

MEETING OF THE COURT OF DIRECTORS

Tuesday, 19 September 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 Fried

Mr Frost

Baroness Harding

Mr Prentis

Mr Robert

Ms Thompson

In attendance:

Ms Place, Chief Operating Officer

Apologies:

Mr Woods, Deputy Governor – Prudential Regulation

Secretary:

Mr Footman

1. Minutes and Matters Arising

Subject to amendments, the minutes of the meeting held on 12 July 2017 were approved.

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

2. Nominations Committee

Mr Habgood said that the Committee had met the previous evening to review likely Court vacancies for 2018. Mr Frost would have completed the normal two terms in May;

Mr Habgood himself would retire in June. It was necessary that the new non-executive member should have recent and relevant financial experience.

3. **Remuneration Committee**

(Sir David Ramsden and Ms Place withdrew)

Baroness Harding advised Court of the Committee's decision on Sir David Ramsden's remuneration, and in relation to Ms Place made a recommendation, which was approved.

4. **Employee Relations Update**

(Jonathan Curtiss)

Mr Curtiss reported on the recent three-day strike by members of the security and maintenance staff. Contingency plans had ensured that the Bank operated normally throughout the period. Discussions facilitated by ACAS had continued up to and after the strike, and an agreement had been reached, which was accepted by Unite members following a further ballot. Under the agreement Unite would have negotiating rights in relation to the pay budget and participation in the Reward Steering Group, on the basis of two shared objectives – a joint commitment to fair pay for all staff and acknowledgement that the Bank faces significant budget constraints. In addition an extra half day's discretionary leave had been agreed for all staff for this year only and a minimum increase for lower paid staff in the annual pay review. Court noted that there were lessons to be learned about internal communications, particularly in areas where other changes were taking place. Negotiations on the 2018 pay review would start shortly.

5. **Implementation of the Conflicts Review**

Ms Place noted that the Bank had made clear, on publication of the NEDs' review, that it accepted all the recommendations and would implement them swiftly.

The Secretary of the Bank had been asked to take on the Conflicts Officer responsibilities as set out in the Review. The recommendations on personal relationships had been incorporated into the Bank policies and the revised *Our Code*, which Court would be asked to approve. There had been helpful discussions with the Treasury on new arrangements for conflict checks during the appointment of senior office-holders, and these would be reflected in the process for senior internal appointments. There would be regular updates to Court on the operation of the Conflicts Code for policy committees.

There were some organisational changes that flowed from these decisions. First, the Secretary would be given an SMR responsibility for conflict policies and management, and would also have responsibility for *Our Code* as well as for the individual ethics policies that are reflected in the Code. That would be reflected in the revised SMR document in November. Second, Compliance would – at least as a temporary measure – report to the Secretary. This would cover the crucial period for attestations and work on the new Compliance system; it would also provide appropriate reporting lines for the Compliance Division during the General Counsel’s short planned absence from the Bank. Further ahead (and as recommended by the Review) the Bank was considering reporting lines and responsibilities for Risk, and as part of that would consider whether that was the best long-term reporting structure for Compliance. The grading of the Head of Compliance – another recommendation of the Review – would be considered at the same time. There would be a report to Court in April.

Court was content with these changes.

6. **Codes and Ethics**

(i) **Our Code** (Sonya Branch and Duncan Cromarty)

Ms Branch introduced the revised *Our Code*, which had been amended to reflect the recommendations of the NEDs’ review and to support the Attestation process that would start in October. It was shorter than before, but still brought together in one place all of the declaration and approval requirements of the various conflict and business ethics codes. Attestation would be more detailed than previously, and for the most senior staff would be face-to-face.

Court approved the 2017 *Our Code*.

(ii) **Business Ethics Policies**

The following policies, amended to reflect the recommendations of the NEDs’ review, were approved by Court:

Personal Relationships

Financial Relationships

Personal Financial Transactions

Entertainment and Gifts

Community and Charity Roles

Directorships

(iii) **The Court Code**

Mr Footman introduced amendments to the Court Code - which was relevant particularly to non-executives – to ensure that it reflected Our Code with appropriate derogations as specified in the Review.

The amended Code was approved.

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

Mr Evans and Ms Anderson updated Court on the Bank's involvement in supporting the government in negotiations, looking at the post-withdrawal regulatory framework with the EU, the management of the transition and nationalising EU legislation. The timetable for all firms was tight, with applications for authorisation now starting and hard-to-reverse decisions about location being taken over the ensuing six months. The Governor added that the FPC was focussing closely on the implications for financial stability and any mitigating action that might be needed.

