

## Appointment of Bradley Fried as Chair of the Court of the Bank of England

### Personal and professional

1. Do you have any business or financial connections or other commitments which might give rise to a conflict of interest in carrying out your duties as Chair of the Court?

The responses to this question are ordered under the following headings:

- A. Other regulatory roles
- B. Personal relationships
- C. Business interests
- D. Trusteeship
- E. Financial disclosures

#### A. Other regulatory roles

I have resigned from the boards of the FCA and PSR with effect from 30th June 2018. The BOE (through the PRA) has the power to direct the FCA under certain circumstances. As a result, it would have been inappropriate as Chair of Court to also hold the position of FCA NED - particularly as any PRA decision could be contested or controversial at the time.

#### B. Personal relationships

My brother, Malcolm Fried, is Global Head of Marketing for the PRA-regulated Investec Group. I was previously CEO of Investec Bank plc and was subsequently a non-executive director of the Investec Group. I am a friend of the Investec founders, who remain as directors of that firm. Investec has also made a minority equity investment into Grovepoint. As a result, I have a standing recusal in relation to any Investec-specific matters that might arise at Court or ARCO. In the event of my observing a PRC- or FPC- meeting at which Investec might be mentioned, I would step out for that discussion and the Secretariat would remove references to Investec from any papers sent to me. References to Investec at Court, ARCO or in PRA/PRC have been extremely rare (Investec is not a Cat 1 firm) but the potential for conflict exists. As such, it is a standing instruction that all references to Investec are removed from any Court or ARCO papers sent to me.

#### C. Business interests

The investment firm, Grovepoint, of which I am a co-founder and partner (owning a small minority interest) has two operating divisions. I am not the Grovepoint CEO (having stepped down from that position in 2015) and am increasingly moving into an oversight position with the firm. This transition should be completed within two years.

The first of Grovepoint's operating divisions is FCA-regulated Grovepoint Investment Management, a majority owned subsidiary business of Grovepoint. This is an independently run business, in which the CEO (owner of the significant minority stake) and his management team are mandated under the shareholders' agreement to run the business and make investment decisions on behalf of clients. I have no input into those decisions. The only times

I am referred to for approval are under limited circumstances as a shareholder representative, including: the taking on of new counter-parties and making of investments where reputational risk or deployment of the firm's capital might be a factor for the Grovepoint parent. I have no ongoing role in any investment decisions taken in this division.

The second of Grovepoint's businesses is the wholly owned Private Equity division, in which Grovepoint invests its own equity capital in acquiring controlling interests in privately held businesses. Grovepoint does not manage a fund. I am a member of the Investment Committee (the investment decision making body) of this division. Grovepoint Private Equity's investments are predominantly in UK industrial companies, with one investment also made into a UK payment solutions business. We have no investments in PRA-regulated firms and we have no intention of making investments into such firms. Grovepoint's strategy is to focus on industrial, food and healthcare businesses. All such investments are disclosed to, and discussed with, the BOE Secretary. Should I wish to take on a directorship of any portfolio company, such directorship (and any other directorship) would require pre-approval by Court.

#### D. Trusteeship

I am a trustee of a third-party family foundation, the Eurona II Foundation. This role exists predominantly to provide ad-hoc advice on intergenerational matters and to intermediate in scenarios where beneficial owners cannot reach consensus. This is neither an operating business nor is it a financial decision making body.

#### E. Financial disclosures

My assets and liabilities have been reported to the BOE and my investment transactions have been vetted by the Bank for the past four years (since those requirement were applied to Court NEDs). I am fully in compliance with those rules and I filed my most recent statement of financial position with the Bank in April 2018. There has been no material change in my position since that date.

2. Do you intend to serve out the full term for which you have been appointed?

Yes

3. Have you, or do you intend to take on, any other work commitments in addition to your role as Chair of the Court?

As noted I have resigned from the boards of the FCA and PSR and have no plans to take on any other roles in public- or private settings.

I do have currently have a material pro bono role, namely: as a governor of the London Business School Governing Body, where my role extends to Chair of the School's Finance Committee.

Whilst the Chair of Court role description refers to two days a week as ‘the average time commitment’, there are periods when the Chair needs to be engaged and available for significantly more time than that. Indeed, to build and sustain the relationships required, ‘availability’ should be almost continuous. I will apply whatever time it takes to ensure the right outcomes, with the duties of Chair always taking priority, but always being mindful of the fact the the Chair role is that of a non-executive.

Experience, priorities and challenges

4. How have your experiences to date both inside and outside of the Bank of England prepared you for your role as Chair of the Court?

A combination of my professional training (as a Chartered Accountant); executive roles (as a partner in McKinsey’s financial institutions group; CEO of London-based Investec Bank plc; and a founder of an investment firm) and non-executive positions (fully described below) has allowed me to develop a strong sense of what is required for the role of Chair of Court, and what it takes to deliver successfully against those requirements.

I will outline these experiences under the following headings:

- A. Knowledge of financial markets
- B. NED experience in corporate governance
- C. BOE experience
- D. Strategic planning expertise
- E. Leadership

A. Knowledge of financial markets

My entire professional career has been focussed on financial markets.

