



BANK OF ENGLAND

TRANSPARENCY AND ACCOUNTABILITY AT THE BANK OF ENGLAND

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A transparent, accountable and well-governed central bank is essential not only for effective policy, but also for democratic legitimacy. The Financial Services Act 2012 made fundamental changes to the role of the Bank, giving it responsibility for oversight of the UK financial system as a whole and establishing the Bank's Financial Policy Committee (FPC); and setting up a new regulator, the Prudential Regulation Authority (PRA). The Bank recognises that with these wide ranging responsibilities comes the need for effective transparency, genuine accountability and robust governance arrangements. Through its strategic plan, the Bank has therefore established 'openness and accountability' as a core pillar of its mission to promote the public good of the people of the United Kingdom.

Against this backdrop, the Bank is today announcing a series of changes aimed at reinforcing its transparency, accountability and governance. This document sets out the core components of the Bank's proposed approach. It is grouped under four headings:

- i. **Improvements to Monetary Policy Committee (MPC) transparency**, including the MPC's response to the Warsh Review, and the announcement of the Committee's intention to publish the minutes of its discussions and its *Inflation Report* alongside the announcement of its policy decision.
- ii. **Transparency of Bank records and documents**, including confirmation that the Bank will publish during 2015 the minutes of Court meetings held between 1914 and 1987, thereby aligning its release of archives with best practice in Whitehall. In January 2015 the Bank also intends to make a special release, in appropriately redacted form, of the minutes of Court and related meetings during the crisis period of 2007-09, as requested by the House of Commons Treasury Committee.
- iii. **Governance of the Bank**, including proposals to simplify and clarify the governance and structure of the Bank's Court of Directors.
- iv. **Governance of the Bank's policy responsibilities**, including proposals for aligning the status of the FPC and the PRA Board with that of the MPC.

This wide-ranging package of measures aims to put the Bank at the forefront of international best practice, and strengthen the ability of the Bank's external stakeholders – including Parliament and the public – to hold the institution to account for its actions. It takes account of recommendations from the Treasury Committee. And it represents an important step in the delivery of the Bank's 'One Mission, One Bank' strategic plan, which is centred around four core pillars – diversity & talent, analytical excellence, outstanding execution, openness & accountability. It further enhances the Bank's ability to fulfil its mission to promote the good of the people of the United Kingdom by maintaining monetary and financial stability.

Some elements of this document announce changes that the Bank will implement over time. Others aim to clarify existing practices. There are also areas where the Bank has identified scope for governance improvements in the longer term, and which would require legislative change to effect. The Bank puts these forward as suggestions for the consideration of HM Government in due course. These suggestions, which are made with the benefit of having operated the new institutional structure for the Bank for 18 months, are aimed at making the Bank as effective as possible in delivering the responsibilities that have already been given to it by Parliament. They are changes that seek to reinforce the intent of existing legislation.

i. Improvements to MPC transparency

The Bank of England was an early pioneer of monetary policy transparency; its *Inflation Report* and ‘fan charts’ helped to set the standard for modern monetary policy communications, and have been adopted by many other central banks. More recently, the Monetary Policy Committee has further enhanced the transparency of its monetary policy communications, adding more information about its forecasts in its *Inflation Report*; it has also made use of forward guidance about its policy stance.

Today, the MPC is announcing a series of changes aimed at building on these initiatives and putting the Bank at the forefront of international best practice. It is also responding to the independent Review of the MPC’s processes by Kevin Warsh, a former Governor of the Federal Reserve, published today.¹ Governor Warsh identifies four distinct objectives of monetary policy transparency – sound policy, effective communication, public accountability and accurate historical record-keeping – and makes recommendations with respect to each of them. The MPC strongly welcomes the Warsh Review and accepts its recommendations, including that the Committee publish, with an appropriate delay, transcripts of that part of its meeting at which policy is decided. The MPC also believes that there is scope to buttress further the transparency and accountability of its policy decisions by publishing enhanced minutes of its discussions and its *Inflation Report* alongside the announcement of its policy decision.

In particular, the MPC has agreed the following:

- **Simultaneous publication of policy decision, minutes and *Inflation Report*.** The Warsh Review recommends that the MPC publish a detailed policy statement as soon as is practicable following each policy meeting. The MPC agrees that such a step would improve the effectiveness of its communications and enhance accountability.

