

MEETING OF THE COURT OF DIRECTORS

Tuesday, 19 December 2017

Present:

Anthony Habgood, Chairman

The Governor

Mr Broadbent, Deputy Governor – Monetary Policy

Sir Jon Cunliffe, Deputy Governor – Financial Stability

Sir David Ramsden, Deputy Governor – Markets & Banking

Mr Woods, Deputy Governor – Prudential Regulation (from item 8)

Mr Fried

Mr Frost

Baroness Harding

Mr Prentis

Mr Robert

Ms Thompson

In attendance:

Ms Place, Chief Operating Officer

Secretary:

Mr Footman

1. Minutes and Matters Arising

The minutes of the meeting held on 7 November 2017 were approved subject to amendments.

Further to Mr Woods's comments on Basel III, the Governor said that agreement had been reached on the new framework in Basel on 7 December.

Members confirmed that they had no potential conflicts of interest in relation to the present agenda.

2. (a) Nominations Committee Update

The Chair noted that the Committee had discussed the timetable and the candidate profile for the prospective vacancy for a Director.

(b) Chair Committee

Court approved a proposal to create a Committee to keep under review the process for appointing a new Chair from 1 July 2018. The members would be Baroness Harding (chair), Mr Prentis, Mr Robert and Ms Thompson. Baroness Harding commented that search

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consultants had been appointed but as this was a regulated public appointment there were still some processes involved before the vacancy could be officially advertised.

3. (a) Audit and Risk Committee Update

Mr Fried said that the Committee had discussed the reappointment of the Bank's auditors, on which a recommendation had been made to Court, and the MoU between the Bank and the Treasury on income and capital, which was for consideration later in the meeting. It had explored in detail the risks managed in areas of the Bank including Technology, FMID, Compliance and Secretary's. In relation to technology he noted that good progress had been made on controls around emails.

On the accounting and audit side, there was nothing of consequence to report. There was agreement among finance staff and the external auditors that IFRS9, which dealt with measurement of financial instruments as well as impairment rules and hedge accounting, had no material unexpected impact on the Bank's accounts.

(b) Appointment of External Auditors (Rommel Pereira)

On a recommendation from the Audit and Risk Committee, and following a competitive tender and consultation with the Comptroller and Auditor General, Court approved the reappointment of KPMG as auditor of the Bank's financial statements for a five-year term.

4. Appointment of HR Director

Ms Place said that the vacancy for an HR Director (following her appointment as COO) had been advertised internally and externally. Following a selection panel, it was proposed to appoint Jonathan Curtiss (currently acting up in the role) and Lea Paterson (currently the Independent Evaluation Director) on a job-share basis. Court approved the appointments, and on a recommendation from the Remuneration Committee approved base salaries within the ED scale.

5. Remuneration Committee

Baroness Harding said that the Committee had discussed further the external benchmarks for the Executive Directors, and was now content with the rationale and results. The Committee had also heard an update on the Bank's pay negotiations. Ms Place added that the Bank's offer had in the event been supported by the local Unite branch and accepted in a ballot of members.

6. RTGS

Sir David Ramsden updated Court on three developments.

First, following the decision in July to allow non-bank payment service providers direct access to RTGS, discussions with a number of firms were in progress, aiming for a first go-live date in the first half of 2018.

Second, the Bank had successfully made the transition to direct delivery of the CHAPS payment system on 13 November. 29 staff of the CHAPS company had transferred to the Bank. Direct delivery aligned the Bank with the vast majority of jurisdictions globally, and would enhance financial stability by giving one entity – the Bank – the ability to manage risks across the high value payment system as a whole.

Third, through a competitive process, the Bank had recruited four non-executive directors (NEDs) to sit on the new RTGS/CHAPS Board. Together they would bring a broad range of experience of payments and risk management. The first full Board meeting would be in January.

Sir David added that, separately, the programme team for renewing the RTGS infrastructure was up and running, and an update on the renewal project would be brought to Court in February.

7. Quarterly Financials and 2018/19 Budget Update (Rommel Pereira and Rob Thompson)

Mr Thompson said that the Bank's pre-tax profit in the year to date had been slightly higher than expected, with income slightly above target, and costs (notably headcount) continuing

slightly below. The forecast end-year headcount was now unlikely to be reached. Nevertheless the flat nominal spending target (excluding note production and pension costs) set by the Governors for 2018/19 was likely to require some specific de-prioritisation and broader economies, and there were significant upside pressures on costs arising from Brexit work. A final package was likely to be agreed later in the week and Court would receive a written update early in the New Year, ahead of further discussion in February. The Governor added that a lot of work had been done on possible areas for de-prioritisation but the options needed to be brought together on a consistent basis with assessment of the impact so that Court would have an opportunity for effective challenge. Mr Habgood said that it was important for Court to ensure that the Bank maintained the appropriate level of resources for its functions.

8. (a) CRD Review Update

(Rommel Pereira, Andrew Hauser, Liam Waters and Katie South)

Mr Pereira said that progress had been made in discussions with the Treasury on the renewal of the CRD scheme, under which banks placed non-interest bearing deposits at the Bank, investment of which was intended to cover the costs of unremunerated policy functions. The return from investing CRDs had been reduced by low interest rates. There was agreement between the Bank and HMT at working level to consult on an increase in the ratio. This would be intended to cover the Bank's policy costs over the following five years. The Treasury had also agreed to explore an indexation option that would adjust the CRD ratio as interest rates changed.

The Treasury expected the Bank to continue to meet 50% of the costs of managing the Exchange Equalisation Account, and was also proposing that APF costs (which they currently bore) should be passed on to CRD payers.

Following a ministerial statement, informal consultations with CRD payers had started and a formal consultation was likely to be launched in early February.

