

MEETING OF THE COURT OF DIRECTORS

Wednesday, 13 July 2016

Present:

Anthony Habgood, Chairman

The Governor (items 1-9)

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 Prentis

Mr Robert

Ms Thompson

Ms Hogg, Chief Operating Officer

Secretary:

Mr Footman

The Chairman welcomed Mr Woods to Court following his appointment as Deputy Governor for Prudential Regulation. He also noted that following coming into force of the new statutory provisions Minouche Shafik had become a full member of Court.

1. Minutes

(i) The Minutes of the meeting held on 25 May were approved.

(ii) Court APPROVED the publication, alongside the May 2016 minutes, of previously redacted sections of the minutes from April 2016 relating to the EU Referendum.

2. Appointments

Court APPROVED the appointment of Rommel Pereira, formerly CFO of the Financial Services Compensation Scheme, as Finance Director on an interim basis, succeeding Ralph Coates.

By written procedure on 4 July Court APPROVED the appointment of Victoria Saporta as Executive Director for Prudential Policy.

3. **The National Audit Office**

(Sir Amyas Morse and Nick Bateson)

Following the coming into force of the Bank of England and Financial Services Act, Sir Amyas Morse, the Comptroller and Auditor General (CAG), spoke about the NAO's role in the Bank and its plans for engagement.

The CAG said that the role of the NAO was to help Parliament hold the Executive to account and improve public services. The NAO was independent from the Executive, funded by Parliament and responsible to the Parliamentary Accounts Commission, and it audited virtually the whole of Government. It reported to the Committee of Public Accounts on the economy, efficiency and effectiveness with which Departments had used their resources. In deciding where and what to examine the CAG was entirely independent: in response to a question from Mr Prentis he said that people, including the PAC, could make suggestions, and he would take account of those (and of letters from MPs and whistleblowers), but retained complete discretion as to how to proceed.

A memorandum of understanding had been agreed outlining how the NAO expect to carry out its value for money examinations. Within the Bank, the NAO intended initially to consult Court about a review of the "One Bank" integration of the Bank and the PRA. He was proposing to examine how the two bodies had combined systems, skills and culture and with what results; and he might want to do that more than once. The NAO had done such reviews of transformational change for government and felt that their experience could add value to the Bank.

In relation to the NAO's financial audit role Sir Amyas said that he expected little difficulty. There might be occasions when the NAO would wish to discuss aspects of the audit directly with the Bank's appointed auditor.

Mr Fried asked whether the value to the Bank of the VFM studies would lie in access to retrospective external data, and whether in that case there was an external public sector benchmark. The CAG said that typically a review of a transformation project was forward-looking, considering whether foundations were being put in place that would support achievement of the organisation's goals. He could not offer value just by commenting on the

past. But the NAO would have examples from government and indeed from its own organisation to share. In response to a question from Mr Frost about the frequency of reports, The CAG said that there would have to be some flexibility but on average he would assume one per year. Mr Prentis asked what would happen if the Bank did not follow a particular recommendation. The CAG said that there were no direct powers. However reports were published and the PAC could make recommendations to government, so there would be some degree of pressure. But between a sophisticated client and the NAO there tended to be a dialogue on recommendations and responses. Mr Robert asked about the mechanics of a review – desk exercise or field work – and the CAG said it would vary but that certainly in relation to the proposed review, which was about cultural change, a lot of contact would be required.

In response to a question from Ms Thompson the CAG said that a typical report would take six months to complete. Dame Minouche Shafik noted that the Bank would be working on its second strategic plan over the coming year and so there could be issues of synchronisation. Sir Amyas said that this was not an unusual situation and plans were often changed while reviews were in progress. At this stage no start date had been agreed for the first review. Sir Jon Cunliffe asked whether the CAG saw information flows as part of the “One Bank” study. The CAG said that he had yet to design the study but thought it would be right to ask whether information systems were coming together and to what effect.

The Chairman and Governor thanked the CAG for his presentation and noted that the next step would be for Court to be consulted about the scope of the proposed study.

4. **Report from Remco**

Baroness Harding noted that Remco had agreed remuneration for Ms Saporta on her appointment as Executive Director for Prudential Policy. This would be in line with other Executive Directors.

