

MEETING OF THE COURT OF DIRECTORS

Monday, 9 July 2018

Present:

Mr Fried, 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

Ms Glover

Baroness Harding

Ms Noble

Mr Robert

Ms Thompson

In attendance:

Ms Place, Chief Operating Officer

Apologies:

Mr Prentis

Secretary:

Ms Chennells

1. Minutes and Matters Arising

The minutes of the meeting held on 23 May were approved, subject to two small amendments.

The Chair welcomed the two new members of Court, Ms Glover and Ms Noble.

2. Court Committee Membership Approvals and ARCo ToR

Court approved the appointment of Ms Thompson as the new Chair of Audit and Risk Committees, and Ms Noble as a member of the Audit and Risk Committees.

Court approved a change in the terms of reference for ARCo, providing that the quorum would be three members, including the Chair of Court if present by invitation. The Chair noted that an additional appointment to ARCo would be made in due course.

Court approved the appointment of Mr Fried and Ms Glover to Remuneration Committee, and Mr Robert to Nominations Committee.

3. Committee Updates: RemCo and ARCo

(a) RemCo

Baroness Harding updated Court on issues discussed at RemCo.

(b) ARCo

Mr Fried said the Committee's Risk meeting had considered the risk profiles of a number of individual directorates, including Communications and Financial Market Infrastructure. There had also been a discussion of HR plans to move to more standardised processes throughout the Bank. It had been noted that the structure of compliance activities within the Bank would be considered alongside the current review of risk. The results would be brought to Court in due course.

The Audit Committee agenda had been straightforward, given the recent finalisation of the Bank's Annual Report.

At the Chair's invitation, Ms Place updated Court on the NAO's current value for money review of Central Services. As agreed with Court, this would focus on three areas: the Bank's use of its available property space; technology and the procurement of technology; and the Bank's approach to role evaluation. As expected, the NAO aimed to focus on whether common policies and procedures were operating as they should across the Bank, that bespoke systems were used only where appropriate, and that Central Services support was sufficiently 'joined up' to the Bank's mission. There would be a further update to Court in September. The NAO were expecting to publish the results of the review towards the end of the year.

4. Quarterly Financials

(Rommel Pereira and Vijay Shah)

Mr Pereira reported that, for the quarter March to May 2018, total costs of £155m were £12m below budget, accounted for by lower than expected costs of the Notes Supply Contract, staffing and investment portfolio costs. Headcount was also below budget by about 5%. Income of £197m was £10m higher than expected, largely due to mark-to-market gains on the FX reserves portfolio. He advised Court on changes to the reporting of headcount, so as to more accurately align the costs with the FTE numbers. Mr Shah said that Finance was also working closely with business areas to improve the accuracy of headcount forecasts.

5. PRC Update

Mr Woods updated Court on a number of live supervisory and policy issues across banking and insurance. This included publication of a consultation on operational resilience with the FCA, and the operational impact of Brexit on the supervisory workload.

6. Brexit Contingency Planning (Phil Evans)

Mr Evans said that the Government's legislative programme in preparation for Brexit continued. The work of the joint Bank/ECB technical working group on managing risks was underway.

The Chair asked the Governor to comment on specific risks arising from Brexit that had been highlighted in the June Financial Stability Report (FSR). The Governor set out the background to his remarks at the launch of the June FSR that the private sector acting alone could not guarantee the continuity of derivatives contracts. Uncleared derivative contracts between UK-based institutions – such as a foreign bank with a subsidiary in the UK or a UK-headquartered bank – and institutions in the EEA amounted to over £26 trillion notional value. About £16 trillion of that would mature after the date of Brexit. If nothing were to change, the EEA counterparty would be authorised to enter into that contract, the contract would continue to be legally valid and payment could be made. It would still be governed by English law. The financial stability issue arose where a so-called life-cycle event occurred, such as rolling over the contract, exercising embedded options and compression of trades, because those changes may no longer be permitted. The financial stability risk from being unable to dynamically hedge positions increases with time, particularly in stressed conditions – in the FPC's view a financial stability risk could develop fairly quickly.

There was a separate set of issues with respect to cleared derivatives. As it currently stood, the large, UK-based clearing houses would no longer be authorised by the EU after the Brexit date. European counterparties would not be authorised to use those clearing houses after Brexit, and could therefore have to close out those positions in advance. A notional £60 trillion-plus of exposure would have to be dealt with.

The UK Government has developed statutory instruments, which would be laid before Parliament as soon as was practicable. Those statutory instruments would solve the UK side of this issue – both authorisation of EU CCPs and authorisation of the EU counterparties. The FPC was in no doubt that the private sector could not solve these issues; in order to fully mitigate the risk of disruption to financial services, action was needed by the EU.

7. Codes and Conflicts

(Duncan Cromarty and Lucy Chennells)

(a) Our Code 2018 edition

Ms Chennells asked if Court was content with some changes to individual conflicts of interest policies, to be adopted for the 2018 edition of Our Code. A new requirement was proposed for Heads of Division and above to notify the Conflicts Officer if they are in active discussions to take up employment with a Bank-regulated firm or Bank supplier. The Chair asked for any feedback on the new approach to be reported to Court.

Court asked for further consideration of proposed changes to the rules for personal financial transactions, to ensure these remained closely linked to the responsibilities of the Bank.

Mr Robert asked for future reviews of the personal financial transactions policy to be supplemented with data on the volumes and types of transactions being approved.

Mr Cromarty updated Court on the additional changes being made to Our Code, including formally referring to all of the embedded Nolan Principles, to the role of the Conflicts Officer, and to changes in information security policy. The changes reflected consultation with the individual policy owners, and had been reviewed by EDCo and ARCo. The annual attestation would be carried out over a shorter time period and slightly earlier, to maintain momentum and allow for any concerns that arose to be incorporated into performance reviews if needed.

