

MEETING OF THE COURT OF DIRECTORS

Wednesday, 25 May 2016

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 – Senior Independent Director

Mr Frost

Baroness Harding

Mr Prentis

Mr Robert

Ms Thompson

Ms Hogg, Chief Operating Officer

Dame Minouche Shafik, Deputy Governor – Markets & Banking

Secretary:

Mr Footman

1. Minutes

The minutes from the meeting held on 28 April were approved.

2. Matters Arising

Further to the discussion on 28 April, the Chairman welcomed the clarity of the May Inflation Report (published 12 May). The presentation of the MPC's objective analysis of the risks around the period of the referendum had in the view of all members of Court been consistent with the Bank's responsibilities for monetary and financial stability, with its commitment to transparency, and with its own guidance for communications in the run-up to the referendum.

Ms Branch advised Court that a letter had been received from the Electoral Commission informing the Bank of the rules for campaigning and campaign funding during the referendum. The Bank would respond to make clear that it had not campaigned for any outcome in the Referendum and would not do so. Publications and statements by the Bank and its officials relating to the United Kingdom's continued membership of the European Union had been wholly limited to issues within the Bank's statutory remit, and there were as the Bank had

acknowledged many issues outside its remit that would be relevant to the decision of the British people in the Referendum.

3. Appointments, and recommendations from RemCo

Court approved the following Executive Director appointments:

- David Rule as ED Insurance, in succession to Sam Woods
- Sarah Breeden as ED International Banks, in succession to Megan Butler.

Court agreed to recommendations from Remco in relation to salaries.

4. Report from ARCo

Mr Fried said that ARCO had completed its review of the Bank's accounts. There were no material issues either in the accounts or in the audits (by KPMG and the NAO).

ARCO had received further analysis on the hacking incident at the Bank of Bangladesh, and related incidents; and had also reviewed the steps being taken in the Bank and internationally to protect access to the Swift system.

5. Annual Report and Accounts

(Ralph Coates, Chris Peacock and Emma Murphy)

(i) Annual Report

Directors made a number of comments on the text of the annual report and the reports from Committees.

(ii) Annual Accounts

Mr Coates said that the presentation of the income statement had been improved so as to better illustrate the gross expenditure incurred by the Bank and subsequently recovered from the PRA. The change prepared the way for the forthcoming de-subsidiarisation of the PRA. The only significant accounting change related to the Bank's investment in the BIS which would now be shown on a net asset value basis. This would result in an increase in the valuation of £819mn.

(iii) Letter of Representation

Court approved the proposed letter of representation to the auditors, subject to any change before signing the accounts.

(iv) Dividend

Court approved a full year dividend of £104.5mn, being 50% of the Bank's post-tax profit, so that the final balance payable to HMT in October would be £53.5mn.

Court delegated final sign off of the Report and Accounts to the Report and Accounts Committee.

6. Bank of England Asset Purchase Facility Fund (BEAPFF) Annual Report

(Ralph Coates)

Court noted the accounts of BEAPFF. The net indemnity position showed an amount payable to HM Treasury of £39.3bn (2015: £29.1bn). The increase reflected a fair value adjustment on gilt holdings, partly offset by cash transfers to HMT of £8.5bn.

It was noted that following passage of the Bank of England and Financial Services Act 2016, the accounts of BEAPFF would in future be audited by the NAO. The net indemnity was mirrored in the Treasury accounts.

The accounts would be published in July, on the same day as the Treasury would publish its own accounts.

7. PRA Annual Report and Accounts

(Ralph Coates and Clair Mills)

Court noted the PRA annual accounts, which had been approved by the PRA Board and would be signed off by the Report and Accounts Committee. The accounts had been prepared on a break-up rather than going concern basis as the undertaking would transfer to the Bank under the provisions of the new Act.

The Report included the text of the PRA's strategy as determined by the Board. Court was content with the strategy.

8. Competition Annual Report

(Lea Paterson, Paul Grout, Katharine Neiss and Stephen Dickinson)

Mr Dickenson presented the PRA's first annual Competition Report, intended for publication at the same time as the PRA's Annual Report. It covered two main themes – how the PRA interpreted the Secondary Competition Objective (2CP), and how it was implementing it. Over time the first part would become smaller and the second part bigger. The first report took account in particular of the IEO evaluation. Mr Dickenson noted that three separate related projects had been started in the Bank's research hub.

Baroness Harding noted the distinction made in Mr Bailey's foreword between stable and unstable competition. Mr Bailey agreed that this was important: there were many examples of unstable competition that had undermined the work of prudential regulators. Stable competition, on the other hand, was entirely consistent both with the PRA's safety and soundness objective and with the related objective of ensuring orderly failure.

Mr Robert asked about the role of the PRA's external advisers. Professor Grout said that as an external adviser his role was to provide challenge and to ask awkward questions.

Mr Dickenson added that Professor Grout was additionally leading one of the Research hub initiatives, injecting support from the University of Bristol.

