

MEETING OF THE COURT OF DIRECTORS

Tuesday, 19 May 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, Matters Arising and Conflicts

The minutes of the meeting held on 3 April 2020 were approved.

Court noted that Baroness Harding had been appointed to lead the Government’s programme of testing and tracing as part of its response to Covid-19. Members wished her well in taking on a vital national role.

Mr Broadbent said that although much of the fieldwork had been done before the crisis, the current NAO study of the supply of notes and coin was now unlikely to be published before September.

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

2. COVID-19 - Policy Developments

(Alex Brazier, Andy Haldane, Andrew Hauser and Jamie Bell)

The Governor said that the major development over the previous month had been the completion and publication of the MPC's Monetary Policy Report (MPR) coupled with an interim Financial Stability Report (FSR) from the FPC. The former had presented scenarios, giving a view of the potential impact of the lockdown on the economy and the potential bounceback as the lockdown was lifted. The FSR had taken a view on the scale of financing needed to bridge the MPC scenario and the capacity of the banking system to provide it. Typically the FPC dealt with hypothetical stresses but in this case it was addressing a real one. The annual scenario included assumptions about tighter monetary policy and tested the banks' capacity to absorb losses. In this case monetary policy was accommodating, and the FSR was concerned with the banks' capacity to lend. And the key conclusions were that the capacity was there and that it was in the banks' interests to lend. They were doing so, supported by government guarantees, and were projected to continue to do so. There remained issues however around some companies that were already highly leveraged.

Mr Bell said that it was important to be clear that the MPR presented scenarios not forecasts. The scenario was simply a description of one plausible possible outcome without an attempt to assign a probability to it. It therefore did not convey the MPC's 'best guess' of what was likely to happen in the way that conventional fanchart forecasts did. In practice, Bank staff were much more confident about what was likely in the near term than further ahead. A sharp downturn of roughly the scale of that depicted in the scenario was clearly evident from the many indicators that the Bank was following. Assessing the probability and scale of a post-lockdown bounceback was more complicated and more uncertain – that was the current analytical work programme. Collaboration between Bank and Treasury teams had been good. Mr Haldane added that the “fast” indicators that the Bank followed – including payments data and traffic flows – were good for the short-term assessment but the indicators for the longer term included the state of the corporate and personal balance sheets – it was those that would determine any long-term scarring.

Mr Brazier said that the FPC's assessment, aided by Bank analysis of the cashflows of 85,000 companies, had indicated a funding need of £60bn. The desktop stress test had shown, unlike in 2008, that the banking system had lending capacity, and the Bank had encouraged the banks

to lend so as to avoid a worse outcome for the economy and for themselves. The Bank itself had contributed a substantial package of support through the TFS and the CCFE. Nevertheless it was the case that up to a third of the companies that the Bank had analysed was entering the crisis with a relatively high level of debt; and that in turn pointed to the need for equity finance, to which the Treasury and City UK were now turning their attention.

Sam Woods said that the Bank's messages had landed well with the banks. Though there was a distinction to be made between the big and small ones, the latter having less capacity to lend. And Sir Jon Cunliffe observed that there would be a limit – no financial system could be infinitely resilient. Sir Dave Ramsden added that there had been moments when some markets – gilts, oil futures - had become notably dysfunctional.

Mr Hauser summarised the Bank's lending operations. Its overall balance sheet had expanded by 25% (£170bn) since the start of March. Holding of gilts had expanded by £85mn; 117 firms were authorised to use the CCFE facility. The Treasury had issued gilts in historic sizes and had not accessed the Ways and Means facility at the Bank.

The Governor observed that the Bank could respond in the way it had - with a very assertive use of central bank authority - only if people truly believed in its independence from Government.

3. COVID-19 – Internal Planning

(Stephen Brown, Victoria Cleland, Jonathan Curtiss, Rob Elsey, Melissa Davey and Rachel Butler)

Ms Place said that internally the Bank had adapted quickly to home working, supported by recent investments in technology capacity. Plans were being made for a very gradual return as and when the lockdown eased, but public transport would be a limiting factor given social distancing. A number of IT projects – notably the migration of the data centres – had been delayed and there would be an impact on costs.

4. Themes from Governors and Executive Directors Awayday (Emma Murphy)

The Governor said that his first Awayday with the EDs had focussed on how the Bank does things, rather than what it does. The meeting had explored internal governance, culture, management and how the Bank approaches its external relations. It had been useful; some important points had been put on the table: and there was an appetite for change. This had been communicated in an email to all staff.

