HOUSE OF COMMONS

ORAL EVIDENCE

TAKEN BEFORE THE

TREASURY COMMITTEE

EVIDENCE FROM PAUL TUCKER, DEPUTY GOVERNOR OF THE BANK OF ENGLAND

MONDAY 9 JULY 2012

PAUL TUCKER

Evidence heard in Public Questions 320 - 497

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Oral Evidence

Taken before the Treasury Committee

on Monday 9 July 2012

Members present:

Mr Andrew Tyrie (Chair)
Michael Fallon
Mark Garnier
Stewart Hosie
Andrea Leadsom
Mr Andrew Love
Mr Pat McFadden
John Mann
Mr George Mudie
Jesse Norman
Teresa Pearce
Mr David Ruffley
John Thurso

Examination of Witness

Witness: **Paul Tucker**, Deputy Governor of the Bank of England, gave evidence.

Q320 Chair: Good afternoon, Mr Tucker. Thank you very much for coming to give evidence, and we are in fact responding to a specific request from you to do exactly that at the earliest opportunity. I note in the pieces of paper that have come through to us this morning that the Bank of England does not hold its own records or transcripts of any of these phone conversations. Why not?

Paul Tucker: I think many of these records do come from the Bank of England, but we have had to pull them together and check that we have got a complete set.

Q321 Chair: Do you keep records of your phone conversations?

Paul Tucker: We certainly keep records of all phone conversations where a note has been taken. The conversation with Bob Diamond was not a conversation that I made a note of or a private secretary made a note of. Sitting here, I greatly wish there were a note of it. The reason is these were completely extraordinary times where many of us, not only I, were rushing from meeting to meeting and making an enormous number of calls, taking an enormous number of calls, and it would be wrong to suggest otherwise than that the routine system of recording things was creaking.

Q322 Chair: So you did customarily record all your phone conversations?

Paul Tucker: In the normal course of business, we would make a note of material telephone conversations, yes.

Q323 Chair: Has there been any internal review of what went wrong here?

Paul Tucker: In terms of keeping a note of this conversation?

Chair: And the handling of this whole issue.

Paul Tucker: Not yet. It is something that I think we will come back to in due course when times are calmer again. We are still living through pretty well crisis conditions.

Q324 Chair: So there has been no internal review of the bank's handling of the LIBOR issue?

Paul Tucker: Sorry, I thought you meant of recording of notes. There has not been an examination of how we make notes of meetings and telephone calls, and I think that is very largely because of the pressure that the Bank remains under.

Q325 Chair: What about the LIBOR issue?

Paul Tucker: On the LIBOR issue, we have looked at that very carefully in the context of the three inquiries that have been conducted.

Q326 Chair: So there has been something done very recently?

Paul Tucker: There has been something done in the context of those three inquiries in terms of preparing the Bank.

Q327 Chair: Has that been completed?

Paul Tucker: In terms of the evidence that I gave voluntarily to the three inquiries.

Q328 Chair: Since this all happened in 2008 and the spring of 2009, which was really the most acute time of this crisis, I am trying to get to the bottom of whether between then and now—as you know this Committee has been pushing for some thoroughgoing reviews of the Bank's performance during the crisis—there has been, prior to the announcement of that work on those three reviews, any work done to examine the performance of the Bank during the LIBOR crisis.

Paul Tucker: If I understand the question, no.

Q329 Chair: The way that you are replying to me sounds as if you are being economical with the truth.

Paul Tucker: No, not in the slightest. I was asked whether I would give evidence, voluntarily, to the three inquiries. I did that. We got together the relevant documents as I prepared for giving that evidence, but in that context, not more widely.

Q330 Chair: Can we turn to the Bob Diamond file note? Does that file note of 29 October 2008 accurately reflect the conversation with him that you had?

Paul Tucker: Not completely. Would it help to explain—

Q331 Chair: Why don't we do it in stages? Is there anything in there that is wrong?

Paul Tucker: I think what it doesn't capture—

Q332 Chair: We will come on to that. Firstly, is there anything in there that is wrong?

Paul Tucker: I think the last sentence gives the wrong impression, yes.

Q333 Chair: What should it have said accurately to reflect what you said to him?

Paul Tucker: It should have said something along the lines of, "Are you ensuring that you, the senior management of Barclays, are following the day-to-day operations of your money market desk, your treasury? Are you ensuring that they don't march you over the cliff inadvertently by giving signals that you need to pay up for funds?"

Q334 Chair: We are going to come back in somewhat more detail to some of that in a moment. Can I just clarify, was one of the "senior figures" referred to in there Sir Jeremy Heywood?

Paul Tucker: Yes.

Q335 Chair: Who were the other senior figures?

Paul Tucker: The person I spoke to most in Whitehall during this period was Tom Scholar at the Treasury. The other senior officials that I spoke to less frequently from time to time were Jon Cunliffe in the Cabinet Office and very occasionally Nick Macpherson at the Treasury.

Q336 Chair: Just back on the earlier point I was making a moment ago, would you categorically refute the suggestion that this conversation might reasonably have led someone to suppose you were inviting Barclays to join the pack and under-report LIBOR?

Paul Tucker: Absolutely.

Q337 Mr McFadden: Just staying on the note, Mr Tucker, the first line of the Bob Diamond note says, "Mr Tucker reiterated he had received calls from a number of senior figures within Whitehall to question why Barclays was always toward the top end of the LIBOR pricing". What was it these senior figures in Whitehall were worried about?

Paul Tucker: I think it wasn't just senior figures in Whitehall. There was commentary in the market that, since the beginning to the middle of October when the then Government, the authorities, had wheeled out a pretty powerful package of measures to stabilise the banking system—capital support, funding support through the Credit Guarantee Scheme, and the Bank itself extending and enlarging the Special Liquidity Scheme, and also co-ordinated interest rate cuts across the industrialised world—whereas some market participants felt that money-market conditions could ease because funding was being provided by the official sector, Barclays had continued to pay higher rates in the market, as reflected in their LIBOR submissions.

I would say there were two separate but related concerns, and by no means only from Whitehall, from within the Bank and, I think, from within the market. One was: is the package working, and why isn't it working? Why isn't it working here as quickly as it appears to be working in the United States? The other element was a soft version, I would say, of: is Barclays okay? Was the right decision taken when Barclays didn't take capital from the Government? If you remember, Mr McFadden, the Government's, the authorities' three-pronged package was announced on 8 October, I believe. On the 13th, when it was announced that RBS and HBOS Lloyds were taking capital from the Government, earlier that day Barclays announced that they would not be taking capital from the Government and would be taking various other measures. There was a degree of concern about that; there was a degree of anxiety about that.

Q338 Mr McFadden: This is really important, because there has been huge press speculation in the last week that these senior figures in Whitehall—and we will come to who they were again—were worried to the degree that they were asking you to lean on Barclays regarding their LIBOR submission rates. I don't want to put words in your mouth, but I am really keen to clarify this. Are you telling the Committee that what these figures in Whitehall were worried about was whether or not the policy measures that had been put in place by the Government were working, or were they worried about Barclays' submission rates and asking you to lean on them?

Paul Tucker: You are not putting words in my mouth. There were two parts to this, which come together I think. Is the package working? If it is, why isn't it working more quickly? Secondly, should we be worried about Barclays? I don't want to say that it was expressed as concretely as this, because I can't remember, to be honest, but there was a sense of, including in the Bank, was the right decision taken in allowing Barclays not to take capital support from the Government?

Q339 Mr McFadden: There is a long email from Jeremy Heywood to you, dated Sunday, 26 October, which has been released earlier today. Without going through it all, it mainly concerns why Barclays and RBS are borrowing at what appears to be above LIBOR rates. It asks about the Government's Credit Guarantee Scheme and the fees involved, and it asks a number of policy questions about whether we have got this package right. Would you describe this email as typical of the kind of worries that senior figures in Whitehall had?

Paul Tucker: Yes. I think there are two parts to it. One part is: is the design of the Credit Guarantee Scheme okay? There was a debate that went on over a number of weeks on how to strike the right balance between not making it overly generous, because essentially assistance was being provided to the banking sector and no one wants to make that too cheap and it also needs to be okay with state aid, and then, on the other hand, you don't want to make it so expensive that it does not do any good. Then there are some technical questions about that. In fact, I think the scheme was changed slightly a couple of months or six weeks later. The other point, which is in the second or third paragraph is, "There is no incentive for lenders to offer funds after 10.30 at or below LIBOR when they know two banks will continue to pay above LIBOR throughout the remainder of the day". That is a different concern, if you like, which is if Barclays—and I think the other bank was RBS—are paying up, then people are going to want to lend to them, provided they do think they are sound, and that is going to dampen any easing in funding conditions and money market conditions.

Remember what the authorities are trying to do at this point. What is going on is absolutely dire. Everybody now looks back to this period and says, "Oh, the package, it saved the world," and actually I do think it helped save the world, but at the time there was anxiety about is it working: "My goodness, we can push as much money out through the Credit Guarantee Scheme and the SLS as we like, but if people are going to continue to pay up in the money market funds"—and I would observe that that means real transactions; that is what is being referred to here—"then the rate is less likely to fall and conditions are less likely to ease."

Q340 Mr McFadden: Can I ask you, did Jeremy Heywood or any other Government official that you mentioned in your opening answer to the Chairman ever encourage you to lean on Barclays or any other bank to lower their LIBOR submissions?

Paul Tucker: Absolutely not.

Q341 Mr McFadden: Did any Government Minister from the last Government ever encourage you to lean on Barclays or any other bank to lower their LIBOR submissions?

Paul Tucker: Absolutely not.

Q342 Mr McFadden: Specifically, did Shriti Vadera ever ask you to lean on Barclays or any bank to lower their LIBOR submissions?

Paul Tucker: Absolutely not. If I may just add one thing there, what is more I don't think that I spoke to Shriti Vadera throughout this whole period at all.

Q343 Mr McFadden: Thank you. Did Ed Balls ever ask you to lean on Barclays or any other bank?

Paul Tucker: No. No.

Q344 Mr McFadden: Or any other Government Minister?

Paul Tucker: No.

Q345 Mr McFadden: If I can take you back to the note, if no one leaned on you why does the Bob Diamond note of the phone call say that you said, "It didn't always need to be the case that we"—that is "we", Barclays—"appeared as high as we had recently"? What did you mean by that?

