

MEETING OF THE COURT OF DIRECTORS

Tuesday, 21 May 2019

Present:

Mr Fried, Chair

The Governor

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 Broadbent, Deputy Governor – Monetary Policy

Mr Prentis

Secretary:

Mr Footman

1. Minutes and Matters Arising

The minutes of the meeting held on 8 April 2019 were approved.

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

The Chair noted that he, Baroness Harding and Ms Thompson had given evidence on the work of Court to the Treasury Select Committee on 1 May. A transcript was available.

Court noted a letter from Mr Broadbent following the Annual General Meeting of the Bank of England Sports Club. At that meeting concerns had been expressed, most notably by pensioners, about the Bank's plan to lease the sports centre at Roehampton to a commercial operator. Ms Place said that the Bank had reiterated that only a small proportion of current staff made use of the sports centre and the intention was to provide in future a more relevant and inclusive well-being offering. The Bank was working to conclude a commercial outcome for the sports centre by April 2020. In seeking bids for the site the Bank would ask interested

parties to consider options to allow some continued use by current local community users and groups.

2. Court and its Committees

The Chair said that he hoped that the Government would shortly announce three new non-executive appointments to Court. Court approved membership of its subcommittees for the coming year.

3. Response to the Public Accounts Committee Report on the Bank's Central Services (Stephen Brown, Rob Thompson and Clare Cowan)

Court discussed the Bank's formal response to the PAC's report, published on 13 March. The response focussed on the central services strategy, progress towards meeting diversity targets, the property strategy, compliance with internal policies and changes in the Bank's ways of working, systems and culture. Court members suggested that the response should set out the full context for the changes that the Bank had made and was making, and show the progress. It should also recognise that some of the changes were complex and it was important to get them right if they were to be of benefit. The Chair said that it should be clear that in all areas there was Court oversight, a plan and a timetable. The response was due by end June.

Court delegated final sign-off of the response to Ms Place.

4. RemCo Report: Chief Financial Officer

Following a report from Ms Place, Court approved the appointment of Afua Kyei as the Bank's Chief Financial Officer.

Baroness Harding said that the Committee had met on 17 May and agreed remuneration for Ms Kyei.

Baroness Harding also noted that the Committee had at an earlier meeting reviewed and approved the annual Remuneration Report as part of the Annual Report.

5. RTGS Update

Ms Thompson said that the Court Committee on the RTGS Renewal Programme had met on 13 May to review progress. The program was within budget and achieving its key milestones, including value for money. The immediate focus was on the procurement of a Technical Delivery Partner (TDP) and completing enabler projects in preparation for the next key stage of project development. In relation to the TDP, the supplier qualification stage was complete. The next stage was the Invitation to Participate (ITP), setting out detailed project requirements, contract terms, evaluation criteria and scoring approach. The Committee was satisfied that the team had created a sound ITP structure with good evaluation criteria and approach to scoring. The target was to issue the ITP documents in June.

The Committee had also discussed co-ordination with the FMI supervision area of the Bank, received a high-level update on the enabler projects, and debated the approach to ensuring participant readiness for the new system. On the last of these, given that RTGS was part of the critical national infrastructure, the Committee had concluded in favour of a “trust, verify and where necessary inspect” model.

Finally, the Committee had approved the next tranche of funding for the programme, and proposed a change in their own terms of reference to emphasise the importance of achieving value for money at all stages of the programme.

Court approved an amended paragraph 2(c) for the Committee terms of reference as follows:

(c) decisions on the financial management of the Programme, including the authorisation of funds for specific phases of the Programme, within the overall budget set by Court and ensuring value for money at all levels of programme governance.

6. ARCo Update

Ms Thompson said that the Committee had reviewed the Bank’s accounts ahead of their presentation to Court. No material issues had been raised by KPMG in the audit process. The Committee had also reviewed the accounts of BEAPFF (the asset purchase facility), which was audited by the NAO.

The Committee had approved its own report to Court which would be published in the Bank's Annual Report.

