

## **MEETING OF THE COURT OF DIRECTORS**

**Wednesday, 26 April 2017**

Present:

Anthony Habgood, Chairman

The Governor

Mr Broadbent, Deputy Governor – Monetary Policy

Sir Jon Cunliffe, Deputy Governor – Financial Stability

Ms Hogg, Deputy Governor – Markets & Banking and Chief Operating Officer

Mr Woods, Deputy Governor – Prudential Regulation

Mr Fried

Mr Frost

Baroness Harding

Mr Robert

In attendance

Ms Place (Items 9-13)

Apologies:

Mr Prentis

Ms Thompson

Secretary:

Mr Footman

### **1. Minutes and Matters Arising**

The minutes of the Court meetings held on 7 February and 14 March were approved.

Court noted a letter from Ms Hogg recording her personal relationships. The Chairman confirmed that no member had a conflict in relation to the agenda.

Court noted the Election Purdah guidelines that had been circulated within the Bank.

The Chairman noted that this was Charlotte Hogg's last meeting and thanked her for her service to Court and the Bank.

### **2. The Conflicts of Interest Committee**

Further to a minute of 14 March, Mr Fried said that the Committee created by Court on 14 March had discussed its terms of reference and concluded: first, that its aim should not be to review the entire Code of Conduct but rather to help the institution, in a practical way, to

address the management of conflicts of interest; and second, that the Committee should appoint an external adviser. The current aim was to have a report by the end of June for publication in July.

Herbert Smith were likely to be selected as the external adviser. Their role would be to ensure that the Committee had covered all the issues appropriately and that its approach followed best practice. Authorship of the report would remain with the Committee and the Independent Evaluation Office.

The NAO had responded helpfully to a request for advice and was providing a paper on public sector practice on conflicts of interest policies based on a review that they had conducted in 2015.

The Governor said that it would be important for the Committee to focus on the management of actual and potential conflicts by senior and other staff, rather than broadening and blurring the definition of conflicts so that they became hard to manage. Mr Fried confirmed that the Committee's focus would be on the Bank's process for conflict management.

### **3. Report from ARCO**

Mr Fried said that ARCO had examined two IT issues. First, the Bank's controls around external emails were being reviewed and there would be a further discussion in ARCO in June. Second, given the importance of fraud prevention, the Committee had been pleased to observe progress in improving super-user controls in the Bank. Ernst and Young now rated the maturity of the Bank's management of user privileges capability at 4/5 - up from just over 2/5 in 2013. The aspirations for the IT team were now quite appropriately to move the score towards 100% within 12-18 months.

On the Audit side, both KPMG and the NAO had nothing material to report.

### **4. Report from RemCo**

Baroness Harding said that the Committee had completed its Annual Report and had reviewed the impact on the Bank of the unified pay and pension arrangements (OBYR) introduced in

2015. That had been a major reform, and the Committee's view was that any further changes were likely to be incremental rather than radical. The Committee had also looked at the implications of the Equal Pay Act and had concluded that it would want to examine pay equality by grade and function as well as across the board.

#### 5. **Investigations**

(Sonya Branch and Jenny Scott)

Ms Branch updated Court on the progress of investigations.

#### 6. **PRC Update**

Mr Woods summarised latest developments in the proposed sale of Co-op Bank; noted his letter to regulated banks on Brexit planning; and commented on the Treasury Committee's investigation into the impacts of Solvency II.

#### 7. **FPC Procedures and Effectiveness**

(Beth Blowers, Kathy McCarthy)

Court noted the results of the survey of FPC members and the Chairman's interviews with individual members. The survey had indicated continued progress, particularly in areas identified for improvement in the previous year. It was recognised that planned pre-briefings had resulted in better meetings and clearer ownership by the Committee of its forward agenda; and the drafting process for FPC communications had improved (though some papers for policy meetings were circulated with little time for reflection). Interaction between the FPC and other policy committees was seen to have improved though there remained scope to improve the format of the joint FPC/MPC meetings.

