

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

**Wednesday, 29 October 2014**

Present:

Anthony Habgood, Chairman

The Governor

Mr Bailey, Deputy Governor – Prudential Regulation (for item 5 onwards)

Mr Broadbent, Deputy Governor – Monetary Policy (for item 6 onwards)

Sir Jon Cunliffe, Deputy Governor – Financial Stability (for items 1-11)

Mr Cohrs

Mr Fried, Deputy Chairman

Mr Frost

Baroness Harding

Mr Prentis

Mr Robert

Mr Stewart

Ms Thompson

In attendance:

Ms Hogg, Chief Operating Officer

Dr Shafik, Deputy Governor – Markets & Banking

Secretary:

Mr Footman

### **1. Minutes**

The minutes of 29 September 2014 were approved.

### **2. Matters Arising**

The Chairman informed Court that the Chancellor had approved the appointment of Mr Fried as Deputy Chairman of Court.

### **3. Report from Audit and Risk Committee**

Mr Fried reported on five issues that had been discussed at the recent Audit and Risk Committee. (1) The Finance Group had prepared a new framework for cost allocations across the Bank: this was partly in response to the year end-Audit recommendations, but also reflected the need to ensure that all attributions were as accurate as possible so that the Bank could discharge its duty of care to all funding groups, including PRA Levy payers. (2) The Committee has been briefed on the IT strategy, and was satisfied that the IT change programme

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had been well thought through and consistent with the Bank's strategy. Outstanding Internal Audit points had been substantially resolved. The Committee had been briefed on status of legacy systems as well as hardware and software that was approaching obsolescence. (3) Incident Reports had been reviewed and the Committee was satisfied that control issues were being addressed. (4) The Committee had reviewed the risks around implementing the Solvency II directive which was a major challenge for the PRA. (5) There had been a discussion of counterfeiting banknotes and the options open to the Bank for working with law enforcement in their pursuit of counterfeiters.

#### **4. Report from Remuneration Committee**

Mr Stewart said that the Committee had reviewed and approved the Bank's final offer to staff in the remuneration integration project (OBYR). A number of changes had been made in response to the consultation, though the overall cost of the project remained within the budget agreed by Court. Separately, consultants had been appointed to review the remuneration of Governors and external committee members, as foreshadowed in the last Annual Report.

#### **5. Possible Release of Court Minutes**

(Mr Brazier in attendance)

Further to a minute of 16 July, Court discussed the longstanding request from the Treasury Committee to see the minutes of Court for the period of the financial crisis (mid-2007 to mid-2009). There were considerable reservations about publishing records of discussions ahead of normal archive release (currently moving to 20 years), not least given the reasonable expectations of those participating in the meetings at the time. On the other hand, the Bank had not produced a formal review of the period, and although there had been specific reviews of market operations, forecasting and emergency facilities, and much had changed as a result, that was perceived as a deficiency. Court agreed that in these circumstances there was a case for acceding to the Treasury Committee's request, and that for completeness the minutes of the former non-executive directors' committee and the Transactions Committee should be released at the same time, subject to some redactions for personal data, supervisory information covered by statutory prohibitions, and some other commercially-sensitive information.

## 6. Bank of England Governance and Transparency

(Mr Brazier in attendance)

Court discussed a number of possible changes to the Bank's governance and accountability processes, aimed at improving transparency and removing the complexities that impeded the strategic aim of operating as a single unified institution. Some of these would require legislation while others could be implemented within existing provisions.

It was agreed that it would be desirable to place the three major policy committees – the MPC, the FPC and the PRA Board - on a similar footing. The FPC, currently a Committee of Court, would be a Committee of the Bank like the MPC; and the PRA, currently a subsidiary of the Bank, would remain an authority within the Bank and also be directed by a Committee. There was no need for the PRA's governing body to have additional responsibilities for directing a company.

Court itself risked being distracted by its statutory division into a governing body (the Court) and a supervisory/reviewing body (the Oversight Committee); the separate functions would be better exercised by a single unitary board, as had been recommended some years ago by the Treasury Committee. Court might also be reduced slightly in size, while maintaining a majority of non-executive members.

Both of these changes would require legislation, but in the meantime the Court and the Oversight Committee could find ways of working closely together, including by inviting the Executive members of Court to attend Oversight Committee meetings as appropriate. There was nothing to prevent the non-executive members meeting separately whenever they chose, and indeed they were expected to continue to do so as at present.

It was agreed that it would be helpful if the MPC were to meet eight rather than twelve times a year: the time created would be used to hold a quarterly joint FPC/MPC meeting. To promote transparency and openness, the MPC would publish the minutes of its discussions and the Inflation Report at the same time as the announcement of its policy decision. This would be consistent with the changes likely to be recommended in the Review by Governor Warsh (see below).

Finally the Court agreed that it would oversee arrangements under which the Bank would respond to future requests for information from the Treasury Committee.

## 7. MPC Transparency Review

(Governor Warsh in attendance)

Governor Warsh presented the preliminary conclusions of his Review, which was commissioned in April and is likely to be completed in early December.