9. FPC Effectiveness survey

(Kathy McCarthy)

Further to the discussion on 28 April, Ms McCarthy reported the main findings of the Chairman's interviews with the FPC external members, conducted as part of Court's responsibility to keep under review the processes of the FPC. The overall message was very positive and the external members thought that substantial progress had been made over the past year. In particular, they noted the improvement in staff support under the new ED. The dynamics of FPC meetings were now good with plenty of scope for challenge.

10. Investigations

(Sonya Branch)

Ms Branch updated the Court on the progress of investigations.

11. EU Referendum

Sir Jon Cunliffe gave an update on the Bank's contingency planning and summarised recent market movements influenced by the possibility of a vote to leave the EU. Within the Bank there was close monitoring of market participants and regulated firms. Supervisors were asking about firms' own assessment of the risks, and were analysing potential funding and liquidity risks. The Bank had announced additional liquidity auctions in the period around the referendum and had in place currency swap lines with the major central banks, including the ECB. The Bank would run regular US dollar repo operations. Playbooks were being drawn up area by area to cover monitoring, possible decisions needed and the governance around them, international liaison, communications, IT and staffing.

12. Fintech

(Andrew Hauser, Ed Kelsey and John Jackson)

Ms Hogg outlined the range of work taking place in the Bank. It focussed particularly on payments (domestic and cross-border), but advances in Fintech enabled much else including enhanced verification methods, data visualisation and better regulation. Mr Hauser added that there was clearly much scope for improvement in payments, and for the Bank to play a role. There were many payment providers who were not banks, and could access the main payment systems only through banks – since only banks had settlement accounts at the Bank of England. That could change, though if the Bank were to offer settlement accounts outside the banking system the new members would have to accept supervision as banks and new statutory provisions would be needed. These and other issues would be touched on in the Mansion House speech on 16 June. The Bank would also announce a Fintech Accelerator to work with technology firms to help harness innovations.

13. Banking and Markets Report – RTGS Strategy Review

(Andrew Hauser, Ed Kelsey and John Jackson)

Mr Hauser updated Court on the RTGS review. The public consultation had been launched in January and would close in September, and the team were talking to key players already and assembling a panel of senior experts to act as a challenge group. The key issues for RTGS were access, reliability and safety, and the interaction with the settlement systems.

14. Portfolio Update – Projects

(Jonathan Curtiss and Rob Elsey)

Mr Curtiss summarised the progress made in delivering major projects in 2015/16 and the plans for the current year. There had been many successes but at the same times lessons were being learned about project delivery and in particular the transition to live running. He focussed particularly on the One Bank Data Architecture programme, one of the strategic plan initiatives. This would ensure that all data collected by the Bank would be stored and managed in a consistent way using standard tools. This would transform the way the organisation used data. He sought Court's approval for the £5.3mn phase 1 costs (out of a likely £18-22mn over the next three years).

Mr Robert noted that many of the non-executives on Court bore the scars of such projects in their own firms and he would welcome a fuller presentation with more information about the risks and the project enablers. Other Directors indicated that they would like to understand more both about issues that had arisen with earlier projects (for example, to see some project implementation reviews) and to be given more reassurance about the work that had already been done to define OBDA. While in principle there was sympathy for the move towards ODBA, and a desire to see the project progress, it was thought premature to approve the whole project as specified, and premature also to mandate OBDA as the default data solution at the present time. It was however recognised that the goal should continue to be to rationalise data collection into a single architecture, and a further report was requested after the summer.

15. Email backup

Court noted the completion of the Email backup project. As part of the implementation management would reinforce the importance of the Bank's existing record management approach, as back-ups were by their nature costly and challenging to access and could not be relied upon as an alternative.

16. Inflation Report discussion

(Andy Haldane)

Mr Haldane explained that the outlook for inflation was, in most respects, similar to that described in the previous Inflation Report. But with macroeconomic and financial indicators likely to be less informative than usual in light of the referendum, there was a risk that the MPC could be over- or under-estimating underlying momentum in the economy in the event of a vote to remain in the EU. Were the UK to vote to leave the EU, recent behaviour in FX markets suggested that sterling would depreciate further, which would push up import prices and thereby inflation. A lower exchange rate would also raise the cost of imported capital goods, which could weigh on investment. Uncertainty could weigh on aggregate demand – some indicators suggested that uncertainty was already affecting investment. Supply growth was also likely to be lower. These influences could lead to a materially lower path for growth and a notably higher path for inflation than indicated by the central projections.

17. Any other business

Court expressed its appreciation of Mr Bailey's long service to the Bank and particularly his role in creating the PRA, and wished him well in his new role. Court also thanked Mr Coates for his work as finance director of the Bank.

18. Papers for Information

Court noted papers on Annual Report S&NI Banknotes and Market Abuse Regulation (MOU).

The meeting of Court was closed.