

**MEETING OF THE COURT OF DIRECTORS**  
**Wednesday, 11 April 2018**

Present:

Sir 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 Woods, Deputy Governor – Prudential Regulation  
Mr Fried  
Mr Frost  
Baroness Harding  
Mr Robert  
Ms Thompson

In attendance:

Ms Place, Chief Operating Officer

Apologies:

Mr Prentis

Secretary:

Mr Footman

**1. Minutes and Matters Arising**

The minutes from 20 February were approved.

Mr Woods said that he would withdraw from any discussion of the Co-op Bank investigation: otherwise members confirmed that they had no conflicts in relation to the present agenda.

**2. Committee Updates**

**(a) ARCo**

Mr Fried said that a number of the issues previously discussed at ARCo were on the Court agenda, including the Bank's approach to meeting its tax obligations, enhanced Annual Report disclosures for the 2018/19 financial year, the Quarterly Risk Report and the work done on Risk Controls and attestations.

The Committee had also discussed the Bank's preparations for the GDPR. Meeting the timetable was a significant challenge, but remediation plans had been identified as necessary and Executive Directors were clear about their responsibilities and knew what actions needed to be taken ahead of the May deadline. The central project team appeared ready to discharge their GDPR-related responsibilities; all Bank staff were covered by mandatory training and attestation; processes and policies were now in place. Work was underway to fill the remaining gaps in relation to third party providers.

ARCo had reviewed the risks to the Bank's publication of the Sonia benchmark ahead of a planned go-live date of 23 April. Ms Place confirmed that the advisory Committee would meet on 12 April to reach a decision.

### **3. Brexit Contingency Planning** (Lauren Anderson)

Ms Anderson said that the March Council had opened the way to a two-year implementation period, which gave regulators and firms more time to complete preparations for an orderly withdrawal from the EU. The Bank issued an update on 28 March to the relevant banks, insurers and CCPs, stating that it was reasonable for firms to plan on the basis that UK authorisation or recognition would be needed only by the end of the implementation period, given that the Government was committed to bringing forward a temporary permissions regime should that prove necessary.

The FPC checklist of EU withdrawal risk had been published on 12 March and had highlighted the Committee's assessment of the risks to the EU and the UK.

The Bank continued to support the work "nationalising the acquis" to ensure a workable legal framework from 2019 whatever the outcome of the negotiations.

### **4. PRC Update**

Mr Woods said that on the latest figures the PRA expected around 170 applications from EU firms seeking authorisation, most to operate as branches in the UK. Over a three year period this would be manageable: the implementation period and the temporary permissions regime was therefore important to the PRA.

Mr Woods noted that the PRA had taken a number of steps in response to the Treasury Committee report on Solvency II. The outstanding issue arose from the Solvency II Risk Margin, on which work was ongoing.

**5. PRC Effectiveness**  
(Lucy Chennells)

Ms Chennells outlined the conclusions of the Chair's annual discussions with the external members of the PRC. A year after it replaced the PRA Board, the PRC was seen as functioning well. Members had reviewed the operating procedures during the year, finding ways to expedite routine business and focus on thematic papers and big decisions. They had good access to the senior management of the PRA and were pleased with the improvements in the management information they receive. The budget process had been transparent and the prioritisation choices clear. The relationship with the FCA was good.

The Chair said that the current composition of the Committee seemed well-balanced, and members would like to see the range of industry experience and degree of challenge maintained as new members were recruited. Mr Woods said that the benefit of informed practitioner input was clear, but that some potential applicants were put off by the limitations that PRC membership placed on anything else they might want to do.

