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Our ref

Your ref

Date
09 August 2017

Dear Brad

Review of the Bank of England's Approach to Conflicts of Interest (the Review)

We are writing to you in your capacity as Chair of the committee of Non-Executive Directors of the Court of the Bank of England (the **Bank**) established to conduct the Review (the **Committee**).

On 14 March 2017, following the resignation of the Deputy Governor Markets and Banking and Chief Operating Officer, Charlotte Hogg, the Bank commissioned the Review. The announcement of the Review and its terms of reference are attached as Appendices 1 and 2 to this letter.

We were appointed in April 2017 to act as external advisor to the Review. Our role has been to bring impartial advice to the Review and to provide assurance on the appropriateness and effectiveness of both the process and substance of the Review. The Review has been conducted by, and represents the views of, the Committee. Our role has been to advise, not to undertake the Review or to determine the findings or recommendations.

Our role has included (without limitation):

1. discussing with the Committee the scope of, approach to and processes for the Review, including advising on the draft terms of reference for the Review and on appropriate interaction with the Bank's executive;
2. attending meetings of the Committee;
3. attending working meetings with staff of the Independent Evaluation Office, Internal Audit and others who have supported the Review (the **Review Team**);
4. attending a substantial number (but not all) of the meetings held by the Review Team with a range of Bank officials, staff and members of the Bank's policy committees (including members of the Prudential Regulation Committee, Financial Policy Committee and Monetary Policy Committee) as part of the Review's process to identify and understand relevant issues;
5. attending the Court discussion of key initial findings of the Review;

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6. reviewing relevant policies, procedures and other documents as we considered necessary to advise on matters raised by the Review; and
7. providing advice in relation to matters raised by the Review as required to support the objectives of the Review.

In our view:

- the scope of the Review, its processes and approach have been appropriate to achieving its objectives;
- the Review has been conducted in an effective manner to identify and evaluate the relevant issues relating to conflicts of interest management and so as to be able to recommend appropriate improvements; and
- the recommendations of the Review put forward by the Committee address the issues identified.

Our advice has been and is given to the Committee and not to any other person. None of Herbert Smith Freehills LLP, its partners or staff accepts any legal responsibility or other liability to any other person in respect of it. We have consented to the public disclosure of this letter solely on that basis.

Yours sincerely

Clive Cunningham

James Palmer

Herbert Smith Freehills LLP



Appendix 1

Bank of England response to the resignation of Charlotte Hogg

Press release

14 March 2017

Following recent events, Charlotte Hogg yesterday voluntarily offered her resignation.

This morning, Court has accepted her resignation with deep regret.

Anthony Habgood, Chair of Court, said:

“In her time at the Bank, Charlotte Hogg has made a huge contribution in areas such as professionalising and modernising the management and operations of the Bank, leading the implementation of the strategic plan, championing diversity and driving forward the Bank’s understanding of key issues such as Fintech and Operational Risk. No one who knows her doubts her track record or her integrity. While Charlotte’s decision by any measure exceeds the standard that would be expected in the private sector or would be required under statute, it is understandable in the circumstances and she has taken it with the best interests of the Bank at heart.”

Mark Carney, Governor of the Bank, said:

“While I fully respect her decision taken in accordance with her view of what was the best for this institution, I deeply regret that Charlotte Hogg has chosen to resign from the Bank of England.”

“Since Charlotte joined the Bank almost four years ago, she has transformed its management and operations. Drawing on her extensive private sector experience and her unrelenting commitment to excellence, she has led a broad range of initiatives to build a more open and inclusive institution, to overhaul our IT systems, and to change fundamentally how the Bank develops, manages and rewards its dedicated public servants. Along the way, she has inspired countless colleagues at the Bank and attracted a new cohort of professionals to it. The combination of Charlotte’s unique skills and drive were exceptionally well suited to lead similar transformations of our markets and banking responsibilities, particularly given the growing importance of FinTech, operational excellence and the management of cyber risk.”

