

MEETING OF THE COURT OF DIRECTORS

Wednesday, 12 July 2017

Present:

Anthony Habgood, Chairman
The Governor
Mr Broadbent, Deputy Governor – Monetary Policy
Sir Jon Cunliffe, Deputy Governor – Financial Stability
Mr Woods, Deputy Governor – Prudential Regulation
Mr Fried
Mr Frost
Baroness Harding
Mr Robert
Ms Thompson

In attendance:

Ms Place, Acting Chief Operating Officer

Apologies:

Mr Prentis

Secretary:

Mr Footman
Ms Chennells (for item 13)

1. Minutes and Matters Arising

The Chair advised Court that Baroness Harding has been appointed to the Economic Affairs Committee of the House of Lords. The Committee took evidence from the Governor annually, and also called other Bank staff from time to time. The potential for conflict had been considered by the House of Lords authorities and also discussed with the Chair and the Governor. Baroness Harding had decided that she would (1) not attend the annual evidence session with the Governor; (2) recuse herself from any Inquiry by the Committee into the main areas of the Bank's remit; and (3) discuss with the Chair any new Inquiry started by the Committee to determine whether it may present a conflict with her role at the Bank, and if so what mitigating action might be taken. She would attend hearings with the Chancellor, but would not ask questions relating to the Bank's remit. Court was content with these arrangements.

The Chair noted that in relation to the immediate agenda, Ms Place was a Trustee of the Bank Pension Fund (item 13) but he saw no reason for her to withdraw from the discussion.

The minutes of the meeting held on 24 May were approved.

2. **RemCo Update**

Baroness Harding updated Court on recent discussions and decisions of Remco.

3. **ARCo Update**

Mr Fried updated Court on the meeting of ARCo on 26 June, noting a number of control issues.

The Committee had discussed financial risk scenarios, including from the external environment. There was very little change to market or credit risk on the balance sheet. The Committee had asked that some proposed changes to the Financial Risk Standards and the balance sheet remit be re-presented later in the year.

Finally, the Committee explored how the Bank's internal challenge functions were keeping up with the most current thinking on Cyber resilience.

4. (a) **Draft of the NeDs Review of Conflicts**

(Stephen Brown and Lea Paterson with James Palmer and Clive Cunningham from Herbert Smith)

Court was updated on a provisional draft of the report from the Committee on Conflicts.

Mr Fried said that it still required some editorial work, but the main conclusions and recommendations were largely settled. If these were accepted he hoped it might be published in early to mid-August.

Court endorsed the main conclusions and recommendations, subject to a number of comments, and agreed that publication should take place as soon as practicable. Mr Fried said that the Committee would consider the issues raised at its meeting that afternoon.

(b) Content of the 2017 Our Code
(Duncan Cromarty)

Mr Cromarty said that in parallel with the work of the NeDs Committee on Conflicts, the Compliance Department had been preparing a new version of *Our Code* for publication in the September, leading to a new Bank-wide attestation process in October. The aim was to be clearer about the context – the Nolan principles underpinning the Bank’s objectives of integrity and impartiality – and also to bring into the Code the majority of the requirements from the individual ethics policies (which were largely unchanged). To make room for this, some aspects had been cut back, especially those that were better covered in the Terms and Conditions of Service (the staff handbook).

Baroness Harding noted that in trimming the Code the section on “Inclusion” had been omitted. She thought this unfortunate, especially if taken as a message that the Bank had achieved all its objectives in that area. Ms Place agreed that the reference should be reinstated.

Baroness Harding also suggested that the Code should be reviewed by the Communications Department before it was put out, both for external impact and internal readability. It was important that everyone in the Bank should understand it.

In response to a question from Mr Robert, Mr Cromarty said that staff were permitted to take on other employment provided there were no policy conflicts with their Bank work, and provided also that they were manageable in terms of time.

The Chair said that the Code should not anticipate the recommendations of the Neds’ review on Conflicts and should come back to Court for final approval in September. He noted that the Committee Codes might be reviewed again once the Neds’ review and *Our Code* had been published.

5 Investigations
(Mike Peacock)

Court noted the announcement by the SFO that it was closing its investigation into the Bank’s liquidity auctions, having concluded that there is no evidence of criminality in relation to this matter. The Bank had released at the same time the findings of the Court-commissioned review into other market operations during the crisis.

6 PRC update

Mr Woods updated Court on issues currently being considered by the PRC.

7 IEO Resolution Update

(Lea Paterson, John Power and Anna Jernova)

Court was content with the proposed scope of the IEO review of Resolution. Work would start in August and continue through the rest of the year. In the event that an actual resolution took place the plan would be reviewed.