(b) Committee Conflicts update

Court noted the appointments of Jill May and Julia Black to the PRC, and Jonathan Haskell to the MPC. The PRC had approved the relevant interests for Ms May at its meeting on 3 July. An updated conflicts table was provided by the Conflicts Officer for each of the statutory committees.

8. Review of SMR as applied to the Bank (Lucy Chennells)

Ms Chennells reported that Secretary's Department had reviewed the Bank's adherence to the core principles of the senior manager's regime in 2017-18. A new procedure had been adopted for this review, in which each senior manager had provided a commentary on their activities with supporting evidence, with respect to each of their prescribed responsibilities. Secretary's Department and the COO carried out inductions for those non-executives and executives with senior manager responsibilities – one action arising from this review was that these inductions should be recorded more consistently. Mr Woods supported the individual attestations, which now provided a more concrete link to individual responsibilities.

9. Vision 2020 Performance Evaluation Report (Gareth Ramsay and Emma Murphy)

Ms Place outlined measures that had been taken in the first year of Vision 2020. She asked for Court's views on the plans to advance understanding of different audiences' trust in the Bank and to develop more agile working structures.

Mr Ramsay outlined how building understanding, awareness, engagement and trust in the Bank was core to Vision 2020 and the 'How we communicate' platform. He then outlined current proposals being put in place to improve the Bank's ability to assess and measure these factors, including a focus on distinguishing between different audiences. These measures would focus on the impact of the Bank's policy messages, rather than feedback on the policy decisions themselves. Court members asked to see a measure of trust that compared the Bank to other public sector organisations such as the BBC and NHS. The Governor noted that the Bank's outreach work had intrinsic value even if this did not translate into improved measures of trust – the Bank was required to be accountable for its activities both to Parliament and more widely. Court members noted that the scores on trust were moving in the right direction but also encouraged more thought to be given to assessing the Bank's digital footprint and understanding specific target audiences.

Court members asked for further briefing on the decision-taking elements of Vision 2020. They acknowledged the relationship between better communication and good decision-making,

but asked for more information on the process and operating models of decision making (eg committee and delegation structures), and indicators of whether the measures were having an effect.

10. Diversity and Inclusion Strategy and Objectives

(Lea Paterson, Kiran Bance, Philippa de Villoutreys and James Talbot)

The Governor outlined the steps that had been taken since his arrival at the Bank in 2013 to make diversity and inclusion a strategic priority for the Bank. Inclusiveness was a core value for the Bank: this had been reinforced at the launch of the One Bank Strategic Plan in 2014, and Executive Directors had specific performance objectives linked to the ‘diverse and talented’ pillar of the strategic plan. Since then, Bankwide female representation has increased from 43% in 2013 to 45%, with female representation in senior roles increasing from 17% in 2013 to 31%. Since 2013, BAME representation at senior levels has increased from 2% to 5%, and across the Bank from 13% to 18%. The Bank has also seen significant improvements in the socio-economic diversity of its staff, brought about by a significant outreach programme in schools and universities across the country. This overall progress towards achieving the Bank’s diversity targets had not come about by accident – a consistent strategy had been put in place, as recently been outlined for the Treasury Committee in response to its questions to the new Chair of Court.

Baroness Harding outlined some lessons drawn from her experience as Chair of NHS Improvement. The NHS has 1.3 million employees in England – staff identifying as BAME were in the majority at lower levels of the service, and in the minority in the higher management levels so it is an issue the NHS is taking very seriously. Global research demonstrates that health and longevity outcomes for members of minorities are consistently poorer than for those who do not identify as a minority, even when you allow for differences in socio economic groups, because of the nature of the psychological and physiological stresses they experience. She recognised the progress made by the Bank, but said that it was clear there is a long way still to go both within the Bank and nationally, and posed the challenge whether the Bank as an organisation would consider being a champion for these issues.

The Chair asked whether there were any lessons to be taken from other organisations working on these issues; Ms Bance said that the Bank needed to become more comfortable speaking

about ethnic diversity, including continuing its work on unconscious bias. Sir David Ramsden said that the recently adopted sponsorship programme for female and BAME colleagues to address potential barriers to progression reflected the management commitment to achieving change.

The Chair asked for a summary of the next steps for the strategy; Mr Talbot outlined the steps being taken in light of the results of a cognitive diversity survey carried out by the Bank, which included the pilot sponsorship programme.

11. Bank-wide Enforcement Decision Making Committee

(Sonya Branch, Miles Bake, Charlie Herbert and Dermot Lynch)

The Chair thanked the team for setting out the process and decisions to be taken by Court. A credible, impressive and diverse 'bench' of committee members had been identified. Ms Noble asked what oversight Court would have of the proceedings; Ms Branch said the Committee would table an annual report to Court, which could be presented by the Chair of the EDMC if desired. Mr Woods asked whether the specific interests of panel members would be reviewed for conflicts when constructing the decision-making committee for individual cases; this was confirmed.

Court approved the publication of the EDMC Policy Statement, and agreed to delegate authority to the General Counsel to approve any non-substantive elements before publication.

Court approved in principle the appointment of the proposed EDMC Chair, Deputy Chair and members each for a three-year term.

Court agreed to delegate responsibility for confirming the appointments and signing off the press statement to the Bank Secretary and General Counsel.

12. FPC discussion

(Christina Segal-Knowles)

Ms Segal-Knowles briefed Court on the June Financial Stability Report.

13. Papers for Information

Court noted:

- (a) MPC Report
- (b) Annual Report and Accounts Committee Minutes

The meeting of Court was closed.