



BANK OF ENGLAND

A Review of Market Intelligence at the Bank of England

26 February 2015

Executive Summary

The Bank of England (the “Bank”) engages regularly with contacts from a range of institutions and market participants to learn about conditions and developments in financial markets. The ongoing process of discussion with contacts, followed by analysis of any information gained to identify insights relevant to policy is known as Market Intelligence (MI). The Bank conducts MI across a range of markets including, but not exclusive to, those markets in which the Bank is operationally active, such as sterling money markets and major government bond markets. Since 2004, there has been a formal MI programme, co-ordinated by a central team, in which a large number of staff from the Markets Directorate and the wider Bank participate.

In March 2014 the Governor announced a comprehensive review of the Bank’s MI programme (the “Review”). This formed part of the Bank’s *Strategic Plan* following the expansion of the Bank’s policy responsibilities in 2013 to include prudential supervision and macroprudential regulation. Recent misconduct allegations in financial markets, such as Libor and Foreign Exchange market manipulation, had also emphasised the need for staff gathering MI to be more alert to such issues. This Review is separate to Lord Grabiner’s *Foreign Exchange Market Investigation Report* (the “Grabiner Report”) although a number of actions contained within this review address issues raised in the Grabiner Report. The Bank’s response to the Grabiner Report recommendations has been published alongside this Review, and a summary of the actions undertaken is included in Box A. The Terms of Reference, and more detail on the Review’s method, are set out in Annex 1.

The Review found that MI is essential to the Bank’s mission to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. In particular, MI is a core input to determining and implementing policy. It needs, however, to evolve to serve the entire Bank. It also needs to be further codified, to provide a more robust framework within which staff involved in gathering MI operate. The Bank expects, and will support, staff to meet the highest professional standards.

The Review has identified 11 specific actions – underlined below – which have been endorsed by the Bank’s Governors and Court of Directors. The actions are designed to: (i) reinforce the transparency and safeguards around the Bank’s MI activities; (ii) ensure MI is focused on the Bank’s priorities and can adapt as they evolve; and (iii) promote the effective use of MI in support of the Bank’s mission. The actions are summarised alongside a high-level implementation plan in Annex 2.

Transparency around the purpose and role of Market Intelligence

The purpose of MI is to ensure that the Bank’s policy decisions are made and implemented with a detailed understanding of the financial market context in which the Bank operates. Discussions with external contacts provide additional insights beyond analysis of data alone (and are particularly useful where there are data constraints). They help paint a clearer picture around observable developments, enabling the Bank to understand better not only what is happening, but why.

MI therefore feeds into internal analysis on policy relevant issues, and contributes to decision making, policy implementation and communications by the Bank’s three main policy committees: the Monetary Policy

Committee, the Financial Policy Committee, and the Prudential Regulation Authority Board. This contribution can take place at any number of stages of policymaking, with MI able to:

- i. scan the horizon for **early warnings** of potential risks to monetary or financial stability (e.g. by highlighting the developing role of synthetic exchange-traded funds);
- ii. assist policymaking by supplementing data driven analysis with **qualitative perspectives** (e.g. the *Fair and Effective Markets Review* is benefiting from regular dialogue with market participants); and
- iii. help assess the **impact of policy** on financial markets (e.g. MI contributed to the design and assessment of the Asset Purchase Facility and Funding for Lending scheme during the recent crisis).

MI is information which is gathered first-hand. It differs from information in reports, research and other publications: it is more immediate, more focused on the drivers of change and consequently less absolute. It lends itself to discussion, and comes from building understanding and credibility with contacts. The primary method of MI gathering is through bilateral meetings at the Bank or the offices of its contacts, supplemented by phone calls and group discussions. The records of those meetings form the basis for the MI outputs, which draw out the issues of relevance to the Bank's mission.

To promote an effective dialogue with market participants, it is important that the Bank explains clearly how insights are gathered and fed into the policy making process. The Grabiner Report supported this objective by concluding that the Bank should do more to explain its MI programme to its contacts in the market. So alongside this Review, the Bank has published an MI Charter which explains, in clear terms, its reasons for gathering MI, and the terms of its engagement with market participants.

Reinforcing the Market Intelligence gathering safeguards

In gathering MI, the Bank and its staff may receive privileged information. As a result, the Bank must have robust processes to ensure staff are acting according to the highest professional standards. The Bank has introduced new controls and policies in recent years as its understanding of the risks associated with MI gathering evolved. There is a high level of integrity and professionalism among Bank staff gathering MI. It is clear, for example, that staff now actively follow the process for escalation of concerns about potential evidence of misconduct received during MI conversations. But more can be done to ensure that the Bank can be confident that its staff are supported to meet the highest of professional standards.

So in addition to the public MI charter, three further initiatives will be introduced to support individuals gathering MI, and to mitigate risks. First, the Bank will benchmark and, where relevant, strengthen the set of policies that govern MI. Second, the Bank will adopt a more proactive approach to the monitoring of adherence with those policies. Finally, the Bank will introduce a new expanded MI training framework to ensure that staff know how to apply the policies in practice and are equipped with the skills required to gather MI. These three additional elements, together with the Charter, will minimise the risks arising from MI for individuals and the Bank.

Improving focus for gathering Market Intelligence

The potential territory for MI gathering is very broad. Not only have the Bank's responsibilities expanded in recent years, but the Bank is positioned at the centre of one of the world's major financial centres. This provides unique access to a wealth of knowledge and insight. The financial crisis also illustrated the importance of better understanding the highly interconnected nature of modern financial markets, where small shocks in one corner of an obscure market can potentially feed through to larger, more systemically important markets.

The MI programme is designed to build the Bank's in-depth knowledge of those topics that are central to its mission and to understand enough about more peripheral sectors to be able to engage more deeply when needed. And at all times the Bank must aim to be alert to signals of risk in the near or distant future, and to be ready to respond to shocks whether they are anticipated or not.

