

MEETING OF THE COURT OF DIRECTORS

Thursday, 14 November 2013

Present:

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

In attendance:

Ms Hogg, Chief Operating Officer

Secretary:

Mr Footman

1. Minutes – 25 September 2013

The Minutes of the meeting on 25 September were approved.

2. Matters Arising

The Chairman said that following the discussion at the previous Court of the FS (Financial Stability) Strategy, he had submitted the agreed text to the Treasury which had been acknowledged. The FS Strategy would next be reviewed ahead of the Annual Report.

3. Chairman's Business

Sir Jon Cunliffe said that the Financial System Advisory Committee had run through the FS work programme: this had provided an opportunity to discuss in particular the recent work of the FMI Board, and the Bank's delivery of other statutory responsibilities.

The Chairman said that the Internal Audit had largely completed its review of the Bank's record management systems, and that would be discussed in ARCo on 28 November.

4. **Appointments**

Court agreed the following appointments at Executive Director level –

Ralph Coates, as Finance Director

John Finch, as Chief Information Officer

Andrew Gracie, as Head of Resolution

Joanna Place, as HR Director

In response to questions, Ms Hogg said that following these appointments EDCo would have 16 members. It met under her Chairmanship; there was a substantial forward agenda; and monthly meetings were held with the Governor. It was starting to operate as planned, as a decision-taking body. The Governor said that the Governors' group met daily, but the aim was to delegate as much as possible to EDCo, and to hold that Committee to account for its decisions.

5. **Court Code of Conduct on Conflicts of Interest**

(Mr Nicholson in attendance)

The Secretary said that the proposal before Court was a response to the significant enlargement of the non-executive Director's role following creation of the Oversight Committee. While there were existing (statutory) provisions for Directors to declare conflicts on specific items of business, the requirement to oversee the Bank's key policy committees, seeing their papers and attending their meetings, meant that more attention needed to be paid to what might be seen as standing conflicts – and in particular an involvement with a Bank or PRA regulated entity. The Code provided that “normally” such a conflict should not exist: and if it did, the individual Director's role on the Oversight Committee would necessarily be circumscribed.

The Chairman said that the proposal had implications for the Treasury, as appointing authority, and he had shown the proposed policy to the Permanent Secretary – not least because of the concurrent work to appoint a new Chairman of Court. The Governor added that Court would need to reflect on the draft, but he had no doubt that something of the kind was needed: otherwise the Court itself would be open to criticism.

Sir Roger Carr agreed that a policy was needed: the draft was pragmatic and struck in his view the right balance.

Members endorsed the intention of the Code but raised a number of specific issues:

- Lady Rice pointed out that conflicts could arise from past as well as current involvements – for example, when Directors had deferred compensation from a regulated firm.
- Mr Cohrs thought that there was an issue of consistency – the draft identified PRA regulated firms as the source of conflict, but some FCA regulated firms – including hedge funds and some shadow banking entities and credit funds – might equally, be a conflict for Court members. The Chairman said that the Code still contained an overarching provision that “a director should not accept or retain any directorship that conflicts with membership of Court”.
- The Chairman noted that a minor potential conflict might arise where a Director was a partner in a professional firm or adviser and other partners might have PRA regulated firms as clients. This might be dealt with by a formal agreement setting how the Director would avoid any personal involvement in such business.

Court APPROVED the Code of Conduct as drafted, and its incorporation into the (published) Matters Reserved for Court document.

6. **Matters Reserved to Court**

(Mr Nicholson in attendance)

The amended draft was APPROVED by Court. It was noted that this would be published on the Bank’s website. The major changes were (i) inclusion of the Oversight Committee/PRA Board protocol; (ii) inclusion of the FMI Board terms of reference; and (iii) inclusion of the Court Code of Conduct, including the Conflicts Code already discussed.

Court agreed with the Chairman that a copy should be sent to Mr Tyrie.

7. **Executive Report**

Help to Buy

The Governor referred to a letter (of 8 November circulated to Court) received from Andrew Tyrie, concerning the Bank's involvement in the design of the Help to Buy Scheme and the nature of the FPC's continuing role. The Governor said that he proposed to reply to Mr Tyrie, the main points being:

- (a) The Bank (PRA) had been active in stating capital requirements on Help to Buy lending, doing so in pursuit of its own safety and soundness objective, not so as to promote the success of the scheme;
- (b) No part of the Bank had approved the overall design of the scheme, nor had the Bank been formally consulted.
- (c) Any role the Bank had in the scheme did not expand or alter the Bank's remit. The FPC already has the power to make recommendations at any time to the Treasury in pursuit of its statutory objective. The fact that the Chancellor had recently said that he would take note of the recommendations regarding Help to Buy on an annual basis did not change that.
- (d) The Bank had no power of veto over the scheme.

