MEETING OF THE COURT OF DIRECTORS (by teleconference)

Wednesday, 8 July 2020

Present:
Mr Fried, Chair
The Governor
Mr Broadbent, Deputy Governor – Monetary Policy
Sir Jon Cunliffe, Deputy Governor – Financial Stability
Sir Dave Ramsden, Deputy Governor – Markets & Banking
Mr Woods, Deputy Governor – Prudential Regulation
Ms Glover
Mr Kalifa
Ms Noble
Ms Smits
Ms Thompson

In attendance:
Ms Place, Chief Operating Officer

Apologies:
Baroness Harding
Ms O'Grady

Secretary:
Mr Footman

1. Minutes and Matters Arising

Court members congratulated Hanneke Smits on her appointment as CEO of BNY Mellon Investment Management, and expressed their sadness at her consequent resignation from Court. The Chair thanked Hanneke for her effective contributions to Court and its Audit and Risk Committee.

The minutes of the meeting held on 19 May were approved.

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

Matters Arising

(a) **Venezuelan Gold**
(Sonya Branch and Oliver Dearie)

With reference to a Minute of 19 May, Sonya Branch said that in the litigation initiated by parties purporting to act for the Central Bank of Venezuela ("CBV") against the Bank, the Commercial Court had concluded that the Bank was right not to accept instructions from the CBV appointed by the Maduro administration which was not recognised by Her Majesty's Government. The Court also decided that an English Court cannot consider the validity and/or constitutionality under Venezuelan law of the appointment by Mr Guaidó of directors to the board of the CBV. The English Court must regard such appointments as valid and effective without enquiry. This judgment validated the position taken by the Bank and its handling of the matter to date.

(b) **Covid Response and Climate Accord**
(Sonya Branch)

Ms Branch noted reports that an environmental activist group was threatening legal action against the Government on the grounds that its response to the Covid-19 emergency had not been consistent with the Paris Climate Accord or with Human Rights; and had referenced the Bank's Corporate Bond Purchase Facility and the CCFF commercial paper facility. The Government was leading on a response. The Governor noted that in the CCFF the Bank was acting as agent of Government, and the Corporate Bond Scheme, although mandated by the MPC, was indemnified by Government. If there were to be any change in approach it would need to be mandated by Government.

(c) **Press Conference Feed Incident**

The Chair said that, further to the discussion at Court on 19 May, the Report by the Independent Evaluation Director and the Internal Auditor would have a final review at Court in September and be published with the July Court minutes on 23 September. Court would review the implementation of the recommendations in December.

2. Update on Monetary Policy and Facilities

The Governor said that the second quarter trough in activity had been a bit less deep than in the Bank's May scenario, and the consumer recovery had started a little earlier, reflecting the easing of lockdown. An important focus now was on the level of unemployment and how that responded to the unwinding of the furlough scheme. There were numerous uncertainties, including the possibility of a second Covid-19 wave, possibly associated with a succession of local lockdowns. These uncertainties would be considered together in the August Monetary Policy Report, which would revert to offering a forecast rather than a scenario.

Turning to the Bank's balance sheet, the Governor noted that the MPC had, at its June meeting, increased the target stock of asset purchases by £100bn to £745bn; though the pace of purchases had slowed, also consistent with the continued improvement in market functioning. Usage of the Bank's market facilities had declined: there was regular though declining use of the CCFF commercial paper facility. Overall the outstanding stock of Bank facilities had declined from the peak in May.

The total outstanding was equivalent to 30% of GDP – similar to the equivalent facilities at the Federal Reserve and the ECB.

The Chair asked the Governor to comment on two issues: (1) the implications of the support for the Bank's independence and (2) the path to normalisation of monetary policy.

The Governor said that he had been very clear that the Bank could have done what it had done only if people believed that it was taking decisions independently. That was the case. But understandably people also expected to see co-ordination with government, and of course that had happened, although always consistent with the Bank's statutory objectives. Ben Broadbent added that it was always likely in such a situation that monetary policy would ease as the government deficit increased, so the coincidence of government spending and high levels of Bank asset purchases was not surprising. But the MPC had to meet its remit without regard to fiscal policy. He noted that the MPC had deliberately slowed the pace of asset purchases in June without any impact on the market yields.

Mr Broadbent commented that in normal times, the balance sheet would change as the central bank met banks' demand for reserves, on terms designed to enforce or maintain the policy interest rate. At the lower bound, with interest rates close to zero, quantitative easing became the policy instrument under the MPC, but there would still be occasions when the balance sheet would be used to provide reserves – not to influence interest rates but to meet banks' needs for liquidity. In other countries the decision to unwind asset purchases would not be solely for the monetary policy maker.

