The Court of the Bank of England

By Sir David Lees and John Footman.[1]

- The Court is the Bank's Board of Directors. Its role has changed over the years as the Bank has evolved from a privately owned bank into a public institution, and especially over the past 20 years.
- In statute, Court's task is to 'manage the affairs of the Bank'. It sets the Bank's strategy and budget and risk standards, and oversees internal controls through its Audit and Risk Committee.
- Court also monitors the processes and performance of the Bank's key policy Committees — the Monetary Policy Committee, the Financial Policy Committee and the Board of the Prudential Regulation Authority. This role is performed by the nine non-executives, who sit on an Oversight Committee created by the 2012 Financial Services Act.

The Court is the Bank's Board of Directors. There is no particular mystery in the term: 'Court' is (among other things) a word used to describe a formal assembly, and the few public companies formed at the time of the Bank's foundation, in 1694, tended to be governed by Courts of Directors. When the Bank had private shareholders — as it did until 1946 — they would meet as the 'Court of Proprietors'.[2]

While keeping its name, the Court has evolved over time and particularly over the past 20 years. As a company, the Bank was created by a Royal Charter — 'to promote the publick Good and Benefit of our People'[3] — rather than under the Companies Act, but its governance arrangements have been reformed by successive Acts of Parliament and by conscious application of corporate best practice. The present Court has most of the characteristics of a company Board, though with the obvious qualification that its success is not measured by profits, dividends or balance sheet size, but by the delivery of the Bank's policy objectives.

Early history

The Court in 1694 consisted of 24 Directors, a Governor and a Deputy Governor: the diarist John Evelyn asserted that the new corporation had been put 'under the Government of the most able and wealthy citizens of London'.[4] As is clear from the Court records of the period,[5] the Bank's earliest years were an active and to a degree perilous period of the Bank's existence. To keep its Charter and privileges, and its role as the Government's banker and debt manager, the Bank had to meet the Government's extensive credit needs while at the same time establishing and maintaining the highest credit rating for itself.[6] The Directors took a close interest in the quality of advances. For many years afterwards — in fact up until 1914 — a Court 'Committee of Daily Waiting' scrutinised the Bank's day-to-day business and took the key decisions about advances and discounts. Monitoring the risk in the Bank's balance sheet — which has increased to around £400 billion since the recent financial crisis — remains a key function of the modern Court's Audit and Risk Committee.

By the 19th century, the Bank and its Court had established a more settled pattern. The Bank's continuance was assured by Peel's 1844 Act, and the same Act embedded the gold standard as the monetary system in operation in the United Kingdom. The Bank finally gained a monopoly of note issue,[7] but the profit was to be accounted for separately from the rest of the Bank and paid to the Treasury. Over time, the private proprietors became less significant — and by the turn of the century the Bank was conducting itself in most respects as a public policy institution. At the same time, the role of the Governor became more significant. A Bank memorandum of 1894 described the Governor as 'supreme over every department and over the whole machinery by which the business of the Bank was carried on'. He would however be expected to consult the Committee of Treasury — a

(1) Sir David Lees has been Chairman of Court since 2009. John Footman is the Secretary of the Bank. The authors would like to thank Sharon Hughes, Hannah Reynolds and Laurence Smith for their help in producing this article.
(2) Since 1946 the Proprietor has been the Treasury Solicitor.
(3) Preamble to 1694 Charter, see www.bankofengland.co.uk/about/documents/legislation/1694charter.pdf.
(4) See Roberts and Kynaston (1995). The list of initial subscribers to Bank stock was a roll-call of the City's most influential citizens.
(5) The Minutes of Court from 1694–1912 are published by the Bank at www.bankofengland.co.uk/archive/Pages/digitalcontent/archivedocs/courtminutes.aspx.
(6) Charters were granted for relatively short periods, and renewal depended on the Bank's willingness to extend or arrange further credit to the Government. See Broz and Grossman (2004).
(7) Though only in England and Wales.

