

EXPLANATORY MEMORANDUM TO
THE NORTHERN ROCK plc COMPENSATION SCHEME ORDER 2008

1. This explanatory memorandum has been prepared by Her Majesty's Treasury and is laid before Parliament by Command of Her Majesty.

2. Description

2.1 The Northern Rock plc Compensation Scheme Order 2008 ("the Order") provides for the determination of any compensation payable by the Treasury following the taking into public ownership of Northern Rock plc ("Northern Rock") under the Northern Rock plc Transfer Order 2008 (SI 2008/432) ("the Transfer Order") and makes various connected provisions.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Background

4.1 The Order is the first order made under section 5 of the Banking (Special Provisions) Act 2008 ("the Act"). The Treasury is required by section 5 of the Act to make an order providing for the determination of the amount of any compensation payable to holders of securities transferred and to those whose subscription rights are extinguished by an order under the Act. An order must be made within 3 months of the making of the transfer or extinguishment order.

4.2 The Order provides a scheme for the determination of the amount of any compensation payable by the Treasury to persons who held shares in Northern Rock before the transfer, or whose subscription rights or rights arising out of the modification of certain instruments were extinguished. Valuation assumptions (in addition to those required by section 5(4) of the Act) are specified. Provision is made for the appointment by the Treasury of an independent valuer, the reconsideration by the valuer of an initial assessment and the review of the valuer's determination by the Financial Services and Markets Tribunal.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 The Chancellor of the Exchequer has made the following statement regarding Human Rights:

In my view the provisions of the Northern Rock plc Compensation Scheme Order 2008 are compatible with the Convention rights.

7. Policy background

7.1 The purpose of the Act is to enable the Government to act to secure the continued stability of the UK financial system and to protect the public interest where financial assistance has been provided to a UK deposit-taker. The Transfer Order provided for Northern Rock plc to be taken into public ownership. This Order enables the amount of any compensation payable by the Treasury as a result of the Transfer Order to be determined by an independent valuer.

8. Impact

8.1 A Regulatory Impact Assessment is attached to this memorandum.

9. Contact

Hugh Burns, at HM Treasury, 1 Horse Guards Road, London SW1A 2HQ. Tel: 020-7270 5095 or e-mail: hugh.burns@hm-treasury.gsi.gov.uk can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency: HM Treasury	Title: Impact Assessment of the Northern Rock plc transfer Order 2008 and the Northern Rock plc compensation scheme Order 2008	
Stage: Implementation	Version: 1	Date:21 February 2008
Related Publications: The Banking (Special Provisions) Bill 2008, the Chancellor's statement on Northern Rock plc, 18 February 2008, House of Commons Hansard column 21		

Available to view or download at:

<http://www.hm-treasury.gov.uk>

Contact for enquiries:

Telephone:

What is the problem under consideration? Why is government intervention necessary?

Protecting the public interest in circumstances where financial assistance has been provided by the Treasury to a deposit-taker for the purposes of maintaining stability in the UK financial system.

What are the policy objectives and the intended effects?

To promote financial stability; to protect consumers and depositors; and to protect the interests of the taxpayer.

What policy options have been considered? Please justify any preferred option.

The Government has made clear that, in its role as provider of financial support, it has wanted to test all the options and to give the company time to find a solution that was acceptable and that met the three principles above. The Government decided to protect taxpayers' interest after having weighed up the various competing considerations against its stated objectives. It was clear that a temporary period of public ownership of Northern Rock plc was the best option for meeting those objectives, including protecting the interests of the taxpayer.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The Government intends to return the bank to the private sector when market conditions make that possible.

Ministerial Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

Alistair Darling

22nd February 2008