

MEETING OF THE COURT OF DIRECTORS

Wednesday, 21 September 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 Prentis

Ms Thompson

Ms Hogg, Chief Operating Officer

Apologies:

Mr Robert

Secretary:

Mr Footman

1. Minutes

The minutes of the meeting held on 13 July were approved.

Court noted with regret the announcement that Dame Minouche Shafik would be leaving the Bank in February 2017 to become Director of the LSE.

2. Investigations

(Sonya Branch in attendance)

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

3. New EU Withdrawal Unit

(Phil Evans)

Mr Evans told Court that the new Unit, which he led as Financial Policy Director, had been established to co-ordinate work across the Bank following the referendum decision. It was located within Prudential Policy Division (which reported both to Sir Jon Cunliffe and to

Mr Woods). Policy and operational areas would have primary responsibility for issues arising from the UK's withdrawal, but would be working within an overall Bank-wide programme overseen by the new Unit.

Mr Evans said that initially staffing would be on a "hub and spoke" model, with a small team at the centre under him and a lead point of contact in each directorate. Work would consist of a series of large and small projects, most on short deadlines, done by ring-fenced teams drawn from different parts of the Bank.

Directors asked about costs. Mr Evans said the activity would for the time being have to be absorbed or found in further allocations. Mr Woods said that some resource could be found by re-focussing, but the full scale of the impact on the PRA was not yet visible. Mr Broadbent expected the Monetary Analysis directorate to aim to absorb the extra work. The Governor said that the way EU withdrawal was organised would have to develop over time. There would be a great deal to do, and most of it would have to be done very fast. The staffing model would have to evolve – ideally to be more like that of a professional services firm.

4. **Market Operations**

(Chris Salmon, Rommel Pereira and Ben Martin)

Mr Salmon summarised the market operations that had followed the MPC's August decision: these included a Term Funding Scheme (TFS) to reinforce the transmission of the change in Bank Rate; additional gilt purchases; and a Corporate Bond Purchase Scheme (CBPS). All three would operate as part of the existing Asset Purchase Scheme. Firms would be able to refinance their existing FLS drawings into the TFS: 20 firms had now applied to refinance 75% of their FLS drawings over the coming year. (It was not 100% because drawdown rights in the TFS are partly conditional on additional lending).

Mr Salmon explained the approach the Bank had taken to corporate bond purchases. They were required to be rated investment grade, though the Bank would make its own supplementary assessment, and the issuer had to contribute to the economy under one of a number of metrics. The markets risk committee oversaw this process. The Bank had published the sector distribution.

Mr Pereira outlined the impact on the Bank's risk profile and income. The main impact was to reduce the Bank's own risk and increase that of the Treasury (which indemnified the APF); with a corresponding reduction in the Bank's income which had in recent years been underpinned by the FLS.

Mr Fried confirmed that the new round of QE would be integrated into the routine monitoring of the programme by Internal Audit and reported to Court through ARCO.

5. Launch of the new £5 note

(Victoria Cleland and Sara Huggins)

Court congratulated Ms Cleland on the successful launch of the new £5 note on time and on budget. Ms Cleland said that the response so far had been very positive; that said, we would not be complacent and would continue to monitor feedback. She added that the Jane Austen £10 was now in production for issue in 2017, and contract awards for the new £20 would come to Court for approval in November.

6. Operational Resilience

(Lyndon Nelson)

Ms Hogg briefed Court on changes in the organisation of the Bank's operational resilience work. Previously part of the Resolution Directorate, the sector resilience team had been moved to the PRA, where it would report to Lyndon Nelson as Executive Director for Regulatory Operations. Responsibility for the Authorities Response Framework would remain with Sir Jon Cunliffe as Deputy Governor for Financial Stability. Ms Hogg herself would chair a steering group to provide direction on the micro-supervisory framework across all areas, though individual decisions would remain with the relevant committees. The immediate focus would be to prioritise the work around the key economic functions and to define more closely the Bank's risk tolerance and how it measured resilience. Internationally Lyndon Nelson was chair of the G7 Cyber Expert Group; Ms Hogg would become chair of the domestic Cross Market Operational Resilience Group.

Mr Habgood asked how the Bank defined its responsibility in this area. Ms Hogg said that the Bank was partly picking up a recommendation from the FPC in relation to operational and cyber risk in the financial sector; and partly following its own Financial Stability Objective as it related to the financial system. This looked beyond the customer detriment issues that mainly concerned the FCA and would cover payment systems.