Committee of the Court's senior members — where time allowed; and to 'bring before the Court all such matters as, in his view, they should be acquainted with'.(1)

The Directors may have been non-executive but the modern *Corporate Governance Code*(2) would certainly not see them as independent. As Walter Bagehot described in *Lombard Street* (see the box on page 30), the Court provided a talent pool for future Governors and an experience pool of previous incumbents. Directors, after a suitable apprenticeship, served two-year terms as Deputy Governor and then Governor, and subsequently remained on Court, which thus became a repository of immense though perhaps narrow experience. Thomson Hankey, a Governor in 1852–53, was still a Director 40 years later.(3)

Reforms after Cunliffe and under Norman

The pattern described by Bagehot was broken in the early 20th century, when Lord Cunliffe served for seven years followed shortly afterwards by Lord Norman, who served in the end for 24 years, from 1920 until 1944. Cunliffe is remembered now mainly for his high-handed approach to the Treasury,(4) but he plainly upset the Court as well, and a Committee chaired by Lord Revelstoke(5) proposed a number of reforms, which were implemented after Cunliffe's departure. The changes included appointment of a 'Comptroller' — what we might now call a Chief Operating Officer — and, in relation to Court, a retirement age and a requirement on the Governor to consult the Committee of Treasury on all matters of importance.

Under Norman there were further changes. Norman had always been convinced of the need for a group of full-time professionals on the Court, and Deputy Governors appointed from 1929 onwards were full-time and, in the sense that they served in that role for more than the conventional two-year term, permanent. With this practice embedded, the role of the 'Comptroller' ceased.(6) More radically, following the Peacock Report of 1932,(7) the Court introduced Executive Directors — full-time paid directors — of whom seven were appointed between 1932 and 1938.(8) Among the non-executive directors, Norman introduced more industrialists to balance the City merchants; and on the staff, a number of professional advisers.

Nationalisation

Institutionally, Norman's long Governorship was a constructive period for the Bank. But it also sowed the seeds for nationalisation. The gold standard, reintroduced in 1925, was abandoned in 1931, and the Treasury took the gold and foreign exchange reserves into its own Exchange Equalisation Account, for which the Bank was Agent. During this period it became increasingly the convention to seek the Chancellor's acquiescence in a Bank Rate change. The Governor retained great influence, in the City and internationally, but the levers of monetary policy were now held elsewhere. And active use of monetary policy became rare — Bank Rate, with one short break in August 1939, stood at 2% from 1932–51. 'I am an Instrument of the Treasury' remarked Norman, late in his Governorship.(9)

So when the Bank was nationalised in 1946, the Government found it sufficient to acquire the privately held stock, to take a statutory power to appoint the Court of the Bank — including Governors — and, for good measure, to take a power to direct the Bank. There was no attempt to define the Bank's objectives or functions, as had been common in other countries' central bank statutes.(10) Whatever the Bank might be, it was enough at the time for the Government to have control of its policy. Nationalisation caused almost no disturbance in the Bank's management and organisation.(11)

The post-1946 Court

In the 1946 Act and Charter Amendment, the Court was reduced from 26 to 18 members: a Governor, a Deputy Governor, and 16 Directors, up to four of whom could be executive. Initially the pattern of appointments remained much as in Norman's time: merchant bankers, industrialists and (usually) a trade unionist. Increasingly, however, the Executive Directors were appointed from the Bank's staff rather than from outside. Directors were appointed for four-year terms, and the Governors for five. Directors served normally two terms — though typically there were one or two who served longer, and these continued to populate the Committee of Treasury.(12) Court at this time met weekly, normally on a Thursday.(13)

The 1946 Act and all subsequent legislation described Court as managing 'the affairs of the Bank'. This could have meant many things. The short explanation was that the Governor was responsible for policy and Court was responsible, at the highest level, for ensuring that the Bank was well run. Court was not involved in individual policy decisions, nor in the advice tendered to the Chancellor, and following the Bank rate tribunal in 1958 the Directors were given no advance notice of policy changes.(14) From the 1990s onwards, following evolving best practice, Court set out in a formal document the

(1) See Sayers (1976), page 7.
(2) See Financial Reporting Council (2012).
(3) See Sayers (1976), page 6.
(4) After countermanding the Treasury's instructions on the disposition of the wartime gold reserve, 'The Governor, summoned again to No. 11, was required to write out his resignation, which Bonar Law held for future use' (Adams (1999)).
(5) See Revelstoke (1917).
(6) But only for the time being. A Chief Operating Officer was again appointed in 2013.
(7) See Peacock (1932).
(8) See Roberts and Kynaston (1995).
(9) See Fforde (1992), page 15.
(10) See Fforde (1992), page 13.
(11) See Hennessy, in Roberts and Kynaston (1995), page 198.
(12) This continued until 1998.
(13) The meetings eventually became monthly, although until the 1998 Act was passed the statutory requirement for a weekly meeting remained. It was met by calling the meeting but advising the non-executives that there would be no lunch afterwards. In consequence each weekly meeting was usually inquorate and did no business.
(14) See Fforde (1992), page 703.

