**MEETING OF THE COURT OF DIRECTORS**

**Thursday, 16 May 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
Lady Rice
Mr Stewart

Apologies:
Mr Prentis

1. **Minutes – 10 April 2013**

The minutes of the meeting of 10 April 2013 were approved. They would be published on the Bank's website on 21 May.

2. **Matters Arising**

There were no matters arising.

3. **Chairman's Business**

Sir Roger Carr confirmed that Remuneration Committee had approved the remuneration chapter of the Annual Report.

Mr Tucker said that the Financial System Advisory Committee had met the previous day. It had discussed, amongst other things, the prospects for the EU's directive on resolution; the general area of risks to the financial infrastructure system, and the prospective changes in regulatory responsibility for retail payment systems given HMG reforms.

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4. **Executive Report**

The Governor briefed Court on the implementation of the three reviews completed last year. In relation to the Winters report on market operations, there had been progress on three fronts:

i) improving governance of the sterling monetary framework (including by establishing Operations Committee, chaired by Mr Bean, and improving the way in which MPC and FPC contribute views to operations and establishing an annual review process),

ii) revamping the regular long-term repo auctions so as to have three (rather than 2) collateral buckets, and an auction mechanism by which total amount and allocations are determined by the bids.

iii) possible amendments to the DWF to mitigate the 'stigma' problem, though it was clear that there were no simple answers.

Additionally, in the previous day's Inflation Report, a number of changes had been introduced in response to the Stockton Review of the MPC's forecasting capability, including new charts, more information and more discussion of trade-offs.

Mr Tucker added that work on the Plenderleith review of ELA facilities was concerned mainly with ensuring that the bank had the technical capacity in place to extend emergency liquidity as needed, including to non-banks, and that its horizon scanning of potential cases for support operations was alert.

Mr Tucker noted that the new, statutory FPC would meet for its first formal Policy meeting for the first time in June. The new members were going through an induction process, including briefings about the recommendations made by the Interim FPC, which they would in due course be invited to ratify. The new annual FPC Remit and Recommendations had been received from the Treasury, and under the statute the FPC would need to respond.

Mr Tucker also noted that he and Mr Bailey had jointly written to the Treasury about the pending decisions on which of the authorities should be appointed "Competent Authority" under various provisions of the fourth EU Capital Requirements Directive and related regulations. It seemed obvious that the allocation should be made on the basis that the FPC, as the UK's macro-prudential body, should be responsible for system-wide tools and assessment frameworks while the PRA should be responsible for measures on specific firms.

Mr Bailey briefed Court on the immediate implications of the downgrade by Moody's of Co-operative Bank; this would be discussed in the PRA Board the next day.

Court was informed of two appointments in the PRA: Rebecca Jackson, as Head of Division, large commercial banks; and Parish Apte, Technical HoD, Liquidity Risk.

5. **Audit and Risk Committee Report**

Lady Rice said that the latest meeting of ARCO had reviewed the PRA transition project, and had discussed the investment of the sterling bond portfolio following the increase in the Cash Ratio Deposits. Finally the Committee had reviewed the Annual Accounts in detail, and were content with what was being brought to Court for approval.

6. **Annual Report and Accounts**

(Messrs Jones, Todd and Heath in attendance)

Mr Jones said that Court was being asked to approve the Report and Accounts subject to final sign off by a Report and Accounts Committee scheduled for 28 May, so that they could be published on 4 June. There were likely to be some minor updates ahead of the Committee, but the papers before Court were substantively complete. The PRA accounts were not formally part of the Bank's accounts but would be published alongside them.

The major accounting change was the adoption of the revised IAS19 standard for the accounting for pensions. This gave the Bank an opportunity to explain at more length how it valued its pension fund and managed the associated risks, including the liability matching investment policy.

The accounts made no provision against the Bank's unrecovered costs in undertaking the Dunfermline Building Society resolution in 2009. It was still expected that this would be recovered in full. However the Treasury continued to maintain that its own claim would need to be met fully before the Bank received anything. Directors expressed concern about the implications of this treatment for future resolution: it was unrealistic to expect the Bank to prepare for resolutions if its subsequent claims for costs were subordinated. There would be a further review before the accounts were finalised.

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During the year the Bank had incurred revenue costs of £48.5mn in respect of the PRA transition. The PRA Board had agreed that these costs, and the Bank's expenses for the previous two years, would be repaid to the Bank as permitted by the Financial Services Act 2012, and had announced and consulted on their intention to raise a levy to do so. Consequently, the £16.2mn previously expensed would be written back into the Bank's income statement.

The Bank had spent £22.8mn on fixed assets as part of the PRA transition, including £10.3mn on making 20 Moorgate fit for purpose. Assets relating exclusively to the PRA had been transferred to the PRA balance sheet at net book value on 1 April. As part of the decision to move the PRA to Moorgate, the Bank had agreed to take over the costs of the property vacated at Canary Wharf, and although strenuous efforts were being made to let this, there would need to be a provision in the accounts, which would be agreed in the Report and Accounts Committee meeting later in the month. This would be borne by the Bank and not the levy payer.

Mr Todd, for KPMG, confirmed that he was aware of no issues and was content to sign the accounts

Directors noted that the letter of Representation would be signed by the Report and Accounts Committee.

It was agreed that the final payment in lieu of dividend would be approved by the Report and Accounts Committee.

Court noted the annual accounts of the BEAPFF and the PRA.

7. **Value for Money**

(Mr Jones in attendance)

Court noted Mr Jones's annual report on value for money. The main savings identified came from aggressive procurement strategies.

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8. **Appointment to the PRA Board**
(Mr Nicholson in attendance)

On a recommendation from the Nominations Committee, Court appointed Nick Prettejohn to the PRA Board as an Independent Director.

9. **Business Transition Programme**
(Ms Place in attendance)

Court APPROVED an additional £6mn (making £7.4mn in total) to fund the first tranche of the PRA Business Transformation Programme. The full programme, which would cost in the region of £24mn, would deliver all the changes needed to embed the new supervisory approach and also remove any remaining dependence on FCA IT systems to deliver regulatory applications. The first tranche would deliver a Risk Management System to provide information compatible with PRA objectives, a static data system, the PRA version of the policy handbook, prepare for delivery of a new asset quality testing facility in a later phase of the programme, and make progress towards applying Bank encryption rules to all communications with firms.

10. **Desktop Replacement Project**
(Mr Footman in attendance)

Court APPROVED the Desktop Replacement Project, which would upgrade the Bank's main operating platform to Windows 7 and Office 2010, and replace the standard desktop IT up to the same standard recently installed at the PRA. The total cost would be £9.5mn. The main benefit would be avoiding the costs and security risks of the withdrawal by Microsoft of Windows XP support in April 2014; there would also be improvements in service quality.

11. **Inflation Report and MPC Report to Court**
(Mr Dale, Mr McCafferty, Mr Miles and Mr Weale in attendance)

Mr Dale summarised the messages from the Inflation Report, released the previous day.

**The meeting of Court was closed.**

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