

## MEETING OF THE COURT OF DIRECTORS

**Tuesday, 20 February 2018**

Present:

Sir Anthony Habgood, Chair

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

Ms Place, Chief Operating Officer

Apologies:

Mr Woods, Deputy Governor – Prudential Regulation

Secretary:

Mr Footman

### **1. Minutes**

The minutes from the meeting held on 19 December 2017 were approved.

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

### **2. Matters Arising**

Ms Place briefed Court on two matters:

*Debden notes theft*

Further to a minute of 7 April 1994, Ms Place said that following a property sale, the Bank had now recovered substantially all of the funds stolen in 1992 by staff in the returned note operation at Debden. Court agreed that it would be right now to draw a line.

### *Network Incident*

As already reported to ARCo, a serious network incident had affected the Bank for two business days in late January, affecting a number of key systems. The root cause had been a bug in a software release.

## **3. Reports from Court Committees**

### **(a) ARCo Update**

Mr Fried said that a number of the issues on the Court agenda had previously been discussed in ARCo, including the network outage, the Bank's income and capital framework, and the preparations for the GDPR. In addition the Committee had discussed the Bank's approach to its tax obligations, which would be brought to Court in April. The Committee had been clear that the stated risk tolerance should be very low. There had been an interim impairment review of the Bank's counterparty exposures as at December 2017, including those of the TFS and FLS, and taking account of IFRS9, which had identified no requirement for provisions. The Committee had undertaken a series of "deep dives" into area risks, including markets, banking, and international benchmarks; these were being circulated to all Court members.

Mr Prentis commented that for those members of Court who were not members of ARCo it was particularly valuable to have visibility to the risk logs and accompanying papers.

### **(b) RemCo Update**

Baroness Harding said that the Committee had agreed a pay increase of 1% for the Governors, and was proposing for Court's approval the same increase for external members of the three policy committees. Court had previously agreed by written procedure the Committee's proposals for Executive Directors, and agreed the proposals for the policy committees. It was noted that the Governor had again declined the proposed pay increase.

## **4. External Policy Committees** (John Footman)

Mr Footman summarised recent appointments and re-appointments to the policy committees, and presented updated conflict tables.

Court approved a Conflict of Interest Code for the new SONIA Advisory Committee.

## **5. Annual Communications Report** (Gareth Ramsay)

Mr Ramsay set out the Bank's immediate communication priorities. These were to create clear targeted material in simple language, and to make better use of channels, including social media, to ensure it reached a wide public. This would require working with colleagues across the Bank, as had happened with the "layered" presentation of the November *Inflation Report*. Other major publications would follow, notably the Financial Stability Report. As well as focusing heavily on social media, the Bank was finding other means of engaging directly with audiences it had previously found hard to reach, through the flagship seminars and the Town Hall meetings around the country. New educational resources had been launched, with positive responses from teachers, and Bank staff had been keen to present at the 200 school visits planned for 2018.

Alongside this proactive work, the press office continued to react to day-to-day challenges.

## **6. Court Effectiveness Review** (Lucy Chennells)

Ms Chennells said that the annual survey, which reflected responses to questionnaires sent to all Court members and personal interviews with each member, suggested that Court was seen to be working well: meetings were seen as well run and effective, the Committees were highly rated, especially ARCo, and the practice of including all policy committee members in the post-Court lunch was very productive. Some members felt that more time should be made for longer-term strategic discussions; and although progress had been made, some Court papers could be more concise. Members acknowledged the importance to two particular issues for attention in 2018 – the changing membership of Court with the departure of Tim Frost and the Chair, and review of the governance of risk management within the Bank.

Mr Fried, as Senior Independent Director, said that his separate review of the Chair's performance had been similarly positive.

**7. MPC Effectiveness Review**  
(Kathy McCarthy)

Ms McCarthy summarised the Chair's recent meetings with the external members of the MPC. Views of the MPC were very positive: the externals enjoyed their roles; saw the Committee as having a collegiate dynamic; and felt the MPC meetings were working well. Staff support was seen as very effective though there was scope to improve IT support, and some members would like a more comprehensive induction procedure. Responses to the full questionnaire for all members would be reported to Court in April.

