



**BANK OF ENGLAND**

# News release

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## **Court of the Bank of England commissions a set of reviews to learn lessons**

The Court of the Bank of England has today commissioned a set of three reviews into areas of the Bank's performance and current capabilities in order to learn lessons and to ensure the Bank is best equipped to carry out its responsibilities in the future. All three reviews will be led by independent, internationally respected, experts.

The reviews will cover:

- The provision of Emergency Liquidity Assistance in 2008/9.
- The Bank's framework for providing liquidity to the banking system as a whole.
- The Monetary Policy Committee's forecasting capability.

They will be led by Ian Plenderleith, Bill Winters and David Stockton respectively. They will begin immediately, and their conclusions will be presented to Court in October 2012. The reviews will be published soon after that.

The Chairman of Court, Sir David Lees said: "The Court of the Bank of England believes it is important for the Bank to learn practical lessons from past experience in order to improve the way it operates in the future. These reviews will be undertaken by leading experts and will focus on three key areas of the Bank's responsibilities."

The Governor, Sir Mervyn King, said: "I welcome this set of reviews. Major changes to the operations of the Bank have already been made in the light of the financial crisis. These detailed, independent reviews will help to ensure that all the important lessons for the future have been learned."

### **Detail**

The financial crisis has continued in different forms for almost five years. During that time, the Bank has been learning lessons continuously. It has made many changes to the way it operates. Other reforms have been made, or are being made, through the new legislation. Court believes now is the right time to review

both the Bank's progress in applying the lessons that have been learned and what further lessons there may be for the future.

The reviews will focus on ensuring the Bank has the capability to respond to future crises. In doing so, they will pay close attention to the most intense period of the financial crisis in 2008-9 that included the collapse of Lehman Brothers in the United States in September 2008, the recapitalisation of the major UK banks and the deep global recession. The relevant lessons for the Bank from the initial stage of the crisis in 2007 were established in the Treasury Committee Report "The Run on the Rock".[1] Consistent with that, the Chairman of the Treasury Committee has said that "It is the period of the Lehman crisis, and subsequently, which most needs examination".[2]

The reviews will concentrate on areas where the Bank had sole responsibility. They will focus firmly on lessons to improve the way the Bank operates. They will not stray into the actions of the other 'Tripartite' authorities – HM Treasury and the Financial Services Authority. Any wider inquiry would need to consider the actions taken by all the authorities together and would therefore need to be initiated and conducted by an independent body.

The terms of reference for the three reviews are:

#### **1) Provision of Emergency Liquidity Assistance in 2008/9**

The Court has asked Ian Plenderleith, Chairman of BH Macro, to review the Bank's actions at the height of the financial crisis, around the collapse of Lehman Brothers, to provide Emergency Liquidity Assistance (ELA) to Royal Bank of Scotland and HBoS.

The purpose of this review is to learn lessons to inform the way the Bank conducts ELA operations for individual financial institutions. Such support operations will, in due course, be conducted under the new Crisis Management Memorandum of Understanding which was published in January 2012.[3] The review will build on the lessons learned in relation to the ELA provided to Northern Rock in 2007, as set out in the Treasury Committee's report "The Run on the Rock".

Specifically, the review will examine:

- The basis of the decisions to provide Emergency Liquidity Assistance (ELA) to each firm concerned.
- The governance arrangements within the Bank for making those decisions.
- The structure and terms of each ELA operation.
- The effects of those operations on the institutions concerned and on overall financial stability.
- The capability of the Bank to plan, implement and manage those operations.

Overall, the review will examine how the Bank discharged its responsibilities as lender of last resort in a crisis and make recommendations for the conduct of any such operations in the future.

## **2) The Bank's framework for providing liquidity to the banking system**

In January 2008, alongside the publication of the Treasury Committee's Report "The Run on the Rock", the Bank committed to improving the way its money market framework operated in stressed conditions. The process of reforming the Bank's operations began early in 2008 with the introduction of the Special Liquidity Scheme. A consultative paper was published in October of that year and further changes were made. The resulting framework was described fully in the Bank's 'Red Book' in 2010.[4]

The Court has asked Bill Winters, Chief Executive of Renshaw Bay and former Co-CEO of JPMorgan Investment Bank, to review whether the reformed system of operations deals with the conclusions of the Treasury Committee's report "The Run on the Rock" and captures any further lessons from the financial crisis since the time of that report in January 2008.