My tenure at McKinsey was solely devoted to serving clients in the financial services industry (across the USA, London and Tokyo). After McKinsey I joined Investec Bank, initially as COO, and subsequently appointed to the CEO position. Investec ran a significant capital markets division and I felt entirely comfortable in all aspects of the firm’s business. All of Investec’s operations were in financial markets and each relevant function (treasury and asset and liability management; trading functions; core banking businesses) reported to me at various times.

The global financial crisis presented some extraordinary challenges, but Investec survived the crisis. For bank CEOs, whilst it was a remarkably difficult time to safely steer an organisation, it represented a significant moment for learning and development. I feel that this turbulent era certainly enhanced my ability to connect to the BOE and its macro- and micro-prudential objectives, whilst being able to understand the impact of decisions on the industry and individual firms.

Similarly, because of my background, I have a deep understanding of the BOE’s balance sheet and the nature and extent of its counterparty relationships and risk exposures.

Modelling changes and assessing the impact and potential stressors of policy decisions on the Bank's operational capacity and infrastructure also comes quite naturally because of this background.

My experience as a bank CEO also allowed me to understand life from the consumer/customer perspective. I spent a significant amount of time understanding consumer behaviour and figuring out the impact of the regulatory Treating Customers Fairly ("TCF") regime on Investec's business model. The key, I always found, was to begin the process by considering life from the customer's perspective and then to build products and services that responded to real needs - whilst taking utmost care to build the TCF principles into every operational step in the firm's business model. The lessons I learnt about seeing life from a customer's perspective have stayed with me and I always bring them to bear in thinking about the impact that we have as the UK's central bank. I find that many organisations focus largely on an assessment of their own needs - that is inevitably the wrong place to start. The Bank of England focuses on its mission to 'promote the public good'. That is the right starting point.

My own firm is regulated by the FCA and, as a private investment firm, is subject to the financial markets at multiple levels. We are constantly evaluating the external environment, without which we would be unable to be effective.

My tenure as Court member at the BOE and as an FCA NED has also heightened my understanding of markets. In particular, I have developed my knowledge of conduct issues and payment systems (RTGS and its replacement technology). This is important as the Bank is both an overseer and an operator of payment systems.

Finally, I designed and lectured the MBA elective on Banking Strategy for the Judge Business School, where I was a Fellow in Finance for several years, and still return to present an annual lecture, most often in strategy.

## B. NED experience in corporate governance

I have experience across key corporate governance roles. These include:

- Public company CEO (Investec Bank plc)
- Public company NED (Investec Group)
- Regulatory body NED (BOE; FCA; Payment Systems Regulator)
- Governing Body member (London Business School)
- Audit Committee Chair (BOE; Investec Wealth and Investments)
- Audit Committee member (HM Treasury, FCA)
- Finance Committee Chair (London Business School)
- Member of Remco (Investec; FCA; London Business School)
- Member of Nomco (BOE; FCA; London Business School)
- Member of Board Risk Committee (Investec; BOE)
- Chair and board member of numerous private companies within Investec in the UK, Europe and the USA (principally operating subsidiaries) and Grovepoint-related companies between 1999 and present.

I have been exposed to numerous Chairs, from whom I have learnt a significant amount. This has also helped me refine my own approach to chairing. I have been involved in particularly

high-performing boards, and, just as importantly, have been part of governance structures that have worked significantly less well.

### C. BOE experience

I have served as Deputy Chair of the Bank's Court since October 2014 and invested extensively in building my understanding of the institution. My role as Chair of the Audit and Risk Committee over the past four years has given me deep insight into the workings and risk profile of the Bank. I have a strong sense for the BOE's natural strengths as well as areas that have had to be strengthened over the last few years - and those that still require further work. I am currently the Court's Senior Independent Director (SID), and in that role have carried out the evaluation of the Chair over the last few years. This has deepened my understanding of how to listen carefully, understand what is (and is not) being said and how to receive and deliver feedback in an impactful way.

My preparation for, and appearances before, the Treasury Select Committee, in addition to my recent chairing of the Conflicts Review, have deepened my understanding of the accountability that the Bank faces. I believe I am well equipped to understand the level of transparency and ongoing process improvements required to address the degree of scrutiny that comes with the significant powers conferred on the Bank by parliament. I am motivated to work with colleagues towards the right outcomes.

Finally, the Bank is on a path of organisational transformation. In support of this, Court needs to model the changes required, including accelerating progress on diversity and inclusion. I regard this as one of the most significant challenges for the Chair of Court. I have experience in leading and influencing similar change programmes – as CEO of Investec and partner at McKinsey.

### D. Strategic planning expertise

The development of corporate strategy was a core part of my McKinsey career. As a Partner, strategy work was key to the development of my client base. By far the bulk of my work at McKinsey was the development of corporate- and business-unit strategies for significant US (I was based in New York) and global financial services providers.

As CEO of Investec, I led the team which drove the development of bank-wide and individual business unit strategies. Strategic oversight of that firm continued in my role as an Investec NED.

My work at Grovepoint has in the past required engagement in strategy development. This is relevant both to the firm and to the diverse portfolio companies that we manage through the lifecycle of acquisition to ultimate disposal.