**8. Consultation on PRA Strategy**  
(Lyndon Nelson)

Mr Nelson introduced the draft PRA strategy, which had been approved by the PRC in December and was intended for publication in March alongside the PRA's annual consultation on fees and levies. The strategy remained to ensure a resilient financial sector with appropriate capital and liquidity, effective risk management and robust business models. This supported the primary safety and soundness objective and the secondary competition objective. The PRA would continue to work closely with other parts of the Bank. Mr Fried asked whether in the course of preparing the strategy any strategic goals had been considered and rejected. Mr Nelson said that the main debate had been around the proximity of EU exit, and the need to maintain robust regulatory standards during a period of transition.

Court was content with the strategy.

**9. Financial Performance Review 2017/18, Budget 2018/19 and Dividend**  
(Rommel Pereira, Rob Thompson and Paul McArdle)

Mr Pereira summarised latest estimates of the 2017/18 outturn. Pre-tax profit was likely to be £146mn, £31mn ahead of budget owing to favourable outturns on both income and costs. The latter reflected lower than expected headcount and legal costs, and delays to the Data Centre Migration programme. An interim dividend of £34mn was proposed.

For 2018/19 the core expenditure budget, excluding uncertain pension and note production costs, had been set at £476mn: this represented no increase on the Q2 forecast outturn for 2017/18, despite the additional burden of EU withdrawal. Total costs were likely to be

£646mn: this was subject to adjustment to reflect actual pension costs, which were driven by yields on corporate bonds and gilts as at end-year. The cost budget for the PRA (recovered by fees and levies) was estimated at £275mn. In order to maintain the flat expenditure profile, prioritisation decisions had been taken by Governors.

For subsequent years the central assumptions implied no increase in controllable spending. To achieve that, a cost containment group led by Jonathan Curtiss was developing proposals that would be brought to Court in April. This commitment was reflected in the recent consultation document on the CRD system, and was underpinned by headcount controls at present levels.

Court was content with the budget proposals for 2018/19, including for the PRA, and approved an interim dividend of £34mn.

#### **10. CRD Review and MoU on Bank income and capital** (Rommel Pereira, Andrew Hauser and Paul McArdle)

Mr Pereira said that the Treasury consultation on Cash Ratio Deposits (CRDs), which finance the Bank's policy functions, had been issued in February, proposing a 0.35% ratio. Reactions thus far had not been unfavourable. The Treasury had agreed to extend to payment systems the levy already agreed for supervised FMIs; this would reduce the cost to CRD payers. There were also proposals for greater transparency on the elements of spending supported by CRDs, which would be brought to ARCo for the 2018/19 financial statements.

Court was content with the outcome.

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

Mr Evans summarised developments in the negotiations since the December Council meeting. A transition would be vital in mitigating the cliff-edge risks that the FPC had articulated. The PRA meanwhile was continuing to engage with firms following the publication of the authorisation approach for EEA banks set out in the Bank's December consultation. And it was engaged with the government both on the strategy and on the detailed statutory instruments that would be involved in "nationalising the aquis".

## **12. Annual FMI Board Report** (David Bailey and Sarah Parkinson)

Mr Bailey set out the main developments over the previous year in the Bank's supervision of FMIs (central counterparties, securities depositories and payment systems), including the changes made in response to the review by the IEO, and gave an outline of the proposed FMI Annual Report.

During the year, as recommended by the IEO, the FMI Board had been reformed, with three external members appointed, and a new statement of the objectives of FMI supervision would be proposed to GovCo. Also following IEO recommendations, more use was being made of specialist resources across the wider Bank, and the industry had been consulted about a more transparent fees based model to finance the Bank's supervision.

The FMI sector was continuing to evolve, with changes in the supervised population and EU-driven regulatory changes. EU withdrawal presented a series of challenges, including the adoption of EU legislation into UK legislation, the assumption of tasks presently done by ESMA and the authorisation of a significant number of new FMIs. The domestic payments landscape was also changing, with the high value payment system brought into the Bank.

The Division had continued to embed changes to its supervisory model promoting positive changes at individual FMIs. That would continue, with particular focus on stress testing and operational resilience. A key requirement would be embedding an effective data operating model to handle extensive requirements including data from trade repositories. With limited resources, deliverables would have to be prioritised: in practice that would mean limiting research, cutting non-essential international policy work and delaying the implementation of the remaining IEO recommendations.

