interviewed had not demonstrated a great understanding of central bank market operations in his interview.

There was a short discussion about the means the Bank had employed to attract external applications. It was noted that an external search firm had not been used, which it was suggested might have restricted interest given that some potential candidates would not necessarily reply to advertisements. In response, it was stated that the use of search firms was not well suited to recruiting MPC members – they were not particularly well placed to judge the suitability of a candidate but rather to solicit interest from individuals. It was noted that HM Treasury did not use external consultants when recruiting external members of the MPC. It was stated that the window to fill the MPC vacancy was inevitably short following the internal appointment of a Deputy Governor. That constrained the ability to identify any other external candidates. The Bank and HM Treasury were agreed on the need to avoid vacancies on the MPC.

[redacted]

Court APPROVED the appointment of Paul Fisher, as Executive Director for Markets from 1 March 2009.

[Deputy Governors left the meeting]

12. **Remuneration Committee report**

David Potter – chair of the Remuneration Committee – introduced the item.

It was reported that a meeting of the Remuneration Committee on 3 February had considered a number of issues including: the terms of appointment of the Deputy Governor for Financial Stability; the proposals from the Governor on the remuneration of executive directors and advisers; the remuneration arrangements for Sir John Gieve's departure; the terms of appointment of the new Executive Director, Markets; and the draft remuneration report for the Bank's Annual Report.

[redacted]

[redacted]

Directors were reminded that this year marked the end of the three-year introduction period for bonuses for the Executive Team. [redacted]

The recommendations for the annual review of salaries for Deputy Governors, Advisers to the Governor, Executive Directors and external MPC members were outlined.

Salary increases:
Deputy Governors and external MPC members 2.5%;
[redacted]

Court APPROVED the recommendations, with effect from 1 March 2009.

[redacted]

[redacted]

[redacted]

[redacted]

It was suggested that Remco should return more generally to the issue of remuneration for Executive Directors and whether, in addition to bonuses, there should be a greater option to change salary levels. It was noted that the recently appointed Executive Directors were all relatively young. It might be desirable to allow salaries to rise after a few years once individuals had demonstrated their value and performed well in their roles. [redacted]

The meeting of Court was closed.

ANNEX: BANKNOTE PROCUREMENT PROCEDURE

THE COURT OF DIRECTORS OF THE BANK OF ENGLAND:

WHEREAS:

(A) Maintaining confidence in the UK's paper currency is a key role of the Bank of England and one that is essential to the proper functioning of the economy. Therefore, Bank of England banknotes have to be produced in a fully secure, controlled and confidential manner that guarantees high quality, innovation, and a reliable sustained supply over time. Moreover the Bank of England needs to pay due regard to the possible impact of the production of banknotes on public health and safety and on the environment.

(B) The tender procedure to be followed will be designed to ensure that those selected for the production of banknotes are able to meet all of these requirements.

HEREBY RESOLVES THAT:

1. A tender for the award of a contract for the procurement of banknotes shall proceed on the following basis:

    1.1 Consistent with relevant OGC guidance for particularly complex contracts, the Bank of England will base such tender procedure on the Competitive Dialogue Procedure as set out in the Public Contracts Regulations 2006 (SI 2006 No. 5).

    1.2 The Bank of England will also take account of the procedure described in the Guideline of the European Central Bank of 16 September 2004 on the procurement of euro banknotes (ECB/2004/18) in determining its own tender procedures.

    1.3 In response to the specific need for the banknotes to be produced in a fully secure, controlled and confidential manner, the actual procedure to be followed will involve certain modifications to the Competitive Dialogue Procedure. The modifications to be made will be proportionate to the specific needs to be addressed.

COMMITTEE OF NON-EXECUTIVE DIRECTORS (NEDCO)
SECOND MEETING

Thursday 12 February 2009

Present:
Sir John Parker, Chairman
Mr Roger Carr
Mr Brendan Barber
The Hon Peter Jay
Dr David Potter
Prof David Rhind
Ms Susan Rice
Mr James Strachan
Mr Bob Wigley
Mr Geoffrey Wilkinson

Absent:

Lord Turner, Mr Arun Sarin,

1. **Minutes – 13 November 2008**

Approved.

2. **NedCo's annual report**

Directors were invited to offer further topics that the Report might address in addition to those listed. It was noted that the schedule for the Annual Report would be shorter this year to ensure publication in May. An initial draft of the report would be produced and circulated for written comments, ahead of a further draft being discussed at the next meeting.

The extent that non-executive Directors should comment on the financial crisis, the Bank's financial stability role prior to that and the shape and form of future prudential regulation was raised.

3. **Attendance at pre-MPC meetings and visits to agencies**

Noted.

4. MPC procedures and one-to-one meetings with MPC members

Following on from the discussion on MPC procedures in the first meeting of NedCo, it was remarked that the comments on page 20 of the paper included a number of suggestions about where more attention might have been paid over the past year. It was suggested that the one-to-one interviews could probe further on this and what should be done in the future given that the Bank needed to provide the lead on how to integrate more effectively financial market and global developments into the analysis of the economy.

It was noted that sixty per cent of the questions in the MPC questionnaire had solicited less favourable responses than the previous year, which although not significant, offered some indication of the underlying picture. That could provide a basis for the one-to-one discussions with MPC members. It was noted that those would be completed in time for the next meeting.

Any other business

None.

The meeting of NedCo was closed.

COMMITTEE OF NON-EXECUTIVE DIRECTORS (NEDCO) MEETING

Thursday 30 April 2009

Present:
Sir John Parker, Chairman
Mr Roger Carr
Ms Amelia Fawcett
The Hon Peter Jay
Dr David Potter
Prof David Rhind
Ms Susan Rice
Mr James Strachan
Mr Bob Wigley
Mr Geoffrey Wilkinson

Absent:
Mr Brendan Barber, Mr Arun Sarin, Lord Turner

Also attending:
The Governor, Mr Bean, Mr Tucker, Mr Bailey, Mr Dale, Mr Fisher, Mr Footman, Mr Jones, Mr Nicholson

Mr Fisher was welcomed to his first meetings of NedCo and Court.

1. **Minutes – 12 February 2009**

Approved.

2. **Matters arising**

None.

MANAGEMENT OF THE BANK

3. **Executive report**

The Governor introduced the item.

Lord George

Directors expressed their sadness at the untimely death of Lord George. He had been an outstanding figure in the history of the Bank. The present Governor had visited him shortly before his death when Lord George had spoken of his affection for the Bank. He said he had enjoyed every day of his time at the Bank. It was reported that plans were underway to organise a Memorial Service at St Paul's Cathedral but a date had still to be agreed with Lord George's family. It was likely that a very large number of people would want to attend.

Recent and forthcoming meetings and events

Domestic:

- Treasury Committee hearing: Banking Crisis Enquiry (26 February);
- speech to the Worshipful Company of International Bankers (17 March);
- Treasury Committee Inflation Report hearing (24 March);
- House of Lord's Economic Affairs Committee hearing (24 March);
- Meeting with Her Majesty The Queen (24 March);
  - regional visit to Greater Manchester (26 March);
- regional visit to Northern Ireland (28-29 April);
- Inflation Report and press conference (13 May).

International:

- BIS meetings (8-9 March)
- G20 summit pre-meeting in Berlin (22 February);
- G20 meetings for finance ministers and central bank governors, Sussex (13-14 March);
- Ecofin meetings, Prague (3-4 April);
- IMF Spring meetings, Washington (23-26 April);
- BIS meetings (10-11 May).

It was noted that, although the Bank did not attend the main G20 summit meetings, it had been involved in many meetings in the run-up to the summit and the period since, aimed at ensuring agreements were implemented. Charlie Bean and other members of the Bank had been involved in that process. Since the previous NedCo meeting, there had been meetings with central bank governors from Austria and Sweden, Lord Turner and Hector Sants, John McFall, Sir Gus {O'Donnell}, Sir Nick Macpherson, the Chancellor and Prime Minister, as well as tripartite meetings. There had also been a roundtable meeting with the British Bankers Association and bank chief executives on 27 April, an innovation in the meeting structure that would be followed by other meetings of a similar kind.

Chair of Court

It was reported that Sir David Lees had been appointed as the Chair of Court from 1 June. It would be advantageous that Sir David had served as a Non-executive Director of Court between 1991 and 1999. He would attend the next meetings of NedCo and Court on 14 May. It was noted that Sir David was working with HM Treasury to ensure that the process for appointing Non-executive Directors for the new Court was carried out as swiftly as possible.

Staff and organisational changes

David Miles had been appointed to the MPC with effect from 1 June, as an external member replacing David Blanchflower. It had also been announced at the same time that Tim Besley had not sought reappointment after his current term expired on 31 August.

