

## PRUDENTIAL REGULATION COMMITTEE

### CONFLICTS OF INTEREST CODE OF PRACTICE

#### 1. INTRODUCTION

- 1.1 This code of practice has been produced pursuant to, and meets the requirements set out in, paragraph 14(2) of Schedule 6A of The Bank of England Act 1998 (the “Act”) which requires the Bank of England (the “Bank”), following consultation with HM Treasury, to issue and maintain a conflicts of interest code (the “Code”) for the Prudential Regulation Committee (the “Committee”).
- 1.2 This Code, approved by the Court of the Bank (“Court”) following consultation with HM Treasury, applies to all the members of the Committee (“Committee Members”), whether on the Committee by virtue of office, by appointment from within the Bank or by appointment of the Chancellor of the Exchequer (“the Chancellor”).
- 1.3 The Governors and Deputy Governors who sit on the Committee *ex officio* are required to give exclusive services to the Bank. Independent members appointed under Section 30A(2)(g) of the Act sit on a part-time basis, and are appointed on the basis of having knowledge or experience which is likely to be relevant to the Committee’s functions. Individuals may therefore be considered for appointment, and may be able to remain members of the Committee, when they have an existing interest, or acquire a new interest, which may give rise to an actual or potential conflict of interest and/or duty.
- 1.4 The purpose of this Code is to set out principles, guidelines and procedures for identifying, monitoring and managing actual or potential conflicts of interest with a view to:
- (a) ensuring the independence, integrity and impartiality of the Committee’s decision-making in the performance of its functions; and
  - (b) avoiding any perception that a Committee Member or any connected person<sup>1</sup> may obtain an unfair advantage by reason of the Committee Member’s association with the Committee (for example, by assumed access to information or policy thinking).
- 1.5 In this Code a “conflict” or “conflict of interest” refers to an actual or potential conflict of interest and/or duty and an “interest” includes any direct or indirect interest (including any reasonably likely future interest) whether financial or otherwise.

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<sup>1</sup> A “connected person” includes a firm in which the Committee Member is interested (for example as a result of a directorship or shareholding or other financial interest), a spouse, civil partner, children or step children under 18 years, and any other person with whom the Committee Member lives in an enduring family relationship if he or she takes or advises on financial decisions with that person.

- 1.6 An actual or potential conflict of interest may arise where a Committee Member has an interest in any dealing or business being considered by the Committee. A conflict may also arise where a Committee Member has duties owed to a third party (for instance to a company of which the Committee Member is a director, or arising from a past association) which may conflict with the functions that it would be proper to discharge as a member of the Committee.

## **2. IDENTIFYING POTENTIAL CONFLICTS OF INTEREST**

- 2.1 All Committee Members should be alert to situations that may give rise to a conflict. It is not possible to set out every situation which may result in a conflict. A judgement should be made on a case by case basis but common situations include:

### **(a) Directorships and Business Interests**

The Bank's general code of conduct ("Our Code"), which applies to Committee Members, contains an obligation to disclose and obtain the consent of the Bank before accepting a directorship. Controlling shareholdings in or Board membership of a commercial firm, and of a regulated financial services firm in particular, may create an actual or potential conflict such as to disqualify an individual from membership or on-going membership of the Committee.

A judgement should be made on a case by case basis and relevant factors to consider would include:

- (i) whether the firm (or any member of the wider group to which it belongs) is a PRA-authorized person or subject to the PRA's statutory powers of direction; and
- (ii) the size, significance and nature of the firm's business (or that of any member of the wider group to which it belongs) in the context of the PRA's statutory objectives.

### **(b) Employment and Consultancy Arrangements**

In accordance with Our Code Committee Members should not take up any additional employment or consultancy arrangements without the consent of the Bank. Full, or part-time employment in a PRA-authorized person (or any member of the wider group to which it belongs), is likely to be regarded as giving rise to a conflict such as to disqualify the individual from membership or on-going membership of the Committee.

Whether such employment or consultancy arrangements may disqualify an individual or be a reason for the removal of a Committee Member will depend on:

- (i) the nature of the services provided. For example whether the role enables the individual to influence the PRA-authorized person's business or strategy or whether it is more concerned with the provision of technical advice;

- (ii) the size, significance and nature of the PRA-authorized person's business in the context of the PRA's statutory objectives.

