

MEETING OF THE COURT OF DIRECTORS

Friday, 14 February 2020

Present:

Mr Fried, Chair

The Governor

Sir Jon Cunliffe, Deputy Governor – Financial Stability

Sir Dave Ramsden, Deputy Governor – Markets & Banking

Mr Woods, Deputy Governor – Prudential Regulation

Ms Glover

Baroness Harding

Mr Kalifa

Ms Noble

Ms O’Grady

Ms Smits

Ms Thompson

In attendance:

Ms Place, Chief Operating Officer

Apologies:

Mr Broadbent, Deputy Governor – Monetary Policy

Secretary:

Mr Footman

1. Minutes and Matters Arising

The minutes of the meeting held on 2 December were approved.

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

Ms Place reported (1) that the review of pension provision had been announced to staff; and (2) contingency plans and travel restrictions in light of the coronavirus epidemic.

The Governor noted that in the light of Sir Jon Cunliffe’s increasing international commitments, including as Chair of the CPMI and the central bank group on digital currencies

Sir Dave Ramsden would become the Deputy Governor responsible for the Bank’s Resolution function.

The Chair said that the Nominations Committee had agreed to the appointment of Russell Reynolds to undertake a review of Court effectiveness. This would start in April.

2. Consultation on a proposed Review by the National Audit Office (NAO)
(Gareth Davies (Comptroller and Auditor General), Peter Gray (NAO), Afua Kyei and Sarah John)

Mr Davies said that the NAO's next proposed review had been prompted by the rapid changes in the use of cash in the economy over recent years. It was proposed to look at all the agencies involved including HM Treasury, the Royal Mint, the Payment Systems Regulator and the FCA, as well as the Bank itself. The purpose would be to inform Parliament on how well the public authorities were working together to oversee and manage cash distribution in the UK, and to suggest improvements.

Sir Jon Cunliffe said that the landscape was changing very rapidly with developing proposals for private or public digital money. Mr Davies said that the review would be limited to the physical cash system and the operational responsibilities of those overseeing it. In response to further questions he added that the review would look at overseas comparators, and Mr Gray said that it would also look at specific risks such as counterfeiting. The focus was on the objectives of the organisations and how well they worked together to meet the needs of cash users. Ms O'Grady noted that some of those needs were social – poorer people were more likely to be dependent on the cash system. Mr Gray said that the study would consider the needs of all users and would want to identify what the individual authorities knew about them.

Court was content with the proposed terms of reference and appointed Mr Broadbent as responsible executive for purposes of the study.

3. ARCo Update

Ms Thompson reported on the latest meeting of ARCo. The Committee had asked for a change in the way risk was reported in the Bank and Mr Brown was looking at methodology and the presentation of outputs. There had been a good report from the Head of Compliance and from the Cyber team. The latter would come to Court later in the year.

4. RemCo Update

Baroness Harding said that Remco had approved increases in the Governors' pay of 1.25% and approved increases and performance awards for the executive directors. The Committee had recommended that the pay of the external members of the MPC, FPC and PRC be increased by the same percentage as the Governors.

Court APPROVED the recommended increase in fees for the External Policy Committee members.

5. RTGS Renewal Report

(Victoria Cleland, Nick Lodge and Nathan Monk)

Mr Kalifa, as Chair of the Court RTGS Renewal Committee (RRC), reported on the Renewal project. He said that RTGS was just one of the big projects in the payments world, which itself was changing rapidly. It had built a pool of key people, working towards a decision on a delivery partner that would be taken in May. The final design would take account of wider developments in payments technology. There was a close focus on value for money, which had been reviewed in depth with external consultants, using NAO taxonomy, at the most recent RRC meeting. Ms Cleland stressed the importance of the RTGS system, which settled £660bn each day, and the service was an integral part of CHAPS which settled high value and time-critical payments. Resilience, improved access and interoperability were key of the renewal project. Within the budget envelope set by Court, and the RRC controlled disbursement of individual tranches.