### E. Leadership

My approach to effective leadership is to focus on management of culture and values as the main influencers of change. I spend time building relationships, and exert influence through others. 'Telling' or 'instructing' has never been required in any meaningful decision. In all leadership scenarios, I adopt a partnership orientation and have always tried to build

collaborative, non-hierarchical organisations with a strong sense of collective responsibility and accountability.

At McKinsey, I was part of a leadership team that developed relationships for some of the firm's most significant US and global financial services clients. I also helped drive numerous firm-wide initiatives – around knowledge management, recruitment and diversity.

At Investec, I was the CEO of a bank that grew significantly in size and profitability. Most relevant to this appointment, however, is that we integrated multiple, quite disparate acquisitions with relatively stagnant cultures into a single, dynamic, unified and high-performing firm.

Specifically, in relation to Investec, I would point to a very specific experience - and that is my role in chairing Investec's Crisis Management Group. We convened this global group at the commencement of the financial crisis and disbanded it when we emerged relatively unscathed at the end of the crisis. It still feels to me that the handling of stakeholders - regulators, finance ministries, shareholders, counterparts, divisional executives - across multiple countries - at the time of that existential crisis - was the most profoundly difficult ordeal I have ever encountered and presented the greatest possible training school in becoming Chair of Court.

In 2010, I founded Grovepoint, an investment firm. This business is based on a set of values that have remained fundamental to the spirit in which we do business and partner with others. The development of a high-performing management team since that time has allowed me to take an increasingly extensive role in public service.

In conclusion, my career has been spent pursuing impact by building trusting partnerships and influencing the formation of high-performing teams. This is, to my mind, as applicable in NED positions as it is to executive roles. Indeed, it is often more subtle and requires greater interpersonal ability in NED scenarios than in executive settings. To be able to provide often difficult feedback, in ways that it can be heard and actioned, requires NEDs who are empathetic and highly attuned to pressures faced by executives. Effective challenge, which generates self-reflection and change, is only possible when offered by NEDs who have built trust and mutual respect with their executive- and non-executive board colleagues.

5. What do you see as the advantages and disadvantages of your assuming the role of Chair, having already spent six years on the Court?

Going through an exhaustive and challenging Chair recruitment process has made me think about what I have learnt over the past six years and what I would like to achieve during my tenure as Chair of Court. I believe that what I have gained over that 6 year time period will be of significant benefit.

My passion for the BOE is undiminished. It feels to me like the last 6 years have actually been learning years. Despite my background in financial services, I have found the BOE to be a really difficult organisation to understand and I have invested heavily in doing that - as I feel the Bank has in me. I'm no less curious than I was on Day 1 and I'm no less challenged by the complexity of what it takes to ensure that the organisation remains on a path of

continuous improvement. I feel energised and excited by the Bank and its challenges. The Bank has a seemingly unlimited ability to surprise and its unique position in the economy provides an endless stream of challenge. During this time, the Bank's remit has been significantly increased and this in turn has led to a number of new responsibilities.

I have chaired the Audit and Risk committees (ARCO) at the Bank. This ensures that from Day 1 as Chair, I will be aware of the inner workings of the Bank. ARCO and all that being an effective ARCO Chair has required, has been a very helpful training ground and I have worked quite purposefully to reform and restructure the Audit and Risk committees to ensure that they are action-oriented and very productive environments.

I served on Court during the last Governor transition and the experience of that will stand me and the Bank in good stead during the next one.

Clearly I must ensure that as someone who is already a non-executive director, I am not, and am not perceived to be, too familiar. To counter this possibility, I have always sought to keep appropriate distance between myself and the Bank's Executive and staff. As a result, I am highly confident that the foundations of my relationships in the Bank are based on constructive challenge and candour. Where there is good faith and straightforward debate and we don't end up agreeing - such is life. I have built an entire career of inviting challenge and striving to productively challenge. I do not know of any other way to operate.

6. What will your priorities be on taking up the role, and how have these been informed by your six years on the Court?

Over the last decade or so, the TSC has motivated, and parliament has legislated for major reforms to Court.

This allows me to focus on five major priorities for the modern Court:

Firstly: the succession process. The new Chair must consider the pre- and post-hiring of the new Governor; work with Mark as he exits; and help the executive respond to increased organisational anxiety generated by the transition process. Although the hiring decision will be made by the government, the Chair will need to input into that process the views of the NEDs. Vitally they must ensure a successful transition, carefully considering those aspects that will be potentially problematic for the new Governor. The second part of the succession is a thoughtful induction. This is as important for an internal hire as it is for an external one. Regarding Mark Carney - we will no doubt wish to ensure that there is no undue reversal of his highly impactful reforms that have been so hard won. Indeed, we will wish the new Governor to build on these. And Mark's own role in the transition plan will need to be carefully tailored. The Court and its Chair are symbols of cohesion and continuity; in supporting both the new Governor and the organisation, they can hopefully prevent too great a period of variability for both.

The second priority is to ensure that the Bank's IT infrastructure, systems and management processes are always run at the appropriate levels of efficiency and effectiveness. The organisation has assumed significant powers over the last few years, and its larger scale of operation - and therefore its increased risks - make it an imperative that the organisation is run optimally. We must ensure that the Bank continuously improves as it strives to build an

industrially-proofed business that reduces the need for human intervention and the resultant costs and risks that come with it. The Chair and NEDs need to encourage ongoing executive action.