(c) Financial Interests

Our Code also includes provisions on confidentiality and a financial transactions policy which, for all Committee Members, requires full disclosure of assets and liabilities and the Bank's specific consent for any relevant transactions. It also prohibits the acquisition of securities issued by any entity regulated by the Bank, including PRA-authorized persons or their financial holding companies. Holding a financial interest in a PRA-authorized person, including an interest which arises under deferred compensation arrangements with such a firm, may disqualify an individual from becoming a member of the Committee unless it is not substantial in terms of the individual's wealth at the time of appointment or is externally managed as part of a discretionary portfolio.

Existing direct holdings in PRA-authorized persons (provided they have been considered at the time of appointment not to substantially affect the functions as Committee Member that it would be proper for the person to discharge) may be retained but should not be actively managed thereafter other than to sell them, with the Bank's consent in accordance with the Bank's personal financial transactions policy.

(d) Political Involvement

In their official capacity, Committee members should be even-handed in all dealings with political parties. They should not occupy a paid party political post or hold a particularly sensitive or high-profile role in a political party.

On matters directly related to the work of the Committee or the Bank more widely, Committee members should not make statements or engage in any other activity that could call into question their political impartiality in their public role, and should consult the Secretary of the Bank if in any doubt.

As provided in the Bank's Code of Conduct, if a Committee member wishes to engage in political activity at any level, consent must be obtained from the Secretary of the Bank, who will consult the Governors or the Chairman of Court as necessary.

(e) Charity Roles

The Bank encourages its staff to support and participate in charitable organisations. Committee Members must nevertheless disclose any existing charity roles prior to appointment to the Committee (e.g. trusteeships) and obtain the Bank's consent when seeking to take on new charitable roles. Membership of a charity's investment committee falls under the personal financial transactions policy which forms part of Our Code.

### **3. PROCEDURE FOR DECLARING INTERESTS**

3.1 Section 30A(2)(g) of the Act specifies that the Committee is to include at least 6 members appointed by the Chancellor. By virtue of paragraph 2 of Schedule 6A of the Act, before appointing a person under that section the Chancellor must:

- (a) be satisfied that the person has knowledge or experience which is likely to be relevant to the Committee's functions, and
- (b) consider whether the person has any financial or other interests that could substantially affect the functions as member that it would be proper for the person to discharge.

3.2 Following appointment, before attending a meeting of the Committee for the first time, each Committee Member will be required to complete and submit to the Committee, via the Secretary of the Bank, a declaration of interests statement:

- (a) restating all of the interests that have been disclosed to the Chancellor prior to his or her appointment;
- (b) confirming that he or she is not aware of having any other interests that may give rise to an actual or potential conflict; and
- (c) confirming that he or she will declare any interests that arise in the future that may give rise to an actual or potential conflict and will promptly submit an updated declaration of interests form if any changes occur that may give rise to an actual or potential conflict of interest.

3.3 At least once in every 12-month period, each Committee Member must review the information relating to him/her contained in the register of interests maintained by the Secretary of the Bank and declare that the information is correct or make a further declaration to the Committee, via the Secretary of the Bank, if necessary.

### **4. DECLARING INTERESTS IN MEETINGS**

4.1 Paragraph 14(1) of Schedule 6A of the Act provides that if a Committee Member has any direct or indirect interest (including any reasonably likely future interest) in any dealing or business which falls to be considered by the Committee:

- (a) the Committee Member must disclose that interest to the Committee when it considers the dealing or business; and
- (b) the Committee must decide whether the Committee Member is to be permitted to participate in any proceedings of the Committee relating to any question arising from its consideration of the dealing or business, and if so to what extent and subject to what conditions (if any).

- 4.2 Consequently, in accordance with paragraph 3.2(c) or following a review referred to in paragraph 3.3, if a Committee Member considers that he or she has an interest which may give rise to an actual or potential conflict, he or she should provide the Committee, via the Secretary of the Bank, with all relevant information as soon as possible but no later than the start of the Committee meeting at which the relevant matter is on the agenda.