Paul Tucker: This is not about LIBOR submissions. This is about the conduct of their treasury desk or money-market desk, I don't know what they call it, in the money markets apparently paying higher rates of interest, which I think you can see corroborated to a degree in the note that Jeremy Heywood sent to me. If you permit me to go back, one of the things that we had seen through this crisis is that money-market desks, treasury desks, can send up distress flares. In 2007 Northern Rock quite quickly was bidding the highest rate of interest to borrow pretty well every maturity and pretty well every currency. I am sure it was not every currency and every maturity, but lots of maturities and lots of currencies, and that brought forward its problems. One of the great problems in markets in these conditions—and this lasted for 18 months plus—is that there are moments at which everybody knows what you look like and what they are thinking about you other than you, other than the bank concerned.

We had this in a degree during the autumn of 2007. During the autumn of 2007 I called the treasurer of a UK mortgage bank, not a LIBOR panel bank, and said, "We are starting to hear chatter that you are bidding up, you are prepared to pay more for funds, you are offering more for funds in the market. Be careful, because it may bring about exactly the opposite of what you desire." That kind of thing was in my mind when I spoke to Bob Diamond, and the whole point of speaking to someone senior is that things are so fragile that—and I am sure I didn't use precisely these words—"Be careful, the bridge of your company is moving from the CEO desk, the head of the wholesale bank, to the money market, to the treasury desk".

Q346 Mr McFadden: My final question is, if what you are telling us today is that this was a call that was one of concern at the rates at which Barclays were borrowing, because it might signal a weakness in the bank, what did you think when you saw almost every front page of every newspaper last Wednesday saying, "It was the Bank of England who told us, Barclays, to do this"?

Paul Tucker: I thought I needed to come and ask to see your Committee to talk about what is going on. During this period the question is that Barclays was the next in line. HSBC and Abbey National Santander were seen at that point to be relatively safe, in the context of the world falling apart. Two banks had been taken under the explicit wing of the Government. That left Barclays. During that period, in the measure of credit risk indicated by the credit default swap market, Barclays was top. The way this crisis unrolled in more or less every financial centre was, as one domino went, "Who might the next one be?" We were not in the position of thinking Barclays is doomed. Had we thought that we, the Bank, would have given very strong advice to the Government that it was not safe for Barclays not to take capital from the Government, but it was a hard call and there was anxiety.

Q347 Chair: I want to take you back to some answers you gave to questions I asked a moment ago. Just for the avoidance of doubt, can you confirm that there has been no internal process of review of any type of these events in the Bank prior to the creation of these three inquiries?

Paul Tucker: No. There was preparation for the inquiries.

Q348 Chair: Prior to the establishment of those inquiries nothing whatever had been done? Nobody had come round to ask you any questions?

Paul Tucker: That is right.

Q349 Chair: Nothing whatsoever?

Paul Tucker: Preparation for the inquiries.

Q350 Chair: Following up on a question from Pat McFadden as to what you thought when you saw those headlines, it didn't cross your mind that Barclays were dumping on the Bank of England?

Paul Tucker: Last week's headlines were the week after the release of the conclusions of the three inquiries. The three inquiries concluded—the US Department of Justice—that there was no instruction; no instruction was understood to have been given.

Q351 Michael Fallon: Again, I remind the Committee of my registered interest as a non-executive director of Tullett Prebon. If you had calls from No. 10, No. 11 and the Cabinet Office, it would not be unfair to say, therefore, that the Government generally was concerned about LIBOR pricing?

Paul Tucker: I didn't think that this was some ministerial thing going on in the background. The world is falling apart, officials in prominent places have a responsibility to ensure that they, as best as they can, are up to speed with what is going on—and by the way, in these circumstances it is an impossible task for anybody to know what is going on. I don't doubt that other people may have been as well, but I was the markets director of the Bank of England. My job was to know what was going on as best as we could.

Q352 Michael Fallon: Did you assume the Government was concerned about LIBOR pricing?

Paul Tucker: I assumed that they wanted to know about what was going on.

Q353 Michael Fallon: In the second line of the Diamond memo, he reports that you had said that there were questions as to why Barclays was always towards the top end of LIBOR pricing. Does that not imply that you wanted to get it lower, or that officials or Ministers wanted to get it lower?

Paul Tucker: No, I don't think it does at all, actually. I am not here to defend Mr Diamond's record.

Q354 Michael Fallon: So is this note wrong, then?

Paul Tucker: No. You can go on to say you have to pay what you have to pay. In other words, you have to pay up in the market. Perhaps I should back up a bit, because what is important from quite early in the crisis, from the summer of 2007 onwards, is that LIBOR became increasingly used as a summary statistic of what was going on in the market. I think there are two reasons. First of all, LIBOR diverged from the safe rate of interest in a material way for the first time in living memory. Secondly, we became aware as the weeks and months passed that less money market activity was going via the brokers, more was being done bilaterally. Those are circumstances where everybody has less information about what is going on, and in those circumstances you place greater weight on the indicator that is available every day, which was LIBOR. I think everybody rather slipped into the habit of using LIBOR as a kind of portmanteau term for money market conditions, bank funding conditions, actual submissions, the actual LIBOR fix, and actually I think that is going on today.

Q355 Michael Fallon: Given that Mr Diamond thinks he was being asked by you why Barclays were always towards the top end of the LIBOR pricing, was it unreasonable of Mr Diamond and his lieutenants to interpret that as some kind of wish that somehow Government would like to see his submissions lower?

Paul Tucker: Yes, I think it was. As I understand it, he didn't interpret it that way.

Q356 Michael Fallon: Was it unreasonable of him to interpret it that way?

Paul Tucker: Absolutely. We would not suggest anybody did anything wrong. There is a crisis going on, we are phoning up saying—

Q357 Michael Fallon: You have said that, but, Mr Tucker, we do have two rather odd things happening here. We have Mr Diamond misinterpreting your phone call, which you made to him, and then we have Mr del Missier immediately misinterpreting Mr Diamond. You do see there is a mystery here as to how there should be these two misunderstandings between three very intelligent people right at the edge of these markets.

Paul Tucker: I don't think that Bob Diamond did misinterpret. I understand his evidence is that he did not understand the instruction to be given. I was plainly talking about their money market activity, and the reason for mentioning Whitehall was that everybody is now talking about this; the market must be talking to Whitehall about it.

Q358 Michael Fallon: Let us just be clear once more. You rang him. What did you want him to do?

Paul Tucker: As I have said already, I think, in part of my answer to Mr McFadden, I wanted him to be sure that the senior management of Barclays was overseeing the day-to-day money-market operations and treasury operations and funding operations of Barclays so that Barclays' money desk did not inadvertently send distress signals. In actual paying up for money in terms of what you borrow, you do not need to be at the top of the market all of the time. It is very important not to come across as desperate. That is not a point about LIBOR submissions, where people should just obey the rules.

Q359 Michael Fallon: But doesn't the danger of that call being misinterpreted, either by Mr Diamond or its file note being misinterpreted later by Mr del Missier, lie in the fact that you and other participants in the Money Markets Liaison Group were already aware at least a year earlier that there was suspicion on behalf of some of the participants that rates were not being reported accurately?

Paul Tucker: First of all, it was not remotely in my mind during this conversation that I could be misinterpreted, either by Bob Diamond or by anybody else. If you go back to the MMLG discussion, I think the prevailing view, as it came across to me in the meeting in November 2007, was, this market is not working. It is sporadically illiquid and dysfunctional, which is not the same as saying it is illiquid and dysfunctional all of the time. People are having to make judgements about where they would be able to borrow in the market. That is a much less secure basis on which to proceed with LIBOR. That is one of the reasons why when we got to the spring we encouraged the BBA review and certain elements of the BBA review.

Q360 Michael Fallon: Don’t you accept that it would be easier to brush aside these misunderstandings if you had not yourself already been aware a year earlier that some participants were registering concern that submissions were being falsified?

Paul Tucker: No, we were not aware of allegations of dishonesty. I was not aware of that. I think that what was being said we had understood to mean these money markets are not working. They are dysfunctional. This is a much less sound foundation for determining LIBOR. It is a major piece of global infrastructure. That is not good; that is bad. That increased, as we will probably come to, in the spring of 2008, particularly around the dollar LIBOR fixing.

Michael Fallon: I think some of my colleagues may well be pursuing that.

Q361 Mr Ruffley: Mr Tucker, can I just direct you to the sentence in the first paragraph of the Diamond note dated 29 October, when he says, “I asked if he—that is you—could relay the reality that not all banks were providing quotes at the levels that represented real transactions. His response: ‘Oh, that would be worse’”. I think we have already established that this text is a masterclass in ambiguity on Mr Diamond’s part, but could you perhaps just start by confirming that you used those words, “Oh, that would be worse”?

Paul Tucker: I can’t remember that I used those words, but I—

Q362 Mr Ruffley: Or words similar to them?

Paul Tucker: This goes back to something I said to Mr McFadden, I think. Banks are having to make judgments about where they could borrow in the market, if they are not actually borrowing in the market. If they were not doing real transactions, then Bob Diamond was effectively saying, “Look, when they come to do real transactions they are going to be paying the same as us,” and that would have meant that the package was not having the effect that was desired. It would have been worse. It would have been pretty terrible, frankly.

Q363 Mr Ruffley: I understand that, but he was quite clearly suggesting to you that in relation to LIBOR pricing—because the earlier part of the paragraph makes it clear he is talking about LIBOR submissions—

Paul Tucker: Yes.

Mr Ruffley: Absolutely, we are agreeing on this. But he is putting you on notice that not all banks were providing quotes at the levels that represented real transactions. My question to you is: what did you make of that when he said that to you in this conversation? This is rather important, isn’t it? He was clearly telling you, according to his note of the conversation, that other banks, not Barclays, were not all providing quotes or LIBOR submissions at the levels that represented real transactions. My question to you is, first of all, did he say that to you and, secondly, what was your response?

Paul Tucker: Certainly a bell didn’t go off, “My goodness, there is dishonesty here.”

Q364 Mr Ruffley: Did Mr Diamond say that?

