

MEETING OF THE COURT OF DIRECTORS

Tuesday, 7 February 2017

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

Mr Robert

Ms Thompson

Ms Hogg, Chief Operating Officer

Secretary:

Mr Footman

1. Minutes

The minutes of the meeting held on 16 December 2016 were approved.

The Chairman noted that this was Dame Minouche Shafik's final meeting, and expressed Court's appreciation of her many contributions to Court and to the Bank.

2. Report from Audit and Risk Committee (ARCO)

Mr Fried said that ARCO had reviewed the immediate prospects for the Bank's income and the implications for the amount of capital available to support unindemnified assets. It had reviewed the Bank's compliance with the core principles of the Senior Managers Regime as applied to itself; and some control issues arising in providing banking services to other central banks.

3. NAO Value for Money Study

(Sir Amyas Morse - Comptroller and Auditor-General and Peter Gray)

Court discussed the progress of the NAO's first Efficiency and Effectiveness review of the "One Bank" strategic plan. Sir A Morse said that the NAO was content with the initial phases – documents had been provided where requested and plans had been made for an initial review of findings on 10 March and a review with Court members of a first draft report on 24 March. The first of those meetings was intended as a genuine exchange of views before the report writing commenced. In response to a question about the NAO's first impressions of Bank culture the NAO said that some information was still being pursued in relation to the annual staff surveys. The Governor said that it was a good time to offer advice especially on the Bank's ways of working, as that had become a key focus of the next strategic plan; and Baroness Harding thought that while the first plan had made a positive impact on culture it would be easy for the Bank to revert to former ways. Sir Amyas Morse commented that there were bound to be setbacks: institutional change was a long process and often required the departure of those blocking reforms. But he understood that the Bank was looking for advice in this area.

Mr Fried recalled that at the start of the NAO's involvement with the Bank a clear line had been drawn between policy issues on the one hand and business practice on the other; in practice were the boundaries proving unclear? Mr Gray said that he was not aware of any instance where the boundary lines had been crossed, but the Bank team should define where there were concerns.

Dame Minouche Shafik thought that a useful benchmark for the NAO might be the New York Federal Reserve, where a similar "one bank" plan had been attempted.

Summing up, the Chairman said that the Bank was looking for help as it finalised its next strategic plan and was hoping for insights into best public sector practice. And the NAO would have noted the concern about the dividing line between policy and operations.

4. **Investigations**

(Sonya Branch, Jenny Scott and Ajneet Jassey)

Ms Branch updated Court on the progress of current investigations.

5. **Annual Communications Report**

(Jenny Scott)

Ms Scott reviewed the Bank's communications challenges of the past year and highlighted some significant upcoming issues. The main thrust in 2016 had been to build public understanding of the Bank and its mission and to improve effective transparency through more direct communication and where possible the use of simpler language. A standalone website – the “Knowledge Bank” - had been launched, and the Bank was making more effective use of social media. Polling revealed a continuing high degree of public trust in the Bank. This had helped the Bank in reacting to some of the specific challenges of 2016: the Brexit referendum, some public questioning of the Bank's policy independence and the discovery that the new polymer notes contained traces of tallow.

For the immediate future interest in monetary policy was likely to remain elevated given upside risks to inflation and the trade-off faced by monetary policy. The Treasury Committee was also engaged on an inquiry into the effectiveness of monetary policy since 2009. There would be financial stability issues too, some arising from the Brexit negotiations. This underlined the importance of building public understanding of the Bank's work as set out in the communications elements of the Bank's 2020 strategy. The Bank would need to take a layered, digitised approach to external publications, being accessible at the highest layer but no less rigorous at the foundation level. There would be more use of analytics to tailor content to the right channels, and new direct outreach programmes. Ms Scott added that the press office could use graphics and other presentational devices to emphasise the messages in the Bank's major policy speeches.

Several Directors asked about public perception of the IEO against the background of the forthcoming NAO review. Ms Scott said that the IEO was effective, and its reports were of high quality though slightly below the radar so far as the press were concerned: there should be no tension or overlap with the NAO, as the IEO dealt with policy issues and the NAO did not.

It was acknowledged that the politics were polarised at present and the Bank should not be seeking a high profile, even though given its remit it would at times be thrust into events. The Governor said that the key for the Bank in these circumstances would be always to do the right thing and always to explain why.