Mr Frost asked how committed other parts of the Bank were to supporting FMI. Mr Bailey said that arrangements with the PRA had been formalised, giving access to specialised resources, senior advisers and the Supervisory Oversight Function. There had been useful support on operational resilience. And Banking had worked closely with the Division on the on-boarding of CHAPs.

Ms Thompson asked about responses to the fees consultation. Mr Bailey said that while no-one welcomed a new charge most understood the reasons and the amounts were typically manageable. The legislative changes were being taken forward by the Treasury.

Sir Jon Cunliffe said that there was central budgetary support for the priorities, recognising the temporary additional burden of EU exit.

### **13. IEO next projects**

(Lea Paterson)

Court agreed the timing and sequencing of the next two reviews by the IEO. The stress testing evaluation would start in May and run concurrently with the 2018 stress test. The question would be whether the aims of the 2015 stress testing framework had been achieved. It would be important to stick to that and not stray into live policy issues. The evaluation of the Bank's research would start in November. This would look at the quality impact and effectiveness of the Bank's programme, both in the Research hub itself and in the policy areas, and the dissemination of results through all channels.

### **14. Succession Planning**

(Jonathan Curtiss)

Court discussed succession plans for senior roles in the Bank, and the Governor outlined some immediate changes at ED level. Court was content with the proposals, which included promoting Victoria Cleland and David Bailey to Executive Director.

### **15. Vision 2020**

(Jonathan Curtiss and Emma Murphy)

Court discussed a revised performance evaluation framework for V2020. Emma Murphy said that the aim was to focus on the outcomes that the Bank sought – clearer, targeted communications, more effective decision-making, cross Bank collaboration, active prioritisation and de-prioritisation – and to provide in each case a set of key indicators of success. Directors saw this as an improvement, and suggested a number of areas in which the indicators might be better aligned with the outcomes sought.

## **16. Data Programme**

(Oliver Burrows, Rob Elsey and Kenneth Salmon)

Mr Burrows presented an update on the data programme, which sought to create a single integrated data platform within the Bank, improving analytic capability and reducing security and quality risks. A number of core infrastructure components had been installed and dependent projects had been making progress, some working very closely with the programme delivery team. The data collection system had already delivered solutions for stress testing, CCP supervision and the SONIA benchmark. The storage and computation facility (“the Data Hub”) had experienced some setbacks but was still expected to complete within the life of the programme. And new data visualisation tools were creating their own demand within the Bank. The programme itself would close in February 2019.

Sir Jon Cunliffe noted that the FMI Board had been concerned about the progress of the Trade Repository project and its continuing dependence on support from the Data Programme.

Mr Broadbent and Mr Elsey said that support would not be cut off when the programme ended. There would remain an expert team supporting data applications.

Court was content with progress.

## **17. GDPR**

(Buck Rogers and Andrew Powell)

Mr Powell outlined the progress of the GDPR Readiness Project. The Bank was already managing large risks from its holdings of personal data, and the new regulation, coming into force in May 2018, would materially increase those risks. The project had assembled a cross-disciplinary core team that helped business areas identify risks and areas for remediation, focusing initially on those likely to be most exposed. A particular area of attention was data held by third parties, and the contractual requirements governing its handling. External validation was being provided through cross-government networks and an assurance review by PWC.

In response to questions from Directors, Mr Powell described the project status as “amber”: preparations were well advanced but it would be premature to say that the Bank was GDPR-



ready. He also explained that the Bank was seeking a statutory exemption from the regulation where compliance would adversely affect the delivery of its statutory functions.

**18. RTGS Renewal Programme Business Case** (Andrew Hauser, Rob Elsey and Michael Owen)

Court reviewed progress of the RTGS programme, now in the “plan-analyse-design” phase. Since the last Court discussion the CHAPS operating system had been brought into the Bank, and a new RTGS/CHAPS board with external members had been approved. Implementation was expected to start in November 2018. Ultimately costs would be met by users, but in the meantime the programme required funding to complete the present phase. Court approved £3.1mn, and delegated approval of a further £5mn to the Investment Board.

**19. Co-op Investigation**  
(Miles Bake and Clare Hargreaves)

Mr Bake said that the FCA enforcement case was expected to settle shortly, opening the way for the investigation to start. But there remained difficulties in agreeing a short list of potential investigators to lead the investigation.

**21. Papers for Information**

Court noted:

- Annual Salary Review
- Business Continuity Annual Report

**The meeting of Court was closed.**