

**TSC Pre Appointment Questionnaire**  
**Anthony Habgood**  
**Chairman of Court, Bank of England**

**A. PERSONAL/GENERAL**

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

Yes.

**2. How do you intend to divide your time between the Chairmanship of the Court on the one hand, and your Chairmanships of Reed Elsevier and Preqin Holding on the other?**

My experience, and I believe that of many others, is that large non-executive chairmanship roles take about 1½ - 2 days a week, or 7 - 8 days a month. This is in line with the candidate brief and my pre-appointment discussions. It is enough time to stay on top of the issues, but not so much as to get under the feet of full-time highly professional executive management. I have been sharing my time in this way between first Bunzl and Whitbread and then Whitbread and Reed Elsevier for the past nine years. Preqin is a small private company with a much lower time demand. I am giving up Whitbread to take up the role at the Bank of England. While I recognise that every organisation is different and has different demands at different times, I intend to continue to divide my time in a similar way on a month by month basis.

**3. Do you foresee any conflicts of interest arising as a result of your other Chairmanships, or as a result of any of your other activities?**

I have noted the Bank's policy on conflicts for Court members and do not believe I have significant conflicts. The only slight conflict is that the Bank is a user of LexisNexis, which is a Reed Elsevier product. I shall naturally declare that in the unlikely event that relevant decisions come before Court though it represents less than 0.01% of LexisNexis sales and less than ¼ of 0.01% of Reed Elsevier sales.

**B. EXPERIENCE, CHALLENGES AND PRIORITIES**

**4. How has your experience to date prepared you for the role of Chair of the Court? What expertise do you have in macroeconomics, finance, monetary policy or prudential policy?**

I did my degree in Economics at Cambridge in the 1960's and then went on to do a masters degree in management (Industrial Administration) at Carnegie Mellon University in Pittsburgh, Pennsylvania and

have remained in management ever since. First I was a consultant with Boston Consulting Group, where I worked in a variety of industry sectors in the US, Germany and Japan as well as the UK and from 1979 was part of the management structure of that group. Since 1991 I have been either Chief Executive or Chair of a number of organisations and a Director of some others. Throughout my career I have had a practical understanding of finance, overseeing companies with over £50 billion of market capitalisation and multiple transactions, many involving the debt and /or equity markets in the UK and internationally. Exercising judgment on balance sheet structure has been a key success factor particularly over the past decade. My direct experience of banking was serving as a non-executive of Nat West Bank in its last two years as an independent company before it was bought by RBS. My experience is not in monetary and prudential policy, rather it is in overall management and governance. I have been Chief Executive of two public companies and then Chairman of 6/7 organisations for over 30 man years. I have also served as a Director under 18 other Chairs in ten organisations.

**5. What is your understanding of the Court's statutory responsibility to 'manage the Bank's affairs'?**

Like any Board, Court's role is to oversee the overall management of the Bank's affairs. This includes the Bank's balance sheet, senior appointments, remuneration and audit. However, there is an explicit carve out; the formulation of monetary policy and specifically the setting of interest rates. Responsibility here lies with the MPC, not Court. Court has an explicit role in making sure the MPC is properly resourced and supported within the Bank organisation and that its procedures are effective. The Bank of course does much more than formulate monetary policy. For example, it has statutory responsibilities for ensuring financial stability, and within that, the FPC sets macroprudential policy and the PRA regulates banks, building societies, credit unions and insurers; it prints and distributes bank notes and it operates the Funding for Lending Scheme. Court's role, like that of any Board, is to ensure that these functions work together, that management is effective, that accountability systems work as intended, that a common culture of excellence is built and maintained, that the organisation learns from its experiences (good and bad), that the best people are promoted, including women who are under-represented in the Bank's management, that the organisation reflects the diversity of British society and that it is socially responsible.

