

MEETING OF THE COURT OF DIRECTORS

Friday, 16 December 2016

Present:

Anthony Habgood, Chairman

The Governor

Mr Broadbent, Deputy Governor – Monetary Policy

Sir Jon Cunliffe, Deputy Governor – Financial Stability

Dame Minouche Shafik, Deputy Governor – Markets & Banking

Mr Woods, Deputy Governor – Prudential Regulation

Mr Fried

Mr Frost

Baroness Harding

Mr Robert

Ms Hogg, Chief Operating Officer

Apologies:

Mr Prentis

Ms Thompson

Secretary:

Mr Footman

1. Minutes

The minutes of the meeting held on 4 November 2016 were approved.

2. Matters Arising

Mr Broadbent said that the Bank had received a public enquiry about the presence of animal-derived products in polymer banknotes and had followed up with suppliers to obtain an answer. This revealed that traces of tallow were used in the manufacture of the substrate used to make polymer notes. The issue had prompted a petition which had gathered momentum on social media. The Bank was taking these concerns seriously and investigating potential solutions with suppliers.

3. Report from ARCO

(Mr Pereira)

Mr Fried said that ARCO was closely monitoring the new Asset Purchase Facility, as corporate bond purchases had stretched the Bank's systems capacity. There had thus far been a relatively

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low level of incidents and no significant operational risk issues had materialised. ARCO had also examined Collateral Management in relation to post default planning. An enhanced default test was planned involving the key executives and based on a real life scenario, with the aim of testing reaction functions. Dame Minouche Shafik confirmed that the test had started.

ARCO had taken reports at its latest meeting on the Bank's cyber awareness and risk management practices; and also on physical security.

Finally ARCO had discussed the NAO's proposal for its first value for money audit of the Bank, which was now before Court. The Committee had been struck by the very broad scope of the exercise.

4. Consultation – Proposed NAO Value for Money Study

(Sir Amyas Morse and Peter Gray, NAO, Mr Pereira)

Mr Gray said that the NAO proposed to conduct a study of the Bank's 2014 Strategic Plan, which had introduced the "One Bank" concept to make the different parts of the Bank – including the PRA – work more effectively together. It would look at the intentions, the success of the 15 individual change initiatives within the Plan, the metrics and progress monitoring, and the outcomes. The work would be done in January and February with the aim of having a discussion of the preliminary conclusions in March, before the writing of a report: the aim would then be to publish in June. Sir Amyas Morse added that following publication, the Public Accounts Committee was likely to hold a hearing, and possibly the Treasury Committee as well. He hoped that the Report would provide a basis for understanding how much had been achieved and how far the changes had permeated through the organisation. It would be forward looking, but would necessarily consider the starting point and how far the goals had been achieved. In response to questions he suggested that the Report might give insights into issues of governance as they related to strategic plan implementation, and in areas such as research and analytics the NAO could bring insights from its broader work across the public sector. In response to a question from Mr Woods, Mr Gray said that in looking at the PRA's integration with the Bank the NAO would be looking at both hard and soft metrics.

The Governor commented that the Bank's planning cycle was beginning afresh, with a new plan likely to be adopted from the beginning of March. The findings would therefore be of

particular interest to Court. Sir Jon Cunliffe thought that the proposed timetable might be compressed for a report of the breadth proposed; Mr Gray said that the aim was to give maximum value to the Bank as it developed the next plan. Mr Habgood said that given the Court's programme of meetings, a discussion of progress with the Court on 7 February, and then a fuller discussion in late March would be appropriate to the proposed timetable; this would be supplemented by presentations to the Executive as required.

5. **Investigations**

(Sonya Branch and Jenny Scott)

Ms Branch updated Court on the current investigations.

6. **Insurance conclusions**

(Lea Paterson, David Rule and Sarah Ashley)

Court discussed the main themes emerging from the IEO review of the PRA's approach to its Insurance Objective: "to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders". Ms Paterson said that more work was needed to emphasise the prudential (safety and soundness) aspect so as to avoid inadvertent overreach into the responsibilities of the FCA; and the PRA should consider what it regarded as an "appropriate" degree of protection for different types of policyholder. In addition the PRA had been clear in its approach document that it was not operating a zero failure regime, but there was a lack of clarity among supervisors about how this applied to insurance, in relation to run-off in particular. Giving clarity on these questions would be helpful in itself, and might also enable a more efficient use of resources within the PRA.

Mr Woods said that these were all good points and the IEO's report was likely to prompt some debate in the PRA Board.

Ms Paterson said that the report, and the final report from the FMI review (with a management response) would both be presented to Court in February.

7. **IEO Forward Planner and Scoping Paper for SMF**

(Lea Paterson, Kate Stratford)

Court confirmed that it was content for the two IEO projects for 2017 to be (1) a broad assessment of the Bank's approach to providing sterling liquidity and (2) the Bank's resolution function. Ms Paterson said that the terms of reference for the latter would be presented at February's Court. For the sterling liquidity review the project would consider the changes introduced in recent years – and particularly since the 2012 Winters Review – and assess whether they were on course; it would also review the governance of the sterling market framework and the “second line of defence” and enhanced compliance regime that had been put in place in the Markets area.