The Governor said that he would certainly make Court aware of any situation in which the Bank was asked to exceed or blur its statutory responsibilities.

PRA Issues

Mr Bailey briefed Court on issues arising at the PRA Board.

Access to Bank facilities

The Governor said that the Bank had reviewed its approach to setting criteria for access to Bank facilities by banks. The Bank's practice had been to make its own viability assessments, and not to rely on the regulator's judgment. Now, however, with the PRA within the Bank, it was possible to work closely with the supervisors so that in principle facilities would be available to any institution that met the PRA threshold conditions.

8. Terms of Reference for VFM/Strategic Plan

Court noted the Terms of Reference and Ms Hogg circulated progress reports that had been presented earlier that week to EDCo and to the steering group. Court found these helpful and Mr Fried said that he was impressed by the progress that they demonstrated. Ms Hogg said that the overarching requirement was to clarify the Bank's mission, to identify the key areas for investment, and to pin down the Bank's requirements for talent and recurrent budget. The VFM study, meanwhile, was to identify the potential for savings that could be channelled into investment. The Governor added that Court would have an opportunity to review the full emerging plans in January, when a special meeting had been arranged.

Directors asked about the role of McKinsey. Ms Hogg said that they were facilitating the process but it was being run by the Bank; James Proudman, a Head of Division just returned from secondment at Lloyds Bank, was playing a key role in the working group. McKinsey's role was not to set the strategy, though they were providing input from their experience of other similar organisations, and arranging visits to some. They were also conducting interviews with senior people and arranging a survey to gather views from staff.

9. Inflation Report and MPC Report to Court

(Mr Dale in attendance)

Mr Dale said that the Inflation Report had confirmed that the recovery had finally taken hold, while the near-term inflation outlook had improved. Unemployment had fallen slightly quicker than expected, so that the date at which it was likely to reach the 7% threshold had advanced to mid-2015. There remained considerable uncertainties around the course of unemployment reflecting the continuing productivity puzzle – the next 3-6 months might provide an answer.

The Governor added that the latest Inflation Report made a further contribution to the transparency of the MPC process by publishing an analysis of forecast errors, deconstructing the forecasts to show how key assumptions had affected the outcomes.

10. Update on Reviews

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

Stockton Review (Forecast capabilities)

Mr Dale confirmed that all of the actions from that Stockton Review that the Bank had committed to for H1 2013 had been met. The main items outstanding for H2 2013 were to publish an enhanced forecast evaluation exercise and to publish more quantitative information about the MPCs forecasts. The first of these had been delivered in the November Inflation Report, and the second would appear in the February 2014 Report, slightly later than intended reflecting the need to divert resources temporarily to the design and introduction of forward guidance.

Winters Review (Sterling Monetary Framework)

Mr Fisher said that many of the recommendations in the Winters Review had been met with the announcement of changes to the Bank's approach to providing liquidity insurance (October 2013). Mr Hauser added that these had been well received, and the Bank would be holding a seminar for the smaller banks. The remaining issues were to examine the case for extending access to the Bank's facilities to non-banks; implementing the new ILTR operations in 2014; and considering the circumstances in which the Bank might act as a market-maker of last resort.

Plenderleith Review (capacity to undertake ELA operations)

Mr Salmon said that work on the Plenderleith recommendations remained on track, and because many of them related to maintaining a capacity to operate at short notice outside the normal framework, the work was likely to be continuous, and would in future be monitored by Court's Financial System Advisory Committee.

The Chairman said that the Bank's response to the three reviews would be set out in more detail in the 2014 Annual Report.

11. **Solvency II**

(Messrs Adams, Ainley and Sarkar in attendance)

Court approved the funding for Release 3 of the Solvency II project (£3.39mn). This would ensure that the PRA was legally compliant when the Solvency II Directive came into force in January 2016.

12. **Cyber Security**

(Messrs Randall and Finch in attendance)

Court discussed issues relating to the Bank's defences against a cyber-attack.

The meeting of Court was closed.