

MEETING OF THE COURT OF DIRECTORS

Friday, 21 September 2018

Present:

Mr Fried, Chair

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 Prentis

Mr Robert

Ms Thompson

In attendance:

Ms Place, Chief Operating Officer

Secretary:

Mr Footman

1. Minutes and Matters Arising

The minutes of the meeting held on 9 July were approved.

Directors welcomed the Governor's agreement, announced on 11 September, to continue to serve until January 2020, and Sir Jon Cunliffe's reappointment to a second term as Deputy Governor for Financial Stability.

2. NAO Review of the Bank's Central Services

(Rommel Pereira and Paula Lawless)

Ms Place said that the NAO review was close to completion. The NAO would be sharing findings during coming weeks with the Finance Director and herself; and Sir Amyas Morse would be meeting the Governor and, separately, with the Chairs of Court and ARCo. Court confirmed that it would expect the NAO to present their conclusions to Court well in advance of publication.

3. Cost Containment

(Jonathan Curtiss, Rommel Pereira and Andy Steer)

Mr Curtiss reported on the work of the cost containment group, which monitored and advised EDCo on the management of expenditure and headcount within budgetary limits, identifying potential cost reductions where possible so as to enable resources to be diverted to emerging priorities including Brexit, the Risk Review and RTGS Renewal. The Director of Priorities and Resources was closely involved. The Governor noted that a benefit of the group's work was that emerging issues were addressed early rather than at the point where the aggregate financial or headcount caps were reached. It was important to take a collective view of the Bank's spending as a whole, even though the funding model was linked to individual functions.

4. Property Strategy

(Dominic Whittle, Jonathan Curtiss and Rommel Pereira)

Mr Whittle updated Court on the development of the Bank's property strategy. This had focused on upgrading the resilience and capacity of the Threadneedle Street building and developing the office space within it. Changing working patterns had created a need for more flexible space, supporting both remote and collaborative working.

Mr Whittle also outlined existing and planned improvements in perimeter security at Threadneedle Street and Moorgate. Mr Woods hoped that these would lead to more straightforward entry procedures for (legitimate) visitors to the building.

5. One Bank Services Transformation Programme (OBST)

(Jonathan Curtiss)

Mr Curtiss briefed Court on the main elements of the OBST, which aimed to redesign the central services operating model, increase automation of routine tasks, ensure a greater consistency of approach, and to improve internal benchmarking and management information. It would be supported by new technology to automate and integrate core HR, finance and procurement systems. Initial discussions had been held with potential suppliers, and proposals from a preferred supplier were currently being substantiated with technology and procurement. He noted that early feedback from the NAO had identified the need to communicate the vision and ensure that the business was fully in support ahead of IT implementation, as well as to configure – in advance of the IT implementation - the structure and organisation of central

services so as to realise the benefits. Developing this Target Operating Model (TOM) was likely to take six to eight months. Some Directors questioned whether this re-ordering of priorities was necessary and whether a “big-bang” approach to implementation was too risky - there might be benefit in implementing the programme in a series of incremental steps rather than all at once. Another Director questioned whether the programme was sufficiently ambitious in respect of the cost savings which might be achieved; Mr Curtiss agreed to keep that under review.

The Governor commented that the aim of the programme was to make processes simpler, safer and stronger, with no unnecessary customisations – consequently there needed to be full business buy-in from the start. Sir Jon Cunliffe added that the interface between the business and central services – not least through local COOs – needed to be considered to ensure that it remained an effective mechanism.

6. RTGS Renewal Committee (Victoria Cleland)

Court discussed a proposal to create a new sub-committee to oversee delivery of the RTGS renewal programme and to make take key decisions on the overall scope of the programme, the procurement process and spending, within the overall budget envelope agreed by Court. Sir David Ramsden, as chair of the RTGS CHAPS Board, endorsed the proposal: given the scale of the project and the resource implications there needed to be the strongest possible accountability. Sir Jon Cunliffe, speaking for the FMI supervisors, also supported it.

Court APPROVED the formation of the RTGS Renewal Committee and its terms of reference. It appointed as members Mr Robert (Chair), Ms Thompson, Sir David Ramsden, Ms Boss, Mr Campos and Ms Place.

7. Brexit Contingency Planning (Phil Evans and Laura Wallis)

Mr Evans said that the Government had published a white paper setting out its preferred future UK–EU relationship, rooted in equivalence and bilateral co-operation. The Bank continued to support this work. Nevertheless the pace of no-deal planning was increasing. The Government had published the Temporary Permissions Regime which provided assistance both in a deal and

a no-deal scenario. The Governor added that the Bank had stressed bank capital against scenarios that were more taxing than no-deal Brexit; and contingency plans for ensuring liquidity were in place. The FPC checklist provided the Bank's agenda for the worst case: the financial sector was better prepared than any other part of the economy. In the meantime sentiment was likely to be volatile against the news flow.

