

MEETING OF THE COURT OF DIRECTORS

Friday, 10 April 2015

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
Baroness Harding
Mr Prentis
Mr Robert

In attendance:

Ms Shafik, Deputy Governor – Markets & Banking

Apologies:

Mr Stewart
Ms Thompson
Ms Hogg, Chief Operating Officer

Secretary:

Ms McCarthy

1. Minutes

The minutes of the meeting held on 18 February were approved.

2. Matters Arising

Court noted that the Deed of Amendment to the Bank's Pension Scheme had been signed.

3. Report from ARCo

Mr Fried commented on four issues recently discussed in ARCo:

- i) Compliance: The Committee had supported proposals to establish a Central Compliance function, located in the Legal Directorate, to support staff awareness of and compliance with Bank policies.

- ii) The Committee had further reviewed and endorsed the proposals to provide more details on the Bank's income in its Accounts.
- iii) The Committee had discussed change management processes in the IT environment.
- iv) The Committee had considered an update on progress with the Bank's review of Risk Governance, and had provided comments on the proposals. A working session would be held to enable further consideration of the proposed governance and reporting structure.

Court discussed options for the Bank's Risk Governance framework to ensure that it provided sufficiently accountability, senior independent reporting and challenge in relation to the financial and operational risks faced by the Bank. Directors discussed possible strictures for the proposed new Executive Risk Committee. The Governor asked Court members to reflect on appropriate models for the Bank's Risk Governance ahead of ARCo's working discussion with the Risk Review team.

4. Update on Investigations

(Mr Dedman in attendance)

Mr Dedman updated Court on the investigations undertaken by the SFO of matters referred to it following Lord Grabiner's inquiry.

5. Fair and Effective Markets Review

(Mr Hauser in attendance)

Mr Hauser updated Court on the main activities and outputs of the Fair and Effective Markets Review (FEMR), ahead of the scheduled launch of the Review's recommendations in June. HMT had implemented FEMR's recommendations to bring seven major fixed income, currency and commodity (FICC) markets' benchmarks into the scope of UK legislation with effect from 1 April; responses had been received on FEMR's Consultation Document on what needed to be done to reinforce confidence in the fairness and effectiveness of FICC markets; and extensive consultations had been held with a number of market participants and international authorities.

Feedback focused primarily on the need for further steps to improve conduct, including the need for more continuous, forward-looking engagement on standards of practice in FICC markets.

Court considered the Bank's role in setting standards and how the Bank would work with the markets to improve standards. The Chair asked Mr Hauser to discuss FEMR's emerging recommendations further with the Non-executive Directors following May Court.

6. **Court Effectiveness**

Court noted a paper on the effectiveness of Court and its Sub Committees.

7. **Annual Report**

(Ms Paterson in attendance)

Court reviewed the draft Annual Report, in preparation for its consideration of the full Annual Report and Accounts in May; Directors agreed to send individual comments to the authors.

8. **MPC**

(i) MPC Report

(Mr Haldane in attendance)

Mr Haldane summarised recent financial market and international developments: the ECB asset purchase programme had led to further falls in euro-area bond yields; the dollar had appreciated while the euro had depreciated by a similar amount. Momentum had built in the euro area whereas US and Chinese growth looked to be softening. For the UK, overall the February Inflation Report projection for solid and fairly stable growth remained on track.

(ii) MPC Processes

(Mr Ramsey in attendance)

Mr Ramsey summarised the findings of the annual report on MPC processes. The MPC's evaluation of support provided by staff was mostly very positive, though scores had fallen relative to the previous year for questions around the quarterly forecast round, for example in relation to the quality of discussion and the effectiveness of the process. In response, the MA

Leadership Team was looking at ways of improving MA's interaction with MPC members in relation to each forecast round.

(iii) Discussions with external MPC members

Court noted a paper summarising the Chairman's recent discussions with external MPC members. The Governor said that he had subsequently met the external MPC members to discuss the issues arising, for example relating to the introduction of MPC transcripts.

