

MEETING OF THE COURT OF DIRECTORS

Wednesday, 24 May 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 Prentis
Mr Robert
Ms Thompson

In attendance:

Ms Place, Acting Chief Operating Officer (from item 3)

Secretary:

Mr Footman

1. Minutes

Following comments the minutes from 26 April 2017 were approved by written procedure. There were no matters arising that were not scheduled for the present or a future meeting.

The Chairman noted that Mr Prentis would withdraw from any discussion of Co-op Bank, in the light of his connection with Unity Trust Bank. Members confirmed that they had no other potential conflicts of interest in relation to the present agenda.

2. (a) DGMB Interim Arrangements

Court noted the temporary arrangements that had been put in place to cover the internal functions and Senior Manager Responsibilities of the Deputy Governor for Markets and Banking (DGMB) (the role on the statutory committees remained vacant). In relation to the Balance Sheet Remit, Court approved the proposed interim changes to delegations.

(b) Appointments

The Chairman updated Court on the progress in identifying successors to Charlotte Hogg in the (separate) roles of DGMB and Chief Operating Officer (COO).

(c) RemCo

Baroness Harding updated Court on recent decisions of Remco.

3. (a) Conflicts of Interest Committee

(Lea Paterson and Stephen Brown)

Court approved the terms of reference of the Committee as follows:

Non-Executive Directors' Review of the Bank's Approach to Managing Conflicts of Interest

1. The overarching objective of the Review is to evaluate the Bank of England's approach to managing conflicts of interest, and to make recommendations for improvement as appropriate.
2. The Review will examine:
 - a. the policies and processes for identifying and managing conflicts of interest at the Bank, including the lessons arising from Ms Hogg's case;
 - b. what the Bank should do to ensure full and timely compliance with those policies, especially amongst senior members of the Bank; and
 - c. the supporting governance arrangements, including the extent to which the changes to reporting lines and internal structures announced by the Bank on March 14th 2017 are adequate.
3. The Review has been commissioned by the Court of the Bank of England. It will be owned and authored by the Non-Executive Directors of Court (excluding the Chair).
4. The Non-Executive Directors have engaged Herbert Smith Freehills to act as external advisor to the Review. The role of the external advisor is (a) to bring impartial advice to the Review and (b) to provide assurance on the appropriateness and effectiveness of both the process and substance of the Review.
5. The Review Team supporting the Non-Executive Directors will be led by the Bank of England's Independent Evaluation Director with advice and assistance, as appropriate, from the Bank's Internal Auditor. The Review team will necessarily draw on appropriate executive resource and input from within the Bank. The team will also draw on assistance, as appropriate, from the National Audit Office.
6. The findings and recommendations of this Review will be made public.

Court members noted that the focus of the Review was on the management of conflicts of interest and not on the Bank's internal staff code of conduct - "Our Code" - more broadly. The aim would be to draw clear and consistent lines between actual or potential conflicts of interest on the one hand and, on the other, a broader category of personal relationships which may have a more tangential connection to the Bank's work; and also between issues of conflicts of interest and issues of confidentiality.

(b) Update on Review of Code of Conduct

(Sonya Branch)

Ms Branch said that, since taking over responsibility for "Our Code" in March 2017, she had focussed particularly on a revision of Our Code with a view to enhancing its accessibility and thereby to increase levels of staff adherence. In addition, she had focused on the relationship between Our Code and the statutory Conflicts of Interest Codes of Practice for the three policy committees, ensuring that conflicts registers for each policy committee were up to date and that robust processes were in place for meetings and for the circulation of papers. New guidance had been issued to committee secretariats.

Looking ahead, the next attestation process – which would follow the circulation of the revised Our Code to staff - would be designed to focus attention on declaration/approval requirements, there would also be better, more targeted management information gathered in relation to compliance levels and/or conduct breaches, and continuous communication throughout the year.

In particular, for "Our Code" itself, she envisaged a single document that would, as far as possible, put all the Bank requirements in one place, rather than an overarching code that summarised and referenced the full policies. Priority was being given to the core ethics rules – those relating to information security would take longer to condense into the new format.