5. **Report from ARCo**

Mr Fried said that the ARCo had met on 4 July and reviewed the outcome of the immediate post referendum contingency planning exercise. The Committee had seen this as a successful project and had congratulated those involved.

The Committee had been briefed on the prioritisation exercise now in train to refocus the Bank's resources in the light of the additional work that would be required to deliver Brexit.

The Committee had again reviewed the latest financial and operational risk reports, and further international responses to the theft from the Bangladesh Bank.

6. EU Referendum

The Governor said that, as Court knew, in the run-up to the Referendum the Bank had taken all necessary steps to identify and communicate risks to its objectives. During October 2015 the Bank had set out what EU membership meant for its ability to meet its remits. More recently, the risks to financial stability from a leave vote had been set out in the context of the FPC's March 2016 meeting, and the May Inflation Report had discussed the risks to the outlook including the possible implications for monetary policy of a vote to leave the EU. The Bank had observed *purdah* but carried on business as usual.

The FSR on 5 July had mapped the risks that had materialised and some of those which had not; there was clear evidence of market fragility. As expected some real estate open ended investment companies had been gated, but for the system as a whole we were comfortable about exposures to commercial real estate. The MPC would follow with an initial assessment on 14 July (when the minutes are released), and a fuller assessment complete with a new forecast in the Inflation Report on 4 August.

The process that the Bank had followed regarding both the financial stability and monetary policy implications associated with the referendum had been right: to maintain trust the Bank must be as transparent as possible both about its policies and about the risks to them.

On the day, the financial system was well prepared to withstand the stress. Capital requirements of the UK's largest banks were ten times higher than before the crisis. The Bank had run stress tests in 2014 against a housing shock, and in 2015 against an external shock, both with scenarios far more severe than presented by the leave vote. UK banks now have more than £600bn of high quality liquid assets, four times the pre-2008 crisis level. As a backstop, and to support the functioning of markets, the Bank stood ready to provide more than £250bn of additional funds through its normal facilities. The Bank established through supervisory

contacts that the banks had limited their currency exposures ahead of the vote. So on the morning of 24 June the financial system was in a strong position: despite extremely high volumes, markets remained orderly, institutions used the Bank's facilities as expected and banks remained resilient in the face of uncertainty.

The Bank communicated that it expected institutions to draw on liquidity facilities as and when appropriate, and to draw on their own resources to provide credit, support markets and generally supply financial services to the real economy. In support of that, the FPC cut UK banks' counter-cyclical capital buffer to zero: this was worth £150bn of lending capacity.

In the meantime, to contain uncertainty and to support the UK negotiating position, the Bank had been very clear that nothing in financial regulation had changed as a result of the referendum (the UK remains a member of the EU, the law is the law, and rules are rules).

Sir Jon Cunliffe said that it was not clear that we had seen the end of shocks to the financial system. In previous episodes, it had taken time for shocks to fully unfold. So contingency planning was still required. In addition, although the terms of exit were uncertain, the Bank would need to consider the possible implications for the regulatory system and how to maintain its influence in the EU while the UK was still a member. In the light of this, there had been some initial work on resources and reprioritisation. The Bank would also need to consider how to provide reassurance to the 8% of Bank staff who were non-UK EU nationals.

Mr Habgood and the non-executive directors – some of whom had observed many of the relevant policy committee meetings - commented that the Bank had done an outstanding job in very difficult circumstances. The Bank's public statements before the Referendum had been grounded in discussions in the three independent policy committees, and the contingency planning had been comprehensive and effective. The Bank's profile had been unusually high, and that had attracted some criticism, but it was not considered realistic or appropriate that it should have said less ahead of the vote; and it could not have done more to reassure markets and the public at large afterwards. Directors noted that the Committees had been observed to have had discussions about appropriate policy reactions to emerging economic conditions; these would continue to develop as the data became clearer.

7. **Investigations**

(Sonya Branch)

Ms Branch updated Court on the progress of the LIBOR trials and other investigations.

8. **PRA Board Awayday**

Mr Woods briefed Court on the PRA Board Awayday on 12 July. The main purpose had been to plan the transition to the Prudential Regulation Committee, following the coming into force of the relevant clauses of the Bank of England and Financial Services Act later in the year. He had taken the opportunity to outline his own priorities as new CEO: these included to make sure that supervisors were not distracted from prudential regulation by the work on Brexit or by a sense that the post-crisis work was somehow at an end and that they could relax on resilience and supervision. Personally he intended to find ways to delegate more responsibility while maintaining, under the PRC, a strong central control on policy.