The Committee believes that there is scope to go further in this direction. It is therefore announcing today its intention to publish both the minutes of its policy meetings and (in the relevant months) the *Inflation Report* at the same time as its policy decision.

In order to facilitate these changes, and to safeguard the integrity both of the decision-making process itself, and of the minutes of the policy discussions, a number of changes to internal processes and practices will be needed. These are detailed in the Annex to this paper. The MPC and Bank staff will be trialling these changes internally over the coming months and implementing them in full from August 2015. The publication timetable for minutes and the *Inflation Reports* has been amended accordingly from that date.²

- **Publication of transcripts and policy briefing material.** As recommended by Governor Warsh, the MPC will publish, with an appropriate delay, written transcripts of those meetings at which policy is decided. The MPC believes that an 8-year delay for transcript publication would strike the right balance between preserving what Governor Warsh describes as a “safe space” for Committee deliberation and bolstering the transparency and accountability of its policy decisions. The choice of this delay falls within Governor Warsh’s recommended time-frame and, as he explains, balances the length of business and financial cycles with increased accountability, while also ensuring that MPC members are not constrained in their ability to make sound policy decisions. Such a deferral period will, he notes, put the Bank in high standing among developed economy central banks. The Bank will also publish, alongside those written transcripts, key staff inputs that informed the policy decision.

¹Transparency and the Bank of England’s Monetary Policy Committee, December 2014

² MPC dates are available at: <http://www.bankofengland.co.uk/publications/Pages/news/2014/119.aspx>

These new arrangements will apply from the March 2015 policy meeting. The MPC believes that this package of written transcripts and key staff inputs will not only establish a benchmark of best practice in transparency, but will also buttress the ability of external parties to hold the Committee to account. As recommended by the Warsh Review, a team of senior Bank officials will oversee both this process and the transfer to the Bank's Archive of MPC-related material more generally.

- Frequency of policy meetings.** The ideal number of scheduled policy meetings depends on the frequency with which underlying economic conditions evolve, set against the resources that those meetings absorb. Currently, the Bank of England Act 1998 (the '1998 Act') requires the MPC to meet and to announce a policy decision at least once a month. It also allows for the Committee to conduct unscheduled meetings, and to reassess the stance of monetary policy at any time, should that prove necessary. It is important to retain that flexibility. However, as Governor Warsh points out, alterations in the policy stance "typically require persistent changes" in economic data and "rarely would a single four-week period be sufficient to change" the assessment of the economy. Even before the financial crisis, the MPC changed official interest rates fewer than four times a year, on average. Many developed economy central banks, including the US Federal Open Market Committee, already meet eight or fewer times a year and there is no suggestion that this impairs the efficient conduct of monetary policy. From January 2015 the European Central Bank's Governing Council will hold eight policy meetings a year. The Committee therefore agrees with Governor Warsh that there is merit in adopting a similar approach in the United Kingdom.

In light of this and previous recommendations the MPC has updated its provisional schedule for 2016 (Annex 1).³ As required by current statute the MPC will continue to meet monthly and to decide the stance of monetary policy at every meeting. But, from 2016, eight of the twelve meetings will be roughly evenly spaced throughout the year, with one meeting roughly halfway between each quarterly *Inflation Report*. The remaining four meetings will be used both to decide the monetary policy stance and to hold joint MPC-FPC discussions on topics of mutual interest. The minimum frequency of MPC meetings is a matter for Parliament. If the opportunity arose, the 1998 Act could be amended to require the MPC to meet "at least eight times per year". The 2016 schedule provides scope for such a change.

- Interaction with FPC.** The Monetary and Financial Policy Committees have already conducted joint briefing meetings. Focused on topics of mutual interest, such as credit conditions and housing, these have demonstrated the benefits of shared analysis and discussion. The MPC and FPC see merit in enhancing this interaction and, to that end, four joint briefing meetings will be scheduled in 2016. This will further the 'One Bank' aim of joined-up policymaking across these two major policy committees of the Bank.

³ The Treasury Committee (2007) recommended reducing the number of MPC meetings. Although it was outside the scope of his review, Kohn (2002) also noted that "one nearly universal recommendation of policymakers and staff I talked to was to change the legislation to allow fewer meetings each year". Similarly, when looking at ways to improve the Bank's forecasting process, Stockton (2012) suggested replacing four regular staff briefing meetings with economics discussions of topics of longer term relevance which he thought "might also encourage freer engagement of MPC members with the staff on issues when that discussion is not viewed as being part of the lead up to a policy decision".

ii. Transparency of Bank records and documents

The Bank places the utmost importance on both its accountability through the Treasury Committee to Parliament and its accountability more broadly to the citizens of the United Kingdom. It therefore intends to bring the retention and release of the minutes of its historical Court meetings in line with best practice in Whitehall, as well as to make a one-off special release of the minutes of Court meetings for the 2007-09 crisis period, as requested by the Treasury Committee.