Paul Tucker: I understood him to say, “We are basing ours on real transactions; the other guys aren’t doing that.” Maybe that’s because—this is now me—they don’t have to borrow. I don’t think HSBC had to borrow during that period, for example. In which case, the suggestion is that when they come to do real transactions they will find they are paying a higher rate than they are judging they would need to pay, and that would be worse, because that would mean that the package wasn’t working.

Q365 Mr Ruffley: I understand that, but just to finally nail this down, when he said that not all banks were providing quotes at the levels that represented real transactions, you did not think there was anything untoward about that and you did not want to do anything about that?

Paul Tucker: A bell did not go off in my head. I was focused entirely during this period on, “Is the package working? Is the world going to fall to pieces nevertheless? Have things improved at all?”

Q366 Mr Ruffley: Mr Diamond says that he asked you to relay the reality that this was happening. To whom did you relay the reality, as Mr Diamond would describe it?

Paul Tucker: I am not sure. Possibly in the following days, in the conversations with colleagues and officials, but I think within less than two days Barclays announced that they had raised equity from Qatar and interest in Barclays more or less evaporated.

Q367 Mr Ruffley: In his evidence to us, Mr Diamond said, “It was clear that a number of the firms who were posting had emergency loans or had been nationalised or were having trouble funding, and yet we were posting the highest level then. As I said to Paul, we are funding at those levels but we would question whether some of the other institutions can actually get funds at the levels they are posting.” This is what he said he told you. Were you at any stage responding to those alarm bells?

Paul Tucker: Well, if you think about those firms, two of them had taken not only liquidity assistance from us but capital from the Government, and so they had become lower risk. I don’t think I would have been at all surprised in the short run that they were able to borrow more cheaply than Barclays. I talked about Barclays being next in line. They were out of the line. Indeed, to this day I remain puzzled and concerned that, as time moved on the semi-nationalised banks ended up paying more in the market than other banks, but that was not the case at this point, and I was not surprised by that. What is more, because we were lending them a lot of money they did not need to go into the market and borrow at all. It is not surprising then if they did not have real transactions.

Q368 Mr Ruffley: I agree with that, and I think that is a logical explanation, what you have just said.

Paul Tucker: The other two, HSBC and Abbey Santander—and at that point the spectre of the euro area’s problems had not emerged—were perceived at the time as, how should I put it, rock-solid by the standards of the moment.

Q369 Mr Ruffley: On 30 October—this is after this disputed conversation—Mr Diamond forwarded you a note by Andrew Jones, and it is in the bundle that the Bank sent today. It outlined a recent set of transactions under the Government’s guarantee scheme. Had you discussed this in your 29 October conversation?

Paul Tucker: I had mailed him earlier than that to say, “You have used the CGS. You have paid 140 basis points over gilts. That is a lot.” That is on 25 October. I can’t remember whether we touched on it in the conversation on the 29^{th}, but it was certainly part of the background to what I am describing. Here is a bank that, even when it goes out and borrows with a Government guarantee, is paying 140 basis points over gilts. That struck me as quite a lot.

Q370 Mr Ruffley: In that 30 October email, I wonder if you could tell us what you made of it. It is the email from Bob Diamond to you, copied to Mr Jones, and he says, “Paul, I asked Andrew Jones to give you some perspective. Quite a positive development actually that you and the Government should feel pretty good about.”

Paul Tucker: Well, I kind of took note. They had distributed it. There are some redactions here to delete the names of people that had put in big orders. But I didn't feel wowed that this scheme was going to mean that banks had to pay a percentage and a half over currency. One might say, "Well, hold on, there is a liquidity issue here," but as I recall, the CGS pieces of paper were eligible in our operation, so they could be converted into liquidity quite easily, and even in the market not every piece of paper needs to be super-liquid. This had a Government guarantee behind it. What I think it was, was a product of two things: just how incredibly traumatised the market was, so the market was not prepared to diverge very much at all from what it thought was safe-safe, and maybe there was a kind of Barclays element in it there as well, as the next in line.

Q371 Chair: Just to come back to this sentence in the file note, "Not all banks were providing quotes at the levels that represented real transactions." You have just told us that did not set alarm bells going off, but this was usually the key indicator used to assess financial stability, wasn't it? Why didn't alarm bells go off?

Paul Tucker: Because markets had dried up, not completely, as I have already made clear, but for months there had been periods where sometimes it was based on judgments as to where they would be able to borrow rather than actual transactions of where they were borrowing, and then things would loosen up again and there would be some transactions.

Q372 Chair: So you already knew this? He was telling you something you already knew?

Paul Tucker: No, but it would be tremendously important if they were making the wrong judgments about where they would be able to borrow if they were conducting real transactions.

Q373 Chair: I have understood that. That is the point you made earlier, but my point is, did you already know that not all the banks were providing quotes that—

Paul Tucker: Not at that particular moment, no. We were not following—

Chair: But generally?

Paul Tucker: We knew that it could happen from time to time, yes.

Chair: So you did know that it was happening?

Paul Tucker: In general. That was the backdrop to the BBA review earlier in the year.

Q374 Chair: So why was he so anxious to convey this reality to you?

Paul Tucker: I don't know.

Q375 Chair: Despite the fact you were having all these frequent conversations, you seemed to be at cross-purposes on that point as well.

Paul Tucker: This wasn't a call for me to get to the bottom of something. It wasn't a call about analysing what is going on in the market. That was not the purpose of the call. The purpose of the call was, "People in the market are talking about you. They are talking to everybody about you, including people in Whitehall. There is concern about you. Just make sure that the day-to-day funding operations of your bank don't tip you over the cliff."

Chair: You have made that point, yes.

Q376 Andrea Leadsom: Mr Tucker, I find your evidence so far quite contradictory. In particular, I would like to draw your attention to the BIS March 2008 report where they say, "Well-established benchmarks are critical to the efficient functioning of markets in these instruments. Benchmarks anchor the short end of the yield curve, thereby conveying information about expected future policy rates." Do you agree with that?

Paul Tucker: The key measure of expected future policy rates throughout this whole period was the overnight index swap market based on SONIA, which is a measure of the average rate of interest on actual transactions in the cash unsecured overnight market.

Q377 Andrea Leadsom: Are you saying that LIBOR was less important?

Paul Tucker: As a measure of future policy expectations for the UK, or the MPC for others, LIBOR was not that important. It was not what we follow to try to gauge expectations of the path of our policy rate.

Q378 Andrea Leadsom: So in effect the interbank rate, because it was not working, had become less relevant to the Bank of England's understanding of the state of play of the markets? That contradicts a lot of the evidence that we have heard so far.

Paul Tucker: No, it became a measure of something else. The LIBOR, which is a measure of the rate of interest at which banks would be able to fund themselves, will reflect three components. The first component at any particular maturity is what you think the Bank of England's policy rate will be over that time horizon. The second is—and I am talking about LIBOR as a whole now—what do funders think is the average credit risk and the compensation they should get for that credit risk in the LIBOR panel? The third component would be, whatever they think of the credit risk, does nobody want to lend because they want to hoard liquidity? I think you can see this in our quarterly bulletin from the middle of 2007 onwards. We looked at the wedge, the spread between LIBOR rates and the OIS rate, the measure of expectations of our policy, as a composite indicator of bank credit risk and liquidity risk. Then we looked at credit default swap spreads as an indicator of credit risk and tried to break it down.

Q379 Andrea Leadsom: Mr Tucker, that is very interesting—other colleagues might come on to that—but I am very keen to talk about the bank's actual procedures. You are saying on the one hand that LIBOR reflects the availability of cash, the presumed activity of the central Bank and the credit risk of the opposition, of the person you are lending to. That surely does make it absolutely a key anchor in the short term yield curve, does it not? In fact, the Governor himself said he thought that the LIBOR fixing should reflect the actual interbank borrowing rate as opposed to just some guess because the market is not functioning. Would you agree with that? Is that a yes or a no?

Paul Tucker: As you have just put it, yes, but it is not a measure of expectations of monetary policy. It is relevant credit conditions and an indicator of liquidity conditions, and we would much—

Andrea Leadsom: But it should be actual rates.

Paul Tucker: I am sorry. We would much prefer it to be based on actual transactions.

Q380 Andrea Leadsom: But you don't require it to be based on actual transactions?

Paul Tucker: We don't require anything; we are not responsible for LIBOR in that sense. In the BBA review in 2008, apart from inputting some thoughts on governance and process, we made it clear to the BBA that we would not endorse LIBOR, precisely because we wanted to keep open the possibility of moving to other measures, including a transaction-based measure, when things had calmed down.

Q381 Andrea Leadsom: Let's go back to your procedures, then. Can you confirm that you are personally responsible for the effectiveness of LIBOR in the marketplace at the

Bank of England? You are saying the BBA is responsible for recording it, but at the Bank of England are you the person who is responsible for that?

Paul Tucker: We didn't see ourselves as being responsible for its effectiveness whatsoever. We used it as an indicator of the things that I have described. We didn't take any responsibility for LIBOR.

Andrea Leadsom: For LIBOR in the sense of its accuracy.

Paul Tucker: We were not a regulatory body.

Q382 Andrea Leadsom: Do you have a procedures manual at the Bank?

Paul Tucker: Yes.

Q383 Andrea Leadsom: Would you have a procedure for all contacts with banks in the marketplace? If you have a contact from a bank about a particular issue is there a procedure that tells you how you should deal with that contact from that bank?

Paul Tucker: People write up their calls, as far as they can. As I have said already to the Chairman, that wasn't—

Q384 Andrea Leadsom: Is it on a best-efforts basis or is it actually a procedure?

Paul Tucker: That wasn't—well, during the crisis, yes.

Q385 Andrea Leadsom: So the procedure is there but it is not always followed?

Paul Tucker: It could not be. It was impossible to do what you describe. There is not a rule that people must write notes of everything, and there is not a policy that they must write notes.

Q386 Andrea Leadsom: Sorry, Mr Tucker, is there a procedure that if you have contact with a bank in the marketplace as a Bank of England official you write up a note about the call?

Paul Tucker: It is a policy that you should if it is interesting and material.

Q387 Andrea Leadsom: Is that what the procedure says?

Paul Tucker: That is what our policy says, yes.

Q388 Andrea Leadsom: How often are the procedures reviewed?