7. **Cyber Update**

(Rob Elsey, Buck Rogers and Neal Semikin)

Further to a minute of September 2015, Mr Elsey noted continued progress in improving the Bank's defences against cyber attack. The Bank's cyber maturity had improved significantly (as illustrated by the ETRA assessment) and was now tracking peers in key areas.

Mr Rodgers added that the level of threat was nevertheless increasing steadily. The Bank had invested in monitoring capability and the capacity to respond quickly to incidents.

Directors discussed where the major risks to the Bank now lay.

8. **Incident Management Framework**

Ms Hogg updated Court on the development of the high-level Incident Management Framework.

9. **Strategic Plan**

(Emma Murphy, Victoria Honeyman and Joanna Place)

Ms Hogg said that the initiatives in the Bank's three-year strategic plan, announced in 2014, had mostly been implemented and provided a firm basis for further progress. "One Bank" had provided a particularly effective foundation both for integration of the PRA and for the development of cross-bank working on policy issues, the most prominent of which had been housing and the referendum. The emphasis on talent, analytical excellence, effective execution and openness had been beneficial, and this was reflected in external and internal metrics. Going forward the proposal was to build on this, focussing particularly on ways of working that would get the best out of staff.

Ms Murphy said that the proposed way forward would aim to (1) embed more broadly the success of cross-cutting policy teams so as to make the Bank more agile and responsive to changing demands; (2) make sure that career development and culture enabled colleagues to give of their best; (3) make the way the Bank communicates more understandable and engaging; (4) make ways of working as effective and efficient as possible. A series of challenging policy issues would be opened for debate with these objectives in mind (Ms Hogg noted that the best way to get Bank staff to discuss a management issue was through a policy lens). And there would be a series of visits to other organisations to see how they addressed similar issues. These initiatives would be pursued intensively over the autumn and the team would report back to Court in December with a view to concluding in time to incorporate conclusions into the budget.

Directors, while very supportive of the goals set out, noted that the timetable was challenging. The Governor agreed that top-down leadership would be required, and Ms Hogg said that management would, in parallel with the management discussions, be incorporating conclusions into a target operating model that would be consistent with the Bank's objectives and resource constraints – improving efficiency and effectiveness was one of the objectives. Mr Broadbent was supportive of the aim to embed more cross-cutting policy teams; and Ms Murphy said that such a model should be capable of delivering more for less. Ms Thompson suggested that the internal debates would be helpful in identifying any obstacles.

10. PRA Update

Mr Woods said that the major issues before the PRA in recent months had included the delivery of ring-fencing reflecting the work of the Vickers Committee and the 2013 Act and the Basel Review of capital standards.

The ring-fencing rules had now been largely settled and the major banks were clear about their strategies. There were some governance and operational issues to resolve; but the banks were committed to getting the work done and despite some initial concerns about the implications of the referendum outcome, the Bank's internal project was on track.

The Basel Review was intended to address undue variability in Risk Weights applied to assets as against the models adopted by banks. The Basel Committee was moving towards an agreement that was likely to be acceptable to the UK and would reduce variability in global capital standards. It was hoped that this would be settled by January, but this was not yet certain.

11. Corporate Social Responsibility (CSR)

(Dominic Whittle and Simon Fillery)

Mr Whittle and Mr Fillery updated Court on two aspects of the CSR programme: reducing the Bank's impact on the environment; and the Bank's Community programmes. These were part of a broader programme that included securing the health and safety of the staff, promoting diversity, underpinning public understanding of the Bank and its work, and working to embed the high standards of conduct expected of the Bank and its staff.

In relation to the environment the Bank had made progress in defining and measuring its impact and was committed to reducing water and energy use despite the challenges posed by the Threadneedle Street building, reducing the carbon footprint of the Bank's activities including banknote production and disposal; and driving improved standards in the supply chain.

There would be a fuller account in the Bank's 2016/7 Annual Report.

12. Directorships and Commitments

Court noted the annual listing of Directors' commitments outside the Bank.

13. MPC discussion

(Andy Haldane, other Policy Committee members)

Mr Haldane reviewed the aftermath of the MPC's August package and the September decision. Data on global activity had been generally in line with the MPC's forecast and the substantial market moves following the August announcement had partly unwound. In the UK, Housing market activity had slowed by less than expected. But a material slowing in growth between the first and second halves of the year was still likely. Market expectations of inflation had

increased though long-term household expectations had declined a little in the third quarter. But overall the outlook had not changed significantly and the MPC had stated that if that remained the case a majority of the Committee expected to support a further cut in Bank Rate later in the year.

The meeting of Court was closed.