6. FMI IEO Report Management Response

(Lea Paterson, David Bailey, Anne Wetherilt and Gerard Breen)

Court agreed that the IEO report on FMI Supervision should be published on 22 February and noted the management response, which had been agreed with the FMI Board and Govco though still subject to minor changes. All of the IEO's recommendations had been accepted by the Bank.

7. Annual FMI Report

(David Bailey, Sarah Parkinson and Lea Paterson)

Mr Bailey introduced the annual report to Court on FMI supervision, and the statutory Annual Report that would be published at the same time as the IEO Report.

During 2016 there had been significant progress on FMI governance, improvements to the operational risk profile of FMIs, and work to define the role of an FMI as a systemic risk manager. These issues would continue into 2017, which would likely be challenging given preparations for EU withdrawal and continuing political interest in CCP location policy, and fundamental changes likely across all the FMI industry sectors. In relation to resolution, progress had been made in ensuring that payment system participants were not excluded from the system on entering resolution. Responding to questions from Directors, Mr Bailey said that progress had also been made at an international level on resolution regimes for CCPs themselves. The Bank, through the FSB, was leading on this.

8. Insurance Report

(Lea Paterson, Sarah Ashley, David Rule and Ed Dew)

Further to a discussion on 16 December, Court reviewed a draft of the IEO's evaluation of the PRA's approach to its insurance objective, and the response from management, which were due

to be discussed at the PRA Board on 21 February. Court was content to approve the IEO report for publication in late March, subject to a further review of the text.

9. **IEO 2017 Work Programme**

(Lea Paterson and Andrew Gracie)

Court approved the IEO work programme for 2017 – this would involve two reviews: (1) the effectiveness of the Resolution arrangements put in place by the Bank in pursuit of its statutory responsibilities, and (2) the Bank’s arrangements for providing sterling liquidity. At the same time the IEO would develop further its framework for following up progress on past recommendations.

10. **Annual Resolution Update**

(Andrew Gracie)

Mr Gracie outlined progress on the Bank’s programme to implement the Bank’s resolution regime. The statutory framework was now fully in place, and the statement of policy on minimum requirements for own funds and eligible liabilities (MREL) had been published in November 2016 (though would not be fully implemented until 2022). By 2019 firms would be compliant with the Operational Continuity in Resolution (OCIR) requirements. The impact of Brexit was likely to be limited as the BRRD was already transposed into UK law.

11. **Vision 2020: Strategic Plan**

(Jenny Scott, Jo Place, Emma Murphy and Jonathan Curtiss)

Court noted the latest performance metrics for the One Bank strategic plan, and discussed an outline of the next plan for the three years to 2020.

The Governor said that following much consultation, external fact-finding visits, analysis and internal discussions, the main themes of the next strategic plan – Vision 2020 – were to change how the Bank communicated and how the Bank worked. On external communication the Bank sought to be relevant to a wider audience, with a more creative, interactive approach to our content and analysis, including key publications and speeches. Internally there would be a new approach to papers, briefings and meetings so that colleagues could share ideas with each other

and communicate directly with policymakers. Organisationally, we would aim to get the most out of our people, managing resources more flexibly so as to make it easier to respond to changing local and Bank-wide priorities. The team was now looking at specific measures that would give effect to these objectives

Directors supported the proposed approach to external communications: increased focus on audience and context as described by Ms Scott made sense. However it was accepted that to make the internal changes happen, in communication and management, would require changes in behaviour that would need to be ruthlessly imposed and would probably require external support.

12. (a) **The Bank's Finances – the budget 2017/18**

(Rommel Pereira and Simon Chisholm)

Mr Pereira introduced the budget for 2017/18. Underlying planned expenditure was £506mn, an increase of 1.5% on the previous year: achievement of this target would require savings of £20mn, which would require tight controls on direct spending and the achievement of planned savings from headcount control and the remuneration strategy. Total costs (taking account of note production, structural reform costs) would increase by 10%, to £632mn. This included an allowance for pension volatility that would be confirmed against market rates on 28 February; and the Bank was still considering likely additional demands on technical resources arising from EU withdrawal work. Income was likely to be weaker in 2017/18, reflecting the rundown of the funding for lending scheme and lower interest rates since the summer of 2016; the Bank was reviewing all sources of income from its banking business and from the investment of its capital. The CRD scheme was to be reviewed in 2018; this would involve a negotiation with the Treasury and a consultation with the banks as CRD payers.

