**MEETING OF THE COURT OF DIRECTORS**

**Thursday, 13 February 2014**

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

<u>In attendance</u>:
Ms Hogg, Chief Operating Officer
<u>Secretary</u>:
Mr Footman

1. **Minutes**

The minutes of the meeting on 11 December 2013 were approved.

2. **Matters Arising**

It was agreed that Court would hold a final discussion of the implementation of the three Reviews (Plenderleith, Stockton, Winters) at its meeting in May.

3. **Chairman's business**

Court noted and approved the conclusions of the Value for Money Review as set out in the Bank's press notice of 31 January.

On a proposal from the Nominations Committee, Court APPROVED the reappointment of Charles Randell as a Director of the PRA for a three year term ending 19 February 2017.

The Chairman reported that Mr Randell would be attending meetings of the Remuneration Committee. He noted that Court had already agreed by written procedure the appointment of John Stewart as a member of that Committee.

At the Chairman's invitation, Lady Rice reported on the ARCO meeting of 29 January. There had been a detailed discussion of PRA risks with Board members present. On people risks the PRA had a higher staff turnover than the rest of the Bank. Changes had been made to the Bank's recruitment processes to meet the PRA's higher volume requirements, while internal job market inflexibility should be addressed by work to harmonise remuneration and job bands. The Committee had again reviewed IT resilience and security issues, and expected at its next meeting a detailed plan for settling all outstanding audit points.

The Chairman said that he had discussed with the Oversight Committee, and subsequently with Sir Jon Cunliffe, the future of the Financial System Advisory Committee. It was likely that the majority of its functions would revert to the Oversight Committee. A proposal would be made to Court in April.

## 4. **Executive Report**

*FX Investigation*

Further to a Minute of 11 December the Governor said that the internal review by lawyers and external counsel, in co-operation with FCA, was continuing. Members would have seen press comment on a meeting of bank chief dealers in April 2012. In response to an FoI request the Bank had released its own minute of that meeting.

At the Treasury Committee earlier in the week Mr Bailey had made it clear that the Bank did not condone any form of market manipulation in any context.

There was thus far no evidence to substantiate any claim that Bank staff were informed of or condoned price manipulation or sharing of confidential client data but the review was continuing.

Directors asked what responsibility the Bank had for market conduct issues. It was noted that the formal responsibility lay with the FCA – all the firms were FCA authorised and market manipulation was a breach of the FCA principles. Irrespective of the merits or otherwise of the specific claims, this has provided another opportunity for the Bank to reinforce its guidance to staff about escalating any suggestions of misconduct, however vague those concerns might be, so that they could be reviewed and passed to the FCA.

It was noted that the FCA was now looking at benchmarks more widely, including in commodity markets: the setting of benchmarks was now a regulated activity. In the FX market Paul Fisher was co-chairing an FSB group to review and reform benchmarks.

*Scotland*

The Governor said that his speech in Scotland had been intended to set out, in purely technical terms, the issues that would arise in a common currency area. Any arrangement to retain sterling in an independent Scotland would need to be negotiated between the Westminster and Scottish Parliaments. The Bank of England would implement whatever monetary arrangements were put in place.

*Bank notes*

Mr Bean noted that the Bank's announcement about polymer banknotes and a new process for selecting historical figures to appear on notes had been well received.

*G20*

The Governor said that at the following week's meeting in Australia he would lead off the financial regulation session, which would focus on completing the financial reform package, including the too-big-to-fail agenda.

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

(Mr Dale in attendance)

Mr Dale summarised the main messages from the *Inflation Report*. The recovery had taken hold and was gaining momentum, driven largely by household demand. At present this was associated with a reduction in saving rather than a pick-up in real incomes. The recovery would be on a firmer footing when real incomes were rising and companies were investing more. There were still potential headwinds from low growth in European markets. The news about employment reflected a combination of strong growth and disappointing productivity. There remained spare capacity in the labour market, reflecting both people looking for jobs and people wishing to move from part- to full-time work. The central expectation for inflation was that it would remain at the target level, though with risks on either side.