**6. FPC Annual Survey**  
(Christina Segal Knowles, Beth Blowers and Kathy McCarthy)

Court reviewed the annual assessment by FPC members of the Bank's support for the Committee, and the Chair's conclusions from his meetings with members. Ms Blowers said that in most areas scores had improved relative to the previous year: the key briefings and staff presentations were highly regarded, and the focus of meetings had improved as had external communication of the Committee's conclusions. The focus for the year ahead was to build on that, cutting out less highly-regarded background briefings, concentrating on the key issues for an effective discussion, and making further enhancements to publications – including following the MPC practice of concentrating all quarterly publications on a single day, and introducing more layering of messages with supporting infographics. Some IT development would be required to improve advance circulation of material among the widely dispersed membership.

Ms McCarthy said that this assessment was broadly supported by the Chair's interviews, although there was some concern about compressing the publication timetable in the way envisaged. As with the PRC, there was a concern to maintain the balance of the Committee with sufficient practitioners. The Chair added that the external members would value more direct feedback from the internals on their contributions; and (possibly as part of that) would be interested in an assessment of the Committee's achievements five years after its creation in 2013.

## **7. MPC Survey Results** (Jamie Bell and Alan Castle)

Mr Bell introduced the annual review of the Bank's support of the MPC. Responses to the survey of members indicated a continuing high level of satisfaction with the quality of staff support, with improvements in the scores for the policy round, minutes, the joint FPC/MPC meetings and the contribution of the wider Bank outside Monetary Analysis. Some questions had been raised about the way in which Bank research was prioritised and shared.

Noting that Court was required to determine whether the Committee has collected the regional, sectoral and other information necessary for formulating monetary policy, Mr Fried asked about suggestions for broadening the regional Agents' network. Mr Broadbent said that the suggestions had more to do with the Agents' role in representing the Bank than with information gathering, and the Governor added that the Bank had been building on the 3,000-member Decision Maker Panel, which had helped in the assessment of the potential impact of Brexit. Mr Frost asked about inputs from market intelligence. Mr Bell said that it could be hard to extract the economic stories from financial market language in the short term. Sir David Ramsden said that there was value in market intelligence and the key was to extract the insights rather than describe market moves. In relation to research, Mr Broadbent said that the amount and quality was increasing and the aim was to ensure that policymakers got the full benefit of that.

## 8. IEO

### (a) IEO Discussion Paper: the Bank's approach to resolution

(Lea Paterson, Andrew Gracie, Melissa Davey and Anna Jernova)

Court discussed the main themes and recommendations of the IEO's review of the Bank's approach to resolution. These related to the achievement of the Bank's strategic aim of making the resolution regime fully operational by 2022, the plans for achieving that, the approach to testing the framework, and managing the internal relationship between supervision and resolution. The Review noted that the Bank's resourcing model for resolution consisted of a small specialised directorate reliant on support from the wider Bank.

Mr Gracie and Sir Jon Cunliffe said that the Review had correctly identified the issues, and its recommendations were in line with what the Bank was planning to do. Mr Gracie said that the resolution assessment framework would identify what firms and the Bank needed to do.

At its meeting on 23 May Court would consider a draft final report for publication.

### (b) IEO three years on

(Lea Paterson, Melissa Davey and Anna Jernova)

Ms Paterson took the opportunity of her departure to reflect on the first three years of the IEO and to suggest its immediate priorities. The first of these was to put in place an effective follow-up programme approximately three years after each review. Some steps had been taken by way of recommendation tracking, but some issues would in Ms Paterson's view justify a more substantive re-assessment: these might include competition and the Bank's approach to forecasting.

## 9. Report on Emergency Liquidity Facilities

(Richard Windram, Nat Benjamin and David Brighton)

Court discussed a review of the Bank's readiness to provide liquidity support outside its published facilities. Mr Brighton noted that in October a new Resolution Liquidity Framework (RLF) had been established.

**10. Six-month Risk Reports**

(Julia Rangasamy and Nat Benjamin)

Ms Rangasamy and Mr Benjamin summarised the Bank's current risk profile. Non-financial risk had reduced slightly, though information security risk remained elevated, with thirteen reportable incidents. A review of staff stress and resignations had been discussed in the Executive Risk Committee. Financial risk remained unchanged: the FLS was running down, but TFS drawings had increased.

