

File



mk

10 DOWNING STREET

Prime Minister ①

NIIIB has been saved

(i) The Inland Revenue
inspector waived his claim
to be past liability of £1.7
million

(ii) Northern Bank, who
started the run on NIIIB,
have offered an indemnity
of £1.5 million which will
cover the future tax liability

(iii) Bank of Ireland will take
NIIIB over and will
comply with IR's request
for the names of Isle of Man
depositors.

In short, something was conceded
by everyone.

AT

15/11

Line to takeFullNIIBLicensing of individual deposit takers
is a matter for the Bank of England

DEFENSIVE BRIEFING

Treat rest as backgroundRevenue has unreasonably forced NIIB into liquidation

It is the duty of companies to manage their tax affairs properly or face the consequences. This applies to deposit-taking companies as much as anybody else. Decline to comment on the Revenue's dealings with a specific taxpayer.

Bank didn't supervise NIIB properly

The Bank of England has statutory responsibility for the operation of the Banking Act 1979 and so must take its own decisions. The Banking Act imposes strict confidentiality requirements so it would be wrong anyway to go into details. Understand from the Bank that strenuous efforts have been made to arrange a takeover for NIIB but these have not so far been successful. The Bank has a duty to revoke licenses where this is necessary for the protection of depositors.

Surely an institution licensed by the Bank of Englandmust be safe

Cannot emphasise too strongly that Banking Act licenses

authorise their holders to take deposits but they do not in any way confer a recommendation by the Bank of England to potential depositors. It is the responsibility of depositors to take a view on the safety of the institution with which they choose to deposit their funds. [There have been a number of other cases in which licensed deposit takers have failed].

What is the purpose of a license?

It is illegal to take deposits without a license. Licenseholders have to satisfy certain minimum criteria and are supervised by the Bank of England but it remains the responsibility of the management to manage prudently and of the depositor to assess the risks he is taking. The system provides some safeguards but it would neither be right nor possible for the Bank to intervene in the duties of management to the point where failure becomes impossible.

How much money will depositors lose?

No comment on possibility of loss until facts have emerged in Belfast. Thereafter - premature to speculate.

This depends on how the situation develops. In the worst possible case, the Deposit Protection Fund will make good 75% of each depositor's loss on the first £10,000 of deposits

with the Northern Ireland company (not the Isle of Man company).

Has the Bank revoked NIIB's licence?

This is a matter between the Bank and the institution concerned. Prejudicial to interests of depositors to say anything more at this stage. [IF PRESSED Under the Banking Act 1979 the Bank of England must give two weeks' notice of intent to revoke a license. As the Bank must consider any representations which the license-holder may make and the license-holder may subsequently appeal to the Chancellor, the Bank does not as a matter of policy disclose whether it has issued notice of intention to revoke. This is a matter the Bank must decide under its own powers.]

Why did the Bank rescue Johnson Matthey Bankers (JMB) and not NIIB

This is a matter for the Bank of England which has full responsibility under statute for its own resources. [IF PRESSED.

The Chancellor has already explained the circumstances behind the Bank of England's decision to rescue JMB. The Bank acted on that occasion on its own responsibility, under its own powers, and at a contingent cost to its own

resources. The Bank took the view that the failure of JMB would have had serious consequences particularly for other members of the London gold market. The Bank did not act alone. As part of the total package, JMB's former shareholders contributed a £50 million capital injection before selling JMB to the Bank of England for £1; private sector banks, including the other members of the gold market, have contributed £75m towards an indemnity against possible losses at JMB beyond its capital and reserves. In the case of NIIB the Bank took the view that the implications for the banking system were not such as to justify the use of central bank resources.

Background Note

NIIB (not an abbreviation) is a Northern Ireland institution with an Isle of Man subsidiary of a similar name. The NIIB Group has got into difficulty because it has mismanaged its tax affairs, essentially by attempting to set up an off-shore operation as a vehicle for tax evasion by Northern Ireland residents and then failing to establish the bona fides of the Isle of Man end of the operation.

2. Attempts to find a buyer for NIIB have failed. The Bank is proposing today to issue notice of intention to revoke NIIB's licence on the grounds that (following its unforeseen and unprovided tax liabilities) NIIB has insufficient capital to maintain its business. The notice will be handed over when the proprietor of NIIB calls at the Bank. NIIB is now ~~likely~~ likely to seek liquidation and depositors (including a Protestant church building fund and other sensitive depositors) will almost certainly lose up to half of their funds.

3. The Bank will not make the revocation public knowledge until it comes into effect (~~previously~~ ^{cisely} when will depend on NIIB's use of the representations and appeals procedures) but it is very likely that NIIB will make the position known before that time, and indeed may go into voluntary liquidation. Neither Ministers or the Bank should however make any comment in public on the

NIIB affair until it is clear that NIIB has itself
disclosed hte position.

CONFIDENTIAL

FROM: MR M A HALL
14 November 1984

CHANCELLOR

c c: Economic Secretary
Sir Peter Middleton
Mr Cassell
Mr Lankester
Mr Ilett
Mr Quinn B of E
Mr Turnbull No 10 ✓

NIIB

You should know of the involvement of Mr Edward du Cann in this case.

Mr du Cann, who knows the proprietor of NIIB, made it clear to the Bank of England some time ago that he was prepared to act as go-between on behalf of a group of Northern Irish business men who might be interested in bailing out NIIB. Mr du Cann was told that other arrangements were under discussion, but that nothing irrevocable would be done if these negotiations broke down without prior discussion with him.

As main note explains there is one last avenue to be explored.

When negotiations with the Bank of Ireland did in fact break down, Mr du Cann was told. He said however that the proprietor of NIIB had told him that it was too late, and that he (Mr du Cann) did not wish to take further action in the matter.

The Bank of England report that Mr du Cann has shown a constructive attitude to the affair.

M A HALL