## **5. PROCEDURE FOR MANAGING CONFLICTS**

- 5.1 The Chairman of the Committee will inform the Committee of any interest which may give rise to an actual or potential conflict that has been declared by a Committee Member.
- 5.2 The Committee will, without the presence or participation of the Committee Member who has declared the interest that may give rise to the actual or potential conflict, then:
- (a) assess the nature and significance of the interest that has been declared;
  - (b) assess whether a perception could arise that the Committee Member in question or any connected person could be seen to obtain an unfair advantage by reason of the Committee Member's association with the Committee;
  - (c) assess the risk to the integrity and impartiality of the Committee's decision making in the performance of its functions;
  - (d) decide whether the interest that has been declared gives rise to an actual or potential conflict;
  - (e) to the extent the interest that has been declared gives rise, in the Committee's opinion, to an actual or potential conflict, consider whether steps can be taken to avoid or manage the conflict; and
  - (f) assess the extent to which a Committee Member who is likely to have to recuse himself/herself from issues and decisions as a result of an actual or potential conflict will be able to continue to fulfil his/her functions as a member of the Committee effectively. Where it is concluded that the member is no longer able to fulfil his/her duty, the Committee will advise Court and HM Treasury that they believe this to be the case.
- 5.3 If the Committee considers that the interest that has been declared does not give rise to an actual or potential conflict, it may agree that the Committee Member who has declared the interest may continue to participate in all the discussions and the decision-making process of the Committee unconditionally.
- 5.4 If the Committee considers that the interest that has been declared does give rise to an actual or potential conflict, it will determine what action is appropriate in light of the

nature and extent of the conflict. This may include preventing the Committee Member who has declared the conflict from:

- (a) receiving any papers and/or participating in any Committee discussions in relation to a matter; and/or
- (b) participating in Committee discussions or decision-making in relation to a matter while the conflict exists.

5.5 The Committee will ensure that the minutes of the Committee meeting note the interest declared and, if relevant, the reasons why the Committee considered that it gave rise to an actual or potential conflict and an outline of the steps to be taken which are considered appropriate to avoid or manage the conflict declared.

5.6 The Committee, via the Secretary of the Bank, will promptly consult with Court on any proposed decision of the Committee to authorise an actual or potential conflict and will inform Court of any conditions which the Committee has decided are required to avoid or manage the conflict.

5.7 Pursuant to paragraph 8(1)(c) of Schedule 1 of the Act the Bank may, with the consent of the Chancellor, remove a person from office as Governor, Deputy Governor or non-executive director of the Bank if it is satisfied that he/she is unable or unfit to fulfil his/her functions as a member.

5.8 Court may, pursuant to paragraph 9(3) of Schedule 6A to the Act, with the consent of the Chancellor remove a member of the Committee appointed by the Chancellor if it is satisfied that in all the circumstances the relevant Committee Member's financial or other interests are such as substantially to affect the functions as member which it would be proper for the relevant Committee Member to discharge.

## **6. REGISTER OF INTERESTS**

6.1 The Secretary of the Bank is responsible for maintaining a register of Committee Members' declared interests. With the Bank's General Counsel, the Secretary of the Bank will regularly review the register of interests.

6.2 The Bank will publish information on the business interests of Committee Members in its Annual Report in addition to the remuneration paid by the Bank to Committee Members.

## **7. POST-APPOINTMENT PURDAH**

7.1 For a period agreed with the Bank, following the termination of a Committee Member's appointment to the Committee that member may not accept, without the

prior written consent of the Secretary of the Bank (having consulted the Governor and Chairman of Court), any additional appointment, employment or duties, whether remunerated or not, outside the Bank over and above those which had been permitted while a member of the Committee. Any additional time commitment or amended duties in relation to an appointment or amended duties in relation to an appointment or employment for which consent has previously been granted will be treated as a new commitment for the purposes of this paragraph.

7.2 During the period referred to in paragraph 7.1 the Committee Member shall remain subject to this Code and, subject to complying with this section 7, will be entitled to receive an amount equivalent to the fee which he/she would have received had the appointment to the Committee continued during this period.

**8. MONITORING COMPLIANCE AND REVIEWING THIS CODE**

8.1 Any Committee Member who becomes aware of a breach of this Code shall report it to the Committee, via the Secretary of the Bank, as soon as possible.

8.2 All breaches of this Code shall be considered at the next meeting of the Committee, or earlier if considered necessary by the Chairman, and the provisions of Section 5 of this Code shall apply. All breaches of this Code shall be recorded in the minutes of the relevant Committee meeting together with an outline of the steps to be taken by the Committee which are considered appropriate.

8.3 This Code has been implemented for the purpose set out in paragraph 1.4. Any failure to comply with the terms of this Code will not, in itself, result in a decision of the members of the Committee being invalidated.

8.4 This Code and its application by the Committee will be reviewed annually by Court, or sooner if required.