The paper circulated detailed a variety of changes at head of division level. A key aspect was a reorganisation of the Financial Stability area into five divisions, to better reflect the Bank's new responsibilities; and an additional Head of Division position in the Markets area, responsible for market operational support. Paul Chilcott would return from secondment at the Bank of Canada to be the head of the division responsible for payment systems oversight. Alastair Wilson – currently Head of Market Services Division – would head a new division on financial institutions, which reflected the need to expand the Bank's work and resources devoted to monitoring individual banks and other financial institutions. Another new division would be responsible for the Bank's work on macro prudential policy.

In agreeing the new structures, the Executive Team had taken the opportunity to anticipate a number of senior retirements expected over the next twelve months and to move several Heads of Division into new positions. In addition, it was noted that Jo Paisley – Head of Monetary and Financial Statistics Division – would undertake a secondment at the FSA for a period of two years to gain insights into the FSA's supervisory system. The secondment was part of her career planning and it was expected that she would return to the Bank's Financial Stability area.

The changes gave rise to six vacancies at Band I level, which had been advertised, most internally but a few possibly externally as well. It was hoped that the outcomes would be announced in late May or early June.

It was reported that two changes to the Executive Team were being made. First, Warwick Jones's responsibilities for the management and use of resources would be expanded. The bulk of the Facilities and Procurement Division (formerly PSSD), which currently reported to John Footman, would transfer to the Finance area. Second, it was proposed – subject to Court's approval – that John Footman would be appointed to be the Secretary of the Bank, taking over from Andrew Wardlow. The 2009 Banking Act required changes in the composition and operation of Court, and in Court's role in the Bank. The role of Secretary was therefore likely to become more demanding, and it made sense for the Secretary to also be the secretary to the Financial Stability Committee. At a time when the Bank is under close public scrutiny it would be too much to combine in one person the roles of Secretary, Chief Press Officer and head of division. Andrew Wardlow would continue to be head of division (renamed Public Communications and Information), reporting to Jenny Scott. It was reported that the Bank had still to make an appointment to be head of the Special Resolution Unit.

Strategy booklet

Directors had received copies of the new booklet for staff on the Bank's strategic priorities. This had been published on 6 April, and the Governor had held two open meetings for staff in April.

Resolution of Dunfermline Building Society

The paper set out the key points about the resolution, the first time the Bank had formally used its new Special Resolution Regime powers under the Banking Act. An auction of the majority of Dunfermline's assets and liabilities had been conducted by Citibank, on behalf of the Bank, from the afternoon of Saturday 28 March until 10 am on Sunday 29 March. Five firms had undertaken due diligence and three had submitted bids, with Nationwide offering two bids. The Bank proposed the narrower Nationwide bid and consulted both the FSA and HM Treasury. It was noted that a small Bank team had travelled to Dunfermline's Head Office to monitor reaction by staff and depositors and help with implementation and communication issues over the first few days. A new Bank of England subsidiary, DBS Bridge Bank Ltd, had been created to hold Dunfermline's social housing loans (and related deposits) for a period until a sale could be arranged. Preparations were currently underway and the sale process was expected to be completed by the end of May.

It was judged that the resolution had been delivered successfully and the external reaction had been positive. Nevertheless, it was stated that parts of the process had been difficult and unsatisfactory from the Bank's perspective. There had been considerable time pressures reflecting both the timing of the FSA's decision to pull the SRR trigger on Saturday evening, and the extended time it had taken to agree a resolution proposal with HM Treasury.

It was noted that the Bank had needed to commence the auction process prior to the trigger being pulled. The issue of regulatory forbearance, a concern that had been highlighted during discussions on the draft legislation, remained in evidence. It was understood in part why the FSA had acted in this way. Immediately following the resolution, the Government had requested a report from the FSA about its regulation of Dunfermline Building Society. In relation to the role of HM Treasury, it was noted that the Treasury retained significant influence over any resolution that involved the use of public funds. It was hard to imagine that any resolution would not involve at least the use of the Financial Services Compensation Scheme. In that sense, the Treasury had a veto on any resolution proposal, along with the Bank given its statutory responsibility. Unfortunately, there had been a variety of public comments over the weekend in advance of the resolution that had led to a political commitment to particular types of solution that had constrained the options available. Ideally, the Bank had wanted to be in a position whereby an announcement could be made early Sunday evening, in good time for staff and depositors to absorb the news ahead of Monday morning. That could have been achieved. However, HM Treasury wanted to reopen the bidding which resulted in considerable delay. It was stated that the Bank had needed to consider the option of placing the entire business into a bridge bank in the absence of a decision on the bids. Agreement had finally been reached with the Treasury at around midnight on Sunday.

The two issues would need to be addressed for future resolutions. It had been stated to the Chancellor that the Treasury needed to be clear about the parameters within which it was prepared to make decisions on public funds. That could not involve taking over the bidding process case by case. It was thought that Treasury officials were sympathetic to the Bank's position. It had perhaps been unfortunate that the first resolution under the Act had involved

Scotland in an overt and public way. It was reported that Paul Tucker had been asked to lead a review into the lessons learned from the Dunfermline resolution.

In discussion, it was asked whether the issue of access to information via the FSA – which had been a concern discussed previously by Directors – was operating satisfactorily. In response, it was stated that progress was being made {,} though the details were not yet finalised. The aim for resolutions was to ensure they were entirely technocratic in nature.
A concern for the FSA was, however, that the Bank of England would be seen as 'the angel of death' such that if the Bank started speaking to a firm or potential bidders, that could undermine other options. That provided an incentive to delay the point at which the Bank was actively engaged. But the Bank believed that was the wrong conclusion to reach because it endangered the smooth execution of the resolution itself. It was suggested that the solution was for the FSA to make it part of normal practice for the Bank to receive information, in particular the kind of information that would be needed in the circumstances of a resolution, and to spread that beyond banks that were likely or potential resolution candidates. The FSA was willing to find a solution though it was mindful of problems and obstacles that needed to be overcome.

In relation to the wider policy debate, it was asked what progress had been made in thinking about counter-cyclical policy instruments – what was required to determine policies and which body or group would drive the process? It was also asked what the Bank's position was on the idea of a Glass-Steagall type policy, which the Chancellor had seemingly rejected. In response, it was stated that there was a great deal of debate across many bodies globally on both micro institutional supervision and macro prudential regulation. The Bank had concerns that too much focus was being placed on which bodies should undertake macro prudential regulation in advance of determining the design and objectives of a regime. There were political pressures to reach conclusions quickly to claim the initiative rather than undertake the deeper thinking that was required. It was widely accepted that there was a need for macro prudential instruments but that had not yet resulted in a clear idea about what form they might take in practice. The Bank would be at the forefront of the public debate, with Paul Tucker and Andy Haldane leading the work. It was stated that the Bank would not want to commit to a Tripartite position unless there was sufficient debate with the FSA and Treasury. Internationally, the Bank was a member of the Financial Stability Forum through Paul Tucker, which would debate the issues to develop a set of proposals. In response to the reference to a Glass-Steagall type structure for the banking system, the Bank would make its own assessment. The answers were far from obvious. The size of the crisis that was still in train raised some very deep questions about the ideal structure of the banking system, how it should be set up and how it should be regulated. There was also the important question of how large banks that were presently under public control could be returned to the private sector and in what form that would be. There was some concern that the Government was intending to publish a White Paper over the early summer, which would attempt to offer answers to many of these questions. The Bank would need to make its own judgements and engage in the public debate, and not be committed prematurely to proposed solutions.

It was stated that a current challenge for the Bank was to persuade others of the need to take time to identify the instruments before the question of which body had particular responsibilities was addressed. Tactically, the Bank needed to create space for the substantive debate. The Governor and others had spoken publicly and a paper had been sent to the Treasury Committee following its hearing with the Bank in February. That would become public in due course.

It was suggested that the issue was relevant to the Bank's relationship with the FSA and the division of responsibilities between the two organisations. The organisational changes to the Bank's Financial Stability areas were welcomed. They recognised overtly the issue of the Bank's engagement with financial institutions and macro prudential policy. At the same time, the Bank did not have a direct responsibility for individual institutions, beyond its banking and market operations. The information flow from the FSA was therefore essential to enable the Bank to monitor the financial sector and institutions directly. It was asked if work on the protocol with the FSA was moving forward. In response, it was stated that the role of the Bank in relation to individual institutions could change over the next few years. Some of the most imaginative thinking about the regulatory structure was currently being undertaken in the United States. One of the ideas being pursued was that the central bank would be a systemic regulator, distinct from the body responsible for day-to-day line supervision. But it would have some specific authority with respect to a small number of institutions which, by their nature, were systematically significant; and it would have an override ability to intervene in any situation where problems were deemed to be systemic. That might come into play in the UK debate. There was recognition that there was a need to consider individual institutions from the perspective of their systemic relevance alongside the development of a macro prudential instrument – which, although aimed at the system as a whole, would have to be applied through individual institutions to be effective. That was likely to mean the creation of a framework where it would be obvious that the central bank would need to have a relationship with a range of financial institutions in order to meet its responsibilities. It was stated that such a role would not simply be about risk assessment but involve a direct responsibility for affecting the regulatory system that influenced individual institutions. That could lead to a change in institutions' attitudes towards the Bank and provide the basis for a clearer relationship. It was stressed that if the debate progressed in that direction, it would be crucial for the Bank to ensure its powers matched its responsibilities. It remained a concern that the Bank now had a statutory responsibility for financial stability without any new instruments at its disposal beyond the Special Resolution Regime and payment systems oversight. That was an unacceptable position which it was hoped would become more widely appreciated.