Security considerations and the need to support future changes (adopting the ISO 20022 technical specifications) had driven the Bank's decision in 2018 to build its own system, and that had moved the final go-live date to 2023. The programme was currently on track and within the budget envelope: final offers from the potential delivery partners were being submitted that day. Mr Monk said that all were technically strong and he was confident that the Bank would have an outstanding delivery partner.

Mr Woods highlighted cutover risk – mindful of recent events in the private sector – and the need to guard against left-field events. Mr Kalifa agreed that both were important and the team were planning to step back and reflect on these issues in April ahead of the final decision. We

needed to ensure that what the Bank built would be the global standard for all other settlement systems. Sir Jon Cunliffe noted that as Court had previously agreed, the Bank supervisors (FMI Directorate) were overseeing both CHAPS and RTGS as they would a private sector system. The Governor suggested that there should be some rigorous external challenge before go-live. Sir Jon Cunliffe said that the supervisors would hold RTGS to the same high standards that it would a private sector firm.

Ms Smits asked whether, given the complexity, there was room in the budget for surprises; and whether the project was putting pressure on the BAU part of the business. Mr Kalifa said that the team had thought about this: the project was within its cost envelope and but was potentially impacting resources for other projects such as Data Centre Migration. Ms Glover thought that there might be opportunities for HR to leverage the fact that such a cutting-edge project was running in the Bank. Jo Place agreed – the Bank’s offering was often the intrinsic interest of the work rather than the money.

6. Media Incident Interim Report

(Ed Moore, Melissa Davey and Sonya Branch)

With reference to a decision of 20 December, the Court discussed interim findings from the Internal Auditor and the Independent Evaluation Director.

7. The Bank’s Finances

(a) Financial Review 2019/20

(Afua Kyei and Rob Thompson)

Ms Kyei said that the Bank was likely to end 2019/20 slightly under its flat nominal budget cap. Pre-tax profit for the year would be slightly higher than expected owing partly to the refund of the UK subscription to the ECB’s capital.

Court discussed the implications of the dividend to HM Treasury. Under the financial MoU, payment of 50% of post-tax profit would be due if Loss Absorbing Capital (LAC) was above £3.5bn. If it were below £3.5bn then no dividend would be payable. On the forecast for the next four years – until RTGS 2 went live - a dividend would not be payable on this basis. For the present year the forecast was that LAC would be just above £3.5bn, but not enough to

justify a 50% payout. Court AGREED that dividend should be paid as envisaged in the MoU so as to ensure that LAC did not fall below the floor.

(b) 2020/21 and 3 Year Budget
(Afua Kyei and Rob Thompson)

Ms Kyei presented the final budget proposal for 2020/21. The cost budget excluding note production, pensions and RTGS renewal would increase on a flat real basis to £486mn, and a further £5mn was proposed to fund additional investment projects that would improve efficiency. The total cost budget including the items excluded from flat real would £649mn.

Sir Jon Cunliffe said that Governors had agreed that the figure would be reviewed in April/May when the shape of the Brexit package might be clearer. Ms Thompson asked for more benchmarks to be routinely provided to help directors understand the cost pressures: Ms Place said these could be provided at local level and the Chair suggested that some changes to the presentation be piloted.

Court APPROVED the budget as presented.

8. PRA Strategy 2020/21
(Clair Mills, Lyndon Nelson and Alex Barnett)

Court reviewed the PRA strategy for 2020/21, which had been previously approved by the PRC. Mr Nelson set out the main strategic goals – robust prudential standards and supervision; adapting to market changes; ensuring financial and operational resilience; credible recovery and resolution plans; facilitating effective competition; a smooth transition to a post Brexit regulatory framework; operating effectively and efficiently. The challenges for the PRA were to identify, acquire and make good use of investments in technology; to anticipate and plan for possible Brexit outcomes; and to sustain the growing population of smaller banks.

Court was content with the approach as set out.