Walter Bagehot, writing in *Lombard Street* (1873), describes mid-19th century Court

The Bank of England is governed by a board of directors, a Governor, and a Deputy-Governor; and the mode in which these are chosen, and the time for which they hold office, affect the whole of its business. The board of directors is in fact self-electing. In theory a certain portion go out annually, remain out for a year, and are subject to re-election by the proprietors. But in fact they are nearly always, and always if the other directors wish it, re-elected after a year. Such has been the unbroken practice of many years, and it would be hardly possible now to break it. When a vacancy occurs by death or resignation, the whole board chooses the new member, and they do it, as I am told, with great care. For a peculiar reason, it is important that the directors should be young when they begin; and accordingly the board run over the names of the most attentive and promising young men in the old-established firms of London, and select the one who, they think, will be most suitable for a Bank director. There is a considerable ambition to fill the office. The status which is given by it, both to the individual who fills it and to the firm of merchants to which he belongs, is considerable. There is surprisingly little favour shown in the selection; there is a great wish on the part of the Bank directors for the time being to provide, to the best of their ability, for the future good government of the Bank. Very few selections in the world are made with nearly equal purity. There is a sincere desire to do the best for the Bank, and to appoint a well-conducted young man who has begun to attend to business, and who seems likely to be fairly sensible and fairly efficient twenty years later.

The age is a primary matter. The offices of Governor and Deputy-Governor are given in rotation. The Deputy-Governor always succeeds the Governor, and usually the oldest director who has not been in office becomes Deputy-Governor. Sometimes, from personal reasons, such as ill-health or special temporary occupation, the time at which a director becomes Deputy-Governor may be a little deferred, and, in some few cases, merchants in the greatest business have been permitted to decline entirely. But for all general purposes, the rule may be taken as absolute. Save in rare cases, a director must serve his time as Governor and Deputy-Governor nearly when his turn comes, and he will not be asked to serve much before his turn. It is usually about twenty years from the time of a man's first election that he arrives, as it is called, at the chair. And as the offices of Governor and Deputy-Governor are very important, a man who fills them should be still in the vigour of life. Accordingly, Bank directors, when first chosen by the board, are always young men.(1)

(1) Women were not admitted to the staff of the Bank until 1894; the first woman Director was Frances Heaton, appointed in 1993.

extent to which it delegated authority to the Executive and those powers which it retained to itself. The latter included strategy, budgets, remuneration policies and the pay of the most senior members of the Bank, approval of the Accounts and the formation and terms of reference of Committees. This statement of 'Matters Reserved to Court' is continually reviewed and updated and the latest version is now published.(1)

As the Bank evolved in the post-nationalisation period, it acquired new statutory powers for the supervision of banks — under the Banking Acts of 1979 and 1987 — and of wholesale intermediaries in a carve-out from the Financial Services Act of 1986. Court was not a natural body to exercise such powers — not least because a number of the non-executive members came from regulated firms — and they were delegated to a series of committees under the Governor. From 1987 there was a separate statutory board — the Board of Banking Supervision — which oversaw the exercise of the Banking Act powers (but did not take supervisory decisions itself). The Court Directors were nevertheless acutely conscious that the formal responsibility was theirs as Directors of the Bank, and developed a practice of holding joint discussions with the Board of Banking Supervision.

Changes in the Bank 1994–2014

The past 20 years have seen great changes in the Bank. The long public debate about central bank independence concluded with the announcement, in May 1997, that the Bank would have operational responsibility for setting monetary policy, within a target set by government. At the same time, the Bank's supervisory responsibilities passed to a new regulator, the Financial Services Authority (FSA). These changes were given effect by the 1998 Bank of England Act. The Bank also ceased to be the Government's debt manager.