Making MI as relevant as possible to policymaking necessarily requires that MI gathering is focused and prioritised. A new Bankwide executive level committee will be established to agree and oversee the priorities for the Bank's MI programme. And the model for coverage across financial markets will become more flexible, allocating MI resources to focus on those topics which are most relevant to the present priorities.

Promoting the effective use of Market Intelligence

The existing central MI team will be formalised as a dedicated division, creating more capacity within the function to synthesise, analyse and share MI across the Bank. It will also be charged with ensuring that MI outputs are of consistently high quality and relevance to their audiences. Beyond the central MI team, staff with responsibility to gather MI do so as alongside other work. In future, clearer guidance will be given to these staff about the proportion of their time devoted to MI, and MI activities will be appropriately reflected in staff performance management.

The effectiveness of MI can also be enhanced by improvements to the Bank's contact relationship management processes, to minimise record duplication and help staff coordinate their MI gathering. The Bank will also provide staff with further guidance on internal information sharing to ensure that insights are made available to all relevant parts of the Bank. In support of these efforts, the Bank will consider options for a more advanced IT system that enables more effective distribution of MI within the institution.

Conclusion

The Bank established its current MI programme in 2004, modernising the Bank's ability to draw on the insights afforded to it by financial markets participants. Much has been done in the intervening years to adapt to the changing needs of internal customers of MI and to keep pace with developments in the external environment. The conclusions and actions set out in this Review are designed to modernise the Bank's practices further, to align them better with the post-crisis financial landscape, and to ensure that MI makes its most effective contribution possible to the Bank's mission over the next decade.

Box A: Lord Grabiner's Foreign Exchange Market Investigation Report

Recommendations	Actions taken by the Bank in response
<p><i>Documentation</i></p> <p>a) The Bank should review whether the steps it has taken [with regard to record management] will ensure that sufficient minutes will be taken and distributed of meetings like the Chief Dealers Sub Group (CDSG).</p>	<p>Since the publication of Lord Grabiner's Report, Markets Directorate Senior Management has conducted a review of practices relating to all 15 regular multilateral meetings that the directorate has with market participants. In all cases practices were considerably stronger than in the case of the CDSG; although a number of more minor deficiencies have been identified. These shortcomings are being rectified as each of the relevant committees next meet.</p> <p>A new Bankwide policy for record-keeping for committees will be established by end April, ensuring consistent practices are adopted across the whole of the Bank.</p>
<p><i>Education</i></p> <p>b) Any Bank official working in connection with the FX market should receive continuing training in the NIPs code or, if the Government decides to regulate the FX market, the relevant guidelines.</p>	<p>All Bank officials working in connection with the FX market have received training in the NIPs code during 2015 Q1. In the case of the Bank's FX trading staff this training has been supplementary to the ACI Dealing Certificate and Diploma.</p> <p>All compliance and training policies will be benchmarked regularly to ensure that they are robust and meet changing circumstances.</p> <p>The future of any regulatory regime for FX markets is being considered as part of the Fair & Effective Markets Review, which is due to report in June 2015.</p>
<p><i>Market Intelligence</i></p> <p>c) i) The Bank should clarify the relationship between the Bank and market participants in the context of market intelligence [...] and the uses to which it puts such intelligence.</p> <p>c) ii) There should be a formal written policy setting out that Market Intelligence gathered cannot be used for trading purposes. Regular training should be provided, and the Bank should also review its controls around such intelligence being, intentionally or not, passed to other market participants.</p> <p>c) iii) The Bank should have a written escalation policy explaining both what improper conduct is and what a Bank official who sees such conduct should do about it. This policy should be regularly reviewed and, as part of their continuing professional development, Bank officials with market intelligence roles should be given training in the meaning of improper conduct.</p>	<p>The Bank has published an MI Charter that explains its reasons for gathering MI, and the terms of its MI engagement with market participants [MI Review Action 1].</p> <p>A formal information sharing policy was established in July 2014 and will be benchmarked regularly [MI Review Action 2]. Additional escalation procedures are being introduced for staff involved in trading to deal with situations in which they receive client confidential information.</p> <p>An escalation policy is in place and used actively by all staff. A new training programme will be provided for staff involved in gathering MI, including the handling of information and understanding of improper conduct [MI Review Action 4]. All compliance policies, including those related to escalation of misconduct concerns, will be benchmarked regularly to ensure that they are robust and meet changing circumstances [MI Review Action 2].</p>

1. The Role of Market Intelligence

Market Intelligence (MI) is essential to the Bank's mission. In this chapter the Review defines MI, explains how MI serves the Bank's policy objectives and then looks at the implications for MI of recent internal changes at the Bank and external developments in financial markets. It describes the process for gathering MI and concludes that the Bank should take steps to explain its MI programme more clearly.

What is MI?

MI is information gathered first-hand from financial institutions that enhances the Bank's understanding of developments in financial markets. MI provides crucial insights about how financial market participants think about markets, products, prices and why institutions and markets respond as they do to developments. MI can use data as its starting point, but it is more than just reporting on movements in prices. It is a way to get under the surface of what is happening and understand the key drivers, transmission mechanisms, trends, and emerging risks. MI focuses on the financial system as a whole, covering both domestic and international financial markets. It is distinct from supervisory intelligence conversations that the Bank undertakes as part of its regulatory responsibilities. The purpose of an MI conversation is not to learn about individual institutions' positions, to investigate market conduct, or to identify or pursue regulatory concerns at individual institutions. Instead, MI gatherers seek to use the interaction to understand financial market developments better.

Why does the Bank undertake MI?