**6. What do you see as the principal differences between the Court of Directors and the Board of a large publicly listed company?**

I see a lot of similarities between the functioning of Boards in different industries and sectors public and private. In all cases the Board is responsible for the overall success and reputation of the organisation and all Boards should have as a goal to raise the game of the executive. All Boards hold the organisation

that they oversee to account and generally modern Boards are not about the exercise of hard power. Of course the Court is different from a public company in that it has a single shareholder who has great interest in certain decisions and actions. In this sense it is similar to a company owned by a private equity group, or a private company owned by a single individual. In neither of these cases is, for example, the appointment of the Chief Executive, or the degree of leverage of the balance sheet decided by the Board without the major shareholder having the greatest say. Every Board of an organization is accountable to its owner(s). The Bank's owner is the Government and its actions can have a major impact on people's lives. The Bank promotes the public good by maintaining monetary and financial stability. This necessitates accountability to the British people through Parliament and to the Government rather than to shareholders. For me, success in a big company is about the creation of shareholder value through the long term growth, prosperity and sustainability of the organisation and the enhancement of its reputation among its stakeholders. In the Bank's case, the longer term and reputational aspects are even more important. My experience is that to achieve this it is usually helpful to raise the sights of the organisation and for it to strive to be the very best in the world at what it does.

**7. What do you expect will be the main challenges you will face as Chair of the Court? In particular, what governance challenges do you think are posed by the expansion of the Bank's statutory responsibilities under the Financial Services Act 2012?**

When the 2012 Act added the FPC (macro prudential) and the PRA (micro prudential) to the Bank it added large responsibilities and great power. With a new Governor and also now a new strategy, the whole organisation will need to respond to these challenges. This will include the Board agenda being structured to consider the full current scope of the Bank's activities and the implementation of the One Bank strategy. This will need to be done in a way that makes the Bank most effective while holding the executive to account. The way the new responsibilities are structured is not simple with the MPC, the FPC and the PRA all being linked differently to the Bank. This makes the "One Bank" challenge more difficult from a management and governance perspective. My experience of merging organisations is that these types of issues always present challenges. These added complexities make it all the more important that the Bank has a modern Board with modern governance structures. I believe that the Governor and I share these concerns and the need to address them in an open and transparent way.

**8. What will your priorities be on taking up the position of Chair of the Court?**

At this time I believe that my priorities will be to ensure that the Court operates like a modern Board of Directors and is seen to be doing so. By that I mean that the Board operates by mutual respect, has a regular agenda that is discussed with the Governor, focusses on the key issues facing the organisation and ensures that these issues are being fully addressed. My experience is that Boards have at least five

generically different types of agenda items. Regular performance items that come to most meetings, budget and target items that arise annually and set the course for the immediate future, review items that arise annually, one off items for approval and one off items for review. In my experience, annual review items are where a lot of institutional learning normally takes place. A priority of mine will be to see what such items should be for the Bank. At any time there will of course also be specific issues being addressed. They will naturally be priorities. Currently the Grabiner review of “forex” is clearly a priority and consideration of the Warsh review will become one as well. There are of course many other priorities, including the implementation of the “One Bank” strategy. Ensuring that the right issues are addressed directly and openly at the Board is normally the highest priority for a Chair.

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

As Chair of a number of organisations over a period of time I have judged myself on the overall success of those organisations, while I am there and after I have left. I have not sought to take public credit for that success because I believe that the role of Chair is to make the Chief Executive and the organisation look good because their performance and reputation among stakeholders are high and continuously improving. I would again hope that at the end of my term the performance and reputation of the Bank has improved. Of course one cannot ensure that there are no failures of any sort. That would be impossible and implausible. A proper Board structure and good governance can however reduce the probability of failure and try to ensure that any failures that occur are dealt with openly and transparently and learnt from. I would hope that, by the time I leave, the Board’s credibility will have been enhanced and that the changes that the Governor and I have tried to implement will be embedded in the organisation.

**10. What particular challenges are posed by the financial management and oversight of a central bank’s balance sheet, compared with that of a private sector company’s? What do you think are the implications of the Bank having a larger equilibrium balance sheet than it did before the financial crisis?**

The Bank's balance sheet is now over £400bn, compared with around £20bn pre crisis. This in itself is not hugely risky to the Bank, as £375bn of the total loan is to BEAPFF, the QE vehicle and that is indemnified by the Government. If/when QE unwinds, the balance sheet is likely, I am told, to settle at a level many times higher than where it was before the crisis with the indemnity dropping away. That reflects the likely increased demand for reserves held at the Bank by the commercial banks. The Bank will then have to choose what assets to hold against those increased liabilities. Whatever these are, they would be unindemnified. This has clear implications for risk and the stakeholders will need to decide the level of capital the Bank should hold in those circumstances. In a private company, with no government backing, it would not be prudent to allow balance sheet leverage to rise to some of the higher levels that are being

discussed as possibilities for the future. A private company would also have a greater ability to build reserves through retained profit. These are all issues which the Bank will need to work through.

