

MEETING OF THE COURT OF DIRECTORS

Wednesday, 20 May 2015

Present:

Anthony Habgood, Chairman
The Governor
Mr Bailey, Deputy Governor – Prudential Regulation
Mr Broadbent, Deputy Governor – Monetary Policy
Mr Cohrs
Mr Fried
Mr Frost
Baroness Harding
Mr Prentis
Mr Robert
Mr Stewart (not item 8)
Ms Thompson

In attendance:

Ms Hogg, Chief Operating Officer
Ms Shafik, Deputy Governor – Markets & Banking (items 1-7 only)

Apologies:

Sir Jon Cunliffe, Deputy Governor – Financial Stability

Secretary:

Mr Footman

1. Minutes

The minutes of 10 April 2015 were approved.

2. Matters Arising

All remaining actions were scheduled either for the present Court meeting or a future one.

The Governor said that the Chancellor had indicated that the Government would include in the Queen's Speech provisions to deliver those governance and accountability reforms announced last year which require legislation.

3. **ARCo**

(i) Report from ARCo

Mr Fried reported on the meeting of ARCo on 6 May. The meeting had been principally concerned with the Annual Accounts of the Bank, the PRA and BEAPFF. All had been straightforward and ARCo could recommend Court to approve the accounts and the letter of representation.

(ii) ARCo Annual Report

Mr Fried drew attention to ARCo's annual report to Court, which this year would be published as part of the Bank's Report and Accounts.

(iii) Code of Conduct

The Committee had reviewed the draft Code that Court would discuss later in the meeting and made a number of suggestions, all of which were reflected in the new text.

4. **Code of Conduct**

Ms Hogg introduced the Bank's proposed Code for staff. This was part of the work to "professionalise" the Bank, and its launch in June would be a first step in building the new compliance function. The Code and the associated policies were grouped by principle, drawn from the Nolan principles of public life, the values embedded in the Strategic Plan, and the standards the Bank required of others, for example in the Senior Managers Regime. The key principles, underpinning all the detailed policies, were: Acting with integrity; an Inclusive working environment; Impartiality; Openness and Accountability; and Empowering staff. The Code also drew on practice and standards in other central banks.

The intention, following the launch in June, would be to allow a period for discussion and familiarisation and then to ask staff to attest to their understanding of the Code and the associated policies during the autumn.

Directors emphasised the importance to the Bank of encouraging staff to speak up when they were concerned about an issue in the Bank. This was more than just having a whistleblowing policy: it was about empowering staff to make positive suggestions, and an expectation that they would do so when necessary.

Court discussed compliance and enforcement, and how the Code related to the employment contract. It was agreed that the message on values contained in the code was intended to be positive, but that the rules set out in the policies – confidentiality, personal dealings, declaration of conflicts etc – should be monitored by Compliance and supported by the Bank’s normal disciplinary procedures.

The Code would be published on the Bank website. Many of the policies were already published there, as was the staff handbook.

5. Forthcoming speeches

The Governor said that his speech at the Mansion House would focus on the Fair and Effective Markets Review (FEMR), setting out the context and launching a process going forward. It would take stock of the Bank’s role in building real markets, and how it had changed and was continuing to change.

6. MPC Report to Court

(Mr Haldane in attendance)

Mr Haldane outlined the main messages of the May *Inflation Report*. There had been little change in the Bank’s view of the economy since the February *Report*, notwithstanding press reaction to the mild shading of the GDP projections. The major recent development had been in bond markets where yields had ticked up slightly following a long period of decline; and in the foreign exchange markets, where the dollar had strengthened against the euro. At the time of the May *Report*, sterling’s effective rate was 2% higher than in February. CPI inflation, as the Bank had expected, turned negative in April.

7. MPC Code of Conduct

Court approved revisions to the MPC Code of Conduct to take account of the revised timetable for the monthly MPC decision. The revised Code would be published on the Bank’s website.

8. **PRA Report to Court**

(Mr Fisher in attendance)

Mr Fisher noted that David Belsham (formerly chief actuary at Prudential UK) had joined the PRA Board on 1 May.

The Board had approved, and the PRA would shortly publish, a Supervisory Statement setting out the PRA's expectations of the Boards of regulated firms. This was a consultative document. Mr Bailey added that the PRA would host a conference for NEDs in major bank and insurance firms in early June.

A Policy Statement on policyholder protection had been published and set out increased limits for long-term insurance products, consistent with the PRA's objective to protect policyholders.

9. **The Bank's Annual Report and Accounts**

(Mr Coates and Ms Paterson in attendance)

(i) *Annual Report*

Ms Paterson summarised the main changes in the Annual Report text since the draft presented to Court in April: principally, inclusion of a Corporate Social Responsibility Report and a Report from the Audit and Risk Committee. Amendments would be made to reflect the announcement earlier in week of the launch of the public nominations period for the next £20 banknote, and to incorporate latest data from the Inflation Report.

(ii) *Annual Accounts*

Mr Coates summarised the accounts, which had previously been reviewed by ARCo. The growth in profits before tax, to £198mn, was driven mainly by fees from the Funding for Lending scheme, partly offset by a fall in dividend income. At end year, £56.7bn had been drawn under the FLS. The published accounts reflected the enhanced disclosures on the income statement recently agreed by ARCo and Court.

Mr Fried said that ARCo was content with the valuations adopted, notably for the shareholding in the Bank for International Settlements, and the actuarial assumptions adopted for the valuation of pension costs and other retirement benefits. Because of further changes to the text

of the Annual Report, final sign off of the Report and Accounts would fall to the Report and Accounts Committee.

(iii) Letter of representation

Court was content for the letter of representation to be signed by the Chairman along with the Accounts.

(iv) Dividend

Court approved payment to the Treasury of £48.75mn, making a full-year dividend of £93.2mn

10. Annual Controls Review

(Mr Coates in attendance)

Further to a minute of 10 April, Court noted that the attestations remained valid, and approved the statement on risk to appear in the Annual Report.

11. BEAPFF Annual Report

(Mr Coates in attendance)

Court noted the Annual Report, which had been reviewed by ARCO and would be signed by BEAPFF's Directors.

12. PRA Annual Report and Accounts

(Messrs Coates and Fisher and Ms Wallis in attendance)

Mr Fisher presented the PRA's strategy, which had previously been discussed in the PRA Board. It would be published as part of the PRA Report and Accounts, and reflected the PRA's continued intention to pursue an approach that was forward-looking, judgment-based, proportionate in its actions and efficient in its allocation of resources. The Governor added that the PRA Board was currently reviewing its Target Operating Model, which determined its allocation of resources. That work, which would take account of the new requirements imposed on the PRA by UK and European legislation, was likely to be completed by the early autumn in time for the next budget round. Court was content with the strategy statement.

Court noted the draft Annual Report, which was under revision following a discussion in the PRA Board.

13. **Pension Fund Investment Strategy**

(Mr Coates in attendance)

Mr Coates noted that the Pension Fund had for some years invested its assets almost exclusively in indexed gilts, matching the nature of the liabilities. Consequently it had maintained near full cover despite the decline in the real discount rate. Court discussed whether, as a long-term fund, there might be merit in reintroducing an equity or high-grade corporate bond element into the asset mix. Opinions were divided and it was agreed to revert to the question at a later date.

14. **Annual Report on Scottish and Northern Ireland Banknotes**

The report was noted.

The meeting of Court was closed.