The Bank's mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. This requires that the Bank's policy and operational decisions are made with a robust understanding of the financial market context in which the Bank operates. The purpose of the Bank's MI programme is to ensure that this broader context contributes to effective internal analysis on policy-relevant issues and is understood by the decision-makers on the Bank's three main policy committees (Monetary Policy Committee, Financial Policy Committee, and Prudential Regulation Authority Board). MI can provide a service to the Bank in a number of ways, including:

- i. Providing fresh qualitative perspectives to supplement quantitative analysis, so that policy decisions are made with regard to their context (e.g. MI can support the Fair and Effective Markets Review agenda because regular dialogue with a range of financial institutions can be used to help identify market frictions, inefficiencies and, at the extreme, market dysfunction).
- ii. Supporting the design, and assessing the impact, of the Bank's operations. During the financial crisis, MI provided invaluable insights to improve the Bank's understanding of the risks posed to UK monetary and financial stability, which contributed to the design of appropriate policies to mitigate those risks (e.g. the Asset Purchase Facility and the Funding for Lending Scheme).
- iii. Providing insights on those markets, products and sectors (collectively "topics") where little or no public data are available (e.g. OTC derivative markets). Having a diverse network of MI contacts helps in assessing potential systemic risks arising from less transparent markets.
- iv. Scanning the horizon for signs of actual and incipient sources of monetary and financial instability (e.g. highlighting the potential risks of synthetic exchange-traded funds at an early stage).

The Bank is part of the global central bank community and contributes to numerous international forums, including the IMF, the G20, and the Financial Stability Board. MI contributes to this outward facing role by helping to ensure senior Bank staff are fully aware of global financial market developments and thus better equipped to discharge their duties.

The Bank is not alone among its central bank peers in having an MI programme. However, the Bank's MI programme is considered relatively broad in terms of the resources employed and the scope of coverage. The Bank also undertakes a greater proportion of forward-looking MI on conjunctural and structural developments, relative to many of its peers who extend greater focus on financial market reporting. This is a reflection of both the broad scope of the Bank's responsibilities and the importance of London as a major financial centre. A less comprehensive MI programme would leave the Bank less equipped to fulfil its mission or contribute more broadly to the work of the UK financial authorities.

How do internal changes at the Bank affect the role of MI?

The creation of the Prudential Regulation Authority (PRA) and the Financial Policy Committee (FPC) in 2013 has resulted in the MI programme serving an even broader remit than before. Within the Bank, there remains widespread support for the insights MI provides: indeed many believe that the Bank's new responsibilities make MI even more valuable, through its potential to contribute meaningfully to the Bank's micro- and macro-prudential objectives. However, the Review concluded that the Bank's approach to collecting and distributing MI needs to evolve further, in order to serve the changing needs of the Bank's policy committees most effectively.

The Bank's *Strategic Plan* provides a clear guide to the approach of the organisation's regular business and execution of its new responsibilities. The One Bank Mission promotes an open, transparent and agile culture that breaks down cultural barriers through new ways of working. Actions in this Review have drawn on core elements of the *Strategic Plan*, such as initiatives for a safer Bank and One Bank data architecture. MI also contributes to the delivery of the *Strategic Plan*, by providing new and alternative perspectives for the One Bank research agenda.

How do changes in the external environment affect the role of MI?

The regulatory framework for the financial system, and in particular the banking system, continues to undergo considerable change in response to the financial crisis. This has and will continue to alter the structure and landscape of the financial system. Some developments will emerge as second round effects or even be unanticipated. Such changes can result in MI being even more vital as a tool to ensure that the Bank can assess structural changes within financial markets and understands their potential impacts on the financial system, e.g. FPC understanding to what extent liquidity in fixed income markets has been altered by changes to banks' business models since the financial crisis.

How does the Bank gather MI?

At its simplest, the essence of MI is speaking to financial market participants ("contacts") to draw on their knowledge and perspective of the markets in which they operate. The vast majority of MI is gathered through scheduled, bilateral meetings and conversations with contacts in relevant parts of financial market

institutions. These interactions are guided by an agenda and are recorded by Bank staff in accordance with record management policies.

Interaction takes place at a range of levels within institutions to provide different perspectives on financial market developments. Contact at Governor level, for example, can inform the horizon scanning function of MI, by providing a window into the important issues that are occupying the minds of financial markets thought leaders. At the Executive level (e.g. Global Heads of Markets) the Bank can gain insights into business models, structural change and strategic direction. Contact at more junior levels brings the Bank closer to innovation, the 'mood' of the market and what is driving the 'crowded trade'. Outside of individual institutions, trade association contacts provide a chance to engage on a range of topical issues and to highlight potential areas of risk, as well as providing a link to their members.

Another method of interaction is engaging with more than one institution in a single meeting. Group meetings can be an efficient way of gathering MI and establish the discipline of a common peer group for particular interests. Bilateral discussions typically enable the Bank to extract more targeted MI on a particular topic, while multilateral discussions allow the Bank to develop its understanding through discussion and debate among market participants. Both play an important role in ensuring that the Bank is well informed.

Recent misconduct allegations in financial markets have emphasised the need for staff gathering MI to assess, react to, and escalate the significance of what they hear. This formed one of the findings of the Grabiner Report and is discussed further in the next chapter. While the objective of an MI meeting is not to seek out regulatory and/or conduct issues, if information is received which the Bank deems to be potentially of regulatory or conduct interest, it will share this information with the relevant authorities. Regulatory information would be shared with the Bank's Prudential Regulation Authority. Misconduct information would be shared with the relevant authority (e.g. Competition and Markets Authority, Financial Conduct Authority, HM Revenue & Customs and Serious Fraud Office).