The third priority for Court is perennial: to ensure that the Bank remains impactful, relevant, and responsive. Indeed, this has been the primary set of challenges since 1694, and at key points in its history, the Bank has often failed to achieve these objectives. We have now entered into an era of great uncertainty and polarisation, which includes mistrust and rejection of institutions. And so the Bank must be more confident — more willing to exhibit our processes to those whom they benefit - the public - and those who scrutinise them - the Treasury and Parliament. Furthermore, the Chair will need to build a close and collaborative relationship with the Treasury. Bank independence is not in the very slightest at odds with a trust-based partnership. I have little doubt that crises will arise during the tenure of the next Chair; in those times, the Treasury and the TSC will need the Chair to be resilient, transparent and communicative.

The fourth significant priority for Court is to oversee the cultural change in our organisation's working and communication style. The specific challenge for the Chair and NEDs is to provide extensive support and direction to the executive to achieve this change — to ensure that the Bank acts and behaves as one Bank, and that the institution allows itself to boldly redefine its purpose in a significantly less stifling way than it has in the past. The Chair will need to be a source of high quality counsel to the executive team. Key to addressing this challenge is to ensure that the NEDs as a group, and (where appropriate) as individual mentors, provide support and challenge to all the Governors to help them act on the front line role they need to play in achieving this essential cultural change, including providing cues as to what really matters, for everyone to follow.

Making progress on Inclusion and Diversity is the fifth priority: it is so vital that I have saved it for last. It seems to me that the most effective organisations understand that best practices in diversity and inclusion improve organisational performance, culture, morale, and employee satisfaction — and invigorate necessary societal impact. As the country's financial vanguard, the Bank has a dual obligation to represent all of society and to lead the way for employers across the country in hiring as diverse a pool of people as possible. Court needs to become a role model and a source of inspiration. The incoming Chair therefore needs to place diversity and inclusion amongst the highest Court priorities. Court needs to show, with immediate effect, greater imagination and leadership with regard to diversity and inclusion. We need to publicly commit to a bold agenda - and to cascade that commitment through the bank, in particularly through middle management. Court must hold itself to account for delivery against ambitious but essential goals.

7. What do you see as the main operational challenges faced by the Bank in dealing with the UK's withdrawal from the European Union, and how do you think it has dealt with those challenges to date?

Planning for the UK's departure from the EU has led to two main operational challenges for the Bank, namely: dealing with a high level of authorisation applications from EEA firms that currently passport into the UK; and the work involved in nationalising the acquis. Currently planning for the UK's exit represents a significant element of staff time. In order to

accommodate this, the Bank conducted an organisation-wide reprioritisation exercise to ensure that staffing levels are appropriate.

One of the main operational challenges that Brexit poses relates to firm restructuring. The Bank will have to deal with around 150 or so authorisation applications in total, of which about 40 have been submitted so far. To provide a sense of the scale of that task, the PRA has completed work on around 60 authorisations in the past 5 years, and now faces addressing 150 in 3 years. That is doable, but it is a very big task. The scale of this task was one reason why the Bank consistently called for an implementation period. To deal with the challenge, the Bank clearly set out its approach to the authorisation and supervision of international banks, insurers and central counterparties in December 2017. Operationally, because these authorisations will take significant staff time, the Bank has put resources in place to deal with this issue. The Bank has 45 staff who are only dealing with authorisations, with another 45 to 55 staff spending a significant amount of their time on this work.

The other example of a key operational challenge posed by Brexit is the need to have an operable financial regulatory framework when the UK leaves the EU. To help ensure that happens, the Bank is supporting HMT make detailed line-by-line amendments to EU financial services legislation that is being 'onshored'. As part of this, HM Treasury has transferred the responsibility for correcting EU technical rules, known to regulators as Binding Technical Standards. These standards run to several thousand pages. Bank staff are reviewing and correcting these EU technical rules, alongside the significant work required to make the necessary corrections to the PRA Rulebook. To help manage that challenge, an EU Withdrawal Unit was set up within the Bank in 2016. This work, and a range of other Brexit-related work, is coordinated by this unit. The EU Withdrawal Unit has around 30 dedicated staff.

My view is that, to date, the work on EU withdrawal has gone well and is going to plan. Financial services firms welcomed the Bank's announcement in December about its consultation on an updated approach to authorising and supervising branches of international banks and insurers. The Bank subsequently confirmed this approach in March of this year and provided regulatory clarity on its approach to Brexit preparation in light of the agreement between the UK and the EU 27 that there should be an implementation period. We also have to be prepared for the contingency of a hard Brexit. Meeting the operational challenges currently will certainly require a significant element of staff time at the Bank. I believe this to be an entirely appropriate use of resources given the importance of financial services to the UK economy, the desire to maintain the UK's international position as a leading financial centre and the need to adhere to the lessons learnt from the financial crisis.

