

MEETING OF THE COURT OF DIRECTORS

Wednesday 17 July 2013

Present:

Sir David Lees, Chairman
The Governor
Mr Bailey, Deputy Governor – Prudential Regulation
Mr Bean, Deputy Governor – Monetary Policy
Mr Tucker, Deputy Governor – Financial Stability
Sir Roger Carr
Mr Cohrs
Mr Fried
Mr Frost
Mr Prentis
Lady Rice
Mr Stewart

In attendance:

Ms Hogg

The Chairman welcomed the new Governor and Charlotte Hogg, the newly appointed Chief Operating Officer to their first meeting of Court.

1. Minutes – 16 May 2013

The minutes of 16 May 2013 were approved, subject to minor amendment. They would be published on the Bank's website on 31 July.

2. Matters Arising

There were no matters arising.

3. Chairman's Business

As required under *Matters Reserved to Court*, the Chairman reminded Court members of the requirement to consult him and notify the Secretary at least fourteen days before committing to become a member of the Board of any company, or to assume any post which may affect their position as a member of Court.

The Chairman noted that Lady Rice had been invited to join the Banknote Procurement sub-Committee.

Lady Rice said that the latest meeting of the Audit and Risk Committee had reviewed Divisional updates on IT and Security, the quarterly risk reports, and an update on the Bank's governance and risk reporting framework. It had discussed the issue of primacy between HMT and the Bank over cost-recovery in a resolution, and the investment of the sterling bond portfolio following the increase in the Cash Ratio Deposits.

Mr Tucker said that the Financial System Advisory Committee had met that morning. It had discussed, amongst other things, its terms of reference, progress in delivering the Bank's financial stability strategy, updates on the EU's resolution directive, payment systems and FMI oversight, and the special resolution 'territorial army'.

4. **Executive Report**

The Governor briefed Court on his five immediate priorities:

- i. The conduct of policy, where some strategic initiatives had been launched, including the MPC work on thresholds, a consideration of the relationships between the three policy boards and how to make them as effective as possible, and work on financial reform.
- ii. Management of the Bank: the Governors and Ms Hogg were meeting every morning, and operational responsibilities were delegated to a reconstituted management committee chaired by Ms Hogg. The main internal policy committees would continue to report to the Governors.
- iii. Meeting staff across the Bank.
- iv. Initiating a strategic planning exercise for the Bank, led by Ms Hogg.
- v. Consideration of the Bank's communications strategy in conjunction with the Communications Department and policy areas.

Mr Bean said the work on thresholds had been in train for some time, with preliminary analysis completed and intensive discussions currently taking place: the Chancellor's deadline would be met.

Ms Hogg said that her intention for the strategic planning exercise for the Bank was to understand what had been done already, and to plot the approach for the future. She wanted an outcome where choices on resource allocation could be made. The Directors discussed the proposed scope of the review. This would be revisited in September.

Mr Bailey briefed Court on the PRA's progress in implementing the FPC's recommendations on bank recapitalisation. This was the first time a UK bank regulator had disclosed the banks' capital positions and plans being put in place to remedy short-falls, and it gave greater transparency than before. The PRA had also been asked to look at the position of firms in relation to the 3% leverage ratio. Neither Barclays nor Nationwide met this target, and had been asked to put plans in place to do so.

Mr Prentis excused himself from the meeting while Mr Bailey updated Court on developments at the Co-operative Bank following its downgrade by Moody's.

Mr Tucker elaborated on two of the FPC's June recommendations:

- i. The FCA, PRA, and other Bank staff had been asked to analyse financial system vulnerabilities arising from the extensive search for yield and to report in September. This was the first time that the FPC had made a recommendation to the FCA.
- ii. HMT had been asked to lead efforts by Government agencies, the Bank, and PRA to ensure the resilience of the financial sector to cyber threats.

Mr Tucker also noted work being undertaken by staff from across the Bank, for FPC and PRA Board to develop a system for stress-testing. The design principles had been agreed and a discussion paper would be published in the autumn. This was of major strategic importance, and would provide a foundation for transparency and accountability in the Bank's macro and micro-prudential work.

5. **New Banknote Character**

(Messrs Nicholson and Salmon in attendance)

Mr Salmon said that in light of concerns about the potential absence of women characters on bank-notes, including the letter to Court from Dr Stella Creasy MP and 45 parliamentarians, it

was proposed to introduce a number of steps to seek to address these. On 24 July it would be announced that Jane Austen would feature on the next note after Churchill. The Churchill and Austen notes would be issued in close succession to minimise the gap between the Fry £5 being withdrawn and the Austen £10 introduced. On 24 July the Bank would also announce a review of the banknote character selection process, with a view to publishing its conclusions by the end of the year. Separately, the Bank would announce a polymer public awareness programme in September.

Court confirmed that it was content with the proposed review of the selection process for new characters for the bank-notes.

