MEETINGS OF THE COURT OF DIRECTORS

PUBLISHED MINUTES 2014

Since April 2013 Court has been required by Paragraph 12 of Schedule 1 of the Bank of England Act to publish minutes of its meetings. The Act also provides that Court may withhold information from publication where this would in its opinion be against the public interest. Material has been withheld from publication under this provision and, absent further action by the Court, would not enter the public domain until normal archive release after 20 years. However at its meeting in December 2015, Court adopted a process for keeping past redactions under review, starting with 2013. At its meeting in December 2016 Court decided that a number of items withheld in 2014 should no longer be withheld and these are reproduced below, with context where necessary. A further review, of items redacted in 2015, will be undertaken December 2017.

Text in *italics* has already been published.

Thursday, 13 February 2014

Inflation Report and MPC Report to Court

Mr Dale summarised the main messages from the Inflation Report.

In response to a question Mr Dale explained that the interest rate transmission mechanism was better understood, and the decisions on interest rates were easier to reverse.

In response to a question about risks from emerging markets Mr Bean and the Governor said that recent events were local and not representative of a generalised problem. A setback in China would however be a concern, and the rapid growth of consumer lending, the shadow banking system and political change suggested potential risks. While a mild slowdown might take some pressure off commodity prices anything more fundamental would have an impact on world trade.

The Bank’s Finances

(i) The Budget 2014/15

Mr Coates noted that the high cost of pensions in the Bank’s accounts reflected an exceptionally risk-averse investment strategy on the part of the pension fund. He intended to review that during the year. There was also a risk that the remuneration review, although nominally a cost-neutral exercise, might in the event lead to extra costs.

<u>Tuesday, 4 March 2014</u>

Organisation

The Governor described the proposed organisation. The key management committee of the Bank would be GovCo, consisting of the Governors, the COO and a new role, equivalent in status to a Deputy Governor, responsible for the Bank's balance sheet and operations – the Markets and Banking directorates would be direct reports.

Another key decision was to extend the PRA "Director" rank across the whole Bank, so that the policy EDs would have one or more Director reporting to them.

The role of the Chief Economist would be extended to cover the research agenda across the entire Bank, not just the MPC, and to include a Research hub. International functions would be consolidated under a single Director, reporting both to DGMP and DGFS.

A new ED for Prudential Policy would report both to DGFS and DGPRA, as would existing PRA Policy functions and FS Prudential Policy.

Also reporting to DGFS and DGPRA would be a new ED for Risk Assessment, including parts of FS and some of the PRA Risk specialists.

Banking would be split into two Directorates, one for Banking Services reporting to the MD Ops, or one for Notes reporting to DGMP.

EDs for Insurance Supervision, Banking Supervision and International Banking Supervision, along with a new ED for PRA Operations (including the Supervisory Oversight Function), would report to DGPRA.

Several Court members expressed concern about the split reporting lines that this reorganisation would entail. The lack of clarity was seen as a risk. The Governors on the other hand felt that the colocation of functions was an essential part of creating "One Bank". People would be judged on their ability to work across the silos, which the statutory framework of committees would otherwise reinforce. The Deputy Governors, not the organisation, were responsible for delivery. The Governor added that change had to happen, and to enforce single lines of accountability would tend to favour the current status quo - leaving people asking "so who won?". For that reason it was important to keep people in overlapping areas looking two ways

– in the case of prudential policy for example, both to macro and micro levels. Other Directors agreed that it was not the organisation chart that determined the Bank's effectiveness, but how the system operated. The accumulation of a plethora of dotted lines would make matters no better.

One Director was concerned that Risk Management was part of the MD Ops's responsibilities. This would be inconceivable in a commercial bank. The Governors pointed out that the Bank's incentives did not include making a profit: the balance sheet was a policy instrument. Nevertheless there was concern among the Directors, given the size of the Bank's balance sheet and the unfamiliarity of much of the collateral now being taken, that Risk should be external to the markets function.

Several Directors suggested that the international function was sufficiently important to merit an ED rather than a Director. The Governors felt that as they themselves were principals on the international committees the role, though significant, was correctly placed – and consistent with similar roles in other central banks.

Wednesday, 16 April 2014

Executive Report

Sir Jon Cunliffe said that the PRA Board and the FPC had held a joint meeting to agree on the UK variant scenario within the EBA 2014 stress tests, and the hurdle rate. The UK variant involved a severe housing market and consumption shock. The EBA scenario was not yet finalised but was expected on 1 May. The Bank would not publish the UK variant until then. Results for the UK would be announced after the mid-December FPC meeting: the EBA would publish in October. There was some risk of confusion as the UK was operating on a stricter definition of capital (Basel 3 end-point) but different hurdle rates to the EBA's.

Mr Bailey commented on the FCA's handling of its announcement about the treatment by insurers of "aged policies" funds. He was confident that the Bank's press office would not handle an announcement in this way but had asked Jenny Scott to confirm that. It was to avoid partial release of price-sensitive information that the Bank was announcing the stress test scenario to the market at the same time as communicating it to the banks.

Mr Bailey said that he and the Governor had held productive meetings with other authorities and major banks in Washington earlier in the week to push forward the FSB/G20 agenda on "Too-big-to-fail". One big issue had been GLAC (gone-concern loss-absorbing capital), where good progress had been made on form, amount and location: the issue concerned the attitudes of the official sectors in some countries which are home to GSIB banks. Another had been stays on derivative contracts, typically covered by a master agreement which enabled cherry-picking and could thus lead to disorderly failure. The major banks present had been ready to accept change: it remained to find an approval that would be acceptable to the buy-side, but a way could be found.

Combined Quarterly Reports

(iii) QPR

Mr Coates said that the Bank was likely to record a profit before tax of £181mn in the year to February, slightly below budget mainly because of lower than expected FLS drawings. The estimated dividend to the Treasury was £81mn. An illustrative CET1 capital ratio for the Bank was 10.9%, or 16.7% excluding Government Bonds. It was noted that Court would have a full discussion of the Bank's level of capital, starting in May. In response to a question, Mr Coates said that there would be a review of the investment strategy of the pension fund, at present restricted largely to indexed gilts.

Pensions Indexation

Court AGREED to delegate to the COO the annual decision on the appropriate index for revaluing pension in payment and in deferment under to CARE scheme, on the understanding that Court would be consulted before any index other than the CPI was selected.