As Lord Grabiner notes in his report, the relationship between the Bank and its MI contacts has not been previously set out clearly in a public document. The Review also observed that a greater understanding of the Bank's MI programme was needed. The Bank's new regulatory responsibilities could pose new challenges for the Bank's MI programme: it is important that distinct supervisory and MI relationships are preserved, and that the difference between MI and regulatory/supervisory conversations are clear, so that contacts have a clear understanding of the context of any meetings with the Bank.

The Bank has published a charter explaining clearly its motivation for gathering MI, the benefits for its policy objectives, the extent of the Bank's MI coverage, and the terms of engagement with external contacts. This greater transparency is consistent with the 'Open and Accountable' priority identified in the Bank's *Strategic Plan*.

The other MI relevant findings from the Grabiner Report are more fully discussed in the following Risk Mitigation chapter.

2. Risk Mitigation

An active Market Intelligence (MI) programme gives the Bank and its staff access to information, some of which may be privileged. This chapter of the Report considers the resulting risks and the degree to which they are adequately mitigated by the current arrangements at the Bank. The findings of the Review have underlined that risk mitigation measures must be an integral part of MI activities and should be regularly reviewed to ensure that they remain appropriate and sufficient.

What are the risks that arise from MI gathering?

There are two key risks that arise from MI gathering conversations. The first is that MI gatherers do not sufficiently understand or appreciate the implications of the information they receive. The second is that MI gatherers do not appropriately escalate concerns or potential issues appropriately. Other risks include: being deliberately misinformed by MI contacts; being poorly informed by MI contacts; attempts by MI contacts to unduly influence decisions made by the Bank; and MI gatherers inadvertently divulging confidential information to contacts.

The Review found that Bank staff involved in MI gathering exhibited the important values, such as integrity and professionalism, that would be expected of them. Further, staff have become more cognisant of the risks in recent years. Nevertheless, those risks could be better and more explicitly identified in the Markets Directorate's Operational Risk Register. So the Bank will update its risk assessment of MI activities and ensure that the Risk Register appropriately reflects any judgements arising from the assessment.

As the Grabiner Report found, to some extent these risks have materialised in the recent past. Moreover, concerns about the prevalence of market misconduct have grown substantially in recent years. Though the Review has not identified additional or new instances of these risks crystallising, it nevertheless did support a need to further strengthen the Bank's controls and compliance around MI, to ensure they keep pace with the constantly changing environment and evolving best practice. The Review has identified a set of actions which are designed collectively to minimise the risk to the individual and the Bank. These are: i) the publication of a Charter, to explain the role of MI and the terms of engagement to external stakeholders; ii) a robust set of policies to mitigate the risks; iii) more effective controls to ensure policies are updated and compliance is monitored; and iv) an improved compulsory minimum level of training to ensure staff know how to apply the policies in practice and have the skills required to carry out MI gathering.

How does the MI Charter support risk mitigation?

As noted in the previous chapter, the MI Charter will enable the Bank to be more open and accountable about its MI activities. It should also reduce risks by minimising uncertainty about the purpose of the Bank's MI programme and further clarifying the nature of the relationships between MI staff and external contacts. To this end, the Bank will also provide MI gatherers with more comprehensive guidance for them to use when meeting MI contacts for the first time, in order to establish a clear framework for any future meetings or contact. This will include drawing market participants' attention to the Charter to explain the terms of engagement and the role of MI.

The Bank will review the MI Charter annually to ensure that it continues to reflect the scope of the Bank's MI activities and meets changing circumstances. In the event of material changes being identified, a revised Charter will be published.

What policies control the risks of MI gathering?

All Bank staff are required to comply with a Code of Conduct, which establishes the institutional requirements for ethical and professional behaviour. There are currently five further policies specifically applicable to staff in the Markets Directorate of the Bank. These have been added to and strengthened as a response to the events of the last three years and address many of the risks that are linked to MI activities. They cover such issues as information flows, escalation of misconduct concerns, record-keeping, market abuse and use of communication forms such as chat rooms and messaging systems. One of the recommendations of the Grabiner Report related to the need for greater awareness of the nature of improper conduct and the procedures to follow if staff believe they obtain information about such conduct. The Review found that staff now actively follow the process for escalation of concerns about potential evidence of misconduct received during MI conversations: since March 2014, 42 potential concerns have been forwarded to the appropriate authority. A further recommendation of the Grabiner Report was that a formal policy and regular training be put in place to ensure that MI information is not used by the Bank for its own trading purposes. A formal policy on information flows was introduced in July 2014 and will be benchmarked as part of the above action. In addition, the Bank is introducing a new escalation procedure to be used by staff involved in trading if they receive private information.

The Review did not uncover material deficiencies with the compliance policies and procedures governing MI gathering activity. It would, however, be beneficial to create a single set of procedures to draw together the matters of relevance for MI gatherers. The Bank will therefore develop a formal policy, to ensure robust and effective governance of the risks for staff that arise from gathering MI. This will include such elements as: skills and competencies that MI gatherers need; a minimum required number and amount of experience of MI gatherers; and a clear record-keeping policy for different types of MI interaction. This policy will form a key input for the new training provision described below.

In addition, the full set of policies will be benchmarked against best practice in leading private sector and central banks, to ensure they are sufficiently rigorous, and consistent with the Bank's risk appetite. Any required strengthening of policies following the benchmarking should ensure that suitable processes and controls are in place to mitigate all risks. In future, all policies will be reviewed annually to ensure that they continue to meet changing circumstances, are robust, and readily understandable and easily accessible to all MI gatherers.

The Bank will introduce a formal policy consolidating matters of relevance for MI gatherers and benchmark the full set of relevant compliance policies and procedures annually to ensure that they remain sufficient and robust.