Mr Kalifa noted that there had been some discussion of negative interest rates – this was likely to be a concern for the banks because of the implications for IT systems. Andrew Bailey said that the Bank was in contact with banks and building societies, inter alia to assist with an assessment of what would be needed (for them and for the Bank).

It was agreed that the governance of the balance sheet should be discussed further in Court.

3. Changing The Bank

Court welcomed the Governor's recent message to staff about changing the Bank's internal culture. The Governor said that the initial response had been very positive. Two awaydays had already been held; and task forces had been set up to make recommendations on leadership, inclusion, external engagement and ways of working. Also there had been an awayday with senior management at the Treasury, which had helped each side to understand better the constraints under which the other operated and suggest ways to improve the working relationship. On diversity and inclusion the Governor had received much input and was now keen to define what was going to be delivered and by when.

Ron Kalifa said that the initiative came across really well – it turned on leadership and what we had to do differently. There needed to be some short-term milestones as well as long term objectives so as to ensure momentum. Sam Woods said that there was a good momentum on inclusive leadership – the process felt authentic, and in unanticipated ways had been helped by operating under lockdown in that remote working had delivered some democratising elements due to changes in the way meetings run. That might have been a drawback but was in fact helpful – remote working had been surprisingly democratising, allowing many more people to join and participate in meetings.

Diana Noble supported the proposals but stressed the importance of maintaining the standards to which the Bank had always held itself. Dorothy Thompson said that it would be important to have a clear picture of where the Bank should be two years from now - "what good looks like" – and drive towards that. Hanneke Smits agreed that some short term milestones would help to ensure progress but it would be important not to set multiple KPIs, bearing in mind that the next layer down would have to deliver them. She suggest recruiting volunteers who would act as culture carriers – and in particular to engage the middle management layer.

Anne Glover welcomed the approach and noted that ironically the lockdown had probably increased participation as meetings tended to be bigger and better managed through the conferencing system.

4. Update on Bank Operations and Staffing

(a) **Operating Under Lockdown; Homeworking Productivity and Risks**
(Victoria Cleland, Jonathan Curtiss, Melissa Davey, Rob Elsey, Sian Jones, Chloe Kennedy, Amy Pemberton, Joshua Simons, Sarah Sodeau and Dominic Whittle)

Jo Place summarised the work of the Covid recovery taskforce in supporting remote working and staff wellbeing during the lockdown and in preparing the way for a phased and safe return to the Bank. In late June a second pulse survey of staff attitudes had found that the great majority were coping well, thanks to strong technology support, and reporting a considerable appetite to work more from home on a "normal" basis. But more than half felt their workloads had increased. The results were relevant to the Bank's consideration of future ways of working.

As well as expanding support for remote working technology was focusing closely on external security threats.

(b) **Lockdown – IEO Review**
(Alistair Baker, Jonathan Curtiss, Melissa Davey, Andrew Hebdon, Chloe Kennedy, Joanne Muir, Lea Paterson, Matt Pegg, Joshua Simons, Sarah Sodeau, Mark Turner and Dominic Whittle)

Melissa Davey, the Bank's Independent Evaluation Director, presented a report on lessons learned from the lockdown experience, both for the Bank and for its Critical Incident Management Framework (CIMF). Although the period of working from home had gone on for longer than first expected, the review had found near-universal praise for the Bank's response, with many noting how smoothly the transition to working from home felt for them, and how well that had been supported by Technology. Almost all critical functions, including in Markets, Banking and Payments, had been operated remotely. Bank staff had, in general, felt 'looked after' and had appreciated the human side of communications from senior staff.

There were, however, lessons that could guide the Bank's response to future incidents, including embedding successes from this incident into future plans. The CIMF – designed for short-term crisis management - had needed to adapt its membership, processes and communications for an incident that lasted for months and affected everyone. As the period of remote working continued, the Bank had found it needed to do more to maintain and build staff wellbeing, enhance efficiency and minimise risks. It had also needed to find new ways of reallocating those staff who were relatively underemployed to developing pressure points.

There were also lessons for future ways of working in "normal" times. Staff and management should not slip back into "old" ways of working: though it would be challenging to combine the old and the new, for example in managing meetings.

Several Directors questioned the assumption that the ways of working adopted during the lockdown could become the new normal. Remote conferencing worked well because people knew each other. Over time, with extended working from home, that capital stock would erode. New joiners would take much longer to acclimatise. And mixed meetings – some in the office some on the phone – could create "in" and "out" groups.

