

MEETING OF THE COURT OF DIRECTORS

Wednesday, 15 July 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 Fried
Mr Frost
Baroness Harding
Mr Robert
Mr Stewart (not item 12)
Ms Thompson

In attendance:

Ms Hogg, Chief Operating Officer
Dame Minouche Shafik, Deputy Governor – Markets & Banking

Apologies:

Mr Prentis

Secretary:

Mr Footman

1. Minutes

The minutes of the meeting on 10 May were approved.

2. Matters Arising

The Chairman noted that diversity targets for new recruits would be discussed in the HR presentation at October's Court.

3. Report from RemCo

Mr Stewart reported on Remco's meeting on 10 June.

4. Report from ARCO

Mr Fried said that the Committee had reviewed a number of issues that were on the current Court agenda including for example the Balance Sheet Report; the potential role in the Bank of the National Audit Office; and risks relating to the FPC.

The Committee had also focussed on the risks to the PRA arising from its continuing dependence on FSA (now FCA) IT systems, in particular Gabriel. They had poor service records and had struggled through change management. In the short term, some changes needed to be made to Gabriel so that key PRA projects could be delivered. The change management risks were significant, particularly given the two layers of outsourced providers involved. In the longer term, there was a question of how to transition the PRA from its dependence on these FCA systems. In the meantime, the Bank was doing as much as it could to collaborate with the FCA outsourced providers. But given the risks involved this matter would remain an area of close focus.

The second issue related to the Quarterly Risk Report, which now included credit, market and liquidity risks - as well as operational and reputational risks. There has been much progress in the "look and feel" of the report and much more importantly in the processes and thought given to the input, including escalation of operational incidents. Implementation of the Loans Data Project would continue progress towards decreasing the need for manual intervention with the associated risk of human error. The October ARCO would be taking this up - and an inventory of all key spreadsheets would be completed by that time. The Committee would focus on how to build a more protected control environment for these key tools.

5. UK Referendum on EU membership

Sir Jon Cunliffe noted that the existence of a Bank project to explore the implications for the Bank's monetary and financial stability objective of the Referendum had been inadvertently revealed in a mis-copied email; but the general reaction appeared to have been that the Bank would be expected to have been undertaking such work. The project itself consisted of a small number of experts, mainly economists, whose task was to assess the impact of EU membership as it was now on the Bank's delivery of its monetary and financial stability objectives. The work would be disclosed publicly at the appropriate time.

6. Senior Managers Regime

(Ms Branch in attendance)

Court discussed the proposal that the Bank should apply to itself the “core principles” of the Senior Managers Regime currently being rolled out (in different forms) to banks, insurers and market participants. There was, as several Directors noted, a difference between a regime overseen by a regulator and one that was self-imposed; but it was agreed that the principles underpinning the SMR were mostly relevant to the Bank, and adopting them explicitly was consistent with many of the Bank’s recent initiatives. The Bank was drawing up a firm-wide statement of responsibilities, was introducing a new Code of Conduct supported by a compliance function and had a rigorous appointments process for senior positions. There would however need to be an improved induction package for those designated senior managers.

The regime would extend to some non-executive directors – the Chairs of Court, ARCO and Remco – and to the most senior executives and those with key functions, setting out their functional management responsibilities and their responsibility for the conduct of their direct reports.

7. Update on the NAO

The Governor commented on recent correspondence with the Treasury relating to the NAO’s role in the Bank, on which the Chairs of Court and ARCO had been kept closely informed.

He had two overriding concerns. One was to avoid compromising the independence of the Bank, which would be at risk if the NAO could question policy judgments. The other was to preserve the role of Court as the Bank’s governing body.

The outcome was that the Court would continue to appoint a professional firm to undertake the financial audit of the whole Bank, including the PRA which had thus far been audited by the NAO. The NAO would be consulted about the appointment of the professional auditor and would have access to the audit outputs. It would also audit activities that the Bank undertakes under a Treasury indemnity.

In relation to value for money the NAO would have an ability, consulting Court, to commence efficiency and effectiveness reviews at its own volition. However there would be a strong carve out for policy, to be written into legislation specific to the Bank of England.

8. **Bank of England Bill**

Mr Footman said that the Treasury were likely to publish a discussion paper on the content of the Bank of England Bill on the 20th July. Apart from their intentions on the NAO, the Bill would be mainly concerned with implementing the Transparency and Accountability package recommended by the Bank in December 2014, including:

- The new Deputy Governor position for Markets and Banking to become a statutory appointment, with membership of the FPC, the PRC (as the PRA Board will become) and the FPC.
- Court to have seven NEDs, rather than nine – reducing the maximum size of Court to 12 members.
- Oversight Committee functions to be rolled into Court.
- The FPC to become a Committee of the Bank, rather than a Committee of Court.
- The MPC to be required to meet no less than eight times a year, rather than monthly as at present.
- MPC decisions and minutes to be published “as soon as practicable”.
- The “staff” member of the MPC to be the person designated as “Chief Economist”.