8. **Cost Containment and Value Creation Exercise**
(Rommel Pereira and Rob Thompson)

Further to a discussion on 12 July, Mr Pereira said that planning for the 2018/19 budget was now based on holding spending flat in nominal terms across the whole Bank, leaving aside note production and pension valuation issues. External price rises, EU withdrawal work, other committed projects such as RTGS renewal, the annualisation of the present year's net recruitment and an assumed pay rise (though within public sector constraints) would all provide additional pressure on that budget. Depending on how those items are treated, compensating cuts of up to 5% of spending (£25mn) could be needed. Mr Pereira said that he was not proposing a salami-slicing approach, but rather a 3-year strategic initiative that would focus on

headcount, process reviews, property management and use, procurement and prioritisation. It would not be restricted to central services although that was a large element in costs: all policy areas would also be expected to justify their costs. Directors agreed that taking cost out of a business was often difficult and needed careful planning and execution; it was important to make the link to the prioritisation theme of V2020. In response to questions Mr Pereira said that there were also options on the income side, though these were unlikely to be material in the short term.

Mr Habgood said that the approach was appropriate and Court would welcome an update on progress in November

9. CRD Review: Status Update
(Rommel Pereira and Angela Durnin)

Mr Pereira updated Court on discussions with the Treasury, which had formally started on 25 July with a meeting of a Joint Senior Steering Group (JSSG). To remedy the current shortfall between the reinvestment returns on CRD deposits and the policy costs that they were intended to cover, the JSSG was focussed on an increase in the CRD rate, a possible extension of the perimeter and an automatic recalibration to compensate for future changes in market rates. A further update would be provided to Court in November. The deadline for completion of the review (including Parliamentary process) was 1 June 2018.

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

Ms Murphy provided an update on the Vision 2020 strategy, approved by Court in May. Most initiatives were on track, notably those driving improvements in communication. A Director of Priorities and Resourcing had been appointed to promote Bankwide collaboration and to drive the prioritisation objectives of V2020; a proposal for an annual strategic and business planning framework had been agreed and would be rolled out in the 2018/19 planning round. A large number of prototype “new ways of working” were being trialled. Ms Place added that in this sense V2020 was integral to achieving the cost saving objectives that Mr Pereira had outlined.

Several Directors agreed that it was essential to set meaningful, measurable outputs and hard targets. Identifying, measuring and celebrating success would create its own momentum. The

multiple initiatives would need to be narrowed down so that the programme could focus and build on those that worked.

11. **Cyber Update**

(Rob Elsey, Neal Semiken and Buck Rogers)

Mr Elsey said that the £21mn 3-year information security programme had completed successfully in March; the ETRA assessment, first conducted in 2013, now showed the Bank in line with peers in all areas. The programme had also embedded IT security more firmly into “business as usual”. Nevertheless external threats had diversified and multiplied, just as the Bank’s IT and data estates had expanded with the accretion of new functions. The executive risk committee and ARCo had agreed that this combination of risk and potential impact meant that the Bank risk remained high and outside normal tolerances. Further investment of £9mn had been approved by the Investment Board to further improve the Bank’s defences and would be brought to Court for approval in due course.

The team discussed intelligence about a number of recent external incidents that illustrated the range of security threats and the need to involve all parts of the business in cyber defences and in responding to incidents.

12. **RTGS/CHAPS Board: Terms of Reference and Conflicts of Interest**

(Andrew Hauser, Matthew Hunt, Andrew Dent and Lisa Newman)

Further to a Court discussion in April, Mr Hauser reported that good progress was being made by the Bank in taking direct responsibility for the delivery of the UK’s high-value payment system (CHAPS). Implementation was due in November. A new Bank Committee – the RTGS/CHAPS Board – would be created to manage the system. It would be chaired by the Deputy Governor for Markets and Banking and would have three external members, to provide expertise and challenge, and to meet the supervisory expectations of the regulator. Those members were now being recruited and the Board would meet for the first time in December.

Court noted the draft terms of reference of the Board, which would be signed off by the Governor as a formal delegation of his own authority; and the draft Conflict of Interests Code for the Board, which Court would be asked to approve in November.

13. FMI Board Conflicts Code
(David Bailey and Sarah Parkinson)

Mr Bailey said that following the IEO review of FMI supervision the Bank had committed to bring external expertise into the FMI Board. The addition of independent members with outside interests necessitated a Conflict of Interest Code, a draft of which was presented for Court approval. It followed closely the Codes that Court had agreed for the three statutory policy committees.

Court approved the FMI Board Conflicts of Interest Code of Practice.

14. Corporate Social Responsibility
(Dominic Whittle and Simon Fillery)

Mr Whittle said that the Bank had set and published ambitious targets for Corporate Social Responsibility. Delivery across eight separate categories was co-ordinated by a CSR steering group, which he chaired. He summarised recent achievements in the Bank's environmental impact, including significant reductions in electricity and gas consumption, and improvements in recycling and waste reduction. Mr Fillery noted the launch of the Inclusion Strategy and the Bank's community outreach programme. There would be further comprehensive reporting against targets in the Bank 2018 annual report.

15. Directorships and Commitments

Court noted updated lists of external commitments provided by individual Directors. The Chair reminded members that any new commitment should be notified to the Secretary in good time for the Chair and Governor to be consulted.

16. MPC Discussion
(Andy Haldane and other Policy Committee Members)

Mr Haldane briefed Court members about the decisions of the MPC published on 14 September.

The meeting of Court was closed.