

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

**Monday, 29 September 2014**

Present:

Anthony Habgood, Chairman  
The Governor  
Mr Broadbent, Deputy Governor – Monetary Policy  
Sir Jon Cunliffe, Deputy Governor – Financial Stability  
Mr Cohrs  
Mr Fried  
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

Apologies:

Mr Bailey, Deputy Governor – Prudential Regulation

Secretary:

Mr Footman

1. **Minutes**

The minutes of the meeting held on 16 July 2014 were approved.

2. **Matters Arising**

With reference to a minute of 16 July, Mr Footman said that the accelerated release of historic Court minutes would result in records up to 1930 being published in December, and records up to 1987 by April 2015. It was noted that Governor Warsh's report on publishing MPC transcripts was expected by the end of the year.

3. **Directorships**

(i) Declared interests

The interests declared by Directors were noted.

- (ii) Court approved Minouche Shafik becoming a Governor of the NIESR.
- (iii) Court approved the (previous) appointment of Mr Haldane and Mr Salmon as Directors of BEAPFF, in place of Mr Fisher and Mr Dale.

#### 4. **Appointments to Court Committees**

Court approved the appointments of Mr Fried to Nominations Committee, Baroness Harding to the Remuneration Committee, and Mr Robert to the Audit and Risk Committee. It was noted that Mr Stewart would become Senior Independent Director and that, subject to Treasury approval, Mr Fried would become Deputy Chairman of Court.

#### 5. **Report from RemCo**

Mr Stewart said that Remco had reviewed the results from the staff consultation on OBYR, the main areas of staff and union comment, and the Bank's proposed response. Although a number of specific concessions had been made, the paybill cost of the exercise as a whole remained within the original budget. There would be a further Court discussion in October, and in November members of staff would be asked to accept a final package.

#### 6. **FPC/MPC Code of Conduct**

Court noted the exchange of letters with the Chairman of the Treasury Select Committee concerning Mr Sharp's business interests and political connections. Court was content with proposed amendments to the MPC and FPC Codes of Conduct designed to (a) clarify reporting lines and responsibilities in respect of conflicts of interest and (b) to clarify rules on involvements of Committee members with political parties. Court also asked that the two codes be reviewed again for consistency of style and approach.

#### 7. **Banknote Procurement**

(Ms Cleland and Mr Lea in attendance)

Court approved the award of the Banknote printing contract to De La Rue (DLR), and funding to complete the project.

Ms Cleland explained the scoring methodology and said that De La Rue was the highest scoring bidder.

Ms Cleland explained that the contract under discussion concerned the printing of notes, and bidders were assessed on their ability to print on both polymer and paper. Initially only the £10 and £5 denominations would be printed on polymer.

Ms Cleland noted that DLR had recently announced a profit warning, precipitating a sharp fall in the share price. Directors discussed the implications for the contract award.

## 8. MPC Report to Court

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

Mr Haldane noted that over the past six months short-term interest rates were little changed and the expected date of the first Bank rate change was the same as in May. Long term bond yields had fallen in the UK, US and euro area by around 100 bp since the start of the year, and there were continued signs of a search for yield. Housing market indicators had softened, reflecting interest rate expectations, the impact of the mortgage market review and possibly the FPC's LTI cap.

Downside risks to the UK were most evident in the global outlook, as evidenced by slower euro area growth and inflation. But despite a muted contribution from net trade, the UK recovery continued, with household consumption continuing to grow and business investment picking up. Bigger than expected upward revisions to GDP in 2013 suggested that the recession had been less pronounced and the recovery stronger than at first thought. The MPC's best estimate of slack in the economy was around 1% of GDP, though with a considerable degree of uncertainty. Private sector pay growth remained weak, although surveys pointed to staff shortages and wage premia in some sectors. Several Court members commented that their own experience of wage settlements suggested more buoyancy, though it was accepted that shifts in the composition of the labour force were exerting downward pressure on the average earnings data. In these circumstances inflation expectations were consistent with the inflation target.

## 9. **FPC Report to Court**

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

Reviewing conjunctural risks to financial stability, Sam Woods said that with the housing market softening the FPC was comfortable with the actions it had taken in the summer. A remaining source of concern was the “search for yield”, evidenced by compressed risk premia and low volatility at a time of high debt issuance and looser underwriting standards. However the resilience of UK banks was continuing to improve; the stress test results in the fourth quarter would give an insight into remaining balance sheet weaknesses. A specific concern was the spate of loosely co-ordinated conduct fines for banks, which represented a drain on capital.

Sarah Breeden reviewed the progress of the FPC’s leverage review, on which a consultation paper had been issued in June: outstanding issues would be reviewed in October ahead of a policy statement that would include views on calibration of a leverage framework.

The FPC was shortly to issue its annual review on the impact of the Government’s help-to-buy scheme, and would also respond later in the week to the Chancellor’s invitation to propose additional direction instruments that would be relevant to curbing risks in the housing market. A direction power in relation to buy-to-let mortgages would be proposed.

## 10. **PRA Report to Court**

(Mr Fisher in attendance)

Mr Fisher reported on the recent work of the PRA Board, including the consultation papers on the EU Recovery and Resolution Directive; remuneration and accountability of senior individuals; and policy statements on clawback of remuneration and the supervision of international bank branches. In the latter context, the first Chinese bank branch had been authorised. The Board had continued to review the supervisory strategies for a number of major banks in the UK, and to approve senior appointments. There would be further joint meetings with the FPC to review the outcome of stress tests and work continued on the structural reform of banks (ring-fencing), Pillar 2A capital and Solvency II.

## 11. **Solvency II Project**

(Messrs Fisher, Finch and Ainley in attendance)

The Court approved the release of £10.8mn for Phase 4 of the Solvency II programme, and ratified a previous interim approval of £2.5mn. This phase of the project would include consultation on new rules; definition of the updated supervisory approach and operating model; communication of all approvals and waivers required by firms; and delivery of the first release of two data systems to collect and analyse regulatory returns. In parallel the insurance directorate would undertake work on initial model assessment and approval.

In response to questions Mr Fisher confirmed that the resources were in place to undertake the work on the models, and Mr Finch confirmed that the data collection software being acquired was standard to the industry and the visualisation and analytic tools were already widely used.

## 12 **Report from Independent Evaluation Director**

(Ms Paterson in attendance)

Lea Paterson, the Bank's new Independent Evaluation Director, outlined a work programme that would give the Oversight Committee a better basis for evaluating the Bank's forecasting performance. The assessment would provide benchmarks for both MPC and FPC relevant forecast variables, including tests for bias, and comparisons with the forecast performance of other forecasters of the UK economy and central banks. This would provide a valuable resource to the Bank in its further work. The proposal was welcomed both by the Committee members and by the executives present.

## 13 **Any other business**

It was noted that the Bank's policy of publishing regular statements of the expenses, engagements and entertainment received by Governors and members of the Policy Committees was being revised so that statements would in future be issued quarterly with a lag of three months.

**The meeting of Court was closed.**