The Treasury were also seeking changes in the Crisis MoU to cover resolution planning, on which they (understandably) wanted a clear line of sight given the possible outcomes for public funds. In connection with this, they were seeking an information power on the face of the Bill.

9. **Selecting the substrate for the next £20 note**

(Ms Cleland in attendance)

Court considered a proposal to print the next £20 note on polymer rather than paper. Although this was likely to be more expensive per note over ten years - unlike the more transactional £5 and £10 notes which were able to benefit more from the enhanced durability of polymer - importantly it offered a considerably higher level of resilience to counterfeiting. It was clear

from experience in other polymer-issuing countries that polymer notes were associated with a dramatic reduction in counterfeits. Court approved the proposal. It was noted that the Treasury, which had an interest in the impact on seigniorage income, also supported the move.

10. **PRA**

(Mr Fisher in attendance; Mr Stewart withdrew)

(i) PRA Report to Court

Mr Fisher noted the change in the deposit protection limit announced on 3 July, reflecting the lower euro exchange rate against sterling. The new sterling level would continue for five years. Mr Fisher also updated the Court on Greece, implementation of Solvency II, the PRA's review of the Credit Union sector and the changing market shares of global investment banks. The PRA had a headcount gap of 45 at the end of May, reflecting recruitment in train, and the turnover rate had fallen slightly to 9.7%. Lack of PRA experience remained a risk, as was the continuing reliance on FCA systems.

(ii) PRA Appointments

Court approved the appointments to the PRA Board of Norval Bryson and David Thorburn, subject to approval by HM Treasury

11. **MPC Report to Court**

(Mr Ramsay in attendance)

Mr Ramsay said that the MPC had met against the background of uncertainties over Greek debt negotiations and also the measures to be announced in the UK summer budget. Indicators of the UK economy suggested strong consumer demand and upside news on private sector pay growth. Nevertheless headline inflation figures remained low reflecting lower energy, food and other goods prices. Inflation expectations remained broadly consistent with the 2% inflation target.

12. **Quarterly FPC Report to Court**

(Mr Brazier and Ms McCarthy in attendance)

Mr Brazier said that the June FPC round had concluded with a restructured *Financial Stability Report*, which reflected an adjustment in the FPC's emphasis from bank risk to market risk, from financial to non-financial risks, and from policy to implementation. Of the six major risks

identified mitigating actions were in place. The banking system continued to build operational as well as financial resilience, with a strong focus on cyber risk; and market liquidity was being monitored.

13. External FPC Evaluation

(Mr Brazier and Ms McCarthy in attendance)

Court discussed the Chairman's review of FPC processes, based on individual discussion with FPC members. This would be reflected in the next Annual Report. It was noted that the shift of emphasis reflected in the latest FSR had been in large part driven by the external members. Following questions from the Chairman of the Treasury Committee, the FPC had been working to ensure that its record captured the full range of views expressed at the meetings.

14. Banking and Markets Report to Court

Dame Minouche Shafik said that Bank was working with the market to reform and strengthen the SONIA (overnight unsecured interest rate) benchmark. As part of these plans it was likely that the Bank would take over the administration of SONIA; and that in due course it would broaden the set of transactions on which SONIA was based, making use of its statutory powers to require firms to submit data.

The FICC Markets Standards Board proposed in the Fair and Effective Markets Review would be holding a preliminary meeting on 22 July.

15. Balance Sheet and Financial Risk Governance

(Messrs Porter and Martin in attendance)

Court noted the balance sheet report, and agreed to defer renewal of the balance sheet remit until December, following completion of the review of the Bank's financial risk standards.

16. Quarterly Financial review

(Mr Coates in attendance)

Mr Coates summarised the financial results for the first quarter. Income and expenditure were both running slightly below forecast, with the major factor on the expenditure side being headcount shortfalls. The net surplus for the quarter was £51mn.

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17. Update on Strategic Plan and Performance Evaluation Overview

(Ms Murphy in attendance)

Ms Murphy said that the individual workstreams of the strategic plan were all on track and there had been significant progress recently with the launch of the research agenda and the Bank Underground blog, which enables Bank of England staff to share views that challenge – or support – prevailing policy orthodoxies. There had also been good progress on information security. The staff survey suggested that some longer-serving staff were more neutral about the Plan than others; but this was not seen as surprising given the extent of the change programme.

Court members suggested that a simpler approach to reporting future progress under the plan might be adopted.

18. Staff Survey

(Ms Place, Messrs Ramsay, Bailey and Shellard in attendance)

The staff survey was seen as providing a good benchmark for future assessment and Court endorsed the Bank's intention to conduct regular "pulse" surveys to provide updates. The immediate priority was for Directors and Heads of Division to discuss the survey with staff and develop local responses; then the executive would develop a bank-wide plan for discussion with Court in September.

19. Central Banking Qualification

(Mr Fisher, Ms Place and Ms Hammond in attendance)

Court welcomed the proposal to develop, in partnership with Warwick Business School, a suite of post-graduate qualifications in central banking that would form a key element in the Bank's future training programme.

The meeting of Court was closed.