It was stressed that the Bank was in a hazardous position at present. It had to progress the debate without putting itself in the position of either being or being perceived to be a shadow supervisor. It would not be sufficiently close to individual institutions to act as such and to judge the effectiveness of the FSA's supervision other than in the run-up to a resolution. This would be difficult territory but it could be managed if there was care about the Bank's responsibilities and its instruments.

In this context, the restructuring of the Financial Stability area was described as a staging post. The work of the area now felt very real in contrast to the period prior to the financial crisis. The structure attempted to seize that by aligning the divisions with the key operational arms of the Bank's work, both now and looking ahead. It recognised the particular responsibilities contained in the Banking Act and the Bank's statutory responsibility in relation to prudential policy, where the ground was clearly moving. But even within the Bank's existing responsibilities, it was thought there was much more that the Bank should be aiming to do to lead the debate. That included increasing the intensity and rigour of the work in relation to individual firms. In relation to the Bank's risk assessment work, it involved consideration of how key messages needed to be communicated. The restructuring was essentially designed to make the Financial Stability area more operational in the context of the current and future environment.

FINANCIAL STABILITY

4. Financial markets update

Mr Fisher introduced the item.

A brief overview of recent financial market developments was provided. It was noted that there had been a trough in market sentiment around the end of February, since when there had been some signs of improvement, notably in international equity prices. It was suggested the pick-up reflected both the wide-ranging policy measures that had been announced in the UK, US and elsewhere, and the fact that some of the recent macroeconomic data, particularly forward looking survey data, had not been as poor as anticipated. There was a little more optimism about the prospects for the real economy. In addition, earnings data from the major banks had tended to surprise on the upside. However, it was stressed that conditions remained quite fragile and measures of volatility across markets were still elevated. A range of markets also remained quite illiquid and vulnerable to further shocks. A particular focus at present was the results of US stress tests, due to be published on 4 May. It appeared that details were being deliberately leaked in order to move expectations. The continued fall in LIBOR rates and spreads was also highlighted. There were also some indications that more unsecured lending was taking place, in part due to the amount of liquidity in the system. There was also chatter in markets about risks to the UK's sovereign credit rating in the wake of the Budget. The UK's CDS spread had not changed significantly to date.

In relation to the Asset Purchase Facility (APF), it was noted that £46.5 billion of assets had been bought to date, which was on track to meet the target before the June MPC meeting. It was noted that the APF had been positively received in the corporate sector.

In discussion, it was noted that some LCFI credit default swap premia remained very elevated. That seemed at odds with other market indicators. It was asked if it reflected the noise around the US stress tests or something more fundamental. In response, it was noted that there had been some fall since the end of February, other than for US commercial banks where there was more concern about Bank of America and Citibank in particular. More recently, there had been some improvement, spurred by a belief amongst market contacts that the authorities had removed the risk of default by a major bank, though there was some uncertainty about whether governments would keep their promises and what those promises amounted to for creditors. It was also noted that more care was being taken about risk management and credit protection, which was possibly keeping some spreads elevated.

It was noted that lower-end investment grade liquidity premia – one of the indicators to assess the impact of the APF – had not moved significantly. It was asked how the Bank viewed that and future developments. In response, it was stated that there had been some increase in commercial paper market activity, and the net increase had been at the A2 rather than A1 level i.e. the bottom end of that market. In relation to corporate bonds, the Bank was tending to be offered assets towards the bottom end of the eligible range. Therefore, the team was being very careful about the quantities the Bank bought and the reserve prices set, which were being adjusted to reflect the fact that some bonds were being offered more than others. In terms of liquidity premia, the Bank was trying to monitor what was happening quite closely. There was a sense that there had been some narrowing of bid-offer spreads across the board but it remained early days. The market had been almost completely dysfunctional at the outset of the APF. The Bank was attempting to establish some price transparency. Although that was taking time, over recent weeks there had been supportive comments from the market that the scheme was beginning to meet its objectives. It was noted that there was little difficulty with primary corporate bond issuance with companies able to finance themselves at wide spreads. It was hoped the scheme would have an impact on those spreads in due course and make the secondary market more liquid.

5. **Balance sheet remit**

Mr Fisher introduced the item.

The paper was summarised. The revised remit reflected the range of new and extra operations that the Bank had undertaken over the past year.

Directors were content with the proposed remit for 2009/10.

MANAGEMENT OF THE BANK

6. **Annual Report**

Warwick Jones introduced the item.

Directors reviewed the text and were asked to provide written comments. It was noted that there had been some small changes to the wording of the core purposes and strategic priorities. The review of 2008/09 adopted a different structure to previous years, covering the events over the period rather than following the order of the Bank's strategic priorities.

The Annual Report and Accounts would be considered by the Audit Committee on 1 May and presented to Court for approval on 14 May. The Accounts would be discussed at the meeting of NedCo in May.

7. **Banking Act milestones**

John Footman and Paul Tucker introduced the item.

The paper outlined the new responsibilities that the Bank had assumed under the Banking Act 2009, the timing of their introduction and the Bank's current state of readiness for them.

It was noted that Court would be asked to approve the delegation to the Governors of the Bank's powers in relation to payment systems oversight.

In relation to the Special Resolution Regime, it was noted that some of the special legal orders that might ordinarily have taken a few months had been put in place quickly alongside the resolution of the Dunfermline Building Society. It was reported that, although a core team was in place to handle resolutions, it was proving more difficult than the Bank had hoped to recruit a head of the Special Resolution Unit. Two groups of candidates had emerged: one in their later careers who were eminent in the field; the other in their mid-careers who were financial institutions specialists. The latter group currently had plenty of opportunities and were also at a stage of their careers when a lower Bank salary and the way a period at the Bank would fit into their careers would be major considerations.

It was asked if there was a plan in the event that it did not prove possible to recruit a suitable head of the SRU in the near-term. In response, it was explained that the issue was to be discussed following the withdrawal of the best candidate. The Bank had an excellent team capable of undertaking resolution led by Andrew Bailey. It was however necessary to recruit additional people soon. It was not inconceivable that more than one resolution would need to be undertaken over a single weekend. The decision to hold off recruiting more permanent staff until the head of the SRU had been selected would need to be reviewed if no appointment was made.

In relation to payment systems oversight, the legislation would come into force around the middle of the year. The timetable had slipped slightly. The first phase would involve the Treasury recognising payment systems that would be subject to oversight by the Bank. There was an important legal question to address about whether the Act captured service providers to whom a payment system operator had outsourced services. The quality of those services would be very relevant to the Bank's oversight function. A second question concerned whether the Bank's oversight touched corresponding banking services provided by banks – i.e. should the Bank's responsibilities engage with members of a payment system? It was stated that it would be important to be clear one way or the other about what the Act actually covered.

It was noted that the Bank planned to publish a short document on how it would undertake its oversight responsibilities. It was also noted that good progress had been made in putting together a strong team, to be led by Paul Chilcott who was returning from secondment at the Bank of Canada.

In relation to the Bank's new statutory responsibilities for Scottish and Northern Irish banknotes, it was noted that the timetable was longer. A consultation would begin around the middle of the year ahead of the Act's powers coming into force during the autumn. Banking Services had an IT project underway and a governance framework was being developed that would be reported to NedCo/Court in due course.

[Susan Rice declared an interest in relation to Scottish banknotes]

In response to a question, it was explained that there would be a protocol with the FSA in relation to payment systems oversight, which would be part of the new Memorandum of Understanding. A draft would be brought to Court before publication.

8. Quarterly reports for Q4

Warwick Jones introduced the item (Paul Fisher for the Quarterly Balance Sheet Report).

In relation to the Quarterly Performance Report, it was clarified that the score for retention of staff in the Monetary Analysis area (2.5) was band weighted and benchmarked against a target of 2.6.

[redacted]

In response to a question, it was confirmed that the settlement with Loomis had been completed. The Bank was planning to use KPMG again to embark on another round of inspection of accounting procedures with the members of the Note Circulation Scheme. It was also the intention to draw on KPMG for the Scottish and Northern Ireland note compliance regime.

In relation to Outcome 4, it was noted that the Bank's reputation was linked to the risks associated with its balance sheet. Even though financial risk was indemnified by the Treasury, the potential reputational risks arising from a credit event affecting the Bank's balance sheet needed to be considered.