In particular:

- **Archive policy for Court minutes.** Until April 2013, Court did not publish minutes of its meetings. Instead, the minutes were transferred to the Bank's Archive, and the files opened to the public after a delay of 100 years. Since April 2013, following amendments to the 1998 Act, the Bank has published minutes of its Court meetings six weeks after the meeting to which they relate, or, if there is no further meeting within that period, then two weeks after the date of the next Court meeting.⁴ But the minutes from 1914 to March 2013 have remained unpublished.

For most of its archived material, the Bank has for some time voluntarily followed the approach of central government, adopting a 30-year rule for release of historical records.⁵ The Bank now plans to follow the practice of the National Archives and move to a 20-year rule by opening two years of records each year until 2022. The minutes of Court meetings have previously been treated as the

exception to this. Court has, however, decided that, in line with the Bank's commitment to greater openness, the release of the minutes of its historical meetings will be brought into line with the standard for other material in the Bank's Archive. As such, the minutes of its meetings from 1914 to 1987 will be released during the course of 2015.⁶ The first instalment – from 1914 to 1946 – will be released in January of next year.

- **Court minutes for the 2007-09 period.** Alongside the release of the first instalment of its historical Court minutes, the Bank will make a special release, in appropriately redacted form, of the minutes of Court and related meetings during the crisis period of 2007-09. That release follows requests by the Treasury Committee. Redactions to the minutes will be minimal, and confined to certain specific categories including for example the need to protect the security of the Bank and its staff, and to comply with legal requirements.

More generally, the Bank recognises that it has a responsibility to meet, as openly as possible, requests for information from Parliament through the Treasury Committee. At the same time the Bank holds some information that will not be appropriate for immediate release, and some that is subject to statutory bars, for example information obtained under the PRA's regulatory powers. Court will oversee a process that takes account of those restrictions, but will at the same time aim to place as much as possible into the public domain or to share it with the Treasury Committee or its Chairman on a confidential basis, as happens currently where the Bank provides emergency liquidity assistance to an institution. These arrangements will be set out in a letter to the Chairman of the Treasury Committee.

⁴ Consistent with the Act, Court may decide to omit information from its published record in the public interest. The record of matters reported to Court may also omit information which is legally sensitive or commercially confidential. These passages are omitted from the published minutes, but are still transferred to the Bank's Archive, for eventual release in line with the Bank's archive policy for Court minutes.

⁵ In 2007 the Government announced that Paul Dacre would chair a review into the 30-year rule and a report was published in 2009. The transitional arrangements for moving to 20-year opening commenced in 2013. <http://www.nationalarchives.gov.uk/about/20-year-rule.htm>

⁶ In line with the transition by central government from the 30-year rule to 20-year rule for archive release, minutes from the 1988/89 Court meetings will be due for release in 2016, 1990/91 minutes in 2017, and so on until 2022. The meetings for 2002 will be released in 2023.

iii. Governance of the Bank

The Financial Services Act 2012 made fundamental changes to the Bank's governance structures, creating a new architecture for financial regulation. This included:

- Establishing the FPC, with a dedicated focus on macro-prudential analysis and action, to ensure emerging risks and vulnerabilities across the financial system as a whole are identified, monitored and effectively addressed.
- Establishing the Prudential Regulation Authority (PRA), a new micro-prudential regulator, charged with ensuring the safety and soundness of deposit taking institutions, insurance companies and the largest investment companies.
- Establishing the Financial Conduct Authority (FCA) as a new independent regulator, with responsibility for the conduct of financial services firms.
- Improving the transparency and accountability of the Bank's Court by requiring the Bank to publish minutes of Court meetings and establishing a new oversight function to improve accountability.

The changes that the Bank is recommending build on this by further strengthening and simplifying the Bank's governance structures.

In particular, the Bank proposes to simplify its committee structure, where direction and oversight are divided between two statutory Boards – Court and the Oversight Committee – whose functions overlap, and policy decisions are the responsibility of two separate Committees – the MPC and the FPC - together with the PRA Board, each constituted on a different basis.