8. **Report on Foreign Exchange Flash Crash**

(Chris Salmon and Rebecca Jackson)

Court discussed an analysis of the 7 October event during which sterling fell in the space of 20 minutes by 9% against the dollar before largely retracing the move. Mr Salmon said that this was the latest in a series of market events in which dramatic price changes took place against a background of weaker market liquidity. In this case the moves happened in thin Asian trading and were amplified by a variety of factors including options-related hedging flows, the execution of stop-loss orders and inexperienced trading staff outside sterling's core time-zone. The event was to be discussed by the Governors at the January Basel meeting.

9. **RTGS Strategic Plan**

(Andrew Hauser, John Jackson and Will Lovell)

Mr Hauser said that since Court's last discussion in May, a consultation on the next RTGS had taken place and responses indicated strong support for the Bank's proposals. The Bank now proposed to publish a high-level vision for the new RTGS system, and to commit to redevelop the platform. Detailed costings would not be available before the end of 2017/18 financial year. The intention was to keep firm in-house control of the build but to bring in external expertise as necessary including a project manager and to ensure that users were brought into the process from the start. A progress report would be brought to the next Court.

10. (a) **Succession Planning**

(Jo Place)

Court discussed the succession grid and the talent pipeline. Ms Place said that in addition to Govco's role in identifying candidates for DG and ED posts, a Directors' talent group had been formed to identify and sponsor candidates for Head of Division roles. Diversity data was closely tracked and it was encouraging that turnover rates for ethnic minority groups had slowed.

(b) **ED Appointments**

(Jo Place)

Court APPROVED the appointment of Rommel Pereira to the position of Executive Director, Finance and of Rob Elsey to the position of Executive Director, Chief Information Officer; and on a recommendation from Remco approved remuneration for both.

11. **Strategy Plan Outline**

(Jo Place, Emma Murphy and Jonathan Curtiss)

Ms Murphy said that the main themes of the second strategic plan were: (1) improving how we prioritise; (2) improving how we work; and (3) improving how we communicate. On communication the aim was to deliver a "layered" approach that would meet the needs of specialists and a broader non-expert audience. This would build on the Bank's investment in social media and on the planned new website. Organisational change and new ways of working would respond to need for more flexible working in a fast changing environment, with more cross-bank working and collaboration. Finally, the Bank would set out more clearly what it offered its staff in terms of environment, career and reward.

In response to questions Ms Hogg confirmed that key projects from the 2014 strategic plan would continue, including the One-Bank data programme, the cyber risk strategy, and further development of the Research Hub.

Mr Habgood commented that Executive Directors often claimed to be unable to cut out existing products or functions to compensate for new demands. Ms Murphy said that different organisation structures could make this easier – as the recent changes in FSSR demonstrated.

Mr Robert thought that an inventory of things to stop could be assembled from a simple spans and layers exercise.

12. **Budget Preview**

(Rommel Pereira and Simon Chisholm)

Mr Pereira said that the pressures from additional costs, including EU and APF related, had put at risk the commitment to restrict nominal spending growth to 1.5%pa, but the budget would adhere to the target and additional savings of £20mn would be sought in the coming year. This would require rationalisation across direct expenditure, staff costs and the IT estate. Pension cost volatility had been excluded for the purpose of this budget but would affect the profit and loss account.

13. (a) **Portfolio Update - Projects**

(Jonathan Curtiss and Rob Elsey)

Mr Curtiss summarised progress on the project portfolio. Expenditure in 2016/17 would be £75mn; 20 projects had closed and 36 were continuing with 11 more added during the year. The 2017/18 portfolio had been agreed.

(b) **Structural Reform Tranche 4 Submission**

(Jonathan Curtiss, Rob Elsey and Lyndon Nelson)

Court approved £16.7mn Tranche 4 funding for the Structural Reform Programme.

14. **One Bank Data Architecture**

(Jonathan Curtiss, Rob Elsey and Oliver Burrows)

Court supported a proposal to restructure the data programme, and a ceiling for investment spend of £7.5mn for 2017/18. This would enable the programme to complete the core infrastructure and to provide the means for datasets to be moved onto it. Business areas – principally SRDD – would lead data projects that used the core infrastructure.

15. (a) **Annual Review of redactions to published Court Minutes**

Court reviewed the Court minutes for 2014 and agreed to publish a number of passages that had previously been withheld under paragraph 12A(3) of Schedule 1 of the 1998 Bank of England Act.

(b) **Codes of Conduct for FPC, MPC and PRC**

Following a consultation with the Treasury, and under provisions in Schedules 2A, 3 and 6A of the 1998 Bank of England Act, Court APPROVED Conflicts Codes of Conduct for the three policy committees.

16. **Items for Information**

Court noted:

- MPC Report to Court
- FPC Report to Court
- Pensions briefing

The meeting of Court was closed.