

## **MEETING OF THE COURT OF DIRECTORS**

**Wednesday, 10 December 2014**

Present:

Anthony Habgood, Chairman  
The Governor  
Mr Bailey, Deputy Governor – Prudential Regulation  
Mr Broadbent, Deputy Governor – Monetary Policy  
Sir Jon Cunliffe, Deputy Governor – Financial Stability  
Mr Cohrs  
Mr Fried  
Mr Frost  
Baroness Harding  
Mr Stewart (withdrew for item 8)  
Ms Thompson

In attendance:

Ms Hogg, Chief Operating Officer  
Dr Shafik, Deputy Governor – Markets & Banking

Apologies:

Mr Prentis  
Mr Robert

Secretary:

Mr Footman

1. **Minutes**

The minutes of 29 October 2014 were approved.

2. **Review by Governor Warsh**

(Ms Paterson in attendance)

Court noted the final draft of the Review. Ms Paterson said that the recommendations followed the broad lines set out in Governor Warsh's presentation to Court in October.

3. **Transparency and Accountability Statement**

(Ms Paterson in attendance)

Further to the discussion on 29 October, the Court reviewed and approved a final draft of the statement, to be issued the following day. The Chancellor had expressed support and would say

so publicly. The minutes of 2007-09 would be published in the New Year, along with the planned release of historical Court minutes and opening of other archive material. Members of the old Court had been given an opportunity to review the minutes and a number had done so.

Mr Bailey said that de-subsidiarisation of the PRA proposed in the Bank statement was a reasonable step – it was hard now to fathom why it was a subsidiary in the first place – but there would need to be some governance around the PRA Levy, which was raised for the PRA’s purposes. We would need to be able to demonstrate that it was applied properly and the NAO would likely have to be involved in that.

#### **4. Banking & Markets Report to Court**

(Mr Salmon in attendance)

##### *Grabiner*

Ms Shafik outlined the immediate response to the recommendations of the Grabiner report relating to documentation policies, education of FX traders on the NIPS code and setting controls around the Bank’s market intelligence gathering activities.

In relation to record-keeping there had already been a number of changes arising from the internal audit review of records management; more would follow from a more recent audit review of Bank contacts with external committees. These were being taken forward by the Bank Secretary. FX trading staff were already required to attain the ACI Dealing Certificate and diploma, which is broadly aligned with the NIPS code: but in the light of Lord Grabiner’s recommendation the legal directorate were introducing a new training programme that would be introduced before Christmas. Some changes to the framework for Market Intelligence gathering had already been made – for example the reinforced escalation policy – but the main response would be in a proposed MI Charter that would be brought to Court in February.

Court members suggested that it would be helpful if there were more rotation of staff as the trading team had remained virtually static over the past 10 years. This was not normal practice elsewhere in the Bank.

*RTGS*

Ms Shafik said that the Deloitte report on the RTGS outage would be circulated to members when received. Court was content that following review by the Chairman and Mr Fried it should be published.

**5. MPC and Inflation Report to Court**

(Messrs Haldane, Wood and Ms Breeden in attendance)

Mr Haldane commented on the immediate impact of the fall in the oil price on growth and the CPI; and on the continued flattening of the yield curve especially in the UK and the US. It was likely that the CPI index would trigger a letter to the Chancellor early in the New Year. However nominal and thus real wages were now showing some year-on-year gains. Court members noted indications of a weakening in international demand, reflected not just in oil but in other raw material prices.

**6. FPC Report to Court**

(Mr Wood, Ms Breeden and Mr Haldane in attendance)

Ms Breeden and Mr Wood briefed Court on the UK stress tests, to be announced on 16 December, and on the possible scenarios for the next year's test. The macro-prudential environment was vulnerable to persistent low growth abroad, which had implications for debt sustainability, and there were signs of a sharp adverse switch in global risk appetite.

**7. PRA Report to Court**

(Mr Stewart withdrew; Mr Fisher in attendance)

Mr Bailey said that following a review by the Treasury, to be published on 17 December, it was likely that the PRA would have to establish a separate body to decide contested enforcement cases, analogous to the FCA's Regulatory Decisions Committee.

Mr Fisher commented on some of the recent issues discussed in the PRA Board, including the EBA and Bank stress test results, the FX settlement and other conduct cases in particular involving US agencies, and the governance and IT issues at a number of major institutions.

## 8. **The Bank's Capital Base**

(Mr Salmon and Ms John in attendance)

The Court discussed the desirability of an increase in the Bank's capital base given the much larger size of its balance sheet since the crisis, and the likely future responsibilities and risks that the Bank faces. It was agreed that as a general principle the Bank should not be in a position where the level of its capital acted as a constraint on sensible public policy decisions. Some members saw a case for a substantial up-front recapitalisation; although it was recognised that there was no obvious metric, and practice among other central banks was extremely varied. Others felt that it was sufficient to rely on the fact that the Treasury stood behind the Bank, though in some circumstances there might be legal uncertainties arising from European legislation. It was agreed that, given the experience of 2007, the legal uncertainties should be resolved as a priority.