Paul Tucker: Those procedures—well, that policy is ancient: write notes for record of important conversations. That didn't happen during this period. There were too many conversations; there were too many things going on. The system was creaking.

Q389 Andrea Leadsom: What is your whistle-blower policy? If somebody from the interbank market calls you and says, "I think someone is manipulating LIBOR," either with criminal intent or with intent to mark down their cost of funds, what is the procedure for dealing with that?

Paul Tucker: I don't have it in my mind now. We do have a whistle-blower policy. We do review it periodically.

Q390 Andrea Leadsom: Would you have followed the whistle-blower policy in the case of Bob Diamond's call to you saying he thinks other banks are manipulating LIBOR?

Paul Tucker: I didn't understand Bob Diamond's conversation to be a whistle-blower conversation at all. He didn't say to me, "Look, Paul, I'm trying to tell you something absolutely terrible here."

Q391 Andrea Leadsom: No, but he is telling you that the LIBOR submissions from other banks are not the rates at which they can borrow in the interbank market, and the rule around the submissions is that they should be the rate at which you borrow, not the rate you feel like submitting.

Paul Tucker: No, what he records himself as saying is that the submissions were not based on real transactions. That is different from what you have just said. As I have said to the Chairman, there were periods from the middle of 2007 onwards where the markets were sufficiently illiquid and dysfunctional that there weren't real transactions, and then they would emerge again. During this period, I think in response to Mr Ruffley I have given reasons why maybe some of the other sterling banks were not doing real transactions. I certainly did not understand this conversation in any way as Mr Diamond telling me about dishonesty or cheating. I did not. As I have said, I did think, "Well, if he is saying that the market is here when they think it is there, and they are going to discover it is here when they go back into the market," then, as I said to Mr McFadden, the package is working even less than we were fearing.

Q392 Andrea Leadsom: Are you saying then that in the Bank of England's procedures there is a margin to allow for false submissions of LIBOR when the market is in crisis?

Paul Tucker: No, we do not have a manual on the processes for LIBOR submissions. We are not part of the LIBOR panel. We do not oversee the BBA. We were not a regulatory authority.

Q393 Andrea Leadsom: But the Governor of the Bank of England has said that he thinks that LIBOR submissions should be transaction-based. What efforts did the Bank of England make during that period to ensure that banks knew that the Bank of England believed that LIBOR submissions should reflect actual rates and not invented rates?

Paul Tucker: If they could reflect actual rates—if there were no real transactions they had to make judgements. I think the key period here is the BBA's review from the spring of 2008. There is an annual review of some kind. We emphasised to the BBA that this review was tremendously important because of the eroding credibility of LIBOR. I phoned round senior members of banks and said, "This is not a review that should be conducted by the junior people that normally sit on the relevant BBA committee. It should be conducted by senior people in the banks. That is the message that I am giving to all of the major sterling clearers". We encouraged the BBA to not just consult the banking industry, the interbank market, but also users of the market and, as the first round of the preliminary conclusions, the conclusions that were consulted upon by the BBA and were being drawn up, the BBA spoke to us about them. They were setting up a new group to oversee LIBOR, and I said, include asset managers and users of the market.

Q394 Andrea Leadsom: Yes, I think other colleagues will come on to that. Can I just finish up with two questions? Are you aware of LIBOR having been manipulated since 2008 by any bank submitters?

Paul Tucker: No.

Q395 Andrea Leadsom: You are not aware of it, or it has not happened?

Paul Tucker: We are not aware of it, other than what is starting to come out of these investigations.

Q396 Andrea Leadsom: So if LIBOR had been manipulated since 2008, would the Bank of England take any responsibility for failing to deal with its knowledge that LIBOR had been falsified, or would it see that as somebody else's responsibility?

Paul Tucker: We did not have any knowledge. I did not have any knowledge of this. I have said—

Q397 Andrea Leadsom: But you do now. I am saying you did since 2008?

Paul Tucker: We have since 2008, since the investigations.

Q398 Andrea Leadsom: So only since a month ago was the Bank of England aware that LIBOR had been falsified?

Paul Tucker: That this was a cesspit, yes.

Q399 Andrea Leadsom: Final question. Are you concerned about any other fixings in the interbank markets that may have been manipulated, either for reasons of the financial crisis or for profit?

Paul Tucker: I think that we think that, as part of the review that the Government has commissioned from Martin Wheatley, as well as looking at LIBOR, they should look at every single index that is not based on real transactions, where participants in the market have to self-certify. That plainly does not work. Even if these other markets have been completely clean—and we have no information on that one way or the other—over that period, as self-certification is plainly open to abuse and so it could occur elsewhere. Yes.

Q400 Chair: Have you made that clear to Mr Wheatley?

Paul Tucker: I think the Governor made that fairly clear in the press conference last week. I don't think we have seen Mr Wheatley since the review from him was commissioned.

Q401 Stewart Hosie: Mr Tucker, can I take you back to the week after the telephone conversation with Mr Diamond.

Paul Tucker: The week after?

Stewart Hosie: The week after, yes. On 6 November there was a cut in the base rate of 1.5%. You will recall that the banks did not immediately pass that rate cut on, particularly to people with mortgages, and that led to an emergency breakfast meeting on 7 November, where the Chancellor was reported to have read the riot act, furious that the banks had not passed the base rate cut on to consumers. They explained, and I am sure you will be familiar with this, that because the base rate was so low but LIBORs were still so high, it would have led to a reduction in margins and a loss both to the banks and potentially to the taxpayer. Then on the 7th, lo and behold, the three-month LIBOR fell by 1.07%. I understand it was the biggest single daily fall since 1992. How did that happen? Can you explain, given all the circumstances and the difficulties of the time, how the LIBOR rate fell to that extent that day and again the following day?

Paul Tucker: Sorry, I haven't refreshed my memory of those particular days. What I would say is two things. First of all, it is many, many years, decades, since the Bank of England has tried to enforce the passing on of our bank rate cuts or rises. You set monetary policy, credit spreads and other things move around. You then have to take that into account. I say that for the following reason, that during the course of the back end of 2008, the beginning of 2009, as we were taking the bank rate down to near zero, part of what we were trying to do was offset the effects of tightening credit conditions. The steps that the authorities took that we thought could help to bring down LIBOR, or the LIBOR spread, between LIBOR and the risk free rate, were the Credit Guarantee Scheme and the extension of the

Special Liquidity Scheme and the capitalisation of the banks. The first two mean banks should need to borrow less in the unsecured market, less demand pressure, and the third, capitalisation of the banks, the Government standing behind the banks, should have made them less risky, so that people when they loan to them were less frightened and would charge less of a premium. I believe that those were, and have remained, the dominant influences on bank funding costs.

Q402 Stewart Hosie: Indeed, and those things were in place—they were all very important—but the LIBORs and the spread had barely moved. The question I am asking is about where you had this emergency meeting where the Chancellor reads the riot act, but there was no improvement in terms of those schemes, the banks had been kicking back against passing on the base rates, and then all of a sudden the LIBOR rate fell. That was against the backdrop of banks not being able to borrow, certainly not at the submitted rates, against the backdrop of an IMF report that was extremely gloomy indeed, also published on the 6th. Why did the LIBOR rates fall a near-record amount on a single day?

Paul Tucker: I don't know. I haven't refreshed my memory of those days. I need to—

Q403 Stewart Hosie: You said earlier that there would be no pressure put by the central Bank on the banks to make lower than otherwise expected submissions. At the time when the Government were desperate to see the base rate cut passed on, did the central Bank make representations to the banks for them to make lower submissions to the LIBORs at that point?

Paul Tucker: I am absolutely certain not.

Q404 Stewart Hosie: That is helpful. Do you believe the banks themselves could collectively have determined that LIBOR submissions needed to be lower to shrink that spread in order to be able to pass on the base rate cut?

Paul Tucker: I have no evidence one way or the other. Such collusion would never have occurred to me until the episodes of the revelations of the last few weeks.

Q405 Stewart Hosie: You have no evidence that they would have collectively come to that decision?

Paul Tucker: No, no. If I can go back to the questions, I think, from Mr Ruffley and Ms Leadsom, these banks were in very different circumstances. You have two in the state sector and overstating the Lloyds HBOS bid, one a massive Asian-oriented bank that is regarded as rock-solid, if anything is having safe-haven flows to it. Abbey Santander still then in much the same position, and Barclays. This wasn't a homogeneous group.

Q406 Stewart Hosie: No, I am simply trying to get to the bottom of how this happened.

Paul Tucker: I understand.

Stewart Hosie: Can I then take you to a few days later, 11 November? This is in the *Telegraph*. It is a short paragraph so I will read it all. "Interest rate cuts, banks being told to fall into line and lower their mortgage rates. Good stuff from the Treasury. After all, with the base rate falling and Libor following it…money should get cheaper for all of us. Shame Alistair Darling had to call all the banks into his office for a breakfast barracking to get it done." Were you aware that the Treasury at this breakfast barracking had instructed the LIBORs to be lower, the spread to be narrower, in order for the base rate cuts to be passed on?

Paul Tucker: I have no recollection of that or of anything like that.

Q407 Stewart Hosie: Okay. I am just slightly perplexed—and please forgive me—that we have a near-record one-day fall in the three-month rate, that the banks collectively couldn't have done this, the central Bank didn't instruct, the Treasury didn't instruct, but there is lots of gossip and chatter and emails about how important the LIBOR rate is. Indeed, you said yourself that LIBOR was used as a summary statistic as to what was going on in the market.

Paul Tucker: Then, as you probably know, the spread started to rise again back towards Christmas. The repair in financial markets was slow. A number of times during this period—I can't tell you exactly when—I was asked by colleagues, "Why isn't all this repairing itself faster? Why aren't things having a quicker effect?" and the answer I gave is, "The market is traumatised. It is as though everybody has been in a motorway pile-up and they have just escaped, and they have pulled over on to the hard shoulder and they are kind of holding their head in their hands, and this will take time," and it kind of did.

Q408 Stewart Hosie: Mr Tucker, the argument there would appear to be that a record one-day fall, after a breakfast barracking with the Chancellor, at a time when the banking establishment, quite rightly, wanted LIBORs to be lower, was the consequence of a traumatised market, and nothing else.

