

## Governance and accountability

The framework for governance and accountability is set by the 1998 Bank of England Act. In some respects the framework is modified by the 2009 Banking Act, the relevant provisions of which are expected to come into force on 1 June 2009.

### The Court of Directors

The Court is responsible for managing the affairs of the Bank, other than the formulation of monetary policy. Under the 2009 Banking Act, the Bank will have a statutory objective to 'contribute to protecting and enhancing the stability of the financial system of the United Kingdom' and the Court, consulting HM Treasury, will determine the Bank's strategy in relation to that objective. Court's responsibilities under the 1998 Act include determining the Bank's objectives and strategy, and ensuring the effective discharge of the Bank's functions and the most efficient use of its resources.

During 2008/09 Court consisted of the Governor, the two Deputy Governors and 16 Directors.<sup>(1)</sup> The Directors are all non-executive. The Governors are appointed by the Crown for periods of five years, and the Directors for three years. Details of the current Court are set out on pages 8–9. The 2009 Banking Act reduces the number of Directors to nine. The relevant provisions are expected to come into force on 1 June 2009, and the current Directors will therefore vacate their offices on 31 May 2009.

The 2009 Banking Act also provides for Court to be chaired by a Director designated by the Chancellor of the Exchequer. Previously Court was chaired by the Governor, although in practice most business has, since 2004, been discussed in meetings of NedCo (see below) under the Chairmanship of the senior Non-executive, with formal decisions taken in Court subsequently.

Members of Court have been indemnified by the Bank against personal civil liability arising out of the carrying out or purported carrying out of their functions, provided they have acted honestly and in good faith and have not acted recklessly. These indemnities were granted in 2000 and approved by HM Treasury in accordance with the practice of the Government in relation to board members of Non-Departmental Public Bodies.

### NedCo

The 1998 Act provides for a Committee of Court (NedCo) consisting of all the Non-executive Directors, with a chairman designated by the Chancellor. NedCo has responsibility for reviewing the Bank's performance in

relation to its objectives and strategy, and monitoring the extent to which its financial management objectives are met. NedCo is also responsible for reviewing the procedures of the Monetary Policy Committee (MPC) (see below), for reviewing the Bank's internal controls, and for determining the pay and terms of employment of the Governors, Executive Directors and external MPC members. NedCo is required to make a report as part of the Bank's *Annual Report*, and this is on pages 43–48.

### The Monetary Policy Committee (MPC)

The Bank of England Act establishes the MPC as a Committee of the Bank, subject to the oversight of NedCo, and sets a framework for its operations. Under the Act, the Bank's objectives in relation to monetary policy are to maintain price stability and, subject to that, to support the Government's economic policies, including its objectives for growth and employment. At least once a year, the Government specifies the price stability target and its growth and employment objectives. The MPC must meet at least monthly; its members comprise the Governor and Deputy Governors, two of the Bank's Executive Directors and four members appointed by the Chancellor. Membership of the MPC is given on page 16.

The MPC's decisions are announced after each meeting and minutes of their meetings are published two weeks later. The quarterly *Inflation Report* includes the MPC's projections of inflation and output.

### Financial Stability Committee

The 2009 Banking Act creates the Financial Stability Committee as a Committee of Court. Its functions are to make recommendations to Court concerning the Bank's Financial Stability strategy; to advise on actions in relation to institutions relevant to the Financial Stability objective; to advise on the use of stabilisation powers in particular cases and to monitor the Bank's use of those powers; to monitor the Bank's use of the payment system oversight powers; and to carry on other functions delegated to it by Court.

The Committee is to consist of the Governor and Deputy Governors, four Directors appointed by the Chairman of Court, and a non-voting member appointed by the Treasury. The Committee may co-opt other non-voting members.

