

MEETING OF THE COURT OF DIRECTORS
Wednesday, 23 May 2018

Present:

Sir Anthony Habgood, Chairman
The Governor
Mr Broadbent, Deputy Governor – Monetary Policy
Sir David Ramsden, Deputy Governor – Markets & Banking
Mr Woods, Deputy Governor – Prudential Regulation
Mr Fried
Mr Frost
Baroness Harding
Mr Prentis
Mr Robert
Ms Thompson

In attendance:

Ms Place, Chief Operating Officer

Apologies:

Sir Jon Cunliffe

Secretary:

Mr Footman

1. Minutes and Matters Arising

The minutes from 11 April 2018 were approved.

The Chair said that it would be announced shortly that the Queen had approved the appointment of two new Directors, Anne Glover and Diana Noble, both with effect from 1 June; the reappointment of Baroness Harding, Ms Thompson and Mr Robert with effect from 1 August; and the appointment of Bradley Fried to succeed as Chair of Court with effect from 1 July. Court welcomed these appointments. The Governor recorded his appreciation of Sir Anthony's achievements as Chair since 2014, in making Court a more effective unitary board, monitoring the effectiveness of the policy committees, offering challenge and guidance to the executive and developing the Independent Evaluation Office in the Bank. He also thanked Mr Frost for his significant contribution to Court and its Committees over the previous six years.

2. Conflicts and appointments

There were no conflicts declared in relation to the present agenda.

Court noted:

- (a) Ms Thompson's appointment as chair-designate of Tullow Oil
- (b) Dr Bryson's appointment as Senior Responsible Officer for the Review of the Supervision of Co-op Bank

3. ARCo Update

Mr Fried said that the bulk of the Committee's Audit meeting had dealt with the Annual Report and Accounts for the Bank and for BEAPPF, as well as the external auditor's reports and representation letters relating to those accounts.

The External Audit reports from both KPMG and the NAO had been very positive and there were no material audit differences.

Committee members discussed the narrative part of the Report noting that feedback previously provided had been acted upon.

The Risk section of the meeting had discussed an internal audit report on the "Processes Supporting Investment Decisions" – as they related, for example, to significant systems projects. There was much discussion around substantive decision making in relation to new investments; the management of budget; post-implementation feedback and evaluation; as well as accountability.

The second issue was the Bank's readiness for GDPR. All "severe" and most of the "high risk" issues had been addressed and a communications and awareness raising exercise was continuing. There seems to be a very good understanding that GDPR implementation was a process rather than an event. The COO was bringing in a new business owner to make sure that the move from a defensible starting point to an acceptable end-point was tightly managed over the following six months.

4. Annual ARCo Report

Court approved the Annual Report of the Audit and Risk Committee, which would be published as part of the Bank's Annual Report.

5. NAO Terms of Reference: Consultation

(Sir Amyas Morse and Peter Gray)

Mr Gray outlined the proposed terms of reference for the next value for money examination of the Bank, about which Court was being consulted under Section 7D of the Bank of England Act. The focus would be on the challenges facing the Bank in transforming its central service functions. This was important in the context of meeting the present tight budget constraints, as central services accounted for 30% of spending. The review, building on the NAO's previous examination of the One Bank strategy, would look at the existing operating model; how the Bank's vision for its central service functions had evolved; how the Bank monitored, assessed and managed the performance of central services, taking account of practice elsewhere; and whether the current transformation strategy was robust. Recognising the Central Services Transformation Programme already initiated within the Bank, Mr Gray confirmed that the NAO Audit would intend to support that, offering advice drawing on its wide experience of similar organisations. The NAO planned three "deep dives" into key areas of cost: the Bank's use of its available property space; technology and particularly the procurement of technology; and the Bankwide approach to role evaluation. A general theme would be to establish that common policies and procedures were operating across the Bank, that bespoke solutions were adopted only where appropriate, and that performance was adequately monitored. The work would be completed over the summer, with a draft report expected in the autumn, followed by publication.

Mr Fried commented that the review would be helpful to the Bank, given its current priorities. He thought it likely that as the review progressed the Bank would be seeking to build the insights into its own plans, which he assumed (and Sir Amyas Morse confirmed) would be taken into account in the eventual findings. Mr Fried thought that the terms of reference as stated gave considerable room for extension. He assumed that the "deep dive" into technology would not cover significant multi-year programmes like RTGS renewal. Sir Amyas Morse said that deep meant deep, not broad. Though equally, if the NAO found something they did not expect, or an issue that was not being addressed, they would pursue it. Ms Thompson asked

whether the deep dive in technology was aimed at the systems supporting central services or the operating platforms for the Bank as a whole. Mr Gray said that the NAO would want to look at how technology supported central services' day-to-day operations. Similarly job evaluation (JE) had been selected because it was a useful tool in central services. The Governor said that it would be important to carry on with the programme already under way.

Mr Prentis asked what the review of JE would entail. Mr Gray said that it would mean looking at the processes – whether they were people-based or role-based, whether they matched what the Bank was trying to achieve, and whether the result was too many grades that became complex to manage. The NAO had seen in the BBC how JE could support organisational effectiveness. Sir Amyas Morse said that the aim was to see that JE fitted the aims of the organisation.

Sir Dave Ramsden said that that the approach seemed promising and drawing on the experience of other organisations was helpful. Sir Amyas Morse said that the NAO would draw on its extensive knowledge of central and shared service functions in Government.

The Chair said that Court was content with the proposed approach.