**11. Annual Controls Review**

(Julia Rangasamy)

Ms Rangasamy said that the attestations process had surfaced no new risks or control failures and Court was content with the statement on Risk Management and Internal Control for inclusion in the Annual Report.

**12. Co-op Investigation**

(Sonya Branch, Miles Bake and Clare Hargreaves)

(Mr Woods withdrew)

Mr Bake noted that the Economic Secretary had approved the appointment of Mark Zelmer as the Independent Reviewer, and this had been announced. He would be supported by a firm of accountants. Work was currently under way to appoint a new Senior Responsible Officer to replace David Thorburn, following his resignation from the PRC. Ms Branch clarified that the SRO would be supported by a senior member of the legal directorate.

**13. Conflicts Officer Report**

(John Footman)

Mr Footman summarised progress made since the Court review. The Conflict Officer role was in his view working as intended: there was now closer engagement in public appointment processes, and internally the new edition of *Our Code* and subsequent attestation process had focussed attention on the risks of non-compliance.

**14. Bank Subsidiaries**

(John Footman)

Court approved the appointments of Victoria Cleland and Richard Windram as Directors of Securities Management Trust Ltd; and of Andrew Hauser, Victoria Cleland and Rommel Pereira as Directors of the Bank of England Asset Purchase Fund Facility Ltd.

**15. The Bank's approach to taxation**

(Rommel Pereira and Paul McArdle)

Subject to a drafting point, Court was content with the statement on the Bank's approach to meeting its tax liabilities.

**16. Financial package update, including conclusion of formal consultation**

(Rommel Pereira, Nat Benjamin and Liam Waters)

Court noted the latest draft of the Financial Framework agreement with the Treasury.

**17. Annual Report Draft Text**

(Emma Murphy, Lea Paterson, Rommel Pereira and Paul McArdle)

Court reviewed the first draft of the narrative sections of the Bank's Annual Report for 2017/18. A number of changes were requested in the ordering of the sections and the overall balance.

**18. Diversity**

(Lea Paterson and Jonathan Curtiss)

Court endorsed proposals by the Executive to accelerate the progression of diverse candidates into senior ranks of the Bank. These included the introduction of a sponsorship programme, and changes to the appointment process for senior positions, including pooling of individual decisions to ensure that a diverse range of candidates was considered. It was agreed that turnover at senior levels would be helpful to this process; though equally it was undesirable for tenures to be too short. Directors encouraged the executive to consider the risk of unconscious bias in recruitment. The Governor said that the aim was to place sequential decisions under collective review by EDCo and Govco: this would be a rigorous process; outcomes would be tracked; and obstacles such as part-time working patterns removed.

**19. National Audit Office Value for Money Terms of Reference**

(Rommel Pereira, Paula Lawless and Angela Durnin)

Court reviewed the proposed terms of reference of the next NAO review, on which it would be formally consulted at its next meeting. The broad question was whether the Bank had a robust strategy for delivering efficient and effective central services.

**20. Cost Containment**

(Jonathan Curtiss, Rommel Pereira and Angela Durnin)

Mr Curtiss outlined the approach through which the Bank was proposing to contain cost pressures in order to meet spending and headcount targets. A Cost Containment Group was being established to monitor expected budget savings, propose new savings. As an important part of this, Central Services was scoping an ambitious efficiency programme that would transform processes and systems. The proposals were welcomed by Court.

**21. FPC discussion**

(Christina Segal Knowles)

Ms Segal-Knowles briefed Court on the background to the recently published record of the FPC's meeting on 12 March.

**22. Papers for Information**

Court noted:

- (a) MPC Report
- (b) Health and Safety annual report
- (c) Houblon Norman George fund accounts

**The meeting of Court was closed.**