The PRA Board had agreed in outline the terms of reference of the new Committee and a delegation structure which would be similar to the PRA Board's, though with much less focus on management and resources. The Governor added that the intention of the change had been to establish the PRC as a policy committee, equal in status to the MPC and the FPC, rather than a company board. The PRA would be a part of the Bank, and the Court would set its budget; though the PRC would have to adopt the budget and provide to the Chancellor assurance that the PRA's resources were adequate.

9. **Staff Survey Viewpoint Results**

(Joanna Place, David Bailey, Victoria Cleland, Gareth Ramsay, Martin Stewart and Simon Shellard)

Court reviewed the latest viewpoint survey, which had been completed by 78% of staff. Relative to the previous survey the results were very much improved, reflecting the actions that Court had endorsed a year previously. Out of the 39 questions, responses to 26 improved significantly and only one declined significantly. The decline was in "intention to stay for more than 5 years". Directors welcomed the results and especially the widespread acceptance that the Bank encouraged staff to "speak up". But they noted that the Bank was in many respects below the "UK Norm" benchmark and suggested focus on the areas where there remained a significant divergence.

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10. **HR Update**

(Joanna Place)

Ms Place said that 2015/16 had seen numerous initiatives coming to fruition, including introduction of the Central Bank Qualification. A particular focus now was to strengthen management and leadership across the organisation, which would be particularly important given the changes that would be required to deliver Brexit. As part of that she would explore options for reducing layering and increasing management spans of control. Mr Habgood commented that the most important aspect of organisational design, at a time when the environment was uncertain and new requirements likely to come at short notice, should be agility.

11. **Strategic Plan Performance Evaluation Overview Report**

(Emma Murphy and Katie Matthews)

Court noted the latest evaluation. There had been progress on all metrics and the plan would complete in early 2017. Work on the next strategic plan was under way. Court was concerned that progress on this should not be delayed by separate work on Brexit, rather it should incorporate Brexit as “business as usual”.

12. **Quarterly Financial Review**

(Angela Durnin)

Court noted the financial review for the first quarter of 2016/17. Both income and costs were slightly below budget; net earnings were £51mn. The balance sheet increased by £2bn reflecting ILTR operations; and the off-balance sheet FLS increased by £1.7bn with new drawings ahead of the scheme deadline.

13. **FEMR Implementation Report**

Dame Minouche Shafik noted the achievements of the FEMR project one year on. The SMR had been extended to FICC entities; regulatory references were under consultation; the FICC market standards board had been created; and a single global FX code had been introduced. Brexit introduced a new challenge – much of the market abuse regime was founded in EU law. To aid the early identification of future problems a joint Bank/FCA team had been formed.

14. **Enforcement Decision Making Consultation paper**

(Sonya Branch, Rob Dedman and Gaucho Rasmussen)

Ms Branch reminded Court of the Treasury's 2014 recommendation that the PRA establish an independent decision making committee ("EDMC") for contested enforcement cases – that is, cases not resolved by way of settlement. It was proposed to create such a committee for the whole Bank, as enforcement powers were potentially exercised in areas outside the PRA – FMI, Resolution and Scottish and Northern Ireland bank notes. The Bank would delegate decision-taking authority to the EDMC, and the EDMC would be responsible to Court for the way it carried out its functions. The legislation required a public consultation. Court AGREED that the Bank should issue a consultation paper and delegated final sign-off to the General Counsel.

15. **FPC discussion**

(Nikki Anderson)

Ms Anderson noted the period of uncertainty and adjustment following the referendum and further market volatility was to be expected as the process unfolded. Vulnerabilities included the current account deficit and there were signs that capital inflows were slowing. The UK commercial property market had slowed and funds values had fallen with some suspensions of redemptions. However the UK financial system was resilient with substantial capital and liquidity buffers; the FPC expected these to be used so that banks could continue to meet loan demand. Consistent with that, the FPC had cut the Countercyclical capital buffer to 0% .

16. **Papers for Information**

Court noted:

- IEO update
- Annual Report and Accounts Committee minutes
- E-mail backup access protocol

The meeting of Court was closed.