7. 2018/19 Financials and Budget Update 2019/20
(Rob Thompson and Robbie Vos)

Mr Thompson said that the £20mn fall in pre-tax profit reflected lower fee income arising from the rundown of the Funding for Lending scheme and a lower dividend from the BIS. The new FMI levy had provided £6m in its first year, and income has also increased following the CRD uplift in June. Costs were flat, despite the £7.5m of pension costs incurred in relation to GMP equalisation. The £122bn transfer of Term Funding Scheme loans from BEAPFF in January had not affected balance sheet totals.

Increased Issue Department income was largely due to the increase in Bank rate from 0.5% to 0.75%. Although there had been a reduction in the use of cash for purchases, there had been an increase in overall cash demand which had pushed up Notes in Circulation by £1bn to £74bn.

In relation to the budget for 2019/20, Mr Thompson said that budgeted pension costs had been reduced by £4.6mn compared to those approved by Court in February, so the final budget total to be approved by Court now would be £640.1mn. This compared with £644.2mn in the previous year, and was consistent with the flat nominal target. Court were content.

The capital injection from HMT had been recorded as a post-balance sheet event.

8. Annual Reports and Accounts

(Gareth Ramsay, Rob Thompson, Chris Peacock, Paul McArdle, James Pople Hoskins, Michelle Hinchliffe(KPMG) and Sam Subsesinghe (KPMG))

(a) Annual Report and Accounts

Following changes made in response to comments at the previous meeting, Court was content with the Bank's Annual Report and Accounts and the letter of representation.

(b) PRA Annual Report

Court noted the PRA Annual Report, which had been approved by the Prudential Regulation Committee on 3 May.

(c) Dividend Payment

Following payment of an interim dividend to HM Treasury of £27mn in April, Court agreed to make a final payment of £27.4m in October. This would make a full dividend of 50% of post-tax profits.

9. Bank of England Asset Purchase Facility Fund Ltd (BEAPFF) – Annual Report (Rob Thompson and Liam Waters)

Court noted the Annual Report of BEAPFF for 2018/19. The accounts had been approved by the Directors and the NAO. The most noteworthy item was the transfer of the Term Funding Scheme from the company to the Bank. The value of the gilts held had remained stable throughout the year and was mirrored in the Treasury's accounts.

10. Senior Managers Regime (SMR): Attestation (Kathy McCarthy)

Ms McCarthy reminded Court that the Bank had chosen to apply the principles of the SMR to its leadership team, and as part of that there were improved induction processes for those in senior roles, and an annual assessment through the Bank's performance management framework. The latest assessment, for 2018/19, had been completed by the Secretary's Department. The assessment had confirmed that Bank senior executives and non-executive directors with Prescribed Responsibilities had discharged them in line with the SMR core principles. The induction process for senior executives and non-executive directors with Prescribed Responsibilities continued to work as envisaged, with six new NEDs / Policy Committee members inducted in 2018-19. Feedback on the effectiveness of the induction process was sought regularly from attendees.

The 2018-19 Court effectiveness surveys had indicated that the non-executive directors of Court with SMR responsibilities discharged their Committee roles effectively. The Conflict Officer role was working as intended.

11. MPC Update (Andy Haldane)

Mr Haldane outlined the key judgments made by the MPC in the May round and communicated through their Inflation Report. The central forecast was conditioned on a gently rising path of

interest rates and a smooth adjustment to a range of possible Brexit outcomes. As GDP growth recovered some excess demand could feed through to domestic inflationary pressures. There were risks both ways, and currently a disconnect between survey and official data. The market yield curve implied no more than a 25bp increase in rates over the next three years.

12. PRC: Member survey and effectiveness review

(Lucy Chennells, Ivar van Hasselt and Jean Robinson)

Court reviewed a survey of PRC members' views on the working of the Committee. The results indicated a high level of satisfaction with the Committee and the support provided to individual members. Members had welcomed changes to the frequency of meetings and the move to a more thematic grouping of agenda items. There were some suggestions for improving the effectiveness of joint meetings (with the FPC) and the support provided by the Bank's research agenda. And some members would like to see a more explicit link between the PRA's risk appetite and the matters brought to the Committee. The Governor commented that the Committee's appetite for risk was frequently discussed and was reflected in routine reporting and the allocation of resources, but the Bank had also to respond as risks crystallised. There was an assurance process from the Committee to the Chancellor, and Court was responsible for approving the budget of the PRA as part of the Bank.