8. Risk Review Conclusions

The Governor said that the Risk Review had been discussed among the Governors and the case had been accepted for appointing a new Executive Director with exclusive responsibility for risk (ED Risk). The present Executive Risk Committee, chaired by Mr Woods, would continue, but ED Risk would have a direct reporting line to the Governor as the Bank's CEO, and a dotted line to the ARCo chair. Reporting directly to ED Risk would be the Bankwide Risk and the Financial Risk and Resilience divisions, along with the Compliance Division. Other second line non-financial risk functions would have indirect reporting lines to ED Risk.

Court members welcomed this conclusion for its clarity and emphasis on accountability. Ms Thomson noted that the scope and remit of the present Compliance Division would be considered by ARCo in due course: there was a sense that it was at present restricted to staff conduct and ethics.

The Governor discussed a possible candidate for the ED Risk role and said that a proposal would be made to Court during the following week.

9. Succession Planning and Talent Review (Jonathan Curtiss and Philippa de Villoutreys)

Court discussed succession planning for a number of senior roles in the Bank.

10. Forecasting Review (Melissa Davey and Renee Horrell)

Ms Davey, the Director of the Bank's Independent Evaluation Office, reported her findings on the implementation and impact of the 2015 IEO review of forecasting performance.

James Mitchell of Warwick Business School, who had supported the original review, had been involved in the latest work.

Ms Davey concluded that the original recommendations had been implemented, but that the Bank could still go a little further in integrating the new tools into its processes. Following the 2015 Review some “non-structural” models had been introduced as a source of challenge, and outputs were routinely shown to the MPC as a way of cross checking the main forecast. Some but not all members found them helpful, but there was no desire to develop more models of this sort. Internally they had not been integrated into the forecast process as a source of challenge. Another potential source of external challenge - formal MPC meetings with external academics – hadn’t been scheduled for a couple of years and would be reintroduced.

The 2015 Review had asked MA to improve its forecast evaluation techniques. Staff had developed an innovative approach to spotting changes in forecast performance relatively quickly. MA was also asked to promote wider Bank’s understanding of the forecast – which is used in other areas, for example as the baseline for stress testing. Regular briefing of FPC members on the forecast had been well-received, and technical secondments had improved understanding at the staff level.

Overall the IEO was content that all of the 2015 recommendations had been adopted and implemented. It was not clear what impact they had had, or whether fuller implementation of the proposals would have made any difference to forecast performance, given the relatively short period of time that had passed and the significant shock to the economy in summer 2016.

11. Corporate Sustainability & Responsibility (CSR) (Dominic Whittle and Rachel Butler)

Court reviewed a report from Mr Whittle, covering the main elements of the Bank’s CSR programme. Directors were impressed by the range and ambition of the programme. Ms Noble asked how it compared with and related to the employment proposition: and Ms Glover asked how far the activity was integrated with the Bank’s corporate branding

12. Codes and Conflicts (John Footman)

(a) Our Code 2018 edition

Subject to minor drafting points, Court APPROVED the 2018 edition of our Code.

(b) Committee Conflicts update

Court noted a Report from the Conflicts Officer.

(c) Court Conflicts Review – one year on

Mr Footman noted that all but one of the actions recommended by the 2017 Conflicts Review had been completed. The outstanding point was a Conflicts and Compliance System; with funding recently approved by the Investment Board, that was being developed.

13. Sharia Collateral Facility Project

(Andrew Hauser, Arshadur Rahman, Charlotte Pope-Williams and Nick Parish)

Court APPROVED the formation of Bank of England Alternative Liquidity Facility Ltd, a subsidiary company that would house the Bank's Shari'ah compliant liquidity facility, and the appointment of Victoria Cleland, Andrew Hauser and Rommel Pereira as directors of the company.

14. Winding up of CHAPSCo

(John Footman)

Court APPROVED a proposal to place CHAPSCo Ltd into voluntary liquidation, and authorised the Secretary on behalf of the Bank to provide the necessary approvals including for the appointment of Deloitte LLP as liquidator and for all other matters arising from the appointment.

15. MPC Communications Code

Amendments to the MPC Communications Code were APPROVED. The amendments brought the Code into line with the current practice for publishing the MPC decisions and Inflation Report.

16. Directorships

Court noted lists of members existing directorships. The Chair reminded members that any changes or proposed new appointments should be notified promptly through the Secretary.

17. MPC discussion
(Andy Haldane)

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

The meeting of Court was closed.