The review will examine:

- The operation of the Special Liquidity Scheme, established in 2008.
- The structure and terms of the Bank's facilities, as set out in the 'Red Book'.
- The operation of the reformed framework since its introduction in 2008.

Specifically, the review will consider:

- The effectiveness of the framework in implementing monetary policy decisions.
- Whether the framework is sufficiently flexible, and the range of collateral sufficiently broad, to satisfy demands for liquidity in times of stress.
- Whether a system of voluntary reserves targets is appropriate.
- Whether the price at which liquidity is available to the system is appropriate.
- Whether the framework deals adequately with the issue of 'stigmatisation'.
- The capability and governance arrangements in the Bank to support the facilities in its framework.

Overall, the review will make recommendations to inform the future development of the Bank's operations, consistent with its objectives to implement the MPC's decisions and to provide liquidity insurance to the UK banking system.

## **3) The Monetary Policy Committee's Forecasting Capability**

Economic forecasts play a central role in helping the Monetary Policy Committee to assess the key economic risks and uncertainties affecting the economic outlook and hence the appropriate setting of monetary policy.

Since the onset of the global downturn in 2008-9, both output growth and inflation have been significantly more volatile than in the preceding decade. And the Monetary Policy Committee has found it more challenging to assess the outlook for growth and inflation.

The Court has asked David Stockton, former Director of Research and Statistics at the Board of Governors of the Federal Reserve System, to review the forecasting capability of the Monetary Policy Committee. This review will supplement the MPC's regular annual review of its forecasting performance.[5]

The review will examine:

- The performance of the MPC's projections for growth and inflation since 2008.
- The analysis presented to the MPC in the production of those projections.
- The processes followed by the MPC to produce projections.
- The capability of the Bank to support the production of the MPC's projections.

Overall, the review will examine whether the MPC's forecasting procedures allow it to take full account of the relevant risks and uncertainties, and thus support the MPC's monetary policy decisions in order to meet the inflation target. The review will be used to inform decisions about the Bank's forecasting procedures and methods.

### **Notes to Editors**

1. The Court of the Bank of England is responsible for managing the affairs of the Bank but not the formulation of monetary policy. It is made up of nine non-executive Directors, the Governor and two Deputy Governors. The non-executive directors are: Brendan Barber; Sir Roger Carr; Michael Cohrs; Sir David Lees (Chairman of Court); Lady (Susan) Rice; John Stewart; Mark Tucker; Lord (Adair) Turner; and Harrison Young.

2. Ian Plenderleith CBE is Chairman of BH Macro and a non-executive Director of Morgan Stanley and Co International, BMCE Bank International in London, and of Sanlam in South Africa. Previously, his main career was at the Bank of England (1965-2002), where he was Executive Director responsible for market operations and a member of the Monetary Policy Committee, and at the South African Reserve Bank in Pretoria (2003-2005), where he was Deputy Governor and a member of the South African Monetary Policy Committee.

3. Bill Winters is the Chief Executive Officer and a managing partner of Renshaw Bay. He has 28 years of experience in the investment industry, including 26 years at JP Morgan. He moved to London in 1992 as the Head of European Fixed Income and in 2004 was promoted to Co-CEO of JPMorgan Investment Bank. He played a key role in managing JP Morgan Investment Bank through the 2008 financial crisis, including the

acquisition and management of Bear Stearns. He was a member of the Independent Commission on Banking in the United Kingdom which submitted its report to the Chancellor in September 2011.

4. David Stockton is a Senior Adviser at Macroeconomics Advisers LLC and the former Director of the Division of Research and Statistics at the Board of Governors of the Federal Reserve System. In that position, Mr Stockton oversaw the preparation of macroeconomic and financial market analyses and forecasts for the Board of Governors and the Federal Open Market Committee (FOMC) to assist them in decisions related to monetary policy.

5. The reviewers will have access to Bank of England records and will be free to speak to both Bank staff and to others outside the Bank as they choose. The reviewers will be supported by a small team based in the Bank.

[1] "The Run on the Rock", Fifth Report of Session 2007-8, House of Commons Treasury Committee.

[2] Andrew Tyrie MP, News Release, 3 May 2012.

[3] "A new approach to financial regulation: securing stability, protecting consumers", HM treasury, January 2012, Annex E.

[4] "The Framework for the Bank of England's Operations in the Sterling Money Markets", updated December 2011.

[5] For the most recent example, see Bank of England Inflation Report, August 2011, page 48-49.