From 2007 onwards, however, the Bank became increasingly involved in dealing with the consequences of the financial crisis, through emergency assistance, the introduction of new liquidity facilities and bank resolution. In 2009, statutory provision was made for resolution, to be managed by the Bank. In 2010, the incoming government announced that the Bank was to have new macroprudential powers to direct regulators, and would itself take over the prudential regulation of banks, other deposit-takers, major investment firms and insurers. These changes came into force in April 2013.

(1) See Bank of England (2013).

Some indication of the impact of these changes on the management of the Bank is given by **Charts 1** and **2**, which show the number of Bank employees and the size of the Bank's balance sheet over the period.

Chart 1 Number of Bank of England employees

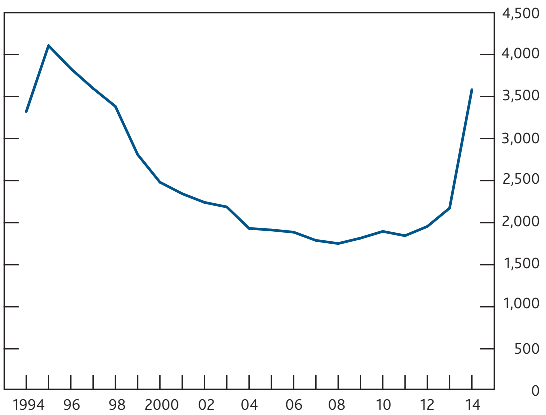
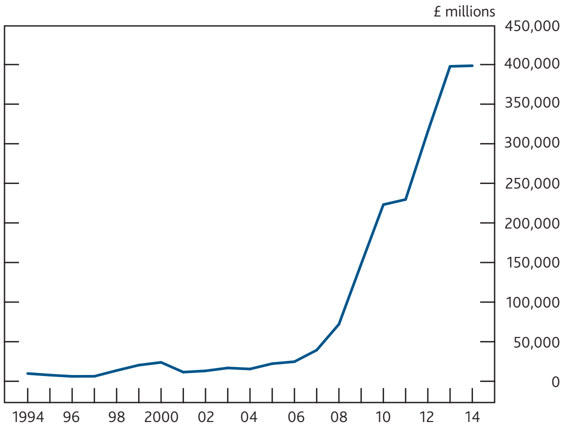


Chart 2 Total assets of the Bank of England



The 1998 Act

The public debate on the possibility of transferring responsibility for monetary policy decisions back to the Bank occupied much of the 1990s. The implications for governance were explored by the 1993 Treasury Select Committee (TSC) Report on the Bank, which suggested that while the power to set interest rates could not be left entirely with the Governor, nor could it be left to the Court in its existing form. The TSC recommended a Monetary Policy Committee consisting of the Governor, the Deputy Governor and the relevant Executive Directors — the key characteristic of all being that they (a) had relevant expertise and (b) held no employment or office outside the Bank.(1)

The 1998 Act resolved the issue by establishing a Monetary Policy Committee (MPC) consisting of the executive members of Court (the Governor and — from this point — two Deputy Governors), the Executive Directors for monetary analysis and market operations, and also members from outside the Bank, appointed for terms of three years on the basis of their knowledge and experience.

The Court was reformed too. Other than the Governors, all 16 Directors reverted to the historic pattern of being non-executive. Appointments were for terms of only three years, and five for the Governors. The Bank's Executive Directors became members of the staff. The Court's role was specified as being to manage the Bank's affairs, 'other than the formulation of monetary policy'. Its functions were to include determining the Bank's objectives and strategy, ensuring the effective discharge of the Bank's functions, and ensuring the most efficient use of the Bank's resources. The Non-executive Directors were formed into a 'Committee of Directors' (immediately christened 'NedCo') with a chair nominated by the Chancellor.

The role of NedCo was to review the Bank's performance and financial management, and it was required to make an annual report. NedCo was also required to keep under review the processes adopted by the MPC and in particular to ensure that it took proper account of regional, sectoral and other information.

Although bank supervision had been transferred to the FSA, the 1998 Act gave the Bank a second Deputy Governor, for Financial Stability. It gave the Bank no statutory powers in the area, but a separate Memorandum of Understanding (MoU) between the Treasury, the FSA and the Bank declared that whereas the FSA had responsibility for regulating individual financial institutions, the Bank had responsibility for the 'stability of the financial system as a whole'.

How to interpret and act on this responsibility provided a perennial puzzle for the Court, which again found itself in the position of having a responsibility without any independent means of carrying it out — not, at least, without appearing to trespass on the responsibilities of the other two parties to the MoU.