Based on the experience of the past 18 months, the Bank believes that a single unitary board could be more effective both in managing the Bank and in delivering a more convincing framework for accountability. The Bank also believes that to aid clarity, establish clear accountability and promote effective oversight, the

policy committees and the PRA should all be placed on a similar footing.

Court

Court is the Bank's Board of Directors. Subject to the activities which are by statute reserved to the MPC, FPC and the PRA, Court is responsible for the management of the Bank's business, for which purpose it exercises all the powers of the Bank. It may delegate any of the powers conferred on it (subject to any matters reserved in statute) to such person or committee, by such means, to such an extent and on such terms as it considers fit.

In practice, like all unitary boards, it reserves certain key decisions to itself and delegates the remainder to the Governor as the Chief Executive. It sets the Bank's corporate strategy and financial objectives, monitors performance and controls, sets budgets and ensures the most efficient use of the Bank's resources.

The composition of Court is governed in some detail by the 1998 Act, which provides for up to nine non-executive directors, one of whom is designated Chairman of Court; and four executives - the Governor, a Deputy Governor for monetary policy, a Deputy Governor for financial stability, and a Deputy Governor for prudential regulation who is also chief executive of the PRA.

To reflect the current organisation of the Bank, the Chancellor has agreed to bring forward legislative changes to establish a further statutory Deputy Governor appointment for markets and banking, a post currently occupied (on a non-statutory basis) by Minouche Shafik. This would have the effect of increasing Court to 14 members and, consistent with best practice in the private sector, the Bank sees the value of continuing to evolve towards a slightly smaller body, with a non-executive chair and majority.⁷ The Bank therefore suggests that legislation be amended to provide for a maximum of twelve members, no more than five of whom

⁷ For example, the Walker Report (*A review of corporate governance in UK banks and other financial industry entities*, November 2009) identified the optimum size for a Board as being between 8 and 12 people.

should be executives of the Bank. As now, the executive would be the Governor, appointed for a non-renewable term of eight years, and deputy governors, appointed for terms of five years renewable once; and the non-executives would be the Chair and up to six others with renewable terms of up to four years.

The Non-Executives

Legislation has defined a special role for the non-executive, independent Court members as a group. As the 'Oversight Committee' – a sub-committee of Court – they are responsible for monitoring the Bank's performance, including its financial performance. In relation to the policy functions, the non-executives have had the role of monitoring the procedures of the MPC and the FPC, and since 2013 their performance, with the right to observe meetings and receive papers, and to commission reviews. However oversight of the PRA rests with Court.

The Bank sees a case for simplifying the current structure. The Oversight Committee is not a continental-style supervisory board, but even as a sub-committee of the main board it does detract from the role of Court. In practice it has been found necessary to hold joint meetings of Court and the Oversight Committee for most purposes, with the executive withdrawing when appropriate, as would be normal in a unitary board.

The Bank intends to continue with this arrangement which simplifies and enhances its governance and the accountability of its executive. That accountability has been further reinforced by the appointment of a Director of Independent Evaluation, reporting to the non-executive Chair of Court.

In the light of experience we suggest that, in due course, the functions of management and oversight should be vested in a single governing body - Court – which should retain an independent Chair and a majority of non-executives. Nothing in this would alter the rights of the non-executives to meet separately from the executives: indeed it is desirable and good practice that they should do so.

iv. The Bank's Policy Committees and the PRA

As noted above, each of the two policy committees and the PRA is currently constituted in a different way. The MPC is a Committee of the Bank, operating under objectives set in legislation and to an annual remit set by the Chancellor.⁸ The FPC, by contrast, is a sub-committee of Court: its objectives are set by reference to the Bank's Financial Stability Objective: it is consulted about the Bank's Financial Stability Strategy, but that is set by Court. There is provision for the Treasury to make recommendations, with which the Committee must comply or explain. And the PRA is a subsidiary of the Bank with a Board that is responsible both for delivering the PRA's objectives and for the direction of the subsidiary company.⁹

Of these models, we believe that the MPC's is the clearest and most straightforward and suggest that there is merit in aligning the status of the FPC and PRA with that of the MPC.

