

MEETING OF THE COURT OF DIRECTORS

Wednesday, 16 July 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
Mr Prentis
Mr Stewart

In attendance:

Ms Hogg, Chief Operating Officer

Secretary:

Mr Footman

1. **Minutes**

The minutes of the meeting held on 20 May were approved.

2. **Matters Arising**

The next paper on the Bank's capital would be brought to Court in October.

The Chairman advised that the Treasury would announce shortly the appointments of Dido Harding, Don Robert and Dorothy Thompson to the Court.

3. **Appointments to the PRA Board and Committees**

Subject to Treasury approval, Court APPROVED the appointments of David Belsham, Mark Yallop and Sandy Boss as independent directors of the PRA Board, and Minouche Shafik and Paul Fisher as executive members.

Court APPROVED the appointments of:

- Anthony Habgood to the Remuneration Committee
- Anthony Habgood and John Stewart to the Nominations Committee
- Ben Broadbent as Chairman of the Trustees of the Houblon-Norman Fund

4. **Report from Remuneration Committee**

Mr Stewart reported recommendations from Remuneration Committee relating to the appointments of Jenny Scott and Kristin Forbes, which Court noted and APPROVED.

Court agreed to delegate to Remuneration Committee authority to approve a revised offer in relation to the OBYR changes.

5. **Report from ARCO**

Mr Fried noted that the following key issues had been discussed at the July ARCO meeting:

- Strengthening the level of governance around risk management, including, at the highest level, development of a Bank-wide risk appetite/tolerance (absence of which had been noted in KPMG's latest management letter), and possible changes to the management structure;
- Capital constraints, especially if a new unindemnified intervention were required;
- The collateral operations project, which was scheduled to go live in October. This was a critical development for the Bank, and while the project seemed on track it had been emphasised that no risks should be taken merely for the sake of meeting the deadline;
- Review of ageing IT infrastructure, on which a paper would be brought to Court;
- Work in Finance on cost allocations.

6. **The Handling of Court Minutes**

In the context of the request from the Treasury Committee to see Court minutes for 2007-09, Court discussed the Bank's current policy on releasing historical Court minutes. These are currently held for 100 years before release. It was agreed that as a first step release should move to normal National Archive standards (currently moving towards 20 years by 2021).

7. **Quarterly Report on implementation of Bank Strategy, including the Diversity Report**

(Ms Place, Ms Murphy and Ms Lloret in attendance)

Ms Hogg noted that the main organisational changes under the Strategic plan were now complete; though a number of Head of Division roles were being filled. Delivery of all the 15 strategic initiatives was on track. Attention was turning to tracking benefits and measuring performance under the strategy. A number of possible metrics were tabled for discussion.

Mr Habgood was concerned that the metrics should so far as possible be data-driven. Court discussed a number of possible hard measures and it was agreed that Bank should continue to work on enhancing the metrics, supported by the new Independent Evaluation Office.

8. **Combined Quarterly Reports – Finance and Risk**

(Messrs Coates and Salmon in attendance)

Mr Coates reported that the Bank was operating close to its profit target in the March-May quarter. There had been no material change in the balance sheet and a small increase (to £43bn) in FLS drawings. An illustrative Core Tier 1 capital ratio was 9%, with leverage at 3.2%. Achieving the budgeted cost profile over the year would be a challenge – delays in hiring were responsible so far for a £1.9mn positive cost variance, and there were also delays in project-related IIS expenditure. The budget looked for a net increase of 300 staff by the end of the year

One Director noted that the stress-testing project was flagged Amber: Mr Bailey said that this reflected an issue with the ART software, now resolved, and the challenge of working alongside the parallel EBA tests. Staffing had been a concern at an early stage but was not currently. There was of course a market for staff experienced in this field, and consequently a risk of some attrition once the stress tests were over. Mr Habgood commented that the Bank had to accept that there would be some staff turnover, and build its recruitment pipeline accordingly.

9. **Triennial Valuation of the Bank Pension Scheme**

(Messrs Footman and Coates in attendance)

Court noted the latest valuation. Despite an investment strategy that closely matched the nature and duration of the liabilities, and the conclusion of a ten-year deficit reduction programme,

longevity improvements had left a small deficit. Court agreed that the Bank should make a single payment of £4.4mn to eliminate the deficit.

10. MPC Report to Court for June and July
(Messrs Haldane and Dale in attendance)

Mr Haldane said that the market now expected the first increase in Bank Rate around the year end - but after the first tightening expected the pace of further tightening to be gradual. Sterling had continued to appreciate and was now 14% above its March 2013 trough. The recovery appeared broadly based – by no means a debt-funded consumer bubble – and indeed with downside news on real earnings it was not clear how long the momentum in consumption could be maintained. Business surveys were positive. The employment data that day showed strong employment and weak wages, which made it no easier to understand the extent of slack in the economy. A further puzzle was that the average earnings data was in contrast to the survey evidence.

11. FPC Report to Court on QII meetings
(Messrs Dale and Haldane in attendance)

Mr Dale outlined the housing package that had been announced on 26 June. The FPC's actions had been intended to insure against a further significant rise in the number of highly-indebted households, and were unlikely to bind in the near term. Close co-operation within the Bank had ensured that the FPC decision and the PRA consultative document went out together, and the policy had been generally well understood. Court members asked about the success of similar policies in other jurisdictions and about the likely regional impact.

Mr Dale also noted that the FPC had been given responsibility in the UK for setting the Countercyclical Capital Buffer, and had agreed to set the rate initially at 0%; also that the Committee had decided to make no recommendation to the Treasury about possible changes to the regulatory perimeter.

12. PRA Report to Court

Court noted Mr Bailey's report on the PRA's supervisory activities and operational issues. On the former he noted the immediate threat from US legal actions, which could result both in

substantial fines and in denial of access to dollar clearing systems. Operationally, the stress testing programme was the largest single piece of work but was on course; there was also a very heavy workload on policy implementation arising from the two banking commissions (Vickers and Tyrie) Solvency II, and EU deposit guarantee and resolution directives. Staff turnover remained higher than desired but recruitment had been stepped up effectively.

The meeting of Court was closed.