Improving policy documentation and ensuring such policies are complete and up to date provides the foundation for any control and monitoring process. Managers are expected to ensure ongoing staff

awareness and compliance with these policies. To support them in this, the Bank will establish a more formalised proactive compliance function tasked with conducting formal oversight and testing of policies and processes. In particular, it will develop a formal programme to ensure adherence with the operational control policies that cover MI gathering activities, and design and arrange a formal annual staff certification of compliance with policies.

The Bank will improve proactive monitoring and oversight of adherence with all compliance policies and procedures governing MI gathering activities across the Bank.

What training should be provided to staff engaged in MI gathering?

The Bank is developing a new training programme for all staff engaged in gathering MI. This training, the existence of a Charter, combined with appropriate policies and support from management, will protect the Bank from the risks involved in MI and support MI staff in their activities. In addition, the training will help to ensure the Bank continues to conduct the gathering of MI in a professional manner. The new programme will be modular, but a minimum level of training must be completed by staff to qualify as MI gatherers. This encompasses qualification in the risk-mitigating policies and procedures that apply to MI gathering and training staff in the development of effective practices for interacting with external contacts. In particular, training would encompass proper handling of information and building recognition and understanding of improper conduct, as highlighted in the Grabiner Report recommendations. Technical training will also be provided where the individual does not have a sufficient level of expertise on the relevant topic.

A new training programme is being developed for staff involved in gathering MI. Staff will not be permitted to actively engage in MI activities until they have successfully completed this training.

3. Market Intelligence Coverage

In this chapter the Review looks at the factors that affect the breadth and depth of Market Intelligence (MI) coverage and how the Bank can balance diverse MI needs with its finite resources. It finds that an executive level committee should be formed to steer a more dynamic coverage model that prioritises resources on those markets, products and sectors (“topics”) of most relevance to the Bank’s mission.

What factors affect the scope of coverage for MI?

Throughout the Review, stakeholders consistently expressed a clear preference for the Bank’s MI programme to gather MI on a broad range of financial markets. They were generally concerned that if limits were to be imposed on MI coverage (e.g. to markets located in London or to markets in which the Bank has an operational presence or regulatory focus), the Bank could be unsighted on other potential developments that could affect the monetary and financial stability of the UK. Furthermore, for many stakeholders the financial crisis illustrated the highly interconnected nature of modern financial markets and how that interconnectedness allows shocks in smaller, less prominent markets to rapidly feed through to larger, more systemically important markets. External stakeholders said they expect the Governors and other senior Bank staff to be well informed about significant developments across all financial markets.

The Bank’s monetary stability responsibilities require a deep understanding of a relatively narrow range of major financial markets, but MI contributes to the Bank’s financial stability responsibilities both by speaking to regulated institutions and by covering topics outside of the Bank’s regulatory perimeter. In the latter case, quantitative data can be relatively scarce, so broad-ranging MI which engages directly with less transparent sectors provides a valuable qualitative perspective. Furthermore, MI seeks to understand the overall direction of travel for the financial system and therefore needs to scan the horizon broadly for potential sources of risk, seeking to bring them to the attention of policy-makers before they become significant or systemic.

The Bank also needs to maintain a wide MI perspective given its central position in one of the world’s major financial centres. The Bank’s MI gatherers can regularly interact with a diverse range of market participants given the broad range of financial institutions and markets that are present in London. This provides access to a wealth of knowledge and experience. Indeed, during the Review many of the Bank’s peers noted the comparative advantage the Bank has in this respect.

It is clear that stakeholders’ preferences, the Bank’s recently expanded responsibilities, and its position in London all point to MI coverage that is as wide ranging as possible. However, the Bank cannot be omniscient across all financial market developments. As with all of its activities, the Bank has only finite resources to deploy on MI. What the MI programme must do is strive to distribute its allocated resources in a way that ensures the topics it covers, and the depth to which it covers them, are appropriately aligned at all times with the Bank’s responsibilities for UK monetary and financial stability.

How should the Bank determine the scope of coverage for MI?

The MI programme's priorities currently emerge from a regular process of consultation with staff across the Bank's policy areas. The mechanics of this process are not static and have adapted since the creation of the PRA, seeking to improve engagement with all the policy directorates of the expanded Bank. In this way, the evolving issues facing the Bank's policy committees are reflected in the MI programme's priorities.

Nonetheless, some senior Bank stakeholders told the Review that the MI they receive could be better aligned with their main concerns about financial market developments. At the same time, many felt it important that MI continue to have the freedom to raise new potential sources of risk.

The Bank has therefore established a dedicated committee with responsibility for the MI programme, made up of Executive Directors and Directors from the relevant policy areas of the Bank. This committee will agree upon the MI priorities for set forthcoming periods. The senior management of the MI programme will continue to have scope to raise 'cloud on the horizon' topics, consistent with MI's value as an early-warning system.

A Bankwide executive level committee has been established to oversee and agree the priorities for the Bank's Market Intelligence activities.

The senior management of the Bank's MI programme will determine the appropriate coverage for the MI programme to deliver against the endorsed priorities. They will decide which topics should form the focus of MI gathering for the next period. The decision on the depth of coverage for each topic should be guided by a framework that assesses how important it is for the agreed MI priorities and, ultimately, for UK monetary and financial stability. But, no matter how comprehensive a framework is used, it is recognised that an element of judgement will always be necessary, given it is impossible to gauge precisely *ex ante* a market's importance for monetary and financial stability.

Until now, the MI programme has covered a broad range of topics, but at a fairly uniform depth; moreover, the range of topics covered has maintained the breadth established during the height of the financial crisis. While there will always be a need for the Bank's MI programme to be broad, the Review envisages a model of coverage that is more flexible and dynamic. It should more actively vary the breadth and depth of coverage of each topic so it is better able to respond to changes in future MI priorities. This would allow resources to be allocated more efficiently among topics as their relevance to the MI priorities change.