Paul Tucker: I see that—I see the question. I haven't refreshed my memory of this period.

Stewart Hosie: Okay. I would be grateful if you could look at the period of 6 to 11 November, from the base rate cut and its aftermath, in relation to what may or may not have been said about LIBOR, because I think it is extremely important indeed. Thank you.

Q409 Teresa Pearce: The note that Bob Diamond wrote, when was the first you saw that?

Paul Tucker: I can't remember exactly—as part of the process around the three inquiries of the FSA, CFTC and Department of Justice.

Q410 Teresa Pearce: Did you at the time go back to Mr Diamond and dispute any of the note?

Paul Tucker: No. I have never spoken to Mr Diamond about this note.

Q411 Teresa Pearce: Mr Diamond, as you know, was before us last week, and in his evidence he said about you, that, "He was trying to tell me there were a number of Ministers in Whitehall who were worried that we were not able to fund," and it seemed to me that he was saying that you were trying to give him a nod and a wink. He also said to us that he took from the conversation that you were saying, "My goodness, if Barclays can't fund we might need to nationalise them." Was that your intention?

Paul Tucker: I certainly didn't mention Ministers, and I know that I didn't, because I wouldn't. It was—

Q412 Teresa Pearce: But were you meaning to convey the possible threat of nationalisation?

Paul Tucker: No. No, I wasn't. I think I did mean to convey, as I have said, "You are now being talked about everywhere. There is anxiety about this. There is anxiety about whether you are okay, whether you are going to have to pay up." This is me trying to make sense of it rather than recollecting. Well, the first bit I absolutely recollect: Barclays had been very clear they did not want to take capital from the Government and that they did not need to take capital from the Government. They put out an announcement, as I said earlier on, I think on the 13th—the day that the RBS and HBOS nationalisations were announced—listing quite a series of actions that they were going to take. I also said, and this is also recollection, a clear recollection, that there was nervousness in the Bank and I think among officials about, "How firmly based is that decision? Have we done the right thing?" Then, the bit that I am trying to make sense of, and it is not recollection: in those circumstances my phoning up and saying, "Everyone is pretty worried about you because everyone is talking about you and the rates that you are having to pay in the market." It is not for me to say, but I suppose that could have played into their concerns about escaping nationalisation. But the first two bits are clear recollections.

Q413 Teresa Pearce: Thank you. In the press last week it is reported that Mr Diamond partly resigned because of an unambiguous message from the Bank. Did the Bank of England convey that message to the board?

Paul Tucker: I think this is something that you ought to raise with the Governor when we come back next week, rather than me. I was not personally involved in the discussions, which—

Q414 Chair: But you were aware there were discussions taking place?

Paul Tucker: I was aware, I wasn't deeply aware. I was aware there was great concern among all of us. You could see at the press conference for the financial stability report last Friday, or the Friday before, that there was great concern that trust has to be re-established in banking. This is now different from and extra to the whole safety and soundness, systemic stability and resilience—massively important though that is. This is now, "Can we actually trust the honesty of core wholesale markets? That has to be addressed fast." If I can put it like this, I would have wanted the regulators and the Bank to make clear to the Barclays board that, as the institution that was in the spotlight and found responsible for terrible practice, they needed to take decisive action to start the process of cleaning this up.

Q415 Teresa Pearce: Are you saying that is a question we should make to the Governor and not to you? Did the Governor take soundings from the Court, including you?

Paul Tucker: We talked about our response—not about the particular thing but about the more general response. Yes, we talked about it in preparing for the Financial Stability Report press conference.

Q416 Teresa Pearce: Do you think that Mr Diamond did the right thing in resigning?

Paul Tucker: I think the events of the past two weeks, or however long it is, show that absolutely decisive action was needed to start a new chapter.

Q417 Teresa Pearce: Does that reflect a long-standing concern?

Paul Tucker: No. What has been revealed has come as a deep shock, a deep shock.

Q418 Chair: Despite the fact that review of LIBOR has been going on for some time?

Paul Tucker: Well, we didn't know what it would find. You are right to pick me up on that, because there are two periods. There is the period before we knew/I knew that any inquiries were going on—relative to that, an absolutely massive shock. Since we knew about the inquiries, we knew that there were suspicions, but we did not know what the inquiries were going to show, and there are inquiries still under way and we don't know what they are going to show.

Q419 Mr Love: Mr Tucker, can I go back to that conversation and the note that Mr Diamond gave. You told us today that your primary memory of this is that you were clearly concerned about whether the package was working or not—you were concerned about Barclays' ability to finance itself at this particular point in time—but with the onus on Mr Diamond, and certainly the evidence he gave last week, he stressed the continuing discussions about LIBOR rates. Can you just confirm how much the discussion was on LIBOR; whether he is correct and it was a major part, or whether it was really a subsidiary issue?

Paul Tucker: Well, no, LIBOR is used as a summary statistic. If I go back to one of my earlier answers, in conditions where less activity was going through the brokers and more is being done bilaterally between borrowers and lenders, and there is just less activity, we were more reliant on LIBOR as an indicator of what was going on. We used it as an indicator of what was going on and we thought that it was a reasonable indicator of what was going on. It went up a lot after Northern Rock. It then came down a bit. It went up a lot at the end of 2007. It came down a bit during the spring of 2008, when things deteriorated here. It started to drift up again, almost considerably above the price of borrowing in dollars or euros, and then after Lehman it absolutely shot up. What is more, the dispersion of submissions widened and the ranking of them seemed broadly to make sense relative to perceptions of credit risk. We did not do scientific tests of that. I am being long-winded, and I apologise.

Mr Love: No.

Paul Tucker: We were using it when there was not more concrete information about. I think we all used it and referred to it as a reasonably reliable summary statistic, and I don't doubt that I did that when I talked to Bob Diamond.

Q420 Mr Love: But your recollection is you did that in the context of Barclays' difficulties in funding itself—

Paul Tucker: Potential difficulties.

Mr Love: —potential difficulties, rather than his submission to us, which was that, "There are a lot of banks out there doing this and we want to highlight this to you. We are the honest brokers"?

Paul Tucker: Yes. Everybody was saying—well, I don't want to overstate it, people were saying, different banks were getting LIBOR wrong, but these were judgments about what they could borrow at in the market.

Q421 Mr Love: Mr Diamond said that this was just one of a number of conversations he had had with you specifically on the LIBOR issue. Do you remember any previous conversations with him or with senior officials that would report to him at Barclays?

Paul Tucker: No, they had said, without labouring the point, "We are calling it where we see it,", which is what all of the other banks said as well. They never at any point said, "Actually, Paul, we are trying to make a different point to you here. We're making a point about dishonesty. You are not hearing this." At no point was there anything like that.

Q422 Mr Love: In your recollection, when was the first time that LIBOR was raised as an issue in relation to low-balling?

Paul Tucker: To—?

Mr Love: Low-balling.

Paul Tucker: I was not aware of allegations of low-balling until the last few weeks. I have referred a couple of times to the events leading to the BBA review and what happened with dollar LIBOR. People became concerned in the United States in the spring of 2008 about where dollar LIBOR was relative to where dollars could be borrowed in New York, and this did concern people and we heard about it. There was chatter about it. The New York Fed raised it with us, and that was part of the background to our emphasis on why the BBA review of LIBOR governance and processes in the spring and onwards of 2008 was so important.

But can I say two things about this, please? First of all, we used LIBOR as the basis for the fees in the Special Liquidity Scheme in, I think, April 2008. This was our biggest intervention in the crisis in terms of providing liquidity and trying to ease funding conditions. We would not have dreamt of using LIBOR as part of the pricing structure for Bank of England operations had we had doubts about what is now referred to as low-balling or high-balling, or anything else. We thought the underlying markets were dysfunctional, sporadically illiquid, much less reliable than normal, but we did not have suspicions of dishonesty and we thought, as I said just now, the pattern of LIBOR movements made sense.

Q423 Mr Love: You will know, from the FSA and other reports, that low-balling was going on, and had been for some considerable period of time before the events that we focused on—almost a year.

Paul Tucker: We did not realise.

Q424 Mr Love: You mentioned earlier on that during this period of intense activity you had not been able to record any of the conversations. Would that apply to all the period back to when the low-balling started in October or so 2007, and would there be any recordings of conversations that may or may not have been held with Barclays or other banks in relation to LIBOR?

Paul Tucker: In terms of our just not doing as many notes to file of conversations, I should think that starts back in the middle of 2007, when things start to get out of control. We need to review what there is, but—

Q425 Chair: Sorry, just to be clear. This note taking was okay until Northern Rock, basically, is what you are saying, and then once Northern Rock came along the whole system of note taking collapsed?

Paul Tucker: Well, no, it was not a binary thing, because the degrees of pressure went up and down.

Q426 Chair: So you will find the odd notes here and there?

Paul Tucker: Yes.

Q427 Chair: It does sound a bit of a mess.

Paul Tucker: It was a mess, Mr Chairman. The world financial system was progressively falling apart, and then did fall apart, and we had experienced nothing like it.

Q428 Mr Love: But this was at a critical time when judgments were being made and conversations being held, and it would have been—

Paul Tucker: Yes. During this period, the biggest thing for us in the sterling markets was the preparation of the Special Liquidity Scheme, which took about six weeks, and partly it had been prompted by rumours of HBOS being in trouble, which I think were false, and there was a rise in money market rates in sterling, relative to dollars and euros, which suggested that the pressures were accumulating on UK banks. The SLS was wheeled out and planned and designed to try to underpin funding conditions in UK banks, and we were spending an enormous amount of time on that.

Q429 Mr Love: In an earlier reply to Mrs Leadsom, you indicated that the bank does not have any specific responsibility relating to LIBOR, but you do accept—and you have in your answer to my questions accepted—that it is a critically important benchmark. Indeed, you have used it yourself.

Paul Tucker: Absolutely.

Mr Love: Does that not give the Bank, at the centre of economic activity in the City, a special responsibility to safeguard LIBOR from any attempt to manipulate it?

Paul Tucker: We did not see it like that. The job of overseeing manipulation and conduct is for another authority.

Q430 Mr Love: I am not suggesting that you should have overseen manipulation. This is about when people are saying to you that there is manipulation, as Mr Diamond claims that he said to you, and there are reports out there that this was said by other banks.