During the financial crisis, however, the Bank was immediately drawn into the support of individual institutions and, with the Treasury, into the resolution of institutions that failed. One of the matters reserved to Court is the approval of transactions 'outside the ordinary course of business'. A number of such transactions required the approval of Court and a 'Transactions Committee' was established to enable urgent cases to be agreed swiftly. That Committee met (either in person or by teleconference) on eleven separate occasions between 2007 and 2009.

(1) See Treasury and Civil Service Committee (1993).

The 2009 Act

In the wake of the financial crisis, the 2009 Banking Act gave the Bank three new statutory functions and a further change in its governance arrangements. The new functions were for the orderly resolution of failing deposit-takers, the oversight of interbank payment systems and the regulation of the banks that are permitted to issue banknotes in Scotland and Northern Ireland. The new governance arrangements were intended to clarify the Bank's responsibility for financial stability and to place ownership of it with Court. The Bank was given a statutory financial stability objective — 'to contribute[1] to protecting and enhancing the stability of the financial systems of the United Kingdom' — and a Financial Stability Committee of Court was established by statute to advise the Court on a financial stability strategy, and to monitor the Bank's use of its new powers under the Act.

Court itself was greatly reduced in size — from 16 to nine Non-executive Directors — and one of the non-executives was to be appointed by the Chancellor to chair Court, rather than the Governor. This gave statutory blessing to an informal practice, adopted in 2003, of asking the senior Non-executive Director to chair Court meetings.[2] Both the statute and the previous informal arrangement reflected what was becoming the near universal practice in the private sector of separating the roles of Chairman and Chief Executive Officer (CEO).

The 2012 Act and the Oversight Committee

In June 2010 the Government announced that the Bank would be given macroprudential powers of recommendation and direction, to be exercised by a Financial Policy Committee (FPC), formed, like the MPC, of Bank executives and external experts, and chaired by the Governor.[3] It was also announced that the Bank would again take responsibility for banking regulation — together with the regulation of other deposit-takers, major investment firms and insurers. This function would be managed in a separate subsidiary of the Bank, the Prudential Regulation Authority (PRA), with its own Board.[4] The cumulative enlargement of the Bank's overall responsibilities and powers prompted questions about how, as an institution, the Bank was to be held accountable.

In a report in November 2011, the TSC recommended that Court be replaced by a new 'Supervisory Board'.[5] This would have responsibility for the budget and allocation of resources between the Bank's functions; its members would be fewer and be 'eminent and professionally experienced individuals' with specific skills in finance and prudential policy; they would see all MPC and FPC papers and observe their meetings; minutes of their meetings would be published; and it would have dedicated staff support. It would conduct *ex-post* reviews of the Bank's performance in the prudential and monetary policy fields, which would be published.

In response the Court accepted that the Bank's new responsibilities would need to be accompanied by new accountability mechanisms, and proposed to establish an Oversight Committee, composed of the Non-executive Directors and with direct access to the policymaking processes and papers of the Bank, the ability to attend policy meetings, and the power to commission *ex-post* reviews from external policy experts. The executive members of Court would attend when invited, but could not themselves be members of the Oversight Committee if that Committee was to be properly independent.

These arrangements were incorporated into the 2012 Act,[6] which came into force on 1 April 2013. At the same time, the 2009 provision establishing the Financial Stability Committee of Court was repealed; and it was provided that Court would consult the FPC about its financial stability strategy. The FPC, unlike the MPC, was created as a Committee of Court. Other provisions of the 2012 Act included limiting Governors of the Bank to a single non-renewable term of eight years;[7] and creation of a third Deputy Governor, for Prudential Supervision, who would act as Chief Executive of the PRA.

The Court today

It is worth taking stock of what this long period of evolution has produced.

Court is a conventional unitary board and, with the exception of monetary policy formulation, it manages the affairs of the Bank. As with any company, the members are appointed by the shareholder (in this case the Crown): the process follows the normal codes and practices for public appointments.[8]

Court is just one of the key policy Committees of the Bank — the others, all chaired by the Governor, and all with independent external members, are the MPC, the FPC and the PRA Board. The box on page 33 summarises the composition and appointment process for each of these Committees; for an overview of their respective roles and responsibilities, see Murphy and Senior (2013).