Of course, some topics will always tend to be highly relevant to the Bank and covered in suitably great depth, such as the domestic sterling money markets and those markets in which the Bank is operationally active (e.g. major government bond markets). But the importance of other topics for UK monetary and financial stability will inevitably fluctuate (e.g. private equity). Improving the Bank's ability to reallocate resources as topics become less important – covering them in less depth or, indeed, not covering them at all – should allow deeper coverage of those that have grown in importance and allow the programme greater agility in its coverage of one-off cross-market topics.

The Bank's MI coverage across financial markets will become more flexible, allocating its limited resources on those topics which are most likely to yield insights relevant to the MI priorities.

Finally, the effectiveness and ultimately the success of the MI programme's coverage, in delivering against the MI priorities set by the Executive Level MI Steering Group, should be regularly reviewed. This will ensure that the MI programme continues to serve the breadth of the Bank's responsibilities to its full potential. Further detail on how the success of the MI programme can be monitored and assessed is discussed in Chapter 6.

4. Organisation of Market Intelligence

In this chapter the Review explores how the Bank organises its Market Intelligence (MI) gathering activity. A Market Intelligence Division will be created to guide the MI programme in the expanded Bank, and, MI gathering responsibilities will be more fully reflected in the objectives and performance management of staff.

How does the Bank organise its MI gathering?

The Bank's MI programme is currently led by a central team of eight people in the Markets Directorate whose primary role is to coordinate and ensure the smooth running of the MI framework. Outside that team, MI responsibilities are assigned to staff alongside their day to day responsibilities, using a matrix management approach. At the time of writing, delivery of MI involves 23 managers and 80 analysts, incorporating a range of staff with varying skills and experience.

MI produces an extensive set of information on a broad range of topics. In order to ensure that valuable market insights are incorporated most effectively into analysis and decision-making, the information needs to be synthesised into products which are useful to consumers. Although the current central MI team continuously engages with MI gatherers and consumers, the Review concluded that equipping this team with additional resources and experience would improve both the quality and degree of MI synthesis and analysis. The team will be recreated as a dedicated division, with a greater concentration of senior staff equipped with extensive financial markets knowledge and experience. It will guide the delivery of all MI priorities, challenge and synthesise information, and increase the visibility of the MI programme across the Bank. Moreover, the Market Intelligence Division should aim to further develop its use of data and employ more innovative analytical tools to process MI. There are initiatives already in train as part of the delivery of the *Strategic Plan*, focusing heavily on numerical data. The Review found that there is also scope to further develop analytical tools, such as sentiment analysis, to process word-based data. These tools are particularly relevant to the type of data collected through the MI programme. Work in this sphere is in its infancy, but is something the MI Division should monitor closely.

A small dedicated division will be created to improve the coordination, synthesis and dissemination of Market Intelligence across the Bank.

Who gathers MI?

Historically the overwhelming majority of staff involved in gathering MI have been drawn from the Markets Directorate, with staff on the Bank's trading desks typically the most actively engaged. This is the prevailing model in all central banks with an MI function. The input of staff with experience of operating in financial markets enables both sides to converse with a similar level of knowledge. Nonetheless, as Lord Gribiner identified, there must be controls to ensure that confidential information is not used by the Bank's front office staff for trading purposes or passed on to other contacts. There are actions in this Review to strengthen both the training and the control environment for MI gatherers, which have been covered more fully in the Risk Mitigation chapter.

A matrix management approach enables the Bank to make effective use of the wide range of expertise it has within the institution. Having a dedicated group of full time staff gathering MI exclusively would be costly, and potentially less effective. In recent years, as the scope of the Bank's responsibilities has evolved, a greater number of staff outside of the Markets Directorate have become involved more formally in the Bank's MI programme. Staff on trading desks form less than a third of the overall MI gathering programme. This is a very positive development: evolving collaboration has served to highlight the broad range of intelligence gathered across the Bank which can support the Bank's MI work.

In future, therefore, the Bank will still seek to use staff from across the Bank with comparative advantage in the subject matter to gather MI and the matrix management model for MI gathering will continue. However the Review has found that staff can find it difficult to make time to generate meaningful MI alongside their other responsibilities, even if synergies exist between the two. The sponsorship of the executive level committee responsible for MI will ensure that significant importance is attached to MI objectives, but nonetheless the Review has concluded that more can be done to support staff in this regard.

Staff gathering MI under a matrix management system will be given clearer advice about the proportion of their time that should be spent on MI, and their MI activities will be appropriately reflected in performance management.

5. Use of Market Intelligence

In this chapter, the Review examines how Market Intelligence (MI) is recorded, synthesised and distributed to its customers across the Bank. It also explores how MI products can better support the objectives of its wide-ranging policy functions, and how improved information sharing can help disseminate MI across the Bank. The Bank will consider the options for a more advanced IT system to better distribute MI, suitably informed by appropriate policies for information-sharing.

How is MI recorded?

Accurate record keeping mitigates a number of risks, and ensures that the Bank's MI programme is professional and transparent. The Grabiner Report drew attention in particular to the use of group meetings to gather MI and the need for more effective records management. One possible outcome considered by the Review, in light of the events culminating in the commissioning of the Grabiner Report, was ceasing to use the Bank's convening power for market-based discussions entirely. The Review concluded, however, that this was not the right course of action because of the clear complementarities provided by group and bilateral interactions.

The Review examined the most relevant groups with which the Bank participates to generate MI, including where that is not their primary purpose. The Review identified areas of improvement around terms of reference, meeting records, tracking of actions, document classification and information sharing across the Bank. However, it is recognised that the Markets Directorate Senior Management Team has taken forward a number of actions to strengthen the governance of such meetings in response to the recommendation contained in the Grabiner Report.