Paul Tucker: We were worried about the credibility of LIBOR as a piece of global infrastructure, increasingly through the spring of 2008 and, as I have described, we underlined to the BBA how seriously they had to conduct their review. We underlined to the BBA how seriously banks conduct their review. We underlined to the banks they had to participate at a more senior level. We suggested to the BBA that they had to go beyond the banking community and reach out to the users of this index, and we made it clear that we would not endorse LIBOR and wanted to leave the door open to further reforms. In the circumstances of the time with things falling to pieces and the sheer scale and difficulty of transitioning—

Mr Love: I am now being looked at by the Chairman.

Paul Tucker: I am sorry.

Q431 Mr Love: Let me just ask you one final question. Do you think that that response to the BBA, with all the concerns that were being expressed, was adequate? Should the Bank not have stated more clearly their concern, not about the accusations of manipulation but concerns that the BBA form of LIBOR was not adequate to the task necessary for the modern economy?

Paul Tucker: I think that our response and input to the BBA review was very serious and it was adequate. We made a judgment that moving away from the existing method of collating LIBOR, based on judgment, self-certification, away to a transactions-based measure, was just not feasible during a financial crisis.

Q432 Mark Garnier: Mr Tucker, I want to be absolutely clear about one thing you said in response to a couple of earlier questions. I think you said that prior to the latter part of 2008 you were not aware of any LIBOR low-balling. That is absolutely your position? For the record, you are nodding.

Paul Tucker: Yes.

Q433 Mark Garnier: Can I refer you to the Bank of England Sterling Money Markets Liaison Group, in the meeting of 15 November 2007 where the minutes note—and this is a meeting you were at, along with Simon Chatterton who was an alternate from Barclays, and John Ewan who was an alternate from the BBA—that "several group members thought that LIBOR fixings had been lower than actual traded impact rates through the period of stress." That was on 15 November 2007.

Paul Tucker: Yes. First of all, if I may say two things, I was chairing this meeting, I can remember that part of the discussion in broad terms, and I can remember turning to the BBA and saying, "Please address these questions as the body responsible for LIBOR." During this period—

Mark Garnier: But I—

Paul Tucker: If I may address the point more directly, as I have already said, less was going through the brokers, more was being done bilaterally, people did not know anything very much about each other's transactions at all, and so I heard this as, "They don't know what each other are doing." It was questioning the judgments that the different parties were making, or that they were relying on bilateral private transactions—I did not read this as cheating. And when John Ewan responded there was not then a great outcry in the room. People did not get in touch afterwards and say, "You've missed the point here."

Q434 Mark Garnier: But you would understand why people would think that you have absolutely missed the point. I come back to my first point, which is that you just said to us quite clearly that there was no suspicion that there was low-balling and yet this is a minuted meeting a year beforehand and—

Paul Tucker: Yes, and went on our website with lots of trouble there, and—

Mark Garnier: I am not suggesting—it is just it is very, very—

Paul Tucker: No, the reason I said it went on our website was this was fully transparent to the world. No one was phoning up afterwards saying, "You've missed the point. You haven't got this," or, "We've now seen this on your website. This is signalling something dishonest." This was a dysfunctional market.

Q435 Mark Garnier: But it is clearly low-balling. This is clearly stating that low-balling was going on.

Paul Tucker: I think it may well be, in hindsight, but that was not how we understood it at the time, and if I may—

Q436 Chair: So it is another misunderstanding, like all the other stuff in this submission?

Paul Tucker: If you go on to the April MMLG, some group members thought that fixing LIBOR rates was complicated by a lack of term liquidity. Yes, it was.

Q437 Mark Garnier: I completely appreciate that the markets are illiquid and it is incredibly difficult.

Paul Tucker: Yes.

Mark Garnier: You then go on to have a sort of discussion with the BBA. The BBA official replied on the concerns about LIBOR, which is clearly a responsible thing. "Dispersion between the panel banks' submissions had increased in August—and I find this an extraordinary thing to say—but has since fallen back, in part reflecting clarification from the BBA on LIBOR definitions." That almost suggests that the people submitting LIBOR rates did not actually understand what it was they were doing? For the record, you are nodding your head.

Paul Tucker: I don't know about that. I understood this as, this market isn't working. In dysfunctional, sporadically illiquid markets banks have concerns about where they are putting their LIBOR submissions, but nobody presented this as dishonest, nobody—

Q438 Mark Garnier: I am not suggesting they are doing it dishonestly but clearly, as I read this, it is, if you like, a distress flare or a big red alert signal coming up that there is something fundamentally wrong with this market. The LIBOR rates are not reflecting the true interbank lending rates for the actual trades, and the BBA have actually admitted—obviously minutes are précised versions of the conversation, I understand that—but on reading this it suggests that the BBA are admitting that the contributor banks don't understand how to fix a LIBOR rate.

Paul Tucker: On the first part of that, this was an alert. I don't think anybody needed an alert that this was a market that was dysfunctional.

Q439 Mark Garnier: It was an alert to low-balling.

Paul Tucker: I think with hindsight it looks like that. We did not hear it like that. I think it was not unreasonable to understand it in a different way—I really do.

Q440 Mark Garnier: I am going to press you on this quite hard, if I may, because clearly people are very, very worried about this. You say that you did not necessarily understand, and we can all look at these things with the benefit of hindsight—I completely accept that, given what subsequently went on and more information to understand what was going on—but those two statements, that LIBOR fixing had been lower than actual traded interbank rates, coupled to the second part, which in part reflects clarification for the BBA and the LIBOR definition, but implying lack of understanding, together imply to me that there is a fundamental problem with not just the liquidity of the market but the understanding of how LIBOR worked by the contributor banks, coupled with the fact that they are consistently low-balling these rates, for whatever reason. Subsequently, it has been alleged and it has been discovered that it is possible that low-balling was in order to create a false impression about the liquidity of the bank in this case, but nonetheless at this point as the Bank of England and, irrespective of whether you are the regulators or not, surely you must have been extremely worried about the fact that these LIBOR rates were being low-balled?

Paul Tucker: On the first part—lower than actual traded interbank rates—as I have said a few times, more activity was being done bilaterally rather than via the brokers, and the banks knew very little about what each other were able to borrow at. This was not something that they could look up on a screen any more or get gossip from the brokers. Each bank knew itself where it was able to borrow or potentially able to borrow. On the definitions, I did not understand that as a bunch of crooks who had been wilfully departing from the definitions. I understood that as, "My goodness, people have had to be taken to the text again and reminded what to do."

Q441 Mark Garnier: Did you feel that that would have been the right time to have a quiet word—officially or unofficially—with the FSA to see if there was anything—

Paul Tucker: Well, the FSA were there.

Q442 Mark Garnier: Yes. Did you have a conversation with them at the time or afterwards?

Paul Tucker: Not that I recall. The FSA were there and in fact the markets part of the FSA was there. I would have had a conversation had I suspected foul play. I didn't.

Q443 Mark Garnier: Was this the first point at which you had ever seen any evidence of low-balling?

Paul Tucker: I didn't see any evidence of low-balling at the time. I didn't.

Mark Garnier: You will see why I find that—

Paul Tucker: I understand why you are putting the question to me, but I didn't. This is—

Q444 Mark Garnier: I mean the minutes actually do talk about—they don't use the word "low-balling" but they—

Paul Tucker: They do not talk about low-balling. They say—

Mark Garnier: "Several group members thought that LIBOR fixing had been lower than actual traded—"

Paul Tucker: —lower than actual traded interbank rates. Traded interbank rates I think of as brokered rates in this market rather than bilateral transactions. I am thinking at this point, "People don't know what is going on. This market is dysfunctional, sporadically illiquid, a lot of it has disappeared from—well, some chunk of it has disappeared from view." It did not set alarm bells ringing.

Q445 Mark Garnier: So at that point you thought this was a genuine misunderstanding of what was going on in the market?

Paul Tucker: There was great uncertainty about where people thought they could borrow in the market, and there became after Christmas, as we went into the spring, a creeping problem in the credibility of LIBOR and, as I said, that led to the inputs we gave to the BBA review.

Q446 Mark Garnier: One of the points is that the BBA officials were responding to concerns about dispersion between panel banks. Clearly dispersion would indicate lack of understanding, but low-balling, if you have your averages now underneath where these actual lending rates are, as opposed to grouping around it, that would indicate some sort of slightly different activity, wouldn't it?

Paul Tucker: I don't know. I think people—

Mark Garnier: As a risk base, if you are looking for risks in the system, if you see a random clot of LIBOR rates around where it actually is, then that would, to my mind, signify that you have people who do not understand what is going on. If you see those clots of LIBOR rates gravitating towards one side or other of the actual interbank rates, that would tend to suggest to me that something different was going on that needed investigating, and I—

Paul Tucker: They can't all gravitate to one side or the other because it is an average and it is a trend average.

Q447 Mark Garnier: Correct. That is right. Yet they were; they were gravitating to below the interbank, the actual rates.

Paul Tucker: Not where the LIBOR rate itself is. It is an average.

Q448 Mark Garnier: But it does say that in the minutes.

Paul Tucker: No, no, it says that some people say "actual traded interbank rates". I think that during this period, where you have your rate at 11 o'clock, you might find at 11.30 or 12 o'clock or 1 o'clock that you could borrow at a different rate, higher or lower.

Mark Garnier: For sure.

Paul Tucker: We were very, very bothered during this period about conditions in the money markets. This is a period quite shortly after this I think, in which we introduced operations to try to tide the money market over the Christmas-new year period because we thought there could be a crunch at that period. We are focused on, "Is this going to take another lurch down in terms of credit tightness?" and I am afraid we are regarding LIBOR as one of the few indicators we have of what is going on, and dishonesty did not occur to us.

Mark Garnier: You say dishonesty, but none the less—this is my last question.

Paul Tucker: Low-balling would be dishonest.

Mark Garnier: Okay.

Q449 Chair: Mr Tucker, you were chairman of this meeting and you are responsible for the minutes, and you are telling us now that the minutes are misleading.

Paul Tucker: No, I don't think I am.

Q450 Chair: It says here, "Several group members thought that LIBOR fixings had been lower than actual traded interbank rates through the period of strain".

Paul Tucker: Yes.