An early change had been in the structure of senior management committees. GovCo continued, but renamed ExCo. The present EDCo – the Executive Directors Committee – had suffered from being a relatively large group, which made it less effective as a decision-making body. Two new decision-taking committees would replace it – a senior Executive Operations Committee and an Executive People Committee. Both would have DGs and well as EDs in their composition. The purpose was to ensure EDs were fully involved in leadership of the Bank. The present Executive Risk Committee would continue.

Court members welcomed these changes.

5. RTGS Renewal Committee (Victoria Cleland)

Ron Kalifa said that the Committee and the RTGS programme had continued to make steady progress. From three strong bids, a decision had been made on the Technology Delivery Partner. But there were now possible sources of delay. One was the disruption arising from Covid-19 which had implications particularly for the establishment of datacentres but also for the ISO migration. The programme remained within the budget envelope set by Court. But given delays, this budget might need to be revised.

6. ARCo update

Ms Thompson said that ARCo had at its May meeting reviewed the final stages of preparation for the Annual Report, including this year a metrics paper to support the disclosures in the Annual Report on climate change exposures. Under the Risk heading, the Committee had undertaken an extended review of the many ways in which Covid-19 was affecting the Bank's risk profile including via cyber threats.

7. ARCo Annual Report

Court noted the Annual Report from ARCo, which would be published in the forthcoming Annual Report.

8. RemCo

In Baroness Harding's absence Ms Place noted that RemCo had at its most recent meeting approved the Remuneration Report (for publication in the Annual Report). As part of that the Bank would be publishing the "pay ratio" calculation, for the whole institution.

9. Cyber Update

(Rob Elsey, Ben Davies and Stephen Brown)

Court was briefed on the Bank's cyber-security strategy. Following significant investment over the previous seven years, cyber controls had been strengthened and risks to the organisation reduced. However the threats had continued to evolve: most recently the sudden switch to universal working from home introduced new risks. The Bank needed to be prepared for the impact of attacks that would require strong recovery capabilities as well as prevention measures. It needed to ensure that new services and technologies were introduced securely. And it needed to cope with the challenges of a complex and in places legacy IT estate.

Business continuity measures were in place for critical services with alternative processing plans to minimise the impact should a large scale outage occur. And the Bank had capabilities to detect and respond to cyber-attacks through its Cyber Defence Centre. But there was more to do to plan for such events and test recovery plans.

Court approved the strategy and urged the team to set out a clear plan and timetable for implementation and acceleration, connecting their work to the Bank's risk tolerances and reporting back to Court regularly.

10. 2020/21 Budget Update with latest pension estimates
(Afua Kyei and Paul McArdle)

Further to its discussion in February, Court approved a final budget for 2020/21 of £667.4mn. The increase of £18mn from the budget approved in February reflected revised pension costs, driven by changes in yields on corporate bonds around the financial year end.

11. Bank of England Annual Report and Accounts
(Chris Peacock, Mike Peacock, Afua Kyei and Paul McArdle)

Court was content with the draft Annual Report text, and noted the annual report of the PRA.

To sign off the Bank's accounts, Court appointed a Committee of the Governor, the Chair of Court, the CFO (Afua Kyei) and Sir Jon Cunliffe.

Court noted the draft BEAPFF Annual Report. Ms Kyei said that the Directors had asked the NAO for a further assessment of the materiality of post-balance sheet valuation changes before signing the accounts: that would happen on 26 May.

12. Committee Conflicts
(John Footman)

Court noted the latest lists of policy committee members' interests and declared conflicts.

13. Any other business
(Sonya Branch joined, Anne Glover left the meeting)

Further to a minute of 10 December 2018, Ms Branch advised Court that lawyers acting for President Maduro's current (unrecognised) government in Venezuela had made a claim in the UK Court for delivery of gold, currently held by the Bank as custodian for the Central Bank of Venezuela; and an application for an expedited hearing would be heard later in the week. Given its responsibilities as custodian, the Bank would oppose the application and resist the claim on the grounds that the Maduro appointee at the Venezuelan central bank had no authority. Court would be kept informed of developments.

14. Papers for Information

Court noted:

- MPC Report
- Emergency Liquidity Assistance (ELA) / Resolution Liquidity Framework (RLA) Annual Report
- The Climate-Related Financial Disclosure Report
- Scottish and Northern Ireland Notes Annual Report

The meeting of Court was closed.