Governor Warsh noted that the key requirements of a monetary policy-making institution were: to make sound judgments; to communicate its decisions effectively; to ensure accountability for its actions; and to create a fair and accurate historical record. The initial impetus for his appointment had been a question about whether transcripts of MPC meetings should be retained and published as was currently the case with the FOMC. But the existence or otherwise of transcripts was not the predominant test of transparency: a broader assessment was required, and he had approached this using the framework developed by Eijffinger and Geraats. The Bank compared fairly well with international peers on most measures but he had a number of recommendations that should improve transparency without harming the deliberative process at the core of its decision-making. These were (1) to offer an explanation of its policy decision at the same time as announcing it; (2) to reduce the number of routine MPC meetings; (3) to enhance the MPC minutes with more granularity about the deliberation including minority views; (4) to make transcripts of the decision-taking meeting available after a period of years; (5) and at the same time as the transcripts to publish key inputs (staff papers etc) to the meeting.

He had considered whether any of these principles could be applied to the Bank's other policy committees. For the PRA, the answer was definitely not: that material it dealt with and the decisions it took were entirely unlike the MPC's. The FPC was new and it was premature to reach a view: he suggested the question be reviewed again in the future.

Mr Broadbent said that in relation to the policy announcement the MPC was already considering bringing together the decision and the explanation: it was agreed that having multiple news events around a single meeting was unhelpful.

**8. Strategic Plan Quarterly Update**

(Ms Murphy and Ms Lloret in attendance)

Court noted an update on the strategic plan. Significant progress had been made on several early projects; though Ms Hogg noted in response to questions that the data strategy was likely to be complex and establishing the research agenda would be challenging. Court discussed the continuing development of harder performance metrics, which as Ms Murphy said to some extent still reflected what was available rather than what was desirable; and Ms Hogg said that a benchmark staff survey could be commissioned to build on the OHI analysis provided by McKinsey.

**9. MPC Report to Court**

(Messrs Haldane and Woods in attendance)

Mr Haldane noted that there had been a significant shift in monetary conditions in recent weeks with the implied path for UK interest rates shifting down and long rates falling markedly. The key driver had been an accumulation of international news – China, the Euro-area and the US. In the UK the near-term outlook remained robust. Consumer confidence remained strong while recent revisions to ONS data had underlined the strength of business investment over the period since 2010. CPI inflation remained weak as did wages, though there were signs that pay growth was picking up in some parts of the economy.

**10. FPC Report to Court**

(Messrs Woods and Haldane in attendance)

Court was briefed on a confidential basis about the leverage ratio announcement expected later in the week, on the results of the EBA stress tests, and on the UK variant stress test to be announced in December.

## **11. PRA Report to Court**

(Mr Stewart declared an interest in Solvency II and left the meeting)

Mr Bailey said that the next step after the EBA stress tests was the establishment of the ECB Single Supervisory Mechanism which had been in preparation over the past year. We had a very strong interest in it being a success and in developing close working relations with it.

On Solvency II, which had earlier been highlighted by Mr Fried, Mr Bailey said that this was a very big change programme, not only for the PRA but also for the industry. It was complex, not least because firms would be able use their own internal models to calculate capital requirements, and the PRA had to approve those models rather than a capital number. For the very large insurers these models were complex. A further complication for regulators and the industry was that policy decisions at the European level were still subject to change, so that the final capital requirements remained uncertain. We were maintaining close contact with the firms. The result was considerable pressure on resources. Additional specialist staff had been hired in for models review.

## **12. PRA Articles of Association**

(Mr Stewart rejoined the meeting)

Court was content with the revised Articles of the PRA and authorised the Secretary to approve the proposed resolution on behalf of the Bank.

## **13. Quarterly Reports including Interim Financials**

(Mr Finch and Mr Salmon in attendance)

Ms Hogg introduced the financial report in Mr Coates's absence. At the half-way point, the Bank's profit was £92mn, £9mn below budget, despite a shortfall in spending as a result of under-recruitment. There had been no material change in the balance sheet over the quarter.

#### **14. RTGS**

(Mr Finch and Mr Davies in attendance)

Mr Davies described the sequence of events on 20 October when the RTGS failed shortly after service start at 6.00am and was completely unavailable from 6.45am. The incident resulted from an error in changes, made over the weekend, to transfer a CHAPS membership from a bank to its subsidiary. The service was not fully recovered by until 3.25pm. The day was extended so that 100% of submitted payments were completed but there was inconvenience and possible loss to customers, most prominently those completing house purchases. The Bank had agreed to meet any reasonable claims for losses, via the banks' normal claims handling procedures.

The Governor said that the incident had been escalated and Sir Jon Cunliffe, supported by Mr Bailey, had taken the key decisions on the day and agreed public statements. Other Governors, and the Chairman, had been kept informed.

Ms Hogg said that an independent review of the incident had been announced on the day and a process had been established to identify a reviewer, using the PRA list of S166 providers as a starting point and eliminating those with potential conflicts. Four firms had been invited to present (the selection panel was the Chairman, Mr Fried, Ms Hogg and Ms Shafik), and Deloittes had been selected. Court APPROVED the appointment and the terms of reference of the review.

#### **15. New £10 Note Project**

Court APPROVED funding of £4.7mn to complete the execution phase of the next £10 note project.

#### **16. Proposed Additional Payment in Lieu of Dividend**

Court APPROVED the payment of a further interim dividend to HM Treasury of £7.75mn, reflecting recoveries from Lloyds Banking Group in relation to the SLS scheme.

**The meeting of Court was closed.**