9. Bank Post-Brexit Workplan

(Phil Evans, Heather May and Alex Holmes)

Mr Evans outlined the main issues facing the Bank in 2020. The UK had left the EU but was in a transition period until December, by when a future relationship with the EU would be set. During the transition new EU legislation would have to be adopted, and as the December deadline approached possible risks to financial services provision risks would likely materialise. This would influence policy-setting by both the FPC and the MPC. Equivalence assessments would be made with both FMID and the PRA taking on new responsibilities. The Bank would be contributing to the Treasury's review of the future regulatory framework.

10. Diversity and Inclusion

(a) 2019 Staff Survey Results – Demographic Analysis

(Jonathan Curtiss, Mark Menary, Paul Wright, Raj Brar and Alistair Baker)

Further to a discussion in December, Court reviewed a demographic breakdown of the data from the Viewpoint survey of Bank staff. These showed that of those completing the survey and declaring a demographic group, BAME staff scored less favourable than non-BAME; males scored less favourably than females; full timers scored less favourably than part-timers, sexual orientation made no significant difference. Court members thought that, notwithstanding the data, verbatim comments suggested that there was recognition of the efforts that the Bank was making to promote diversity. Some felt that the data were not sufficiently clear to target interventions. It was suggested that targeting opportunities was a way forward. Others thought that it was important to see BAME individuals successful in roles. Both were seen as important and consistent with what the Bank was already doing. Sir Dave Ramsden, Chair of the BAME network, stressed the need to continue to build the evidence base on diversity.

(b) Improving the Diversity of Social Background at the Bank

(Jonathan Curtiss, Paul Wright, Amy Sinclair, Jess Beynon and Rachel Butler)

Court reviewed the steps that the Bank was taking to include people from all social backgrounds in its workforce. Data on socio-economic backgrounds was routinely collected; a data-driven contextual recruitment system has been trialled; the Bank was participating in research with the Bridge Group; the focus of the work-experience programme had been geared

more closely to schools from disadvantaged areas. Ms O'Grady thought this good work and important, and suggested contact with other organisations such as the BBC.

11. FPC/MPC Communications Code

(John Footman)

Court APPROVED amendments to the FPC Communications Code, similar to amendment to the MPC Code agreed in December. Court also APPROVED guidance from the Communications Directorate covering the implementation of both Codes.

12. Committee Conflicts

(John Footman)

The policy committee conflicts registers were reviewed by Court. It was noted that Ms Boss would be leaving the PRC to join an FCA-regulated firm and was already on restricted duties, but continuing until the end of March to support the RTGS/CHAPS Board and the RRC.

13. MPC Discussion

(Andy Haldane)

Mr Haldane discussed the background to the most recent MPC decision and the Monetary Policy Report.

14. The Governor

At his last meeting of the Court of Directors the Governor reflected on the achievements and frustrations of the past six year. He had arrived with an objective of (1) fixing the Bank, which had been given a clutch of new powers exercised by Committees with separate and overlapping responsibilities, and nearly trebled in size; (2) fixing the financial system which meant seeing through the G20 post-crisis agenda; and (3) fixing the economy which was beginning to emerge from post-crisis austerity. Integrating the Bank meant getting the Committees to work together while exercising their separate mandates, and the organisation supporting them to share information and analysis. So that in time there developed joint meetings of the FPC and the MPC, the PRA and the FPC working together on stress tests and the capital structure, and all three committees working through the implications and consequences of low for long. In a historically siloed institution there was cross-Bank work on housing finance, the future of finance, the Fair and Effective Markets Review, operational resilience. This was the One Bank

programme. It led to further developments in ways of working, a cull of cross-bank committees, the expectation that the author of a paper would always be present when it was discussed, encouragement of working across boundaries, a six-page limit on policy papers, and a new focus on diversity and inclusion.

Court itself had changed – becoming simultaneously smaller and more diverse, aiming for best corporate practice, but also by becoming more involved in what the Bank did, observing the policy committees at work, acting as an interface with the NAO, seeing far more of the staff than in the past – and, persistently but productively, challenging the executive.

15. Papers for Information

Court noted:

- Vision 2020 - Closure Report
- Summary of 2019/20 Bank-wide Annual Salary Review outcomes
- Governors' Objectives for 2020
- Property Strategy Update

The meeting of Court was closed.