

MEETINGS OF THE COURT OF DIRECTORS

PUBLISHED MINUTES APRIL 2013-DECEMBER 2013

Since April 2013 Court has been required by Paragraph 12 of Schedule 1 of the Bank of England Act to publish minutes of its meetings. The Act also provides that Court may withhold information from publication where this would in its opinion be against the public interest. Material has been withheld from publication under this provision and, absent further action by the Court, would not enter the public domain until normal archive release after 20 years. However at its meeting in December 2015, Court adopted a process for keeping past redactions under review, starting with 2013. Court decided that a number of items withheld in 2013 should no longer be withheld and these are reproduced below, with context where necessary. A further review, of items redacted in 2014, would be undertaken December 2016.

At the same time, the Oversight Committee agreed to release its minute of 10 April 2015 relating to the Forecast Evaluation, which has now been published.

Text in *italics* has already been published.

Wednesday, 10 April 2013

Chairman's Business

The Chairman said that further candidates for the COO role had now been interviewed. It was unlikely that an appointment would be made in time for the successful candidate (if external) to start before July. It was also unlikely that a new Finance Director would be appointed before Warwick Jones retired at the end of June, but Mr Jones was confident that his Deputy could take over in the interim.

Executive Report

Mr Tucker noted that there would also be a new remit (or "Recommendations") from the Treasury to the FPC. Two elements were noteworthy in the present draft: first, a tilting of the objectives towards the (secondary) growth objective, and second, a requirement to take account of the implications of FPC policies for public funds (reflecting Treasury concerns not to subscribe new capital to the publicly owned banks).

Mr Tucker said that internationally one main focus was on finalising the EU resolution directive. He summarised EU/US discussions on OTC derivative markets which were revealing faultlines in the regulation of securities markets.

Monetary Policy Strategy

Court agreed the monetary policy strategy, Mr Bean confirmed that the omission of reference to polymer banknotes was intentional.

Combined Quarterly Reports

(Mr Jones, Ms Brown and Mr Fisher in attendance)

Mr Jones drew Court's attention to the two high-profile projects that would shortly come to Court for approvaland the Desktop Replacement Project, which was required to move the Bank away from Windows XP. The latter had had a troubled start, partly because of an over-ambitious menu of changes, and following intervention by the Executive Team would now be cut back to basics.

Balance Sheet Remit

(Messrs Jones and Fisher in attendance)

Court endorsed the approval by the Governors of the Balance sheet remit, which governs the basis on which the executive manage the Bank's balance sheet. It was agreed that minutes of the (executive) Operations Committee would be provided to the Court Oversight Committee.

Draft Annual Report

(Mr Jones in attendance)

Mr Jones noted that the Accounts were likely to show an onerous lease provision of £24mn, reflecting the Bank's assumption of the unused space at Canary Wharf formerly occupied by the FSA, unless tenants could be found. Negotiations with several possible tenants were in train.

Thursday, 16 May 2013**Matters Arising**

The Chairman said that a good candidate for the COO role had been identified but the likely start date would be August at best, more likely September. The Finance Director role would be advertised in the next few weeks.

The Treasury were thought to be making some progress towards advertising the vacant NED role for Court. A list of potential candidates, mainly female, had been sent to the Treasury.

Executive Report

The Governor said that the new Churchill £5, for issue in 2016, had been well received, although the Bank had received notice of a legal challenge on the grounds that the decision to replace Elizabeth Fry with Sir Winston Churchill on the £5 contravened Equal Opportunities legislation. The Bank saw the claim as wholly misconceived.

Audit and Risk Committee Report

ARCO had again reviewed possible contractual arrangements with the providers of polymer substrate for banknotes, and was now relatively comfortable with the arrangements and safeguards proposed.

Mr Jones said that Court was being asked to approve the Report and Accounts subject to final sign off by a Report and Accounts Committee scheduled for 28 May, so that they could be published on 4 June. There were likely to be some minor updates ahead of the Committee, but the papers before Court were substantively complete. The PRA accounts were not formally part of the Bank's accounts but would be published alongside them.

Risk and Compliance Report (Turnbull)

(Mr Jones in attendance)

Directors briefly discussed the attestations by Executive Directors in relation to risks in their area, and the practice of some to provide a narrative as well as confirmation that there were no unreported events and risks. Some Directors said that there should be a documented process for reaching that confirmation and that it should be audited. Directors also asked to see attendance records of Executive Directors at the Business Risk Committee.

Wednesday, 17 July 2013**Executive Report**

Mr Bean said the work on thresholds had been in train for some time, with preliminary analysis completed and intensive discussions currently taking place: the Chancellor's deadline would be met. One slight issue was that if the MPC decided to implement forward guidance in a more structured way after its next meeting, the justification might not be available until the Inflation Report was published. Given this, the MPC had decided that if anything was implemented in

August, it would not be announced until after publication of the Inflation Report so that any questions could be answered then.