#### 8. **MPC Procedures and Effectiveness**

(Andy Haldane, Gareth Ramsay, Kathy McCarthy)

As with the FPC, MPC members felt that the joint meetings required more preparation so as to focus better on areas of common interest. In terms of the MPC process, the support provided by staff continued to be highly rated though there was a demand for more analytical content in routine data updates and for earlier circulation of the main papers for the policy meetings. Staff

were considering this and other ways of making the pre-MPC meeting and the forecast round more effective. External MPC members scored highly the support provided by their own dedicated unit.

In response to questions, Mr Ramsay said that the current MPC did not think that staff briefings placed undue emphasis on market data, although that had been the case in the past.

Court noted the extensive sources of regional and sectoral data available to the Committee, including from the Bank's agency network.

#### **9. Annual Report Text**

(Rommel Pereira, Emma Murphy and Chris Peacock)

Court reviewed and gave comments on a first draft of the Bank's Annual Report. It was noted that owing to the election purdah the Report could not be published before mid-June.

#### **10. NAO Value For Money Study**

(Rommel Pereira and Paula Lawless)

Court reviewed the draft NAO report on the Bank's 2014-2017 strategy for "One Mission One Bank". Mr Pereira said that the fact checking process was largely complete and the NAO were likely to sign off a final report on 26 May, though publication and any PAC hearing would fall after the election. Court was content with the progress and the changes made thus far, and thanked Mr Pereira and Ms Lawless for managing the process.

#### **11. Strategic Plan**

(Jenny Scott and Emma Murphy)

##### **(a) 2014/17 Strategic Plan Closure report**

Ms Murphy said that 14 out of the 15 initiatives within the plan had been completed, with one outstanding initiative relating to the data programme. Overall the plan had delivered 97% of its underlying milestones; and in terms of measured outcomes it was estimated that 70% of targets had been achieved thus far with more to come. Examples of areas where delivery had been delayed included computing capability for researchers and One Bank data architecture; the

former was on track for achievement but would take longer than originally envisioned, while the latter was being re-scoped. Directors expressed some concern about the data programme which they saw as fundamental to the Bank's objectives: it was confirmed that the re-plan would be brought to Court in May. The Cyber-security programme would continue independently: other objectives – inclusion, culture and empowerment – would be part of the next strategic plan. Directors also noted the importance ensuring that Vision 2020 built on the work on the Strategic Plan in terms of marrying delivery of milestones and outputs closely with desired strategic outcomes to ensure overall success.

(b) Vision 20/20: Strategic Plan

Court reviewed final proposals for the initiatives in “Vision 2020”, its governance and funding.

Ms Place said that the themes remained “how we communicate” and “how we work”. The programme as a whole would be delivered by EDCo, reporting as necessary to Govco and the Investment Board, and bi-annual updates to Court.

An underlying theme was “empowerment”, taken to mean finding ways of pushing down responsibility as far as possible within the organisation, with appropriate help and support when necessary. The implications of this – in terms of communication, external representation, choices about priorities – would run through all the initiatives in the plan, which included (1) tailoring the content of communications to reach a wider audience, (2) developing a new outreach and education programme, (3) finding ways of speeding up decisions, (4) pooling resources across divisional boundaries, (5) providing more technical support and incentives for collaborative working (including through performance management) and (6) prioritising key initiatives.

The incremental cost would be £2.7mn in the 2017/18 year and £8.6mn over the three years of the plan; this would be funded over the period as a whole by the cost-saving opportunities that the plan itself would be likely to create.

The Governor said that this was an ambitious plan which aimed to embed cultural change. As such it would necessarily be incremental: initiatives would be piloted in key areas and

successful techniques would become standard. Flexibility would be preserved to identify quickly what was not working, and to drop it.

Court was content for the Executive to proceed with Vision 2020. Ms Place said that EDCo had worked well as a vehicle for settling OBYR, and she would ensure that it rose to the challenge of Vision 2020, keeping the Governor and Court informed.

## 12. **End-Year Financials**

(Rommel Pereira and Rob Thompson)

Mr Pereira summarised the unaudited end-year position: pre-tax earnings of £224mn, £31mn above budget, driven by slightly higher banking earnings and lower pension costs. The balance sheet had grown by £100bn to £580bn, reflecting the increased loan to the Asset Purchase Facility.