Attention was drawn to the information on resignations (page 18).There had been a distinct decline over the past four months. It was not possible to know if that was a long-term effect or cyclical. If the resignation rate was changing, it would have implications for resource planning across the Bank.

In response to a question about the findings of the Bank's talent management review, it was explained that discussions had been held with a team of external consultants. An initial conclusion reached was that before the Bank started launching new talent management initiatives, it should make another attempt to change the culture of staff assessment and appraisal. Assessors needed to give more realistic messages. The Bank was considered too polite in its approach which undermined the effectiveness of appraisals. That would go hand-in-hand with other initiatives and require more resources for talent management, which would have implications for the way the HR area was organised. The consultants would return in the few months. It was hoped that in the early autumn a series of measures would be announced to improve the way talent management and career planning worked in the Bank. It was noted that an element was being implemented in the latest round of advertisements for heads of division where it had been made very clear to staff why some jobs were advertised and others were not. One of the complaints from staff had been the lack of clarity about the criteria used to determine which people were high fliers. It was noted that a workshop had recently been introduced for Band 2 staff to attend a few years before they would be eligible for promotion to head of division level. The course provided an intensive process of gauging their relative skills and capabilities, and to identify which areas they should develop further. It had been well-received by attendees and appeared to be a useful addition to the Bank's talent management process.

It was suggested that the Bank might appear to be more dynamic than had been the case ten years ago, and therefore the types of individual that would the Bank an attractive career option would also be changing. At the present time, there would be an external talent pool who might find an association with the Bank rewarding. Given that the Bank had a number of senior positions, and in view of the pressures on various parts of the business, there was some urgency to identify what was needed and to pursue external opportunities that currently existed.

A question was raised about the cause of the fall over recent quarters in the key performance indicators for the Finance Area (page 20) – was it the direct result of the strain on resources and the diversion of resources to other areas? In response, it was explained that it was partly due to stain on resources but also staff sickness, which had particularly affected reconciliation work.

It was stressed that it was important for the Bank to monitor 'business as usual' processes and projects that were being delayed. Attention was drawn to the information provided in the Strategy Delivery & Projects report on the work delayed by the crisis (pages 26-28), which had been requested at NedCo in February. It was noted that some projects and workstreams might have been delayed in any event but an attempt had been made to provide an assessment of the areas where work had been delayed due to the diversion of resources, and to assess the impact of that. Some work had been delayed deliberately, not simply because of market circumstances but rather because the scope of some projects might be changed as a consequence of events. The information was welcomed. In addition to the detail, it was asked if the main elements that the Executive Team were focussed on or were most uncomfortable about could be highlighted. Attention was drawn to the information on the Bank's key milestones (page 23). It was noted that eight milestones from 2008/9 had been identified as having work continuing into 2009/2010, five of which were substantive. It was also noted that delays on individual projects were regularly reviewed. The more difficult issue concerned 'business as usual' activity where work was not being as advanced as quickly as it would normally, which would be discussed with the Audit Committee on 1 May. The internal auditor had some concerns that improvements in the general control environment had not moved quickly enough. The issue was less about delays to work and projects and more about whether the Bank was able to manage its risks and the control environment – for example, with collateral management work. The Audit Committee would consider the matter further.

Turning to the Quarterly Financial Report, attention was drawn to the £995.5 million pre-tax profit figure for 2008/09, which was slightly above the number projected in February at the time of the payment in lieu of dividend. Subject to a final audit, the figure was not expected to change again. It was noted that the profit and additional income from the SLS would need careful communications handling around the publications of the Annual Report.

In terms of the Bank's financial framework, it was stated that cash ratio deposit income had fallen alongside the increase in expenditure on policy functions. A surplus of £41 million in 2007/08 had fallen to £12.5 million. That was in part because of the reduction in the percentage of eligible liabilities paid by CRD payers but also lower interest rates. The net surplus had been around £6.5 million below the Bank's estimate at the time of the budget for 2008/09. So, alongside very high profits, the Bank's ability to fund its policy functions from CRD income was under strain.

Turning to the Quarterly Balance Sheet Report (introduced by Paul Fisher), it was highlighted that the Bank's capital and reserves had increased from £2.7 million to £3.7 million (page 56). It was noted that central bank and other customer deposits had increased to £15.4 million due to central bank customers wanting to place money securely with the Bank rather than in the market. Attention was drawn to the Bank's long-term repo operations (chart iv, page 57), which had settled into a steady pattern of two £20 billion operations with a stock of around £120 billion. It was reported that the Bank's dollar repos operations were also at a fairly stable level with most of the demand being for three-month extended collateral operations. The balance sheet would have been fairly stable as a result but the Asset Purchase Facility was now causing it to expand again.

It was noted that at the beginning of March, the Bank undertook its third dollar bond issue to finance its own foreign currency reserves. That largely completed the transition from euro notes and bills to dollar bond issuance. The latest bond issue took place in particularly challenging market conditions but had been a success.

Directors discussed the Bank's capital position and associated risks. It was noted that not everything on the Bank's balance sheet had an indemnity. It was asked if it was time to address the need for a new framework for the Bank's capital that matched it to the risks on its balance sheet. The Quarterly Risk Report stated that the largest risk facing the Bank was associated with increasing financial losses. It was suggested that, at a time when the Bank was paying very large dividends, it might be appropriate to discuss the Bank's capital position with HM Treasury. In response, it was stated that the Treasury had accepted the need to review the Bank's capital at a future date. It was not felt to be the right time at present in view of other pressures and priorities. Most of the facilities where risk was being taken were covered by an indemnity from the Treasury. It was stressed that the position did not make any practical difference to the Bank's ability to conduct operations at present. It might be appropriate to consider the capital position when some of the unconventional operations were unwound.

A question was asked about the heightened risk of counterparty default noted in the Quarterly Risk Report. It was explained that the risk was rising alongside the increased scale and breadth of the operations conducted by the Bank. The Bank was accepting new types of collateral with new counterparties, and the state of the global and UK economies meant defaults were likely to rise. It was noted that the value of the collateral had been sufficient to cover the exposure in the case of the Lehman Brothers' default in September 2008. The Bank was acutely conscious of default risk and so ensured that its operations were designed with sufficient haircuts and coverage. It was also noted that the position of UK's public finances was also relevant. Following Lehman's default, gilt prices had risen but it was conceivable that they could fall in the future, which would impact on post-default dynamics. [redacted]

9. **Value for money**

Warwick Jones introduced the item.

Directors were reminded that a value-for-money plan had been produced for the first time in February 2008, followed by a half-year report in September. The plan had hard targets where possible, though it was acknowledged that there was a tendency to concentrate on issues that could be managed in terms of cost effectiveness. There was a balance to be struck to avoid simply focussing on activities that could be readily measured. A proper value-for-money culture had to extend beyond cost savings and incorporate outcomes and performance measures. Delivering improved outcomes for a given level of inputs was the key. It was suggested that the Bank's performance measurement framework needed to be upgraded to stand alongside more easily measured cost management. The challenge for performance measurement was to enable a more rounded approach. It was reported that the Executive Team would discuss the Bank's performance measurement work later that day.

It was noted that the Bank's focus over the past year had not been value-for-money initiatives. Nonetheless, some gains had been made which the paper recorded. The paper discussed ways in which the Bank was considering its value-for-money framework through procurement and benchmarking in areas such as IT. A new value-for-money plan had been established for 2009/2010 during the February budget round.

In response to a question it was stated that the Bank had taken advantage of the Government's purchasing power through its procurement programmes, notably for electricity and the latest PC replacements.

10. **Report from Audit Committee**

Amelia Fawcett introduced the item.

The minutes of the meeting on 12 February had been circulated. It was highlighted that the management of the Special Liquidity Scheme had been excellent. Some important system developments were in train and there were some issues around key person risks to address. The Audit Committee would receive updates on the SLS management framework.

As noted earlier (Item 8) the Audit Committee had also considered the issue of staff stretch, including the implications for the control framework. In addition, it was noted that KPMG had also looked at the issue as part of their audit work but had stated that, as far as they could see, there had been no operational losses or material risks arising as a consequence. It would be important to continue focusing on the issue but it was nonetheless a credit to the Bank that it had a fairly clean bill of health in such circumstances.

In relation to the incident management reporting system, it was stated that it had been in operation for one year and there was evidence that an increasing number of people used it. Further refinements were needed but it was becoming embedded into the business operations of the Bank which was encouraging progress.

In relation to the Internal Audit Report, there had been a focus over a number of months on IT and information security issues. The Audit Committee had expressed a strong view that the Bank needed to be close to 'best in class' for information security in view of its market operations. The management team recognised that and was thinking through specific plans to achieve it. The Audit Committee would continue to monitor the issue.