Ms Branch added that she was trying to create greater clarity about why and when the Bank needed to know about other personal relationships and the extent to which those were relevant to the Conflicts of Interest Codes of Practice of the policy committees, which were arguably closely aligned in intended scope to the Companies Act definition of a "connected person".

4. **Report from ARCO**

Mr Fried said that the Committee had reviewed the Annual Report and Accounts; and the audits of the Bank, PRA and BEAPFF accounts – the latter two by the NAO – had proceeded smoothly. In relation to risk oversight the Committee had reviewed proposals for data centre migration, seeking greater clarity on the financial case, and examining the risks in the Bank’s FMI function.

Court noted ARCO’s Annual Report

5. **Investigations**

(Sonya Branch, Jenny Scott and Ajneet Jassey)

Ms Branch updated Court on the progress of investigations.

The SFO’s charging decision in its investigation into the Bank’s liquidity auctions during the financial crisis was expected late in the following month.

6. **IEO Update**

(Lea Paterson, John Power and Anna Jernova)

Ms Paterson described the options for securing external input to the two reviews planned for the current year, on the provision of Sterling liquidity and Resolution. Court agreed that a mix of embedded experts and “critical friends” was likely to be beneficial. Court also discussed the timing of the Resolution Review.

7. **PRC update**

(Lucy Chennells)

Solvency II

Mr Woods said that the insurance industry had been critical of the PRA’s implementation of Solvency II, and had proposed a number of reforms. While believing that the original approach had been correct, the PRA had indicated a readiness to discuss a small number of issues, and joint working parties with the ABI had been set up to facilitate a structured exchange of views on specific topics.

PRA Strategy

Mr Woods introduced the PRA Strategy, which the PRC proposed to publish in its Annual Report and about which it was consulting Court. The structure and tone were similar to the previous year's: but the PRA's role in the implementation of Brexit had been added, and there was new emphasis on aspects of insurance supervision, and on facilitating competition.

Co-op Bank (Mr Prentis withdrew)

Mr Woods updated Court on the position of Co-op Bank.

PRC Effectiveness Survey

Ms Chennells reported on a series of meetings between the Chairman and individual PRC members, timed so as to take stock of immediate reactions to the desubsidiarisation on 1 March. The transition was felt to have gone well, and most members felt that the change should increase focus on thematic and strategic questions. The workload of the PRC was still very high but the current composition of the Committee allowed for effective meetings and the external members could still influence the agendas. The joint sessions with the FPC were working well – the overlap of interests was sufficient for the members to get real benefits from the process.

8. Financial Stability Strategy

(Beth Blowers and Catrin Jones)

The Court had delegated to the FPC the function of determining the Bank's Financial Stability Strategy under S9A of the Bank of England Act 1998.

Ms Blowers presented the strategy as agreed by the FPC: the focus was familiar, though the presentation had changed by grouping the elements into three parts (1) establishing a baseline level of resilience to protect the UK real economy; (2) ensuring that the level of resilience adjusted to the risks faced by the system and (3) enabling the system to absorb shocks so that it can continue to support the real economy. The strategy also documented the channels through which the Bank contributed to the delivery of the strategy.

The Chairman, who had attended the relevant FPC meeting, said that there had been a good and productive discussion and the Governor confirmed that the process had identified further areas of work to make the strategy operational.

Court was content with the strategy and, subject to consultation with HM Treasury, agreed that it should be published in the Annual Report.

9. **NAO Review**

(Rommel Pereira and Paula Lawless)

Court noted and was content with the Review, ahead of final clearance by Ms Place.

Publication was expected on 27th June.

10. **Bank Capital and Income**

(Andrew Hauser, Rommel Pereira, Nat Benjamin and Angela Durnin)

Mr Hauser said that the Bank's current objective was to maintain a level of capital sufficient to withstand a severe but plausible scenario. There was limited scope for capital accretion through net income as much of the Bank's financial framework was geared to cost recovery. And a material gap had opened up between the income generated by the Cash Ratio Deposit scheme and the unremunerated policy costs that it was intended to cover.