It is Court's job to oversee this process whilst ensuring that sufficient resources are devoted to delivering business as usual. Court also oversees re-prioritisation of existing projects, based on the operational requirements of Brexit. It strikes me that the Bank staff have risen to this significant challenge, and have done so in a highly professional and quite exemplary way. The Bank has a culture of simply getting on with what it needs to do to discharge its mandate - and, here again, we see this culture in action.

8. What role will you and the Court have in ensuring a smooth handover to a new Governor, expected in July 2019?

The new Governor is a Crown appointment and the appointment process will be led by HM Treasury. This is unlike the process by which a conventional company chair commissions a search for a new CEO. The Chair of Court is just one of a number of stakeholders. I would hope and expect to be on the selection panel and to be able to provide input into the role requirements on behalf of Court. But neither I, nor Court, will be the decision taker.

Having said that there are things that I (and I would imagine, my NED colleagues) will be pressing for. The next Governor will, I hope, be able maintain and build on the highly impactful changes in organisation and culture that Mark Carney has achieved: One Bank, bringing the institution's disparate skills together to fulfil our different mandates; creating a more inclusive culture; transforming our communications; maintaining the Bank's independence of thought and action; leading debate on international reform; supporting a strong and stable economy at home; maintaining the strength and resilience of our financial system – banking, payments, etc.

Court must ensure a successful transition, carefully considering those aspects that will be potentially problematic for the new Governor. The second part of the succession is a thoughtful induction. This is as important for an internal hire as it is for an external one. The Court and its Chair are symbols of cohesion and continuity; in supporting both the new Governor and the organisation, they can hopefully prevent too great a period of variability for both.

9. What is your assessment of the successes and shortcomings of the One Bank strategy and what are your goals for the Vision 2020 strategy?

The One Bank Strategy was an articulation of an urgent need arising from at least two separate strands.

Most pressing was the incorporation of the PRA into the Bank. That was a massive logistical task at the outset: premises, IT, HR, a near doubling of the Bank's size. But that was just the start. We needed to integrate supervision into the Bank, not just leave it as an "FSA in exile". We created joint directorates at the point where financial stability and prudential supervision met. We moved some of our brightest economists into supervision and some of the best supervisors into traditional central banking. We made sure that the skills of our markets area were available to the supervisors. Monetary Analysis and PRA worked together on issues relating to mortgage finance. We boosted our research and analytic capabilities and, very importantly to ensure overall integration, we harmonised reward through the "One Bank, Your Reward" consultation process.

The other strand was less tangible but equally important. There had been much criticism of the Bank's role in the global financial crisis; and by the TSC of the Bank's governance - the 'over-mighty' governor; the 'weak, oversized and fractured' Court; lack of public understanding of what the Bank was for, coupled with a weakness in communication. Part of that was addressed in Parliament. In 2012 and 2016 there were major changes in the Bank's constitution, delivering a smaller Court with explicit oversight powers; more Deputies; bringing in the NAO to perform value for money reviews. I lived through most of that process, and it is continuing.

During 2017, the NAO reviewed the Bank's 'One Bank' Strategic Plan. It recognised the progress made under the strategy to create a single, unified institution better able to exploit the complementarities between its functions, in light of the Bank's expanded policy responsibilities. The NAO concluded that fourteen out of fifteen of the Strategic Plan's initiatives had been successfully delivered, whilst the final one, around the delivery of new data architecture, was off target and had a longer timeframe than the Bank initially envisaged. The NAO observed, correctly, that the Bank underestimated the complexity of what it would take to build the IT systems which would have allowed better use of our data sets. The NAO further observed that "longer-term sustained effort" will be required to embed the required overall cultural change as well as enhancements to data projects. The Bank accepted these NAO findings regarding the shortcomings of the process and these were incorporated into the Bank's second strategic plan, Vision 2020.

Vision 2020 is about the Bank's next stage. This plan deals with two key issues, namely: how we communicate and how we work.

Success in the 'how we communicate' initiatives will ensure that our messages are more creative, targeted and accessible to a wider audience and that our internal communications and decision making processes are more effective. Success in the 'how we work' area, will be evident when we bring together the right people, with the right skills, from across the Bank, to work on the right issues, supported by the right technology.

Vision 2020 has already transformed communications (the layered presentation of the Inflation Report was the first visible fruit but there will be much more). We are reaching out more into the regions and nations of the UK, building on our Agents network. The Bank has started to trim away things it doesn't need to do - unnecessary processes whose absence will make us more effective as an institution and more fun to work in, more work across functions, fewer silos. The strategic plan also very importantly ties into the hard money target (flat nominal) that Court has set for the Bank's budget.

10. By what criteria should your record as Chair of the Court be judged?

The first point I would make is that the starting point for assessment should be achievement against the priorities I outline in Question 6. Namely, judgement of my record should be made against effective delivery of these key priorities - and I would therefore expect at least the following questions to be asked in relation to an assessment of my tenure:

A. Succession

How effective was the transition from Governor Carney to his successor? Did the organisation lose momentum (or indeed key people) as a result? Did the new Governor rapidly find their footing in the Bank and begin achieving impact early on in their tenure?

B. Progress in IT infrastructure, systems and processes

Have there been tangible improvements in the efficiency and the effectiveness of the core central service systems and processes? How has the Bank done against the targets it sets for itself?