It was reported that the annual review of fees and engagement for the external auditors, KPMG, had been approved. It was confirmed that non-audit fees were brought to the Audit Committee or the Chair for review and approval before KPMG could be hired to do non-audit work. It was noted that the annual bilateral meetings with the Deputy Governors had again proved very useful.

11. MPC report to Court

Noted.

12. Non-policy meetings of the MPC

Noted.

13. **Houblon Norman Fund Report**

Noted.

14. **Remuneration Committee minutes – 3 February and 19 March**

Noted.

Any other business

None

The meeting of NedCo was closed.

MEETING OF THE COURT OF DIRECTORS

Thursday 30 April 2009

Present:
The Governor
Mr Charlie Bean, Deputy Governor – Monetary Policy
Mr Paul Tucker, Deputy Governor – Financial Stability
Sir John Parker, Chairman, NedCo
Mr Roger Carr
Ms Amelia Fawcett
The Hon Peter Jay
Dr David Potter
Prof David Rhind
Ms Susan Rice
Mr James Strachan
Mr Bob Wigley
Mr Geoffrey Wilkinson

Absent
Mr Barber, Mr Sarin, Lord Turner

Also attending:
Mr Bailey, Mr Dale, Mr Jones, Mr Footman, Mr Haldane, Mr Nicholson and Mr Tucker

1. Minutes – 12 February and 11 March

Approved.

2. Banking Act

Court noted the coming into force of further parts of the Banking Act, concerning the payment systems oversight powers that the Bank will exercise under Part 5 of the Act. Directors APPROVED that the powers conferred on the Bank should be delegated and exercised by the Governor and Deputy Governors.

3. Monetary policy issues

Court noted the submission of the monthly MPC report to Court for April.

4. **Financial markets update, balance sheet remit, draft Annual Report, Banking Act milestones, quarterly reports Q4, value for money, Audit Committee report**

Court noted the discussions in NedCo of the above items.

Any other business

None.

[Deputy Governors, Executive Directors and Graham Nicholson left the meeting].

5. **Executive Team objectives; Secretary of the Bank**

The Governor introduced the item.

The key responsibilities and objectives for 2009/10 for each member of the Executive Team had been circulated.

Court APPROVED the appointment of John Footman as Secretary of the Bank from 1 June 2009.

6. **Remuneration Committee report**

David Potter – chair of the Remuneration Committee – introduced the item.

It was reported that a meeting of the Remuneration Committee on 19 March had considered a number of issues including: the remuneration of the Deputy Governor for Financial Stability; the remuneration arrangements for Sir John Gieve's departure and the draft remuneration report for the Bank's Annual Report.

The meeting of Court was closed.

COMMITTEE OF NON-EXECUTIVE DIRECTORS (NEDCO)
SECOND MEETING

Thursday 30 April 2009

Present:
Sir John Parker, Chairman
Mr Roger Carr
Ms Amelia Fawcett
The Hon Peter Jay
Dr David Potter
Prof David Rhind
Ms Susan Rice
Mr James Strachan
Mr Bob Wigley
Mr Geoffrey Wilkinson

Absent:

Mr Brendan Barber, Mr Arun Sarin, Lord Turner

1. **Minutes – 12 February 2009**

Approved

2. **Executive Team update**

(The Governor in attendance)

The present make-up and operation of the Executive Team was discussed. It was stated that the new team was one of the strongest that the Bank had had in recent years. There was a clear sense of the team pulling together and displaying confidence in each other.

3. **NedCo annual report draft**

Comments were made on the draft report.

Some concern was expressed about the reduction in NedCo/Court meetings to a minimum of seven a year. It was suggested that the gap between the February and April meetings had been too long. It was agreed that matter should be brought to the attention of the new Chair of Court rather than making a comment in the report.

Any other business

A summary note of the one-to-one meetings between members of the MPC and the Chair was circulated.

In response to a question, it was noted that each of the external MPC members had a different approach. There was no sense from the meetings of a cosy conformity. It was also noted that MPC members had seemed happier with the forecasting team over the past year.

It was agreed that when external members of the MPC attended NedCo/Court, it would be desirable if the MPC Report could be scheduled either side of the break to enable MPC members to meet and talk to Non-executive Directors.

There was some concern that recent external members of the MPC had not been of the equivalent standing as some of the earlier members of the Committee, such as Professor {Nickell}.

The meeting of NedCo was closed.

COMMITTEE OF NON-EXECUTIVE DIRECTORS (NEDCO) MEETING

Thursday 14 May 2009

Present:
Sir John Parker, Chairman
Mr Brendan Barber
Mr Roger Carr
Ms Amelia Fawcett
The Hon Peter Jay
Dr David Potter
Prof David Rhind
Ms Susan Rice
Mr James Strachan
Lord Turner
Mr Bob Wigley
Mr Geoffrey Wilkinson

Absent:
Mr Arun Sarin,

Also attending:
The Governor, Mr Bean, Mr Tucker, Mr Bailey, Mr Dale, Mr Fisher, Mr Footman, Mr Jones, Mr Nicholson, Ms Scott, Sir David Lees (observer)

Sir David Lees was welcomed as an observer ahead of his appointment as Chair of Court commencing 1 June 2009.

1. Minutes – 30 April 2009

Approved.

2. Matters Arising

None.

MANAGEMENT OF THE BANK

3. Executive report

The Governor introduced the item.
As it was the final meetings of NedCo and Court in their present form, Non-executive Directors were thanked for their work and contribution. The Bank was more effective than it would otherwise have been over the past five years. Particular thanks were extended to the Chair of NedCo.

Recent and forthcoming meetings and events
Domestic:
- Inflation Report and press conference (13 May);
- speech at Mansion House (17 June);
- regional visit to central southern England (18-19 June);
- Treasury Committee Inflation Report hearing (24 June);

International:
- BIS meetings (10-11 May).

The Governor and Deputy Governors had met with Governor Shirakawa and other Bank of Japan officials on 13 May. The Governor had held a meeting with the Chancellor on 14 May and would meet Sir Nick Macpherson and Lord Turner over the next week.

FINANCIAL STABILITY

4. Financial markets update

Mr Fisher introduced the item.

A brief overview of recent financial market developments was provided. The recent focus of markets had been on the results of the US stress tests, announced on 7 May, to which there had been a generally positive reaction and both commercial bank and sovereign credit default swap spreads had fallen. The broader position remained that market sentiment had improved but remained vulnerable to shocks. It was noted that the programme of asset purchases by the Bank had continued – gilt purchases now totalled around £57.5 billion. This was the main factor affecting the Bank's balance sheet, via the loan to the Asset Purchase Facility.

In discussion, it was noted that LIBOR rates had continued to fall. Inter-bank lending volumes remained at low levels though had recovered slightly over the past few months. It was stated that the banks were less focussed on short-term LIBOR rates and funding and more so on the term market which was starting to re-open. There had been significant non-guaranteed issuance of late, particularly from US banks. This was important in view of redemptions, which would peak over the next year or two. In response to a question, it was stated that corporate bond spreads continued to edge down but the improvement in liquidity was less pronounced. Market contacts believed the Bank's scheme was helping over time by delivering price transparency. It was notable that dealers wanted to buy bonds off the Bank i.e. to have the Bank on both sides of the market.

5 Quarterly Financial Stability Report

Mr Tucker introduced the item.

It was stated that, although the report was ordinarily presented by the Executive Director for Financial Stability, it was designed to cover the second core purpose rather than the work of the Financial Stability directorate alone. Whereas the Bank's monetary policy core purpose involved, essentially, a vertically integrated business operation – from analytical input by Monetary Analysis into the MPC's decision, through to Markets' open market operations, Banking Services' settlement and Finance's accounting – the financial stability mission needed to be more horizontally integrated. This was partly because the Bank had some but not all of the relevant policy levers and even the UK as a whole did not control all policy areas. Much of the Bank's work involved influencing overseas counterparts. To do so, the relevant expertise needed to be engaged (and co-ordinated) wherever in the Bank it was located.

It was stated that an important aspect of the Financial Stability Report (FSR) was to set out the Bank's thinking on how the resilience of the financial system could be improved over the medium term through policy actions. It was intended that there would be a greater focus on policy actions in forthcoming reports while the 'rules of the game' were being redrawn. The Report would distinguish between issues where the Bank had a concrete position at the present time and issues where, in the Bank's view, there needed to be wider debate ahead of reaching policy conclusions, particularly in view of the current circumstances of the financial system. An example was the debate on prudential liquidity policy. This also illustrated horizontal integration in the Bank: policy work was undertaken by the Financial Stability area, which represented the Bank at the major international fora, but the market expertise and knowledge lay largely within the Markets and Banking areas. It was noted that there were difficulties persuading international counterparts that banks should hold a minimum level of government bonds. The Bank and the FSA were in agreement. The counter argument was that all assets taken by central banks in their operations should count as core liquidity for banks. That would, however, enable banks to hold, for example, mortgage backed securities and corporate bonds as core liquidity. In some cases, there was a need for other central banks to persuade their respective supervisory authorities.