Court approved the cost budget for 2017/18 as presented, and within that the PRA budget of £275mn.

(b) **Payment in Lieu of Dividend**

(Rommel Pereira and Simon Chisholm)

Court approved an interim payment to the Treasury in lieu of dividend of £51mn, based on estimated post-tax profits of £206.3mn for the 2016/17 financial year.

13. **Update on the RTGS Strategic Review**

(Andrew Hauser, John Jackson, Will Lovell and Simon Rickenbach)

Further to a discussion on 16 December, Mr Lovell said that it was intended to publish a “blueprint” document setting out the Bank’s intentions in the light of responses to the consultation paper and subsequent discussions. An independent report from PWC had supported the proposal to replace the present RTGS system rather than make running changes; it had also indicated that the current system would likely be solid for the next FEW years, enabling sufficient time for a managed transition and the absorption of some nearer term changes such as the additions required by structural reform.

Initial funding had been agreed by the Investment Board in order to develop a more concrete business plan and more detailed costings. The new RTGS would be more resilient, give wider access to central bank money settlement, be interoperable with critical domestic and international payment systems and be capable of operating near 24/7. Immediate tasks included recruitment of an external programme director and putting in place a series of assurance mechanisms to ensure the programme remained on track.

In response to questions from Directors, Mr Lovell said the decision to appoint an external programme director reflected the scale of the project and its criticality, and responded to advice from external partners. Given that the Bank would be operating the new system and would own the intellectual property, the Bank itself would be involving a strong internal project team. Directors noted the variable track record of large public sector projects: this one related to a key piece of national infrastructure and would need close monitoring.

The Chairman asked when decisions would be taken on the future governance of the high value payment system. He thought it important that these should be made alongside the infrastructure project and not left hanging.

14. **Court Effectiveness**

(Kathy McCarthy)

Ms McCarthy noted that the latest Court effectiveness survey showed that Court members considered Court and its sub Committees to be working well, and that meetings were effective. Members had suggested some streamlining of the papers presented to Court; and areas where performance metrics could be improved. Court members were conscious of the continuing risks to the Bank's objectives from politics and Brexit; of the need to sustain the relationship with the TSC; to monitor the evolving relationship with the NAO; and to keep under review Court's composition and succession planning.

Court members had responded very positively to a separate survey on the effectiveness of the Chairman personally.

15. **Transition from PRA Board to PRC**

(John Footman, Sonya Branch and Serena Kern-Libera)

Mr Footman updated Court on the process for replacing the PRA Board with the Prudential Regulation Committee ahead of its coming into being as a Bank policy committee on 1 March, and outlined the appointments and authorisations that required Court approval.

Court approved the following:

- the reappointment of Charles Randell to the PRA Board with effect from 20 February 2017;
- the appointment of Sonya Branch and John Footman as Directors of PRA Ltd following resignation of the present Board after the 2016/17 Report and Accounts had been published;
- the winding up of PRA Ltd in due course, and authorised either of the Secretary of the Bank or the General Counsel to approve and sign, on behalf of the Bank as shareholder, any documentation required in connection with the winding-up.

16. **Matters Reserved to Court**

(John Footman)

Court approved the revised “Matters Reserved to Court” including the Audit & Risk Committee’s Terms of Reference, subject to a further small amendment.

17. **Report from REMCO**

Court noted the Remuneration Committee’s decision relating to the pay and pension arrangements of the Governors. Court approved the Remuneration Committee’s proposals relating to the fees for the external members of the policy committees and the pay and performance awards of Executive Directors.

18. **Inflation Report**

(Andy Haldane)

Mr Haldane summarised the conclusions of the MPC as set out in the February Inflation Report.

19. **Papers for information**

Court noted reports on:

- Annual Salary Review outcomes
- Bank’s adherence to the SMR annual review
- Business Continuity Annual Report
- Compliance Division’s Annual Strategy and Plan

The meeting of Court was closed.