### C. Relevance and responsiveness

This is tougher to measure - as it is intangible - but the questions here should deal with the Bank's degree of transparency, public trust (as measured through surveys), and communications effectiveness to multiple stakeholders. The TSC and Treasury will also be able to assess the degree of the Chair's partnership, responsiveness and effectiveness.

### D. Cultural change through how we work and communicate

Vision 2020 will have embedded in it a series of success measures - these measures will be enhanced and refined over time. Questions might include: Have the twin-streams of initiatives in 'how we work' and 'how we communicate' taken hold in the Bank and has the work programme delivered against the objectives? What are the implementation gaps and is there a plan to close them?

### E. Diversity and inclusion

How has the Bank done in closing the Gender pay gap? The BAME pay gap? How has the Bank done in meeting the Female and BAME representation targets? Is the Bank making significant progress in its hiring targets for Female and BAME candidates? Has the Bank become a role model for transformation?

Furthermore, consideration might be given to the following issues:

- Is Court a high performing oversight body? Are the NEDs judged to be committed, hard working and contributing and is there appropriate regard given to NED succession?
- Are the sub-committees of Court high functioning (ARCO, Remco); are they grappling with the key issues?
- Has the IEO continued to carry out root and branch reviews and shone light on the right areas?
- Has the Bank delivered against its external outreach objectives (e.g., schools, businesses, Town Hall, public via charities and community settings)?

### Governance and oversight of the Bank

11. What has been the impact of the reforms made to the governance and structure of the Bank during your time on the Court (in particular, those made under the Bank of England and Financial Services Act 2016 and the establishment of the Independent Evaluation Office)? Do you have any thoughts on how the governance of the Bank could be strengthened further?

The major changes since I joined Court have been:

- (1) the further reduction in its size to 12 members of whom seven are non-executive;
- (2) the statutory recognition of Court's oversight functions, first in a separate oversight Committee and then from 2016 in the whole Court (The 2016 Act has reinforced Court's

work as the Bank's unitary board, with non-executives and executives working together in a forum designed and sized to encourage fuller participation);

- (3) coupled with this, the ability of NEDs to observe policy committee meetings;
- (4) (The 2016 Act has supported the integration of different parts of the Bank, including by) putting the three main policy committees (MPC, FPC, PRC) on the same statutory footing;
- (5) the creation of the Independent Evaluation Office ('IEO') to support Court's oversight, directly accountable to the Chair;
- (6) the routine publication of the minutes of Court's meetings;
- (7) the introduction of the NAO from 2016, with an ability to undertake value for money reviews of our non-policy operations.

The overall impact of these changes – many of them inspired by the Treasury Committee's work - has been positive both for the Court and the Bank. The oversized and underpowered Court of 1998-2009 was perhaps an extreme case, but the Court I joined has become progressively more effective. Greater clarity about our powers relative to the executive has been complemented by a real determination on the part of the executive to work with Court's non-executives in creating a high performing unitary board. Court is better understood in the Bank and I believe externally. In addition, the IEO – now on its second Director – has made a big impact on the Bank and is a tool that Court uses to shine a light onto very significant areas of the Bank – as we did in the Conflicts Review last year. And we have developed a good relationship with the NAO and have already had one highly impactful report from them (on the One Bank strategy); another has just started, on the Bank's central service functions.

Looking ahead I expect to see Court making full use of the new framework to drive forward the Bank's ambitious change programme.

I do not believe that the governance now needs further strengthening. Governance has been reformed and it is now time to ensure that these reforms are completely embedded. Rather, the current priorities feel to me to be about outstanding execution in the context of our existing governance arrangements.

12. Does the Court have adequate resources and tools to monitor the performance of the Bank and to ensure change if the Bank and/or the Governor are found to be underperforming in any area?

Court has always had the power to ensure change – it can't remove the executive, but it is empowered to "manage the affairs of the Bank" and could at any point assert its right to do so. But effective boards normally don't work like that (i.e., by making threats or asserting rights). Rather, Court NEDs should play an active and highly engaged influencing role, taking the part of the constructive and supportive critic, making sure that they really have the appropriate data and relevant information so that they know how the organisation is performing, and so that they can engage with the executive on an equal level. That Court is now good at. We don't run the Bank - that is what the Governors and the COO do - but we have successfully pressed the Bank to prioritise some issues – cyber resilience is an example – and to reform others. As technical outsiders, with commercial and organisational development experience across multiple settings, we observe things that insiders may not, and we see when things are missing too.

Court has of course now its own support, in the Independent Evaluation Office ('IEO'). This is, so far as we know, unique among central banks. Since being formally established in 2014, the IEO has conducted six in-depth evaluations (forecasting, competition, FMI supervision, insurance, sterling liquidity, and most recently resolution) and worked with the NEDs in conducting the review into conflicts of interest. The IEO has a full programme of work for the current year (including stress testing).

The Chair of Court is responsible for setting the remit, direction and work programme of the IEO. To date, this has been done in collaboration with NED colleagues. Typically, reviews will look at issues that have the potential to incur material balance sheet or reputational risk, and which cut across the work of more than one directorate of the Bank. It has a particular focus on the Bank's policy areas and can conduct ex post reviews of the merits of policy. This differs from the remit of the NAO (which is precluded by statute from examining the merits of policy decisions) and that of Internal Audit (which does not evaluate performance, but instead evaluates the effectiveness of governance, internal controls and risk management processes).