Court discussed possible options for the CRD review. Court asked for a report in the autumn after further discussions had been held with the Treasury.

11. **Annual Report and Accounts**

(Rommel Pereira, Angela Durnin, Emma Murphy and Chris Peacock)

Subject to a number of amendments Court was content with the draft Report and Accounts, with the draft letter of representation to the Auditors and with the proposed full-year dividend of £101mn, representing 50% of post-tax profits. Court delegated final approval to the Signing Committee, which would meet after the election, with a view to publication in late June.

12. **Bank of England Asset Purchase Facility Fund (BEAPFF) Annual Report and Accounts**

(Rommel Pereira and Angela Durnin)

Court noted the accounts of the asset purchase facility. The increase in assets in 2016/17 reflected decisions by the MPC relating to gilt purchases, the Term Funding Scheme and the Corporate Bond Purchase Scheme. The Company's net (favourable) indemnity position had grown by £11bn to £50.3bn.

13. **PRA Annual Report and Accounts**

(Rommel Pereira, Angela Durnin, Heather Butler and Vijay Reed)

Court noted the PRA Annual Report.

14. **Competition Annual Report**

(Katharine Neiss, Rommel Pereira, Paul Grout, Stephen Dickinson and Paolo Sicilani)

Ms Neiss and Professor Grout presented the PRA's latest competition report which would be published alongside the PRA Annual Report. The Report described how the PRA had embedded the Secondary Competition Objective into PRA policy and supervisory decision-making, in line with recommendations made by Court's Independent Evaluation Office (IEO) in its 2016 review; and also described new communication initiatives such as the academic competition conference jointly organised with the CEPR, and an update on the research activity undertaken by PRA staff to improve understanding on the relationships between competition, firms' safety and soundness and financial stability. The Report also described measures to facilitate entry and expansion, including through improving the IRB model application process, and provided an update on the New Bank Start-up Unit and the proposed refinements to the PRA's Pillar 2A capital framework. Court members welcomed the Report and the clear evidence of progress in new bank formation.

15. **Data Centre Migration**

(Rommel Pereira, Rob Elsey, Helen Roberts and Duncan Clubb)

Court reviewed proposals for replacement and relocation of the Bank's datacentres. The project would be considered by the Bank's Investment Board in August and approval would be sought from Court at September's meeting. Court endorsed the project aims but asked for more

detailed information on the business case and the cash flows, including costs, risks and the realisation of benefits. It was noted that Deloitte had been appointed to validate the strategic approach.

16. Data Programme Update

(Rob Elsey and Oliver Burrows)

Further to a discussion in December 2017, Court considered updated plans for the Data Programme. Following a review the focus of the programme had narrowed to providing the core infrastructure that would support new functions requiring data platforms, and to which existing functions could migrate over time. The full benefits of a fully-integrated data structure for the Bank would thus be achieved but over a longer period of time than originally envisaged, and at less risk. Court was content with the revised approach, and noted that good results had already been achieved for a number of projects using elements of the new platform.

17. Strategic Plans

(a) 2014-17 Strategic Plan – Evaluation Report

(Emma Murphy)

Court noted the closing report from the 2014-17 One Bank strategic plan. It was noted that metrics for the next strategic plan would be focused more on outcomes and less on outputs; and ideally there should be fewer metrics.

(b) Vision 2020 launch

(Jenny Scott, Jonathan Curtiss and Emma Murphy)

Ms Scott said that the V2020 strategy had launched to a generally positive reception, though understandably people were asking where and when they would see the differences in their daily lives. There were two immediate challenges – in the communications area, to manage expectations about what could be done with limited resources; and in the “ways of working” area, where cultural change was required, to find ways of making that concrete and measurable. The Governor commented that it could take a long time to produce simple versions of central bank communications.

Ahead of her departure, Court expressed its appreciation of the contribution Ms Scott had made to the Bank as Communications Director.

18. Papers for Information

Court noted the Scottish and Northern Ireland Banknotes Annual Report

The meeting of Court was closed.