

MEETING OF THE COURT OF DIRECTORS

Tuesday, 7 November 2017

Present:

Anthony Habgood, Chairman

The Governor

Mr Broadbent, Deputy Governor – Monetary Policy

Sir Jon Cunliffe, Deputy Governor – Financial Stability

Mr Fried

Mr Frost

Baroness Harding

Mr Prentis

Sir David Ramsden, Deputy Governor – Markets & Banking

Mr Robert

Ms Thompson

Mr Woods, Deputy Governor – Prudential Regulation

Ms Place, Chief Operating Officer

Secretary:

Mr Footman

1. Minutes and Matters Arising

Subject to amendments, the minutes of the meeting held on 19 September were approved.

A potential conflict was noted; and otherwise, members confirmed that they had no conflicts of interest in relation to the present agenda.

All matters arising from previous meetings were scheduled for discussion in the present agenda.

2. Audit and Risk Committee

Mr Fried said that the Committee had agreed an approach to re-tendering the Bank's financial audit, which had last been done five years previously. It would be open to KPMG, the present incumbent, to reapply.

The Committee had been updated on the negotiations with the Treasury on the renewal of the Cash Ratio Deposit scheme; had reviewed in detail the risk profiles in Notes, MA, Research and Statistics; and had reviewed the overarching risk framework, which would be discussed later in Court.

3. **Remuneration Committee**

Baroness Harding reported that the Committee had reviewed a benchmarking exercise for salaries and overall remuneration of staff in Scales A to C (Executive Directors to Heads of Division) and had asked for further analysis to be prepared. It had also reviewed the rates at which staff could increase or decrease pension accrual under the OBYR flexible pension scheme. Lower average gilt yields had increased the present value of pension accrual, and the Committee had recommended, for a second year, a cap on the payments to those who opted out of pension altogether.

4. **Gender Pay Gap Report**

(Jonathan Curtiss, Helen Jenks and Simon Fillery)

Court noted the Bank's gender pay report, which showed a median gender pay gap (defined as the difference in hourly pay as between male and female employees) of 24.2% (mean 21.0%). The gap was a consequence of under-representation of women in the higher pay scales and under-representation of men in the lower ones; and was exaggerated by the greater propensity of men to take cash alternatives for benefits, notably by dialling down pensions which were most valuable to the long-serving members. Adjusted for scales, there was no significant pay gap.

Court members focussed therefore on ongoing efforts to improve the gender balance in the highest ranks, against a background of having lost a number of the Bank's most senior women and potential role models over the past year. Sir David Ramsden said that the Treasury had in the recent past experienced a similar situation but had worked their way back from it through various initiatives. Mr Fillery and Ms Jenks said that a senior group (at Director level) was exploring the scope for positive action to support talented senior managers in preparing for Head of Division roles; and steps were being taken to improve diversity ratios in external hires. The Women in the Bank group was active and had visible senior sponsorship; the Bank had recently signed the Women in Finance charter. The Bank's flexible working approach was becoming more flexible - for example jobshare between two women at HoD level in MA had recently been agreed. Mr Woods commented that in terms of managing the pipeline the move from manager to senior manager was critical, and he would like HR to explore that further. The Governor noted the substantial progress in the gender composition of external hires and

undergraduate recruitment and stressed the ongoing need to maintain focus including through succession planning and development.

5. Viewpoint survey results

(Jo Place, Gareth Ramsay, David Bailey, Victoria Cleland, Jonathan Curtiss and Simon Shellard)

Court reviewed the results of the 2017 “Viewpoint” staff survey. Ms Cleland said that the results maintained the levels reached in 2016 and in a number of areas showed further significant improvement; the gains over two years were particularly impressive. Satisfaction with levels of reward was down, however, and there was some criticism of the fairness of performance awards. The most positive feedback related to the Bank becoming more open, collaborative and inclusive – possibly a reflection of the Vision 2020 initiatives.

Mr Fried said that the 11% point improvement (17% points since 2015) in the response to the question “I feel free to voice my views at work” suggested that something very positive was happening in the Bank – the Governor agreed, and noted that 2/3rds of the questions showed significant improvement since 2015. Court welcomed the improved scores and recommended focussed attention on the weaker areas.

6. PRC Report

Mr Woods noted publication of a Report by the Treasury Select Committee (TSC) on the implementation of Solvency II. The PRA’s approach had been described as over-cautious, and the TSC had recommended a review by the Treasury of the PRA’s Competition Objective, raising the possibility of elevating it to a primary objective.

Mr Woods also commented on apparent progress in the Basel Committee in its attempt to tackle mis-use of models in determining capital requirements. In further discussions the possibility had increased of agreement by the end of the year or early next year.

7. MPC Report

(Andy Haldane)

Mr Haldane discussed the background to the MPC’s decisions announced during the previous week.