Financial Policy Committee

The Bank is therefore minded to suggest legislative changes that would put the FPC on a similar footing to the MPC. That would mean:

- Changing its status as a sub-committee of Court to become an independent Committee of the Bank. This would establish a clear separation of policy responsibility (FPC) from management and oversight responsibility (Court).
- The FPC should set a financial stability strategy for the Bank, consulting Court and the Treasury. This recognises the FPC's responsibility for policy and Court's for the management of the Bank.

⁸ The MPC's remit is: 'To maintain price stability and, subject to that, to support the economic policy of Her Majesty's Government, including its objectives for growth and employment.'

⁹ The PRA's objectives are: 'Promoting the safety and soundness of PRA-authorised persons; and the protection of insurance policyholders.'

- The new Deputy Governor for markets and banking should become an additional member of the FPC, but the current balance of the Committee between internal and external members should be maintained by adding a sixth non-Bank member appointed by the Chancellor. The FPC would then have 12 voting members.

Prudential Regulation Authority

For the PRA Board to be on a similar footing as MPC and FPC, it would need to be solely focused on the delivery of its statutory objectives rather than management issues.

The Bank believes there would therefore be advantage to the PRA being a full part of the Bank of England and not a subsidiary. The Bank of England as a whole is responsible for prudential regulation - the creation of a subsidiary does not change that - and the Bank believes the system could be built upon by creating a unified institution

in which synergies between policy functions are exploited fully.

Under these proposals, the PRA Board would entirely retain its independence in making rules, policies and supervisory decisions (in the same way that the MPC has the independence to set monetary policy). It would have the same membership as the current PRA Board, be chaired by the Governor and have a majority of external members.

Neither the Treasury, nor Court, nor the FPC would have any power of direction over the PRA Board in relation to firm-specific decisions (other than in respect of compliance with international or EU law). As with monetary policy, prudential regulation policy should be explicitly carved out from Court's remit. Under this model the PRA Board would be accountable for the substance of supervision and Court for providing adequate resources, accounting and risk control to allow it to discharge its functions.

Annex 1: Further details on improvements to MPC transparency and effectiveness

This Annex provides more detail on the changes outlined in the report. It includes a provisional timetable for MPC and *Inflation Report* dates for 2016 (Table A1). The information below is indicative only: as is standard, the MPC will formally confirm the 2016 timetable in September 2015.

Table A1: Monetary Policy Committee provisional dates for 2016

	Publication of MPC communications
January 2016	Thursday 14
February 2016	Thursday 4
March 2016	Thursday 17
April 2016	Thursday 14
May 2016	Thursday 12
June 2016	Thursday 16
July 2016	Thursday 14
August 2016	Thursday 4
September 2016	Thursday 15
October 2016	Thursday 13
November 2016	Thursday 3
December 2016	Thursday 15

MPC meeting timetable / process

From August 2015 the MPC will publish both the minutes of its meeting and, in relevant months, the *Inflation Report*, at the same time as the announcement of its policy decision. The necessary changes in its processes are described in Table A2.

There are two significant alterations to the existing process. The first part of the MPC's meeting, currently held the day before the announcement (labelled 'MPC deliberation meeting' in table A2), will instead be conducted around one week beforehand, shortly after the pre-MPC briefing. The second part of the MPC's meeting, currently held on the morning of the announcement, will be divided in two: the main policy discussion will be conducted three days beforehand, on the Monday; the policy vote will take place on the Wednesday, the eve of the announcement. These two latter stages of the meeting will both be transcribed. These changes will provide sufficient time to write the minutes of the meeting and (in relevant months) to finalise the *Inflation Report*, both of which will be published alongside the policy announcement.

Table A2: Comparison of current and new MPC process

	Current schedule	New schedule
Wednesday		“Pre-MPC” meeting with staff presentations to the MPC (joint MPC-FPC briefing meetings will take place four times a year).
Thursday		Stage 1: MPC deliberation meeting
Friday	“Pre-MPC” meeting with staff presentations to the MPC	
Monday		Stage 2: MPC policy discussion meeting
Tuesday		
Wednesday	Stage 1: MPC deliberation meeting	Stage 3: MPC decision meeting
Thursday	<ul style="list-style-type: none"> • Stage 2: MPC discussion and decision meeting • Announcement of monetary policy decision 	<ul style="list-style-type: none"> • Announcement of monetary policy decision and simultaneous publication of minutes • Inflation Report and press conference in Inflation Report months
Wednesday one week later	Inflation Report and press conference in Inflation Report months	
Wednesday two weeks later	Minutes published	