The Bank has two principal statutory objectives — for monetary policy ('to maintain price stability') and for financial

(1) 'Contribute' was undefined; but was anyway dropped when the Bank was given macroprudential and microprudential powers in 2012.
(2) In practice the business of Court was discussed in NedCo, with the Governors present by invitation, and any decisions were then ratified in a short Court meeting afterwards, chaired by the Governor.
(3) For more details on the role and powers of the FPC, see Tucker, Hall and Pattani (2013).
(4) For more details on the PRA, see Bailey, Breeden and Stevens (2012).
(5) See Treasury Committee (2011).
(6) See Part 1 of the Financial Services Act 2012 at www.legislation.gov.uk/ukpga/2012/21/contents/enacted.
(7) Mark Carney, who became Governor on 1 July 2013, has indicated that he would serve a single term of five years.
(8) See the code of practice for ministerial appointments to public bodies at http://publicappointmentscommissioner.independent.gov.uk/wp-content/uploads/2012/02/Code-of-Practice-20121.pdf.

The Bank's major Committees

The Bank has four principal Committees, each containing a mix of full and part-time members. These are:

The **Court**, which is the Bank's Board of Directors, consisting of four executive members (the Governor and three Deputy Governors, collectively 'the Governors') and nine non-executive members. The non-executive members form the Bank's Oversight Committee, which has statutory reviewing functions, recently extended by the 2012 Financial Services Act. All appointments to the Court are made by the Crown.

The **Monetary Policy Committee**, consisting of five executive members and four part-time external members. Three of the executive members are Governors and hold their position *ex officio*, and two are full-time Bank employees appointed by the Governor with the Chancellor's agreement. The part-time external members are appointed by the Chancellor.

The **Financial Policy Committee**, consisting of five executive members, the Chief Executive of the Financial Conduct Authority, four part-time external members and a non-voting representative of the Treasury. The executive members are the four Governors *ex officio* and one full-time employee appointed by the Governor with the Chancellor's agreement. The part-time external members are appointed by the Chancellor.

The **Prudential Regulation Authority Board**, consisting of three executive members, the Chief Executive of the Financial Conduct Authority (FCA) and four independent members. The three executive members are Governors (including the CEO of the PRA). The independent members are appointed by the Court of the Bank with the Chancellor's approval. The Court could appoint further executive members but must always ensure that the independent members (including the FCA's CEO) are in a majority.

policy ('to protect and enhance the stability of the financial system of the United Kingdom'). An annual remit from the Treasury defines what price stability is to be 'taken to consist of': but it is left to Court to define financial stability and to set a strategy, taking advice from the FPC and consulting the Chancellor.(1) In addition to their respective primary objectives, both the MPC and FPC have a subordinate secondary objective to support the economic policy of the Government, including its objectives for growth and employment. The PRA has its own statutory objectives, for ensuring the safety and soundness of regulated firms and the protection of insurance policyholders, and following the 2013 Financial Services Reform Act, has a secondary objective of facilitating competition. The PRA Board sets the regulatory strategy, consulting Court.

Court sets other objectives as part of its management of the affairs of the Bank, including financial objectives, and agrees with the Governors a delivery strategy which the Oversight Committee monitors. The annual objectives and strategy are published in the Bank's *Annual Report*.(2)

Court has made and published (for the first time in 2013) a statement of the 'reserved matters' that it expects to determine itself (see below). Other matters are delegated to the Governor. The MPC, the FPC and the PRA Board are each responsible for meeting their statutory objectives. Court's responsibility is to ensure that they are adequately (but efficiently) resourced to deliver those objectives.

Court approves the Bank's budget and allocation of resources. It also approves the PRA's budget. Court approves any recommendation to the Treasury concerning cash ratio deposits (which banks are required to maintain to fund the Bank's policy functions).(3) Court approves the appointment of auditors, the adoption of accounting principles, and the annual accounts. Court (or where appropriate the Oversight Committee) approves remuneration of the most senior staff and pay policies throughout the Bank (including the PRA). All senior appointments are made subject to Court's approval.

Transactions outside the normal course of business require the approval of Court, or of its Transactions Committee.

Court has appointed committees to support its functions: an Audit and Risk Committee; a Remuneration Committee and a Nominations Committee. Other committees may be formed from time to time for specific pieces of business (for example those relating to buildings or banknote contracts).