It was stated that there was a raft of such policy issues that would need to be discussed and agreed at the international Financial Stability Board. There was a challenge to ensure national authorities in other countries worked more closely together. In this respect, it was noted that each of Lord Turner and Paul Tucker chaired FSB committees. One characteristic that had to be addressed was the tendency for countries to be internationalist in peacetime and nationalist during a crisis, largely because of the domestic fiscal support provided to the banking system. There had been high-level political support from the G7 and G20 for action but hard work was necessary to carry that forward into initiatives that would make a real difference in the future.

In relation to the conjuncture, it was noted there had been some improvements over the recent period. First, bond issuance by the corporate sector had increased. If that was sustained it would take some pressure off the banking system, although a main issue remained whether or not banks would be able to resume lending to a sufficient extent to support economic recovery. Second, the reaction to the US stress test results had allowed a number of US banks to raise new equity. Within the UK, it was stated that there were acute pressures on the building society sector. The Bank was working with the FSA and HM Treasury on potential solutions. It was possible that a number of SRR resolutions would be necessary, though a sector-wide solution might also be feasible.

In discussion, it was asked what policy areas were not covered by the UK authorities regarding the earlier comments – did that reflect the global aspects of the financial system that had perhaps been underplayed previously when much of the analysis was focussed on the national situation?

In response, it was explained that there were two principal elements. First, some of the key standards affecting systemic stability were established outside the official sector, notably accountancy standards. That was being actively considered at the present time at the European level, with top-level Bank and FSA involvement. Second, it was certainly true that, with global capital markets and London's position as an international financial centre, whenever the global financial system experienced problems they would impact on London and the UK. It was also true that national authorities always stressed that they would co-operate in a crisis but it was much harder to do so when a crisis actually occurred.

It was noted that the paper referred to the lack of funding due to the withdrawal of foreign banks from lending in the UK. In addition, the effective closure of the shadow banking system was also a factor. It was asked, therefore, if it was likely to be a considerable time before lending conditions improved given the continued constraints on the banking system. In response, it was stated that bank lending would most likely remain tepid and the weak economy would continue to feed back into the banking system. The issue of the shadow banking system was particularly severe for the US. It was also noted that the withdrawal of foreign banks to their domestic markets was partly driven by the conditionality attached by governments to the capital support they had provided for banks. However, there was some hope that internationally active banks would want to maintain their position and so opt to rollover loans over the next year to the largest companies. It seemed unlikely that global banks and global companies would substantially change their positions given their connected medium and long term interests. It was stated that the Bank would need to pin down how much syndicated corporate lending would mature over the coming year or so, and how much of that was to multinational companies and how much to more local, medium-sized companies that might find themselves dependent on UK banks.

In response to a question, it was noted that the maturity structure of banks' funding remained worrying. Despite support from authorities worldwide, banks continued to find it difficult to raise term funding in the markets. However, some improvement was anticipated. There was more secured short-term funding taking place against liquid assets in the UK, in part because of the amount of Treasury Bills in the system following the Special Liquidity Scheme. In addition, the previous trend of banks becoming increasingly dependent on short-term funding was beginning to abate. Banks were extending the maturity of their funding and reducing dependency on overnight funding. Although more secured funding was welcomed, the cost and availability of unsecured funding was consequently worsening.

In response to a question about the still highly leveraged position of banks, it was stated that it partly reflected the fall in capital and write-downs. But after more than twenty years of credit intermediation through the capital markets, there was a vast amount of re-intermediation into the banking system. It had been a failure of the official sector to put a zero weight on committed credit lines. The banking system was not carrying sufficient capital for a wholesale re-intermediation of the kind that had occurred. That cemented the need for the banking system, both in the UK and elsewhere, to have capital insurance from the official sector.

It was suggested that it would be useful for Directors to be provided with regular information about how various initiatives were progressing. In response, it was explained that the Quarterly Report could be developed to be more aligned with the Bank's strategic priorities relating to its second core purpose.

In response to a question about derivatives trading, it was stated that the over-the-counter market needed more central counterparty infrastructure. That was being debated around the world. It was hoped that would help to prompt a debate on whether other instruments should be exchange traded as well as in over-the-counter markets, including corporate bonds.

In summary, it was noted that when the financial crisis had begun, it had been viewed largely as a liquidity crisis. But it was evident after a few months that it was essentially about the solvency of the banking system. Initially, the focus was on banks' trading books and complex assets. However, over time that had created a crisis of confidence in the financial system culminating in panic during the autumn of 2008. Since then, a sharp contraction of the global economy had led to concerns about the solvency of banks' banking books as traditional lending activities generated losses. The size of those losses was impossible to know with any certainty. Banks' equity had fallen and leverage had consequently increased. It remained the case that it would take considerable time for the financial sector to return to health. It was not simply a question of adding more capital in a one-off exercise. Rather it would take a major effort to ensure the banking system had sufficient capital to be confident that it could not only survive but lend more readily to the wider economy. That still appeared a long way off. The sense of crisis might have disappeared but it would take a considerable time before the financial sector returned to its normal methods and criteria for lending. It would not be sensible to return to the previous positions so it would be necessary to consider new channels for funding lending through the banking system and non-bank channels.

6 Annual Report & Accounts – final draft

(Mike Ashley and Mike Heath – KPMG – in attendance)

Warwick Jones introduced the item.

(i) Annual Report

It was reported that, following a meeting of the Remuneration Committee that morning, there were likely to be changes to the Annual Report that would require the Annual Report and Account Committee to agree revised wording to the report on remuneration. Court would later be asked to approve the Annual Report subject to assigning the responsibility for signing the final version to a sub-committee consisting of the Governor, Charlie Bean and the chairs of NedCo and the Audit and Remuneration Committees. There were no further comments on the wording of the Annual Report.

(ii) Annual Accounts

In relation to the Accounts, it was noted that there were no material changes to the financial results since the latest quarterly financial report presented to Directors in April. The main elements of the accounts were reviewed as detailed in the note circulated, having been previously discussed in detail by the Audit Committee on 1 May. It was noted that surplus income from the Special Liquidity Scheme (SLS) had been taken directly to reserves as a capital contribution as the Scheme was indemnified by the Treasury: this was shown in Note 29 of the Accounts. At the end of the Scheme consideration would be given to a special dividend and to the associated tax consequences. The SLS was classified as a stock borrowing and lending activity for financial accounting purposes and therefore was not 'on balance sheet'. Attention was also drawn to the note on related parties (Note 31). Following discussion with the Audit Committee and external auditors, an appropriate balance had been struck between transparency and confidentiality in relation to individual institutions. It was also reported that the Bank subsidiary set up for the purposes of operating the Asset Purchase Facility would not be consolidated into the Bank's accounts. It operated with a full indemnity from HM Treasury to cover any future losses arising from its activities and any profits would accrue to the Treasury such that the Bank had no economic interest in the business as defined by the relevant accounting standard.

It was stated that Directors were required to provide an opinion in the Annual Report on the appropriateness of the financial and other assumptions adopted for the purposes of accounting for the Bank's pension scheme. The relevant international accounting standard required a set of assumptions and procedures that were different to the basis used for funding valuation purposes. The Accounts provided information about the latest funding valuation and the investment policy of the Fund.

(iii) Report from the Chair of the Audit Committee

It was reported that the Audit Committee had reviewed the Bank's accounts at its meeting on 1 May and no unexpected issues had arisen. It was noted that many of the issues had been discussed with the Bank's executive management and external auditors throughout the past year. It was stressed that the relationship between the Finance area, internal audit and KPMG had worked very effectively. There had been a substantial discussion about the level of disclosure in the Annual Accounts. The Audit Committee had also considered the references in the Annual Accounts to Court's opinion and was comfortable with the wording. The Letter of Representation had also been discussed and the Audit Committee was satisfied on all counts. On that basis, the Audit Committee recommended that Court approve the Annual Report and Accounts.

KPMG were invited to comment. It was noted that the year-end processes and work undertaken in the Finance area had been very satisfactory. The discussions on disclosure, particularly concerning 'related parties', had been thorough. KPMG were satisfied that an appropriate balance had been struck.

Court would be asked to approve the Annual Report and Accounts subject to changes to be agreed later that day by a sub-committee as described above.

[Roger Carr left the meeting]

MONETARY POLICY

7 Inflation Report and monthly MPC report to Court

(Kate Barker and Tim Besley – external MPC members – in attendance)

Spencer Dale introduced the item.

The current economic conjuncture and outlook, and Inflation Report projections were summarised.

In discussion, the extent to which economic recovery might be impeded by the absence of normal levels of bank lending was highlighted, along with the recognition of the extent of the deterioration in the public finances and the worsening global economic situation. In relation to asset purchases being undertaken by the Bank, it was asked how those related to the Government's need to finance its growing fiscal deficit – if the need was to increase the supply of money to maintain the level of demand in the economy, why was the Government borrowing in order to finance its expenditure?