8 EU Withdrawal

(Phil Evans and David Swallow)

Mr Evans outlined the development of the EU withdrawal unit since its creation in September 2016. The central team – the “hub”- had 15 members but the unit could draw on support from colleagues throughout the policy areas of the Bank; this hub and spoke model enabled the team to deliver a great deal of work across many disciplines to the Governors and the policy committees. Work was underway on three main strands: (1) transition to the new post-Brexit arrangements, as part of which the PRA had asked firms to outline their plans; (2) supporting the negotiations, including looking at market access questions and possible frameworks for co-operation with the EU; and (3) Nationalising the Acquis. Where relevant the team(s) were liaising with the Treasury. In relation to EU committees, the Bank remained involved in all the fora that it was committed to.

9 Succession Planning

Ms Place took Court through the talent grid for future vacancies at Director, Executive Director and Deputy Governor level. Court noted that there was a good range of candidates, relatively strong on women but less strong on BAME, which required further work.

10 (a) Employee Relations

(Jonathan Curtiss)

Ms Place and Mr Curtiss updated the meeting on the current relations with the Union, which had balloted a small subset of members in security and technical services and called a strike and

work-to rule starting on 31 July. The Bank had contingency plans to keep all buildings and operations running normally despite the action.

(b) HR Update
(Jonathan Curtiss)

Mr Curtiss updated the meeting on issues in HR.

In the light of the V2020 initiatives Mr Curtiss was taking the opportunity to simplify HR processes as far as possible, cutting out a layer of staff (the “business partners”) and improving services. Among other things he was looking at the complexities of benefits administration.

In a brief discussion of recruitment Mr Curtiss said that the Bank was moving towards recruitment practices – “contextual recruitment” - that made allowances for disadvantages in social and schooling backgrounds. The Bank was widening the range of universities from which it recruited.

11 Quarterly Financials
(Rommel Pereira and Rob Thompson)

Mr Thompson said that the Bank’s profit in the first quarter had been above budget reflecting higher than expected income and lower than expected costs. Headcount was running about 100FTE below expectations, partly because of delays in starting investment projects and partly because of a reduction in contractors. The full year forecast however envisaged headcount slightly above budget by the year end.

12 Budgeted Costs and the CRD Review
(Rommel Pereira and Rob Thompson)

Mr Pereira noted that savings of £20mn were already incorporated into the Bank’s 2017/18 budget; but at the request of the Chair and the Governor, he was defining what more could be done consistent with meeting the Bank’s objectives.

Court welcomed the proposal and suggested that any such exercise might need to be supported by external advice.

The Governor suggested that it would be worth starting at a macro level and looking at the implications of flat nominal growth in spending. V2020 itself was likely to prompt questions about organisational structure as different ways of working were explored. He supported the idea of recruiting external help.

Mr Pereira said that thus far the focus had been on central services. He agreed to come back to Court in September with a proposal covering the whole Bank, including central services.

13 Pension Fund: Triennial Valuation and Investment Strategy (John Footman and Rommel Pereira)

Mr Footman, as chair of the corporate Trustee of the Pension Fund, presented a paper to Court on the investment strategy of the fund. The strategy had been set in 2007, following a review by Court, and required the Trustee to hold risk-free investments that matched, as closely as possible, the risk-free nature of the fund's liabilities. The fund was therefore invested largely in index-linked gilts. A deficit reduction programme came to an end in 2014, since when the fund had been roughly in balance, with fluctuations in liabilities being offset by fluctuations in assets. A recent slow-down in the improvements to expected mortality rates – adjusted for the greater longevity of Bank pensioners – had resulted in a small estimated surplus in the fund for 2017.

Although the investment strategy had been very successful in recent years – the timing of the fund's move out of equities was, with hindsight, fortuitous – the high cost of gilts in a low interest environment meant the annual service cost for new accrual was high. This was reflected in the high cost of payments to individuals who chose to opt out of the pension scheme and receive additional pay in lieu.

Directors noted the success to date of the investment strategy, but asked the Trustees to consider the implications of taking more investment risk. An assessment should be made of alternative approaches, which captured the impact on the Bank's reported accounts, its budget, the annual contributions to the fund to meet new accruals, and the impact on transfer values and flexible accrual rates. Mr Broadbent offered his support for the work.

14 FPC

(Alex Brazier)

Mr Brazier updated the members on FPC issues following publication of the FSR earlier in the month.

15 Papers for Information

Court noted the Minutes of the Annual Report and Accounts Committee and the MPC Report to Court.

16 Banknotes

The Governor notified Court that the design of the new Jane Austen £10 note would be unveiled on 18 July. A subsequent announcement would be made on the composition of the polymer for the new £20 note and future reprints of the £5 and £10.

The meeting of Court was closed.