The new Oversight Committee, like NedCo before it, keeps under review the Bank's performance in relation to its objectives and its financial management. However the scope of this review is now much broader than before, and includes the performance (not just the processes) of the FPC and the MPC. In a sharp reversal of the convention adopted in 1958, non-executive members have since 2013 been fully briefed on the issues before the policy committees and may attend their meetings. And reviews may be commissioned into policy outcomes. Anticipating this, Court in 2012 commissioned

(1) See Bank of England Act 1998 as amended. The Treasury also makes recommendations direct to the FPC, on a comply or explain basis.
(2) See the Bank of England *Annual Report* at www.bankofengland.co.uk/publications/Pages/default.aspx.
(3) The PRA is financed by a separate levy on regulated institutions.

external reviews of the Bank's arrangements for extending emergency liquidity support to banks, into the Bank's forecasting capabilities, and into the effectiveness of the Sterling Monetary Framework.[1] Each of these reviews made recommendations and the Oversight Committee is keeping their delivery under review.

The Oversight Committee does not under the Act have any responsibility for overseeing the PRA. However the Court, as shareholder of the PRA has (in approving the PRA's articles of association) reserved to itself the function of keeping the PRA's performance under review, and has agreed with the PRA Board a basis for doing so.[2]

The distinction between the Executive and the Oversight Committee is an important one: but Court remains a unitary board of executives and non-executives and to some extent the responsibilities overlap — for example, in relation to the management of the Bank's financial affairs. In those cases the Court and the Oversight Committee discharge their responsibilities concurrently.

Conflicts of interest

Each of the Bank's Committees — including Court — has, either in statute or in its procedures (or both), provisions for managing conflicts of interest — that is, situations in which a member has a personal interest in a matter being discussed or decided in a meeting, or an opportunity to profit from information provided to the Committee. Such interests may be financial (for example a shareholding in a company being discussed, or a long or short position in a particular market) or arise from another directorship or employment.

The procedures now include, for Court and all the Bank's Committees, a ban on acquiring securities issued by regulated firms and requirements to disclose all financial holdings of any kind to the Bank and to obtain the Bank's approval before undertaking any transaction in securities, derivatives or (above a certain threshold) foreign exchange. These rules on financial transactions are identical to those applying to Bank staff. Additionally, on appointment, a member must disclose any directorships or employment relationships: the Bank maintains registers of interests, and where any matter relevant to such an interest is discussed, the member is required to withdraw from the meeting.

The latter type of conflict is likely to arise mainly with the part-time, independent members: Governors are required to give exclusive services to the Bank,[3] and Bank staff may not without the Bank's consent hold any outside directorship or trusteeship. By contrast, the independent members of Committees and Court non-executives give only a proportion of their time to the Bank.

It is obviously desirable to bring people with relevant and current experience — in finance, business, markets, academia — into the Bank's decision-making. But equally obviously, it makes a Committee less effective if one or more of its members has to continually withdraw from discussions on account of conflict. A conflict that was sufficiently direct or serious to make that likely could also pose a reputational risk to the Bank. So in determining a policy for the PRA Board, and itself, Court has also determined that in addition to the prohibition on financial dealings, no non-executive member should normally be involved in the management or direction of any PRA-regulated institution.

Conclusion

The changes in the Court over the past 20 years have been as dramatic as those in the Bank more generally. The Court of 1994 — a year when the Bank was in any case looking back, over its first 300 years — might have felt at home in the same room 50 years earlier. The present Court would not. Much reduced in size, with a non-executive chair, a Senior Independent Director and effective Audit and Remuneration Committees, Court is very far removed from its predecessors in terms of efficiency and professionalism. Its task is immeasurably greater, too, reflecting the range of the Bank's statutory functions and the complex relationships of the individual policy committees. The challenge for the Bank's Executive is to unify these functions and committees and deliver coherent policies in support of monetary and financial stability. And for the Court, and particularly the new Oversight Committee, the challenge is to ensure that the Bank is properly accountable for the responsibilities that it has been given and the resources that it now deploys.

(1) See www.bankofengland.co.uk/about/Pages/courtreviews/default.aspx.
(2) See 'Matters reserved to Court', November 2013, page 21. This function was delegated to the Oversight Committee.
(3) See Schedule 1 of the 1998 Bank of England Act.

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