Mr Woods said that better links were being established with the Bank's research hub. He noted that considerable attention (and prospectively committee time) was currently devoted to developments in technology. The forthcoming report on the Future of Finance would provide a stimulus for further work, notably on Regtech. The PRA was exploring possibilities, and would be working with the Bank's new Data Directorate. There was potential for considerable improvements, both to the Bank and for firms.

Lucy Chennells said that the effectiveness survey, including individual meetings with the Chair of Court, had identified a concern about maintaining experience among the members given prospective departures next year.

13. Brexit Update

(Laura Wallis and Grellan McGrath)

Ms Wallis said that the extension of the Article 50 deadline to 31 October had relieved immediate operational pressures and given an opportunity to reflect on priorities going forward. The range of possible outcomes had increased and the FPC would be considering the risks in its Q2 round of meetings.

14. Diversity and Inclusion Update including BAME Taskforce

(Lea Paterson, Christina Segal Knowles, Ajneet Jassey, Alieda Moore and Ratidzo Starkey)

Further to Court's discussion in April, Sir Dave Ramsden reported on the formation of the BAME Taskforce. It was relatively small – in addition to the Chair, it comprised the two Executive Director sponsors of the BEEM network, the three network chairs, the Heads of HR and Inclusion and a COO representative, but would draw on a wider network to deliver its initiatives. The Taskforce had three key pillars; supporting the progression of BAME colleagues, creating a more inclusive environment for BAME colleagues, and ensuring greater accountability for BAME progression. Each pillar had specific initiatives supporting it, such as using external agencies with a strong record in diverse appointments, Governors hosting group sessions with junior BAME staff, and initiating a rigorous data exercise to enhance understanding of BAME employee experience. Success criteria on appointments and attrition would be evaluated alongside the Viewpoint survey results.

15. Annual Reporting

(a) Financial Market Infrastructure

(David Bailey and Jo Bibby-Scullion)

David Bailey reported on progress, risks and challenges in the FMI Directorate. The major feature of the past year had been addressing the implications of EU withdrawal, in particular ensuring continuity of derivatives contracts through the possible scenarios, and on-shoring EU legislation relevant to FMIs. This work had absorbed a third of the available resources in the Directorate. Despite this, progress had been made on supervisory objectives including implementing the recommendations of the 2017 IEO review and increasing focus on operational resilience. And although pausing research work, the area had contributed to the Bank's Future of Finance initiative.

Court members asked to what extent the risk profile in infrastructure had improved since the financial crisis. Mr Bailey said that a consequence of the post-crisis reforms had been to concentrate risk in clearing houses and the response had been to strengthen supervision, to increase supervisory resources and to work on CCP resolution. In relation to payments the Bank had kept the regulatory perimeter under review and had brought in payment card and service providers. Sir Jon Cunliffe said that the payment landscape was changing very fast as the Future of Finance work had demonstrated, and the Bank had kept alongside both as provider of the core system and as supervisor.

(b) Liquidity support

(Victoria Cleland, Richard Windram and Richard Whisker)

Ms Cleland confirmed to Court that the Bank's capacity to provide liquidity assistance outside the normal facilities remained robust and its operability had been enhanced during the year through testing and contingency planning.

(c) Resolution Report

(Sasha Mills and Ruth Smith)

Ms Mills summarised the developments in resolution policy, notably the publication of the Resolution Assessment Framework in 2018 and further work on barriers to resolution. These completed the domestic policy framework for banks and the emphasis would switch to implementation in firms.

16. £50 Polymer Project

(Sarah John and Andrew Baker)

Court approved the award of contracts for the supply of polymer substrate and security foil for the next £50 note.

17. Items for Information

Court noted:

- Committee Conflicts
- Scottish and Northern Ireland Notes Annual Report

The meeting of Court was closed.