(c) **Return to Work Planning**
(Jonathan Curtiss, Melissa Davey, Joanne Muir, Joshua Simons and Dominic Whittle)

The Governor noted that the Prime Minister was now encouraging civil servants to return to work. A return to normal working in the Bank would depend crucially on the state of public transport.

Dominic Whittle said that the Bank's premises had been adapted to minimise Covid-19 risks, and nobody returning to work in them should feel unsafe. Their overall capacity was however reduced by social distancing measures, particularly in the upper floors served by lifts. Additional bicycle storage had been prepared.

5. RTGS/CHAPS
(Victoria Cleland and Mike Jones)

Victoria Cleland presented the Annual Report to Court of the RTGS/CHAPS board, the senior governance committee for the running of the RTGS and CHAPS live services. The system had again met its targets, including the operational availability target of 99.95%. In the twelve months to end-February 2020, RTGS settled an average of £685 billion and CHAPS an average of £330 billion each working day. As Chair of the RTGS CHAPS Board, Sir Dave Ramsden, noted that it was now 2½ years since CHAPS was brought into the Bank and progress had been made.

Sir Jon Cunliffe, as chair of the FMI Board, noted that operation of the CHAPS system was supervised by the FMI Directorate of the Bank, on exactly the same basis as any other payment system, including Pay UK. He noted the proposal to review how the arrangement between the different areas of the Bank – as "supervisor" and "supervised" - was working and where we could improve it. However, it should be very clear that supervisors in FMID should continue to hold CHAPS to the same standard as the private sector. It might well be that trade-offs had to be made because our budget and staffing mean we cannot meet for CHAPS the standards to which we would hold a private company. But that trade off should not be internalised within supervision. Supervision should say what the standard is. If that cannot be met, or a strategic decision is needed on whether to meet it, that trade off needs to be made by the relevant Governors, possibly in a discussion between DGFS and DGMBR. But the arrangement also allows for escalation to ExCo and also to Court, and those escalations should be used where appropriate.

Ron Kalifa asked whether the board had considered setting the availability target at 100%. Victoria Cleland said that 99.5% was realistic; the breaches in the past 12 months had been of minor impact; and setting the target higher would require more investment. The Governor said that the target dated back at least 20 years. One needed to consider what behaviours a change to 100% would incentivise and what changes would be required to systems – bearing in mind that the change process itself would carry some risk. Ron Kalifa agreed but noted that the market generally was moving towards a 100% model.

6. ARCo Update

Dorothy Thompson briefed Court on the July meeting of ARCo. The Committee had looked at the impact on the investment portfolio of Covid-19, and would return to this in its September/October meeting. It had also reviewed the work of internal audit under lockdown: some work had been deferred to allow a focus on the key risk areas. The Committee was supportive of the new approach to risk reporting (item 7 below). And it had reviewed the operation of the Bank's Speak up (whistleblowing) policy.

7. Risk Report

(Stephen Brown)

Stephen Brown said that there had been a significant increase in the Bank's risk profile arising from the Covid crisis and the Bank's response. The Bank's operations continue to be run from people's homes, and the launch of new schemes has resulted in substantial changes to the balance sheet, doubling its size. The Bank's response to the crisis was very much in the public eye, adding to the potential for reputational damage in the event of any missteps. The executive was closely engaged on the management of these risks.

Sam Woods highlighted three points from the Executive Risk Committee's latest meeting: (1) there was anxiety about some error or failure arising from home working in the transactional areas; (2) the possibility of an error in one of our set-piece publications had prompted specific action to de-risk the timeline of the August MPR/FSR; and (3) there had been a good discussion on metrics, focussed not just on the headlines but on the detail.

Diana Noble asked when Court was likely to discuss the Communications strategy. The Governor said a review was progressing, led by Jenny Scott (ex ED-Comms), and focussing on effectiveness and organisation. Conclusions were likely to go to Exco in the autumn and to Court in October. Diana Noble also asked whether the Bank was concerned that haircuts on collateral were sufficient in current circumstances; and about security risks in home working arising from housesharing. Sam Woods said that the adequacy of haircuts was continuously reviewed. He would reflect on the housesharing question.

8. People and Culture

(a) **Network updates (BEEM)**
(Ragveer Brar, Jonathan Curtiss, Cat Hines, Jacqueline Koay, Lea Paterson, Gareth Ramsay, Ratidzo Starkey and Paul Wright)

Following a series of meetings with BAME and other staff members and with management, the co-chairs of the Bank of England Ethnic Minorities network (BEEM) summarised for Court the concerns of BAME colleagues about the Bank's approach to ethnic diversity. Ragveer Brar said that there was a strong desire for a more active approach. The Bank had good processes and a commitment to diversity: but the outcomes, in terms of progression for BAME members, were skewed. The Bank had shown that it could make progress on gender diversity - there was a desire for a similarly active approach specifically on ethnic diversity.