The IEO aims to strengthen the Bank's accountability while not compromising either the independence of policy formulation or the effectiveness of Court as a unitary Board. IEO reports will be published unless there are public interest reasons to withhold. Each IEO evaluation has included a substantive set of recommendations for change, and Court is monitoring subsequent progress.

In the ordinary course, Court reviews quarterly financial statements (presented by the Financial Director) against budget and forecast, and quarterly risk reports (presented by the Head of Risk) against risk tolerance. Court also relies on detailed oversight at the sub-committee level, delegating to ARCO the oversight function for financial- and other internal controls, as well as oversight on Bank-wide risk management. Both the ARCO and REMCO Chairs report at each Court. The head of Internal Audit reports directly to the Chair of ARCO, and Internal Audit findings are reported on at Court. Between the Chair of Court and the Chair of ARCO, a rolling series of bilateral meetings tend to cover all Executive Directors, some quite frequently (e.g. FD, Secretary, Head of Internal Audit, HR Co- Heads, Head of IT).

13. What role does the Court have in guaranteeing the operational independence of the Bank? Do you think that threats to the Bank of England's independence are growing?

Court cannot guarantee the operational independence of the Bank. That is given by Parliament and can be taken away by Parliament at any time. And it is part of our framework for operational independence that the Government, not the Bank, sets the objectives. We take our remit from Parliament.

Of course people – in Parliament, including in government - will disagree with individual policy decisions made by the the Bank. And more generally, society as a whole is evidently becoming more distrustful of authorities, institutions, 'experts' and elites. We need to be aware of that and the implications for the Bank's role.

What Court can and must do is make sure that the Bank is always working to justify and maintain the trust that has been placed in it. That means keeping its analytical and operational

skills at a high level, making sound judgments, being transparent and always explaining its reasoning clearly, seeking and listening to feedback, and remembering the lessons of history.

Operational independence of monetary policy has served the British public well over the past 20 years – it has delivered low and stable inflation, and prior to the financial crisis, it provided the backdrop for steady and healthy output growth. The financial crisis led to a sharp deterioration in economic performance. But even then, the credibility of monetary policy and the stability of inflation expectations, both of which had been bolstered by operational independence, were important in enabling the MPC to take the policy actions needed to support growth and employment. Without the credibility which had been established over the previous decade, it would have been much more difficult for the Bank's policymakers to take those actions.

Where the Court of the Bank has a particular role is in helping to ensure that the Bank is managed such that it is deserving of that operational independence. Central banks cannot be complacent about keeping the trust and credibility which are essential for that. Both in the UK and elsewhere, we seem to be witnessing declining trust in institutions and in 'experts'. Central banks are particularly vulnerable to these trends, given their nature as technocratic institutions – 'expert' almost by definition. That decline in trust appears to be a global phenomenon – indeed, threats to central bank operational independence are perhaps starker in some other countries. According to surveys, levels of trust in Bank of England have – so far – held up well. But we take these developments most seriously.

That is why the elements of the Bank's current strategy are so important. It is crucial that the people who the Bank serves – the general public – trust the Bank, believe it has the competence to deliver its mission, carry out its duties, and have confidence that it makes the best use of public funds as it does so.

The need to maintain and build that trust is why improving the way we communicate is so important. The Bank and its policymakers need to speak honestly and clearly, in language that people understand, using the modern channels of communication that people now rely on. That communication needs to reach parts of the population that have previously been neglected in central bank communications. And the Bank needs to listen as well as speak, and be responsive to what it hears. The external outreach programme is at the core of this listening process.

The Bank also needs to be representative of the people it serves – so the Bank's goals, and my priorities as outlined clearly in the answer to Question 6, to significantly improve the diversity and inclusiveness of the Bank, are essential if we are to safeguard the right to have operational independence. A diverse and inclusive culture will also help the Bank to design and implement those policies most effectively.

And we must do all this with an ongoing focus on providing value for the money we spend, and be seen to do so.

For all of this, transparency is essential – and so is genuine accountability, including via this committee. To maintain our operational independence, the public and all our stakeholders need to be assured that we are being rigorously challenged and held to account. Those processes therefore need to be carried out publically and transparently.

So I believe that the Court of the Bank does have a vital contribution to make here - ensuring the Bank is managed and run such that it is deserving of the operational independence that I believe serves the public well. And the Court of the Bank needs to be publically accountable for doing that, through processes such as this hearing.

14. Do you think that the external members of the Bank's policy committees have sufficient authority and resources to prevent internal members, especially those that sit across multiple committees, from dominating decision-making?

Having observed all these Committees at work I would make a point about breadth versus depth. Yes, the Governors sit on most of the Committees. But the external members have depth. I see this on the PRC, where the externals spend a lot of time in the PRA, observing meetings and attending the Periodic Summary Meetings ('PSM's) – full-scale reviews of firms – that the Governors don't have time to attend. The PSM process is the key point in the supervisory year for the PRA regulated firms and their supervisors. As a result, external members' input in the PRC meetings is based on deep knowledge and it counts. The same is true on other Committees. I have never felt the Governors are steamrolling the Committees. These are conversations of equals and the debate is highly impressive. There are no dominant voices.