Chair: That reads as unambiguously low-balling. It reads as unambiguously people submitting returns below what in fact were the traded rates.

Paul Tucker: Or that they are doing private transactions that people can't see because it is not in the traded market. The money markets had fundamentally changed, which is why—

Q451 Chair: No alarm bells at all rang when this was said to you?

Paul Tucker: No, no.

Q452 Chair: These group members presumably are banks?

Paul Tucker: You can see them on the front. They are not all banks. There are some users as well.

Q453 Chair: From recollection, without disclosing who, which you may not want to do, can you tell us what class of institution were these group members?

Paul Tucker: I can't remember in detail.

Q454 Chair: Although you can remember what happened immediately afterwards, which was that you turned to the BBA?

Paul Tucker: Yes.

Q455 Chair: You can remember what you did afterwards, but you can't remember who triggered this?

Paul Tucker: It says "several", so quite a few people commented. I can't remember exactly who they were.

Q456 Chair: This doesn't look good, Mr Tucker. I have to tell you, it doesn't look good that we have, in the minutes on 15 November 2007, what appears to any reasonable person to be a clear indication of low-balling, about which nothing was done.

Paul Tucker: Well, we thought it was a malfunctioning market, not a dishonest market.

Chair: Okay.

Q457 John Mann: There is another word for it, and that is "criminal fraud". That is what that minute refers to. You used an interesting turn of phrase, "we". In each case you use the "we" rather than "I", so you must have discussed that issue with colleagues afterwards?

Paul Tucker: There is a team in markets we talk to about everything, yes.

Q458 John Mann: So you discussed that matter with colleagues afterwards?

Paul Tucker: I don't want to suggest that we sat round and said, "Well, what do you think about that?" in particular.

Q459 John Mann: One would have thought you would have done. It is important enough to minute and it has proven to be a criminal fraud.

Paul Tucker: Which we did not realise at all.

Q460 John Mann: At the same time, academics realised it; Spence had been warning about this for some years, but precisely at the same time Christian Eberhard of Switzerland identified this, and Rosa Abrantes-Metz specifically identified these issues soon afterwards. So outside academics could see what was going on and identified it and indeed suggested some solutions. Why could they see it from the outside and you are walled on the inside but you don't see it?

Paul Tucker: We didn't see it. I think there were other studies, including one by the BIS, although I think I am aware of this after the fact, that didn't conclude that it was a problem. Maybe we were just too focused on the financial crisis.

Q461 John Mann: You have an enormous and highly reputed research back-up with lots of staff at the Bank of England, you have academics writing papers alleging market manipulation that equals fraud, unambiguously, but you don't notice it.

Paul Tucker: Throughout this period, in this particular period, we were focused on how to get through December and the end of the year and into January without things taking a turn for the worse.

John Mann: And it was specifically mentioned in your own committee.

Paul Tucker: We were also very worried that further mortgage banks might fail and run out of money. This was a period—it was enervated—

Q462 John Mann: We are very aware of the period in time but we are also aware of the academic research that had been going on for some time, but clearly you and others in the bank weren't, and that is also worrying. Can I ask separately, we had Mr Diamond here on Wednesday, and you were asked to release these emails in advance and the Bank is accountable to this Committee under statute; why didn't you release this handful of emails?

Paul Tucker: We were asked under an FOI request from you personally. We went through our FOI procedures. We wanted to ensure that we had covered absolutely everything rather than giving you an inadequate response, and you had it as soon as we could.

Q463 John Mann: It is self-evidently obvious that these emails would have been useful to us in questioning Mr Diamond, extremely useful, but you didn't provide them. Under what authority were you acting in not providing them when you were specifically requested them, in advance of the meeting with Mr Diamond, for the meeting with Mr Diamond?

Paul Tucker: We were sent an FOI request by you, Mr Mann, and—

John Mann: Followed up by phone calls.

Paul Tucker: Absolutely, and the team processed it in a speeded-up version of what they would normally do for FOI requests.

Q464 John Mann: But this is the Treasury Committee questioning Mr Diamond on major issues of which the headlines put out by somebody incorporate various matters that have been already discussed with you earlier today, and yet these emails, which would take a few minutes to put together, are not provided when requested to this Committee. With what authority is the Bank of England operating by refusing this Committee those emails when you have a precise request?

Paul Tucker: We had an FOI request from you, Mr Mann. I don't think we did have a request through the Chair or the secretary of the Committee, but we processed this FOI request as quickly as we could. We have done it faster, I think, than the permitted timetable, and we have got it to you as quickly as possible.

Q465 John Mann: FOI is one piece of law. The accountability of the Bank of England is a separate piece of law. These emails refer to a chain of events going back to a supper between you and Mr Heywood, which I believe took place on 6 July. Why don't we have the emails between 6 July and September?

Paul Tucker: 6 July? There was a supper with Mr Heywood just before the email chain, that is in October. I haven't checked the records of earlier suppers.

Q466 John Mann: The email chain begins 6 July. So why don't we have—they may be innocuous—the emails from 6 July right through?

Paul Tucker: Oh, I see. Well, I assumed—and I am pretty sure of this—that Jeremy used the mails saying "Thanks for supper" as a way of finding my mail address. He just did a search "Tucker" and then sent. There are not missing mails between Mr Heywood and me, Mr Mann. We have provided you with a full answer to your FOI request.

Q467 John Mann: Is the Royal Bank of Scotland equally as culpable now, in your judgment, as Barclays is in regard to rate fixing?

Paul Tucker: I cannot possibly know. This is why inquiries and investigations are continuing by the relevant authorities. I have no idea.

Q468 John Mann: And other banks other than the Royal Bank of Scotland?

Paul Tucker: I have seen in the newspapers over the last year or so the same list of banks as you. I do not know.

Q469 John Mann: But that is because, not least, there have been court papers filed in the United States against these banks, some people sacked, some of those people sacked named in these court papers, so they are publicly available. You are saying that the Bank is not taking a keen interest in this?

Paul Tucker: No, not at all. These are investigations being conducted by the relevant authorities, the FSA, the CFTC and the Department of Justice. It is not for the Bank to intervene in that. That process has to travel its course.

Q470 John Mann: Did the Chancellor of the Exchequer, before his speech in Parliament on Thursday and his article in the *Spectator*, contact you, or did his officials contact you or your officials, in relation to the accuracy of the issues that he outlined in the *Spectator* or in his speech in Parliament?

Paul Tucker: I have read neither. No, I think they were aware, of course, of the Department of Justice, CFTC, FSA conclusions, because they were published the previous week.

Q471 John Mann: You kind of answered this question previously, but what else should politicians be looking for in relation to market manipulation other than LIBOR that may have been going on, from your judgment now?

Paul Tucker: I think looking at these other self-certified indices, I have no evidence whatsoever that they are problematic, but I think their design should be changed, even if they are squeaky clean. I also think that, in terms of the changes that need to be made in banking to restore trust and credibility, we have to get to a point where treasury departments are not profit centres. They are there to fund the bank or the dealer, they are there to ensure that the bank or dealer has adequate liquidity on a rainy day, but they are not a profit centre being rewarded on profits. I think this is tremendously important. If I may say, I don’t think bankers should wait for findings from regulators or this Committee or authorities internationally to do that; I think they should just get on and do it.

Q472 John Mann: Are there any other processes, in your view, that should be banned?

Paul Tucker: Should be banned?

John Mann: Yes, or more tightly regulated.

Paul Tucker: I think extending the scope of criminal sanctions is really important. I think that something else that needs to be looked at is incentives. There has been an awful lot of discussion and some measures taken internationally and domestically about pay of the top people, these remuneration codes, the FSA, the EU, the Financial Stability Board for the G20 and beyond. But I think there is probably an issue of the structure of pay for more junior people on the desks as well. It has probably been too easy to get rich quick. I have not thought this through carefully but it is hard not to ask yourself the question after the revelations of the past fortnight: should remuneration at desk level factor in compliance breaches, enforcement actions within that unit, within the division and beyond? I also think, as the Governor has said, the kind of Vickers split of commercial banking and wholesale banking needs to proceed.

Chair: This is a very big, general question.

Q473 John Mann: My final question, on sanctions. What range of sanctions should there be on those in a position to see market manipulation but who failed to see the evidence in front of their eyes?

Paul Tucker: I am not an expert in these things. I don’t think I would wade into a debate about calibrating sanctions where I have no expertise.

Q474 Mr Mudie: Mr Tucker, can we accept the central fact that the LIBOR system is hugely important to large parts of the financial system—

Paul Tucker: Yes.

Mr Mudie: —and hugely important to the credibility of London?

Paul Tucker: Yes, not only to London but more broadly.

Q475 Mr Mudie: But as it is set here, if anything goes wrong it reflects on us. You have been asked several times, and you have given a wee bit of an answer there and an answer there—does the Bank of England accept any responsibility for the integrity of the LIBOR system?

Paul Tucker: We didn’t see ourselves as having that role, Mr Mudie. In 1997-98 we stopped being a regulatory body.

Q476 Mr Mudie: Yes, but just rethink what we are saying. You think it is totally crucial to the credibility of London as a financial centre, and you think it is hugely important to the financial system, and you are the Bank of England. You may not have the legal responsibility—it is a BBA responsibility, you are not the regulator, as you have said—but don’t you think that it would be very, very important that that system worked, and worked honestly?

Paul Tucker: I do think it is important, and I see the tension.

Q477 Mr Mudie: Yes, I genuinely can accept that. I think that is why Mr Diamond threw it in, but maybe he didn't throw it in, it was in the report. Mr Diamond's organisation was stealing from customers from 2005 to 2007. It was clear crookedness. They were rigging the rate for the personal benefit of themselves in bonuses and the firm's profits. Right? He throws this in because it is very important. The excuse is that it is a different situation. There is a financial crisis that we have not seen for decades and this might be a minor matter—and probably if you asked us to list the priorities, sorting the financial crisis out would be the top—but if a thing has integrity, it has to keep its integrity solid. We can't have a bit of integrity in good times but, "Never mind, we are going through troubled times." Do you accept that?

Paul Tucker: Yes. And had we thought we were being, or had I thought that I was being, alerted to dishonesty, I would have passed it on to the FSA. During the spring we were really concerned about the erosion of credibility of the LIBOR process.