9. **FPC**

(Mr Brazier in attendance)

(i) FPC Processes

Mr Brazier summarised the main findings from the report on FPC processes and the FPC's risk assessment and policy action over the past year. The FPC had achieved a lot during the year but some FPC Members were concerned that the staff should support it better in responding to events as well as providing policy analysis.

The Governor said that there had been some intensive and productive FPC discussions, e.g. relating to the leverage ratio and stress testing.

(ii) FPC Report

Court noted the quarterly FPC Report.

(iii) FPC Code of Conduct

Court approved proposals to amend the communications section of the FPC Code of Conduct to make clear that the requirement to reach decisions by consensus wherever possible stemmed from the legislation and not the Code; and to set out what it expected of FPC members in each of the range of possible decision-making outcomes. Public communications from individual FPC members should recognise any consensus agreed in FPC meetings.

10. **Talent Management**

(Ms Place in attendance)

Ms Place summarised the key initiatives in train to develop and implement the Bank's new talent management strategy in support of the Strategic Plan. Court discussed and endorsed these initiatives. Ms Place was asked to review the diversity targets for gender for new recruits to ensure that they were feasible.

Court noted a paper on succession planning for senior roles which had recently been taken to GovCo. Ms Place confirmed that GovCo was now discussing succession planning twice a year. The Chairman said that it would be helpful to have a more detailed discussion of succession planning at Court in due course.

11. **Banking and Markets Report**

Ms Shafik outlined recent developments in Banking and Markets, including that the new role of Executive Director for Banking, Payments and Financial Resilience had been advertised the previous day.

12. **Sterling Monetary Framework (SMF) Annual Report**

(Messrs Salmon and Martin in attendance)

Further to its review in February, Court commented on the draft SMF Annual Report, and approved its publication alongside the Bank's Annual Report in June.

The Report reflected joint work between the Markets and Independent Evaluation Office teams. No changes were proposed to the objectives for the SMF for 2015/16. It was intended to develop Shari'ah-compliant facilities, and to consider the interaction of the SMF with the provision of liquidity to a resolved institution.

13. **Update on Emergency Liquidity Assistance (ELA) Preparedness**

(Messrs Salmon and Hunt in attendance)

Mr Hunt updated Court on the Bank's preparedness to extend Emergency Liquidity Assistance (ELA). Court discussed and endorsed the improvements implemented during the year.

The Report covered the Bank's response to live contingency situations and its business as usual activities including testing, to ensure that the Bank's ELA capability remained high. In response to questions, Mr Hunt confirmed that a very effective working relationship had been established with the Resolution Directorate and with the PRA supervisors.

14. **Quarterly Financials**

(Mr Coates in attendance)

Mr Coates presented the Quarterly Financial Review, which had previously been discussed at ARCo. Court discussed and endorsed the Review.

15. **Quarterly Risk Assessment**

(Mr Coates in attendance)

Mr Coates summarised the main points contained in the Q4 quarterly risk assessment, which had been via ARCo for discussion and review. Court noted the assessment.

16. **Annual Controls Review**

(Mr Coates in attendance)

Court approved the Annual Report on Risk and Controls for the year ended 28 February 2015, which was presented on behalf of the Governors to support the statements made in the Bank's Annual Report. ARCo had reviewed the Report and recommended it to Court. An updated version would come back to Court in May along with the Bank's Annual Report.

17. Approvals

(Messrs Finch and Curtiss in attendance)

Court approved the funding for three programmes under the investment budget relating to Solvency II; CRD IV phase 2; and the development of a data analytics platform.

18. Items for Information

Court noted a paper on the provision of services; an MOU between the Bank, FCA, the Payments Systems Regulator and the PRA; and an amendment to the MOU between the Bank, including the PRA, and the FCA relating to the supervision of markets and market infrastructure.

19. Any other business

The Governor updated Court on the agreement reached in relation to the ECB's proposed CCP location policy.

The meeting of Court was closed.