In response, it was explained that the Government's sale of gilts should not affect the Bank's efforts to increase the supply of money flowing into the economy. One channel through which asset purchases worked was by changing the demand for gilts and causing investors to reallocate their portfolios. In that respect, both demand and supply mattered such that if the Government issued as many gilts as the Bank was purchasing, the impact of the Bank's actions on relative asset prices might be lessened via that particular channel. However, the impact of the Bank's policy actions had to be considered in a counterfactual way. The Government had to borrow the amounts required irrespective of monetary policy actions. It was stated that because the Government had delegated monetary policy to the Bank, it could not print money to finance its deficit. The reason the Government could not do anything other than borrow to finance its spending was that the MPC took the decision about how much money to create. Expansionary fiscal policy would only work if it was possible to credibly commit to deficits being in place only while demand in the economy was below normal. The problem was that the Budget had revealed a larger structural deficit than previously thought. Expanding fiscal policy in the face of recession was understandable, but the Government also faced a major structural fiscal problem. The Government could overcome that by promising in the future to either raise taxes or reduce spending. That promise had to be credible for the easing in fiscal policy to work. Otherwise, expectations of large deficits in the future would raise market interest rates now.

In response to a question about the present level and structural nature of UK public borrowing, it was stated that borrowing was high on most historical and international comparisons. An important component behind an increase in the UK's structural deficit was the decline in the tax base from previously faster growing areas of the economy, notably the financial sector and housing market. They were expected to grow more slowly than in the past which would constrain tax revenues as the economy recovered.

In response to a comment about the difference between the RPI and CPI measures of inflation, it was explained that around two-thirds of the current wedge was due to reductions in mortgage interest payments and around one-third was due to house price effects (detailed on page 38 of the Inflation Report).

The extent to which the collapse in world trade had been driven by a rapid inventory reduction was discussed. The nature of globalised supply chains meant the gross trade flows associated with the production of individual goods could be very large. It was suggested that extensive destocking might, in turn, provide grounds for expecting an equally quick rebound, consistent with the Inflation Report's growth projections. That incorporated an optimistic interpretation centred on the belief that companies could adjust their stock levels quickly to a shock to demand, and had done so. But a pessimistic interpretation was that such a large reduction in stocks reflected the size of the shock to demand and that further falls in output might be likely. It was also noted that part of the pace of destocking by industrial companies had been in response to a lack of trade finance which had forced them to squeeze their cash resources. The MPC was monitoring the situation closely. It was noted that recent Agents' reports had identified that the pace of destocking had lessened.

The extent of the uncertainty about the outlook for demand was emphasised – the MPC's Inflation Report projections incorporated a roughly similar probability that growth would continue to contract or become positive over the year to mid-2010, consistent with either a prolonged period of subdued growth or a more rapid recovery. It was noted that, following a recession, there was often a period of rapid growth as spare capacity was utilised. The main issue for the MPC was the strength and persistence of the recovery from the second half of the year, for which there was little evidence available so far. The media and market attention given to signs of 'green shoots' did not really address that issue.

A question was raised about the inability of forecasting models to capture the impact on confidence of the shock to the financial system over the autumn of 2008, and the apparent absence of credit provision as an autonomous variable in such models. In view of the importance of the resumption of bank lending to economic recovery, it was asked if the Bank was adjusting its models and forecast methodology to account for this deficiency. In response, it was stated that because forecasts were the product of judgments rather than models, policymakers had been wrong rather than models per se. Models were not designed to capture every relationship in the economy but to allow policymakers to form judgements which could be imposed on forecasts. It was true that the models that the Bank had typically used in the past did not stress an important role for financial restrictions. More recently, other models had come to the fore to provide a better framework for forecast discussions. It was agreed that the use made of models was more at fault than the models per se. However, it was suggested that had the MPC been equipped with models that dealt with financial sector issues in a better way, it might have started from a better place to form judgements about the impact on the outlook for the economy and inflation. Considerably more time had been devoted to those considerations over recent forecast rounds.

It was noted that household savings rates appeared to be increasing after years of decline. In relation to saving and borrowing, it would not be desirable to return to the levels experienced in 2007. In that sense, it was asked what was meant by statements made in a number of quarters about the economy needing to return to more normal levels – were the MPC, Government and external commentators referring to the same benchmark. In response, it was noted that one concept of normality was the trend rate of growth. For fiscal sustainability, normality was altogether less clear-cut and depended on interpretations of the fiscal deficit. It was noted that it was better to think in terms of sustainability rather than normality. That would include sustainable levels of lending in the banking system, a sustainable current account position and public finances. The speed of the transition from the current position was important. Too quick an adjustment would tend to push the economy into an even deeper downturn.

It was stated that one of the lessons of the recent period was for the Bank to consider to a greater extent the accumulation of risks over an horizon of 4-7 years rather than 2-3 years. It was felt that over the past year the Bank had been more effective at bringing together the work of the Financial Stability area with the work for the MPC.

MANAGEMENT OF THE BANK cont'd

8 Risk and compliance

Warwick Jones introduced the item.

The paper provided a review of the Bank's risk framework which allowed Court to approve the statement on risk and compliance (page 1). The largest change over the past year concerned the terms of reference of the Business Risk Committee. It now concentrated on operational risk across the Bank, having previously spent most of its time on strategic and policy risks. They were now discussed by the Executive Team, which was a more suitable forum. It was noted that work was underway to make some operational risk standards and activities more useful and alive across the Bank.

It was noted that the report had been discussed at the Audit Committee's meeting of 1 May and the Committee was comfortable with it. Although there was further work to do on risk standards, the risk framework was better than it had been in the past. It had been agreed that risk standard owners, particularly new owners, should attend the Audit Committee from time to time as part of the Committee's oversight and reporting to Court. Warwick Jones would provide an update on the risk framework for the Audit Committee in around six month's time.

In response to a question about the consistency of the application of risk standards across the Bank, it was stated that the financial risk standards worked effectively. Operational risk standards were less well developed and further work was underway to enforce common standards, partly through risk standard owners signing off at the end of the year on how well they had operated. It was stressed that it was crucial to embed risk management at working level.

9 Audit Committee report and Annual Report

Amelia Fawcett introduced the item.

A summary of the meeting of 1 May had been circulated. Full minutes would be available at a later date. In relation to the Audit Committee's annual report, it was noted that it was third such report. Over that time period, there had been real progress with the Bank's internal control and risk management apparatus and culture. The Bank was a different place in these areas than five years ago. It was highlighted that over the past year, despite the turmoil, workload pressures and the increased complexity of the Bank's work, it was remarkable how much had been accomplished both in terms of managing the crisis and delivering business-as-usual work. It was stated that operational risks had increased significantly but had not crystallised into a major error or loss. However, it was not the time to sit back. The Bank would remain stretched. There was an ongoing need for the Executive Team, the Audit Committee and Court to remain alert to issues so that resources could be allocated quickly to respond to resource stretch and risk.

Turning to priorities for 2009/10, it was stressed that business as usual activities would be important. There was a general recognition that urgent work should not crowd out necessary work. Certain projects should not be allowed to drift further. In particular, system upgrades and systems to improve financial reconciliation work were important to improve the Bank's operations in the area of collateral management. Completing work on reconciliations in the Finance area needed to be a priority, not simply from a risk perspective but also in terms of cost effectiveness. Given the amount of collateral the Bank now managed, it needed to move from what 'best achievable' in the circumstances of the moment to 'best in class'. It was recognised that the Bank had done an excellent job to date. The task now was to place its operations on a more even footing. The need to be 'best in class' was also necessary in the area of information security. A plan was in place that should be monitored diligently.

The Executive Team was thanked for its openness and candour in discussions with the Audit Committee, and members of the Audit Committee were thanked for their very effective work over recent few years.

10 **Pensions**

John Footman introduced the item.

Directors were reminded that, following discussion in February, it had been decided to revisit the issue of longevity and changes to pension age for the Bank's career average scheme. It was noted that when the career average scheme was introduced it had been agreed to incorporate an option to vary pension age to provide some insurance against longevity risk. Full insurance could not be achieved as changes to pension age could only be made to future not past accrual. Any changes to pension age needed to be in a predictable form that could be explained readily, and sufficiently regular to ensure they were part of expected practice under the terms of the scheme. The two choices for a formula detailed in the paper were outlined. The second option was recommended – a formula based on what had happened to longevity relative to the assumptions made at the time of the previous valuation so that additional costs were covered as they crystallised. Although the resulting change to normal pension age would be small, it would put down a marker for the approach. It would result in a series of pension entitlements, each with a different pension age. That would need careful presentation. It was noted that a two-month consultation would be required for those staff in the career average scheme. It was also proposed that future changes should be made following each triennial valuation. It was noted that the future retirement age would need to track changes to normal pension age.