Forward guidance remained in place. The MPC had indicated that there remained scope to absorb spare capacity before increasing Bank Rate, and that the appropriate path was expected to be gradual. Even when the economy had returned to normal levels of capacity and inflation close to the target, the legacy of the crisis (in terms of credit spreads) and other potential headwinds meant that the Bank Rate is likely to be below pre-crisis levels. The MPC had indicated that it would maintain the stock of purchased assets (QE) at least until the first rise in Bank Rate.

Several Court members expressed the view that the MPC's guidance over the previous six months had been highly beneficial in that it had spoken directly and clearly to businesses and consumers in ways that had not been attempted previously, had been understood, and had influenced behaviours. The economy was still fragile and it was important that the approach was continued.

6. **The Bank's Finances**

(Mr Coates in attendance)

(i) The Budget 2014/15

Mr Coates presented the budget proposals for the Bank (including the PRA) for 2014/15. The proposals for the PRA had been endorsed by the PRA Board.

The proposed spend of £515mn represented an increase of 1% compared with the previous year's budget. In practice the Bank had underspent its 2013/4 budget, mainly because of recruitment shortfalls, especially at the PRA. The new budget assumed that the recruitment gap would be filled and that the PRA would also spend extra money on the stress testing programme, on preparation for ring-fencing and on initiatives proposed by the Parliamentary

Commission on Banking Standards in 2013, including the new Competition Objective. The total PRA budget, including central overheads, would be £232mn, against £225mn in 2013/4. The latter figure had originally been based on an agreed division of the FSA budget, and represented what the PRA would have cost in the FSA. This was consistent with previous statements in the PRA's financial framework.

Restructuring costs arising from the VFM exercise would be provided for in the current year – the savings would be held in a strategic reserve.

Directors asked to what extent the expenditure proposals presented to Court had been pared down from original bids. Mr Coates said that the sum of all initial bids had been £540mn, but the paring down had mainly been ensuring that investment bids were aligned with the Bank's capacity to deliver, and cutting out overlapping bids. In the end the executive had been comfortable with what was proposed. Several Directors expressed concerned about PRA under-recruitment, which had been discussed at the Oversight Committee the previous day. It was most important to ensure that capability was in place to deliver objectives.

Court APPROVED the budget

(ii) Interim payment in lieu of dividend

Court APPROVED an interim payment in lieu of dividend of £34mn. This was based on an estimated pre-tax profit of £153mn. The final payment, to take the total dividend to 50% of post-tax profits as provided in the 1998 Bank of England Act, would be agreed one the Bank's accounts were finalised.

7. **Strategic Plan – Timeline to launch and publication**

Court noted the timetable for the plan, leading up to the Court discussion on 4 March and formal launch on 18 March.

8. **Pay Integration – Project Approval**

(Mr Curtiss in attendance)

Court approved the expenditure (£6.5mn) of the project to integrate grading, reward, pay and benefit structures of the PRA and the rest of the Bank. This would be written off as incurred.

9. **Projects**

(i) PRA Business Transformation Programme Update

(Ms Coffey in attendance)

Court agreed that with the completion of Tranche 1 – which included a risk management system, support processes for the new supervisory approach and authorisation, a secure communication facility for Category 1 and 2 firms and a data stock take – it would be right to close the PRA Business Transformation Programme. Requirements were changing, and some of the deliverables previously envisaged for Tranches 2 and 3 were no longer priorities, or were better delivered as separate projects, though under the Design Authority that the BTP had created.

(ii) IT Projects

(Mr Finch in attendance)

Court approved the Windows Server Replacement Project, the Consolidated Infrastructure Project and the Data Centre Network Replacement Project. The total spend would be £7.3mn over three years, and was required to refresh key components of the Bank's IT infrastructure which were approaching end of life or where software was going out of support.

10. **Health and Safety Annual Report**

(Mr Whittle in attendance)

Court noted the Report.

11. **Remuneration Committee Report – Executive Pay**

*Executive Directors and Advisers*

Court discussed and approved recommendations from the Remuneration Committee.

*MPC, FPC and PRA Board Members*

Following discussion with the Governors, the Oversight Committee approved the recommendations from the Remuneration Committee.

*Governors*

The Governors having withdrawn, the Oversight Committee approved recommendations from the Remuneration Committee.

**The meeting of Court was closed.**