6. The Three Reviews

(Messrs Dale, Fisher, Hauser, Hunt and McKeown in attendance)

Completing the Governance Arrangements from the Winters Review of the Bank's Framework for Providing Liquidity to the Banking System

Mr Fisher and Mr Hauser outlined a proposed process for a sequential annual review of the Bank's Sterling Monetary Framework objectives that would complete the governance recommendations from the Winters Review. In line with the Winters recommendations, it would deliver:

- i. A regular process / forum for consulting key stake-holders in the Sterling Monetary Framework;
- ii. Processes to enable the FPC and MPC to comment annually on the operation and design of the Sterling Monetary Framework;
- iii. An annual process, at least, to allow Court to assure itself that: Deputy Governors are suitably engaged in Sterling Monetary Framework policy; SMF decision making is efficient, accountable and reviews the full range of options: and communication / co-operation between the Executive, MPC and FPC is effective.

The first annual review would commence in H1 2014. Court APPROVED the plan and its role in the process.

In response to a Director, Mr Bean said that the Winters Review recommendations regarding a Committed Liquidity Facility to provide liquidity insurance were still under consideration. Markets was still on track with the time-table for responding to them.

Update on the Stockton Review of the Monetary Policy Committee's Forecasting Capability

Mr Dale said good progress was being made in implementing the Bank's response to the Stockton Review, which was grouped around three main themes: increasing transparency around the MPC's forecasts; enhancing the role of monetary policy analysis in the forecast process; and exposing the MPC's forecasts to increased challenge. The work was being overseen by the Stockton Board, chaired by Mr Bean. The actions the Bank had committed to deliver in H1 2013 were successfully completed, and those due to be delivered H2 2013 were on track.

Mr Dale said that Bank staff had recently been given the opportunity to challenge the MPC's forecast. External economists and academics had also been invited in to the Bank for off-the-record seminars, which had generated some useful comments and feedback. Mr Bean noted that one of these seminars had focused on the Bank's new forecasting platform, COMPASS, at which staff had described both the structure of the model and how it was used.

Update on the Plenderleith Review of the Bank's Provision of Emergency Liquidity Assistance in 2008-9

Mr Salmon said that the Plenderleith Review of the Bank's provision of ELA had been largely positive about the effectiveness of the measures undertaken by the Bank in 2008. The emphasis of the Review was on the importance of maintaining institutional capability, particularly in relation to horizon scanning for impending financial stresses and readiness to extend ELA. An Annual Report to FSAC, which would update on both of these elements, would be circulated for the first time by the end of the year and the new framework on horizon scanning was on track to be finalised over the summer. Work to consider the disclosure requirements to which a bank in receipt of ELA would be subject and any associated risks was being overseen by ELACo, and was proceeding well.

It also highlighted a number of practical considerations, related for instance to the network of reciprocal swap-lines and the need to agree a pro forma legal indemnity with HMT. Good progress was being made in implementing the actions.

7. Combined Quarterly Reports

(Mr Fisher, Ms Kaur and Ms Coffey in attendance)

Reviewing the costs of the Bank's policy functions, Ms Kaur said that expenditure as at end Q1 2013 was slightly under budget, and was expected to remain so for most of the year. The PRA was forecasting an under-spend for the whole year, although there were some possible cost pressures arising from stress-testing. The Bank's income was below budget because draw-down of the FLS was lower than forecast.

In response to a Director's question whether the assumptions for FLS draw-down had been over-optimistic, and whether the scheme was working, Mr Bean pointed to the fall in market funding rates for banks that had followed the scheme's launch. The success of the FLS should not therefore be assessed by the level of drawdowns. Mr Fisher noted that the FLS projections had been based on surveys of banks' plans for the first part of the year. The Governor said he would make the Permanent Secretary of the Treasury aware that the FLS income for the year was likely to be lower than previously advised.

In reviewing the quarterly performance report, Ms Kaur highlighted that some areas were experiencing staff gaps. While the time taken to recruit people with financial sector experience had reduced, resignations of high-quality staff were above target. Ms Kaur outlined plans to improve Finance's reporting of the Bank's performance and risk data. The Directors briefly discussed ways in which the clarity of some reporting could be improved and better focused, to make it easier to assess the materiality of issues raised. Mr Tucker said that the inclusion of a commentary and explanation of key issues would be helpful.

Mr Fisher briefed Court on the balance sheet, noting that there were not many changes over the quarter: the CRDs had been reinvested; there remained very low take-up of the Bank's special facilities.

Ms Coffey briefed Court on the summary quarterly risk report, which was the first to include PRA data. Ms Coffey also outlined proposed changes to future quarterly risk reports, to improve their usefulness, and to align the PRA's risk reporting and controls with the Bank's.

8. Bank in the Community

(Ms Barnard in attendance)

Ms Barnard reviewed the effectiveness of the Bank's Community Involvement Policy over the past three years, noting that it had worked well (with over 60% of staff taking part in some form of community involvement), and was seen as an effective way to develop staff and benefit community organisations. Court APPROVED Ms Barnard's recommendations in relation to the continuation of the current Policy for the next three years.

The meeting of Court was closed.