Directors discussed the proposal. There was a request to consider more radically how to shift the entirety of longevity risk to individuals. By fixing life expectancy for existing pension accruals, the present scheme gave individuals certainty about an uncertain future value. It was suggested that it was possible to set accrual at the point of retirement in the light of life expectancy at that time, an approach adopted in Sweden for state pensions that provided certainty about the future burden on taxpayers. A system could be designed that did not set in advance the pension age but determined it at retirement age. That would also resolve the issue of slicing pension entitlement into multiple pension ages. It was also suggested that using the medium cohort would be inadequate for future life expectancy. A minimum rate of increase needed to be applied.

The issue of age discrimination legislation was raised. Fairness and the economic substance appeared in conflict with the legal answer. If the right approach was to change the pension age by different amounts for each of the age bands but that was not permitted, the Bank would be in a somewhat bizarre position whereby the law forced it to discriminate rather than adopt a fairer approach. It was hoped that at some point in the future an institution with strong intellectual credibility, such as the Bank, could challenge the premise of the legislation.

Although it was agreed that the second option was preferable, it was thought to be unattractive to adjust pension age by a small number of days. A mechanism that adjusted pension age in amounts of one year might be preferable, using the annual valuations rather than the main triennial valuations. A separate view was that the Bank should adopt an approach that was as close as possible to indexation and to adopt the language of indexing the retirement age as a percentage of life expectancy. It was disappointing that the scheme fixed the pension age for existing pension accrual. It was suggested that Court had not consciously intended to take that decision but had wanted to transfer longevity risk to individuals. A further view was that pensions involved long-term decisions and commitments. There was a concern about consulting staff regularly – perhaps every year – about changes to their pension arrangements. That would be unsettling. Less frequent changes would be preferable and in discrete steps of perhaps a year or six months. Conversely, it was argued that it would not necessarily be unsettling for younger staff to be told their life expectancy could not be known in any exact way. They could accept that it was inherently uncertain and so could not be established in advance.

It was stated that the HR consequences of the proposal were not appealing. It would not be attractive to have to advise staff of changes to their pension so frequently. In addition, the proposal would involve an administrative burden. The principle of indexation was the right one but it was suggested that the HR and administrative dimensions favoured consideration of alternative proposals to those tabled. It was agreed that the matter should be considered further. To justify a defined benefit scheme externally, it had to be fully costed. The Bank could not give a promise to offer a pension that had an unfunded element building up. The principle of adjusting the pension scheme for changes in life expectancy was right. Gradual and slow adjustments were ideal but unfortunately that meant slicing pension entitlement into tranches. The age discrimination issues were also problematic. It was stated that if the Bank opted to wait until the pension age needed to change by one year, for instance, and that had to be applied to all staff in the career average scheme, then an individual who was 59.5 years old could find their retirement plans disrupted. This favoured tackling the problem with the age discrimination legislation.

Directors agreed that the principle of indexation for life expectancy should be the foundation of the Bank's approach but the means of applying it in practice needed further examination. That would be considered by Court again in due course. It was noted that indexation should aim to ensure frequent changes which would be better understood. Infrequent changes would be more difficult to communicate and justify.

ITEMS FOR INFORMATION

11 **Senior staff experience**

Noted.

Any other business

None.

The meeting of NedCo was closed.

MEETING OF THE COURT OF DIRECTORS

Thursday 14 May 2009

Present:
The Governor
Sir John Parker, Chairman, NedCo
Mr Charlie Bean, Deputy Governor – Monetary Policy
Mr Paul Tucker, Deputy Governor – Financial Stability
Mr Brendan Barber
Mr Roger Carr
Ms Amelia Fawcett
The Hon Peter Jay
Dr David Potter
Prof David Rhind
Ms Susan Rice
Mr James Strachan
Lord Turner
Mr Bob Wigley
Mr Geoffrey Wilkinson

Absent:
Mr Arun Sarin

Also attending:
Mr Bailey, Mr Dale, Mr Fisher, Mr Footman, Mr Jones, Mr Nicholson,
Sir David Lees (observer).

1. **Minutes – 30 April 2009**

Approved.

2. **The Bank's Annual Report & Accounts and associated issues**

Following the discussion in NedCo, Court APPROVED the Annual Report and Accounts, the letter of Representation, and the final payment in lieu of dividend to HM Treasury, subject to changes to the Annual Report to be agreed by the Annual Report and Accounts Committee. Court APPROVED the delegation of authority for the signing of the Annual Report and Accounts, the letter of Representation, and the final payment in lieu of dividend to HM Treasury to the Annual Report and Accounts Committee. A meeting had been scheduled for later that day.

3. **Risk and compliance**

Following the discussion in NedCo, Court was satisfied that the risks faced by the Bank had been reviewed and that appropriate controls were in place. Court ENDORSED the paper which provided the basis for Directors to sign-off in relation to internal controls for the Annual Report.

4. **Monetary policy issues**

Court noted the submission of the monthly MPC report to Court for May and the discussion of the May Inflation Report.

5. **Financial markets, financial stability, Audit Committee reports, pensions**

Court noted the discussions in NedCo of the above items.

Any other business

None

[Executive Directors, Graham Nicholson and Jenny Scott withdrew]

6. **Head of the Special Resolutions Unit**

The Governor introduced the item.

Directors were updated on the situation regarding the efforts to appoint a head of the Special Resolution Unit (SRU). Despite initial optimism about potential candidates of differing experience and stature, it was now apparent that no suitable candidate was available. This was, in part, because the market for such individuals in the financial sector had become very strong. Moreover, candidates that seemed most appropriate did not really want to take on the day to day management role that the position entailed. The Bank's executive and the {head-hunters} had therefore reached the view that a change of approach was needed at the present time. It had been decided that Andrew Bailey should become head of the SRU, which would formalise his existing role in relation to resolutions. The Bank would then work further with the {head-hunters} to find a person to run and manage the SRU under him. It was noted that it might be possible to engage one or two original candidates on a temporary basis to lead some future resolutions to augment Andrew Bailey's role. The staffing of the SRU had been held back in some areas pending the appointment of a head. It would be important to make progress now with the recruitment process given the potential for further cases over the coming months. It was stated that at some later stage the Bank could then consider appointing a head to manage the SRU in a less active environment.

It was questioned whether it was feasible to attract an individual of sufficient experience and seniority to run the SRU in a more benign environment – would it be more appropriate long-term approach to combine the head of the SRU with a wider role? In response, it was stated that that decision could now be deferred though, with the SRU in place, it would be important to have someone managing it full-time. The question to address in due course was what level of seniority was needed to fulfil that role.

In response to a question, it was clarified that Andrew Bailey would retain his other responsibilities. He had devoted much of his recent time to resolutions and related work. Additional resources had been committed and some changes to the management team in the Banking area were in train as part of the next round of changes to heads of division. Moreover, the strategy for the Banking area was well established and being implemented rather than a new strategy needing to be put in place. In that sense, Andrew Bailey's other responsibilities were relatively steady-state in nature.

The nature of the wider staffing of the SRU was discussed. It was explained that a permanent core staff would be supplemented by a pool of external resources that could be brought in to work on active resolutions. An ongoing effort would be needed to ensure their readiness through training and engagements – akin to the Territorial Army. The FDIC in the United States utilised individuals that had previously worked there but that model was not feasible for a start-up operation at the Bank. Consideration was being given to the approaches that the Bank might adopt.

[The Governor and Deputy Governors withdrew]

7. Remuneration Committee report

David Potter introduced the item.

Following a meeting of the Remuneration Committee earlier that day, it was recommended that the Governor should be awarded an increase to his salary of 2.5% from 1 July 2009. The Governor's salary would therefore rise from £297,920 to £305,368 per annum. The recommendation had been informed by an assessment of the Governor's performance by the Chair of NedCo. Court APPROVED the proposal.

It was reported that Paul Tucker had agreed his salary package. Court APPROVED that Paul Tucker would be paid an annual salary of £252,497 from 1 March 2009 and would continue his membership of the Final Salary Pension Scheme.

[redacted]

The members of the Remuneration Committee were thanked for their work over recent years.

The meeting of Court was closed.

COMMITTEE OF NON-EXECUTIVE DIRECTORS (NEDCO)
SECOND MEETING

Thursday 14 May 2009

Present:
Sir John Parker, Chairman
Mr Brendan Barber
Mr Roger Carr
Ms Amelia Fawcett
The Hon Peter Jay
Dr David Potter
Prof David Rhind
Ms Susan Rice
Mr James Strachan
Lord Turner
Mr Bob Wigley
Mr Geoffrey Wilkinson

Absent:
Mr Arun Sarin

Also attending:
Sir David Lees (observer)

1. Minutes – 30 April 2009

Approved.

2. Non-executive Directors' annual report

No further comments were made.

Any other business

None.

The meeting of NedCo was closed.