6. 2017/18 Financials and Budget Update 2018/19 (Rommel Pereira and Rob Thompson)

Mr Thompson summarised the final financial performance outcome for 2017/18. The cost outturn had been £13mn below budget, at £647mn, with lower headcount numbers partly offset by a small overspend on the investment portfolio. Profit before tax was £138mn, £10mn higher than budget. For the current year, with pension costs slightly lower owing to movements on bond yields, the total costs budget was finalised at £644mn.

7. Bank of England Annual Report and Accounts (Gareth Ramsay, Rommel Pereira, Lea Paterson, Paul McArdle and Vijay Reed)

(a) Annual Report

Mr Ramsay said that a number of further changes had been incorporated into the text in response to suggestions from ARCO, including expanding the policy sections, covering the new

SONIA benchmark function, and adding a section on financial technology. Drafting of the “people” section had tightened. Court was content with the improvements made to the text.

(b) Annual Accounts

Mr Pereira said that the accounts had been reviewed by ARCO. The fall in pre-tax profits had been driven mainly by the decline in the Funding for Lending scheme balances and the corresponding increase in the Term Funding Scheme, which was delivered through BEAPFF. Lending to BEAPFF accounted for the £89bn increase in the balance sheet. The total comprehensive loss for the period reflected mark to market losses in the sterling bond portfolio.

The accounts incorporated the PRA for the first time, following its absorption into the Bank, and showed expenditure of £280mn: the increase over the previous year reflected increased activity on structural reform and EU withdrawal. A provision of £4.4mn had been made for the Co-op Review.

The Report would refer to the CRD Review which, by the time of publication, would be complete and in the public domain.

Court noted the draft letter of representation to the auditors.

Court delegated final approval of the letter of representation and of the accounts to the Signing Committee.

(c) Dividend Payment

Court approved a final dividend to HM Treasury of £31mn, making the total dividend for the year 50% of post-tax profits.

The Chair said that it was regrettable that the Bank was still publishing its accounts more than three months after the year end, and asked that in future years attempts should be made to shorten the process.

8. BEAPFF Annual Report and Accounts
(Rommel Pereira and Liam Waters)

Court noted the draft accounts of BEAPFF.

9. Financial Framework
(Rommel Pereira)

Mr Pereira said that the secondary legislation implementing the CRD review had passed both Houses of Parliament and would now come into effect. A notice had been issued to CRD-paying institutions and the new rates would apply from 1 June.

10. Cyber 2020 Programme Update
(Rob Elsey, Neal Semikin and Buck Rogers)

Court approved funding of £3.5mn to cover tranche 3 of the Cyber 2020 investment programme, bringing the total thus far approved to £6.8mn of a projected £9.3mn.

Mr Semikin said that following the £21.7mn foundational cyber security programme concluded in June 2017, the Bank had identified the NIST Cybersecurity Framework as its future assessment standard. The current programme focussed on three key areas of risk— network attack, insider risk and third party risk. Thus far it had delivered a new vulnerability management solution, a new identity and access management solution, and the development of a new governance risk and compliance tool. It had adopted an intelligence led approach which had enabled it to react quickly to emerging threats such as the Wannacry virus.

Court reviewed the assessment of the Bank's current scoring across the NIST functions. The Chair noted that there was some way still to go to match the best external peer groups, and some of the benchmark thresholds were only just met. Mr Robert asked that the team reflect on how progress was best reported to Court, and how regularly, possibly through a set of KPIs. The Governor suggested that a clear model of the programme end-state should be provided.

11. Brexit Contingency Planning
(Phil Evans)

Mr Evans said that the Bank continued to support negotiations on a post-withdrawal regulatory framework. Meanwhile the Governor and Mr Draghi had been appointed to chair a technical

working group on managing risks around March 2019. This would pick up the issues that the FPC had highlighted.

Mr Woods said that despite the March announcement of an implementation period and a temporary permissions regime, a significant number of applications for authorisation had been received and in the PRA was processing currently around 40 from inbound branches and subsidiaries.

12. PRC Update

Mr Woods updated Court on a number of live supervisory and policy issues across banking and insurance.

13. Resolution Directorate

Ahead of the discussion on Resolution, the Governor advised Court that Andrew Gracie, the Resolution Director, had decided to leave the Bank. He had made a significant contribution to the development of resolution policy. The role would be advertised; in the meantime, as part of an orderly transition, Geoff Davies was acting as head of Resolution.

14. IEO

(Melissa Davey, Geoff Davies, John Power and Anna Jernova)

(a) Draft Resolution final report

Court approved the publication of the IEO evaluation of the Bank's resolution arrangements and noted the Bank's response.

Ms Jernova said that the major themes were as discussed at Court's April meeting. The conclusions were supported by the external advisers.

Mr Davies said that the recommendations had all been accepted by the Bank. They highlighted the shift – which was happening in any event - from creating a Resolution framework to operationalising it.

(b) Other Projects

Ms Davey said that the stress testing project would be starting shortly and the team had been considering possible sources of independent external advice. She was also working on the framework for an update to the 2015 Forecasting Review.

15. MPC discussion

(Andy Haldane)

Mr Haldane briefed Court on the MPC's May meeting and the Inflation Report.

16. Papers for Information

Court noted:

- (a) Scottish and Northern Ireland Notes Annual Report
- (b) Update on HMT Directed review of supervision of the Co-op Bank
- (c) Risk Review Terms of Reference

17. Envoi

At the close of his final Court meeting the Chair thanked all of the Directors for their dedication, diligence and discretion; and the Governors and Deputy Governors for their openness and the fullness of their participation in Court's discussions.

The meeting of Court was closed.