## **C. BANK GOVERNANCE AND OVERSIGHT**

### **11. What do you think are the strengths and weaknesses of the Bank's system of governance? Do you believe the Court has sufficient resources, expertise and powers to exercise meaningful governance of the Bank?**

The system of governance theoretically has the strengths of most British style Boards. It has a unitary Board with a highly respected Governor, an independent non-executive Chair and a majority of non-executive directors. As with all such Boards, it has the entire resources of the Bank at its disposal with all the expertise that that entails and has the power to appoint outsiders, either as a Board, or through the Oversight Committee. It has also recently appointed an Independent Evaluation Director. As I have mentioned earlier, the Board's powers over certain decisions are closer to the powers of the Board of a private equity, or privately owned company than a broadly held plc. Its general powers are clearly laid out and the Governor and executive operate within delegated authority limits. As with all Boards there can be weaknesses in the way they operate and/or in the perception of how they operate. As to the former, it would be surprising if the big changes that have occurred at the Bank did not lead to the need for some modifications to the system of governance. As to the latter, I have noted the perception of weaknesses in some quarters.

### **12. What is your view of the recommendations of the Treasury Select Committee, the Joint Committee on the draft Financial Services Bill and the Parliamentary Commission on Banking Standards on the reform of the Bank of England's governance and accountability?**

By and large I agree with the key recommendations of the Treasury Committee in 2011, a number of which I believe have been implemented. I think it was unfortunate that the Committee recommended the name "Supervisory Board" since that name usually implies a dual Board structure, while I read your recommendations to be for a modern unitary Board. Changing the name from Court to Board would seem to me to be helpful to good governance given the history. The committee's recommendation to reduce the size of the unitary Board is also in line with good practice, though the change in the number of Deputy Governors may modify that recommendation somewhat in practice. A smaller, modern, unitary Board with a high performing Chief Executive and an independent non-executive Chair is the normal forum used to oversee a UK company. It is also good practice for the non-executives to meet regularly without the executives present (my normal practice has for many years been to do this after every Board Meeting) to be sure that the non-executives are content that the Board is acting properly and that the executive is

being appropriately held to account. This is similar in concept to the Oversight Committee and I have found it to be most effective.

**13. What is your view of the work of the Oversight Committee to date?**

I have observed two meetings of the Oversight Committee which, as I expected, were mainly concerned with the detailed Forex investigation. I have not observed a meeting of Court and so it is hard for me to comment on how the Oversight Committee interlocks with Court.

**14. What is your opinion of the Bank's response to allegations of misconduct by its employees in relation to the foreign exchange market?**

My impression at this point is that the Bank responded to suggestions that members of its staff may have been aware of misconduct and appointed investigators from outside immediately. That investigation was taken over by the Oversight Committee who appointed Lord Grabiner to lead it and asked him both to review the evidence and to make a full report, including any recommendations he felt necessary to improve Bank procedures. I have observed two meetings of the Committee with Lord Grabiner and I can confirm that this is a major enquiry. A priority of mine will be to see that it comes to a successful conclusion.

**15. What is your understanding of how the Court's governance and oversight of the MPC and FPC differ? What do you think is the practical effect of any differences?**

Formally, the main difference is that the FPC is a committee of the Court and the MPC is not. That would appear to make little practical difference. I am told that the origin of this is that Court sets the Financial Stability strategy on advice from the FPC and the FPC's objective is expressed as to support delivery of that strategy. But probably more significant to the FPC – as with the MPC – is the input from the Treasury, which sets the FPC a remit in rather the same way as the Chancellor sets the MPC a monetary stability target. It could be tidier if the FPC and the MPC were on the same footing. The greater anomaly appears to be that the PRA is a subsidiary of the Bank rather than a part of it. On the face of it, it would seem to be simpler if the PRA were another committee of the Bank.