## 13. **Budget Update**

(Rommel Pereira and Rob Thompson)

Further to a minute of 7 February, Mr Pereira said that he now had greater clarity on the cost of HVPS renewal, work on EU withdrawal and the impact of the end-year discount rate on pension costs: together these added £25mn to spending in 2017/18, making the budget total for the year £659mn. Court approved these revisions to the budget.

## 14. **SMF Annual Report**

(Chris Salmon, Sarah John and Jonathan Grant)

Court was content to endorse an unchanged set of objectives for the SMF in 2017/18, and to publish the SMF Annual Report for 2016/17 alongside the Bank's Annual Report.

## 15. **UK Money Market and FX Global Codes**

(Chris Salmon)

Mr Salmon updated Court on the work to update and strengthen codes of conduct covering foreign exchange, UK money markets and precious metals; and also on the global FX code that was being published that day. The combined impact of these changes should make it harder for

people to claim that codes were unclear; and would also provide some underpinning for the Senior Managers Regime (SMR). The Governor commented that this represented a major advance: securing global agreement to an FX code had been a real achievement for the Bank in giving effect to the Fair and Effective Markets Review.

## 16. **HVPS**

(Andrew Hauser, David Bailey and Matthew Hunt)

Further to a discussion on 7 February, Court considered a proposal that the Bank take over the responsibilities of CHAPS Co, a private sector firm, as payment system operator for the UK high value payment system (HVPS). As a material change in the Bank's business, such a change required the approval of Court.

Mr Bailey noted that the current arrangements of the HVPS, in which the Bank provided the infrastructure while CHAPS Co was responsible for the scheme's rules and risk management, were out of line with international norms, and the IMF had raised questions about them in successive IMF FSAP reviews. CHAPS Co was an effective intermediary with its bank members, and had strengthened its risk management activities materially in the recent period. But structural limitations related to the range of sensitive information that could not be shared with CHAPS Co, the limited control it could be given over the Bank's infrastructure, and CHAPS Co's scale and influence meant that it could not fully meet the key regulatory requirements for a system operator. The FPC had already had one discussion of the financial stability case for changing the current structure and would meet to agree its formal view later in the week in the light of the decision of Court.

The public consultation on the RTGS Review had posed a question about the governance of the HVPS and the Governor had earlier in the week consulted the major members of CHAPS about the possibility of direct delivery. Mr Robert asked about their reactions: Mr Hauser said that the banks, at the recent meeting, had recognised the financial stability case for change, and offered their support for bringing about a smooth and timely transition. They had raised a number of helpful practical points about the need to manage transition risks and cost, and ensure effective channels for industry communication which would be built into the transition plan.

Court was content to APPROVE the Bank's taking responsibility for direct delivery of HVPS, subject to confirmation by the FPC of its view on the financial stability case for doing so, and delegated any further approvals in the light of the FPC's decision to Mr Woods.

**17. ELA Annual Report**

(Andrew Hauser, Matthew Hunt and David Brighton)

Court noted an update on the Bank's readiness to conduct emergency lending if required to do so.

**18. Risk Report**

(Andrew Hauser, Julia Rangasamy, Nat Benjamin, Dominic Whittle and Ben Martin)

(a) Quarterly Risk Report

Court noted the Risk Report which had previously been discussed by ARCO

(b) Physical & Personnel Security Risk Profile

In the light of recent incidents, Mr Whittle discussed vulnerabilities of the Banks premises and preventative measures being taken to bring the risk within tolerance.

**19. Annual Controls Review**

(Julia Rangasamy)

Court noted the Report and approved the statement on risk management and controls for the Annual Report.

**20. Property**

(Dominic Whittle)

(a) Agile Collaborative Environment Project

Court approved expenditure of £5.8mn to create new flexible office space within the Threadneedle Street building

(b) Proposed environment targets

Court agreed that the Carbon Reduction Targets agreed by EDCo should be published in the Annual Report.

21. Papers for information

- MPC Report to Court
- IEO update
- Health and Safety annual Update
- Houblon Norman George Fund accounts

**The meeting of Court was closed.**