The MPC external members have dedicated economists and a secretariat working directly for them - an arrangement that is overseen by the Bank Secretary rather than by MA staff reporting to the Governors. There are slightly different arrangements for FPC and PRC externals, but all have support within the Bank and good access both to staff and to information.

The Chair of Court has one to one meetings with the external members of Court and each of the MPC and FPC at which they discuss their views on the effectiveness of the committees and can explain any concerns. In addition to informal discussion, key drivers of committee effectiveness are scored through surveys, which are tracked over time. There is a similar process for the external PRC members to have one-on-one discussions with the Chair. Overall, views are positive - the externals see the committees as functioning well with good discussions and staff support as very effective. This process is part of an annual review and the reports are taken at Court. I am committed to continuing these reviews in future. Committee effectiveness reviews are a key role for the Chair of Court.

15. What progress has been made on implementing the recommendations of the review of the Bank's approach to conflicts of interest?

The Review recommended the appointment of a Conflicts Officer ('CO'), to be responsible to the Governor and to Court for the Bank's policies on business practice and conduct; for conflict identification and management throughout the Bank and particularly at senior level; and for liaison with HM Treasury on future appointments to the Bank. It also recommended clarifying the reporting requirements for personal relationships, introduction of a centralised system for capturing and reporting data, upgrading the role of head of compliance, introduction of more frequent reporting to Court, and a review of responsibilities for risk.

All of these recommendations were accepted by the Bank and have been met or are being met.

The CO was appointed last September, and currently holds the reporting line for the Compliance Division as well.

Benefits have been immediately evident in external appointments made to the Bank by HM Treasury. There are 27 such appointments, and the CO now has formal arrangements with each of the four teams in the Treasury involved in them, documented in an exchange of letters with Charles Roxburgh. This means that before panel interviews take place the CO will have seen and reviewed each candidate's potential conflicts against a full Bank template, with the ability to raise questions about suitability.

Internally the CO has continued to drive the conflict processes developed for the Statutory Committees, dealt with several new declarations, supported new members in preparing to meet the TSC, and conducted personal attestation processes under the new arrangements for all Governors and external committee members. There is a new focus and discipline, exactly as the review recommended and Court intended.

And this permeates the whole Bank. The new 'Our Code' was released in the autumn, and a Bank-wide attestation round followed. The change in the relationships policy recommended by the Review focussed the required disclosures more effectively on those relationships that might genuinely pose possible conflicts, rather than including irrelevant ones that made the identification of real concerns more difficult. Induction processes for new entrants and contractors have been streamlined. A proposal for a new compliance monitoring tool has been developed and is in the Bank's investment budget. It will likely be brought to Investment Board for sign off in the summer.

The Risk Review is underway and will report back to Court later this year.

16. To what extent do you think that wide public understanding of the role of and decisions made by the Bank of England are important for its accountability and effectiveness, and what is your assessment of the current state of public understanding?

My view as to the first part of the question is that public understanding of the role of, and decisions made by, the Bank of England is crucial for the Bank's accountability and effectiveness.

Greater transparency can improve understanding and so improve the effectiveness of policy and stabilise the economy. This particularly relates to information on the Bank's view of the likely course of the economy and of how policy might respond to that or to different outcomes. That helps people plan, and reduces the degree of uncertainty felt by households and firms.

Transparent communications can also improve the ability of people to assess the performance of the central bank and hold it to account. And, importantly, transparency increases incentives for the central bank to make wise decisions in the first place, knowing they will be held to account.

As to the second part of the question, my view is that public understanding of the Bank needs to be improved. This will become an ongoing process of continuous improvement. While three-quarters of people are familiar with the institution, less than 60% of people know that the Bank is responsible for controlling inflation, and only around half know the Bank is operationally independent from Government control.

Through the Bank's new Strategic Plan, Vision 2020, the organisation has committed to transform the way the Bank engages with the public by:

A. Communicating more effectively. The Bank's messages will be more creative and targeted to different audiences so that its policies are better understood and more effective. One example of this is the new Inflation Report visual summary. By producing this visually-engaging and accessible summary the Bank managed to increase the number of views by 40% and double the time people spent on viewing the page relative to previous Inflation Reports.

B. Listening more, and to more diverse voices. For example, the Bank has embarked on a series of Town Hall events across the UK facilitated by our network of regional Agents. The Bank has also partnered with local and national charities to engage directly with the public. The hope is that, in time, these events will ripple out to smaller, community-level groups, with a view to creating a national network of engaged, informed citizens, with whom the Bank can have an ongoing conversation about the economy and their role within it.

C. Helping to equip the next generation with the tools and skills they need to understand the economy, and the Bank's role. For example, in April 2018 the Bank launched a range of engaging classroom resources, called EconoMe, to help provide young people with the analytical skills and knowledge to make informed decisions that will benefit themselves and the world around them. This is supplemented by a meaningful programme of school visits, in which I intend to participate.