“The Bank of England today is stronger, more diverse, secure and effective in large part because of Charlotte Hogg. We will do everything we can to honour her work for the people of the United Kingdom by building on her contributions.”

Court notes today’s report by the Treasury Select Committee. It is making the following announcements.



The Bank is reconfiguring reporting lines and internal structures in order to safeguard more effectively the governance of its Code of Conduct, compliance and disciplinary processes. The new configuration will involve:

- Senior Management Responsibility for Bank-wide risk management moving from the Chief Operating Officer (COO) to Deputy Governor for Prudential Regulation Sam Woods in his capacity as Chair of the Executive Risk Committee. Mr Woods in turn reports to Court's Audit and Risk Committee (ARCO) on risk matters.
- The Head of Compliance reporting to the General Counsel (who in turn reports to the Governor) and the Chair of ARCO, who is tasked with ensuring the independence of the Bank's compliance function.
- Senior Management Responsibility for the Code of Conduct will rest with the General Counsel who will ensure the policies under the Code are fully understood and adhered to, and will report on that to the Chair of ARCO.

To ensure adherence to the Code of Conduct at the most senior levels of the Bank, Court has commissioned a review which will be carried out by Court's non-executive directors other than the Chair. The review will examine:

- The lessons from Ms Hogg's case,
- The extent to which the changes to reporting lines and internal structures outlined above are adequate, and
- What the Bank should do to ensure full and timely compliance now and in future, especially amongst senior members of the Bank.

The Bank will make the findings and recommendations of this review public.

The review by Court's non-executives will be assisted in the first instance by the Bank's Independent Evaluation Office, the Internal Audit division and the National Audit Office as appropriate.



Appendix 2

Terms of Reference for the Review

The overarching objective of the Review is to evaluate the Bank of England's approach to managing conflicts of interest, and to make recommendations for improvement as appropriate. The Review will examine:

- the policies and processes for identifying and managing conflicts of interest at the Bank,¹ including the lessons arising from Ms Hogg's case;
- what the Bank should do to ensure full and timely compliance with those policies, especially amongst senior members of the Bank; and
- the supporting governance arrangements, including the extent to which the changes to reporting lines and internal structures announced by the Bank on 14 March 2017 are adequate.²

The Review has been commissioned by the Court of the Bank of England. It will be owned and authored by the Non-Executive Directors of Court (excluding the Chair).

The Non-Executive Directors have engaged Herbert Smith Freehills to act as external advisor to the Review. The role of the external advisor is (a) to bring impartial advice to the Review and (b) to provide assurance on the appropriateness and effectiveness of both the process and substance of the Review.

The Review Team supporting the Non-Executive Directors will be led by the Bank of England's Independent Evaluation Director with advice and assistance, as appropriate, from the Bank's Internal Auditor. The Review team will necessarily draw on appropriate executive resource and input from within the Bank. The team will also draw on assistance, as appropriate, from the National Audit Office.

The Review, including its findings and recommendations, will be made public.

¹ The Bank of England primarily manages actual and potential conflicts of interest via the business ethics policies summarised in the code of conduct ('Our Code'). The Review will consider all aspects of Our Code that relate to conflicts of interest, but will not consider other aspects of Our Code (discrimination, bullying and harassment; record-keeping; social media use; press and speaking engagements; Freedom of Information and Data Protection Acts; use of the Bank's IT and resources).

² On 14 March 2017, the Bank announced the following measures to 'safeguard more effectively the governance of its Code of Conduct, compliance and disciplinary processes': Senior Managers' Responsibility for Bank-wide risk management moved to the Deputy Governor for Prudential Regulation in his capacity as Chair of the Executive Risk Committee and reporting to Court's Audit and Risk Committee (ARCo) on risk matters; a dual reporting line for the Head of Compliance to the General Counsel and to the Chair of ARCo; Senior Managers' Responsibility for the Code of Conduct moved to the General Counsel reporting to the Chair of ARCo in this regard.