Q478 Mr Mudie: I think we have progressed there but what I find difficult is what happened afterwards, and even the answer that was given by John Ewan. When these several group members made this allegation, John Ewan, in the minutes, outlined the quality control and safeguard measures used by the BBA. That seems to have been accepted.

Paul Tucker: Yes.

Mr Mudie: It is naive for the Bank of England and the FSA to sit there and hear serious people make allegations, and the fellow who runs the system says, "Oh, we have these quality controls." You would expect a regulator and you would expect the Bank of England on such a matter to say, "Well, we hear, but we'd better have a look."

Paul Tucker: And I think by the spring, when there were more widespread questions of the credibility of the process—not its honesty but its credibility—then we were engaging with the BBA in a pretty powerful behind-the-scenes way, but not in December, although I would note—

Q479 Mr Mudie: You see the trouble is, Mr Tucker, it is what happens. They go off to do a review, and the evidence from the American regulators is that in August they published their findings from the review and concluded from the contributing panel banks' comments, including Barclays, "That the contributing banks were confident that their submissions reflected the cost of borrowing London interbank money and that the existing process for LIBOR submissions was appropriate and should be retained without modification".

Paul Tucker: And the preliminary document, the consultation—

Mr Mudie: No, that was the document that went out after consultations, because I have your—

Paul Tucker: But during consultation—it went out for consultation and—

Mr Mudie: No, it went out and then it came back and then they put something in. Let me just read the final thing that makes me worry about the Bank of England. The final section of the draft notes that they wrote to the Bank of England and they said, "Let's have your consideration" and he discussed it with you on Monday. This is the change you made. The draft suggested, "The Money Market Committee have extended an invitation to relevant public bodies and central banks to observe the processes". The Bank of England wrote back, "We are concerned that that may imply that the public authorities will play some role in ensuring the integrity of the process so may I suggest an alternative formulation as follows. 'The committee have extended an invitation to relevant public bodies and central banks to maintain dialogue on LIBOR and relevant markets'".

First of all, it is not picked up, but even when they do the review and they even suggest you might sit in on it or do something to watch it, you say, “Well, we will have a dialogue.”

Paul Tucker: And the New York Fed took the same view as we did during that period. It turns out this may have been incorrect. The BBA consultative process went well beyond banks to users. They may have done it anyway, but I made clear to the BBA that I thought they needed to do that. When they put out their consultative paper I am not aware of comment going back to the BBA from any quarter saying, “You’ve got this wrong, there is a problem.” There was plainly a disparity between dollar LIBOR in London and dollar rates in the States, and that prompted this whole review by the BBA on which they consulted and we didn’t hear or find that it had been undermined.

Q480 Mr Mudie: Let me just ask you this, Mr Tucker: when did you first hear that the American authorities and the FSA were in looking at LIBOR with very serious questions?

Paul Tucker: Gracious, I can’t remember exactly.

Q481 Mr Mudie: No, which year? It wasn’t this year.

Paul Tucker: No, no. 2010?

Q482 Mr Mudie: Well, the question I ask as a politician to the Bank of England is this. This is getting to be a pattern. When I sat on this Committee with Northern Rock and asked the Governor why he had not intervened, “Not my responsibility. Not my responsibility. FSA. I had no powers.” “Bob Diamond,” or “Mr Diamond,”—I won’t get as familiar as he is—“Why didn’t you?” “I didn’t know. I was only the chief executive; I didn’t know anything about this.” Today, you opened up with, “I was the markets director of the Bank of England, it was my job to know what was going on.” Well, there was crookedness going on, there was market manipulation over two years going on, and you were told on two separate occasions—

Paul Tucker: I don’t accept that at all.

Mr Mudie: Well, we can argue and you can put your case, but the big question is—I watch other colleagues in councils, in hospitals, and so on; they realise there is something wrong and the supervisors or regulators are in; the first thing they do is get stuck into clearing out the stables, so that when the report comes out they have their hands up. What have the Bank of England done? If they had taken action to properly regulate, to put proper controls in, when this broke they could have said it was, as you said—we have heard your excuses—a perfectly liveable way but we have sorted it out.

Paul Tucker: There is another BBA review going on of—

Mr Mudie: I won’t hold my breath.

Paul Tucker: No, please, please. Of the design of LIBOR, and we have fed into that over some time that we would prefer to move to a transaction-based system.

Q483 Mr Mudie: Prefer to? You are the Bank of England.

Paul Tucker: No, no, hold on. We are not in a position to order them to do it.

Mr Mudie: An eyebrow lifted could get rid of Bob Diamond.

Paul Tucker: No, no, not an eyebrow, not an eyebrow lifted.

Mr Mudie: Was it two?

Paul Tucker: That we would prefer them to move to a transaction-based system, and that the massive transitional issues that that presents need to be thought through. We did not realise that every shred of its credibility was going to be torn up.

Q484 Chair: What confidence do you have that LIBOR is working normally now?

Paul Tucker: Big picture terms, giving reasonable indications of funding costs and which banks are more under pressure and which are not; reasonable, yes, in the way that I described during 2008.

Q485 Chair: With no rigging of markets? You are confident that there is no rigging of markets?

Paul Tucker: We can't be confident of anything after learning about this cesspit.

Q486 Chair: What action has been going on recently to make sure that it is not still going on?

Paul Tucker: The regulators have an inquiry going on and there is a review of the construction of LIBOR going on.

Q487 Chair: You are a non-executive director of the FSA, aren't you, and you have been since the spring of 2009?

Paul Tucker: Yes.

Chair: Did you step aside at all from FSA board meetings while this was being discussed?

Paul Tucker: Not entirely. There haven't been discussions of this inquiry in detail with me there.

Q488 Chair: None at all? Has this been discussed at board level by the FSA?

Paul Tucker: What has been flagged at board level and discussed among the authorities is what would the contingency plan be if LIBOR collapsed as a piece of global infrastructure.

Chair: Okay, but I am talking about the investigation, was that being discussed at board level?

Paul Tucker: No. Other than in very high-level reports, no, not that I know of.

Q489 Chair: So you have not been involved in any of this investigation?

Paul Tucker: No, absolutely not.

Q490 Chair: Did they come and see you and interview you about it?

Paul Tucker: I made clear that I was asked on a voluntary basis to see the three bodies doing the investigation and I saw them.

Q491 Chair: Who interviewed you about the discussion you had with Mr Diamond?

Paul Tucker: The discussion was led by the American authorities.

Q492 Andrea Leadsom: It seems odd. In the inquiry with Bob Diamond, he seemed to say nothing ever came to his desk and yet there were clearly procedures that should have been in place and weren't. It just concerns me that you seem to be saying the same thing, that you have procedures but you were all far too busy to follow them. Don't you think that it is precisely when there is a crisis that, if you have procedures to write down a note of every contact you have with the bank, that is the time to do it? There are something like 1,000 employees at the Bank of England, or is it not quite that?

Paul Tucker: 2,000.

Andrea Leadsom: 2,000. It just seems odd that all of this is going on somewhere down in the bushes there and yet the people who should between them be doing something about it are all saying, "I had no idea, I wasn't aware, no one brought it to my attention; it's nothing to do with me."

Paul Tucker: The extra pressures are not just on the senior people. We had to scale up our collateral team, I don't know, probably by an order of magnitude, because of the amount of lending we were doing. Every team at every level was under absolutely extraordinary pressure. As I hope I conveyed earlier, we accept that we need to go back and think about this. How easy it will be to address this while the crisis is continuing I don't know, but we need to draw the lessons.

Q493 Mr Love: If it hadn't been for the persistence of the American authorities in this matter, these reports might never have come out. What does that tell us about the regulatory structures in the United Kingdom? Will all the changes we are making be enough for us to be able to say, "We deal with the problems that occur in our market"?

Paul Tucker: I think we should all be very pleased that we are moving into a twin peak system where there is a separation between market regulation, the regulation of conduct in both wholesale markets and retail markets on the one hand, the FCA, and the oversight supervision for safety and soundness and resilience on the other hand.

Q494 Mr Love: But it was persistence that led the American authorities to continue with their inquiry when the FSA stopped theirs.

Paul Tucker: No, no, I am sorry, Mr Love, I think you are more likely to get that persistence in—I am a really strong believer in twin peaks—a regulatory body whose sole purpose, core purpose, is conduct regulation, wholesale and retail. It is often said over the last couple of years that the FCA will be the poor relation in all of this split that is going on. I have never believed that for one second. My personal view is that probably a quarter of a century too late London is going to get a proper securities and market regulator for the first time.

Chair: This is a very specific hearing on a specific point, and John Mann has one very quick question.

Q495 John Mann: It is specifically on the contingencies you have been planning, because unlike British local authorities—

Chair: I am assured by the way that this is a quick question.

John Mann: —who were barred in 1997 from buying these complex products, American local government has been doing so hugely, and that is the basis of the lawsuits, with large numbers of local states suing. What contingency arrangements are in place, and does this have a macro-impact because of the impact on British banks?

Paul Tucker: There are two elements to the contingency planning that is beginning, particularly the second bit I am going to mention. One is, what happens if people just won't participate in LIBOR and all of these contracts get priced the following days? Secondly, which is the point that you are referring to, could the class action suits or whatever they are called, cause such financial damage to the firms that it could undermine stability? And people are starting to think about that too; not conclusively yet, but people are focused on that.

Q496 Chair: Mr Tucker, you have told us that at various times it was well known or well understood, including by you and the Bank, that Barclays were the next in line, or they were certainly under pressure at this time of intense stress in the markets, and you have been saying that you encouraged Bob Diamond to take especial notice of what was going on in his treasury department. Indeed, that is the central response to the interpretation of the email.

Paul Tucker: I really don’t know. I know very little—

Q497 Chair: But wouldn’t it have been a bit surprising?

Paul Tucker: What I am surprised by is that the compliance people and the supervisors on the dealing floors did not identify this and elevate it upwards. I haven’t heard a suggestion—and this may be wrong—that people did elevate it and it didn’t reach him.

Chair: Okay. This is a hearing called at very short notice, largely at your request, and we are particularly grateful to you for coming along and being frank with us this afternoon. Thank you. We have learned something for our inquiries, and we are very grateful.

Paul Tucker: Thank you very much.