## 9. **OBYR update and Annual Salary Review**

Ms Hogg said that all staff had accepted the new terms offered under the OBYR initiative. The new scheme would come into effect in April 2015.

The proposed Annual Pay review envisaged a 2% overall pay budget, and performance awards unchanged from the previous year.

## 10. **Communications Annual Report**

(Ms Scott in attendance)

Ms Scott outlined the major communications challenges of the past year, which had included forward guidance, the introduction of FPC housing tools, the Scottish referendum, the Fair and Efficient Markets Review, the FX inquiry and the senior managers regime; and summarised issues for the immediate future. Overall media and public understanding and support for the Bank's objectives remained positive. There were also internal communication challenges, including the strategic plan and the OBYR initiative.

The Bank was making some use of social media, but cautiously: it was wrong to start something that we could not continue. Court members were interested in how the Bank

measured attitudes, how regularly, and what would count as success. It was suggested that the key metrics for the Bank were trust and competence.

#### **11. Cyber/Information Security**

(Messrs Finch and Brandon)

Mr Finch reported progress on the Information and Infrastructure Security (IIS) programme. This had made good progress against the plan for 2014/15, and spending remained in line with budget. The latest threat and risk assessment showed a clear improvement across each of the ten domains on which the programme was focussed. In addition to technical changes, the programme was closely monitoring awareness and compliance. Mr Brandon summarised the main known threats to the Bank's network security, many of which were reflected in activities that the Bank's monitoring had identified. There was a continuing programme of vulnerability assessment and measures to promote awareness. And tests were periodically run to make staff aware of the risks. Court members welcomed this work but suggested that the team should consider adopting a recognised industry standard such as ISO 27001/2.

#### **12. Cyber Resilience**

(Mr Gracie in attendance)

Mr Gracie summarised the Bank's contribution to meeting the FPC recommendation that the authorities should work with the core UK financial system and its infrastructure to put in place a programme of work to improve and test resilience to cyber attack. An extensive work programme had been put in place, with support from GCHQ and the CPNI. It involved understanding the threat, strengthening assessment, testing and information sharing. On the Bank side, the Sector Resilience Team within the Resolution Directorate was leading the work. A self-assessment programme had been launched, supported by an independent, intelligence-led vulnerability testing framework – CBEST – which had been developed by the Bank. Two sector-wide resilience-testing exercises had been run, and the results had been shared with the industry. A particular focus now was defining crisis management responses to a successful attack: too much of the industry's planning assumed that the attack would be repelled at the perimeter. Mr Gracie added that it would be helpful if the FPC left the cyber action open, as there remained a lot to do.

### 13. **FMI Terms of Reference and Resolution Directorate**

(Messrs Gracie and David Bailey in attendance)

Court approved revised terms of reference for the FMI Board, chaired by the Deputy Governor for Financial Stability and responsible for the Bank's regulation and oversight of payment systems, central counterparties and securities settlement systems.

David Bailey, FMI Director, described the growing significance of FMIs and the changing international and domestic regulatory framework. UK FMIs were systemically important both on a domestic and global scale, and becoming more so in the wake of G20 initiatives. In response, and following an internal review by a Senior Adviser from the PRA, the regulatory function in the Bank had been given additional resources, and the new governance structure was designed to ensure senior focus on the major decisions and also that the supervisors of clearing members were involved in the supervision of clearing houses. The supervisory aim was to deliver a risk-based approach, making the best use of synergies within the enlarged Bank and monitoring closely developments internationally.

It was agreed that in future Court rather than the Oversight Committee would keep the FMI function under review, and that Court members would receive copies of the FMI Board minutes.

Mr Gracie briefed Court on the changes to the Resolution Directorate following UK implementation of the Bank Recovery and Resolution Directive on 1 January 2015. In particular, the Directorate would have responsibility for pre-resolution activities, including for determining whether Condition 2 (the resolution trigger) was met.

### 14. **Matters Reserved to Court**

Court approved amendments to Matters Reserved for Court, including the terms of reference of Court Committees. The amended document would be published on the Bank's website.

#### **15. KPMG Audit Entity Change Request**

On a recommendation from the Audit and Risk Committee, Court approved the appointment of KPMG LLP as the Bank's auditor, replacing KPMG Audit plc which had been appointed for a five year term in 2011. The change of entity had no other implications for the audit contract, or in terms of liability or professional indemnity insurance coverage.

#### **16. Stress Testing Programme Expenditure**

Court approved an initial £1mn tranche of funding for the Stress Testing Programme, which is intended to provide a planning, management and control framework for future stress tests, supporting the design, build and deployment of data and analytical models. The estimated cost of the whole programme was £4-6mn. A detailed business case and plan would be brought to Court in a subsequent meeting.

#### **17. Bank of England Group Pension Plan**

Court approved the establishment of a Group Pension Plan, to be open to all employees eligible to join the Bank's Pension Fund, and the terms of reference of a Committee to govern the plan. The plan is intended to allow employees to top up their pension provision outside the main Fund, on a defined contribution basis.

**The meeting of Court was closed.**