Ms Hogg noted that the Treasury Secretary's letter on the value for money exercise suggested the Bank needed to be tighter on efficiencies in the Central Services and IT areas. The Governor said that while the scope of the value for money review proposed by the Treasury Secretary was restricted to functions covered by CRDs, consideration was being given to extending it beyond that reflecting the Bank's medium-term strategy. The strategic review itself would probably involve the use of external consultants.

Wednesday, 25 September 2013

Matters Reserved to Court (Mr Nicholson in attendance)

The proposed amendments were agreed. However the Court decided that the MRC document should give significantly more prominence to the FMI Board which, although not a Court Committee, was exercising the Bank's statutory powers in a significant area. It was important that this Committee was visible to the outside world. Similar considerations might apply to Resco.

Terms of Reference for Strategic Plan

Ms Hogg advised Court that the executive were in the final stages of commissioning external advisers for the Strategic Plan and for the VFM review. The latter was likely to involve Deloitte and would be focussed initially on the Central Services area, which accounted for £180mn of the Bank's £500 mn budget. The target would be a 10% cost saving. This was likely to involve some job losses.

Mr Frost asked why the policy areas were not within the scope of the VFM review. Ms Hogg said that the commitment given to the Treasury at the time of the CRD review had specifically referred to central costs, especially IT, across the whole Bank including the PRA. The Governor added that as part of the strategic plan there was likely to be some reallocation of roles in the policy areas and that was likely to have some budget implications.

Thursday, 14 November 2013

Terms of Reference for VFM/Strategic Plan

.... *The VFM study, meanwhile, was to identify the potential for savings that could be channelled into investment. Already it had identified significant savings in central services and related areas. The Governor added that Court would have an opportunity to review the full emerging plans in January, when a special meeting had been arranged.*

Directors commented on the role of the Executive Directors, not all of whom were on the working group. The Governor and Ms Hogg said that they had many opportunities to engage with the process and were expected to participate fully and own the product. There was no sense in which the strategic plan was being set by the Governor. Ms Hogg said that the EDs were involved through the weekly EDCo meetings, although finding time for more extended discussions was hard: Sir Roger Carr thought that there would be value in having such a discussion so as to fully engage the group.

Wednesday, 11 December 2013

Executive Report

Value for Money

The VFM study was essentially complete with estimated run rate savings of £11mn (2014/15 £9mn) that would be reflected in budgets.

Combined Quarterly Reports

(Messrs Coates, Fisher, Hunt and Ms Coffey in attendance)

Mr Coates summarised the financial report:The Bank needed to recruit on a larger scale than it was used to. In relation to insurance shortfalls he and Julian Adams had gone to the industry looking for secondees. One Director commented that the PRA might need to pay more to get suitable staff – the levy-payers were unlikely to object if the cost increased provided this was reflected in quality of supervision.

EXTRACT OF OVERSIGHT COMMITTEE MINUTES

Friday, 10 April 2015

Forecast Evaluation Work

(Ms Paterson, Mr Ramsey and Ms Roberts in attendance)

Ms Paterson summarised the main findings of the Independent Evaluation Office's evaluation of the Bank's macroeconomic forecasting record, and outlined the context within which the results should be considered. In some areas the sample period was shorter than ideal, which meant the need for caution in drawing strong conclusions, and the exercise was an evaluation of past forecasting performance. Since then, the Bank had changed a number of its forecasting practices, though it was too soon to know the impact of those changes.

On the findings, a fair amount was good - for example, the performance of the Bank's GDP forecasts and the Bank's shorter-term inflation forecasts. There was scope for improvement in the unemployment forecast where Bank forecasts had typically been too high, although there was tentative evidence of some improvement in accuracy in the most recent period. There had also been an apparent deterioration in the Bank's forecasting record since the financial crisis, although this covered a very short period.

Main recommendations were that more systematic use be made of alternative modelling approaches, including doing more to incorporate insights from simple statistical models in the main forecasting process; and that more routine reporting of forecast performance should be introduced.

Mr Broadbent said he was supportive of the central recommendation to include extra information other than the structural economic model. He had more reservations about drawing firm conclusions about the post-crisis forecasts because it was a noisy period and the data sample was small. The point that the persistence of some shocks might be missed was important but he suggested caution in saying there was a bias.

The Governor said that it was a useful, and positive, exercise and the Report's recommendations were sensible. He asked MA management to consider them and to produce a robust and thoughtful response.

In terms of the economics, the Governor said there had been a structural shift in productivity post crisis, and with hindsight there was a forecast error in the unemployment forecasts.

Mr Broadbent said it was for the MPC to consider implementing any changes to the forecast models: time should be allocated for the MPC to read, consider and respond to the report.