Ron Kalifa welcomed the frankness of the presentation and asked what the network thought the Bank should do to kick-start the process. Ragveer Brar said that in relation to gender diversity, targets had been very effective in driving behaviours: giving strong and consistent messages to middle management would move the dial. Making speaking up easier would help: two BEEM members had now been appointed to the Bank's speaking up (whistleblowing) panel.
Ratidzo Starkey added that accelerating promotions to Head of Division would be assisted by giving acting up opportunities so that potential candidates could develop into roles.

Following an extensive discussion, the Chair said that Court saw this as a highly important issue and would wish to discuss further actions at its meeting on 9 September.

(b) **Update on Diversity and Inclusion Targets**
(Laura Bell, Ragveer Brar, Jonathan Curtiss, David Gayle, Kayleigh Guinan, Cat Hines, Owen Lock, Lea Paterson, Kamilia Sidhom, Ratidzo Starkey, Shona Stewart, Meryem Torun and Paul Wright)

Paul Wright said that proposals for revised gender and ethnicity targets would be brought to Court in the autumn. The current targets were: BAME – 13% in Senior Management by end-2022 (currently 7%), and 20% below senior management by end-2020 (currently 20%); Gender - 35% female Senior Management by end-2020 (currently 32%), and 50% representation below senior management by end-2020 (currently 46%). Sir Dave Ramsden said that the new targets were being discussed in the BAME taskforce, which he chaired. Jo Place added that they would need to reflect that the Bank recruited from the whole of the UK.

In the meantime Court was asked to agree the proposed approach to disability and LGBT+. The issue was complicated as not everyone declared disability and sexual orientation, despite encouragement to do so, and there was some doubt about the veracity of what was declared. This was an unpromising background for setting targets and the Executive had decided not to do so. Instead it proposed to commit (publicly) to develop qualitative indicators to measure progress, which would be shared annually, and at the same time to commit to increasing and improving data collection, with the eventual goal of establishing external representation targets in the future, aiming for 2022.

Court members noted the difficulty of making progress when the starting point was unknown, but agreed that senior management engagement was key to progress. The proposed approach was agreed.

The Governor confirmed that the BAME targets would be brought back to Court in October.

9. Quarterly Financials
(Afua Kyei and Paul McArdle)

Afua Kyei (CFO) said that in the short run expenditure was running below budget, owing to delayed investment spend and lower than expected staff costs. In part this reflected depressed activity in the lockdown and this was likely to bounce back as the Bank returned to normal, so that the "flat real" target could come under renewed pressure. Exco had discussed this risk and had decided that the underspend in the early part of the year should be ringfenced centrally, so as to help ensure that the Bank as a whole remained within target over the year as a whole. The Governor noted that the Bank staff turnover rate had fallen below normal and that it was right to hold the early year savings as a contingency against the risks identified for later in the budget year.

10. EDMC Report
(Sir William Blair, Sonya Branch and Gary Moore)

Sir William Blair, Chair of the Bank's Enforcement Decision Making Committee, presented the Committee's first Annual Report. He explained that the role of the Committee was to hear contested enforcement cases arising in the Bank's statutory functions – the PRA, the FMI regime and Resolution. It ensured a functional separation between those investigating a case and the decision-takers, and to a degree mirrored the FCA's Regulatory Decisions Committee. It was supported by a secretariat in the Bank. Its decisions could be appealed to the Upper Tribunal, which would review the facts of the case not just the process. Thus far in its life the EDMC had been involved in two cases, both arising in the PRA.

Sir William recorded his thanks for the support provided by the secretariat and the Bank's enforcement division.

Court expressed its appreciation of Sir William's leadership and of the Committee's important and valuable work.

11. Committee Appointments and Conflicts
(John Footman)

Court noted the latest report on managing conflicts in the policy Committees, and the appointment of Jon Hall to the FPC.

12. Papers for Information

Court noted:

- NAO Review Update
- MPC Report
- MPC Survey Results
- FPC Survey Results
- Update on Key Projects in the Investment Portfolio
- Annual Report and Accounts Committee Minutes
- Annual Attestations to SMR Responsibilities
- De La Rue – Financial Update
- 12 Month Planner

The meeting of Court was closed.