8. **Brexit Contingency Planning**
(Phil Evans and Lauren Anderson)

Mr Evans provided a further update on the Bank's preparations for Brexit. The main event of recent months had been the government's confirmation that it was seeking a transitional deal. The critical point for firms' location decisions would be early 2018.

9. **IEO Review of the Bank's approach to provision of sterling liquidity**
(Lea Paterson, John Power and Katie Stratford)

Court reviewed a note from the IEO outlining the main themes of its review of the Bank's system of sterling liquidity insurance. Ms Paterson, the Independent Evaluation Director, said that over recent years, and partly in response to the Winters Review, the Bank had materially reformed many aspects of its approach and the IEO project has aimed to assess the collective impact of those changes.

Drawing on case studies from the EU and Scotland referenda planning, discussions with users, analytical work and input from senior level advisory group as well as input from external 'critical friends', the IEO had reached broadly positive conclusions. There was evidence that the Bank has embraced and operationalised recommendations from the Winters and its internal reviews of financial risk management arrangements, as well as successfully advancing the 'One Bank' agenda. Firms were receptive to the reforms. There were opportunities to refine and future-proof the approach in light of the integration of the PRA, and developments in the broader regulatory and financial environment.

Some directors found the draft recommendations a little too detailed and Ms Paterson said she would as far as possible draw out the main themes, as well as identifying more clearly what the individual facilities were for. Mr Woods thought there would be value, now that the PRA was firmly established in the Bank, in setting out a more holistic review of liquidity insurance for banks, public and private. Sir Jon Cunliffe said that all of the strands of the Bank's work came together in the Governor's Committee: that was where there any trade-offs would be made. But to a much greater extent than in the past the Bank had set out in advance how it would operate in given circumstances: it had moved away from "constructive ambiguity".

The IEO's near final report would be brought to Court in December.

10. Enforcement Decision Making Committee
(Miles Bake and Dermot Lynch)

Court approved a final consultation paper on establishing and operating an Enforcement Decision Making Committee (EDMC) that would decide any contested enforcement cases brought by the Bank – including the PRA. This fulfilled public commitments made in response to the Treasury’s enforcement review of 2014.

Subject to the consultation, the Committee would be established by Court in the first quarter of 2018. An initial group of five members would be established – at least two including the chair legally qualified – and in any specific case a panel of three of the five would be formed to determine it. There would be no permanent secretariat: the EDMC would be supported as necessary by the Bank’s legal directorate and the Secretary.

11. Quarterly Financial Review and Budget 2018/19
(Rommel Pereira and Rob Thompson)

Mr Pereira summarised the financial results for the first half of the year, the projections for the full year, and the current spending plans for the following year. Costs had been running below expectations and for the full year were likely to be £10mn below budget. Staff numbers however were likely to end the year slightly above budget, setting a challenge for the following year. A preview of the 2018/19 budget reflecting the Governors’ intentions would be brought to Court in December.

12. Renewal of Cash Ratio Deposit Scheme
(Rommel Pereira)

Mr Pereira updated Court on the progress of discussions with the Treasury on renewal of the CRD scheme.

13. Risk Report
(Julia Rangasamy, Andrew Hauser, Nat Benjamin and Ben Martin)

Court reviewed the Quarterly Risk Report, which had previously been discussed in ERC and ARCO. Key issues remained information and physical security, execution risks in projects approaching delivery including the RTGS/CHAPs acquisition and the GDPR; and uncertainty

regarding EU withdrawal. Current financial risks were within the Bank's current stock of loss absorbing capital, though contingent exposures (if they crystallised) could require more capital.

14. Bank-wide Risk Framework
(Julia Rangasamy and Nat Benjamin)

Court approved changes to the Risk Management Framework that had previously been reviewed in ARCO.

15. Data Centre migration
(Rob Elsey, Judy Bennett and Will Lea)

Court approved additional funding of £700,000 for this project ahead of a full review at December's meeting.

16. RTGS/CHAPS Board Conflicts of Interest Code
(Andrew Hauser, Andrew Dent and Lisa Newman)

Court approved the Conflict of Interest Code for the RTGS Board, ahead of the acquisition of CHAPSCO planned for 10 November.

17. Our Code: Report on Attestations
(Duncan Cromarty and Lucy Chennells)

Mr Cromarty said that the attestation round for the new Code had completed with 96% of staff completing before the deadline. The drafting of the new Code and the usability of the online declaration package had been broadly welcomed. Ms Chennells said that the process had been valuable in ensuring systematic uniform compliance and avoiding over-disclosure. A number of cases were being followed up with individuals.

18. Senior Managers Regime
(Lucy Chennells)

Court approved a revised version of the Bank's statement of senior management responsibilities. The changes reflected the appointment of a new DGMB and COO, and the role of the Conflicts Officer agreed at the previous Court.

The meeting of Court was closed.