Court was content with progress.

(b) **Joint Bank/HMT Financial Framework Memorandum of Understanding (MoU)**
(Rommel Pereira, Andrew Hauser, Liam Waters and Katie South)

Court considered a draft MoU that would replace previous agreements with the Treasury in relation to income, costs, profit and dividends, and add a further understanding about the replenishment and maintenance of the Bank's loss-absorbing capital.

Court was content with progress on the MoU.

9. EU Withdrawal Contingency Planning
(Phil Evans and Lauren Anderson)

Ms Anderson outlined the state of negotiations following the European Council meeting earlier in the month, and the Bank's work on a post-exit regulatory framework and the design of a transition. She briefed Court on the planned announcement, on 20 December, of an updated approach to authorising and supervising branches of international banks and insurers. The proposals, on which the Bank would be consulting, envisaged authorising and supervising international firms on a branch basis, except where they had a substantial retail business. This approach would explicitly assume that a high degree of supervisory cooperation with the EU continued following Brexit: on that basis firms could assume that the requirements for equivalence, supervisory cooperation and adequate assurance over resolution would be met. The announcement would be accompanied by a letter from Mr Woods to all CEOs.

Mr Woods added that about 160 firms were involved. The statement about supervisory co-operation was key. The Bank had long experience of supervising international branches in conjunction with home supervisors. A few might be over the retail threshold and need to subsidiarise. The Governor added that if supervisory co-operation was not assured then the threshold for subsidiarisation would be significantly lower.

10. Resolution Report
(Andrew Gracie)

Mr Gracie updated Court on the work of the Resolution Directorate. He commented that the history of resolution from 2009 had been a long journey to close the gap between the statutory objective expectation of what resolution should deliver and the reality. That gap was largely closed in terms of the Bank's legal powers. The focus now was on improving firm-level

resolvability. MREL issuance had continued to move firms towards the average requirement of 28% loss absorbency relative to RWAs, and the Bank had published for consultation its policy on “internal” MREL. Work on operational continuity had continued alongside the implementation of the Resolution Liquidity Framework (RLF). With this in place the Bank was moving towards detailing target levels of responsibility at firm level, and would in time ask firms to publish self-assessments against these requirements. A consultation on this self-assessment process would start at the end of 2018. In response to question from Mr Robert, Mr Gracie said that the aim would be to keep the self-assessment process reasonably straightforward – not a snowstorm of paper.

11. FPC Update including stress tests
(Christina Segal-Knowles)

Ms Segal-Knowles outlined the results of the stress tests. The key finding, which Court welcomed, had been that the banking system could keep lending through a range of Brexit outcomes including a disorderly one. This reflected the steady build-up of capital over the past five years. The stress test scenario had been more severe than the financial crisis; the amount of capital burnt through by the stress was more than the total capital of the banks before the crisis; and yet they had all finished meeting their minimum requirements.

12. Draft SMF Report
(Lea Paterson, John Power and Chris Salmon)

Court approved a Review by the Bank’s Internal Evaluation Office of the Bank’s approach to providing Sterling Liquidity, for publication in January.

13. IEO Forward Planner
(Lea Paterson, John Power and Anna Jernova)

Court considered possible areas for further IEO Reviews. In the preferred policy area these included the One-Bank Research Programme, Stress Testing and the policy aspects of cyber risk. Outside policy, the diversity of the Bank’s workforce and Communications had been considered.

Mr Haldane had previously suggested that with the Research Manager currently on secondment it would make sense to defer any review in that area. However Court members agreed that

longer term Research was a key area, and should be included in the IEO's plans. It was noted that the stress testing team was less pressed in the early part of the year, so there was a case for reviewing that area in the first half of either 2018 or 2019. It was felt that while the IEO was capable of reviewing management issues, it was in policy that it had comparative advantage. Consequently Court favoured Stress Testing and Research as the next two areas for review.

Members discussed whether the IEO should stick rigidly to two reviews each year. It was accepted that the frequency should take account of likely availability of resources. There was no hard target.

14. Vision 2020 Update
(Jo Place and Emma Murphy)

Court discussed the latest monitoring report from Vision 2020. It was agreed that there needed to be further work in EDCO and Govco to identify appropriate success measures, and a further report to Court in February.

15. Data Centre Migration
(Rob Elsey, Judy Bennett, Rob Thompson and Duncan Clubb)

Court reviewed the final submission for the data centre migration programme. The objectives were to migrate the Bank's IT systems to two new data centres, rationalising and improving security of IT systems and hardware, simplifying and automating processes and enabling cloud processes. The total cost would be £46mn. The proposal had been subject to external validation by Deloitte. Directors welcomed the proposals as addressing all of the risks that had previously been highlighted by ARCO. Court approved the programme and the next tranche funding of £9.8mn.

16. Structural Reform Tranche 5 Funding
(James Proudman, Sharon Julien, Dave Eacott and Duncan Mackinnon)

Court approved funding of £13.8mn for the period January 2018-March 2019, as the final tranche of the structural reform programme. The overall cost of the programme, which had delivered all its key milestones to date, was now put at £41.0mn, compared with a previously estimated £47.3mn. The Chair congratulated Mr Proudman and the programme team on their success.

17. Policy Committee Conflicts

(John Footman)

Mr Footman, as Conflicts Officer, updated Court on declarations made under the Conduct Codes for the three policy Committees.

Court noted that the Codes were subject to annual review, and confirmed that it did not wish to propose any changes this year.

18. Annual Review of Court Minutes Redactions

(John Footman)

Court reviewed the Court minutes for 2015 and earlier years, and agreed to publish a number of passages that had previously been withheld under paragraph 12A(3) of Schedule 1 of the 1998 Bank of England Act.

The meeting of Court was closed.