### Remuneration Committee

The Remuneration Committee advises NedCo on the remuneration of the Bank's most senior executives, including

(1) At the time of publication of this *Report* there were thirteen Non-executive Directors, with three posts vacant.

the Governors, Executive Directors (who are not members of Court), the Advisers to the Governors and the members of the Monetary Policy Committee appointed by the Chancellor of the Exchequer (the external MPC members).

The members of the Remuneration Committee during 2008/09 were David Potter (Chairman), Peter Jay, Geoffrey Wilkinson, Arun Sarin, David Rhind and Roger Carr. The Chairman of NedCo attends meetings of the Remuneration Committee. The Committee's Report on Remuneration is on pages 33–36.

### Audit Committee

The functions of the Audit Committee are to assist Court in meeting its responsibilities for an effective system of financial reporting, internal control and risk management; and receive reports from, and review the work of, the internal and external auditors. The Committee also considers and makes recommendations on the appointment of the external auditors, their independence and their fees. It reviews the annual financial statements prior to their submission to Court, including consideration of the appropriateness of the accounting policies and procedures adopted. The Committee reports its conclusions to Court.

The members of Audit Committee during 2008/09 were Amelia Fawcett (Chairman), Sir Andrew Likierman (resigned December 2008), Paul Myners (resigned October 2008), James Strachan, Susan Rice and Robert Wigley. The Deputy Governors, the Executive Director for Central Services, the Finance Director, the Head of Internal Audit and the external auditors normally attend the meetings of the Committee, and the Chairman of NedCo may also do so. The Committee normally meets four times a year.

### Transactions Committee

The Transactions Committee is consulted about transactions outside the normal course of the Bank's business. Any decisions made by the Committee are reported to Court as soon as is practicable. The meetings in 2008/09 related to the Bank's involvement in the banking crisis, which is described on page 18.

The members are the Chairman of NedCo and two other Directors, normally the Deputy Chairman of NedCo and the Chairman of the Audit Committee.

### Management structure

The executive management of the Bank lies with the Governors and Executive Directors. The responsibilities of Governors are set out below. The responsibilities of the Executive Directors are set out on pages 10–13.

### Governor — Mervyn King

The Governor has overall executive responsibility for the management of the Bank in support of the Core Purposes. He defines the strategy for the Bank which, with the approval of Court, sets the direction for the organisation. This strategy is implemented via a detailed business plan and budget which are reviewed and agreed annually with Court. The Governor chairs the meetings of the Bank's Governors, which provide Executive oversight of the Bank's budget and authorises projects on the recommendation of the Bank's Projects Group, and of the Executive Team, which monitors delivery against the business plan and addresses key business issues. He provides leadership on both of the Bank's Core Purposes, chairing the Monetary Policy Committee and representing the Bank at the Tripartite Standing Committee. He chairs the Resolution Committee, which agrees the Bank's approach to threats to financial stability, including the exercise of the Bank's powers under the Special Resolution Regime, and is a member of the Financial Stability Board (see page 12). The Governor holds a press conference four times a year to launch the Bank's *Inflation Report*.

### Deputy Governor Monetary Policy — Charlie Bean

The Deputy Governor, Monetary Policy is a member and Deputy Chairman of the Monetary Policy Committee and is a member of the Financial Stability Board and Resolution Committee. He provides oversight of the Markets and Monetary Analysis and Statistics Directorates. He participates in the *Inflation Report* press conference.

### Deputy Governor Financial Stability — Paul Tucker

The Deputy Governor, Financial Stability chairs the Bank's Financial Stability Board and is a member of the Monetary Policy Committee and the Resolution Committee. He sits as a member of the Board of the Financial Services Authority and is the Bank's representative in the Tripartite Standing Committee Deputies. Within the Bank he oversees the Financial Stability and Banking Services Directorates, and also has specific responsibility for the oversight of the Bank's business continuity preparations.

All three Governors represent the Bank externally, including domestically through appearances in front of the Treasury Committee and internationally through membership of key international committees and groupings and regularly speak publicly on issues covering the overall economy, monetary policy and financial stability.