



DAO(R) 2/92

GA Section 45.1

12 March 1992

Dear Accounting Officer

DEALINGS BY DEPARTMENTS WITH FINANCIAL INSTITUTIONS

On 2 February 1988, Sir Peter Middleton wrote to Sir Robin Butler, copied to Permanent Secretaries, drawing attention to Treasury advice on “Criminal Activity by Contractors” (PPC) (80) (12) which lays down broad guidelines for departments needing to take decisions about dealings with individuals or firms who are in some way involved in criminal investigations or prosecutions. Sir Peter issued supplementary guidance, with his letter, dealing specifically with financial institutions. The advice was prepared in consultation with the Department of Trade and Industry and the Bank of England and cleared by the Law Officers. It warned Departments that, although the fact that an institution was authorised by the Bank of England or relevant financial services regulator was prima facie evidence of financial probity, nevertheless Departments should make additional checks before employing financial institutions on sensitive contracts.

2. The key test recommended was to ask the institution for details of any current or recently completed investigations into the affairs of the institution, its directors or key managers, under the Companies, Financial Services or Banking Acts; any police or Serious Fraud Office enquiries into possible fraud or any involvement in investigations and enquiries into the affairs of others which might result in public criticism or action against the institution; and to ask the institution for permission to check the information supplied with the relevant supervisor. The guidance explained that such investigations and enquiries would normally be covered by the confidentiality restrictions of the various statutes and would only rarely be public knowledge. Departments were advised that if a firm refused permission for an approach to be made to its financial supervisor, they should normally regard this as grounds for not employing the institution on a sensitive contract.

3. It may be timely, in the light of events over the last year, to remind Departments that authorisation by the Bank of England is not a guarantee that a bank cannot fail. Moreover, investigations or other action against an institution, its managers or its directors may be in train which the regulators cannot legally disclose without the permission of the institution involved. Departments should be alert to these risks when considering placing business with a financial institution. It is Department’s responsibility to satisfy themselves about the standing of any institution with which they are proposing to have dealings.

4. This letter is being sent to Treasury-appointed Accounting Officers, their Principal Finance Officers and Agency Chief Executives only.

Yours sincerely

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Treasury Officer of Accounts