It is important for external contacts to be aware that material information provided to the Bank is recorded and can be shared across the institution and in some cases to authorities outside of the Bank. Meeting records are made in a dedicated database which the Review concluded could be more user friendly. An upgrade is planned for 2015.

The Grabiner Report also noted the importance of strong governance and transparency in record keeping practices. The availability of a centrally managed system to support efficient information sharing across policy areas, coupled with an institution wide policy on contact relationship management, would be beneficial in this regard. At present, many directorates within the Bank have developed local solutions, systems and procedures to record contacts. The Review found that this hinders sufficient transparency across the institution. Moving forward, the Bank should consider the options for contact relationship management across the Bank, using the findings from the MI Review as a starting point.

The Bank will increase transparency internally on contact with external parties and improve its contact relationship management (CRM) processes and systems.

How can the Bank ensure MI insights inform policy decisions?

The Review found strong demand and positive feedback throughout the Bank for MI across a wide spectrum of subjects. The Review also identified a number of areas in which MI can better serve the needs of its customers. The new MI Division will be charged with producing a suite of outputs that is more tailored to the needs of its wide-ranging audience, and ensuring that the right balance is achieved between conjunctural updates, regular reporting and long-term analysis.

The main distribution model for MI products uses a central IT solution which allows authors to upload links to documents which can then be accessed by users throughout the institution who have the required access permissions. The Review found that the system could have better search and retrieval functionality and allow for improved tailoring to specific interests. The Review concluded that the Bank should explore options to meet these requirements, including replacement of the existing system, if necessary.

The Bank will consider options for a more advanced IT system that enables the more effective distribution of MI across the institution.

How can information sharing be improved to disseminate MI better?

The Review identified that improvements to information flows and policies would support a more effective use of MI across the Bank. Further knowledge-building among staff is required to improve overall understanding of the types of information that can be shared and the channels through which it can be communicated.

The *Strategic Plan* is bringing about this change by promoting Bankwide values, which place emphasis on collaborative and inclusive working practices. The aim should be to maximise the potential for sharing of externally gathered information across the institution, subject only to a small set of specific legal constraints around, for example, sensitive supervisory information and personal data. Additional information sharing controls are in place for staff that are part of the active trading function of the Bank and additional escalation procedures are being introduced for staff involved in trading to deal with situations in which they receive client confidential information. As discussed in the Risk Mitigation chapter, it is essential that these controls remain robust.

The Bank will provide staff with further support to ensure information that can be shared across the Bank is shared, including advice over restrictions on sharing of information.

6. Success for Market Intelligence

The Review established that success for Market Intelligence (MI) means different things to different stakeholders in the Bank. For some, it is being kept informed about what is happening in financial markets, with insights not available elsewhere. For others it is the early warning system, able to identify things before any data can. For most, a successful MI programme acts as an input to policy and analytical work in order to support the Bank's priorities. This makes measurement of success more complex: if MI is truly integrated, it can also become less conspicuous.

But, while success may be difficult to measure with precision, it should nonetheless be evaluated in the context of a shared understanding of its aims, in order to ensure that the Bank gets the most from MI to support its mission. A successful MI programme would exhibit the following characteristics:

- i. The MI gathering process would draw on existing knowledge across the institution; ask the right questions of the right contacts; and employ individuals with appropriate knowledge and experience to gather MI, supported by training, development and resources that provide them with the confidence to interact with third parties and deliver good value for money.
- ii. MI outputs would successfully identify the key trends and developments in financial markets, including emerging risks; their messages would be conveyed effectively to policy areas, influence the debate and the Bank's policy response, and effectively support new financial market initiatives which the Bank is leading or involved in, such as the *Fair and Effective Markets Review*.

How can MI success be evaluated?

The success of MI can be evaluated through a number of different means, including:

- i. Regular testing that the Bank's MI contact base is representative of the markets and sectors that are deemed relevant for the Bank's mission, for example by testing it against the geographical and sectoral exposures of UK banks.
- ii. Review the success of the new process for setting priorities and allocating MI resource. Has it resulted in more focused outputs, did it provide for flexibility in facing shocks?
- iii. Gathering of metrics to demonstrate the influence of MI outputs in each policy area of the Bank. This should be combined with feedback from users of MI to identify whether MI is meeting their requirements and confirmation that it provides consistent quality and informs committee decisions.
- iv. Periodic backward looking assessments on how successful MI has been at identifying emerging risks and giving them sufficient prominence on the Bank's agenda.
- v. Regular review of compliance with policies with respect to the risks associated with MI gathering and to ensure that the Bank is acting in accordance with the MI Charter.

Annex 1: Terms of Reference and scope

The Terms of Reference for the Market Intelligence (MI) Review were agreed by Governors in May 2014, and the Review Team began its work in June 2014. The Terms of Reference were purposefully extensive, and drove a far-reaching review of the entire MI programme. Internally, the Review spoke with staff across the Bank, including staff from the Agencies and senior stakeholders sitting on the Bank's three main policy committees (MPC, FPC, and PRA Board) who use MI to inform policy decisions. A staff survey was also conducted, for input from gatherers and consumers of MI within the Bank. Externally, the Review spoke with Parliamentary representatives to understand their expectations of the Bank's MI programme. A 'peer review' was conducted: through meetings with a number of other central banks, as well as some private sector institutions, the Review gained an insight into their MI programmes, how they engage with financial markets contacts, and what the Bank might be able to learn from how others undertake MI.

High level framing questions

- a) What do we mean by Market Intelligence? How is it distinct from supervisory intelligence, markets surveillance / monitoring and analysis? What is unique about Market Intelligence?
- b) What is our purpose in collecting Market Intelligence and who is our audience? How can we use Market Intelligence outputs to serve the Bank's policy objectives?
- c) How do recent changes at the Bank and in the external environment affect the role of Market Intelligence? For example:
 - What is the impact of the change in legal responsibilities (inc. PRA, FPC)?
 - How should allegations of misconduct in financial markets influence our approach to Market Intelligence and how should Market Intelligence support the *Fair and Effective Markets* agenda?
 - How should the *Strategic Plan* help shape our approach to Market Intelligence?

How we go about Market Intelligence: risks and opportunities

- d) How can the desired outcomes from Market Intelligence be achieved while minimising the risk to the Bank?
- e) What Market Intelligence comes about naturally from the Bank's market- and firm-facing functions (Markets, PRA and otherwise)? How broad a coverage should Market Intelligence aspire to have beyond this? What are the opportunities and risks of different approaches? Is the approach of staffing Market Intelligence using staff with other responsibilities and priorities the right one and what are the risks to the current approach?
- f) How does the position of the Bank and London as an international financial centre create opportunity and responsibility to undertake Market Intelligence beyond our 'core' markets? What are the expectations of external stakeholders (Parliament, public) and how do these match our internal preferences?

- g) Mindful of the outcomes / risk trade-off, who should we engage with and how? How prescriptive and consistent should the approach be across different markets and sectors? What should be the role of group meetings – both formal (Market Committees) and informal? How should records be kept and information flow around the organisation?
- h) What type of staff and other inputs are needed to undertake Market Intelligence? Do we have adequate resources, training, procedures and practices in place to deliver our objectives?

How we process & synthesise Market Intelligence

- i) How can Market Intelligence make use of the full range of intelligence across One Bank? What broader range of data and inputs, including from more innovative sources, should be used to help Market Intelligence address policy questions?
- j) How can PRA supervisory insights inform Market Intelligence topics and conclusions? How should those insights be used?

Market Intelligence outputs & outcomes

- k) How can we ensure that policy and PRA supervisory decisions across the whole Bank are always informed by and reflective of the relevant Market Intelligence?
- l) What outputs would best serve the interests of Market Intelligence customers? What range of high frequency briefing is needed relative to more synthesised or longer-term / intermediate inputs to the Bank's policy work?
- m) How should Market Intelligence be used to inform other authorities, in the UK (eg FCA, Whitehall) and abroad (eg BIS, ESRB)?
- n) How will the success of Market Intelligence be measured?

Annex 2: Actions and implementation plan

No.	Action	Deliverable	Status
STRENGTHENING SAFEGUARDS			
1	The Bank has published a charter explaining clearly its motivation for gathering MI, the benefits for its policy objectives, and the terms of its engagement with external contacts.	<ul style="list-style-type: none"> • Publish an MI Charter 	<ul style="list-style-type: none"> • Complete
2	The Bank will introduce a formal policy consolidating matters of relevance for MI gatherers and benchmark the full set of relevant compliance policies and procedures annually to ensure that they remain sufficient and robust.	<ul style="list-style-type: none"> • Create a specific MI gathering policy • Benchmark compliance policies against leading central and private sector banks • Establish a process to review the MI gathering policies periodically 	<ul style="list-style-type: none"> • Q2 2015 • Q2 2015 • Q2 2015
3	The Bank will improve proactive monitoring and oversight of adherence with all compliance policies and procedures governing MI gathering activities across the Bank.	<ul style="list-style-type: none"> • Introduce a programme to ensure compliance with the MI gathering policies • Design and implement an annual staff certification of compliance with MI gathering policies 	<ul style="list-style-type: none"> • Q2 2015 • Q3 2015
4	A new training programme is being developed for staff involved in gathering MI. Staff will not be permitted to engage actively in MI activities before they have successfully completed this training.	<ul style="list-style-type: none"> • Design training framework and certification process for all MI gatherers • Implement training framework and certification process for all MI gatherers 	<ul style="list-style-type: none"> • Q1 2015 • Q2 2015
IMPROVING FOCUS			
5	A Bankwide executive level committee has been established to oversee and agree the priorities for the Bank's Market Intelligence activities.	<ul style="list-style-type: none"> • Establish an Executive Level MI Steering Group 	<ul style="list-style-type: none"> • Complete
6	The Bank's MI coverage across financial markets will become more flexible, allocating its limited resources on those topics which are most likely to yield insights relevant to the MI priorities.	<ul style="list-style-type: none"> • Establish a framework to calibrate the breadth and depth of coverage across MI topics 	<ul style="list-style-type: none"> • Q1 2015
INCREASING EFFECTIVENESS			
7	A small dedicated division will be created to improve the coordination, synthesis and dissemination of Market Intelligence across the Bank.	<ul style="list-style-type: none"> • Establish the new MI Division • Style and targeting of MI outputs to be coordinated by the MI Division 	<ul style="list-style-type: none"> • Q1 2015 • Q2 2015
8	Staff gathering MI under a matrix management system will be given clearer advice about the proportion of their time that they should spend on MI, and their MI activities will be appropriately reflected in performance management.	<ul style="list-style-type: none"> • Objectives for MI gatherers to reflect their MI responsibilities fully 	<ul style="list-style-type: none"> • Q2 2015
9	The Bank will increase transparency internally on contact with external parties and improve its contact relationship management (CRM) processes and systems.	<ul style="list-style-type: none"> • Review findings to feed into Bankwide work on contact relationship management 	<ul style="list-style-type: none"> • Q1 2015
10	The Bank will consider options for a more advanced IT system that enables the effective distribution of MI across the institution.	<ul style="list-style-type: none"> • Develop and finalise a set of options for a suitable IT system 	<ul style="list-style-type: none"> • Q3 2015
11	The Bank will provide staff with further support to ensure information that can be shared across the Bank is shared, including advice over restrictions on sharing of information.	<ul style="list-style-type: none"> • Information sharing policies to be disseminated to all MI gatherers 	<ul style="list-style-type: none"> • Q2 2015